

PARTNERSHIP

the newsletter for brokers of ACE European Group issue one 2006 (march)

ACE weathers the storms of 2005

Last year saw more than its fair share of unprecedented natural disasters, with inevitable consequences for the global insurance industry. The ACE Group of Companies responded to these events with efficiency and compassion, ensuring the needs of its clients were met in exceptional circumstances.

ACE Limited's positive financial performance last year, above all its ability to achieve a combined ratio of below 100% in such a challenging environment, is testament to the underwriting strengths of the organisation.

The company's net income for the fourth quarter of 2005 was \$237 million, compared with net income of \$278 million for the same quarter in 2004. Full year 2005 net income amounted to \$1,029 million, while P&C combined ratio was 99.3 per cent following pre-tax catastrophe losses of \$1,049 million.

The losses from hurricane Wilma, \$251 million, and development primarily related to hurricanes

Katrina, Rita and Dennis, \$53 million, together resulted in an after-tax charge for the quarter of \$0.94 per share.

Evan Greenberg, president and chief executive officer of ACE Limited, commented: "This past year was the worst in history for insured catastrophe losses, yet ACE finished the year with a combined ratio under 100 per cent, an ROE of approximately nine per cent, and book value growth of seven per cent.

While failing to meet our standards, these results are a testament to the underwriting discipline of our organisation. Looking ahead, ACE is well-positioned both operationally and financially to capitalise on a dynamic market and the opportunities it presents."

For more detailed information on individual segment performance, together with additional disclosure on reinsurance recoverable, loss reserves, catastrophe loss charges by segment, investment portfolio and capital structure, please refer to the ACE Financial Supplement December 31, 2005: http://media.corporate-ir.net/media_files/nys/ace/reports/fin_supp_december_31_2005.xls.

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Additional 2005 operating highlights include:

- P&C net premiums written increased two per cent for the year
- Cash and invested assets increased by \$5 billion in 2005 to \$32.4 billion
- Net paid and unpaid losses and loss expenses increased \$3 billion to \$19.6 billion
- Net investment income increased 25 per cent for the year to \$1.26 billion
- Shareholders' equity increased 20 per cent for the year to \$11.8 billion
- Tangible equity rose to \$9.1 billion, a gain of 27 per cent, from year-end 2004
- Debt to total capital ratio improved to 14.8 per cent from 16.3 per cent at year-end 2004
- On October 4, 2005, the Company issued common stock of approximately \$1.5 billion



How well protected are goods in temporary storage? See page 3 ►

Flood of claims

Flood costs were over £6 billion in the last six years, double the cost of the previous six years

Flood damage to property occurs through coastal erosion, drain blockages and river level rises, the latter being responsible for the great majority of incidents.

Damage to property can occur via openings such as doors and windows, seepage through the ground, rising water tables, or through broken drains into the ground, and then into building foundations and basements.

Flood depths do not have to be great to incur damage, with depths of less than 0.5 metres easily capable of causing extensive damage to ground floors. Flooding periods also do not have to be long, with the majority of incidents lasting no longer than 12 hours.

For commercial property users, there is potentially a greater loss for property stored in the open. This is important in insurance terms because many policies automatically exclude this property from flood cover except by special arrangement.

Even for low flood levels there is often damage to electrical supplies and goods, the fabric of the building as well as furnishings, with commercial flood sufferers also losing stock and machinery, stored raw materials and finished goods. In addition, severe flooding causes loss of access to the facility.

Floods can also cause loss of communications and utilities so that customers of commercial companies cannot be kept informed concerning the loss of service provided or goods delivered.

Planning for flood

In 2001 the Department for Transport Local Government and the Regions (DTLR) produced a Planning Policy Guidance Note 25 (PPG 25) concerning development and flood in light of the need to use more land to build property, especially domestic property.

PPG 25 was designed to encourage the provision of flood warning systems (the Environment Agency website offers a quick postcode assessment to determine a crude sense of exposure level), encourage suitable defence measures, control increased run-off from newly built-on areas, and discourage inappropriate developments in flood prone areas. This guidance is now being reviewed.

According to the Association of British Insurers (ABI), storm and flood costs were over £6 billion in

the last six years, double the cost of the previous six years. They estimate that, unless action is taken in light of climate change, costs will rise by two or three times these amounts in the near future.

The risk category in the current PPG 25 only looks at present risk and does not take into account a change in future risk resulting from climate change. As developments are designed to be in place for a long time, PPG 25 should be updated to include a process that acknowledges this. The new maps produced by the Environment Agency take into account the possible effects of climate change.

Insurance cover

A typical insurance policy for property damage can be extended to include flood. However, this general statement has to be qualified. Typically flood from rising water tables or damage to property in the open, including fences and gates is not covered, except by special arrangement that could include increased deductibles, increased premiums or both.

A history of flood may result in increased premiums, increased deductibles or no cover at all. This has consequences for property reinstatement as well as consequential loss. A business interruption policy will cover financial losses that result from perils covered under the material damage policy, so if flood is not covered the cost of the business interruption that results is also not covered.

Even if the property damage is small, the loss of business caused by denial of access, loss of records, stock, raw materials and machinery with long lead times, increased costs of work to reinstate the buildings to be fit for use, and so on, can be large.

Importantly, lenders may be less willing to provide funding for property that cannot acquire flood insurance cover. Domestic and commercial property developments must be created in areas that can be insured for flood to eliminate this issue.

Additional considerations

If the flood is local to a particular site, obtaining builders and property repairers should not be too difficult, but if the flood is widespread, access to builders and repairers may be much harder. The disaster recovery plan of any commercial organisation must include emergency contact lists for such services and it might be expected that the cost of such services, in times of increased short-term demand, may rise.

The type of building material used can have an effect on flood damage and cost. For instance, traditional building materials may prove to be more resilient than modern methods of construction. There is currently very limited experience with modular buildings and the effects of flood.

Floods will continue in the UK and we have models that predict the probability of these. What we do not know is exactly where or when these floods will occur or what damage will result. Planning changes with an updated PPG 25 should assist the process of building in less exposed areas if good risk assessments are carried out and they take account of climate change over the lifetime of the development.

There are good sources of information from the Environment Agency in terms of flood warnings and exposure assessments, as well as a range of consultancies that can, to some extent, predict the probability of flood impacting a particular area. Prudent companies or householders should access such information for their current and potentially new location, determine if the information could impact insurance cover and terms, and if there is a potential exposure, make flood disaster plans to help mitigate a future loss.

For further information contact Mike Stones on mike.stones@ace-ina.com or complete the coupon on page 6.



Stock in transit: insuring goods during temporary storage

Efforts can be focused on routes where large volumes of goods regularly transit or on those goods that have high values

The dramatic pictures of New Orleans and the Gulf Coast following last year's hurricane season demonstrate that goods in transit are not only vulnerable to the perils of the sea, but they can also be damaged during their time in port.

The warehouses and terminals in these ports contained goods such as coffee, frozen and chilled seafood, reels of paper, equipment for drilling rigs and the oil industry, steel products and consumer goods for supermarkets. Many of these goods were being transferred from ocean vessel to barge, rail, road or vice versa – and they were not intended to be in long-term storage.

While a marine insurance policy contains provision for insurance in such circumstances of up to 60 days' duration, it does not fully compensate for potential lost business, interruptions to just-in-time supply chains and other delivery issues.

The accumulation of such a large amount of goods in these ports made it headline news, but goods are temporarily stored at ports, inland depots and airports every day throughout the world.

Protecting against the perils

A risk manager has a responsibility to ensure that a certain level of protection is applied to a company's goods, both financially and physically, by the logistic service providers (LSP), shipping lines or trucking firms during their transit.

Such protection may comprise the following:

- Contractual arrangements with logistic service providers (LSP), shipping lines and haulage companies. This is usually based upon weight of goods and, in the case of any warehousing, very severely limited. Improved terms may be obtained via the use of service level agreements;
- Provision of goods in transit insurance with a reputable insurance company. This should offer warehouse to warehouse coverage, including 60 days' temporary storage;
- By audit of the supply chain to ensure that the company is aware of the routing of its goods, its locations of warehouses where goods may be transhipped between modes of transport, and who is handling them and their contractual obligations.

Some companies have many shipping routes, so auditing of all these may be too time consuming. But efforts can be focused on routes where large volumes of goods regularly transit or on those goods that have high values.

An LSP can typically arrange all sea, road, rail and temporary storage. This organisation can collect as much audit information as required, and a spot audit visit by a company's risk management team and shipping department will always focus service levels. Additionally, such information can be a requirement of the tender process during the appointment of a LSP.

The LSP should be made aware of any deficiencies of an audit immediately and given the opportunity to improve or change any part of the transit. Continual follow up by the risk manager is advisable.

Risk managers need to be proactive in assessing the risk to goods in transit. It is important to also ensure that the goods are protected by insurance and with industry recognised contracts of carriage which will allow recoveries and reduce loss ratio.

For further information contact Phil Skelton, European Transportation Risk Manager, at phil.skelton@ace-ina.com.

Key considerations for temporary storage

During temporary storage, which may include containers in a terminal, the following should be considered:

- ✓ **Protection from windstorm and flood.** Are buildings of sound construction, away from a flood area, provided with adequate drainage? Are the goods raised off ground level by pallets?
- ✓ **Security.** Does the warehouse have adequate security to protect your goods? Does it have alarms, security patrols, vetting of staff and separate secure facilities for high value goods?
- ✓ **Fire protection.** Are your goods stored alongside flammable or dangerous goods? Is there a local fire brigade? Is the warehouse alongside other areas of risk, e.g. oil storage tanks or areas where there is hot work or processes involving heat and flame?
- ✓ **Power back-up.** This is especially required for chilled or frozen goods in the form of power alarms, stand-by generators and contingency plans to operate them. In New Orleans many cold stores had back-up generators, but no plans to ensure that they were started as many people fled.
- ✓ **Accumulation.** Are all the goods located in one warehouse or terminal? If this warehouse was destroyed would any just-in-time production or similar delivery contracts be affected?
- ✓ **Inventory control.** Are there adequate systems in place to advise the LSP or yourself that goods have been received and dispatched to correct destinations?



Just a phone call away: D&O team (l to r) Becky Gautrey, Diane Davidson and Stuart Palmer

New dedicated D&O unit for SME market

ACE has launched a new centralised specific D&O underwriting unit to provide the best possible service for small to medium private UK businesses.

The Birmingham-based unit employs a dedicated team to write D&O business for companies with a turnover of less than £150 million.

For brokers, this means one quick telephone call or e-mail is all that is needed to receive a quotation within 24 hours.

“The key objective of setting up this operation is to have a quick and slick solution for D&O at the smaller end of the market,” explains Diane Davidson, regional D&O underwriter and manager of the new unit. “This enables us to service the smaller accounts quickly and efficiently, while the larger business is referred to other specialist D&O underwriters within ACE.

“We are in an ideal position as we have an on-site dedicated team to manage a great deal of D&O business, yet we still have instant access to ACE’s renowned excellent D&O expertise. No one else is offering this kind of service – we are capitalising on a new opportunity.”

The unit provides quotes for companies within all industries, and offers brokers an alternative to using ACE’s internet-based system.

Dedicated contact details: elite@ace-ina.com and 0845 603 1257.



Businessclass premier is a true global product that provides new assistance services and risk assessment

ACE's Accident & Health division has developed a new product in its businessclass range, which is set to change the way business protects its greatest asset – its employees.

As a global insurance and risk management provider, A&H has used that global experience to develop businessclass premier, a true global product that provides new assistance services and risk assessment.

With businessclass premier brokers can provide their clients with broader coverage and long-term sustainable differentiated solutions, coupled with the

Revolution in A&H products: businessclass premier

freedom to select cover and specialist services that are specifically designed to meet individual needs.

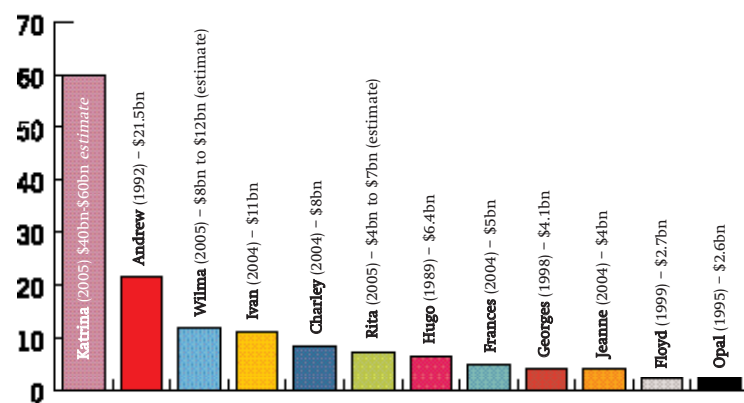
Clients can also choose to provide valuable insurance protection and specialist services to their staff members, families and even customers.

Businessclass premier is aimed at organisations which employ at least 5,000 people, and who use captives or have multinational exposure.

The launch of businessclass premier is coming soon. To find out how you can be one of the first intermediaries to provide this revolutionary product to your customers, contact Barry Johnson on 01293 726274, barry.johnson@ace-ina.com.

The true cost of extreme weather

Costliest US hurricanes (insured losses)



Hurricane Katrina will be remembered as one of the strongest storms to hit the coast of the US during the last 100 years, but it will probably not go down in history as a one-off or 'fluke' event.

The last decade has seen an increase in the number of powerful hurricanes occurring worldwide, particularly in the US Gulf region. The increased storm activity, it is suggested, results from the natural cycle (including rising sea

temperatures) and global warming.

Katrina, Rita and, more recently, Wilma may have all been in the US but the consequences affect the insurance industry's global supply and demand equation, driven by capital and the perception of risk. In addition to the capital depleting effects of these storms, there is also a growing sense of risk between both the buyers and sellers of insurance and reinsurance.

The insurance markets are linked globally through the reinsurance markets and global insurers. European, Bermudian and US reinsurers and insurers participate on a global basis.

Despite the wave of reinsurance start-ups in Bermuda post Katrina, total new capacity is only around \$15 billion; this needs to be set against the estimated \$60 billion losses from the recent US storms.

The increasing globalisation of our business presents an opportunity for insurers and reinsurers to operate seamlessly across the globe, utilising capital efficiently on behalf of its clients, taking risk prudently and conducting business under a common set of business practices and regulatory and accounting guidelines.

IF THE WORST SHOULD HAPPEN...

Aiding corporate clients

Ask a number of companies what will threaten the success of their business and many will say poor sales performance or escalating expenses. But what about those unplanned events – such as fire, explosion, natural disaster, terrorism, malicious damage, failure in technology or unexpected changes in the market – that could severely impact business?



Risk Matrix

The recent Buncefield fuel depot fire disrupted about 300 businesses. It is believed that around 80 were left with no premises to work from (most of the companies involved in the incident worked from a single site).

Initial reports suggest that over 50 companies went into administration within seven days of the explosion. This supports general statistics showing that as many as 80 per cent of companies incurring a major event go out of business within two years.

Although insurance cover plays a big part in helping businesses get back on their feet after an event, the financial payout alone is sometimes not enough. For instance, companies might be able to start afresh in a new office or re-equip their premises but in the meantime they may have lost their key customers.

Business owners and directors are aware that they should manage risks – and to fulfil their duties they should do what they can to prevent incidents and have clear plans to act if an event does happen. But time, resource, customers and other priorities just get in the way.

Disaster recovery planning

To date, recovery has been the province of IT and a DR facility. The climate is changing with Buncefield, 7/7, regulation and insurance pressures.

Businesses need to be able to assess, monitor and mitigate risks as part of the way they operate, and they must also be reminded when to review key elements, processes and plans to avoid incidents.

ACE European Group is now in its second year of a partnership arrangement with Depend Limited, introducing our services to selected risks.

Experience shows that companies of all sizes struggle to identify, document, prevent and act on risks that could devastate their business.

Beyond limited IT back-up, few companies undertake the necessary action for many different reasons. Sometimes they are in denial about the risks they face, or they think that their business will survive any incident, that they cannot afford the cost or time to make business continuity plans or simply that they lack the technical resource, knowledge, and support that would be required.

Toolkit for BCP Management

Risk Matrix from Depend is a software toolset that enables these companies to easily create, manage and maintain up-to-date Business Continuity Plans (BCP). Brokers already play an important role in the BCP process, but by using the Risk Matrix Service, brokers can help their clients to manage their risks in a more efficient and effective way.

In particular, brokers using the Risk Matrix toolset have identified three key areas where it has significantly improved their business proposition and client relationships:

- 1 It lays down a clear methodology for dealing with customers' risks and reduces the broker's exposure to potentially costly errors and omissions.
- 2 It can move the conversation from the negative issues around risk (e.g. going out of business) to positive business issues (e.g. how to do business better, improve processes etc).
- 3 It helps to create a much closer bond between the client and the broker based around visits and regular reviews, maintenance of business risks, identifying areas of weakness or exposure and offering advice.

For more information on how Risk Matrix can enhance the service you provide, complete the coupon on the left.

If you would like more information on any of the following areas, please contact your local ACE office, e-mail Jenny.Terry@ace-ina.com, or cut out and return this coupon to Jenny Terry, ACE European Group, Freepost NAT4263, London EC3B 3BR.

New D&O unit Stock in transit
Risk Matrix Businessclass premier
Floods

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