



SA·EAGLE

A member of the  Zurich Financial Services Group

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# PERSPECTIVE

## Team efforts contribute to satisfactory year-end results

The underwriting result has been significantly influenced by an increase in the number of claims and the escalation in the claims value across all classes of business. It was further influenced by adverse weather conditions, especially in the Eastern and Western Cape.

Motor, in particular, has been negatively impacted by an increase in the incidence of vehicle accidents and hijackings. Motor repair costs continue to escalate, largely as a result of the increasing number of imported vehicles. Continuous corrective action is being taken to address the profitability of this account, including the implementation of a new rating formula resulting in better risk selection and more appropriate pricing.

Despite a competitive market, insurance premium revenue grew by 11.4% to R3,911 million. We will, however, continue to focus on selective growth whilst managing overall profitability.

Earnings per share decreased by 17.6% and headline earnings per share (which excludes realised gains on investments and property and equipment) increased by 11.3%. The headline earnings per share includes the income on the net pension fund surplus of R98 million and the tax effect thereon of R28 million. If these amounts were excluded the headline earnings per share would decrease by 18.3%.

Investment returns for the year were highly satisfactory. Dividend income increased as a result of special dividends from listed equities. Investment income also increased in line with higher interest rates and improved cash flow.

Net asset value per share increased by 16.3% to 14,441.8 cents per share, solvency improved to 55.8%, and the Directors declared a final dividend of 430 cents per share bringing the total normal dividend for the year to 650 cents per share.

As we move into 2007, we will continue to implement corrective actions such as strict underwriting principles and strong claims management in order to deliver a satisfactory result going forward.

I would like to thank you, our broker partners, for your continued support.

**Our year-end results declined in line with market expectations, mainly as a result of weakened underwriting performance.**



It's the buzz word of the moment, it is top of mind in many influential circles from government to cocktail parties and down the social spectrum. The "bunny hugger" brigade and the "Greenies" are having a field day on the subject but what are the facts?

The other question that comes to mind is, "What has this to do with insurance?" The truth is that natural disasters, aggravated by the global warming phenomenon, pose an incalculable threat to the insurance industry. Private coastal properties from Texas to New York are estimated to be valued at about US\$7 trillion and this, plus property values of the cities, will escalate to an immense figure. A rising sea level could have a catastrophic effect on the insurance industry.

### What is global warming?

In a nutshell, it concerns the fact that the climate is changing and that by comparing weather data from past years with data gathered in recent times, it would seem that temperatures are on the rise. Importantly, we need to pinpoint the causes of the phenomenon in order to do something about it.

### Culprit number one: The Greenhouse Effect

Greenhouse gases such as water vapour and carbon dioxide, trap heat in the lower atmosphere of the Earth and this helps regulate the temperature of the planet. This is essential for life and it is a natural process. Without it the Earth's temperature would be about 0°C instead of the present 14°C. The problem is that human activities are exacerbating the Greenhouse effect.

The combustion of coal, oil and gas, most often for energy purposes, has led to increased carbon dioxide production, so much so that the current concentration of CO<sub>2</sub> has not been exceeded in the last 420 000 years and possibly the last 20 million years. CO<sub>2</sub> levels are about 35% above that of the pre-industrial revolution period. The effect is that heat is trapped to a greater degree and the temperatures rise.

Indications are that global surface temperatures are up by about 0.6°C since the late 19th century and by about 0.3°C over the past 25 years. The greatest warmth increase is over the Northern hemisphere. There is also agreement concerning direct indicators of warmth – the changes in glacier length are the most visible. Northern hemisphere snow cover has remained consistently below average since 1987 and has decreased by about 10% since 1966. Satellite data shows increasing cloud cover since the early 1980s, yet this seems to be reversing at present. Basically, the Northern hemisphere has experienced the warmest recent decades since 1000 AD. Ice core

data suggests that the 20th century has been warmer than ever. More evidence concerns the global sea level which has been rising at an average of 1 to 2mm per year over the past 100 years. This has had the effect of decreasing Arctic sea ice and regularly there are reports of giant ice shelves breaking off.

Rainfall is generally higher for the entire globe since 1900 but has decreased over the sub-tropics in the latter part of the 20th century.

For us in South Africa we have become more aware of El Nino. This is a pressure system in the tropical Pacific that affects weather around the globe. Whilst El Nino affects us, there seems to be no link between it and global warming. Having said that, El Ninos have been more frequent in recent years (since 1976) and our weather has had its share of extremes – think of Hurricane Des Moina for one.

There is however, clear evidence regionally of variability or extremes in climate – these include excessive wetness, increased tropical cyclone activity, more intense dry spells, but, on the whole there are no significant long-term trends evident. These are all accepted signs of global warming.

### Early warning signs to look out for

Some of the signs include disease and its rapid spread, earlier arrival of Spring, the shifting of plant and animal ranges, population change, bleaching of coral reefs, downpours, heavy snowfalls, flooding, droughts and fires.

Other signs are mainly to do with the effects of increased temperature on the most obvious things such as ice fields and glaciers. At the current rate all the glaciers in the Glacier National Park will be gone by 2070, as will the glaciers on Kilimanjaro. According to NASA polar ice is melting at a rate of 9% per decade and Arctic ice thickness has decreased by 40% since the 1960s.

The current sea level rise is three times the historical rate and appears to be accelerating. Global sea level has risen by four to eight inches in the past century. Scientists estimate that the sea level will rise by 19 inches by 2100 and perhaps as much as 37 inches.

A recent study by Nature Magazine has found that at least 279 species of plants and animals



# warming

What exactly is it and is there scientific proof of its existence? Emotions run high on any subject to do with the environment so it is important that the truth, undistorted and unbiased, is found, especially considering the dire consequences so often and dramatically publicised.

are already responding to global warming. Over the past 25 years some penguin populations have shrunk by 33% in parts of Antarctica due to declines in sea ice habitat. It is estimated that more than 1 million species could be extinct by 2050 if global warming pollution is not curtailed.

## Some of the consequences of global warming

- the melting of the ice caps and the resultant rise in sea levels of the world's oceans, poses an almost unbelievable threat to the coastal cities of the world
- glacier retreat
- ice shelf disruption such as the Larsen Ice Shelf
- rise in sea level
- increased intensity and frequency of hurricanes. Global warming does not cause hurricanes but it does make them stronger and more dangerous
- extreme weather conditions

It is difficult, if not impossible, to attribute specific events such as Katrina to global warming.

## What to do?

There are a number of strategies proposed to curtail global warming. These include the development of new technologies, in particular those related to renewable energy. Some of these are biodiesel, wind power, solar power, nuclear power, electric or hybrid automobiles, energy conservation, carbon taxes, deliberate production of sulphate aerosols which produce a cooling effect on Earth, population control, carbon capture and storage as well as improving natural carbon dioxide sinks, to name a few.

The world's primary international agreement on combating global warming is the Kyoto Protocol. Countries that ratify this protocol commit to reducing their emissions of carbon dioxide and the five other greenhouse gases. Developing countries are exempt from meeting emission standards. These include China and India, the second and third largest emitters of CO<sub>2</sub> behind the United States.

In the words of Bob Dylan, "Something is happening and you don't know what it is, do

you, Mr Jones?" This is probably a good way to sum up the topic. Global warming is an immense, vastly complex, far from cut and dried phenomenon. It is complex and its full-scale impacts are hard to predict far in advance and because of the incredibly complex interconnectedness of everything on this planet it is very difficult to state the problem with absolute certainty. The need for knowledge of science across many disciplines coupled with the need of knowledge of the natural processes on the earth as well as the human impact, is essential if we are to fully comprehend the size and nature of the problem.

## What it means to the insurance industry

To sum it up bluntly, global warming means huge monetary losses to insurance. According to Fortune Magazine, the US insurance industry paid out a record US\$ 57 billion in weather-related losses in 2005. The reality is that nature has the potential to bring the insurance industry to a standstill and it is imperative that viable, realistic solutions be found.

The world's second largest reinsurer Swiss Re has released an eye-opening report on climate change and its economic effects. Costs could double to US\$ 150 billion (£82 billion) a year over the next ten years. This would result in insurers being hit with claims of US\$ 30 – 40 billion or the equivalent of one World Trade Centre attack annually.

"There is a real danger that human intervention will accelerate and intensify natural climate changes to such a point that it will become impossible to adapt our socio-economic systems in time," claims the report.

Our response has to be one coming from an informed platform. Knowledgeable, wise forethought is essential and we will need to review every aspect of our policies and our thinking in the next few years if we are to survive through weather-related catastrophes. Rewards to those for implementing practical solutions to the problem of global warming, should be given. The big picture however, is the need for an in-depth review of all existing policies in the light of a changing, fragile environment that has the potential to change our entire way of life.



# Expanding our business

An interview with Patrick O'Sullivan – our Chief Growth Officer



At the beginning of November, Jim Schiro announced changes to the Group Executive Committee (GEC), one of which was the creation of a new Chief Growth Officer (CGO) role. Patrick O'Sullivan, the then

Group Finance Director, became the new CGO on March 1. We caught up with Patrick to get the inside-story on his thoughts and plans.

## Patrick, why do we need a Chief Growth Officer?

We have come a long way since 2002 through focusing on operational excellence and transformation. Our successful turnaround and dramatic improvement in profitability is testament to the fact that through The Zurich Way we have been getting the fundamentals such as underwriting, claims and pricing, right. We have now earned the right to grow, and the markets expect it of us. My new role will bring a whole new focus to profitable growth across the company, and we will be working to get the fundamentals right in this important area too.

## How will you 'focus' on profitable growth?

We already have many growth initiatives underway across Zurich. Working with my colleagues on the GEC, and with many others across the Group, we will accelerate growth and help create a culture of growth in Zurich. Using a "Growth Executive Team" we are focused on the core elements of profitable growth, we will drive innovation and technology; customer, product and distribution excellence and create the right climate for these to flourish.

## Can you tell us more about any of the growth initiatives that are already underway?

We're looking initially into three areas. The first is to expand our distribution opportunities and there is work going on in Europe and the US to do this. The second is to improve the time it takes to get new products to market and again there is work ongoing in Global Corporate and in Europe. Finally, we want to expand into 'white space' which is why I will also be responsible for International Businesses (IB) as we see attractive expansion opportunity in this area.

## What is the Growth Council?

As a start, we will be using three levers to build our focus on growth – the Growth Council, aligning our organisation around

growth, and the implementation of growth initiatives. The first of these, the Growth Council, is a way to bring together our best people from across the organisation who are already pushing to grow in effective ways. The role of these 'growth leaders' will be to champion growth by raising the visibility of current growth efforts and of our focus on growth overall. They will also launch additional growth initiatives in partnership with the business divisions (BDs) and create a forum for shaping a common language, methodology and tool-kit for growth across Zurich.

## You mentioned three levers – what are the other two?

These are organisational alignment and growth initiatives. We will partner with BDs to define what we mean by growth and ensure the delivery of growth initiatives. The focus will be on the speed of execution, results achievement and company-wide involvement.

Organisational alignment means having the right measures for growth and embedding growth in management and HR processes. We don't need to reinvent the wheel to grow profitably, we just need to ensure we agree on what we have to achieve, orient ourselves towards growth and make sure that it is embedded into our metrics and into our culture.

## How does building a growth culture fit with building the Zurich brand?

The two are completely synergistic. Delivery of the Brand Promise and establishing a growth culture require the same innovation and out-of-the-box thinking to improve what we do on a daily basis. Equally, as we build Zurich into a leading brand, that automatically drives growth by helping us to attract and retain more customers, as well as making Zurich an attractive place to work.

## What do you see as your biggest challenge in the new role?

Our internal audiences, the Board of Directors and investors need to understand what we mean by profitable growth and how this fits with everything else we are doing. Then we can set sail to achieve the exciting next steps on Zurich's journey to greatness.

