

PARTNERSHIP

the newsletter for brokers of ACE European Group issue one 2007 (march)

Key management changes for ACE Europe

Inside...

- 2 ACE year-end results
- 2 ACE new appointments
- 2 Award-winning underwriter
- 3 Environmental insurance gaps exposed
- 4 2007 is the year for A&H
- 5 ACE leads EBRD programme
- 5 New NHS ICR scheme
- 6 Emerging market risk
- 7 Brokers register with ACE Online
- 7 Enhanced IT cover
- 8 New Age Discrimination legislation



Richard Pryce, president of ACE UK

ACE European Group started 2007 with some key management and organisational changes.

Richard Pryce, previously president of ACE Global Markets (AGM), ACE's International and Specialty business, assumes additional responsibility for ACE's UK and Ireland Property and Casualty business (ACE Europe). The newly combined segment will be known as ACE UK.

While maintaining the distinct brands of AGM and ACE Europe, complete with separate underwriting management, Richard will provide overall leadership for the new organisation.

Michael Furgueson, who has until now led the UK & Ireland P&C operation, returns to the United States as executive vice president for ACE's International Commercial and Multinational Lines business. Michael will focus on initiatives to further improve ACE's positioning for growth.

Finally, David Furby, president of ACE Continental Europe, assumes additional responsibility for

Central and Eastern Europe, Russia and the Commonwealth of Independent States.

"David now leads all of ACE's operations throughout our expanding geographical presence, enabling us to focus strategy and to drive our development throughout the entire economic area," comments Andrew Kendrick, chairman and CEO of ACE European Group

"ACE has established two of the most successful and respected UK-based insurance businesses," says Andrew. "AGM is recognised throughout the world as a leading international and specialty insurer, and the UK and Ireland P&C business is a successful retail entity which has seen exceptional growth and positioning over the last five years.

"Combining the leadership of both businesses under Richard Pryce within the newly created structure of ACE UK will enable both to work more closely together, to better leverage the synergies of both brands, to achieve greater efficiencies and more importantly, to further enhance ACE's service proposition for both clients and brokers."



David Furby, president of ACE Continental Europe



Outstanding year-end for ACE

Operating highlights for 2006 include:

- P&C underwriting income was \$1.4 billion
- Net investment income increased 27 per cent to \$1.6 billion
- Shareholders' equity increased 21 per cent to \$14.3 billion
- Return on average equity for 2006 was 18.5 per cent
- Combined ratio was 88.1 per cent
- Total assets amounted to \$67.1 billion
- Net premiums written were \$12 billion

“We are well positioned to continue our growth in book value for the foreseeable future”

ACE Limited is pleased to announce its excellent results for year-end 2006. The company achieved net income for the fourth quarter ended December 31 of \$665 million or \$1.99 per common share after payment of preferred dividends. This compares with net income of \$236 or \$0.69 per share for the same quarter last year.

Net income for the year increased to \$2.3 billion, or \$6.91 per share, compared with \$1 billion or \$3.31 per share for 2005. Income excluding net realised gains (losses) for the fourth quarter was \$643

million or \$1.92 per share. For the same quarter of 2005, this was \$244 million or \$0.72 per share.

The combined ratio for the current quarter was 88.2 per cent; annualised return on average equity for the quarter was 19 per cent.

“The quarter was an excellent finish to an outstanding year,” says Evan Greenberg, president and chief executive officer of ACE Limited. “Book value grew by over 20 per cent and our return on equity exceeded 18 per cent.

“While market conditions continue to soften and we remain firmly committed to underwriting discipline, we are a large organisation with a broad capability and tremendous geographic reach. This creates opportunity for growth without compromising our underwriting standards. We are well positioned to continue our growth in book value for the foreseeable future.”

For more detailed information, please refer to ACE Limited's most recent Financial Statement: http://media.corporate-ir.net/media_files/nys/ace/reports/fin_supp_december_31_2006.xls

NEW APPOINTMENTS

■ **John Stanway** has joined ACE as the UK & Ireland regional major risks casualty manager, based in ACE's Manchester office. John's wealth of experience and knowledge gained in similar roles – most recently within Chubb – will enable him to assist in the continued development of ACE's regional Major Risks Casualty portfolio.

■ **Stephanie Cryer** has been appointed commercial property and package product manager in the UK and Ireland, responsible for managing the UK&I commercial property product line. Stephanie joins ACE from Chubb where she was most recently the London strategic marketing manager. Prior to Chubb, Stephanie has worked with Mitsui Sumitomo and Royal & Sun Alliance, underwriting property business.

■ **Gareth Tungatt** has been appointed as senior underwriter in the UK, specialising in IT and Cyber Risk, for ACE's DataGuard product. He is responsible for growing ACE's DataGuard client base in the UK and further developing the product as ACE expands its range of distribution channels, including e-commerce. Gareth has significant market experience in the field of technology and e-commerce and has previously worked with organisations including Willis and HCC Diversified Financial Products.

Young Underwriter of the Year

Richard Coello has won the award for Young Underwriter of the Year at the recent Insurance Day London Market Awards.

Richard joined ACE Global Markets as financial institutions' underwriter in 2004, where he saw the opportunity to develop a new ACE product for fund managers. This resulted in the launch last year of ACE's Elite Investment Management Liability Insurance product.

The judges recognised Richard's innovative approach to the market and his hard work in researching and developing the product. Clients and brokers alike praised Richard's knowledge and understanding of the market demonstrated in his award submission.

Simon Holt from FINPRO, Marsh Ltd summed up Richard's success. He said: “Richard's new investment management insurance offering has enabled London to compete with US domestic insurers and it offers real product differentiation. Richard's professionalism is a credit to the London market.”



If you are interested in receiving this newsletter electronically

Coverage gaps in environmental insurance

The impact on a company from pollution incidents can be substantial, yet as an insurance class, it is not widely regarded or understood.

This is partly due to the narrow focus of established environmental carriers in the UK market, who have targeted only the largest, most complex risks in pursuit of significant one-off premiums.

However, this situation is also created by insurance buyers, who do not entirely appreciate their exposures or the clear limitations in property and casualty coverage they purchase as standard. This article takes a closer look at the key questions.

Are pollution claims typically Sudden & Accidental (S&A)?

Few claim payments are actually triggered by this coverage. In reality, the vast majority of pollution claims are gradually occurring, so would not be picked up with a standard S&A trigger.

Is it always a legal liability issue?

The focus has always been on S&A versus gradual issue and whether a liability policy will respond.

Ironically, many of the costs incurred due to impacts on third parties have nothing to do with legal liability. Where a pollution incident results in an imminent threat to human health or the environment, the local authority or Environment Agency (the regulators) serve the company responsible with a remediation notice ordering them to clean up the problem.

The key here is that no legal liability has been established, ie no legal proceedings have been initiated against the company. As such, a liability policy would not respond to what is damage to third-party property.

What about pollution on the company's own site?

Even if a pollution incident does result in a third-party S&A claim, no liability policy would respond to pay for the costs of remediating the company's own site.

Such first-party losses may be more associated with a property damage policy, but this is also unlikely to respond to the majority of pollution incidents for a number of reasons, which may include the fact that the land itself may not actually be insured, or the same S&A pollution restriction may be imposed.

What about damage to natural resources?

Damage to natural resources, ie protected wildlife and habitats, is growing in terms of recognition

and intent on the part of the authorities to ensure any company causing such damage is held responsible. The EU Environmental Liability Directive – due to be transposed into UK law by 30th April 2007 – is something to keep a close eye on in this respect, with its specific definition of damage to 'biodiversity.'

The 'property' damaged in this context is not owned by a particular third-party, so it is again the regulators who will step in to address the issues through serving remediation notices. With no legal liability established, casualty policies again would not typically respond.

How has ACE responded to these issues?

It is apparent that typical property and casualty policies simply do not cover the real pollution exposures companies face. This limited supply of coverage has been allowed to continue with no viable alternatives for the insurance buyer. Specialist environmental underwriters have failed to address the issue by breaking down the price and complexity barriers they created.

ACE has developed an approach that removes these barriers. Our Package Pollution Liability (PPL) product has been designed to plug all the identified coverage gaps in typical property and casualty policies. It achieves this through an environmental endorsement, which provides an additional coverage section to ACE commercial liability and package products.

What are the key features of this policy?

- ✓ **Accessibility** – terms are easy to obtain from ACE Commercial underwriters who have the full support of the Environmental Risk team in London
- ✓ **Simplicity** – the additional coverage attaches seamlessly to the existing policy with the wording easily understood
- ✓ **Competitiveness** – minimum premiums are as low as £750 for an annual policy endorsement, with retention levels starting at £2,500
- ✓ **Differentiation** – expanded product offering allows brokers to further meet the needs of their clients and ensures such environmental exposures and solutions are not omitted from discussions

For more information, e-mail Karl.Russeck@ace-ina.com, Wayne.Harrington@ace-ina.com, Tom.Hillier@ace-ina.com, or complete the coupon on page 8.

A distinct environmental limit with ACE's Package Pollution Liability (PPL) product offers the following benefits:

- Third-party legal liability resulting from gradual pollution. The S&A element remains under the Public Liability section, so the policy will respond to both triggers
- Costs of remediating third-party property as a result of a regulatory notice, following either S&A or gradual pollution incidents migrating away from the company's site(s)
- First-party costs in cleaning up the company's own site resulting from a regulatory notice, again in response to S&A or gradual incidents
- Inclusion of damage to natural resources/ biodiversity, with coverage intended to meet the requirements of the Environmental Liability Directive once in force
- Legal costs and expenses are included

ly please e-mail your details to jenny.smithson@ace-ina.com



Gary Hitchens,
A&H director

A&H set for growth in 2007

Growing accident and health (A&H) business is set to be a major focus for ACE in 2007. A&H is already a core class of business for ACE – it currently holds 25 per cent of the market – and we have the capability and desire to write business across the board.

Says Gary Hitchens, A&H director: “Brokers need to compare what is on offer. They will find that only a few insurers are truly committed to the sector.

“ACE has three key segments. At the top end of the scale, there is a fully risk-managed proposition where employers benefit from our recently-launched Businessclass Premier product – typically premiums here are in excess of £30,000. We also see expansion in medium-sized cases, with premiums between £5,000 and £30,000. And, we’re more than happy to insure small companies with premiums below this size too.”

Gary adds that brokers also have the option to merely act as introducers for small business. “It could be that the servicing is time-consuming and so it’s easier for the broker if we take on the day-to-day administration. The intermediary retains client ownership and earns commission but he or she is free to focus on new business.”

Wider cover

A&H cover has significant appeal once employers understand what they are buying.

There is significant flexibility in that claims are paid directly to the employer – benefits can be passed on to the injured employee or some or even all retained

to pay for other costs such as replacement staff.

Increasingly, insurers are offering wider cover. In particular, rehabilitation and retraining may be included. Apart from assisting the injured employee, this can also help minimise any employer’s liability claims.

But for those inexperienced in the class, A&H can be viewed as complex as it offers a number of variations. These include the sum insured, how the benefits are paid, whether cover is made available on an own or any occupation basis and a number of add-ons such as business travel.

Business back up

ACE’s dedicated division can assist brokers to create the right programme for their clients. ACE also provides plenty of support to help brokers win new business – including a telesales unit, direct mail and assistance with producing presentational material. “We will send a member of our team to attend meetings with potential clients if required, so he or she can provide support for the broker,” comments Gary.

A&H cover is suitable for all types and sizes of companies and so presents opportunities for both national and provincial brokers. ACE has further developments in the pipeline, due to be announced this March.

Says Gary: “I don’t want to give too much away right now, but we’ll be making some enhancements and there will be extra recognition for our brokers. My message is, there is huge potential in A&H, so keep posted.”

To find out more about ACE’s A&H insurance, you can request literature by contacting your local A&H team, checking out our website or completing the coupon on page 8.

ACE Businessclass Premier sets the standard

In May 2006, ACE created a new benchmark in the A&H large corporate market with the launch of Businessclass Premier.

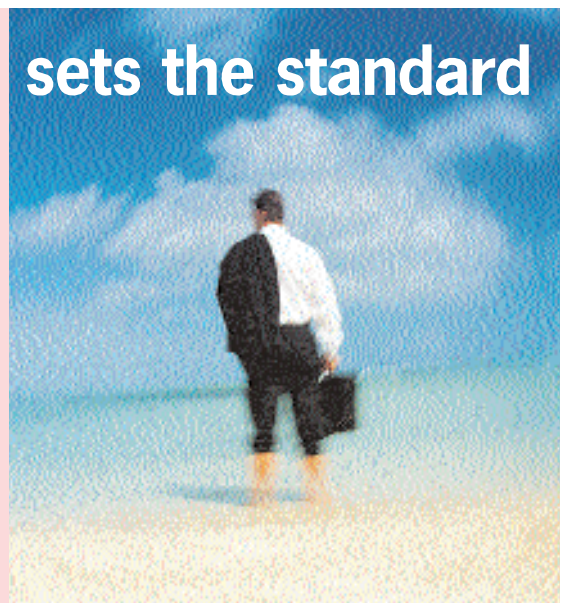
This product combines a range of bespoke accident, health and travel insurance covers with additional added-value services.

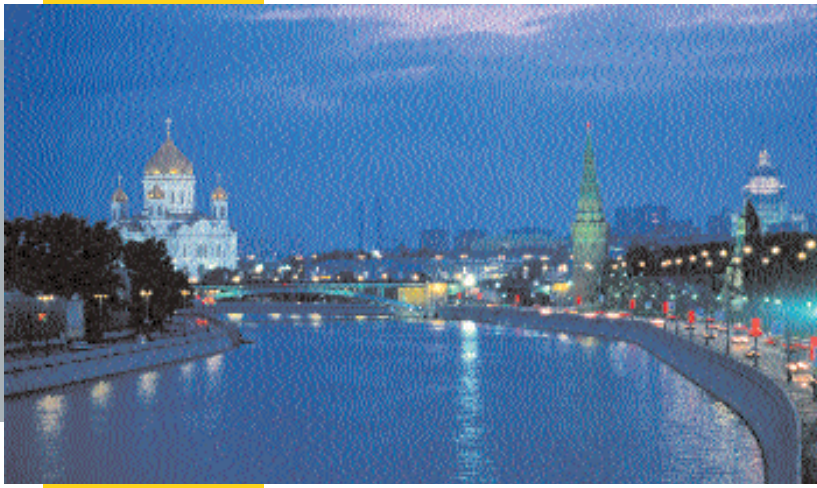
A key feature is rehabilitation following injury, and other additional coverages include visitors’ personal accident and image protection benefits.

Clients are also offered specialist emergency assistance, security and travel advice, planning and training, critical illness cover and expatriate services.

ACE provides a consultancy service to ensure that there are no gaps in cover or overlaps with existing policies, and claims case management to ensure that processes are handled as smoothly as possible.

The Businessclass Premier programme contains pre-agreed service standards with upgrades included as soon as they are available.





AGM leads on EBRD trade programme

Russia, and the central and eastern European region, is an important region for ACE

ACE Global Markets (AGM) is leading a group of insurers to underwrite a groundbreaking €183 million insurance programme which will double the amount of trade the European Bank for Reconstruction and Development (EBRD) can promote in the central and eastern European region.

Under its Trade Facilitation Programme (TFP), the EBRD guarantees local issuing banks, which in turn guarantee local importers. The structured trade credit insurance policy will enable the EBRD to double its exposure for selected issuing banks in Azerbaijan, Georgia, Moldova, Russia, Tajikistan and Ukraine.

Julian Edwards, AGM's head of political risks and credit comments: "This is an important region for ACE and we are proud to be associated with this partnership between the EBRD and the private sector.

"This policy will enable the EBRD to leverage its capacity to further its development aims in the region. ACE itself is actively involved on the ground in this region and recognises the area's significant potential."

The EBRD, which is mandated to foster the transition from centrally planned economies in central Europe and Asia to market economies, has facilitated more than 5,400 trade deals worth nearly €3bn (\$3.9bn) in 29 countries since 1999 under its trade facilitation programme (TFP).



Businesses can reduce potential impact of new NHS ICR scheme

The Government anticipates that through its new NHS Injury Costs Recovery (ICR) scheme, which came into force at the end of

the January, it will claim back more than £150m a year for treating employees injured at work.

The scheme, which applies in England, Wales and Scotland, allows the recovery of the cost of both hospital treatment and ambulance care. Based on the same principles as the Road Traffic (NHS Charges) Act 1999 (the RTA scheme) the ICR scheme allows the NHS to recover costs from insurers and other compensators for treating patients in all cases where personal injury compensation is paid, including foreign compensators and accidents abroad.

The scheme is expected to have a significant impact on the costs of employer's and public liability insurance. It has been estimated that the NHS will recover between £200m and £250m a year from insurers.

The total cost to the NHS of treating personal injury cases other than road traffic accidents is estimated to be £170 million to £190 million. Under the new scheme the NHS can claim back such costs of treatment up to £37,100 per case. The Department of Health says that the policy will encourage employers to improve health and safety in the workplace.

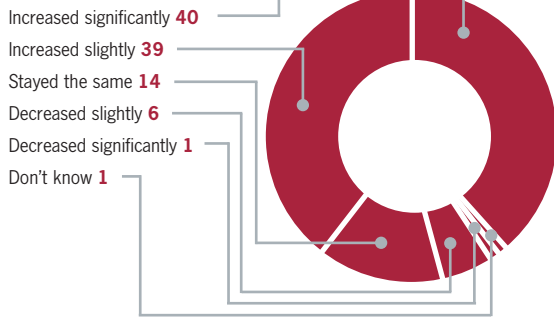
ACE is working with its clients and devising strategies to help minimise potential impact from the new scheme. ACE recognises the extent to which risk assessment and risk reduction are part of a business's philosophy, and we are helping organisations ensure that they have the right health and safety measures in place.

Comments Mark Aaron, ACE's UK & Ireland casualty manager: "Never before has risk management been so important. Businesses must ensure adequate procedures are in place to minimise all risks associated with personal injury, both in relation to the workplace itself and the company's products."

Lack of political risk management threatens emerging market investments

In the past three years, how has the extent of your organisation's investment in emerging markets changed?

(% respondents)



Source: Economist Intelligence Unit

“If companies become complacent about risks and do not conduct ongoing risk assessment, they may be exposing themselves to significant future losses”

Emerging markets continue to be an attractive investment for global businesses, according to a new global risk briefing report conducted by the Economist Intelligence Unit (EIU) and sponsored by ACE – but investment is nevertheless threatened by lack of ongoing political risk assessment.

The report, *Operating Risk in Emerging Markets*, documents the findings of 177 risk managers who were surveyed, and it reveals that 79 per cent of respondents reported an increase in investment in emerging markets over the last three years. Only seven per cent reported a decrease.

Yet politics are perceived as the biggest risk in emerging markets investment, and the research suggests that some companies are making investments without assessing the true risks. Over one quarter (26 per cent) of respondents said they had cancelled existing investments because of concerns about political risk.

Only 44 per cent said they had a formal process for dealing with political risk management; 41 per cent deal with it on an informal basis and six per cent said they recognise its importance but lack the resources to consider it at all.

Commenting on the report's findings, Julian Edwards, head of political risk at ACE Global Markets, said: “Without formal processes businesses face potential exposure to unnecessary and additional risks which can impact directly on the performance of their investment and, in some circumstances, lead to cancellation.”

Need for ongoing monitoring

Many businesses do not appear to recognise the importance of ongoing risk assessment, with most efforts concentrated on the period when an investment opportunity is being considered. While 80 per cent of respondents said they consider political and operating risk as part of the due diligence process, only 44 per cent monitor and manage risk on a continuous basis once the investment has been made.

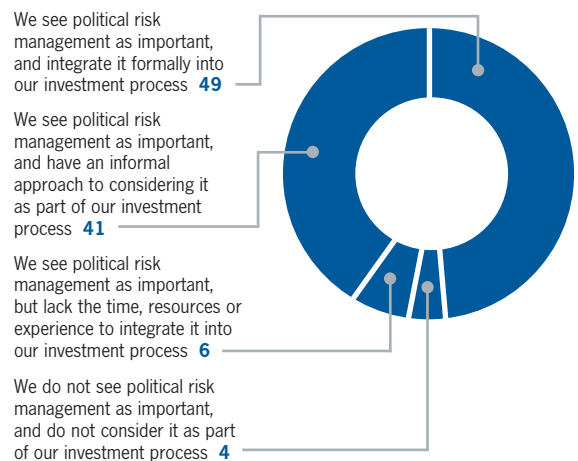
Comments Julian: “By their nature, emerging markets are volatile and conditions can change quickly. If companies become complacent about these risks and do not conduct ongoing risk assessment, they may be exposing themselves to significant future losses.

“There is no doubt that emerging market investments offer the potential for clear investment rewards. However, without formal processes, unnecessary and additional risks can impact directly on the performance of their investment and, in some circumstances, lead to cancellation.

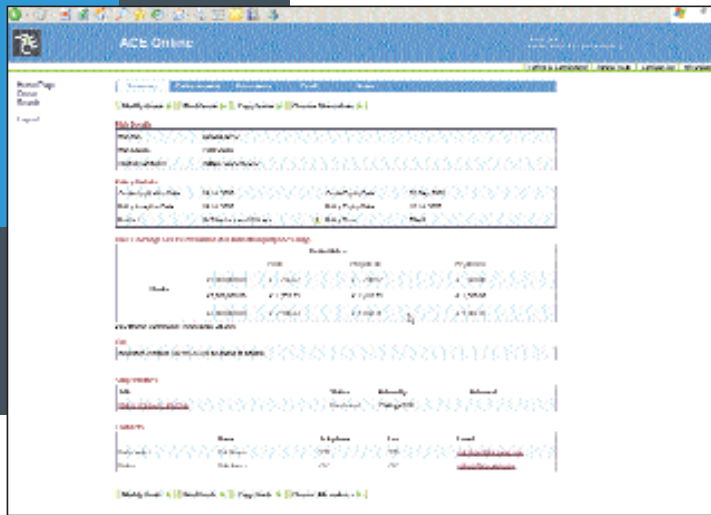
“This report suggests that there is a potential gap in the risk assessment process both in terms of an understanding of the risks and the level of ongoing risk management these companies make for existing investments.”

Which of the following statements best describes your organisation's attitude to political risk management?

(% respondents)



Source: Economist Intelligence Unit



Complete automation with ACE Online

“We aim to offer brokers as much choice as possible in how they access our products”

Doing business with ACE has become even easier and more flexible, following the launch of a new, highly flexible, scalable and fully automated online platform.

New ACE Online offers true online product lifecycle management, allowing brokers to automatically quote, bind, mid-term adjust, renew and cancel via the system. This level of automation gives ACE a unique advantage over its competitors.

Furthermore, all data completed by brokers is fed back into ACE’s back-office systems.

Products going live

Directors and Officers (D&O) cover was the first product to go live on the system in September.

Many more products will follow throughout 2007, such as professional indemnity, excess casualty and environmental impairment liability.

At the same time, numerous ACE products are becoming available on iMarket. Says Mark Whitehead, European e-commerce manager: “We are putting products on iMarket that no one else has, such as professional indemnity.”

Brokers will also have further options with other systems. ACE has signed deals with key broker software platforms – including Acturis, SSP Sector and Sirius – to distribute online products to brokers. ComputerGuardPlus and D&O are now live on SSP Sector and Acturis, with more products soon to be added.

“We aim to offer brokers as much choice as possible in how they access our products, ensuring that all processing is quick and simple. A range of products will be available on ACE Online, but if brokers prefer they can also access these via their own back-office systems,” Mark explains.

“So far, brokers’ reactions to ACE Online has been very positive. The system is built around the broker sales process and brokers appreciate the fact that it supports the way they work. Already, there are over 160 policies bound on the system.”

Eventually, the new system will replace ACE’s current online platform, ACE-ii, as new products are added to ACE Online and it becomes one simple source for all ACE business.

ACE Online can be accessed via a link within ACE’s UK website: www.aceeurope.co.uk. For more information, e-mail Mark.Whitehead@ace-ina.com, or complete the coupon on page 8.

New online expanded IT cover

ACE European Group has launched an expanded IT hardware and network security policy, ComputerGuardPlus, which is available exclusively online and is offered via the SSP Sector and Acturis broker platforms.

ComputerGuardPlus combines ACE’s existing ComputerGuard policy – which provides all risk cover on IT equipment – with cover for financial losses as a result of crime or accidental damage to data and systems. The policy includes cover for the losses resulting from hacking, website defacement, denial of service attacks and viruses.

Ian Harris, senior underwriter for ACE’s Technical Lines department, says: “An ACE sponsored survey of businesses across Europe, conducted by the Economist Intelligence Unit in 2006, revealed that a quarter of respondents had suffered losses as a result of

computer crime – including forged e-mails and websites, and hacking.

“This level of financial exposure can have a significant impact on a company’s ability to trade and service customers, and will ultimately hit their bottom line. ComputerGuardPlus can act as a safety net to cushion the financial impact of such a loss.”

ComputerGuardPlus is the latest addition to ACE’s range of products designed to protect businesses from the financial losses relating to IT hardware and system problems. The range also includes ComputerGuard (cover for losses as a result of damage to IT hardware) and DataGuard (which helps to recover revenue and information corrupted or destroyed through crime or accidental damage).



Complex areas of Age Discrimination

The Employment Equality (Age) Regulations 2006, which came into force on 1 October 2006, followed by the Pension provisions in the Employment Equality (Age) Regulations 2006, which came into force on 1 December 2006, have left many organisations baffled as to how they can best implement new policies accordingly.

pension scheme at the retirement age, but in reality that could be seen as age discrimination.

“Employers need to think about potentially allowing people to take pension for their past service while continuing to work and also accruing pension for that period of time they are working beyond their normal retirement date. Generally, pension scheme structures do not have that flexibility and many employers are struggling to take on board this complex legislation – particularly as it came into force so soon after the final consultation.”

“In this environment of increasing legislation, now is the right time for companies to reassess their available protection”

In particular, a number of grey areas exist within the new rules relating to occupational pension schemes. While a national default retirement age of 65 has been introduced, making compulsory retirement under age 65 unlawful, employees still have the right to request to work beyond this.

“Employers say they will allow flexible retirement, enabling people to work part-time and draw from their pensions to make up their earnings. But not all employers have thought about whether they should allow employees to also accrue future pensions rights for the period of time they are working,” explains Emma Watkins, ACE’s pension trustee liability insurance specialist. “People assume that you can take part retirement and stop accruing

To further complicate the legislation, the final regulations have removed the ability for different sections to be treated as different schemes; as such, it may be more likely that a member of one section may try to mount a claim in relation to benefits provided under another section within their scheme if both remain open.

Says Emma: “In this environment of increasing legislation – and increasing litigation – now is the right time for companies to reassess their available protection and add extra protection if necessary. Certainly, the new legislation is going to continue. Last year it was civil partnerships and the year before that disability and racial discrimination. This latest legislation highlights the need for organisations to consider pension trustee liability insurance.”

Broker breakfast briefings

In response to requests from brokers, ACE is now holding quarterly breakfast briefings on a range of topical insurance themes, including product recall in relation to the result of the recent EU directive, D&O and increased exposure, and crisis management.

The one-hour briefings, held from 8.30am over breakfast, are ideal for client-facing brokers who want to gain the most up-to-

date insight into these key areas and find out how they can best meet their clients’ needs.

Most briefings are held in London, but some – such as the recent event on environmental liability – was also held in ACE’s Dublin, Manchester and Birmingham branches, and was attended not only by brokers but also by lawyers, lenders and key workers in the environmental sector.

At the same time, ACE has also begun running product training courses for brokers, at both entry and intermediate levels. These provide excellent opportunities for brokers and underwriters to meet and develop good working relationships that will continue to prove mutually beneficial in the longer term.

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

- | | | | |
|-------------------------------------|--------------------------|-------------------------|--------------------------|
| Package Pollution Liability | <input type="checkbox"/> | A&H products | <input type="checkbox"/> |
| Pension trustee liability insurance | <input type="checkbox"/> | ACE Online | <input type="checkbox"/> |
| ComputerGuardPlus | <input type="checkbox"/> | New NHS ICR scheme | <input type="checkbox"/> |
| Emerging market risk | <input type="checkbox"/> | Broker training courses | <input type="checkbox"/> |

Name

Company

Address

Telephone



ACE Europe
ACE Global Markets
 The ACE Building
 100 Leadenhall Street
 London EC3A 3BP
 Tel (020) 7173 7000
 Fax (020) 7173 7800
www.aceeuropeangroup.com

Authorised and regulated by the Financial Services Authority