Investor Day

Company Participants

- Claudia Dill, Chief Executive Officer-Latin America
- George Quinn, Group Chief Financial Officer
- Jack Howell, Chief Executive Officer-Asia Pacific
- Javier Lorenzo, General Manager
- Jeffrey John Dailey, Chief Executive Officer
- Kathleen Savio, Chief Executive Officer-Designate North America
- Mario Greco, Group Chief Executive Officer
- Michael A. Linton, Chief Marketing Officer
- Raul Vargas, Chief Executive Officer
- Richard Burden, Head Investor Relations & Rating Agency Management
- Roy Smith, President-Personal Lines

Other Participants

- Andrew J. Ritchie, Analyst
- Andy Hughes, Analyst
- Arjan van Veen, Analyst
- Daniel Bischof, Analyst
- Farooq Hanif, Analyst
- James A. Shuck, Analyst
- Michael Huttner, Analyst
- Michael Van Wegen, Analyst
- Nadine van der Meulen, Analyst
- Nick Holmes, Analyst
- Thomas Seidl, Analyst
- Vinit Malhotra, Analyst

MANAGEMENT DISCUSSION SECTION

Richard Burden {BIO 1809244 <GO>}

Welcome to our 2017 Investor Day. We do have a live webcast today, so please, in the interest of the people on the webcast and listening in, if you could turn off your mobile devices that will be appreciated. We do have a very full agenda for the day during which you will hear presentations from our Group CEO, Maria Greco; our Group CFO, George Quinn as well as the leadership teams of Farmers, our Latin American business, Zurich North America as well as our bancassurance distribution businesses and Asia Pacific.

Before I hand over to our first presenter, just a few points of note for the day, if you need the restrooms, they are at the end of the corridor across the bridge outside and lunch will be served around 12:30 in the room that you came in through before you entered the room.

Secondly, when we come to the Q&A later on today, yeah, we have some fairly brief Q&A periods after each group of presentations. If I could ask you to only limit yourself to one, maximum two questions during those and we will give priority to the room, but if there are people on the webcast and conference call, we can take questions from there as well.

But we will have opportunity over lunch with our entire executive team available for questions during the lunch break, and also obviously in the wrap up Q&A at the end of the day, we can come back to questions on the earlier sessions.

We'll break for lunch at 12:30 as I mentioned and with that, I will hand it over to our first presenter, Maria Greco.

Mario Greco {BIO 1754408 <GO>}

Thank you, Richard. All right. Good morning, everybody. Thanks for being here today. It's good seeing you here. So, 2017 Investor Day, it's one year after we gave you the strategic indications to be followed over the next years and also we gave you the target for the 2017-2019. The purpose we have today with you is to update you on where we stand one year after in those programs, but also to go back to the strategy and give you more contents and evidences on what we're doing to pursue the strategy and why we think that we'll be able to lead the industry in this big transformation that is happening and changing the nature of the industry. But let's get started.

So, my presentation will touch on a number of points. First of all, I'll try to argue and demonstrate again that Zurich has an excellent platform made of very balanced businesses geographically and very balanced business by the nature of what we cover, all supported by an extremely strong balance sheet. Over the last year, we acted to improve the profitability of the business by reducing the cost basis, by improving the technical performance and by refocusing the whole organization on business. And this is getting traction and it's giving us much more confidence than we had before on achieving the targets of 2019.

The industry is in a profound transformation. I want to go back to this and explain again the way we see the industry because, we believe we have a unique way of understanding the trends and what's going to happen in the industry. And we think we're well-positioned to address these trends and actually lead them and we see all that as an opportunity. And then, I want to touch on the changes we're making internally, especially to push forward the cultural transformation. If this industry is going to be different one, any leading company has to be a very different one. And what we're doing is, it goes exactly in that direction.

And of course, I'm going to touch on dividend and capital and our strong position on the capital and what you can expect us to pursue with our dividend policy. Now – the strength of the group. Why is this organization such a strong one? First of all, the balance is quite unique. You see here two ways to look at the balance. One is by products. We roughly do one-third each between Property & Casualty, Life and Farmers. Farmers, of course, is a very unique business. Jeff, later with Roy and Mike, will explain why Farmers is a sustainable successful business model and you will hear that directly from their words. Roy Smith is running the business of the Farmers and Personal Lines. And Mike Linton is the Chief Marketing Officer, and so is the engine behind the initiatives that Farmers is taking in the market.

Life and Property & Casualty, quite well balanced and geographically unique representation and equilibrium between U.S. and Europe. With Asia and Latin America, you'll see later, with the task of giving us the growth and the innovation and they are delivering on that, as you will hear later from Claudia Dill and Jack Howell.

Strengths, the brand. The brand is an extremely strong one, respected, trusted and known around the world. Customer focus and global relationship model, Zurich has been innovative year ago in creating these global relationship models. We have very strong customer ties and you know moving the company towards customer focus, customer orientation is not something new. We need to activate lots of things we need to work on the culture but it's familiar to what Zurich has been doing in the past.

Distribution partnerships, a lot that we will say today in the different presentation will be about our capabilities to activate the distribution partnerships. We strongly believe that the old world (06:47) where insurance companies are closed, and empires that don't communicate externally, it's over. Now insurance companies in order to serve the clients they have to open themselves, work with partners and accept different ways of contacting and serving the customers. And so what we're doing on partnerships in South America, what we're doing with banks, partners around the world is, innovative and it works very well.

And then the technical qualities, the technical skills we have and the quality of the people and the presentations today also allow you to have a view of not just the ExCo members, you see here all the ExCo members with the exception of Jim Shea who – I don't know, if you know it, but Jim is a Canadian, so he's an immigrant in U.S. and he's been called back for his Green Card application and he better go there because, even if he's an immigrant from the north of U.S., he better go there immediately. So, he couldn't be here but the rest of the ExCo is all here in the – in the first seat. And plus you have presentation from Javier Lorenzo and Raúl Vargas who work on our bancassurance. So, you also see the breadth and the width of capabilities that we have in the organization.

What business do we have today? The Life business is simply where I think everybody else like to have the business today. I mean it's a clean portfolio, few guarantees, really based on commissions and fees, extremely balanced between Europe and Latin America.

And in terms of distribution, again, you see that there is bancassurance, which is on the – on the right of this chart, there is bancassurance but also there is a big component, which is from Corporate Life & Pension. We are not dependent especially on anything, which is one theme that we hope to get across you through the day. Zurich is an extremely well-balanced platform geographically, by distribution, by customer segments, by products.

Our Property & Casualty, which of course has been the main topic of attention over the last two years. We're making progress. Our Property & Casualty is improving. The accident year loss ratio has been nicely coming down from 15% to where it was – excuse me – at middle of this year. You see that in the blue part of the chart, then you see the catastrophes on top of it. Of course, this is pre-storms. So, Q3 will change the grey shade of that. And you see the PYD is down. You also see that the under – the other underwriting expenses are coming down as a result of our cost actions.

So, altogether the business is taking better profitability in the books. And what is most important is what you see on the right, we have re-activated growth. So, having pruned the portfolio in 2015 and then partially during 2016, we're now – we have now stabilized portfolios and now, we're growing where we want to grow. You'll see that growth is led by emerging markets of South America and Asia, but U.S. is now stable and Europe is picking up and is progressively increasing the speed.

Last year, we made a number of changes in the organization. Around June of last year, June-July, we profoundly changed the shape of the organization by going for a very simple country geographical structure unifying the businesses. So, no more product distinctions, but single country responsibilities, and in the ExCo we brought up into the ExCo, all the business owners. We haven't changed the structure anymore. We just worked with that now for a year. And so, we are now earning the benefits of a stable and better known and better familiar structure for everybody. There are two changes that you see highlighted here.

Now, these two changes are about the leadership in U.S., where after 11 years, Mike Foley decided that it was the best time for him to now step down and having brought the company, the North

American organization where it is today is now focusing on other initiatives, which by the way we could possibly also do together. The choice for his replacement was Kathleen Savio, sitting there and she will be presenting later. Kathleen has been with us for a number of years and she will explain she runs today a very huge portfolio of roughly $7 billion of premiums, which is called Alternative Markets, which is the mid-market and crop and agriculture business that we have in U.S..

So, the choice of Kathleen is quite natural, it's an internal choice, competent manager being with us, achieving important results on this portfolio, but also having the competencies that now we need to have in order to move the North American business forward, which is mid-market competencies and alternative distribution systems. The other change that you see there is Alison Martin, who you see in pink, in the second row. Alison is the new Chief Risk Officer both of the ladies start officially January 1. So, don't be too tough with them because they haven't started yet.

They are with us, but they have no direct responsibility. Alison comes with the background of Life & Health business at a nearby company in Switzerland. I am very pleased that she accepted to move into risk, because we were searching for a business competent head of risk. We strongly believe the business and risk are the same issues and they're just two different views on that. And so, I was really looking for a business competent person to drive risk.

The other thing which is quite important to stress here is, we went through a number of simplification actions early on. The head office structure office structure has been changed. And initially that was – that was a strong push. We're over with that, now we have a much slimmer head office center and George will drive you through also what this means in terms of reduced costs and benefits for the countries themselves in terms of charges.

IT and transformation of our legacy. We will talk a lot about how critical it is to deliver the services to contact the customers, and the innovative solutions that we are developing, we developed, will come out during the day many times. But this is about the huge legacy, which is the big hurdle, the big rock, that Kristof Terryn and his team are trying to move and move forward as quickly as we can. This is a huge legacy book. It's made of a number of IT centers. I think you may remember from last year that we committed to reduce the – these IT centers progressively to eight, by the end of 2019, and we are progressing with that.

Also, we took a commitment on decommissioning. We have thousands of applications. You can't run a business with so many applications, this is just too much. It's not just the cost, but it is the burden of that. So, Kristof has been working with his team on that. We made significant progress and also now is attacking the countries de-commissioning or the countries platform, and is trying to get significant benefits in the countries by decommissioning their applications. You see there that the savings are only partially accrued so far, all together, IT should deliver – IT and operations should deliver half of the cost reductions. And as you visually see here, we are still under way and there is more than has to come in 2018 and 2019. But good traction, good development and we're very pleased so far with what we have achieved.

The business and the books, what we have been doing last year and many, many times over the past months, George and I have tried to explain that if you want to have a better combined ratio, you also have to have kind of different books. George will touch upon this again later today. And this is pretty much what we meant here, and then we had a similar chart a year ago. We're too exposed. We're too skewed to long tail and to the upper end of the commercial market. So, what we started a year ago was rebalancing these books towards the mid-market and towards a shorter tail.

As you can imagine doing that on the size of our books take time, and it's a progressive rebalancing of the books that is done each year with the new business sales and then the stock of our books will adjust accordingly. Now you see what has been achieved so far, compared with a year ago, we have a clear shift, I hope I'm not hiding anything to you by standing here, you see a shift in the specialties, and you see that as we also expect the casualty part of it is getting smaller.

There is more to go, there is more to come. Behind this, there is a lot of work that we have been doing and especially, Jim Shea and his colleagues on making clear to the brokers what is our risk appetite.

Already last year, we started the meeting, everybody is saying this is what we want and by the way, this is also what we don't want. So, if we want to place these risks, don't come to us, because we will not underwrite these risks and we will all be wasting time. In 2017, we did it again and it's getting much better. So what we see today is that the rate at which we can convert applications from the brokers, from the market is much higher than ever before because what we stand for is much more clear to the customers and to the brokers.

In the rebalancing, an important part of that has been about the specialty books. Now you heard us talking about the specialties and the fact that we like this book of business. Now specialty is an ocean, right. And in that ocean, there are many different kind of books; here, you see an example of one book of that which is on the credit lines, on the credit and surety, where we have been progressively growing this book through the last year. We have reorganized ourselves. We introduce global responsibility. We coordinated the efforts with the brokers. We created risk controls at the center. The board has been involved also in a number of presentation of that. But then, the results are quite satisfactory for us, because we see the premium growing, we see the profitability also nicely responding to that.

We're very committed to now grow Accident & Health. Jim Shea has specific plans for Accident & Health and how to grow it. We're aware that this is a very competitive market, but there are opportunities for a brand like Zurich and for a carrier of the solidity of Zurich to have a bigger share in Accident & Health.

On Financial Lines, that's the business that we know very well. We have been super active on Financial Lines over the past years. And Jim Shea himself has a background of Financial Lines. Our main effort there now is to grow Financial Lines in the mid-market and grow into mid-market and possibly SMEs, where we see interesting opportunities for us to grow, develop the customer bases and also find some profitable nice spot.

All together what this is saying is that, so far we have been successfully going through this year. We feel very much on track for the targets, starting from the BOPAT ROE target. You remember when we announced that target we were well below 12% and it – definitely remember the famous George's chart on the ROE walk, it's going to come back. Don't worry. Meaning, George will update you on that chart. But rectified and here, there is no (21:08) before the storms. You see that the underlying business taking away this one-offs is already performing as we wanted it to perform.

Capital remains extremely strong. The Z-ECM ratio stays above our indicated buffer as it has been doing for the last quarters. This is good news and I'm going to touch more in a second about capital. Cash remittances, I understand that we haven't given an update, a quarterly update of the cash remittances to stay (21:49) with us on that cash is there. We're generating cash as we expected even more. The company has a very cash generative business which is another strength of Zurich. And so, cash is doing what it was supposed to do for us.

Expenses, we are running according to plans. We indicated $700 million by year-end, will be there, would be even something above that. So, the expense reduction is coming through. Now, I know that you guys challenge us saying, the tough is at the end. I'm not sure if the tough was at the beginning or is at the end, but we're well on track. We're moving, that's important. And I think, everyone now in the organization has the confidence that we would drive the expenses down as expected.

So, with respect to a year ago when we announced all these targets and we heard and felt skepticism, we ourselves feel great confidence now that we will achieve them and that they make perfect sense. On the (23:04) market which might be a little bit different than we expected a year ago both in financial markets and on underwriting situation.

Let me now talk about capital and what we've (23:20) been doing on capital. So, first of all, over the last year-and-a-half, we have been releasing almost $1.7 billion of capital from underperforming businesses. This is a massive, massive work which I'm not sure that it has been seen as it is here on the chart, transaction all over the world where we have disposed our businesses which were either not strategic or underperforming for our internal rate of returns.

You'll see some of the latest transaction, in none of these transactions, we have lost the business connections for corporate and for commercial, right. So, we remained in these markets (24:09) for example, we exited the retail business, which hasn't been successful for us over a number of years and we remain there for the commercial and corporate clients. All these transactions again improved our capital returns and improve our focus.

On the other side, of course, we have also compensated all this with focused investment. Now, this is the least of the investments that we made over the past years. Pretty much the numbers balance each other. We talk of $1.7 billion of capital divestiture, we talk of $1.8 billion of investments. It's interesting, however to compare the fragmentation of the sales with a high concentration of the investment. You see few flags here. We're insisting on the same countries. And also, you see a pattern here which is investing on distribution for retail in very different ways because you see very different kind of distribution agreements on this chart.

You see partnerships with retailers like (25:20) and Claudia will talk later about this and you see bancassurance partnership like Standard Chartered. But the common theme is, we focus on countries and we focus on purpose. We go for improving our scale, our presence in the markets and we go for having stronger, better, more profound distribution.

Dividend, last year, we defined this new dividend policy of 75% NIAS payout. Two things important about this dividend policy are, first of all, I start with the last one, that the CHF 17 that we have today in the dividend are for us a floor that unless we raise it, we will keep and maintain and defend. We have been doing that over the past years. We just want to be absolutely clear that we're not there to diminish, decrease the dividend at any time. This is fully supported by the board, is fully understood by the management. The Zurich policy is a ratchet function where we set and keep the dividend and if we raise it, it means we will, we're confident that we will keep it for the next number of years at the higher level.

Now, how do we base the dividends? We base the dividends on the future earnings. We base the dividend on the earnings growth and on the sustainability of this earning growth. So, what you should expect or to be thinking is not any positive or negative one-offs, but what is the underlying run rate of our earnings. And so far, again this year has been giving us a lot of confidence that the earnings are moving up and they're moving up in a sustainable way and more will come progressively over the next years. The capital position, we tend to look on the longer horizon than you sometimes do. Here you see the sequence of our ZECN (27:41) capital ratio from 2013 to today.

Now, at the year-end, you see that the volatility of this capital ratio has been so far fairly limited. We have been always at the upper end of our buffer – of our range, but with very little volatility around that. This year, it is true, we are above that roughly 10 points. But, let's see how we close the year and let's see and remember that there is – in our internal model, there is volatility embedded for the asset performances, which you might not find in Solvency II ratios, or in other model. But definitely strong position on the capital. Our balance sheet is extremely strong and earnings growth supporting the dividend policy for the next years.

So, this is a synthesis of one-year of actions taken. And the main message I want to leave you with at this point is confidence that we're doing the right things and confidence that the results are coming through step-by-step.

Let me move on now on how we see the market changing and what we think is happening in this industry, because we really believe that the industry is under a revolution, which has been unprecedented and is shaping the industry again in a completely different way.

Now, why is this happening? Lots of forces are coming together on the insurance industry today and you can pick any one of the forces that we put on this chart and debate on the power and the risks of each one of them. We focus on just one of those and this is the customer revolution. We think that everything else matters, but doesn't shape the industry in any different way. We think that the real power, which is totally moving away the market from what it was in the industry from what it was – is what's happening with the customers.

Why is that? Well, partially because the customers (30:07) antenna for all the other changes. I mean, the evolving distribution, the innovation and technology, the risk pools, they all impact what the customers feel and understand. But the customers are also driving this revolution by themselves by using proactively this technology and the information that it allows them to gather to make choices.

You remember that for many, many years, the model in the customer relationship is what you see here on the left box. It was a model where the insurance companies were providing capital and were manufacturing for distributors. The insurance companies for years managed books of policies, right, ignoring who was behind this book of policies, because the understanding was that the distributors will know the customers and will care for.

Now, what we strongly feel today is that model of the industry and of the insurance company is no longer viable. You can still play on the margins, a balance sheet game. You can still play on the margin in manufacturing game, but the essence of the business, the essence of the industry is going to be about the customer relationship, as it happened in a number of other industries. That's a story, a lesson, an evidence that we have learned from other industries. We have the benefits of coming from a bit last, right and even banking is a bit advanced with us and it's not easy for us to meet – we come after banking, believe me.

Now, why is customer relationship so important? Because we're living in a world of information and spread information. Customers know what the offers are, customers know the quality, and they know the quality of the services directly which is the most powerful way to get to know these feedbacks. They don't know it by advertisement, they don't know it by press or other media. They know it by peers, they know it by friends. Everything we do is immediately known and reported to all our customers.

Also, they start understanding that through connectivity, they can ask insurance to give them different things. Insurance will transform more and more itself in a fee-based industry where we provide services and we get paid for that, right. We will continue to pay the claims, of course, this will remain part of our job and business, but more and more we will enter into advice, we will enter into prevention of accident and the new risk pools really ask for that (33:03).

If I look forward and think about what's going to happen in cyber, on cyber, more and more we will be acting as advising the customers, so as caring for risk management, as entering to risk mitigation and risk prevention. But the size of the cyber risks will quickly move cyber into similar to terrorism, to nuclear, things that any individual company will not be able to cover. So, we will give services much more than providing the balance sheet for that.

So, owning of the customer relationship is the key. Now, what this means and again you'll hear that example of this through the colleague's presentation later on. This means that we're more and more thinking about building platforms, where we offer the services to the customers, using providers, using partners, using anyone who has the same view, the same interest we have in those customer segments, and we'll be able to provide the same value, the same quality that we want to provide. But we want to be the one with the relationship with the customers in opening these opportunities to the customers.

Now, you heard it probably from many other industries and companies. This is about building ecosystem, so where the customers want to go in one place and buy everything they can find there about their needs and their services. Transformation in the company is huge, because what we started then doing is for each country build a customer database and then build the organization around customer segments and then start building the metrics about customer results, customer satisfaction and customer result.

Starting with next year, we will introduce in the metrics, in the KPIs of the organization, which will be judged to measure the performance of all the colleagues, customer metrics. It has never been done before by us, I mean, many other companies have done it before in other industries. Insurance, as I said came very late on this next year. We're going to shift also the metrics of performance into customer performances.

What's the role of technology? We speak much more of customers than we speak about technologies, because technology for us are a way to reach the customers, but they're not a target by themselves. We don't want to be a technology company. There are enough technology companies out there. We want to be a customer company. We want to service the customers and we want to be known for service quality to the customers. What does it mean?

It means also expanding the products and the offers we have, the Cover-More acquisition a few months ago is highly strategic to this. Cover-More is not an insurance company, right. So, we purchase something, which is non-insurance, but we did that because the assistance and travel services that they provide are absolutely needed and we work with travelers, our customer segmentation, and Jeff will touch upon this later on Farmers, is about serving the affluent and higher end of the market, people who move themselves, people who travel constantly. So, these kind of services were absolutely needed. We went out into the market. We found Cover-More and we're extremely pleased. And later on, Jack will show you also what kind of systems Cover-More also had embedded and which is now our property to understand the consumer needs and serve them.

We signed a deal with Porsche. Now, I understand Porsche is an elite carmaker, but it's an elite carmaker, which is close to again our customers' priorities. We went more and more into the customer experience and changing the customer experience. You'll hear later that we do that even in bancassurance, where admittedly we don't own this (37:21) people. These are banks' customers, but you'll hear (37:26) how we innovate the experience of those customers when they buy from us from the joint ventures.

Customers service is also about listening carefully to customers. There is an whole lot of knowledge in that and we understand it. In our group, Farmers has been piloting this. So, our Net Promoter Score is a well established system per se, it's just a metric, it's just a number. You don't do much with the number, you need to know it. But then the question is what conclusions you draw from that.

Now, out of the Net Promoter Score's methodology which we introduced at the beginning of this year through the organization, what happens is that you get a lot of feedbacks from the customers on what works what doesn't. And you understand what they need and you understand what you need to change. So, what matters there is not any single number, but the actions that you take in order to respond to either the gaps or to the things that work well and expand on them.

Farmers has a very sustainable credible stable relationship between the Net Promoter Score movements, the retention of the customers, the premium growth and eventually the profitability. Mike and Jeff will come back to this later, but this has been really leading, driving all our thoughts on what is customer service and how we drive customer service through the whole organization.

Again, starting 2018 this becomes something that we monitor, target and manage through all the organization in all the different jurisdictions. Partnerships and distribution space and width, now, I think we're quite unique in using a variety of distribution channels. Compared with the number of peers, we have very little dependence on (39:35) especially compared with the European peers. And also, if you look at broadly if you remember my second chart, broadly speaking we also depend relatively likely from brokers, because of this good balance.

Now, partnership for us mean fundamentally two kind of partnerships. Banking partnerships. We started off many years ago with a partnership with Deutsche Bank. With Deutsche Bank, we work in Germany, we work in Spain, we work in Italy. Then, we expanded that with a partnership with Banc Sabadell, who used to be in Barcelona, now moved to Alicante, Gary? Okay. So, Alicante. I trust you guys are not familiar, Madrid? Okay to Madrid.

And then 2011, we signed the agreements with Banco Santander for their Latin American business. So now we partnered with Deutsche Bank in three European countries with Banc Sabadell in Spain, with Banco Santander throughout Latin America, and later on, you'll hear details of it. 2017, we signed another agreement with Standard Chartered. I think we know how to manage this Bancassurance agreements. They have been – and again, you'll hear that later successful so far. The returns we are enjoying are both original (41:07) plans. There are reasons for that because we activate all the pieces of this relationship including a lot of care and a lot of proximity to the banks and to the bank's managers.

Now, however, for us, partnership is not only banks. We're signing agreements with Miles & More, and now, we are on the Miles & More platform, which means having an access to 30 million customers of the Miles & More partnership.

I talk about Porsche. We signed an agreement with PAYBACK, which is a reward program for our goods and services, 10 million customers available to us. And we have (41:52) in Brazil in Latin America. This is a retailer, which offers us incredible opportunities. It means for us 1 million policies per month through a 1,000 points of sale.

So we think that this is the future of distribution. We think that the agents of course will remain, especially in some countries, we think that of course brokers will remain, but we think the more and more sales will also go in through this innovative way of distributing, especially in some emerging countries.

And we think we're understanding how to win, how to profit and how to make it sustainable over time. The rest of the day, it's a very packed day on purpose. We wanted to have you look at different pieces of the business. As you can expect, in one day, we cannot present to you all businesses of Zurich. So the charts we made was that we wanted to talk about Farmers, because we heard many of you asking questions that we're very proud of what Farmers has been doing and is doing today, and so we give it enough space to Jeff, Roy and Mike to present what they're doing and also show why they've been successful so far.

Kathleen would then talk about her experience leading the Alternative Markets and how she has been successful there and what the Alternative Markets are, because in that, there are (43:33) number of you don't exactly know what that business has become and has been, and how it has been performing over the past year. And then Claudia Dill and Jack Howell will talk about the South America and the Asian businesses that we have, which are both very interesting, also very diverse.

In South America, the business is made with distribution partnerships in banks. In Asia, we are not a dominant player in the big Asian – growth countries in Asia, China and India. We are growing but relatively small in Indonesia. It's important to understand that our business in Asia so far is fundamentally driven by two very developed countries like Australia and Japan. And Jack will explain to you also how he sees the strategy going forward and how he has segmented the Asian markets.

Javier Lorenzo is leading Bancassurance. So he has been supporting all these banks transactions through reward. And Raúl Vargas, who is here, is the Head of the Partnership with Santander, which is probably the most challenging, the most fast growing and the most demanding one of all. And then George will close at the end with, of course, the financial situation of the company and the wrap up on the targets and what you should expect from us.

Let me now close it. Was that too long? Yes. All right. Fundamental messages is, we feel good today the plan a year ago was a bold ambitious plan to quickly accelerate the transformation of the company a year after, we feel we are delivering on targets for that and we're confident that by 2019, we will deliver. The business improvements are tangible and we hope that you see them. And by – and through the presentation, you will also see what is the solidity of that embedded into the single business units.

The transformation of the industry is something where we have a strong opinion on and we're driving it, and we really think that we will lead this transformation and consider that as a great opportunity. And finally, we have a lot of confidence in our future dividend policy and our capital strength is untouched and that is – it give us again a great confidence on the future. I like to stop here and pass it to Jeff and the American team.

Jeffrey John Dailey {BIO 17070898 <GO>}

Thanks, Mario.

Mario Greco {BIO 1754408 <GO>}

Thanks, Jeff.

Jeffrey John Dailey {BIO 17070898 <GO>}

Thank you. Good morning. It's really a pleasure to be here and talk about the Farmers story, and as Mario mentioned, I'm pleased to be joined by my colleagues Mike Linton, who's the Chief Marketing Officer for Farmers; and Roy Smith, who runs our largest business line, Personal Lines, in the U.S. But before we start, we're going to talk obviously a lot about Farmers. And when I speak about Farmers, I want you to think about the exchanges, the Farmers Insurance Exchanges, that are owned by their policyholders that we don't own, but we manage.

And if we're going to talk specifically about Farmers Group, Inc., we'll mention that, but otherwise if you hear us say, Farmers, we're really talking about the exchanges. And so, maybe the first thing to do would be click this chart, there we go, and talk a little bit about the legal structure of the organization. And there's three things to take away on this chart and that is going to be the structure of the exchanges, the structure of Farmers Group, Inc., the Zurich owned entities and then the agreement that actually makes this work in the middle.

So, I'll start with the exchanges, and when I say exchanges, I mean plural exchanges. There are actually three exchanges and they're independent organizations. There is Farmers Exchange (sic) [Farmers Insurance Exchange] (47:41), there is Fire Exchange (sic) [Fire Insurance Exchange] (47:42), and there is Truck Exchange (sic) [Truck Insurance Exchange] (47:43). Farmers is the largest of those three entities, and in fact, Farmers is ranked number 227 on the Fortune 500. If we're able to sort of push those all together, we might be Fortune 175, but Fortune recognizes them as independent entities.

So, those three companies even though they're managed together, they're owned by their policyholders. They have three independent Board of Governors that actually manage the affairs of the exchanges, and as you can see, they own all of the insurance assets of Farmers. They own the brands that we've acquired over the years, Bristol West, 21st Century, foremost Zurich small business, when we've acquired Zurich small business from Zurich a while ago, and the exchanges also owned a broker dealer. So, we sell certain life products and certain investment products to our clients that we manufacture – we don't manufacture. We actually acquire through third-party, third-party relationships, so that's the exchange side of the equation.

On the left side is the Zurich side and that's Farmers Group, Inc. So Farmers Group, Inc., is the attorney in fact for each of the exchanges. There's three underwriting associations owned by Farmers Group, Inc., and they provide the services, the non-claims related services, management services to the three exchanges. Farmers Group, Inc., also owns a life insurance company called Farmers New World Life and Farmers New World Life sells life insurance policies, certain life insurance policies through Farmers – to Farmers' customers through Farmers' agents.

And then finally, Farmers Group, Inc., also runs an insurance company called Farmers Reinsurance, which at one point in time was really a single purpose entity to reinsure some of the premiums of the exchanges, over time that's moved on and we've reinsured those, where one with Zurich, directly through Zurich and their Bermuda Branch.

Now, probably the most important thing on this chart is actually what governs this agreement? Why do these two organizations work and what's the governance around that? And that's really boils down to something called a subscription agreement. And the subscription agreement is an agreement that every single exchange policyholder signs at the time their policy is taken out, that grants the underwriting associations or Farmers Group, Inc., the right to provide these services to the exchanges for a fee and that fee is actually paid out of the earned premium that the exchanges collect over time. This is something how that works. So the entire governance of this relationship is based on that subscription agreement that every policyholder signs. So that's kind of a brief overview. Some of you I'm sure pretty familiar with that, others perhaps not. But that is how the relationship works in practice.

So I go to the next page. Let me talk about really the key messages that we want, Mike, Roy and I want to deliver it today. And I would break these five into really two different sets of objectives. The first objective is really around Zurich. So, if you think about Farmers Group, Inc., this really provides us a unique opportunity to enter the world's largest insurance market on the retail side in a very nonvolatile fee-based business. So we get to participate in this marketplace, but not from an insurance perspective, really from a fee-based business. And this is, almost a unique asset. There's one other company like this in the United States, that's relatively unique and a very powerful asset for Zurich.

Now, the second set of message is really around the exchanges and the market position in the exchanges. Next year, the exchanges will turn 90 years old and this is a old proud brand in the United States that has been around for the 90 years, and we have significant market recognition in the States, great brand consideration, huge assets in terms of our captive agents, almost 13 – over 13,000 captive agents, so we have a very strong brand position. And one of things you'll hear is that, that brand position for the most part is West of the Mississippi.

Farmers is a Los Angeles-based company, expanded east sort of in the 1950s or 1960s, decided the Mississippi was far enough. And so if you go through kind of the state-by-state market share charts, you'll actually see us one, two or three in most of the States, West of the Mississippi. So we have a tremendous opportunity to actually move that brand east and that's we've been taking advantage of that.

We have a number and you're going to hear Mike and Roy talk about in a little bit me. We have a number of opportunities that we think we can continue to drive growth through the exchanges and we're excited about. And then last, I'll just echo our comment that, that Mario made on innovation.

You might think a 90-year-old company that sells auto and homeowners insurance to people through agents is not going to be particularly innovative, and I'm - actually I've seen people nodding on that. But, I actually - I'm really proud of the innovation that we've done, and our innovation has been absolutely focused on driving more value to the customer. And we've got some good examples of that. We are the fact that we're a 45-minute plane ride from Silicon Valley and a two-hour drive from 15 miles away in Silicon Beach, we really take - that was a Los Angeles joke (52:46), but we really have an opportunity to take advantage of what's happening in tech (52:53) that's in our backyard.

And we've done I think a very organized systematic way of doing that, and you'll see a couple of other things that we brought to market. So let me provide - talk a little bit about strategy. And as Mario talked about, we have been on the - in fact, it really goes back to the Investor Day that Mike and I did here in London three or four years ago. We've been on the same strategy.

Now we've just adapted it a little bit and we just put a five-year plan in place that was approved by the Board of Governors last fall, and it really is an evolution over what we were trying to do. And I'm going to take you through a high level on our strategy, and then, Mike and Roy are going to go a lot deeper on a couple of elements. But this has been - we call this an Infographic and I'm not sure that's a real word, but this has been a very helpful tool for us to describe our strategy to our employees and to our agents to make sure that we're all working towards the same objectives.

So we have four pillars and one plank, and I'll start with the pillars. To me the single most important pillar of this strategy is around customer experience and don't think about customer experience as customer service because it's much, much broader than that. The best way to think about customer experience is literally every time somebody interacts with the Farmers brand that we can add something positive to that, not negative. And so it's literally whether it's our advertisements, whether it's our agents, whether it's what our agents buildings look like, how our claims person does, all of those things either add positively or negatively to customer experience.

And as Mario said, we have been a slave (54:25) to Net Promoter Score for four years. Not - the number has improved and that's important, but what really has allowed us to do is it allowed the customers to vote how we should use our capital and what we should spend our time on. So we are really dedicated to Net Promoter Score system and I'll contradict one thing he said. We have actually had Net Promoter Score in all of the employees objectives at Farmers for the last four years and I'll tell you, a light bulb (54:50) went on for our employees that when they realized we're going to pay them on it that we were very serious about it.

I also want to mention that word in there, it says smart customer experience and that act is (55:02) actually deliberate. Mike will talk to you a little bit about the research that we've done, but we're focused after a specific customer in the United States. We are not trying to get all customers. And what we try to get is and he'll talk a lot more about this customers who care about value.

And the thing that comes back in the customer research that we do repeatedly and we've done the research more than once is, insurance is complicated, people, the value customers recognized it's important, and they actually want to get smarter about it. So, every interaction that we have with that customer, we're trying to make them smarter about insurance, so they can make the right choices for them.

Second pillar for us is on prioritize growth. Farmers, and again, it's probably a function of our model has always been very focused on growth, because that is the way the Zurich BOP grows, that is companies like to grow. But we had not been very systematic or rigorous about what growth was important. And I'll give you an example of growth that was – for growth sake and not a particularly good idea and that would have been the acquisition of 21st Century that we made back in 2009.

And I'm not criticizing the folks that were there because I was on the management team that helped make that decision. But that was a business that given our model, given (56:12) structure, given the captive agent structure, given what Farmers was, we're never going to be successful in. And we were never going to have enough money to build two brands. So that would be a growth for the sake of growth and not intelligent growth.

So, our real focus now is how do we grow the business by improving retention, by improving cross-sell, by improving the geographically where we are. So, the eastern expansion moves. So, we're very focused on the right growth and not growth for growth's sake. Third issue we talked about a little bit already was innovation for the target customer. We really do study our customers and we really are looking at innovative ways that actually make things better for our customers. And we look at that every year we set up a couple of pillars and strategy – on that strategy.

This year's pillar has been really around telematics and actually providing more value. We were the first U.S. insurer to actually be able to measure distracted driving on a mobile device and introduce that into the marketplace, and that's been a major issue in the United States and I'm sure around the world. And we're also focused on innovation that can take cost out of the system because even though we're focused after value customers, cost is obviously a function of value. So, we have been looking at how do we take work out and we measure that through gross written premium per full-time equivalent employee. And so, we've seen a pretty substantial increase in that over the years as well.

Finally, the last pillar, and Roy will talk a lot about that is larger, stronger agencies, and the one area where we're making a big bet and we believe it to be the right bet, and I'm sure sitting here in London in the UK, you guys would say you guys are crazy is we're making a bet on agencies. And the research for us is really clear that consumers in the U.S. want three things. They want to be dealt with when they want, how they want, and they absolutely want somebody to advocate on their position, which is an agency.

And Roy has got – Roy and Mike has got – had some data that will show you, if it's done right, how important that agent is in that relationship, in that transaction. And frankly when we look at our agencies and we compare and then we'll show you some of the data. When we compare them to some of our competitors, our agency to be larger and stronger in order to deliver the kind of customer experience that we expect they're going to have to deliver to make those relationships.

Finally, the plank – the red plank on the bottom, if you're going to be trying to be a valuable product and service in the marketplace, you can't do that with disengaged employees. And so, we've been very focused on creating a fantastic work experience for employees to make sure that they're engaged in the marketplace. Not surprisingly, we use MTF (58:48). So every year, every employee and Farmers will get two MTF (58:53) surveys a year is called employee Net Promoter Score.

And again, like the customer one, the number is not particularly important, but the feedback is incredibly important for us to actually make the experience better. We've moved the number from about 7 to close to 40 over three years. We were recently named Great Place to Work in America, and so we have been focused on this because our employees buy (59:15) into serving the customer, we have to make it a great place to work at Farmers as well. So that's how the strategy comes together. As I said, Mike and Roy are going to go a lot deeper on some of that – on couple of those pillars.

Let me put a little bit of perspective on Farmers in the U.S. marketplace. We are a large company. We are $20 billion in direct written premium and that is you can see fits us nice in the U.S. in terms of market share. I don't know who does the rounding for Nationwide and Chubb, but we all have 3.3% market share, I presume they're a little bit bigger than us and that's why we're ninth and they're eighth and seventh. But, this is a – it's an interesting market, because if you look at the companies up there, this is primarily a domestic fight.

Most of the companies on the screen with the exception of Zurich, and I guess you could say Chubb, are domestic insurance. And they are large retail companies, they're large commercial companies. Some are stock, some are mutual, and so there is a big fight in the U.S. for insurance space.

But that big fight is not generating a tremendous amount of consolidation as you'll see from the right. In the last 10 years, the top 10 have only picked up 3 points of market share. So, it's consolidating, the market is consolidating, but surprisingly slowly.

I want to go down to the bottom-right part of this chart before I go to the left. The bottom right is really key to what we're trying to do at Farmers. We took a look back and we talked to you about this a few years ago at who we are and what we could deliver. And the worry that we have was that if the entire market in the U.S. would be moving to where is the market was in the UK, then Farmers would have a very difficult way to compete in that marketplace. Because we are never going to be a low-cost provider, that is just not something that we're going to be able to do. So we engaged in very significant consumer research in 2013. We just updated in 2016 and had some interesting insights from the millennials now who are getting a little bit older.

And one of the things that came across in that research and probably the thing that we have really essentially bet the company on is that in the U.S., 61% of the people report that they actually care about value more than price of insurance. Now obviously the 39% care about price and not value and that we're not naïve enough to think that price doesn't matter. Price does matter because it's a function obviously of value. But the 61% of the folks in the U.S. who care about value spend done 65% on insurance. And if we can demonstrate that we have provided a better value regardless of the price level, we believe we can compete in this marketplace.

And so we've been very focused on how do we actually make the value commensurate with what we charge. And that again leads you back to the Net Promoter Score system because it's really our gauge of making sure that we're doing that. And then on the bottom left really is a chart, it's a proof point because we believe that to the extent that we could be successful in the strategy we could grow market share.

We have not grown market share essentially in this century with farmers, but we believe we could grow market share, we could start consolidating value customers. Now, it's a slower consolidation than price customers because when they're satisfied they don't shop as much. And obviously, all of those things means once you get them, you really have to work hard to keep them. But in 2016, we actually outgrew the market in our continuing operations and continuing operations for us really is, it is Farmers less the 21st Century runoff which will be complete at the end of 2018.

So again, not wild growth but we think it is, we will continue to be able to grow market share executing on our strategy.

Couple of points on this chart to take into account; one, like Mario talked about earlier with Zurich, the exchanges are also well-diversified as well. You can see here the different products that the exchanges sell. We have just under 50% auto between the Farmers auto product, Bristol West and what's left of 21st Century, we're the fourth largest homeowner's insurance in the United States. We've got a really good specialty business. And when you think about specialties, it's different than what Mario talked about. For us, specialties is more – it's more personal lines things like motor homes or mobile homes or boats or RVs, those kinds of things and non-standard dwelling coverages.

So we have probably the best specialty business with the independent agent market in the United States, which we call Foremost, and then, Steve Boshoven does a great job running that. And we have a great business insurance offering as well. Now, this is small business insurance, makes Kathleen and I somewhat competitors in the marketplace and certainly from an antitrust perspective, we are competitors. But we were recently named by J.D. Powers (sic) [J.D. Power] (01:04:02) as the number one small business insurer in America and Roy will talk about this, but the interesting thing is that, very few of our agents produce this book of business, so a real opportunity for us to expand this into more agents.

On the right-hand side of the chart, it demonstrates two things. First, if you look at that red line, we have very consistent BOP delivery back to Zurich and that is really independent of what's going on in the marketplace. And again it's a function of earned premium and the earned premium for next year is essentially set. I mean, we could make it move a little bit maybe, but not a lot. So we become a very consistent, stable BOP deliverer for Zurich. So that's great from an FDI perspective.

From an exchange perspective, you can see that we've had consistent combined ratios in the – excuse me in the last – it always hurts to say, combined ratios over 100. But in the last few years, we've had combined ratios of over 100. We've had relatively consistent underlying loss ratios and I'm going to talk about auto on the next slide, which has been a little bit different, but outside of that, it has been relatively consistent.

What you can see from this chart is that, there has been an increase in natural disasters in the United States over the last five years. And whether it's global warming or what you can draw your own conclusions, but we have had an increase in natural disasters and clearly not yet baked into this chart will be the California wildfires that happened just about a month ago now which is we'll make that number go up a bit more.

So it has been clearly – at the time that our natural cats have been going up, we've actually also de-risked the exchanges pretty significantly. Unfortunately, we've de-risked the exchanges in maybe the wrong areas, but we've taken a significant exposure out of the Gulf area, so around Houston and Alabama, we have much less exposure there today than we did five years ago.

We didn't expect that we would have the tornado events that we've had in the middle part of the country or certainly the $250 million weekend hail events, whether it's in Denver or Dallas. So we still have some work to do on de-risking the exchanges, but we have – and we also fundamentally have to get that combined ratio a little bit lower if we're going to have this level of catastrophes in the United States.

Luckily from a regulatory perspective, regulators recognize this and we don't think we'll have any problem passing the rates through and we think obviously competition will be in the same position.

I want to talk a little bit about the auto loss ratio problem too, because this has been a problem for Farmers for about two years and it's clearly been an industry problem in the United States and we got hit a little bit with a perfect storm. At the time gas prices really started to decline, gas prices went from $5 a gallon to about $2 a gallon in most parts in the United States. Mileage driven accelerated a lot. It accelerated in a state-by-state basis and our states much worse than in some of the other states that we're not in a lot.

If you drive on a road in the U.S. it's almost impossible not to look over to the car next to you without somebody playing on their mobile phone. So we as a society are incredibly distracted in our driving, and hopefully, we can get no more distracted than we already are. But all of those things along with cars becoming much more expensive to fix, was really the perfect storm for auto insurance. So we saw loss cost going up at about a 10% clip.

And unfortunately, the chart that is in front of you, the blue line that's on the top is our loss costs. And this is how we have put them back after adverse development. It did not quite look this bad in real time, because we've had some adverse development that has been pushed back into these charts. But we have loss costs going up the – first quarter we couldn't believe that it was as bad as it was.

And yet it continued on and we finally recognized it. But so as a result of that, it took a while for our average premium to catch up and you can see in the third quarter of 2016, our average premium line, I guess, it's a green line at least down here. But the green line actually crossed the loss cost line.

And once that happen, we have started to see the combined ratio decline. We had a 110 combined ratio in auto in 2016 for Farmers. And we had an agreement with the board of governors that we would take three years to actually bring that back to profitability. This year, our plan was to get to be a 104 with profitability in 2018 (01:08:22). And I can tell you as we sit here today, we're ahead of our plan in – in 2017. So we feel good about where that's at.

And also as you think about this, it is hard to imagine – and I said that it's hard to imagine we can become more distracted. So – and as you should think about the frequency, our changes year-over-year, so we are starting to see frequency flatten out. I think we in the industry will continue to be exposed to increases in severity.

It's a lot more expensive to fix a car, a newer model car today than the similar car was two or three years ago. A good example of that is an entry-level car that's got damage to the front end which has about $1,400 of damage in 2014. To repair that same car and that same damage in 2017 was $3,300 and that's because of the sensors and the new adaptive lights. So we're going to continue to see severity increase, we think frequency will flatten out, but we feel actually that we're in good shape from an auto insurance perspective.

And then the last thing I want to mention before I bring Mike up is when we came here in 2014 and talked about what we were going to do. We think we've got some real proof points of how this model is working and working well and our strategy is really, is really directed at the Farmers business. And when I say the Farmers business, I mean the Farmers branded business.

So that would be business that's either written through a Farmers agent, written direct because we do sell direct and then intermediated with a Farmers agent and whether it is personal lines or business insurance or specialty or Bristol West, anything that comes through that exclusive agent channel, we call Farmers business. You can see we've had pretty significant, growth better than $1.5 billion, over the last two years, which has been really positive. The Net Promoter Score which is critical to everything we have done and as Mario said, it is – and there is a like a 0.9 R-squared relationship between Net Promoter Score and retention. So you can see that's gone from 30% to 43.2%; when we started this we were at 26. I would argue we were a bottom third company at that point in time, we're better than average today. It's not good enough, but we have moved significantly and we'll continue to move that.

And finally agents are really important for us. You're going to hear Roy talk a lot about quality is more important than quantity and he's 100% correct, but we did have to rebuild the quantity of our agents over this timeframe as well and we were able to move the agents up almost 1,000 in that same timeframe. Some came with Eastern expansion, but a lot of them came directly in some of the states that we needed to rebuild those distribution channels out.

So from our perspective, three really good proof points on how this model is working and if we can execute better than we've executed, that we can continue to move these forward.

So with that let me introduce Mike Linton and Mike is going to take a little deeper dive on our go-to-market strategy.

Michael A. Linton {BIO 2053429 <GO>}

Thanks, Jeff. Hi, everybody. As a public service announcement, because I walk around a lot, Richard has asked me to anchor myself to this podium, so as not to block you from the slides. Before I get to those slides, there's three things - I mean, three objectives I want to talk about today. The first is I want to share with you how Farmers segments the U.S. market, which we think is changing faster than we thought could. The second is to talk about our marketing, how we go after that market; and the third is to drill down a little bit into customer experience, which Jeff, as you heard, we believe it's by far our most important mission.

So, what you see here is a marketplace segmentation recently run in the very end of 2016 and what is happening on this chart - and I'm going explain a little bit, I'm dying to walk over there, is the value segment is getting bigger, and what we see here is a maturing U.S. market where consumers are moving more towards value. We think this is great for us since we are usually on the higher end of price, but it also goes to the customer service story.

For those of you that were here in 2014, you saw our discussion about the confident planner, which is in the top half here and the lead, kind of most demanding customer group in our segmentation. And what you see here is 61% of customers are driven by value first. It doesn't mean that they don't care about price, but it means that they are most concerned about protecting their assets. Either assets they already have or assets they think they are going to get. So, when they approach the marketplace, they are thinking I've got to protect my assets and I actually need kind of advice or help or thinking or someone to help me through that.

Once they are attached to a company they are likely to be more loyal but they are highly, highly demanding. The folks below the line, their first lens is price, and they approach the market thinking I want the best price I can get, I'll kind of deal with this value equation later. The big thing that has happened since we ran the first survey in late 2012 and now into 2016 is the emergence of the up-and-comer market, you can see it highlighted there, it says up and comer. Anyways that is driven a lot by millennials.

And what is happening is millennials used to be almost all price-driven, but as they are maturing they are much more interest - and they get things like a house or a spouse or a kid, they are much more interested in protecting this asset. They consume media completely differently than the confident planner but they care a lot about value. This requires us to change our marketing and go where these people are.

I want to drill down a little bit into the segmentation. And we did this with 10,000 customers; there's lots of data. I just want to share three little components with you.

The first is, and this is 2016, the difference between price-oriented and value-oriented customers, as they think about kind of is it worth more pain to get a good provider and usually one of the biggest screens a consumer in America uses as a good provider is, do they have enough marketing that I can see them? That means they are big, they have assets, they're probably going to be there for me, which is why you see almost $6 billion a year spent on marketing in the U.S.

But you can see a massive difference. And this is top two box in a six-box piece of research, that's very important. The difference between the value- oriented and the price-oriented customer.

As we move to the second box up here, you can see the, I am loyal to my current insurance agent. Again value-oriented versus price-oriented, a massive difference. And this kind of difference is throughout all of our research between the value-oriented customer and the price-oriented customer.

And now just one slide I put up there which is demonstrating what's going on with the millennials. They are moving into value is important to them and I explained why. But this was a very rapid shift in the research that we ran over a couple years faster – surely faster than we expected it.

So when you look at the segmentation it has a lot of implications to how we tell our story and market to all these customers. They consume media differently. And also it's a really competitive category as you heard from Jeff. So I wanted to share with you how we do that.

There is real two things I want to highlight in the slide. The first is we are driven kind of to be incredibly consistent on what we called the smart strategy, and then we measure everything we can in marketing because we have to really focus that message to tell our story in what is a brutal marketplace.

So first the smart strategy. Jeff told you about it; every time a customer touches the brand, we want that customer to feel they've come away smarter about insurance. We start that with the television, but this works all the way down in a funnel-like thing where they get to the agent where the agent is the most powerful deliverer of the smart strategy. The three components of the smart strategy would be proactive, meaning you are ahead of the game; straightforward, insurance is complicated, can you make it a little clear to me; and lastly, give me knowledge, ideally personalized knowledge.

The other thing that we do is we measure just about everything we can measure. There's a lot of things that are easy to measure like performance marketing. We also measure all of our advertising and most other people's advertising, and then we look at various ratios. I've shared one up there for you which is what we spend per point of communication awareness versus some other people.

But the point of this all is, we're going to get the best message in the right place across all the medias and use math and this strategy to do that.

With that as background, I'm going to show you two kind of pieces of film to get the feel for this. But as you see the film, I want you to think about marketing as a funnel where we tell a big story. And then we work our way down the Internet, talking to different groups of customers and we put the customer at the agent's doorstep.

So I'm going to show television. But as you look at this television, I want you see our Professor Burke as a proxy for our agent. And we also try and tell that smart story with a little bit of humor, because all the math says customers remember this, and that it makes them think deep in their head about, I've got to really think about the complexities of coverage and talk to my agent. So with that, if we can roll the first film; you're going to see two commercials now.

[Video Presentation] (01:18:49-01:19:50)

So a couple of things I will say we in-source all these ideas from our claims department and our agents; we put out a little contest that say, send us your funniest things or what you think might be funny. And we'll get hundreds in, we'll work them down and then we will take a little liberty in telling the story.

The other thing I will say is, it's great to have an Oscar-winner working for you. That means everybody wants to direct the advertising and work with J. K. and so since we're in L.A., we get an awful lot of quality that we'll work at the scale he want to shoot our commercial. So they are the best-testing (01:20:27) that Farmers has ever had.

Now, it's important to have a great TV and we think we do. But the other part that's really important is to work the story down the kind of media chain, particularly as you think about the millennials I talked about earlier and other folks that maybe don't watch so much television. What I'm going to show you now is a version of that where we took a bunch of commercials we shot and we repurposed them all for our own version of the Oscars.

And we've released this digitally. We let consumers vote on it. And a lot of people really enjoyed this and passed it around. I'm just going to show you one of these. But if you like to go to YouTube afterwards and look at all the Burkies or the dog diving Olympics competition or Stranger Claims, which is out in the hall, please do. We appreciate the views. So with this I'm going to show the intro to our own version of the Oscars.

[Video Presentation] (01:21:21-01:21:52)

So we use this to get consumers deepening the story, but also we can take them from there to a number of different places and people pass that kind of stuff around a lot, extending the power of our marketing.

Now, Jeff told you about the customer experience and I'm going to shift gears and talk about our journey. The customer experience effort for us is a never-ending relentless journey to get better in a marketplace that is constantly getting better and what you can see here is that we have improved to – Jeff showed you the numbers, we're now around 43%. And we came from a long way, we cut off the part of this where we are lower than that.

And I'm going to highlight three efforts here. But the point I want to make before I do that as these are all based on customer data. They're coming out of our research or the Net Promoter Score, and there's literally hundreds of things going on. These are three I want to highlight.

The first is omni-channel. Customers told us in 2012 and 2013 that our digital was just not good enough and, and when you think about our model, they expect an agent in the center, but they expect digital and call centers around that. We've rebooted our entire digital effort, and that created market improvement. We picked up a lot of points that way.

The second is Farmers Friendly Review. Talked about personalized knowledge. This is the agent connecting with the customer to proactively deliver the story about what that customer needs personally.

The third is premium change communications. We're generally on a higher price end. We have found the customers really appreciate and are much more likely to understand a price change if we are ahead of that talking to them about why that is occurring. The more personal to them the better. So, my point is we're on a long journey here, it's never going to stop. Those are just some highlights.

And I wanted to share now other things, which is on the innovation front. We innovate really with two things in mind, one is making the customer experience better, the second is to reduce cost.

So, I'm going to take you through four innovations here and a lot of them are mobile, that's not a surprise, but that's kind of where it's at in our mind, in the market and with customers. The first is Roadside Assistance. And this is an Uber-like application that has replaced the patchwork design we had on towing. We do 400,000 tows a year with an Uber-like app that a Farmers customer can use to summon a tow truck. This has cut 12 minutes off our tow time.

The second is First Notice of Loss, which is again an app on any device where the agent and the customer can send in the loss. We've already had 300,000 of these used this year. The important thing here is – well, two important things, this is much less expensive for us and it's better for the customer. Takes five minutes on average for a customer to turn in a first notice of loss this way versus 13 minutes for a call.

The third thing, and Jeff was referencing it, is our entry into telematics called Signal. It allows customers to get reports on how they drive. We launched this in Arizona and now it is in six states. We're very excited about this not just for the data, but also what it can do for customers.

And the last is, drones. Drones have a lot of applications particularly when you think about roofs. Just for an example a great roof inspection person can do about three a day. A drone can do three an hour.

So that is a big thing. Also we have used drones in catastrophes and other places. It's a big help for us as we move towards better aerial imaging on the claims front.

So this brings me down that whole funnel I set up earlier, to the most important difference-maker with the customer, and that is our agent. We talked about how we study NPS. This is the biggest Net Promoter Score difference we can find anywhere is customers that like their agent versus customers that may not like the agent so much.

So powering up this asset at the bottom of the funnel after all the company's efforts gets the customer there is a really big deal into making a difference and improving our retention.

We have 11,000 storefronts, but as you look to the right there, we've taken over all the agent digital pages. We centralized that in marketing and we have one agent look designed to maximize both national and local search and we call that digital storefront. That is a big effort to tie the agent together with his or her local community.

Also just so you know when – Google search assumes if you're searching on a mobile device, that's a local search. So we want you to be able to find our local agent immediately. That's one of the reasons we took this over and built up the architecture that way.

So with that, Roy is going to take the stage now and talk about all the cool stuff we're doing with our agents. Thanks.

Roy Smith {BIO 16232784 <GO>}

Thanks, Mike, and good morning, everyone. You've heard a common theme throughout the day started by Mario and Jeff, and I will continue that theme and that's around customers. And to start off just to reinforce the critical nature and the role that our agents play in managing and building that customer relationship with the vast number of customers that we have across the enterprise at Farmers.

Jeff mentioned that one of the strategic pillars that I will talk about is our emphasis on helping our agents become larger and stronger, and I hope to give you a little bit of insight into why that's important and why we tend to focus on it. And also I'll spend a few minutes talking about some areas that we call them the infamous infographic that Jeff mentioned around prioritized growth and why we think that that is important for Farmers.

I will go to just a quick kind of a highlighted overview of what our distribution network looks like across the United States. We feel it is a strategic advantage to Farmers and we do intend to maximize that in the years ahead. If you think about it we have a vast collection; at the heart of it is our exclusive agent. So we have 13,400 to 13,500 on any given day Farmers exclusive agents in our network. They are independent contractors.

They are managed through a network of another 300 or so district managers as we refer to them in the U.S.; they are also independent contractors. Those two groups of individuals have employees that work directly for them. We call them staff. And when you add all that up on any given day it is a collection of roughly 35,000 people accessing, hitting, touching the Farmers network, all selling Farmers branded products.

In addition an area of the business that I don't personally manage but I felt it worthy enough to mention is we do manage close to 35,000 relationships in the independent agent space with independent agents across the United States. Again, managed outside of my area of responsibility but worth noting. Those independent agent relationships are selling non-Farmers branded products so the distinction between Farmers branded, as Jeff said, and non-Farmers branded products.

And then one area of the business that we've been focused on in the last couple of years is really thinking more like a retailer and trying to position ourselves and our thinking around the number of storefronts that we have in the United States. And so this to us is very, very important. We just ended a three-year journey where we embarked to rebrand all of our storefronts.

So if you're in the United States and you see a Farmers location you have a consistent look and feel with the same exterior signage, the same letters on the outside of the window, on the decal. All of those things are now common and when you step inside one of our locations, we are very, very proscriptive in terms of you know what the look and feel we want to have and we want licensed and appointed staff in every one of those locations.

Now to put that kind of in contrast, something that maybe we can all relate to in the group especially in the morning, if you're like me, you're thinking about where's the closest Starbucks. So to put it in context, in the United States there is somewhere, on any given day, 13,000-ish Starbucks locations. So think about the 11,000 Farmers locations that we have; that gives you some sense of how we stack up.

Speaking of customers and how we think that they're critical to managing the relationship through our agents, maybe we'll put this in your mind, if you think about it – phrase that I like to use is live and local. A Farmers agent is live and local in all of these communities and they can access, usually by the third ring, a customer can access their agent or one of their licensed and appointed staff members, get the customer service and the customer experience that they require.

So again our focus is on how we assist our agents to become larger and stronger and I'll talk a little bit about that and to why that's important.

The journey to larger and stronger is really a journey around quality and on the right-hand side, you can see through the bullet points some perspective. As Jeff mentioned, 90-year-old company, and literally for the first 86 years – albeit I wasn't around for all of those 86 years, I've been with Farmers for a few number of those, but not entirely – we really onboarded and on boarded and recruited agents with little or no capital required and little or no experience required. Meaning either business acumen or selling insurance experience.

And when we refer to capital from my presentation, think liquid assets, think dollars that a new agent, a new business owner can access immediately to deploy what we're asking them to do, which is prospect, develop leads, maintain an office that meets our standards and deliver the kind of customer experience that we're thinking of.

So in 2014, we really began a journey to change that and we shifted the – from this notion of just having the sole focus be quantity to much greater focus on quality. And as Jeff mentioned in his presentation earlier, we are very proud that we grew agents for three years in a row from 2013 all the way through the end of 2016. We're taking a slightly different tack on that now and we are kind of realizing to our self that there are areas in United States where maybe we have too many agents in one location and we have over-concentration of risks.

So for multiple benefits, we are taking steps now to scale down the number of agents in certain areas and obviously scale up as you'll hear me talk about in a few moments.

So again, the whole way that we onboarded agents was really from a quantity standpoint, with some degree of focus on quality but to the degree that we are today. So where we're we are at today positioned-wise as we onboard agents into our Farmers network. We focus on a liquid asset requirement. We require a minimum of $50,000 of liquid assets that they can deploy immediately to build their agency. We require that when they come onboard they are in a freestanding single agent office with appointed staff. Again all meeting our customer experience guidelines in terms of branding both internally and externally.

The way we're managing them is through a proprietary segmentation (01:34:25) model we call the agency growth model. We deploy this to measure their performance. Essentially it's a series of KPIs and then we measure their performance both premium and (01:34:38) and we then ultimately as I'll talk in a few moments, we link compensation to that.

I'm happy to report that as a result of our changes, as you can see on the left-hand side, our traditional line on the chart, I think of that as the old way that we used to bring on agents into the network. We're seeing that old model and that old programs dwindled down and most of our new agent appointments, over 80% of them this year, will be highly capitalized and they will come onboard with a freestanding office and licensed and appointed staff.

So, said another way, shifting to quality versus quantity, really describes our approach to how we're just headlong addressing, making agents larger and stronger.

So, if I can shift to the next stage of our story here. Why is this important? We feel like it's showing up in the data, and as we said earlier, we refer to these as new entry points into our model. And at the top left you see 12 month agent retention.

So under the traditional way that we brought on agents while successful for many years and for decades, our farmers, as we scale across the United States, even past the Mississippi, as Jeff mentioned.

What we did find is that we had a high degree of churn. We had a number of agents just not make it through our program.

And you see that evidenced by the 55% agent retention. Under our new program, our new entry points, we're very, very excited. We've really knocked down that churn significantly and now we have close to 90%, if not on any given day more than 90%, of our agents at the end of the first 12 months executing our program and being successful and still an agent.

Agent churn is very important to us. You can imagine as a customer dealing with a new agent every 12 months how frustrating that would be. And if we also are knocking down a lot of frictional cost inside the distribution model.

On the second box to the right is really around Net Promoter Score customer experience. And our new capitalized agents, because they come with capital, because they have liquid assets that they can deploy immediately on day one vis-à-vis a free standing office, licensed and appointed staff and the dollars to execute through leads and marketing programs, we do see the customer experience better from the population customers that we survey that come through that model.

And then last but not least, the bottom graph, a little bit hard to read, little bit of an eye chart, I apologize, but it really is meant to demonstrate that our capitalized agent, entry point agents are generating more premium at various stages throughout their lifecycle and particularly in the first 15 months or so than our traditional program.

So, said another way, they produce more, they retain longer and they generate a better experience for Farmers, again, while the focus on larger, stronger and quality new entry agents.

So moving on – so Jeff mentioned this, I'll give you some data points here. So, when we look at the opportunity that we have to help agents get larger and stronger, let's maybe put it into context, when we look at our closest competitors in the U.S. that operate a similar model exclusive agents, individual retail storefront locations deployed across the U.S., we find some disturbing information, right. We just do not feel like – and the data clearly shows that our agents under index underperform our closest competitors when it comes to average personalized premiums per agent.

And so, we have a tremendous opportunity, as you can see on the chart, to help them grow their premium. And as in the U.S. model agents earn commissions, those commissions are derivative of the premiums, so the more premium that we can help them accumulate under their agency, the more operating revenue they have to deploy our model. And it's a capital-intense business to start a small business, any of us I think would agree with that, and we certainly experience that in the United States.

I've already talked about capitalized new agent model on the right and maybe just touch briefly, we do have varying levels of recruiting standards that we deploy and we have increased those to try to attract the higher caliber of individual to the model. But the few changes that are – the last two bullet points on that slide – are really kicking in 2018, and that is changes to compensation. So we took an approach that one size fits all. We paid every agent the same for literally 89 years without really any varying degree – degrees of if they produce more, and they earn more, other than just the absolute dollar.

We have embarked now on a journey – this is fully introduced and will become effective in January of next year – and that's compensation changes, where we have linked all of our agents compensation to their performance. And in a nutshell, we lowered base commissions across the personal lines environment and we put the lowering of the base commissions into a variable model that they can earn through performance.

There's a couple of new performance management tools that we've also been working on for the last several years. They are now fully deployed and linked to compensation and that is this notion of you have to maintain what we refer to as smart office guidelines and you cannot let your physical retail location deteriorate to a point where it doesn't meet our standards.

And then, on top of that, we focus on profitability through the agent model by the fact that we have a proprietary model, where we score every single piece of new business that an agent writes, we give that a score, make a long story short, we inject that score into the compensation model that we deploy, and the more attributes of quality business that they submit, it affects their compensation. So all these things taken into account are some of the ways that we're driving and trying to knock down this number, and get closer to the left of the chart, and not be the sole outlier on the right.

So moving on, in terms of Jeff mentioned, prioritize growth. So this is an area that I'm sure is keenly, interest to all of us in the room, particularly yours truly (01:40:59). And it's around cross-sell. And so it's really we can grow the profitable business of Farmers through retention, and we know that the more policies we have in the household, the higher the retention levels are as evidenced by the right-hand-side.

But just to give you a little breakdown, we sell across four major lines of business; Personal Lines, Commercial, Specialty, Life and Variable Products as we refer to them. We add up all of those products underneath those major lines. We have you know on any given day north of 50 individual products that an agent can deploy against a customer.

And today when we look at Farmers households and we look at our mix, the rundown is, the number of households or the percent of households with two lines of business is 32%, as you can see, three plus lines of business that would be a customer like yours truly (01:41:51), 15%, and then really the big, the big thing that we have to focus on, and then we're were aligning our compensation around now is the 53% of our Farmers households being mono lined.

So building cross-sell and bundling is really good for customers, it's this notion of a one stop shop, live and local, I can call the Farmers' office and get a live individual on the phone. And I can get all of my – various products that I need across my household handled by – at one time with one agent. And to really emphasize the seriousness of how we're approaching this. I talked earlier about compensation, essentially we've redeployed 30% of the agent level compensation against cross-sell and bundling within the new commission model.

So we're very, very serious about this, and that is that is rolling out as we speak. And then, last but not least too, to really affect this change, it's not only asking our agents to do better, but as Jeff indicated, we're really asking the company to do the same.

So we're taking the active steps to modernize a host of systems across the Farmers enterprise to aid and make our products work better together, and to make cross-sell happen. So you can imagine things like screens, pre-filling based on what you've already imported. So saving the agent time and making the customer experience better as the agent and the customer go through our system.

Moving on to another area of prioritized growth for Farmers, and one that has – it's been there for a while for us, but we really are putting more focus on that, and that is more growth through business insurance.

So Jeff indicated earlier, and as you probably know, there's really no clear leader in the U.S. for small commercial business, which is predominantly our book of business. Jeff mentioned earlier that J.D. Power has ranked us number one in customer satisfaction from a small business perspective. The big challenge we have is the graph on the right.

We have a small percentage of agents doing the bulk of our business, and there's a host of reasons for this over the years, about really what we're trying to do now is, we're trying to engage more agents to be more attractive to this line of business at Farmers, we're going to do this through a lot of skill, lot of leadership, lot of new training being deployed and a lot of new tools and techniques that we can deploy against the agents to help them gain more confidence; because, my experience over the years is that, the agent will or will not engage in this particular line of business, it really is a confidence issue for them, because it is different, it's not auto, it's not home, you're dealing with the business owner, you want to make sure you get that right. So we need to make sure that we have everything deployed to get their skills to where it needs to be.

The last area of prioritized growth that I'd like to speak to is, Jeff mentioned it as well, and that is how we're helping customers in our Eastern region of the United States, commonly referred to as

East Expansion. So one of the reasons why – kind of stating the obvious here, but if you look at those Eastern seaboard agents or if those states along the Eastern seaboard, where traditionally we did not have a Farmers agency model deployed, represents about 40% of the U.S. population. And if you think about the six states that we have deployed the Farmers' model into, since 2011 so roughly 25% of the United States' population resides there, so it's a very huge market for us, represents some of the fastest greenfield opportunities for us to grow into.

And the chart is really just to bring you forward an update, I know you've seen this – elements of these presentations maybe over the years. But we did start in 2011, where we – just entry into the marketplaces there with $4 million in premium and around 100 agents. Fast forward to September of this year, we will obviously end the year higher than the GWP that is indicated on the chart for 2017, and we will have agent growth year-over-year in the Atlantic states, these numbers are just through September. We will enter Florida in 2018, in – albeit a limited capacity, in the central part of the state and we're very excited as we begin that journey.

So to recap before I bring Jeff back up, just to kind of close, three quick things hopefully take away from the limited time that we have is, this is just the critical nature that we think agents play in building a relationship and maintaining that relationship with Farmers, and how important that is to our strategy. This notion of how we're shifting to quality versus just quantity, and that really supports prioritized growth, agents that are highly capitalized in a freestanding office with license and pointed staff (01:46:38) can really concentrate on cross-sell more, they can concentrate on business growth a lot more.

And then last, just the closing comment on all Farmers across the entire enterprise and the group that I manage really mobilize to make our strategy come to life. So, with that turn the program back over to Jeff.

Jeffrey John Dailey {BIO 17070898 <GO>}

Thank you. Thanks, Roy. And now let me just close-off quickly. I hope, one thing you can sense the excitement for the three of us, certainly you should be able to, with Mike it was probably pretty easy. But we do think that we have come a long way over the last three or four years in terms of executing our strategy, and we're incredibly excited about the opportunity we have the – actually we're pretty transparent about the things that are not so good, in terms of where our agents are, relative to our competition, where we have the expansion ability in the East, what's happening in business insurance.

And it doesn't take a lot for us to make a meaningful difference at Farmers to actually be able to grow the top line. This remains a tremendous asset for Zurich, because as we grow that top line management fees grow along with it, and we're really excited to continue that journey, and continue to execute on, I look forward to our discussions during the day.

But with this, it's really my pleasure to introduce Kathleen Savio to talk about Zurich North America. Kathleen?

Kathleen Savio {BIO 17942079 <GO>}

Thank you, Jeff. So, good morning. My name is Kathleen Savio, and as Mario mentioned, I've been with Zurich for a number of years, frankly February will be 27 years. And for the past five years, I've been leading our Alternative Markets business in North America. Mario also mentioned that beginning on January 1st of next year, I will be assuming the CEO position in North America.

And my primary objective with you today is really to tell you more about our Alternative Markets business. This may not be a business that you know that much about, but what you should try and take away from it is that, this is a business where we have delivered year-over-year growth, we've delivered year-over-year improved profitability, and we've delivered customer-focused products and solutions.

Going forward, one of the things we'll look to do is to be able to extend the best practices, whether it's from our Alternative Markets business or other parts of Zurich, across our businesses throughout the U.S. and Canada, so that we ensure we are delivering solid, sustainable, profitable results.

So, a number of key messages to help you walk away with. First of all, Zurich is a strong franchise in North America, and we're really built on a solid foundation. We've been in the U.S. for over 100 years, and right now we are ranked as the fifth largest commercial insurance in the United States, commercial insurance carrier.

We serve individuals and businesses from small, all the way up to multinationals, and we serve them through multiple distribution channels. So, certainly we use the broker channel, but we use independent agents, program administrators, captive consultants, and we have our own independent sales organizations.

In Alternative Markets, which we call our retail and other businesses, we are focused primarily on small and medium size enterprises, SMEs. And we do have some individual customers in this book as well. We have a track record of profitable growth, which we demonstrate by a 13% CAGR, and a combined ratio improvement from 2013 to 2016 of 10 points. The Alternative Markets business is actually comprised of four separate businesses. And each one of those businesses, I'll talk to you more about is a market leader, each one focused on a targeted customer group, and each one delivering through distinct distributions and operating models.

One of the common threads that cuts across these businesses in Alternative Markets is very much a strong performance mindset. We focus on results, but we also very much focus on executing customer-focused innovation and simplification. And I'll talk a bit more about that.

And then, we will build on these strengths, certainly that we have in our Alternative Markets business, but other businesses as well will bring to bear to make sure again that we are improving our execution wherever we need to as we rebalance our portfolio, we improve our results, and we begin to transform for our customers.

So before I talk specifically about Zurich's business in North America, one of the things I wanted to do is, provide a little bit of context for the market that we operate in. So the U.S. commercial market is a $290billion market, and it's highly fragmented. There are almost 1,200 carriers that operate in this space and the top 10 carriers in this space account for almost 40% of the premium.

When you look at where Zurich at least in the U.S. fits, we are the number five carrier, and we have a 4.2% market share. We also operate in what I will call a very challenging market. So there's a couple of things to look at here on the slide. First of all, if you look at U.S. premium growth, commercial premium growth in particular, at 2% over the last couple of years, that's actually behind GDP.

And if you particularly look at 2015 to 2016, it's flat. So this is not a market that's seen a lot of growth in premium. The other thing to take a look at is Treasury yields. So while at this point in time, the yield is about 1.9%, which is slightly above the 10-year average. This is still far below some of the historical yields that we've been able to see. So if I take you to the lower-right of the screen, when you take a look at P&C commercial lines rate change, you can see that the rate has been declining over past years. We're just not seeing the rate that we need.

But one thing you can note is that in the last 24 months, and this is something we've been working very hard at, Zurich's rate has been slightly ahead of the industry. And we're going to continue to push rate in the places that we need to. And then, if I take you to the bottom-left of the slide, the last thing to consider in this market is combined ratio. So you see, for the industry, average is around mid to high-90s. The one thing that should stand out for you is 2017. This is an estimate still, but a 108% combined ratio very much triggered by loss cost and particularly some of the catastrophes that we've seen of late.

So actually speaking of catastrophes, we know that over the summer and early fall, we had a number of catastrophes that have caused significant damage across the U.S. They've affected residents and businesses alike. And as we continue as an industry to assess these damages, the industry is expecting significant losses for sure. And what we're also starting to see is that the losses are reinforcing recognition by many leading insurers that rates need to increase to be able to cover the losses, and the lost cost.

We're also seeing that brokers are telling their clients they should anticipate rate increases in the near future. So with that as just some context, for what the market looks like, particularly in the U.S., a couple of things I'd like to talk to you about. One is, how do you think about the North American business, and in North America, we're comprised of three main business units. So the first one I'd like you to take a look at is our P&C Commercial business or what we call North America Commercial Insurance.

So this is the part of our business where we go to market through brokers, and we're focused on mid-to-large and global customers. In fact, this business unit is our largest and part of the reason for that is because we recently brought together three of our businesses. We brought together what was our Global Corporate, our large global customers for P&C; then we brought our Commercial Markets business, which is really our mid-to-large business, also P&C-focused; and our Specialties business. And then also within this business unit, that's where you'll find our Canadian businesses, hence making us North America.

If I move you to the right of the screen for a second, you see our North America Life business. So in this business, this portion of our business is focused really on two things, Corporate Life & Pensions. And then, we also have a business around affluent markets. And in these case, we go to market through brokers, and then also through employers.

It is a place that you see quite a difference in what the premium looks like there. One of the benefits we have there is, because this is part of our North American business, we're looking to leverage the brand and the scale that we have with corporate customers in particular to be able to grow this business. Then, I'll take you back to the middle.

Our P&C Retail and Other or Alternative Markets business. This is the portion of our business that is really focused on small, medium enterprises, so SMEs, where we go to market through a number of different distribution channels. So this is a place where we are focused on having our own sales force, so direct sales, program administrators, captive consultants, and then independent agents for our crop business.

So, with that as context of what we look like overall as our businesses, why don't we shift to a one – I just forgot to mention one thing. I think, Jeff, you called it, or someone called it the plank at the bottom, for us the foundation at the bottom of all of our business, this is actually our shared services capabilities. And we're able to bring those capabilities, you see things like claims, finance and actuarial, our technical underwriting, marketing those are things that support all of our businesses across North America.

So switching now, we'll focus on the Alternative Markets business. Between 2013, when I first came into that role, and 2016, I mentioned earlier, we've grown the business by 13% per year, so that is fairly dramatic growth. One thing you have to be aware of when we talk about that growth is, it does include the acquisition of RCIS, the crop business. So that was a big contributor to the growth.

But even if I take out that crop business, we've had 6% growth year-over-year in the Alternative Markets space. At the same time, we've kept our administrative expense ratio flat. We've done that while in the U.S., labor inflation tends to be anywhere between 2.8%, 3% per year. So we absorb those costs, and found ways to simplify our operations in order to keep our expenses flat while growing the business.

And then the third piece I would highlight is our combined ratio. So during that period from 2013 to 2016, we reduced our combined ratio by 10 points. So that's a high-level overview of Alternative Markets. But let me talk to you about the various components of the business. I mentioned that there are four businesses.

If we start at the top left, which is our Direct Markets business, one of the things to note about this business is we have two types of customers here. The first is the auto dealership and that's where we provide the property and casualty coverages for them, things like their property their garage liability, the other main customer that we have is the person who purchases a vehicle at the dealership. And for that customer, we provide what we call finance and insurance or F&I products.

Think about F&I as your extended warranty that you might want to purchase your vehicle service contract, protection if you should scratch your new car or if you have an electronic key, which costs a lot of money to replace if you lose it, you can purchase an F&I product at the dealership, and that will help protect you on those. The other thing to think about is, when we talk about affinities, for us in this case the dealer acts like an affinity partner for us, because what we do is market our F&I products to the auto dealers and the auto dealers do the actual sale to the end customer who's purchasing the car.

In our Direct Markets space, we have 4.5 million F&I customers. And then on that P&C side, the dealership side, we have approximately 2,100 dealership groups out of the U.S., and 4,700 locations or stores as they call them. So that gives you a bit of an overview of our Direct Markets program – our Direct Markets business. So let me talk about our Programs business for a moment.

In our Programs business, we work with Program Administrators. So you can think of a Program Administrator maybe you're more familiar with the term managing general agent, an MGA, but in this case the Program Administrators have knowledge and access to niche markets that we're interested in. And what we are able to do is provide the Program Administrator with the products that they need, forms that they need, underwriting guidelines, but they provide access to those niche markets they do the marketing, they do the sales they do the underwriting for us and we provide underwriting governance around that, and then they do the policy administration. Now most of the time, we still handle the claims and we also provide risk engineering services for the customers.

In the Program space for us, this is a $35 billion market and growing. And we have, just as we have in our Direct Markets space market leadership position here. We have currently 50 different programs, 32 different Program Administrators that we work with right now and then we have 120,000 customers and those customers are in different niches, anything from veterinarians to lawyers to – historical buildings is another one that we do. So it kind of gives you a feel for the types of programs that we write.

So, then if I move us to our group captives on the bottom left there. Basically what a group captive is, it's a number of companies, members that come together oftentimes from like industries, so you might see healthcare industries, you might see beverage distributors as one we talk about a lot, churches, senior living centers, you find members that come together, form a captive with the help of a captive consultant. They also form a board and we work closely with both the captive consultant and the member boards to provide coverage for them.

Oftentimes, the other thing that you find is that this collective member owned captive is a really great risk for us to play in because they are very thoughtful. They take the first layer of risk. So their risk controls are very strong. This is a very good place for us to be in. The thing to be aware of here is, in this space, we have over 50% market share. And I'll talk a little bit more about why we have that, how we have that, and what that might mean for us. And then the last business that's part of alternate markets is our crop business as a result of our RCIS acquisition. So our customers here are 116,000 American farmers.

We are the second largest U.S. crop insurer in the nation and we cover one out of every four arable or farmable acres in the United States. We interact through independent agents and we provide what's called multi-peril crop insurance to farmers. This is a product that protects either their yield and/or their revenue every year for their crops. We primarily write corn, wheat and soy. But we do cover up to 130 crops.

I've learned quite a bit about fruits and vegetables, so anything you might want to know. We cover 130 different crops. This is actually a U.S. government program and it's highly regulated. So the way that we've been able to differentiate ourselves here in particular is the way that we handle our claims. And I'll talk a little bit more about that later. So why don't we take a little bit of a deeper look into each of these businesses and how they've contributed to the growth and profitability that I talked about earlier.

So, first, if we focus on Direct Markets, the headline here says we've achieved double-digit growth that's in the F&I portion of our business. So, for us, F&I is a very different risk profile, low losses, low volatility. So, it's a valuable place for us to be compared to some of the other products and services that you might be familiar with.

Our strategy very much has been to grow our F&I business, and we particularly focused on a group that we call mega-dealers. So, think of a mega-dealer, as a consolidator in the industry. These are the dealerships that are buying up other dealers. They tend to have multiple stores or locations, they operate oftentimes across multiple states, and they sell more than 1,000 cars a month. So, these are big dealership groups. And we thought that if we're going to grow even further in F&I, one place for us to really focus and develop a distinctive strategy is in the mega-dealer space. A mega-dealer can bring anywhere from 8 to 10, and we have some that are bringing in more gross written premium every year for us.

To achieve the double-digit rate or growth, that I mentioned earlier in F&I, certainly the mega-dealer strategy is a part of that. But I'll talk a little bit more later on some of the very much customer focused innovations we've also put into place here using digital tools as an example. That's really helped us to achieve the double-digit rate or double-digit growth. Rate is on my mind, in case you couldn't tell, double-digit growth that we've seen in F&I.

So, programs. If we switch to that for a moment, programs is a little bit of a different story. Frankly, the strategy here was fix and position ourselves to grow. So, it's the one place where you see a drop in the premiums that was very purposeful for us, because we knew that what we needed to do in this business was reshape the portfolio that we had. We had to improve the profitability and then establish a really solid base, make sure we learned from what we had done in the past so that we were in a position to grow. We executed this strategy through a range, first of all of, underwriting actions, as I mentioned rates that was a big one for us. We applied predictive analytics insights to many of the books. We changed underwriting terms, conditions, guidelines and in some cases, we terminated programs and that is in part why you see that reduction in premium.

But as a result of the efforts that we put into play here for the last couple of years, we were able to move our combined ratio from 100% in 2013 to 88% in 2016. So we feel that we've been able to move the book where we needed it to be and now we've positioned ourselves to be able to grow in this business. In 2017 so far, we've added four new programs. We may have one or two more before the end of the year and we have a pipeline that will continue to act on to look to grow this business in a profitable manner.

So, now if I turn our attention to group captives, I mentioned the kind of market share we have here already, but the captives business is a growing market, it's growing as an industry 4% per year. So we are looking to figure out where we still have opportunity in this market. One of the things we did to move the premium as much as we did was that we were able to secure the number one group captive in the nation, it was at the time a $250 million captive and by doing so, we now have the number one and number two captives.

In addition to that, we've been able to add other new captives over the years, and then within the captives that we have, their membership is growing. So we're seeing organic growth within the captive themselves. So this is a place that we absolutely want to continue to look for opportunities to grow and we so far have been successful and we'll continue to work on that.

And then the last business I'll highlight again for a moment is crop. So, you know, we successfully integrated our CIS, and you know we're the number two insurer there, but why don't we click – double click through and drill down a little bit here. We had a $400 million to $500 million book of crop business that we were re-insuring for RCIS for many years. So we knew their management team, we knew the business well. And when we saw the opportunity to acquire all of RCIS, we're actually very excited about that for a number of reasons. We knew first of all, it would bring us scale. We knew that the other big piece for us is that it could bring us risk diversification. So what do I mean by that?

Our ZNA, Zurich North America P&C book, it's spread out throughout the United States and Canada, but our cap risk in that book is primarily coastal. But the crop business does for us, because it's concentrated in the Midwest, is it actually helps us diversify that risk. So you can see from the map, about two-thirds of the crop business is concentrated in the Midwest. So if we have a hurricane on the coast, that does not affect our crop business.

As a matter of fact, one of the things we found is, when we have more moisture on the coast, and it comes up through the Midwest, it actually benefits our crop business. So it's really helped us to diversify there, and that was one of the things we're looking for. Another benefit from the RCIS deal was it helps us to rebalance our overall portfolio, which is one of the objectives we have as a company. So our crop business is considered property business. So, when you take a look at the shift we've made by adding that $1.8 billion of premium, we grew the property portion of our book from 30% to 43% in the alternative market space.

So, it's really helping us to shift the balance between the short tail and the long tail. Okay. So, across all four of the alternative markets business, as I mentioned this earlier, there's – there are common threats. One of them is our people and our strong performance mindset. We demonstrate this mindset through customer focus. These are highly customer focused businesses through innovation and through simplification.

We have a strong management team, many widely recognized experts in these businesses, it's no doubt that that is helping to drive, some of that would be contributions to the business, but there's some particular proof points that I also wanted to talk about.

First of all, the Farmers team talked quite a bit about NPS score and one of the things that we did in our Direct Markets business is took an already strong NPS score and we're able to add 4 points to that. So, I'll talk a little bit more about that. We also have focused on innovation. And I'll talk a little bit about some of the digital applications and tools we've built that are very much focused on our customers' wants and needs.

Additionally, we have piloted drones in our crop business in an effort to be able to more quickly and more efficiently assess the claims. And as I mentioned earlier, claims is one of the biggest differentiators and most important things to the customers.

And then finally, I'll give one example of where we have simplified doing business with us using technology and it's particular example with our Program Administrators, where we've been able to reduce errors, increase our speed and then respond to customers faster.

So with that why don't we go to the NPS in Direct Markets for a moment? So we had a strong NPS score in 2014 of 46, that's a strong score. One thing you'll learn probably about me and about my teams is very, very competitive group, we always want to do better. And in this case, we were actually able to drive the NPS score to a 50. Part of the way that we did that was we have a direct model, I mentioned earlier we have a direct sales force, so we have a number of opportunities to have touch points with our customers, and that's something that I think really benefits the NPS score.

But what we found in the research and what our customers told us is that one of the things they really appreciate about Zurich is our responsiveness, the service levels that we have, and then they found our prices competitive.

Just as Farmer's talked about, we are not by any stretch the low price in the market, but our customers tell us that our prices are competitive for the value they receive. Our promoters specifically told us Zurich is a company I trust and Zurich understands my company's needs. These are things we take very seriously and we continue to work on and continue to improve to push that score even higher.

And then I mentioned the mega-dealer strategy is part of how we were looking to grow the business. Our growth in the mega-dealer strategy, I would say is an example of a very differentiated value proposition that we put into play. In 2015, we created a very small team; it's three people that were focused on figuring out how to deliver for the mega-dealers in a differentiated way. So, what we've put together that seems to have really driven value here is, it's focused on strong relationships, deep expertise, in fact, a thing to know about our Direct Markets business if you meet sales people from that business, these are people whose families owned a dealership, their very first job was working in their father's dealership washing cars since be their mothers dealerships by the way, that is really starting to happen. And then we provide exceptional service, and again not just by our own standards by what our dealers are telling us. So we go into the dealerships and actually use the training programs that we have for our sales people with their sales people.

And one thing dealers really appreciate is making money. And so, we're actually providing that service that is helping them generate more revenue for their business. So the mega-dealer strategy for us has been very effective. We started with 12 mega dealers. There's a universe of – we think about 350 of these mega dealers, we started with 12 of them. Clearly room for us to grow. At this point in time, we've secured 25 of them and we've seen just in 2017 year-to-date $80 million coming from these mega-dealers, okay.

So if I stick with our F&I business to talk a little bit about innovation. One of the things is we were able to create an app for customers on the F&I sale. But before I actually go into talking about the app itself, you may know this but when you go into a dealership to buy a car, you go in, you select the car you're interested in, maybe you take that for a test drive, then you go back into the dealership, you sit down with the sales person, then you start to negotiate the price, and it's not people's favorite thing to do typically. After you think you've finalized the deal, then the sales person says, you know what, you should really think about these F&I products to protect the investment that you're making. What our customers tell us at that point they were tired through the process, so they either just said no because they just didn't want to deal with one more conversation or they said yes to everything, just so it could get the person to stop talking and then they would go back and decide that they didn't really want those products.

So that was not a good outcome for the dealership and it was not a good outcome for us. The customers told us they wanted more transparency, more control. So we created a tablet based-app that the dealers have and as part of the process when the sales person is in talking to the sales manager, they provide the customer with that app, the customer feels in control, feels they can get educated about what those F&I options might be. They can select the ones they want and then they present that back to the sales person and that seems to be working much better – excuse me, much better for our customers and our dealers are very happy with the outcome too because customers are choosing what they want and they're sticking with what they chose. So again, listening to that customer feedback and then applying a technology and an innovation is one way we've done this.

Another way we've done this is we do recognize the process of going into a dealership for the first time, thinking about what car you might be interested in is not really how it works now. People spend an awful lot of time online researching. By the time they walk into the dealership, they generally know what they want. So, in order to help them be educated about the F&I products, we put information, very much interactive information on our dealerships' websites. So if you're our (02:17:10) customer, then you can have access to this information, we put it on your site. Your customers that come in are more educated about what they're interested in buying. They feel more transparency, things feel more control, sales are better. So these are two places where I would say they're customer focused and they're also innovation.

So then if we move to one example of simplification for a moment. Electronic Data Interchange, EDI is something that we've done with our Program Administrators. So the thing to think about here is we share a lot of data back and forth between Zurich and our Program Administrators. But before EDI, our Program Administrators would have to download information from our systems and then manually re-key that information into their systems. And I can give you a – I think a success story example. If one of our Program Administrators has a 300 vehicle fleet, they get detailed information, they have to download it. It would take them three working days to upload into their systems all the information they would need to be able to quote on that account.

What was happening was, oftentimes, they wouldn't take the time to do it. So no quote was put out. No one wins. What we did instead was created EDI, and we've taken that 300 fleet, 300 working – three-day working process down to three minutes. So we've been much more responsive for our Program Administrators, it's easing their doing business with us. It's enabling more quoting, it's so much simpler for them. Okay. So just one example. Okay.

So, I mentioned earlier that we've begun to rebalance our portfolio certainly in alternative markets, but as we look to the future of Zurich North America overall, we will continue to build on a strong foundation, one of those ways is through rebalancing the portfolio. So we'll continue to drive everywhere we can to have more of the short-tail lines business in that portfolio. The other thing will be looking to do is take some of what I consider the relentless customer focus that we have in our alternative markets business and help magnify the places where we have customer focus in other parts of our business really ramp that up.

The other thing I would say that we'll be looking to do across North America, is certainly as I talked about improving profitability, reducing volatility, using technical excellence everywhere we can. You heard me talk about rate a lot. We'll continue to drive rate everywhere that we can and need to. We'll continue with reshaping efforts, everywhere that we need to and we'll do that with technical excellence.

Then the last thing I would highlight is, we will maintain the strong expense discipline, but I'd like to think about expense discipline as efficiency, innovation, and simplification. So those will be the things that we will continue to focus on, whether it's alternative markets or across Zurich and North America overall.

With that, I'll just reinforce in closing, we have a strong foundation in North America. In my mind, there's no doubt about that. We're the fifth largest commercial carrier. We're very well-positioned in a challenging market. In fact, we expect to see some of that rate come through, following the recent events and that would put us in even better position. Alternative markets does have a track record of performance. We've grown profitably since 2013, we expect to maintain strong industry positions in all four of those businesses and alternative markets.

Our continued focus on our customers, on innovation, and on simplification, gives us the confidence to execute successfully in the future, whether it's in the SME businesses, like we have in alternative markets or across all of our businesses in the U.S. and Canada. We're positioned to improve our performance, and as I have the good fortune to dive in fully to the CEO role in North America, I very much look forward to building on and to maximizing the track record of strengths we have, not only in alternative markets, not only in North America, but across all of Zurich.

So, thank you very much for your time and I think with that, we'll move to Q&A.

Richard Burden {BIO 1809244 <GO>}

Thank you, Kathleen. We now come to the first of our Q&A session, so if I could ask Jeff, Mike, Roy and George to just come up and join us on stage. This first session will focus on the Farmers in North American presentations. You will have a chance to put your questions to Mario in the last session of the day.

Q&A

A - Richard Burden {BIO 1809244 <GO>}

Just when asking questions, can I please ask you to wait for the microphone and as always, if you could just state your name and your organization at the start of the question. As I highlighted earlier, if you can keep questions to the maximum of two, because we do have a finite amount of time today.

Perhaps I'll start here. Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Thank you very much. Farooq Hanif from Credit Suisse. A question for Kathleen and a question for Jeff. So, you said the rate was on your mind. So what anecdotal evidence or proof points do you have for that, is question one. And question for Jeff, which I think you get asked every year, but what are the consequences for Farmers Inc., if that combined ratio doesn't come down? Thanks.

A - Kathleen Savio {BIO 17942079 <GO>}

Well, let me go first?

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

Right.

A - Kathleen Savio {BIO 17942079 <GO>}

So, when I say rate is on my mind because one of the things we have been doing across all of North America is driving rate, but in particular when we think about property, we do have a couple of proof points that we're now starting to see coming through. As we look at what's going on in our business, I can speak broadly across North America. We're seeing changes in property, particularly if it's property that's in a cat-pruned (02:23:21) area, but even on some of our non-cat with no losses, there has been a change in the rate. So, we are starting to see some movements there. We're also seeing that in Auto, which is another place that I think as an industry we really need the rate.

So, if we look anecdotally at some of the accounts we have in our book, we've seen in different pockets of our North America Commercial Insurance business rate anywhere from 7% and in some cases, like our very heavy fleet business, we're seeing double digit rate increases. Similarly we've seen that in the alternative markets book in our specialty auto business. So in those two areas we're seeing rate. Beyond that, you know I'm not really sure what will happen in the market.

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

So on the question on Farmers Group, Inc. Obviously, there is very little in the short runs that will happen relative to the combined ratio. You know, we have a quota share arrangement which Zurich participates 8% and that's capped with catastrophes. But in the long run, obviously if we can generate organic surplus, we can hit our growth plan. So our goal is to operate the exchanges at a profitable underwriting level. And we've got – we would have been there had it not been for the cats in the auto experience. But in any short-term period, that it really doesn't have any impact on FGI?

A - Richard Burden {BIO 1809244 <GO>}

Vinit?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. This is Vinit from Mediobanca. So one question for Mike, please. So in 2014, the confident planners were apparently spending far more on insurance than they are now. I mean, I've just happened to check the number was 28%.

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

(02:25:01) you have the old stuff. That's fabulous.

Q - Vinit Malhotra {BIO 16184491 <GO>}

Yeah. It was an important presentation and I remember you very well. So, 28% and now it's 20%, is that the root of the problem that you've picked up a segment which is reducing spend somehow or something else is happening there? And is that why your agents are not setting as much premium per agent or something? So that's the first question.

Second question...

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

So...

Q - Vinit Malhotra {BIO 16184491 <GO>}

Sorry.

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

...I'm going to take that question. So what's going on with the confident planner and the value segment in total? So two things are going on. One, a confident planner is in general a somewhat older market and so they're starting to buy less and some of them are starting to retire. So that

that is just in general a slowly shrinking group. The up and comer is emerging and spending a lot more. So what you're seeing is just a little smoothing of that.

In my mind from a focus and a marketing perspective, where this is actual out – exactly what we want is the market moving towards us and moving towards omni-channel needs. So we like the segmentation while we're still focused on the confident planner because they are the most demanding. We are starting to shift some of our focus to up and comer because that's the market of the future in terms of how they use omni-channel.

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

Okay. Let me just pick one more comment on that also, nobody in the United States walks around with a confident planner.

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

Unfortunately.

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

Yeah. So nobody is actually knows what that is. So, if you think about the segmentation work, it's really how we think about designing products not how we're going to attract. So our designers around that confident planners segment and we think we can attract all of the value segment with that design.

Q - Vinit Malhotra {BIO 16184491 <GO>}

And just one for Kathleen. The mega-dealers you thinks is the big (02:26:51) and for some reason (02:26:54) dealers out 350 in the U.S. four years ago, what was the reason and what do you think is different now? I mean...

A - Kathleen Savio {BIO 17942079 <GO>}

It's a great question. A couple of things. Years ago, there were fewer of these mega-dealers. So 13 was somewhat more – 12 I think we had was more proportional at the time. But regardless it really was because we didn't have a focus there, we didn't have that differentiated value proposition.

So, for example, the way we work now is we have a sales person who's responsible for a territory. If the dealer has a store in that territory, we work with that dealer, but that salesperson couldn't crossover to another territory or another state. We just weren't orienting our value proposition around what that mega-dealer customer needed. That's just one example where we took one step back and said, there's something different about these mega-dealers. How are we best going to attract and retain them in their business? And that was part of how we did that.

A - Richard Burden {BIO 1809244 <GO>}

(02:27:53) just pass it along to Andy.

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. It's Andy Hughes from Macquarie. Couple of questions if I could, the first one on Farmers really, I've got some different proof points on Farmers, if you like that worry me immensely, so maybe we could address those.

The first one is the heat stroke of a new business, unless there wasn't any charts. I think it was down 20% in Q1 year-on-year and it should cover a little bit. And the second one is retention, I mean there's no chart of retention in your presentation. I've got three different statements of retention over the past couple of years when you restated it, but all my lines got down. And so, I can understand you're re-pricing the business to get back to profitability, but you seem to be talking about a growing business and I seem to be seeing some of that shrinking quite dramatically. So, could you explain how things change or when they change please? Thank you.

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

Sure. So, Andy I'll start on the new business side first. So, on a new business we have actually re-priced significantly our Auto business and as a result of that we have seen business declines. So, we also came off a period when we weren't believing. We put – introduced to a new product we weren't believe in the trends and so we had a pretty high cliff of new business and the year-over-year comparisons are bad as a result of that. You'll see – you are starting to see that flatten out and you'll see that flatten out over time.

Same thing is true in retention. I mean I think one of the things that we're trying to do is capture value customers and to the extent we have to raise and we did this and we aren't certainly not alone in this in the U.S. that we're raising 10% a year our Auto customers. A lot of them are finding that, that's the not the value we no longer perceive. So we have seen the retention drop off. That has been down about a point overall and has flattened out as well. So I mean as we get through this elevated auto cycle, we'll start to see those change and but it – but your observations are correct.

Q - Andy Hughes {BIO 15036395 <GO>}

(02:29:46-02:29:51) when new businesses are down so significantly, retentions are a bit weaker. It doesn't seem...

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

Right. Well, growth is a function of how many policies you have and how much you get per policy and our average premium in Auto is up 10 points. So that's where we've seen the growth in GWP.

A - Richard Burden {BIO 1809244 <GO>}

Up here, Michael.

Q - Michael Huttner {BIO 1556863 <GO>}

I was interested in the distraction driving. If you could explain the trends there, because it seems that it went up and that you were kind of implying that it's down now. And the other one is also on Farmers, what's the breakeven kind of combined ratio you need where the whole engine starts moving? I hate to say this, but I'm really old and I've heard the Farmers presentation so often and they don't change that much. And there's always one data, which is missing and here to my mind what you identified is the profitability is not great. So I'm just wondering at what level of profitability the combined ratio does the engine start working and then when will we reach that? Thank you.

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

Okay. So, if I said the distracted driving was down, that's not what I meant. What I meant was that I don't think that we can be much more distracted in the United States than we are today. And so what you're interested in is the change year-over-year in that. And so I think we are starting to see that frequency is flattening out, that would be one of my reasons for that flattening out is that we're not more distracted than we were last year. And again, that's an anecdotal observation at all.

On the combined ratio, we actually feel that if we can operate the Exchanges in the 98%, 99% range that everything will work. And if you actually look at the change, the delta and what's happened in the cat loss ratio and you kind of – if you go back to where it was a few years ago, you would find us operating at about that level, and that generates enough organic surplus for us to actually grow the Exchanges. But I agree with you, that is the point where we need to get to is that – in that high 90% range combined ratio. Hopefully soon.

A - Richard Burden {BIO 1809244 <GO>}

Andrew?

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

Hi. It's Andrew Ritchie from Autonomous. I'm not sure who this question is for. The U.S. SME and micro SME market I think is about $100 billion of premium. All your peers love to talk about it. Some of your peers are spending a lot of money trying to grow in it. Is that for Farmers or could Zurich North America particularly within the alternatives market tackle that market? I'm not clear – maybe one of you answer or both of you answer. Or is there a conflict there potentially?

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

Yeah. I think we can both answer because we are competitors in the U.S. in small business insurance.

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

I mean, maybe just give us a bit more color on that, because a lot of the innovation is new types of platform is not really the Asian channel is growing and that's (02:32:53) particularly some of the online aggregators, et cetera, maybe just clarify kind of what Farmers is doing there.

The second question is for Kathleen. Program business always fills us with some bad memories from some carriers, it has been a graveyard of carriers in the past, particularly programs MGAs (02:33:14) and exercising control and – of the underwriting. Is there a change to this approach there? I think it has. Or maybe just tell us how you do a sort of proper due diligence on your program partners?

A - Kathleen Savio {BIO 17942079 <GO>}

Absolutely. So we actually manage our program administrators the same ways that we manage the quality and the control of our underwriting internally. So what I mean by that is we provide our program administrators with the underwriting guidelines that they need to follow. We do what we call delegated program reviews. We delegate the authority to those program administrators based upon the competencies that they demonstrate around their underwriting capabilities. We do technical underwriting reviews. We do audits. So we manage the program administrators.

Frankly, we start before we even bring a program on in doing the due diligence around those underwriting capabilities that they have because it's crucial to us that those underwriting capabilities are strong. So we have really doubled down, I would say, in bringing on a new program that's been very much where our focus has been over the last couple of years as we were reshaping – what are the approaches, the standards, the qualities, the qualifications that we look for in a program administrator and then how do we continuously govern and monitor that.

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

And on your question on small business, so I would – our number would be a little bit different than yours, but we think it's about a $90 billion marketplace in the U.S. on small business. And if you look at it, it is highly fragmented. I think there are six companies. Farmers is one of them that has over $2 billion in premium in that segment. They're all agency companies. And so there is a lot of talk and there is clearly a lot of investment that is going in to try to bring direct platforms to that. But I would say, at this stage in the marketplace, none of those are having much impact. Our real focus is what we talked about before is that the vast majority of our small business insurance is produced by a very few amount of agents. So we don't need to change our underwriting appetite at all or really the product structure we do. We really need to figure out how we get more agents engaged in that marketplace.

Now the other thing I think that we're really focused on, it's a little bit on Kathleen's story, which is talking about the F&I tablets. Most small business people don't really understand insurance much and we're really looking at ways that, as Roy said, we can get our agents more comfortable to be and talking about that and make sure that the business owners know what they need and what they're buying. But we will be very focused on it from an agent perspective.

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

We also – I want to add. We did a lot of research in the business community and what a lot of the businesses want is they actually want an agent that helps them navigate what is a really complex environment. And so to echo Jeff's point, we were looking for some of that to come back in the research, but almost all the small business owners are saying, they want someone to help them navigate this unless they are a pure price player, and a lot of them are not.

A - Richard Burden {BIO 1809244 <GO>}

Thomas?

Q - Thomas Seidl {BIO 17755912 <GO>}

Thomas Seidl from Bernstein. There are quite a number of startups in the U.S. on price comparison. So I wonder how you see the risk that the price comparison brings the same disruption that they have in the UK. And I think if I'm not wrong, Farmers hasn't (02:36:35) decided to use one of those with one of your brands. So how do you position yourself in what is basically a price competitive space?

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

So the U.S. is a lot different than the UK market. And a lot of it – we have the 50 states that regulate and if you today wanted to try to break down our rate, you wouldn't actually be able to do it because of the proprietary information that we use. So the only way you're going to be involved in competitive rating is if you want to actually volunteer to work with that. I think Google did it about 10 years ago and shut down after a year because they couldn't make it work because the large brands don't have any interest in being rate compared. We actually have done business with some small, what we would call, aggregators through our Bristol West brand because we actually view the aggregator can look a lot like an – just an electronic independent agency. And so where the Bristol West brand does compete on price unlike the Farmers brand, we're okay actually exposing our price on that brand, but not where Farmers – we're just not competing on price that's not what we're going to do.

And in terms of relative risk, over the short to medium term, I don't view it as risk to the major – the large brands that you saw in the chart that I had on there. I think it's – there will be a play forward in the price market, but not a significant play.

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

Sorry. I would add one thing to this, which is we don't think there's going to be price comparison that start showing up in search. We think the next move for the Google Search engines and everybody else will be customer reviews, will start showing up in search and that will be one of the big drives for customer experience. You can see all the search platforms getting ready for customer reviews.

Q - Thomas Seidl {BIO 17755912 <GO>}

In Bristol, you're entering with a lower cost rate or how are you competing there?

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

Yeah. So, in Bristol, the expense ratio is five or six points lower than the Farmers Auto and is primarily through contra expense. So it's a little bit like I think in Europe you have Ryanair we have to pay for everything. At Bristol West, you have to pay for everything. So if you're going to change your policy, we're going to charge you a fee. So if you take those contra expenses out, we're operating at, at Bristol was to maybe a 25% expense ratio, 26% expense ratio where we can compete with most companies at that level and then you clearly could not do that in our standard offerings.

A - Richard Burden {BIO 1809244 <GO>}

One more question. Arjan?

Q - Arjan van Veen {BIO 5197778 <GO>}

Thank you. Arjan van Veen, UBS. Just a couple of questions on the agency side at Farmers, the gap to peers, can you give a bit more color in terms of what makes it up, be it demographics or is it mix of business? And particularly, can you comment on Life, given the way flow-throughs at (02:39:19) Zurich is a bit different? And a follow-up on that in terms of the change in the commission structure, if we were 15% (02:39:26) before, what's the base right now and how much of that is now variable (02:39:30) them to do the right thing?

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

So I'm going to let Roy spend some time on this. I actually think if you – it's a very complicated question that Richard would throw me off the stage if we talked all about what causes that major difference, but it is really a function that the way we've done business for 90 years in terms of the scratch agents, the churn we've had in the marketplace, and are not focused on quality. So there's a lot of things that have gone into that that we are starting to change. And I think, Roy, you can talk a bit better about that and also kind of where the commission ratios are.

A - Roy Smith {BIO 16232784 <GO>}

Yeah. So to the extent that we managed the agency network consistently over time, the answer was yes, we did. We just managed them with this idea that one aspect was good for everyone. So, said another way, we treated all agents the same and our approaches to them were that we used a very basic scoring system, if you will, to measure agency performance that really measured a lot of productivity, but it didn't necessarily measured growth.

And so with the implementation of our growth model, which I referenced earlier today, we're really focusing on whether – depending upon what size of agency you are, we have specific tailored KPIs relative to that size, and then we're measuring you against that. And that measurement is important because, to your second part of your question, that's what drives their compensation now going forward. So, we've reduced base level commissions both in Auto and in Home. We've done this. We began in Home in 2015. We are now reducing that further on the renewal side of the equation and we're also reducing base level commissions in Auto from where (02:41:18).

To my earlier point, during my presentation, taken everything into account, we redeployed roughly 30% of the agents kind of target compensation, if you will, if you think of it that way, to where it is now variable and at risk and really associated around our KPIs. The two heaviest ones weighted are cross-sell and bundling KPIs.

A - Richard Burden {BIO 1809244 <GO>}

Okay. I think we need to wrap it up there because we have got lunch outside and it's been a long session this morning. I mean, you will have plenty of opportunity to ask further questions with the whole executive team over lunch and obviously we can come back to any further specific questions in the last wrap-up session of the day. Please could I just ask you to be back in this room promptly at 1:50 because we do have a full afternoon as well to get through. Thank you.

Thank you very much, everybody, for getting back into the room on time. This afternoon you'll hear from our Latin American, Asia-Pacific bancassurance distribution businesses together with the financial update from George Quinn, our Group CFO. It's my pleasure to pass over to Claudia Dill, our Head of Latin America.

A - Claudia Dill {BIO 16415680 <GO>}

Good afternoon. You have some energy for this presentation. So, welcome to Latin America, welcome to my region. Latin America is a continent of past, present and future opportunities. Latin America is evolving and we have to evolve with it. Now, Zurich has a distinct and relevant position in Latin America with about 9% share of its total business portfolio. Latin America is a diverse region, underserved markets, and we definitely have an advantage to further develop our position in this market. When we look at the environment, we can clearly see an increased political stability in all the major markets, but also a more stable economy projecting an increase in investments, a reduction in inflation, but also and relevant more consumption power for people.

Now, let's have a look at this region.

[Video Presentation] (02:43:48-02:45:40)

I hope you got the energy and vibrancy of that continent, quite modern. It's a continent on the move.

Now, today I will talk about a number of things. The first one probably many of you are interested in, Brazil returned to profitability. We have a rebalanced portfolio of lower volatility and we have clearly proven that we can execute. If you look at our technical ratios, the expense ratio reduced by 11 points, the combined ratio reduced by 28 points from year-end 2014.

Now also, I will show you how we have integrated the region between the former (02:46:30) Life and P&C organization in an organization that serves customers end-to-end with a diverse portfolio of products and distribution channels. We have built a platform for growth based on simplicity in how we operate, innovations in our propositions, but also customers and their needs.

Now, we also have changed the culture, a culture that is focused, that is disciplined and that actually delivers on commitments. That is something to remember. Not everybody might attach that to Latin America, but it's possible. We have a broad set of capabilities. We understand that we still have some gaps and we are filling them and we're investing.

Now, Latin America is on acceleration of its growth, accelerating it on the basis of a solid technical foundation. We have taken our learnings. The premium in the last two years grew by 34%, the business operating profit by 141%, and the combined ratio in these last two years reduced by 8 points towards a 95% combined ratio. Now, we have a broad and diverse footprint in that region. As I said, diverse products, diverse channels and a clear path to the future. We will continue keeping our focus on execution and we can clearly see more potential of this region.

Now, Latin America I said has energy and vibrancy. It's definitely an evolving market. And we can explain here what is actually happening, why we do see that evolving. In the last 15 years, we had an unprecedented social mobility taking place. So, what does this mean? People moving out of poverty, demanding products and services and, as a consequence, they ask for protection – protection for their newly acquired goods and, even more important, protection for their newly acquired status. Now we do expect that this development is continuing. When you look at the low penetration as shown in the video you have seen before, there is very clearly a protection gap which we'll leverage, which is an opportunity for insurance.

But also, digital doesn't stop at the frontier of Latin America. There is digital change, digital adoption going on. Internet penetration is increasing; many people are using their mobile devices for digital experience. However, today still about two-third of the people are still preferring face-to-face advice using agents, brokers, et cetera. Now, the digital trend is a reality. We're developing solutions across the different distribution channels also together with our partners and you will see more examples later on in the presentation.

As I mentioned before, we are well-positioned as Zurich in this market, in this region. We are a top five player with a 4.1% market share and what you can see is that that more dominant players are actually Brazilian companies mostly with large distribution agreements. There is no dominant international player on the list. It's a low consolidated market actually. We at Zurich to benefit from the bank distribution, joint venture we have with Banco Santander, where Raul will actually talk about later today and give more details how this joint venture has been developing since 2011.

Now Zurich has a solid and broad footprint in this region. It's relevant the region has cycles, the markets are of different maturity and it's actually a nice diversification that we can find through this multi-country portfolio and it's a hedge in the end against volatility as well.

Brazil, currently has 45% of the total contribution in this region, that is about in line with the size of this country in that continent. How do we get to this 45% contribution? Bancassurance, primarily driven by the joint venture with Banco Santander, but also through the affinities business. In particular, with the partnership with Via Varejo, that Mario actually mentioned earlier today and I will talk more about this that this is a key opportunity looking at the emerging middle class as well as middle class.

Now, we do have a diverse portfolio from a line of business perspective, both in P&C and in Life. And we also have multiple different channels that we use. When we look at P&C, the primary line of business is specialties. And when we look a little deeper into it, Affinities is included there and with 36% the primary line, followed by property and motor with 29% and 25% share. Banks and partnerships from a distribution perspective, are very relevant in the P&C space with 38% and 23% respectively, so more than 60% of distribution is actually happening through these two channels. The rest is mostly broker and agents.

On the Life side, two-third are protection products the rest is corporate life and pensions, unit linked, savings, offerings. Now the joint venture of Banco Santander is reflected here with the red shape. On the P&C side, they're contributing 26% to the entire region and on the Life side 57%.

Now you get a better feeling for the size of this channel where we as I said, hear about by Raul later. From now on, I will focus on the business we have in Latin America, excluding the joint venture in order to differentiate between the channels and how we manage. Now we do have a clear and simple strategy. The ambition is to be the leading retail and commercial insurer in Latin America, with a differentiated value proposition but also leverage the strengths of the group.

And you will hear multiple times from myself but also from my colleagues is how we transport capabilities that we develop, in particular also in these different non-traditional regions and bring them back into some of the other regions. Now, no, we are not everything to everybody, we're a value oriented proposition for both retail and commercial customers. We do tailor our strategy, our propositions to the individual markets on the continent.

The composite nature of our organization that we combined Life and P&C under one leadership in each country has really helped how we access the customers and how we serve the distributors as well. Now on the retail side, 60% is actually retail business. We do serve three distinct customer segments; the affluent segment, the middle class and the emerging middle class. The affluent segment is 12% of the population. What they demand is high quality products, flexible life solutions and actually excellent service. They are serviced through agents, brokers, high end partnerships or high end bank relationships.

The middle class, some lower disposable income, but really growing and growing over time, has doubled in the last 15 years and we face 200 million people that actually can be our customers. They are distributed mostly through smaller agents, through retailers as well, but also through banks. Now the emerging middle class is a different aspect and really, really growing 50 million potential customers have emerged there and the affinities business in particular is targeting these people.

These people often have no bank accounts, so you cannot access them through the bank distribution channel. These people demand capital-light products, they are fragmented as a customer base and they do have average low exposure risks that very well diversify into a less volatile, more short tail type of portfolio mix we aspire. Also, simple pre-underwritten products are actually applied to make this possible.

On the commercial side, we have two distinct segments, the large corporate segment and the middle market commercial segment. The large corporate segment is the traditional segment you better know about where we have the capacity, the capabilities to knowhow, to develop that business, to grow that business. The middle market is a more recently developed strategy where across all countries in Latin America, we really see a very good opportunity. Now, these customers require service excellence, simple operational processes and products, but also clear underwriting guidelines and clear underwriting appetite, otherwise we will fail on this segment.

Now, the messages so far are, we are a growing and exciting region, we have a clear and simple strategy, we have a solid foundation on which we have built our platform for growth and we do have today less volatile, more short-term products and a much more healthy portfolio mix.

Now from here, I would like to take you on a journey. On a journey with some country examples to help you to understand how we now tangibly operate in that region that doesn't look so far and then very modern when you look at the video when you live there, you can see more differences in terms of culture and also demographic distributions. Now the first stop will be Brazil. In Brazil, we are reaching towards $1 billion of P&C premium and $300 million of Life premium.

Now in 2015, in the middle of 2015 when I moved to Brazil, there was a turnaround challenge that I was facing. It required focus and discipline. So you can understand why this person was sent down there. So, we actually built a recovery plan, four pillars. First pillar, so, we actually built the recovery plan, four pillars. First pillar, portfolio management. It was designed to bring Brazil back to profitability. It was about stronger sorry, I lost – I lost it for a second. It was about stronger underwriting discipline, it was about a more robust broker compensation model and it was also about a strategy for the branches that actually will deliver a higher level of profitability. It wasn't rocket science. It was really about tackling the basics.

In the end, we moved out of product of lines of business where the profitability was not sufficient, not in line with our hurdles. So, for example, what you can see in the presentation, we reduced motor by more than half, we did grow affinities instead and rebalancing the portfolio.

Now, the second pillar was operations. This was all about improving controls, about stabilizing the infrastructure and building capabilities. The reduction in expenses I talked about of 11 points since 2014 is clearly based on this type of work. The third pillar is about tactical growth, it was about growing the pipeline for affinity transactions, but also about building a middle market commercial strategy. And the last but not least important pillar was about people because we did struggle to attract and retain the right talent and we needed to engage in a different way with people. The consequence of the conclusion of this recovery plan can be seen today in a combined ratio of 103% as of half year 2017 due to a shift in portfolio mix, but also due to higher efficiency.

Now the combined ratio significantly reduced and some of you might say value is still above 100%. Yes, that's true and we haven't finished our improvement actions, they continue in particular on the efficiency side and continuing the discipline on the underwriting side, but don't forget about the higher inflation and higher yield environment is a 103% of combined ratio, be it accretive to the results of Zurich.

Now, when we talk a little bit about the affinity business that I mentioned multiple times, you can see how we grew it with a 42% CAGR over the last three years 2014 to 2016, reaching $400 million plus of premium. As of today, we're already past that $400 million, it's a nicely growing business, it is strategically relevant because of its size, because of its predictability, because of its attractive risk and return. And we really like that business and the market leader in Brazil is 20% market share. It's a business of large numbers, more than 25 million customers, 1.5 million policies sold per month, 400,000 claims dealt with every year, and we sell through about 40 different program sponsors.

We took advantage of the opportunity created by social mobility where more people acquire goods, they don't have the capacity to just replace these goods, so they need to buy insurance to actually protect the goods and the status. Now we started with a number of smaller and medium size sponsorship deals, and then we concluded an exclusive agreement with Via Varejo. That targeted in particular the sale of extended warranty products.

Later on we extended it and today we have actually a broader range of products that we service through the partnership agreement. The business success for affinity transactions in particular when we look at these large retailers is simple products. And then I say simple products, you need to understand that these products could be like $1 per month, that's the premium, that's the level of product we're talking about. That's also why you need many in order to get the volumes. Now the reason that we need simple products is that it's highly important that the customer understands what he's buying. But also it's important that the sales force and it's a large sales force distributing these products actually can sell the products in large numbers and then we need to be able to administer it in an automated way.

Now you all like numbers. So I have a next slide that actually should explain to you in a little bit more details the specific financial dynamics when we report the numbers on these affinity deals. What is it all about? You in the end acquire a distribution channel, you pay an upfront fee to secure the exclusive rights to access that channel for a specific period of time. You also create and ensure sales and profitability targets, you cover the setup of the operations. So, what do you see of getting out of that? A high expense ratio and the lower loss ratio, it's a different shape of a product, it's in the nature of this business.

Now also in particular when we talk extended warranty, you earn the premium over multiple years. You have a strain in the first year driven by the upfront payment that we do and you will find a decreasing combined ratio over time. And when the premium earns through (03:04:50), when the amortization is coming along, you actually will get to combined ratios way below 100% and then together with the yield attractive in particular in Brazil, you get to a very attractive risk returns as I referred to before. You could also think about this not dissimilar to a Life product. You have an upfront cost stream and then the profitability emerges over time. But very different to a Life product, these are very capital-light products hence less underwriting capital is required.

Now, it is not a coincidence that Brazil or Zurich Brazil is market leader in this segment. They have spent quite some time on developing the right value proposition for both the customer and the partner. The customer, it's about convenience and affordability, it's about one stop shop, it should be a simple interaction, remember how small the premium out of these products and its completely linked in the end to the process of when we sell a product, not tied, not bundled, but it's the same process.

Now, what is very important is that we have a value proposition to the partner, that is actually how we acquire these deals, and the value proposition is relevant in the sense you need to understand the partner. You need to understand how you can develop the full insurance potential for that partner. Remember, that is a revenue stream for the partner, that's why they're interested in actually engaging to partner with an insurance company.

Now what we have done is that we have developed simple platforms that we can do plug and play in particular with smaller or middle sized companies or sponsors, who don't have the investment capacity to develop their own proprietary platform.

Now this has been working very nicely and we have turned out to be turnkey solution providers to these companies. So Brazil is the biggest country geographically, it's our biggest growth opportunity in that region, technically solid, diverse products, multiple channels and in the end a culture of focus and discipline, so we really continue delivering on the commitments.

Now the next stop, we go north. A simple 10-hour night flight and we get to Mexico City, the second growth opportunity that we have. So Mexico has developed a more innovative solution or proposition that is linked to the automotive industry. So it's a motor value proposition. The sales actually in vehicles have grown over the last three years by 14%, 82% in eight brands and two-third of these sales of credit financed.

So it's a different type of affinity partnership. Mario mentioned Porsche, it's a same type of thinking. The automaker is selling, at the same time a financing proposition and an insurance proposition he can increase the loyalty. The car dealer is happy about an additional revenue stream through commissions. The customer is happy of the different customer experience, it's very easy to buy the product in a competitive way. Many of these companies actually have aggregator like multiple offers from different insurance companies. It also offers itself for long-term partnerships, our longest as partnership we have is actually about 18 years old with sport (03:08:44). And when they mature, they generate same as per partnership the business I talked before about nice returns.

Now I talk a lot about retail at 60% of the portfolio, but we really have made progress on the commercial insurance side as well. And I also would like to use Mexico as another example of what we can do there. Mexico has an offer that goes composite across P&C and Life, large corporate and also middle market commercial.

Mexico is a very specific market. The geographic closeness to the U.S. sometimes helpful, sometimes less, but it actually has created a huge amount of multinational companies and multilatinas that reside in that market and the commercial opportunity in Latin America is biggest in Mexico. We have developed the template for best practice in commercial insurance, in that market that we then transport to other markets in the region.

Now also Mexico has proven to be quite a good intraregional diversifier from a country perspective. Now, as the final and last stop, let me head South another 10 hour night flight to Santiago de Chile. Chile actually is reaching $700 million in life premium and about $200 million in P&C Premium. It's our most relevant market from a life perspective. Zurich and Chile is a top insurer multi-product, multi-channel, the highest rated company in the market. Now, Chile has developed a life proposition that is based on customer segmentation. They look at the market, the dynamics of the market and what is needed and (03:10:41) was saying we have developed a proposition to protect income generation. So, we are looking at income distribution and at lifecycle needs and combine it in order to deliver propositions.

Let's start with the emerging middle class, also here a growing opportunity, salaried workers, no capacity to save, but they still need to protect their life and health risks so they need a product that is designed for them. We have created a bundled product called Family Protection that actually is distributed to an exclusive channel, work side marketing channel where we hold 60% market share.

We target small and middle enterprises, their employees, and we actually offer this Family Protection insurance on top of the basic insurance an employer is offering. We offer life, including an education feature in case of loss, surgery so covering some additional expenses on top of the first layer, but also personal accident.

The second segment, a little bit higher disposable income, some basic saving capacity, we do offer unit linked products as a combination between protection and savings through an exclusive channel again of tied agents. You go a further step and we actually reach a segment that has saved enough for retirement, but needs to optimize its equity. There, we do offer pure savings solutions non-guaranteed rate again through an exclusive channel of financial advisors. And the last one, the most sophisticated segment, mostly people who reach retirement age need to protect lifetime income, we sell annuities. Single premium annuities, a decumulation product non-guaranteed rates non-cancellable. So, this is an example on the Life side to balance between P&C and Life, Retail and Commercial. These are my examples that should make it clearer to you what we are doing in Latin America, maybe slightly an exotic continent, but actually we can leverage the expertise, the capabilities of Zurich Group.

Now, in closing, yes, Brazil did return to profitability and it's not a one-year exercise, it's sustainable, it's profitable, it has the right business mix, it has the right culture to continue delivering. We have a diversified portfolio across the region that is focused more on short tail, lesser volatile business. The platform is ready for further growth. We keep a culture of focus and discipline and execute against what we committed.

Now, the region knows how to manage cycles. It's an expertise that we have acquired and that we deploy. We have built a consistent, successful and profitable business that will gain more relevance over time. So, Zurich in Latin America has delivered on its profit – on its promise. Zurich in Latin America has built the foundation, there is more to be done, and in particular we now need to build the future.

With that, I would like to hand over to my colleague, Javier Lorenzo, to talk about the strong track record in the growing and strategically relevant channel of bank distribution, and one of the areas of growth focus as I mentioned earlier on in Latin America.

A - Javier Lorenzo {BIO 20805368 <GO>}

Thank you, Claudia.

Hi. Good afternoon. My name is Javier Lorenzo and I'm the Head of Bank Distribution at Zurich. Today, I want to share with you how we approach bank distribution at Zurich, a channel that we consider as an area of growth, now and in the future. We have a unique approach to bank distribution and have a successful track record with double-digit growth rates across both the top and the bottom line, resulting in a substantial contribution to the group results. Zurich has a global footprint through bank distribution. And we continue to commit to the bank channel base on our view of opportunity, both with existing and new partners.

Zurich has more than 70 distribution agreements with banks worldwide, giving us access to a potential of over 60 million customers in 17 countries. We are leaders in Latin America, in Middle East and Europe, with large and successful distribution agreements. These agreements range from simple product panel positions and exclusive distribution agreements to the more complex and strategic operation models and joint ventures like in the case of Zurich Santander. You will hear more about these later from Raul Vargas. Obviously, the level of collaboration and integration but also the type and size of the business return varies strongly depending on the cooperation model.

Look at the relevance of the channel in this slide. The bank channel represents 18% of the total insurance market and close to the 50% of the life premiums, excluding U.S. and is expected to grow faster than the overall insurance market. We see many good reason for this, especially given the bank's privilege access to customers, and I will, in a minute elaborate on why Zurich is a strategically committed to this business.

Now, let's take first a look back at our recent past. We have a strong and successful track record. We have been able to grow top line and bottom line with a solid double-digit compound annual growth rate over the last 4 years. You can see here the combined figures of Sabadell, Zurich Santander and Deutsche Bank in 9 different countries, which are our largest relationship, and which are centrally managed. Like new business has grown to over 1.6 billion APE in 2016. To put it into perspective, these are percent more than one-third of the total life new business at Zurich.

In property and casualty, we wrote around 900 gross written premium last year which represents around 3% of the total P&C premium of Zurich. The profit before tax evolution of our bank JVs show the two sides of this business, and amount to almost $900 million in 2016. After minorities, amortization (03:18:12) for distribution agreements and adding the life book from the cooperation with Deutsche Bank, bank distribution has contributed 12% of the total search life on P&C BOP in 2016 excluding Farmers, which is equivalent to almost $0.5 billion.

Finally, our JV with Santander and Sabadell remitted $1 billion of cash to Zurich over the last 4 years with a similar amount to our farmers. Over the lunch, somebody asked me about what is the key success – the key of the success of these agreements, and I would try to explain with this slide.

First, there needs to be a mutual long-term commitment as a basis. It's not we're making large investments and implement a strategic plan only for a short period of time. Also, if the business is not successful immediately from the beginning, the willingness to turn it around is limited and the relationship will not deliver its true potential. The second but important factor is cooperation and management skills. It's not just about enforcing a contract for unilateral perspective and maximize profits. This is not how a long relationship can work. I see this more like a marriage. Sometimes you win, sometimes you lose, you are not always happy and you constantly need to invest in the relationship. Believe me, we are good at this, and in my house as well.

The third is the governance in place. This depends obviously on the business model and range from working groups and committees on different management levels. Two provisions on board compositions in shareholders' agreements in case of a joint venture. The fourth one is a unique approach to the identification of best practices. We have mapped the total value change of bancassurance and implemented a bank distribution model. We have institutionalized our capabilities in 17 knowledge domain, with 17 champions, 135 experts with more than 50 footprints, helping us to answer three questions. What is our best next action to increase our current business? What is the next best partnership? And what is the potential for a new business? Finally, and obviously there is the need of aligned interest, it's key that the insurance business represent an important and sizable performance contributor to the bank and the insurance plays central role in their value proposition to customers.

What is the rationale behind the success channel? Banks provide unique access to customers. The combination of insight and frequent interaction makes their customer base unique and suitable for insurance offerings beyond credit protection. In comparison to the insurance industry, banks are in general, ahead in terms of digitalization of their business, a process initiated years ago with the introduction of the e-banking solution, at the time when others were just starting to sell books over the Internet.

These early investments now put most of the bank in a good position, when it comes to meeting customer expectations, especially in terms of interaction options, banks are able to combine the best of both worlds: deploying impressive digital tools for transaction banking needs, while at the same time upgrading their branch network to facilitate face-to-face conversation for more important interaction of financial advice. These variety on choice of channels also support the insurance business and our shared customer insights allow us to develop unbeatable insurance specific features and tools. Let me give you a few examples.

What you – what you have here is the selection of examples where we are working closely with our bank partners to leverage data and technology. We have advanced price model using bank and insurance data for target offerings for motor insurance. In-app insurance purchase options embedded in e-banking app have several times more efficient than a standalone one.

Other example is our mobile quote and apply solution in Middle East. This allows bank's advisors to sell our policy in a remote mode in only 2 minutes. As well, our recently launched online (03:23:09) system for customer in Germany with Deutsche Bank. Raul Vargas will tell – will be talking more concretely about Zurich Santander core initiatives in the area of technology and innovation, and showcasing some examples.

We are able to bring to our partners the best of Zurich and particularly the best of our brand distribution model, improving the customer experience with the innovative and proven experience. Given that work record and the substantial contribution to the group's result is obvious that we want to do more business, not only with existing, but also with new partners.

We have developed a structured approach, which helps us to identify potential targets. Starting with group geographic priorities and the general attractiveness of given markets, we look specifically at the bank channel, how big is it, how big is in relative terms compared to other channels, is growing, how important is insurance for the bank's offering in general, how important is the channel for customers and what are the market trends? Based on this assessment, we then look at potential partner banks. Ideally, they already have a sizable captive or insurance portfolio and are open for a new insurance partner.

Cooperation options then buy (03:24:33) from a simple distribution agreement over an strategic cooperation through a joint venture combined with our long-term distribution agreement, which is justified by the size and complexity of the operation is our preferred model. Bank distribution is one of our priorities and we prioritize investments in new deal subject to them, meeting our overall group hurdle rates of return.

So, in conclusion, the bank channel is very exciting and profitable distribution channel for Zurich, which has delivered strong results. We expect that this channel will continue to be attractive and will continue to grow, and Zurich is very well positioned to take advantage of opportunity that are arising in bank distribution for both our existing business, as well with potential new partners.

And with that, let me introduce Raul Vargas. He is the CEO of Zurich Santander. Raul, over to you.

A - Raul Vargas {BIO 20722746 <GO>}

Thank you. Okay. Good afternoon, everyone. My name is Raul Vargas and I'm delighted to talk to you about Zurich Santander. This is a joint venture that has doubled the size just in three years and this has not been only success to Zurich, what I will talk to you about in a few minutes but also success to Santander. So, please take a look at the video.

[Video Presentation] (03:26:21-03:26:58)

As I said through this joint venture Zurich is well-positioned to capture the retail opportunities of the future. Why? Well, we have consolidated the market leading position. We have a track record of profitable growth of 24% CAGR over the last 3 years. We are in a region full of opportunities and we have a clear strategy to become the preferred insurer of Santander customers.

So, let me remind you how this joint venture was conceived. This is a joint venture owned 51% by Zurich – sorry and 49% by Santander. This is a 25 years deal, where Zurich manufactures the products and Santander distributes it to its 50 million customers in 5 countries in Latin America, Brazil, Chile, Mexico, Argentina and Uruguay.

It's worth notice that, while most bank assurers focus on Life mainly, this is a well-balanced portfolio. So we distribute both Life and GI products to our customer base, of both retail and in small medium enterprises, given actually the full options of insurance products for those customers.

Last year, we delivered over $2.2 billion of premiums in protection and $1.8 billion in savings and pension business, but even more important in a very profitable way. We have achieved a consistent top line growth of 11% per annum, well above our peers (03:28:57) with outstanding bottom line growth of 23% compound annually. So, how this is possible? How we achieve this?

Well, on top of a solid growth, we continue to grow and we continue to be efficient. We have a very strong efficiency program, which allows us to grow and at the same time, reduce our expense ratios. For example, the use of robotics. Most of our process has been managed through automatization, which allows us again to reduce our cost on deploy it in more investment and technology.

Second, our technical capabilities. We're able to manage our portfolios, product mix, technical pricing, risk assessment, which allows us to have very, very healthy combined ratios. So, adding altogether, our strong growth, our efficiency program, our technical capabilities allows us to grow our business operating profit 23% CAGR over the last 3 years. And additionally, we deliver $1 billion of cash to both shareholders over that period.

Going back to 2013, we have a company of around $500 million of profit before tax and we have a clear target. We want to double the company in 3 years, which means, in 2016, deliver $1 billion of profit before tax. I can happily say that last year, we delivered $1.1 billion of profit before tax, constant FX. We well over achieved our targets, but probably more important, we have built a strong foundation, a strong foundation to grow our business basically in three areas; customer and distribution capabilities, our organizational set up and least but not less important is our collaboration model with the bank.

So, in terms of capabilities, three things. First, segmentation. We were able to develop different products that will match the different customer segments of Bank Santander. So, for example, for an affluent customer, we were able to offer a homeowner's product that will not only cover the primary home, but also their vacation home and all through a very simple process. Second, in terms of channels, we have developed outbound and inbound telemarketing, ATMs. So now, our customers come by a policy not only through a branch, but through one of our ATMs, 25,000 ATMs that we have through entire Latin American region.

Third, it has to do with persistency. We're able to find a program that allows that customers can use more efficiently the payment mechanisms to pay their policies. So before, if they change their bank account, if they change a credit card, the premiums were not paid. Then we allow them to use all different options of payment mechanisms improving collection, which end up in growing persistency around 10% in the case of Mexico.

So, as I said, we have a solid foundation to capture all the opportunities that exist and there are many and why there are many? And I will have some water in the meantime, because we are in the right place, in the right channel with the right partner. We're at the right place, as Claudia mentioned this is a region full of opportunities, growing middle class, growing SMEs and clearly a very low insurance penetration.

Second, the right channel. Bancassurance as Javier mentioned, is growing faster than any other channel in Latin America, but even more important is more profitable. And last, our partner, Santander. Santander has very strong commercial capabilities and have the right footprint. They are in Argentina, Mexico, Brazil and Chile. Those four countries account for 85% to 90% of the overall premiums of Latin America.

Additional to that, a customer – a bank like Santander has all the data you could possibly want in a customer. That data is constantly being updated by the different customers' interactions. So, think about this for a second. A typical insurance company has two interactions a year with his customers – with their customers. A bank like Santander has 10 interactions a month. This means or represent to us a world of opportunities to sell to cross-sell, to up-sell to provide services which ultimately improve the persistency and loyalty. Santander has a clear strategy to increase customers in Latin America, but even more important the digital, and the loyal customers which will be key for our strategy as you will see later on. So, I can confidently say we are in the right place, in the right channel with the right partner, and we have right strategy.

This is strategy which aims to gain the loyalty of our customers. Focusing in three simple pillars. Firstly, educate and advice to create awareness of the insurance needs. Think about this as a region where the financial education is low, so here we have a great responsibility and opportunity to create this awareness. And a way to do so, will be that – we will provide for every single customer that will go to Santander branch a full insurances premium. Secondly, we want to be accessible, where, how, when the customer wants.

I talked to you before that we were able to deliver policies through an ATM. Two months ago, we have launched a new app that allows you to buy a policy with two swipes and one click. And you will see an example in the video we'll show you later. There is no doubt that technology is revolutionizing the way that we do business.

Thirdly, we want to become relevant to customers, provide relevant solutions, increase the interactions we have with them. And one relevant interaction with the customer is when we pay a claim. So, now in Brazil, we would be able to file a claim out entirely in the entire process with your mobile phone leaving a message the way that people talk to their family and friends. But even more important, we have a predictive modeling which allowed us to pay 70% of those claims in less than 2 hours. So, as I said before, data and traffic are essential. It allows us to educate, to offer products, to provide services almost at no cost.

So, let me show you a video which illustrates what I just talked to you about.

[Video Presentation] (03:37:27-03:40:18)

So, the way we approach this strategy is in a trial and error basis, but in a controlled fashion, which means we don't get it right every time. But when we do, we are able to deliver those concepts or those capabilities to 5 countries to 50 million customers. And then, we let customers to be the ultimate judge of our success. We listen to their feedback and constantly try to enhance their experience. As you can see, we have managed to improve satisfaction across the different points of the customer journey, in all of our markets.

So, our vision resonates with (03:41:14) to you. We want to become Latin America preferred insurer for Santander customers, so they understand and protect the risk from themselves in a way that is meaningful to them.

So we can conclude saying that Zurich is well positioned to capture the retail opportunities of the future. We have consolidated the market leading position, we have a solid track record of profitable growth, we operate in a very attractive region and we have a clear strategy that is already underway. Thank you very much.

So now, I will call Jack Howell to talk about Asia Pacific.

A - Jack Howell {BIO 20894734 <GO>}

Thank you, Raul. Good afternoon. My name is Jack Howell, I'm the CEO of Asia Pacific. I'm very excited to be here today and share with you some of the opportunities that I see for Zurich in Asia Pacific. I'm sure most of you have traveled around Asia. And you all know everywhere you go, it's a different country, there's different economies, different cultures, different people, but certainly in most places where you travel around Asia, the one thing you will always find in common is a tremendous amount of energy and opportunity. And today what I'd like to do is share with you some of the choices that we make and how we plan to compete in this very exciting and dynamic market.

I'd like to start by sharing what I think some of the strengths and some of the things we need to look at in how we compete in this market. The first is to talk about our footprint. We have a very strong presence in countries like Australia and Japan, as Mario mentioned earlier today. We have a growing presence in some emerging markets. Well, that footprint has served us well, a very predictable, stable earnings, we like that. It also has not given us access to the growth in Asia Pacific that a lot of our competitors have had. So, one of the things we need to do as we execute on our strategy in Asia Pacific is start to rebalance that portfolio and give us more access to those economies with high levels of growth.

The second thing we look to do in Asia Pacific is really build on the brand that we have. For those of you that travel to Japan, you'll know if you stay up late at night like I do and turn on the TV maybe it's jetlag you'll see Zurich ads that come out in the middle of the night and these are – they calls Zürichchi (03:43:56) there. And we have a very, very strong brand recognition in markets like Japan and Australia. We can leverage that brand recognition when we move into other markets.

Third thing we have and we'd like to build on is a very diversified business. We have commercial P&C, retail P&C and retail Life. A lot of the major Asian competitors are focused on one line of business. Most of our major competitors are huge life players. What we're seeing in the region is a shift towards consumers who would like to have everything in one place. And almost more importantly a shift to distributors who want to be able distribute all the different products.

The fourth thing I'll talk about is a differentiated approach to market. Again as Mario pointed out at the beginning, we don't have massive agencies in Asia, right? So, we have to find different ways to compete. But as Asia matures and as the middle class grows, we see more and more people making decisions at the point-of-sale and it's our objective to be there, when the customer makes a decision.

I mentioned that our footprint is heavily weighted to Australia and Japan, you can see here it's about 63% of our business. In Australia, we recently acquired Macquarie, which I'll talk a little bit more later. We also recently acquired Cover-More, which I'll cover a little bit later. We also have a P&C business in Australia.

In Japan, we have two niche businesses, one on the P&C Retail side that does wholesale A&H and also direct motor. It's the largest direct business in the group is our P&C Retail business in Japan. And we have a growing Life business in Japan and that's a Life business, a niche business that's focused on shopfront IFAs, which is a fairly new distribution model in Japan.

In Hong Kong, we have a multi-channel composite business, so Life, P&C and Commercial, all under one roof. I'll talk a little bit more about Hong Kong later. Singapore for us is a commercial hub. There's a lot of commercial business in Asia Pacific that funnels through Singapore much like it does London here. And we look to grow our presence there and I'll speak a little bit more again about that later. And then we have two exposures, if you will, to emerging Southeast Asia and Indonesia and Malaysia.

In Malaysia, we just acquired the Takaful business, and I'll share a little bit with you about Takaful. So Takaful comes in both, the traditional for P&C, and for Life. So now in Malaysia, we sell traditional life insurance. We sell family, which is Takaful Life. We sell P&C Retail and P&C Takaful. So, we offer the full suite of products in Malaysia, which has been a huge advantage for us with a number of the distributors.

In China, we have our growing business. It's mainly a commercial business, set up originally to service a lot of our multinational clients going into China, and I'll talk about how we plan to use that presence to then help Chinese multinationals come out of China.

Looking at our product mix, in terms of GWP, we're approximately one-third Commercial P&C, one-third Retail P&C, one-third Life. So a fairly even split between the three. And if you look at the distribution in terms of the P&C, you can see the bulk of the distribution is partnerships and direct, and that's really driven through our businesses in Japan.

On the Life side, this is quite unique for life companies in Asia Pacific. You'll see 85% of our business is protection. So we do not play in the savings business in Asia for the most part. We have, obviously, some small products there. But we're primarily a protection play in Asia Pacific, and our distribution is mostly through brokers and agents and that's driven by Australia and the Australian market.

If you shift now to the market, I mean, I think most people have heard a lot about Asia Pacific. You've got you know 1.4 billion people in China, another 1.4 billion in India. You have massive economies. Asia will represent approximately two-thirds of the middle class by 2030, but interestingly it will also represent 60% of the world's elderly by 2030, because you have these aging economies in China and Japan.

So, we have to really think about where we want to compete in Asia. We can't just move into every market and try to expect to be everything for everybody. We have to focus on our strengths and choose our markets in areas where we compete. To try to think about where we want to compete, we've built a model.

The first thing we've done is, taken a geographical approach to the market and set up four different clusters of countries. The first cluster is mature Asia Pacific. And for us today that's Japan and Australia. We like these markets, a lot of protection in these markets, they are also growth markets for us and we like to deepen our presence in those markets and make sure we have a secure set of businesses that can grow in the future and provide earnings stability, predictability for us.

The second cluster is developed city states. And by that I mean Hong Kong and Singapore. And Hong Kong as I mentioned, we have a full composite business, but in Singapore we take a much more targeted approach to the market. Understanding that we can't be everything to everybody in Singapore, instead we are focusing on the commercial business in Singapore.

Emerging Southeast Asia for us currently includes Malaysia and Indonesia, but in this bucket, I would throw the Philippines, Vietnam, Thailand and Cambodia. We will not compete in emerging Southeast Asia countries unless we truly believe we can secure a dominant position and a stable position that gives us stability, not only in top-line, but also in profitability.

Finally, the last geographical cluster that I'd like to talk about is the giants that is China and India. Currently, we're only in China. We'd like to grow our presence in those markets. I believe in those markets you can compete without being a dominant player. And I'll talk more about China a little bit later.

Behind this geographical focus to the strategy, right, we've taken a strategic approach as well. In leveraging on a lot of the strengths of the group, we've built five different pillars into our strategy. The first is to maximize the value from banks and distribution partnerships. I'll give you an example of that later. But, obviously we want to leverage on the work that's being done from the Banco (03:50:58) teams and we've been successful in that so far.

The second is to pursue non-traditional distribution. I'll give you an example of that later. But, for me that is about putting us in a position, so that the customer can choose our product at the right time, being at the right place at the right time with the customer. We do not plan to build massive agency forces to compete with those large life companies that are in Asia-Pacific.

The third is to prioritize the customer and their data. It's a very digital region and we need to leverage that, get the customer data and make sure again we're in the right place when the customer makes a purchase decision. The fourth is to leverage our composite offering. I mentioned Indonesia and Hong Kong. Many distributors in the region are looking for insurers who can provide multiple products and we're one of the few that can do that. And the fifth pillar for us, in terms of strategic approach is to leverage our commercial capabilities and I'll get a little bit into that when I talk about China and Singapore.

As I mentioned, we have a fairly strong presence in Australia. We have a large retail Life book. We like the Life business in Australia. It's a protection market. It has some unique features built in. It has step premiums, which gives you growth. It has an ability to re-price your products. So it's a very attractive market for us. And we acquired Macquarie Life about a year ago. We completed the acquisition this year.

It's been a very good acquisition for us in Australia. Obviously, it had an impact on the top-line in terms of premiums, right off the bat with a 64% increase in premiums, it gave us access to more distribution, increased the number of policyholders, gave us more scale in this market. But what I thought was most interesting about this acquisition was what we were able to do from our product side? Working a lot with the bancassurance team here in Zurich, working with the people within Macquarie.

We took the best products that Macquarie had to offer. The best products that Zurich had to offer and came up with a new product suite. And if you can see on the bottom-right, the increase in submissions is a result of launching a revised product set, which took the best of Macquarie and the best of Zurich. And on some days, we see as high as a 94% increase in the number of submissions and that continues today. So the real benefit of this acquisition, there was scale, but we have a much stronger proposition when we go to market.

I'd like to do (03:53:42) a little bit about Cover-More, because I think Cover-More is a great example of pursuing different forms of distribution. As Mario mentioned, Cover-More is not an insurance company. Cover-More sells insurance products, right, but they are a provider of services to travelers. I'd like to give you a little example of the way Cover-More operates to help you feel what the experience might be like.

I think all of you probably remember the terrorist incident in Barcelona earlier this year. When that incident happened, a group of – there's a team in Cover-More that does assistance, medical assistance, that team monitors what's happening around the world. And immediately when that event happened, they pulled up an app that they have, they pulled up an application, and they ring fenced, they geo-fenced the location, where that accident happened. So they put a fence around that and they immediately tried to identify all of the customers who were within that area. They identified 46 customers who were potentially at risk, because they were close to the incident.

The next thing they did is they started calling those customers. Within 10 minutes of the accident happening, they started calling customers. So you can imagine for many of these customers they didn't even know anything had happened yet. But they got a call from their travel provider saying you need to be careful, there's an incident we don't know the full details yet, go back to your hotel.

Unfortunately, eight of the customers were hurt, several of them went to the hospital and we supported them through that process. So think about it, instead of having a travel insurance company for which after the event you're trying to recover, maybe you're in the hospital, maybe you've already gotten out of the hospital, you say oh, I've got a travel policy, I need to see if I can file and maybe get some money back. This company, we proactively reached out to those customers and told them that they were at risk, and we helped them till their time of need.

It's a different way of thinking about who you are, and what you do. And it's a different way of thinking about insurance. And this is what makes Cover-More such a valuable proposition for us. We bring that thinking to our other businesses. They don't only apply that logic to servicing customers, but they also apply the logic to the way they sell to customers. I'd like to share with you a video that demonstrates a technology that's a technology that we owned, it's within the Cover-More Group, so Zurich owns this technology, and the technology is a way for us to dynamically build products real time, while consumers are shopping for insurance online. We can play the video.

[Video Presentation] (03:56:32 – 03:59:22)

So Impulse (03:59:22) is not simply taking multiple products and trying to match them to individual customers, it's dynamically building products to match the specific customer, and where Impulse (03:59:34) has been launched, we've seen an increase in sales from anywhere from 8% to 20% depending on the environment and it obviously runs behind the scenes.

Let me switch gears a little bit and talk a bit about Japan. As mentioned, our Japan business, we have two businesses in Japan. I'll talk about the Japan P&C Retail business. This is primarily an affinity business like the businesses that Claudia was talking about earlier and a direct business. We sell direct motor and affinity ANH (04:00:03), both very profitable for us in Japan. This is a growing niche. Most people think about Japan as a flat market or a down market, but for us Japan is growing. You can see, we've had 7% CAGR over the last four years and improving profitability. Improving profitability because of scale, but also because of choices around products, channels, distribution and we see this business being incredibly predictable. It's a very stable business going forward.

One thing that Japan has always done and always work to do is try to find innovative ways to serve the customers. Now, for those of you, who have been to Japan, you know Japan is sort of this interesting mix of high-tech and tradition. And I think servicing customers in Japan is much the same. We have a lot of interesting technology, but one of the most powerful things we've done in Japan is something which is much more low-touch. And what I like to do is share with you a video that our Japanese customers get when they have a claim.

[Video Presentation] (04:01:09-04:03:14)

That seems like a relatively simple idea, but it had a huge impact on our business, driving repairs to in-network repair shops, letting customers know that their premium may actually go up because they just had an accident. But I think one of the biggest impacts that has had on our business is changing our NPS score in Japan and you can see we've had a 15 point increase since launching that claimed video. That's a huge increase just from watching the video.

One of the things that they love in Japan is getting the name of the person who's going to handle their claim and the phone number. And that has been some of the best feedback, because (04:03:52) that personalized interaction is incredibly important.

Let me change my time (04:03:59) and talk about Hong Kong. In Hong Kong, I mentioned, we have an interesting business, a composite business. We're number four in the P&C market in Hong Kong. You'll notice in 2014, 2015 and 2016, Life is a relatively small segment of the business. We made a conscious decision to step out of some of the Life business in Hong Kong. Hong Kong is very much a savings driven market. It's mostly par (04:04:26) products and we only sell unit-linked. So we have a business that has a composite with multiple different products, but really focused on protection. It's an interesting business and one that has started to diversify distribution.

What we found in Hong Kong is a lot of the big traditional life insurers or the agents of the big traditional life insurers like our P&C products. It's interesting to find these new distribution channels again where traditional distribution in Asia is looking to distribute multiple different product lines as opposed to just a primary line.

Finally, the last example I talked to you about is China and commercial. I say China because it's an important part of our commercial strategy. There will be significant investment in infrastructure in this part of the world over the next several years. We estimate $26 trillion by 2030. There's a tremendous opportunity for us there on the commercial side. One of the primary areas where we think we can add value is by taking our international network, which historically has been used to take European companies and help them move to places like China, and use that for Chinese companies who now want to go overseas and do stuff overseas. So this can be done through one belt one road. It can also be done with other Asian companies as they become and move to be more global.

The other thing that is really important in this part of the world is the risk engineering services (04:05:59) and that's something that's valued and we can leverage both risk engineering (04:06:03) and our network to build a stronger commercial footprint in this part of the world.

Got tremendous amount of work done in the last several quarters to try to position ourselves to take advantage of the opportunities that Asia has to offer. We believe that by rebalancing our portfolio, getting more access to some of these growth markets, leveraging our strong brand name, taking the brand from places like Japan and Australia, building on a diversified business, retail, commercial, life, P&C and taking a differentiated approach to market that we have the right opportunity in the right market. Thank you.

I believe we're moving to questions. Yeah.

A - Richard Burden {BIO 1809244 <GO>}

Thank you, Jack. Now, come to the second Q&A session of the day. Could I ask Claudia, Javier, Raul and George to join us on stage. As before, could I ask you (04:07:06) to state your name and organization when you ask a question and also, again, given the timing, keep it to a maximum of two questions. We'll now take the first question. Nadine? (04:07:23).

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Good afternoon. It's Nadine van der Meulen from Morgan Stanley. I've a question for Javier on the bank distribution. You show good growth of the bank distribution channel compared to the insurance industry. It's mainly based on the premiums. Could you talk a little bit about the profitability and the trends that you're seeing there? I assume an increasing part of profits is being paid away and perhaps, also of the 70 (04:08:04) that you mentioned, just aside from the Zurich Santander joint venture, do you have significant deals that are coming up for renewal or anything that's interesting that you can talk about on that front? Thank you.

A - Javier Lorenzo {BIO 20805368 <GO>}

Okay. Let me tell you that the bank distribution channel is more profitable in most of the cases than other channels, why, because at the end what is happening is that the banks are increasing the size of their business with the same infrastructure. That means that at the end, they are able to increase the income without increased expenses.

And if you look at the bank distribution, companies are usually more efficient than another companies, because part of these sales cost is embedded in the bank. And, obviously, even with same prices, you can be more profitable than other channels in the market.

And the second question, sorry. You asked about Zurich Santander, what was...?

Q - Nadine van der Meulen {BIO 15200446 <GO>}
I was asking if any particular deals that are...

A - Javier Lorenzo {BIO 20805368 <GO>}
Okay.

Q - Nadine van der Meulen {BIO 15200446 <GO>}
...overdue are coming up for...

A - Javier Lorenzo {BIO 20805368 <GO>}
You saw, we are – (04:09:20) obviously, we believe that we have good capabilities to continue growing in this channel. And, obviously, we are open to all the transactions that happens around the world. We are leaders in Latin America and Middle East and Europe. We have no strong presence in Asia, as you saw, not only for our regular businesses as well for the brand distribution. And, yes, we are open, and it's one of our growth priorities, because we are big and it's growing and we have the capabilities and, of course, open to any new deal that could be in the market and obviously that achieve our goals and hurdles.

A - Richard Burden {BIO 1809244 <GO>}
Javier, the team was asking for deals coming up for renewal.

A - Javier Lorenzo {BIO 20805368 <GO>}
Asking for....

A - Richard Burden {BIO 1809244 <GO>}
Deals coming up for renewal.

A - Javier Lorenzo {BIO 20805368 <GO>}
From?

A - Richard Burden {BIO 1809244 <GO>}
Europe. Renewal.

Q - Nadine van der Meulen {BIO 15200446 <GO>}
Renewal.

A - Javier Lorenzo {BIO 20805368 <GO>}
For renewal. Okay. Now let me tell you...

A - Richard Burden {BIO 1809244 <GO>}
(04:10:21).

A - Javier Lorenzo {BIO 20805368 <GO>}

The three big ones are 25 years in the case of Santander, is 20 years in the case of Sabadell. And in the case of Deutsche, it was 10 years, but we renewed for another 10 years/ That was the question. Then it's not in the short-term, any renewal with our main partners. And the small ones and medium-sized, they are very different. When we saw (04:10:51) joint venture, normally are 20, 25 years. And when these 20, 25 years nobody really thinking about the renewal of that (04:11:00) more advanced the deal, then we are not focused at this moment or we are not worried or we are not working in that. Obviously, we want to increase the business with the current ones and looking for new ones.

A - Richard Burden {BIO 1809244 <GO>}

Thank you. Michael?

Q - Michael Van Wegen {BIO 6435238 <GO>}

Thank you. Mike Van Wegan, Bank of America Merrill Lynch. Two questions. First of all, on your Asian rebalancing, at the moment your relatively mature markets are 92% or so. So it sounds like making the growth markets more material is going to be inorganic. So can you help understand (04:11:50) what kind of target returns you're looking for if you were to do deals in Asia? What sort of hurdle rates? I mean, are you being basically talked about with holdco (04:12:02)?

Other question on Brazil. You showed the loss ratio for the warranty business or the affinity business of around 20%. Is that a level that is structural? And if so, why is this attractive for customers? I mean, it seems like you're paying mainly commissions and not much to the clients. Thank you.

A - Raul Vargas {BIO 20722746 <GO>}

So I'm going to start. I know you were looking at it, Jack, but unfortunately he doesn't get to set the targets. Maybe the most important thing to say is that, I mean, the plans and the targets that we've given already don't depend on inorganic activity. So I mean, that's an organic plan. Now that's just true for ages, if for any other part (04:12:45) of our business. Of course, if Jack and the team can fame things in Asia that fit with the strategic (04:12:49) duration that we have, then we'll consider them. But for us, I mean, there are a number of criteria when it comes to potential inorganic activity and I'm actually going to cover it in my presentation. So rather than do it here, I'll do it in a few seconds if you don't mind.

A - Claudia Dill {BIO 16415680 <GO>}

Okay. On Brazil, the loss ratio of 20% to 21% we have shown, yes, it is structural, and yes, there is definitely (04:13:16) value in the products that we sell. So there is no bundled or tight sales, which is relevant to understand. This is products we sell to emerging middle class, middle class that actually can only buy products through these type of affinity sponsors. You need fragmented distribution network that can service this. The whole business, even in Brazil, is very well regulated from a customer conduct perspective and we are completely compliant with these regulations.

A - Richard Burden {BIO 1809244 <GO>}

Thomas here in the middle.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thanks. Thomas Seidl, Bernstein. First question is on LatAm. You show impressive improvement and the combined ratio is 95%. Now Latin America is a market and very high investment incomes of most markets were in a buffer (04:14:09) 100%. So I wonder to what extent this is sustainable in the 95% or what is a reasonable expectation for combined ratio (04:14:08), because you have this different loss ratio, expense ratio mix there that you earn less investment income and hence you need a lower combined ratio? That's the first question. And cover more, (04:14:27) I think I do remember there were some issues with the underwriting results for those insurance companies backing cover more there. I wonder what has been done sort of to improve the profitability, because clearly that's important for the sustainability of the business there.

A - Claudia Dill {BIO 16415680 <GO>}

So on the 95% that you have seen in one of the early slides, that's the weighted average between the Zurich Santander joint venture and the rest of our business. Raul has shown combined ratios of very low level, relatively low level. So when you go into the commercial and other retail business, for example in Argentina, in Brazil, they are above 100%, because that is where the high yields are. Argentina was at like 35%. It's still in the mid-20s. Brazil was at 14% right now, projected at 7%. So this 95% in the composition of the business that we have, yes, is sustainable and there are multiple areas where we can improve.

A - Raul Vargas {BIO 20722746 <GO>}

So Cover-More is not an underwriter. Cover-More does not own the underwriting and they will outsource the underwriting in the various markets to local players, and what we're doing at Zurich is looking at which of those markets do we want to be the underwriter for Zurich. So for example, in Australia, we have taken the book in Australia, and we are underwriting that book for Cover-More, and Cover-More works out in arrangement with the insurer in terms of target ratios and everything, and then works to those ratios. So Cover-More itself wouldn't have an underwriting issue because their results, they act more like a TPA, more like a fee-based business and they don't actually own the underwriting.

Q - Thomas Seidl {BIO 17755912 <GO>}

We still think that the profitability of your partner is important, right?

A - Raul Vargas {BIO 20722746 <GO>}

Absolutely.

Q - Thomas Seidl {BIO 17755912 <GO>}

And you talked about Australia, that was precisely the region where the issues is (04:16:17) now addressed.

A - Raul Vargas {BIO 20722746 <GO>}

Can I add something here? I mean, I think it's probably worth pointing here, I mean, we became aware of Cover-More through the process of looking at the underwriting, and it became clear to us that the attractive aspect to Cover-More was actually the bet that Jack has been describing here, and we've acquired it with a view that we don't need to have the underwriting.

If there are other providers of capital who find it more attractive, who have got return expectations that would be different from us, we're happy to see that business grow there. But as Jack has pointed, I mean if the business is profitable and it doesn't work for us, maybe we will keep it. But we are open and we've left it open for Cover-More because one of the – I mean, one of the skills that we believe they have is actually managing that capacity, and we were in that process – I mean, that wasn't a bilateral process. That was an open market process, and there were other competing insurers in the process. So there was capacity available for it.

A - Richard Burden {BIO 1809244 <GO>}

Over here on the left, Andrew.

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

Hello, sorry. It's Andrew Ritchie from Autonomous. Two questions for Claudia and one for Raul. Inflation has been a big cause of volatility in Latin American P&C over the years, because inflation is volatile in the region. Has your business mix change reduced the inflation sensitivity of the business materially or how do you actively address the inflation uncertainty of the region when you're reserving or setting up loss picks?

The second question, the Santander applications, you demonstrated very impressive, I mean, Santander is known as a retail banking machine in all its markets. How much of that innovation can be exported to other parts of Zurich or is it kind of, this is really Santander's knowhow, you can't take it anywhere else, you can't take it to your other bank assurance partners elsewhere in the Zurich Group? Is it going to stay exclusive?

A - Raul Vargas {BIO 20722746 <GO>}

Address first (04:18:23).

A - Claudia Dill {BIO 16415680 <GO>}

Okay. So I might need some help from George, but when I look back on Latin America, the only place I can recall where inflation has truly created some challenges on the reserving side was in Argentina, 2013-2014, around that, where the inflation has generated some challenges that we managed. For the rest, honestly, the more recent volatility that we have seen, in particular in Brazil was related to high gross in motor at the not right pricing model (04:18:56), had nothing to do honestly with inflation.

It's very straightforward insurance basics. So I do believe from – in particular, also these last 2.5 years, we are very well prepared to manage inflation. There is devaluation that is lacking at times, but we know how to manage both sides. We have made quite a lot of benefits on the devaluation piece as well by knowing how to invest in different currencies, U.S. dollars or local currency. And the portfolio that we have today, it is more short tail that will help any inflationary risk aspects.

A - George Quinn {BIO 15159240 <GO>}

Can I answer the second question? Regarding the capabilities, well, I think we need to differentiate. (04:19:45) in the front and these are collaborative with Santander. But the list, (04:19:50) all the intelligence that is in the back for example having a predictive modeling in order to pay a claim in two hours, that actually we have deployed that in many countries, this is a Zurich expertise.

And actually, further think of the beauty of this joint venture is that actually we embed capabilities from Zurich in the model and the other way around, obviously maintaining the dependence of which part of the value chain it is, if it's a more front-end part, we need to be cautious and obviously that is discussed with our partner. But up today (04:20:22) is five years, we never have an issue in that regard. And I think the sharing of best practice has been extremely useful and is part of the success of the business.

A - Javier Lorenzo {BIO 20805368 <GO>}

Let me tell you – let me give you an example, for example, I told you about these champions and 135 experts that we have, starting this year, one of our bank partners in Indonesia asked for develop the sales of insurance through an ATM. And what we have – what we have identified is that our champion for ATM channel is in Mexico, then we move the Mexican people to Indonesia for a consultancy for 15 years. And we really helped our partner in Indonesia to start the project. And obviously, can we imagine the huge advantage for our employees that are moving around the world translating these best practices, that's one of the example. It works, no? And obviously sometimes it comes from Santander, sometimes comes from a bank in Indonesia or in Malaysia or sometimes come from another country.

A - Richard Burden {BIO 1809244 <GO>}

Andy?

Q - Andy Hughes {BIO 15036395 <GO>}

Hi. Thanks so much. Yeah, Andy Hughes, Macquarie. Just a pretty quick question. Could you maybe give us a rough idea what the Z-ECM contribution from the two regions are and also the dividends that you get back to group and is that kind of gap narrowing in future, that would be very helpful? Thank you.

A - Mario Greco {BIO 1754408 <GO>}

So I'm going to take both of those questions. So for Z-ECM perspective, we don't break out the regional view. We look at it from a risk perspective, I don't have the number in my head, Andy. From a cash perspective, I mean, one of the largest contributions comes from the joint venture and you saw that in the presentation that Raúl gave earlier.

A - Richard Burden {BIO 1809244 <GO>}

Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Farooq Hanif from Credit Suisse. It seems – I mean, you presented quite a lot of things in all the regions in all the presentations which are great examples of technology for selling personal lines type of product. So I was wondering with Cover-More in mind, in particular, what are your plans for exporting more of this into Europe and the U.S.? So are we going to see Cover-More in the UK? I mean, what are your kind of plans? It sounds like you've got a lot of readymade stuff which a lot of companies are talking about.

And secondly, just quickly on the Affinities in Brazil, and with 95% combined ratio, surely that's a risk from somebody taking that away from you, is that likely or possible, somebody when you renew these deals where there should be a lot of competition for this kind of customer?

A - Jack Howell {BIO 20894734 <GO>}

So, I'll start with the Cover-More one. Cover-More is a global group. So they're based in Australia, but they do sell all over the world, right? So we do have that. But I think the question is more around, how do we connect back into the traditional Zurich businesses and share that technology. And that's something that we started to do more proactively since the acquisition obviously, and share our technologies like in aid (04:23:38) with the other businesses to say how can you apply this dynamic product building mechanism to other lines of business, like motor, like other personal lines business. And that's done directly with the different businesses and through a central team in Zurich that manages that sharing of information. It's very dynamic. And I would say that it goes both ways because while Cover-More is interesting and they have some really unique technologies, there's also a lot that the Zurich businesses are doing that benefit Cover-More. So it's a really dynamic learning environment.

A - Claudia Dill {BIO 16415680 <GO>}

So then on the question on Affinities in Brazil, clearly a 95% combined ratio is attractive. It is a competitive market, but there is relatively few players, because you need to be specialized in that business. The Affinities still usually are of 5 years to 10 years. So it's not coming up for renewal every year. We are actually actively going forward on having multiple products we offer, specific servicing solutions on the claim side perspective. And then this is back to the propositions not just to customers but also to partners. You start looking in by owned price.

A - Richard Burden {BIO 1809244 <GO>}

Michael?

Q - Michael Huttner {BIO 1556863 <GO>}

Thank you. Michael Huttner from JPMorgan. And on Affinities one more and one on cash flow. On Affinities, so my guess is - so these are people who don't have much spare cash, if you like, so they need the protection, but as they become richer, they don't need it as much. So is there a point where you start worrying and thinking, markets just beginning to disappear. That'd be one question.

And on Santander, so everything seems to be going up, which is really wonderful, but - and to give us maybe a feel for it, do you manage it for the cash flow which my guess is where the Santander is interested, or do you manage it for profit, which is probably more your interest, Zurich?

A - Claudia Dill {BIO 16415680 <GO>}

So, first, if I take the question on Affinities, so this type of business disappearing. In the present, we have seen the emerging middle class, I think it was roughly 200 million people. Right now, only 50 million of those we see as potential consumers, because the emerging business class is very broad, and you need to get to the upper end of the emerging business class to start really acquiring goods. Then also when it comes to protection of cell phones act (04:26:16), well, honestly, there is a large number of people buying that are very - already in the middle class, I don't see that going away.

A - George Quinn {BIO 15159240 <GO>}

(04:26:26) cash flow for profit, and the answer is we manage for both as we can imagine. And actually, we need to think that, first of all, cash flow is - or premiums, gross written premium has grown much, much faster than all the other competitors, tough competitors, in the last three years. This 11% growth is about (04:26:45) competitors point, no?

Second, (04:26:46) we also need to understand that Santander benefits with 49% of the increase in profit. So, all the capabilities that Zurich adds in terms of extracting more value in the bottom line, efficiency, robotization, automatization that flows into Santander pockets as well. So, I think it's a - but we'll manage for both. That's the answer.

A - Richard Burden {BIO 1809244 <GO>}

A question at the back. Daniel?

Q - Daniel Bischof {BIO 17407166 <GO>}

Yeah, it's Daniel Bischof, Baader Helvea. I've a question on the M&A topic again. I mean, most of the M&A took place in LatAm and APAC, mainly on the retail side. There was obviously one of the strategic points last year to better position the group's retail presence, so my question to Claudia and Jack, whether you're happy with the current mix and where you see better opportunities?

A - Claudia Dill {BIO 16415680 <GO>}

Should I start?

A - Jack Howell {BIO 20894734 <GO>}

Sure.

A - Claudia Dill {BIO 16415680 <GO>}

So, I'm happy it is the current mix for now. But, clearly, we want to grow. Now, I would not make M&A a strategic topic for growth. We know what deals are in the market. We will opportunistically see if they would align with the strategy of the region and of the group and if you can generate value. Our strategy is clearly on the organic front. And when we look at M&A, that could actually include a big partnership agreement, yes, because inorganic is broader (04:28:17). We have a ratio, I call it inorganic, it's a big distribution agreement for a longer time period. We do need inorganic for distribution. We need inorganic for capabilities. We don't need inorganic just for scale.

A - Jack Howell {BIO 20894734 <GO>}

In Asia Pacific, I mean, if you look at the market, one-third commercial is much larger percentage commercial than you would expect in the Asian market. So, I would expect that our mix would shift more towards retail as we rebalance; it already has shifted quite significantly. And I would expect that shift to continue to change as we reflect the market and the opportunity. So, you would - I would see higher growth on the retail side.

A - Richard Burden {BIO 1809244 <GO>}

Nick?

Q - Nick Holmes {BIO 3387435 <GO>}

Nick Holmes of SocGen. Just wondered about direct insurance in Asia. I see it's some 31% of P&C. Is this maybe the biggest growth opportunity for you as a distribution channel or is it agents and partnerships that you would see as offering better opportunities?

A - Jack Howell {BIO 20894734 <GO>}

So most of the direct that you see in the graph is driven by Japan. It's the largest direct business that the group has and it's mostly direct motor. Now, Japan is obviously a relatively mature market where direct has taken off. It's a growing segment in Japan. It's still a relatively small segment, it's about 20% of the Japanese motor business, but growing. And we are a dominant player in that space.

I expect other markets to move more towards direct, but it will take some time. The rest of Asia Pacific is really driven by Banca, an agency with a very small direct. I think the direct will take off, but it will take time and it will come as the markets mature.

A - Richard Burden {BIO 1809244 <GO>}

Last one more question. Arjan? Just in front of you, Nick.

Q - Arjan van Veen {BIO 5197778 <GO>}

Sorry. Can I just ask one more just on how you think about M&A, particularly in the Asia-Pacific region? So firstly, there has been quite a lot of life insurance books coming on the market in Australia, where you have decent (04:30:31) business and you already bought a smaller one there. So just the fact you said before, you're focusing on emerging Asia. Does that kind of roll out maybe potentially doing something in a more mature market (04:30:42) like Australia?

And the second question was around distribution deals in Asia. Given your strengths in other parts of the world, the problem there on the lifestyle they tend to involve large cash up front. So the question there is the willingness to potentially do those and put some cash at work? And secondly, yourselves, Allianz and AXA are doing more P&C where those up front are doing, now there is something that you're chasing as well?

A - Jack Howell {BIO 20894734 <GO>}

So, I think what you're seeing in Asia is obviously companies taking different strategic shifts in different markets and we look at everything. We obviously don't depend on M&A for our strategy, and we only really move into M&A when it hits our hurdles as suggested. When I talked about the clusters and talked about mature Asia Pacific, I used a word specifically there on deepen. So we will look to sort of increase our presence in those markets where we think we can compete and where we think we can secure consistent profitable streams in the future. So, we are looking at just about everything. It's a matter of whether or not it hits the hurdles for Zurich.

In terms of deals, we are not a player for a lot of the large multinational bank distribution deals that you hear about in Asia Pacific. Because if we were to go after one of these multinational large banks, we wouldn't be able to service them in a lot of the different geographies where they have a presence. So, we don't normally compete for the large multinational bank deals. We do, however, compete within countries and regions within countries, right. So, we compete much more on the local banks and the national banks.

And often those banks don't have the same economics that the large banks do when it comes to setting up a distribution deal. There are many deals being done in Indonesia today with no upfront. So, the economics are changing which makes those deals a little easier for us to work with and it's a little easier for us to execute on.

A - Richard Burden {BIO 1809244 <GO>}

Okay. With that, we'll take a coffee break until 3:55. Again, if you can be back in the Ruby (04:32:49), so we can get on with the last session of the day. Thank you.

A - George Quinn {BIO 15159240 <GO>}

At the beginning of the day, it always seems like a good idea to be the last one up. It doesn't feel quite that way when you get to be the last one up. Anyway, good afternoon, everyone. My name is George Quinn. I'm the CFO of the Zurich Insurance Group. I am almost all that stands between you and whatever you go plan for the rest of your day. Throughout the day, you've heard from Mario and the rest of the team about the changes that we've made in the business model over the course of the last 18 months, and the steps that we continue to take to achieve the targets that we set last year.

It's probably less obvious to you than as does, but the changes over this 18-month period are very significant. If you look at the group, we have a much greater focus on things like strategic direction, risk appetite, performance management, whereas all the other people who lined up here. So Jeff, Mike, Roy, Jack, Claudia, Raul, Javier, are focused on the relationship that matters most, which is the one with client.

We've made a lot of progress, I think, in a relatively short period. And there'll be a temptation to see whatever happens from this point onwards as a process of diminishing returns. I think this would be wrong. I think that what you've seen so far is really the tip of the iceberg with much, much more to come.

So for the remainder of the presentation, I'm going to walk you through how we see this in our current financials and give you some insights into how we see the future from a financial perspective to some degree. A year ago, we laid out the targets for the 2017 through 2019 period, and I'm pleased to confirm today that we remained very much on track to deliver these, together with the benefits that they imply for shareholders.

On the costs side, we've delivered approximately $550 million dollars of cost reduction. That's a number you're going to hear repeated over and over again in my presentation. And we are on track, as we've indicated earlier this year, to deliver $700 million of cost saves for the full year. The execution of the efficiency program has not been easy, but it has been excellent, and I'd like to thank all of my colleagues for the hard work they've done so far and unfortunately the hard work they still have to do to achieve the rest of the program.

You also know that last year when we presented, we focused the financial targets that we had on really the things that we controlled. So, efficiency was a huge part. Market trend was not something we were trying to convince you that we were in control of. But in addition to efficiency, we also highlighted volatility because you had highlighted that to us. I think there's clear evidence that you can see over the course of the last year and a half that we've significantly reduced the volatility in the P&L. And perhaps the most clear demonstration of that is the impact of the natural catastrophes and the thorough test that the changes that we made in underwriting and the changes that we made in reinsurance has undergone as a result.

We continue to manage the capital allocation actively. We've extracted capital from non-core businesses with low returns and we've reinvested the capital in businesses that generate higher returns, and as you've also (04:36:36) have brought us new capabilities. We've unlocked capital from a wide variety of businesses that go far beyond the obvious ones that you've seen last year. We remain focused on delivering value to shareholders and we remain committed to delivering an attractive and most importantly growing divided over time. From a financial perspective, this is the number one objective and everything else flows from that.

As you saw, in the half year, we're delivering on our financial targets. You can see the improvement in the loss ratio. If anything, the recent catastrophe events allowed to significantly increase the potential for us to generate further underwriting improvements. I'm also particularly pleased with the performance on cost. You've heard me already mention it, but again you see the performance in the first half, we're on track, delivered the desired improvement for the full year. And of course, that's key to delivery of our goals for 2019. But it's not only a financial target issue, we see this as a virtuous circle making the group far more nimble and competitive in the same process.

The team at Farmers is also doing a great job. We've heard from Jeff, Roy and Mike this morning. It's not only a unique business model that benefits the exchanges, their policyholders and our shareholders, but it's also a great example of maybe what you can achieve when you focus on the customer. ROE is at least for now where we want it to be. Cash remittance continues to be particularly strong. We haven't updated you yet, we won't do that until the results in February. But we're very happy with the progress that we've made and moving the money through the group, which is a characteristic of the business that we run.

Finally, and certainly not the least of the point, our capital position is at very high level. We see this is a foundation that allows us to look through the short-term volatility in the results when it comes to decisions about increases in the ordinary dividend. We will look for the opportunity, in fact, we do look for the opportunity to invest this capital productively on behalf of shareholders. This is something that we would prioritize, but only if it offers us the potential to boost targets; not just more of the same, but more than the same.

This past year (04:39:14) the entire group to improve efficiency. And again, you've seen this impact for the first six months of the year. Of the savings, about 30% of it comes from the group center. As we've reduced complexity and we've de-layered the organization. And as part of this, we've simplified a number of different processes and freed up capacity to try and do the same with less resources, while also making sure that we reduce the burden on our business units. Automation has played a significant role. We've looked to try and equip individuals and teams with the skills to automate the processes and we've also made increased use of things like cognitive computing. You've heard before about how we use that in claims and we now use that in the reserving process.

A further 38% of the savings comes from group operations, where we're progressing plans to both simplify and modernize our IT infrastructure. And as you saw from Mario's slides this morning, I mean this figure is made up of a wide range of different initiatives. Examples include the rationalization of the number of IT applications in use across the group and a new agreement with a single IT infrastructure provider that has not only lowered the costs of our IT infrastructure, but has also increased the flexibility and capabilities of our IT platform.

Our business units have contributed 32% of the total, with this coming from all business units. If you take two of our largest businesses, the North American business, led by Kathleen, and we take Germany. In North America, we saved $15 million from property rationalization, partly supported by the introduction of a dynamic workplace. We've saved $4 million from additional synergies around RCIAs and we found efficiencies across North America that resulted in a 14% reduction in head count.

Germany has achieved a 12% reduction in head count, is moving five offices into two, and increased the extent to which we do straight through processing in Personal Lines from somewhere between 20% to 30% to something more like 90% to 100%. The stories are by no means unique, but they illustrate the accumulation of lots of different elements that taken together, take us towards the goals that we set out last year. Looking forward, it's clear that we still have much to do by the end of the year. We still have further $800 million to deliver. But the strong start to the plan and the performance we've seen so far, gives us high confidence that we'll deliver the $1.5 billion by 2019.

One techie topic just before I move on to the next piece of the presentation. Just a reminder that on restructuring charges, you know that we're anticipating to see $0.5 billion this year, $0.5 billion or so next year, where the $150 million of what we got this year will come through BOP, and that will be through non-technical within the P&C business. For next year, too early to say precisely what the split will be, but it would be reasonable to assume at this stage, but again part of it will come through BOP next year.

This may not seem so important to you guys, because this is internal to the group, but this is a really important message from the corporate center to the people who generate the revenue within the Zurich Insurance Group. You saw already that the corporate center is a key contributor to the cost saves overall. As a result of these efforts, we've got overall headquarter expenses that are about 30% beneath the 2015 level.

Most importantly, those savings have allowed us to reduce the charges that the corporate center imposes on the business units. That means that you won't see significant net cost reduction and what's reported as group functions and operations. As we achieve the cost savings that we are targeting at corporate center, we'll pass on that benefit almost in its entirety to the business units. That makes them more competitive and sends a very positive signal to the rest of the group about what the corporate center is doing.

As we discussed last year, we're not only expected to reduce costs, but we are also continuing to make significant investments in the business. If you look back over the recent history, the overall level of investment hasn't changed that significantly. This year we expect to invest roughly $800 million into the business and IT, with the business units being the majority of it, pursuing their own customer-focused strategic priorities. One example that illustrates the extent of the overall change and underlines how priorities have shifted over the course of the last few years is around the proportion of the spend within this that's directed by the corporate center. In 2018, there'll be approximately 50% of what it was in 2016. The savings are reallocated to the local markets, allowing them to invest in ways that reflect the priorities for their markets.

As from Mario earlier today, our Life business continues to focus on sectors where we believe that we have a competitive edge. We moved our focus from traditional to unit linked protection products already more than 10 years ago. And you can see the results of this and a high quality earnings mix with the majority of income stemming from loadings, fees, technical margin with very little reliance on the investment margin. Not only the earnings within Life of high quality, they're also growing.

Over the 2013-2016 strategic cycle, our operating profit grew by 8% per annum in local currency against a backdrop of low-interest rate and weak economic growth in most of the regions where we have businesses. As you've heard earlier from Javier and Raul, a joint venture of Santander has been a great contributor to the overall operating profit growth, however, other regions have grown too. Asia Pacific has more than doubled operating profit over the same timeframe. As a result, today Asia Pacific and Latin America together now account for around a third of a Life operating earnings and new business value.

If you can cast your mind back as far as 2013, you remember that we set out an agenda to improve the performance of the Life business through in-force management. We've delivered a run rate uplift in both through that process of around $240 million over that period, with additional material capital relief from some of the structural changes we've undertaken in the business. In-force management initially focused on the larger more mature markets, but today is business as usual across 14 markets globally, which represent over 80% of a Life reserves. I mean it goes without saying, we're very pleased with the performance of our Life business and we believe it's well positioned to continue to grow profitably.

Let's take a few moments to take a look at the P&C combined ratio. At the half year, you saw the combined ratio overall had improved by about 30 basis points against the full year 2016 level. That excludes the impact of Ogden in the UK and this in an environment of generally deteriorating profitability for the market as a whole. First half results also show an expected improvement in the other underwriting expense ratio, with the half-year ratio about 0.5 points beneath the level that you saw for the full year last year.

Year-to-date, accident year ex-cat loss ratio improved by about 60 basis points compared to the full year last year, demonstrating that some of the things that we've done over the course of last 18 months are having effect on the technical performance. We've also taken advantage of the group's reserve strength, absorbing the impacts of the Ogden discount rate change. And by the end of this year, we expect that the total PYD will be firmly within the target range including the effects of Ogden.

Despite all of this, we expect and we need further improvement in the combined ratio. We expect that both the admin expense or other underwriting expense ratio and accident year loss ratio will improve with the other components remaining broadly stable. There will be a slight increase in the commission topic and I'll come on to this in just a second.

A year ago, we anticipated that we would need to see a combined ratio in the range of 95% to 96% by 2019, to achieve our goals and we still believe this is the right level and we are committed to this outcome. It's worth pointing out thought that the combined reason in itself is not a target. We're not trying to optimize the business for the combined ratio. We're looking to optimize the overall return on capital to be consistent with the group's overall goals of return on equity in excess of 12% and growing, while minimizing volatility and using the capital as productively as we possibly can. Pursuing these sometimes conflicting goals requires a balanced business mix and you heard some of that from Kathleen when we discussed the North American business earlier today.

Together, the improvement that we expect to see in the technical side combined with the targeted expense savings, will result we expect in a combined ratio of 95 to 96 range. Targeting a lower combined ratio would require a further shift away from long-tail lanes which could be negative return on capital, could be negative for volatility; at the same time, more short-tail lanes in the portfolio, shorter payback period reduces market risk exposure. So, there's a balance that we like to achieve that we haven't quite reached yet, but that's something that we also expect to do over the course of the next couple of years. So with those considerations in mind overall, looking for a 95 to 96 combined and we believe that's the right level to target given the ROE and given a risk appetite.

While we expect the combined ratio to improve over time, we also expect the composition to shift as we make those changes and we execute on the strategic priorities. You've seen in recent years Zurich growing and strengthening a number of businesses such as the things you've heard about today Affinities and Latin America, travel, the U.S. Alternative Markets business and those businesses typically have different characteristics when it comes to the split of the combined ratio and also the volatility is worth pointing out, higher commissions but generally lower loss ratios. At the same time, as we make this shift, we are willing to give up volume in other areas. You've seen us do that already, essentially in areas where overall profitability is weaker. So for example, today, some U.S. liability lines, commercial auto in particular. However, again in many cases, these businesses have lower commission rates, so you will see this shift.

The portfolio shifts overall will change the makeup of the combined ratio, but this will allow the group to deliver a higher return with lower volatility. Over the course of the last 24 months, we've also been working a lot on reinsurance coverage, looking to further optimize capital usage and at the same time reduce volatility in earnings.

Looking at the global insurance program that we have in place for natural catastrophes with the adjustments that we put in place at the end of 2015, we've significantly brought down net retentions. We've eliminated almost all of the co-participations and we've increased the coverage that we have with this protection in place and this was all done at a lower price. It's obviously proved to be very effective in 2017, given the devastating hurricanes, earthquakes and other weather events that we've seen in the third quarter.

And as an example, the impact for us from Harvey, Irma, Maria, would have been $300 million higher, had we not reinvested the savings from the south market and increasing the protection that we have in place. This slide gives you a bit more detail on how effectively the reinsurance protection has performed. You can see that the net loss of the recent hurricanes has reduced and in particular, a significantly less than you'll see for some of the U.S. peers, you also saw the market share characteristics in the presentations earlier today.

As I mentioned earlier, over the course of the last couple of years we've taken a number of optimization measures particularly in group reinsurance, but not only there, also at the local level which have proven to be the right ones. We also took a tactical decision two years ago to reduce our exposure to large U.S. commercial property risks. This was a correct decision from a capital allocation perspective but it didn't help the short-term combined ratio. Equally as you've heard before, we have expanded reinsurance purchasing using the savings to buy more coverage. Another proof-point on the technical excellence is the reduction in volatility that you've seen in our earnings over the course of the last year to 18 months.

And obviously to some extent large risks and the large losses that sometimes result is what we do. However, long-term experience can sometimes be an excuse, and we need to make sure this doesn't become an excuse for risk selection of pricing discipline. You can see the improvement again which mainly results from here from what we've done on the frontline, but as you also know, we also have a reinsurance backstop that limits the amount of volatility that we can suffer, if we see a more active and claim environment. There's still room for improvement here, but you can see the progress that we've made. Some of you are familiar with this chart, the key message here is that I mean we fully expect to achieve the target ROE and the target ROE progression that we laid out last year. Consistent with the plan, expense savings remain the most important contributor to the overall goal. And as you've heard several times already today, we are on track for the goal that we set for cost savings.

And the original plans that we put up, we did not assume any improvement in investment yield and you are probably aware that we had set the investment yield to something like four or five months prior to the Investor Day. And we've seen yields since that day both in the U.S. and in Europe improve and that offers upside, compared to our initial expectations from an investment perspective. We also see Farmers and Life slightly exceeding the growth plans that we had assumed when we put together the targets.

We're also confident that the – the technical excellence activity that you've heard about today is on track to at least meet the initial targeted loss ratio improvement. This particular factor has probably been the most debated part of the plan. In my opinion the recent cats that we've seen in the market almost certainly mean that the factor that was perhaps the highest risk is now far more likely to be a tailwind. We continue to execute on portfolio management actions and we'll come back to this in a few seconds.

But probably the most important thing that I've got to say today is that if anything our confidence and achieving our targets since last year has improved. Duration – this particular measure, so operating capital generation has become more important, it's become a topic of interest for investors and for you as we all start to become more familiar with these new-ish economic capital frameworks. The frameworks as you also know are a bit different from the accounting ones. I mean what you can see for us is you've seen already this year you saw it at Q2, the picture is stronger at the operating capital generation level than perhaps the accounting view would imply. There's a number of reasons for that. But probably the most simplest, this particular metric, the economic one, it's not impacted in the same way by lower yields. We don't have a five-year duration where things that slowly average down. It's fully baked in at that point the products are written. And as we discussed before, the full economic value, the new business value attributable to Life business is also fully reflected at issuance.

This picture is relevant for us as we think about dividend. So on the topic of dividend, I mean again, you've heard from us very frequently that – I mean our focus here is to deliver an attractive and growing dividend. Last year, we outlaid a simple policy, 75% of NIAS because that's what the business model calls for. When recommending a higher dividend to the boards, you heard from Mario this morning, it's a ratchet. So the new level must form the new floor.

For this reason, we'll only propose an increase and the dividend when we're confident that the increase is sustainable – I need new teeth – sustainable over time. This concept is illustrated on the left side of the page. In a hypothetical year, well, I mean, we don't need a hypothetical year, we got a real one. But in a hypothetical year with negative one offs affecting earnings; I mean the least that you would expect is that we would maintain the dividend unchanged. I mean equally, you wouldn't expect us to reflect spikes and profitability that are temporary in nature in dividend increases.

As we are confident about the improvement of our underlying profitability, we are confident that we will be able to propose a dividend increase over the planned horizon. The strength of the capital base provides a great foundation to support the dividend policy, but it's not in itself a driver of dividend increase, higher capital means higher flexibility, and we want to make sure that we use this flexibility in the best interests of our shareholders.

Our priorities for capital deployment are unchanged, so number one, growth primarily, organically, or if organically it's not possible, inorganically, provided it meets the goals that we set out. And if we can't find suitable investment opportunities that we can use to deploy the capital productively, we will return the capital.

Again, as you heard from Mario this morning, I mean, we are focused on the active management of the balance sheet. As you can see on the left side of this page, in recent years we have supported (04:59:34) a number of businesses that didn't fit with our strategic focus, like scale or didn't produce the level of risk adjusted returns that we were looking for. These actions resulted in almost $2 billion of economic capital being released. We continue to look proactively for further opportunities to optimize the portfolio and further enhance risk-adjusted returns; you can expect to see this process continue.

As I said earlier, our priority for capital deployment is to fund growth organically, preferably and inorganically if it meets the goals, and we have a disciplined approach to acquisitions, I mean, you saw the recent deals outlined in Mario's presentation, and I think they prove that. We've been involved in a number of bolt-on transactions in the course of the last 18 months including distribution agreements and geographic areas that we consider attractive, which have allowed us to sharpen our competitive edge and specific products, channels or particular customer groups.

On the other hand though, there are certain types of deals that we will not pursue. Some examples, we're looking to avoid multi-location complex integration transactions, for us, clear accountability for the capital being used is absolutely absolute key. We're also interested in businesses that have significant exposure to guarantied products or other products with unhedgeable market risk.

In summary, maybe we'll continue to have a disciplined approach to M&A. And we look for further opportunities to further improve the focus of our business. We believe that we're not only on track but we've delivered. I know this is only six months into three years but the targets aren't averages, they are not aspirational, they're not to be delivered only in the last year, they're to be delivered in each year for the three-year period.

Volatility management as you've just seen has undergone a major test and I think we've demonstrated the benefits of the changes that we've made. We'll continue to manage capital actively releasing it when it makes sense and what is possible and then reinvesting that for higher returns and strategic priorities such as some of the topics you've heard about today around Latin America, the rebalancing of our North American business, bancassurance globally and Asia Pacific. And then last but definitely not least, dividend. We don't have an absolute target for dividends, but increasing the dividend will be the ultimate measure of success of our achievement of the plan. We believe this is not a question of if, only when.

I think we're going to do Q&A.

A - Richard Burden {BIO 1809244 <GO>}

Thank you, George. We now come to the last of our questions, so if I could ask Mario to come and join George on the stage. And we will happily take your questions. Vinit?

Q - Vinit Malhotra {BIO 16184491 <GO>}

Thank you. Vinit from Mediobanca. Just George, so on the loss ratio, there seems to be a bit more focus this year. If you could help me understand, is there three things that have changed, one is the business mix focus. The other one is the fact that underwriting tools were being sort of updated and refreshed last year. And then there is the whole market hardening. I mean how should we think about these three factors if you have to think of a loss ratio improvement underlying going forward in your mind whether it is – some guidance would be useful.

And can I – ask the second question as well. So just from a bit more generic view, Mario, there are two main markets, U.S. and LATAM, where you're fifth ranked player in a market where everybody else is local. So giving you a sort of different positioning to the rest of the market in some ways. Is that viewed by you as a strength? Is that some kind of or you don't even care about it? It's just an observation and I would be happy to hear your comments. Thank you.

A - George Quinn {BIO 15159240 <GO>}

So I'll start with the combined ratio topic. So I think probably the easiest starting point if you go back to the half year, and we talked about the fact that we were around the 98% level, I mean that implies we're looking for a further two to three points of improvement. I mean you can see from an expense perspective that, I mean expenses, if you allow for broadly the share that the PNC businesses have and the overall expense base of the group, about three quarters of the remaining 950 will cover our expense. I mean that on its own should be about 2 points for the combined ratio. I mean the remainder – I mean, certainly as we thought about it, certainly at the half year. We weren't thinking about potential improving price trends, but we thought the business mix would be the item that would help us drive a further improvement that would offset some of what we anticipated by way of market deterioration. And I think there, what we've tried to do during the days to illustrate some of what we've done there already to demonstrate that we actually have a track record in doing that. And therefore we hope that you would believe that we can take that further than we have now. But the vast bulk of the driver is expenses still.

A - Mario Greco {BIO 1754408 <GO>}

On U.S. and Latin frankly this is really where Zurich is different, and Zurich is a global platform. U.S. is the single biggest market we're in. And it's – I think it's difficult to quantify Zurich in any different way than it's a global player and we act locally in the markets with local people. And so I think for everybody in North America, Zurich is an American player. We are there. We're embedded in the communities. We work with the American management, American leaders. And pretty much the same happens in Latin America. So I think it matters and definitely the size you have in the markets because this is knowledge. It is brand reputation. It is credibility in the market. But what I would say is that in North America, in United States, in Brazil, in Mexico we are local players and we play exactly as the local companies play in those markets and we will keep doing that.

A - Richard Burden {BIO 1809244 <GO>}

James?

Q - James A. Shuck {BIO 3680082 <GO>}

Thank you. So, James Shuck from Citi. Two questions from me please. Very similar questions everyone just asked actually but maybe I'll ask in a slightly different way. I mean obviously you act local those markets are discrete; they don't have their own equity stories. I would imagine. Now all the benefits from having that U.S. scale which you can leverage into let's say Europe.

So what I'm getting at is, are we starting to see changes in business models whether that's empowered by regulation or whether it's empowered by digitalization or any of these other changes that we're seeing, that actually mean that being large is a benefit more so than it has been in the past. So, should we start to see that you outperform versus local peers in some of your European markets in particular. That's my first question.

And then secondly, I was interested to hear about the very tight relationship between the Net Promoter Scores in the U.S., particularly in Farmers with retention rates. And Mario, I'm just interested given your experience and previous focus on Net Promoter Scores, do you see that same correlation in other markets because obviously it's become very much trendy at the moment to focus on Net Promoter Scores. I'm not always convinced as a link with financial returns.

A - Mario Greco {BIO 1754408 <GO>}

Yeah. So I'll – give you the start and then you help.

A - George Quinn {BIO 15159240 <GO>}

Okay.

A - Mario Greco {BIO 1754408 <GO>}

Economies of scale did not exist. That's very true. Insurance is a unique market, where so far economies of scale have not helped in size. It has been important in each given market, but not across markets.

I think today you can see on one of the benefits of being a global player, we wanted to show you that we are extremely consistent across the different markets. And that's a benefit of a big group like ourselves, division, the strategy, the good ideas can be brought and we had a number of examples today from Cover-More to the Affinities to the bancassurance to the Net Promoter Score, where we are spreading this around. Maybe this is more economies of skill than economies of scale. But still I think this makes us in a much better position than anybody else. Because, we can spread this knowledge around and we do this every day, and hopefully today you get a measure of it and you got an understanding of how that works in practical terms and in the day-by-day business, all of us, all of our colleagues.

We do think that it's important to be local. That's one of the underlying convictions, we have is that that to be local is important. To be rooted in the communities to know deeply down the profitability of the business, it is important. You can come to a market with an outside view. It doesn't work. You can bring in each market knowledge and advanced skills from other markets, but then you have to personalize. The beautiful video that Jack showed us about Japan that is Japan tailored and we have no ambition to use it in Brazil. I mean, in Brazil, we will do a similar video, but with a Brazilian touch, right? And so, the skills we have is that, we know that that works, but then we know that we have to personalize it and make it really a success in each specific market.

On Net Promoter Score, I mean honestly, I like to understand more where is your skepticism. My experience is, but Jeff can add please, is that yes, I mean there is an extremely strong relationship. Is there statistically, Jeff, mentioned R-squared (05:11:17), a very high number, but also intuitively is such, I mean if you start calling the customer and understanding why they were pleased and why they were not pleased. And so, you start then getting a list of things that you have to consider tomorrow morning and if you start acting on these things, you get immediate responses.

Again, Jack showed you what's the impact. When you start sending out to the Japanese clients support and help like that we do, you get an immediate, immediate jump in the Net Promoter Score. Now, does this translate into better financials? Yes, it does. First of all, remember that our biggest cost is acquisition cost. So, retention is a great thing for us. Loyalty is a fundamental thing for us. Second, there is also wealth of evidence across the world that there is a correlation between loyal customers and profitable customers. The loyal customers are the most profitable customers.

And so, yes, I think it works. And again, I think this is the core of our belief. It's all about customer service and customer satisfaction. If we can get there, we're going to be ahead of the market and we are going to lead this industry for the next years. It's all that simple, but it's all that important and it's in the little details that you win.

A - Richard Burden {BIO 1809244 <GO>}

Michael?

Q - Michael Huttner {BIO 1556863 <GO>}

I wanted to ask two questions on the slides 129 and 130. On 129, you said that this gave a clue to the cash generation. And I just wondered if I could check my math with you. If I double the $1.9 billion, $3.8 billion, I deduct your nat cats of $0.7 billion, that's $3.1 billion, take a haircut because not all the cash is remitted, I get a figure of somewhere around $2.7 billion. I'd like to know if that's the right way of thinking about it. And then on the dividend, you talked a lot about dividend growth and then at the last minute you held back, you said over the horizon. So, it didn't sound like you really meant it. And in particular, if I look at slide 130, that first line is flat, it's not up. So, I just wonder if you could help us on that. Thank you.

A - George Quinn {BIO 15159240 <GO>}

So, on the mathematics, first of all, Mike, the mathematics are impeccable as they always are. I think the only thing I'd point out is that you need to look at the cat losses in the context of a six-month period for the second half and let's see how it all ends. I mean, we certainly had – we had more nat cats than just the three hurricanes in Q3. In Q4, I mean we'll see – also from a cash flow perspective, that's going to be more of a next year issue than this year issue.

So, I mean, I would expect cash flows to be, I mean, somewhat in line with your first measure.

On the – Richard, can you just show me the slide again? So, I think it was Arjan as I was walking back from the coffee break, he said to me, there's no years on this. And you seem to have reached the conclusion that the first one is maybe the year we're in, or the year we just passed, but I mean I hadn't intended necessarily to give that message.

I tried quite hard during my prepared remarks to demonstrate our commitment to move that dividend as soon as we possibly can. And it's only a bit – I mean, we've talked before during the year about the – it's going to be a volatile year. We've seen it already, so we've got Ogden in the first half, we've got cats, we've got tax related to the catastrophes, we've got restructuring, all of this stuff getting jammed through, none of which is positive, none of which is relevant to dividend.

A - Richard Burden {BIO 1809244 <GO>}

Andy Hughes?

Q - Andy Hughes {BIO 15036395 <GO>}

Hi, guys. Andy Hughes, Macquarie. Couple of questions if I could. First one you could probably guess is, well, the difference between Z-ECM and actual tangible capital of the group. I mean, Z-ECM is kind of a full fat (05:15:58) measure in terms of including all kinds of things. Do you really think it's a good measure to use when you're paying out 75% of earnings, or do you need to look at a harder capital metric in the context of the group?

And the second question is if the cycle proves to be pretty benign and I think it is a cyclical industry, P&C particularly, then I can't follow the logic of what you're saying today. But if the cycle proves to be quite tough, have you got enough money set aside to pay the reinsurance costs you need to pay to meet adverse claims development potentially? Or do you think that you need or you'll end up relying on the VIF, et cetera, that's in intangible assets that are in that Z-ECM bucket? Thanks.

A - George Quinn {BIO 15159240 <GO>}

So, one of the joys of being an insurance company CFO is that you're surrounded by capital measures, and I really would wish that we could only focus on one. I mean, you know we have Z-ECM, we have SST, I've got at least two rating company models there, I've got a local statutory model in Switzerland.

A - Mario Greco {BIO 1754408 <GO>}

It's obviously true.

A - George Quinn {BIO 15159240 <GO>}

Yeah. So, the – I mean, we – and probably a bunch of other stuff besides it, no one has been prepared to tell me here, because we're still working on these ones. And I mean, the way I tend to look at this is which one determines the dividend, and that's the best and most important thing here. What determines dividend capacity, so operating capital generation is certainly one of the most important measures.

And from certainly what I can see or perceive, most investors tend to focus on that certainly given the new disclosures that we have in Europe that will be replicated in Switzerland as of next year. I think that general point of recognizing the fact that you shouldn't fall in love only with the measure that you have self-developed, you need to pay attention to others, so we do. So, I mean, the rating and the commitment that we make to our client base is extremely important to us, and at times that does restrict some of the things that we want to do, because of the constraints that it imposes on us. But I mean, do I go back to a Solvency I type capital measure or look at simply the stuff I've got in cash in the bank (05:18:20) thing we do next? I do not. I don't see it ever or no, I can't say ever, but I don't see in the foreseeable future that we go back to a more old-fashioned view of capital.

On the cycle topic, so I mean, I guess – I think that what you're implying was that, on one hand what happens if reinsurance prices go up? And what happens if you have loads of different balance sheet problems, I mean, will you have enough? I mean, so from my perspective, I think the – I guess what I would refer to is a regularization of the reinsurance cycle, well, it would certainly cost us more money. I think it'd beneficial for the entire market, including the primary market, maybe hopefully the reinsurers aren't listening to this too intently. I mean, if prices went up there and we got – I think, maybe what we don't see is more regular risk-adjusted views of pricing, I don't see that as a negative. We'll get a bigger benefit on what we would achieve on the other side of that.

And on the adverse development topic, I mean, we had a long state of discussions about reserving. Everyone is entitled to their opinion, and my opinion is that we are adequately reserved and it's reflected in the performance you've seen from us through steady PYD development, that's my opinion.

A - Richard Burden {BIO 1809244 <GO>}

Farooq?

Q - Farooq Hanif {BIO 4780978 <GO>}

Hi, there. Farooq Hanif from Credit Suisse. You mentioned lots of things that have gone right, so potentially pricing is stabilizing yield, is there anything you could tell us is not going according to plan? That's question one.

And question two is, going back to – slightly to what Andy was asking about. The biggest difference is the $1.9 billion with the sort of cash whatever that means is the Life business. So you get into a situation where your remittances are varying from – operational capital ratio you will be a year behind because of that difference. So overall while you're accruing surpluses, I'm just thinking, is it a point ever where you suddenly get so much surplus in your LifeCos, this is the business you're writing, but you will have these one-off positive remittances. I mean it's not in the scope of the next few years. Thanks.

A - George Quinn {BIO 15159240 <GO>}

Yeah. Thanks. So the list of things that went wrong amongst all the things that went right. I mean, yes, is the short answer, there are several. I mean, I think if – we were discussing one of the ExCo this week, which is around commercial auto. So, I mean we had that discussion, I think, already with you guys, 2015. And here we are 21/2 years later, the U.S. team has put through a ton of rate, market has put through a ton of rate, the portfolio overall is smaller than it was in 2015, and we're getting exactly the same profitability outcome. And in fact, from an overall perspective today, I mean, despite the comments I made positively about commercial more in the UK at Q2, I mean that would be a rare ray of sunshine in a commercial market globally now, which is in a bit of trouble in most places.

A - Mario Greco {BIO 1754408 <GO>}

Can I make a comment. Look, it is difficult to have a business, which is so widespread and so diversified performing flawlessly every year. Every day, each one of us has to fix an emergency, right.

And I think you heard through the words of each one of them, what has been concerning for them, and what they think that needs improvement. And I think a common theme again that you heard through the day is that, we think that a lot more needs to be improved and fixed. So, we don't think at all that this is a perfect year, and we don't think we will ever have a perfect year. I think the good thing, which I really like about the spirit in the management team is that, we're there to solve the issues and move forward, right. And we know that tomorrow we will have new issues and we will have to solve them and move forward. If you think about this year, this has been almost a perfect storm. We started (05:22:58) and we get the storms, then we had some tax issues related to, I mean it's a tough year.

And we're still driving with traction to the results because we managed to have other parts of the business outperforming and that's what it is every day, it's not going to be different next year. For two things that would work very well next year, we will have two things that don't. And we will have to act and find solutions and keep doing that.

A - George Quinn {BIO 15159240 <GO>}

On your second question on the capital topic, I mean one of the positive things is that we see a number of different jurisdictions introduce economic views of capital, and that means that the dividend capacity of some of these Life businesses is maybe higher than it's been in the past, so the money flows back more rapidly, not everywhere but in many places. So it's to say that we have one-offs, they're going to be in the aftermath of the introduction of these things, so Europe is the obvious place. So, I mean we are anticipating that we'll see some one-off flows from some of our European Life businesses over the course of the next couple of years. But that's not reflected either in the plan nor in the target that we set last year.

A - Richard Burden {BIO 1809244 <GO>}

Thomas Seidl.

Q - Thomas Seidl {BIO 17755912 <GO>}

Thanks. Thomas Seidl, Bernstein. First question is on book value, so Zurich stands out as the large cap insurance stock with negative book value growth since 2012, which I think is mainly driven by the high pay-out ratio. So my question to you is, is this a matter which is concerning your book value growth – book value per share growth or are you continuing to focus mainly on the dividend side.

And the second question I have is on European retail. I mean, today we have a lot of growth stories in emerging markets. Last year, you said you want to strengthen your retail position in key markets, yet you're continually losing market share in Switzerland, Germany, Italy, Spain, year-after-year. My question is, is there any initiatives turning around or trying to turn around the situation in European retail?

A - George Quinn {BIO 15159240 <GO>}

So why don't I start with the book value topic and Mario can...

A - Mario Greco {BIO 1754408 <GO>}

Yeah.

A - George Quinn {BIO 15159240 <GO>}

...cover the retail issue. So, I mean book value is not unimportant, but I think we will look at book value including the dividends. And, of course, as you point out, given the dividend flow we have, which is a very significant part of the overall, I mean that will create a challenge to grow book value in a period where the market is a bit soft. So, I mean, it's not a measure that we pursue per se, but I mean, if we achieve the goals that we have around ROE, around the increasing ROE, the increasing earnings that that implies, we would still look to remunerate our shareholders first by returning the money to them rather than simply trying to hold on to stuff and see if we can use it two, three years from now.

A - Mario Greco {BIO 1754408 <GO>}

Yeah. So, two businesses we're now present today in the presentations. One is commercial insurance and the other one is EMEA. And the reason is probably the clock because we've been long enough and definitely next year there will be present.

On the performance of retail, so yes, we want to grow retail. Also, I think this was overestimated when we said last year that, it's not that we prefer retail, but it was a way to reposition the correct understanding of this company, which is not a commercial-only rider. We have a huge retail book and we wanted to express our commitment to grow it, not just maintain it, but grow it over time. We feel we have a retail culture and we feel that we're doing well in retail and that's why we are putting emphasis on the retail business.

In Europe, we're doing good things in a number of retail markets. Actually, I would rather shift the emphasis in saying, we're losing market share in commercial Europe because of the choices we make on risk appetite. We deliberately reduced the positions we had on a number of portfolios in Spain, in Italy, and in the United Kingdom. That was a well-thought choice, which we made it clear to the markets and to the brokers.

The retail business is doing fairly well in a market, which is definitely not South America or Asia, and – but we're quite pleased with the small retail business we have in this market. We are not continuing, I mean, I think we got to the end of the cleaning of the commercial books in Europe. And so, we expect also Europe to show positive growth in 2018. But the reason you saw a negative number on Europe is mainly because we reduced the exposure to commercial businesses across three main markets in Europe.

A - Richard Burden {BIO 1809244 <GO>}

Nadine. At the back here.

Q - Nadine van der Meulen {BIO 15200446 <GO>}

Hi. Nadine from Morgan Stanley again. Two quick questions on M&A to the extent (05:28:48) you can answer. A large part of the ZECM capital required is for retail life business with some of them quite low ROE. We see some German back books in the market for sale, which these insurers are pretty open about. Are there parts of your back book that you would be considering to sell?

And the second question on U.S. P&C. I would be interested to hear your view on consolidation. There was a slide in the back showing limited consolidation over the last 10 years. I think recently in the last couple of years there have been some very large transactions. And particularly in light of the profit pressures that we have seen and also in the presentation today and your comments, I suppose the need for synergies and your comments on trying to shift away more towards short-tail, you just mentioned that you want to grow retail over time in the U.S., could you talk about that?

And maybe lastly, very quickly, what's your stock of central liquidity? Thank you.

A - Mario Greco {BIO 1754408 <GO>}

Okay. If you don't know it, I don't.

A - George Quinn {BIO 15159240 <GO>}

So, what I – I'll start with number one and do number three, and then Mario can add to number one and do number two. I mean, if you look at what we've done in terms of capital release, we have released (05:30:29) in the U.S. Life business, the Farmers New World Life business in the U.S. from a product that today wouldn't fit with the group's risk appetite. And we've done a similar transaction in the UK, in fact, several transactions in the UK where we've released capital from savings and (05:30:47) annuity part of the Life portfolio there.

So, I think you can certainly see that we have a commitment to, I mean take advantage of market mechanisms that are available and offered to us to improve the group's overall performance. I think the challenge in other markets today is that it's completely hypothetical. I mean, let's wait and see what develops and then we can decide whether there's something that's in the best interest of our shareholders or no, but it's a bit early to reach a conclusion.

We haven't published a central stock of liquidity number. It's not incredibly relevant number because I've got a lot of it. The challenges when we look at it presenting from a risk perspective we think of it in a stressed environment. So, what happens to that stock when we get a series of events if we have to recapitalize, et cetera, I mean that's the more meaningful measure for us. And under that measure, I have more liquidity at the center than I would have capital flexibility. We are very liquid even in a stress situation.

A - Mario Greco {BIO 1754408 <GO>}

On consolidation in U.S., but in the other markets, we do think that there are too many companies in U.S. and in Europe. I would rather expect a number of companies to naturally disappear, because simply the customers will walk away. Again, the view is that the customers will decide the fate of the companies. And so, buying today companies for acquiring a customer franchise, which might be not stable wouldn't make a lot of sense.

Look at the transactions that we have made recently, either we acquired special product services skills like Cover-More, or we acquired a distribution, which will not be the case in U.S. or in many of the consolidated markets, or we have just refrained from doing anything. We do see lots of organic opportunities. I think you heard Kathleen this morning, there are many more things that we can do, the practices, the skills, the knowledge that she has developed on the Alternative Markets' experience can be used further in the market. I don't see that as a real opportunity in the next years.

A - Richard Burden {BIO 1809244 <GO>}

I think we're going to have to leave it there in the interest of time. Obviously, we can take – the IR team will be available – over the next couple of days to take any further questions that you have. And so, I'd just like to pass it over to Mario to wrap up today's events.

A - Mario Greco {BIO 1754408 <GO>}

Right. Thank you so much for having been with us through the all day. As you heard us saying through all these presentations, we're very pleased with the results of what we're doing. This is a very challenging year. It has tested our resilience and has tested also the strength of some of our fundamental choices like the reinsurance protection. It is working well and I hope you could see that we are supported by a strong vision of where the markets will go in the future, and that this vision is spreading through the all organization, and will eventually make Zurich a very different company from the rest of the industry. A very challenging year, but we're pleased and we look forward to having a similar successful report to you in one year time.

Thank you so much and thanks again.
