

## ACE Limited

ACE Limited (NYSE: ACE)  
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Website: <http://www.ace.bm>

Employees: 7,676  
Revenue: \$6,644,700,000  
Net Income: \$(146,400,000)  
Assets: \$37,186,800,000  
Liabilities: \$31,080,100,000  
(As of December 31, 2001)

Description: Through subsidiaries, ACE Limited (based in tax-friendly Bermuda) sells property/casualty insurance and reinsurance in the US and about 50 other countries. ACE International -- which is subdivided into Asia Pacific, Europe, Far East, and Latin America -- sells property/casualty lines to personal and commercial clients. ACE Global Reinsurance, primarily through its Tempest Re unit, provides catastrophe reinsurance to personal and commercial clients. Through ACE Global Markets, the firm owns four Lloyd's of London managing agencies. ACE USA provides US commercial and casualty insurance. Expanding its operations, the company has also moved into health insurance.

### Asbestos Discussion from SEC filings:

From the Company's Form 10-K for the period ending December 31, 2002 at  
<http://www.sec.gov/Archives/edgar/data/896159/000095013103001690/d10k.htm>  
Filed On: March 27, 2003

Our exposure to asbestos principally arises out of liabilities acquired when we purchased the P&C business of CIGNA in 1999 and Westchester Specialty from Talegen in 1998. While we certainly have other insurance operations, exposure to asbestos liabilities is concentrated in these two areas of our business. Of these two areas, the larger and potentially more volatile exposure is contained within the liabilities acquired in the CIGNA transaction. These liabilities reside in the various subsidiaries of Brandywine, which was created in 1995 by the restructuring of CIGNA's domestic operations into separate ongoing and run-off operations.

As part of the acquisition of the CIGNA P&C business, NICO provided reinsurance

protection against adverse development for the aggregate liabilities of Brandywine, including environmental and asbestos liabilities. In the fourth quarter of 2002, we increased our A&E reserves, exhausting the NICO reinsurance cover protecting Brandywine.

As part of the acquisition of the Westchester business, NICO provided reinsurance protection for adverse development for all losses occurring prior to 1997. At December 31, 2002, the remaining limit in the NICO reinsurance cover protecting ACE Westchester Specialty was approximately \$600 million. None of the recent increase to reserves is attributable to Westchester's asbestos liabilities.

We conduct a reserve review of our asbestos reserves on a quarterly basis. This reserve review includes a detailed individual claim review and analysis of the policies at issue, legal precedents, and our asbestos settlement history, as well as factual and investigative developments. Our latest review, by an internal task force, included a comprehensive re-evaluation of claims as of September 2002. This included a review of:

- The pending claim inventory and the projection of future filings;
- The characterization of injury types and the projected future distribution by injury type;
- The total coverage profile for the account and our share of that coverage profile;
- Products and non-products exposures;
- Bankruptcy status and jurisdiction; and
- The external actuarial estimate of unpaid liabilities.

This evaluation process included a detailed review of assumptions relating to projections of future new defendants, and non-product exposures were identified and reserved as part of the task force process.

In addition to our internal review of asbestos reserves, the normal, biennial, reserve review by an internationally-known actuarial consulting firm, required by the Pennsylvania Insurance Department when Brandywine was established, was recently completed. Our asbestos reserves, taking into account the additions for the quarter ended December 31, 2002, represent the high end of our internal task force's indication of range of liability and is consistent with the best estimate of the

external actuary retained by the Pennsylvania Insurance Department.

In the context of our asbestos reviews, many risk factors are considered. In establishing our asbestos reserves, we believe the most significant variables include assumptions with respect to payments to unimpaired claimants and the liability of peripheral defendants. In establishing reserves for periods prior to the fourth quarter of 2002, we assumed that significant additional state judicial or legislative reform would substantially eliminate payments to future claimants who are not physically impaired. The fourth quarter reserve additions were based on the more conservative assumption that there will be no future state or federal asbestos reform. Therefore, the booked asbestos reserves do not reflect any anticipated changes in the legal, social or economic environment, or any benefit from future legislative reforms.

The vast majority of the reserve increase in the fourth quarter of 2002 is due to the strengthening of the IBNR provision for peripheral defendants and future increases in severity.

We also consider multiple recoveries by claimants against various defendants; the ability of a claimant to bring a claim in a state in which they have no residency or exposure; the ability of a policyholder to claim the right to non-products coverage; and whether high-level excess policies have the potential to be accessed given the policyholder's claim trends and liability situation. The results in other asbestos cases announced by other carriers may have little or no relevance to us because other coverage exposures are highly dependent upon the specific facts of individual coverage and resolution status of disputes among carrier, policyholder and claimants.

Based on the policies, the facts, the law and a careful analysis of the impact that these risk factors will likely have on any given account, management estimates the potential liability for indemnity, policyholder defense costs and coverage litigation expense. There are many complex variables that are considered when estimating the reserves for its inventory of asbestos accounts. The variables involved may directly impact the predicted outcome. Sometimes, the outcomes change significantly based on a small change in one risk factor related to just one account.

Our current asbestos reserves are based upon an assessment of our policies, legal precedents and investigative facts, and how the various risk factors are likely to be

played out as those issues are litigated. While reserving for these claims is inherently uncertain, we believe that the reserves carried for these claims are adequate based on known facts and current law. Our reserve review process involves a continual evaluation of cases taking into account all currently known information as well as reasonable assumptions related to unknown information. When facts and circumstance change, including the impact of the risk factors, changes are made to reflect overall reserve adequacy. It is possible that adverse developments could cause us to re-evaluate our assumptions. This could lead us to further increase our asbestos related reserves, which could have a material adverse effect on future operating results.

**Asbestos Discussion from SEC filings:**

From the Company's Form 10-Q for the quarter ended March 31, 2003

<http://www.sec.gov/Archives/edgar/data/896159/000095013103002799/d10q.htm>

Filed On: May 13, 2003

Included in our liabilities for losses and loss expenses are liabilities for asbestos, environmental and latent injury damage claims and expenses (A&E). These claims are principally related to claims arising from remediation costs associated with hazardous waste sites and bodily-injury claims related to asbestos products and environmental hazards. These amounts include provision for both reported and IBNR claims. In January 2003, we completed an internal review of our A&E reserves. This review resulted in increasing our gross A&E reserve, for the year ended December 31, 2002, by \$2.2 billion, offset by \$1.9 billion of reinsurance recoverable, including \$533 million of reinsurance purchased from the National Indemnity Company (NICO) as part of the ACE INA Acquisition. After an addition to our bad debt provision of \$145

million and our ten percent participation in the NICO cover, our net increase in exposure was \$516 million (\$354 million after income tax) and was recorded in the fourth quarter of 2002. In addition to our internal review, the normal, biennial, reserve review by an internationally-known, actuarial consulting firm, required by the Pennsylvania Insurance Department when Brandywine was established, was completed in February 2003. Our A&E reserves taking into account the additions for the quarter ended December 31, 2002, represent the high end of our internal task force's indication of range of liability and is consistent with the best estimate of the external actuary retained by the Pennsylvania Insurance Department. We experienced no new incurred losses in the current quarter.

**Asbestos Discussion from SEC filings:**

From the Company's Form 10-Q for the quarter ended September 30, 2002

<http://www.sec.gov/Archives/edgar/data/896159/000090256102000571/form10-q.txt>

Filed On: November 14, 2002

Included in our liabilities for losses and loss expenses are liabilities for asbestos, environmental and latent injury damage claims and expenses, that are referred to as A&E. These claims are principally related to claims arising from remediation costs

associated with hazardous waste sites and bodily injury claims related to asbestos products and environmental hazards. These amounts include provision for both reported and IBNR claims.

**Asbestos Discussion from SEC filings:**

From the Company's Form 10-Q for the quarter ended March 31, 2002

<http://www.sec.gov/Archives/edgar/data/896159/000090256102000256/form10q.txt>

Filed On: May 15, 2002

Included in our liabilities for losses and loss expenses are liabilities for asbestos, environmental and latent injury damage claims and expenses ("A&E exposures"). These claims are principally related to claims arising from remediation costs associated with hazardous waste sites and bodily injury claims related to asbestos products and environmental hazards. These amounts include provision for both reported and IBNR claims. With respect to survival ratios for A&E exposures, we feel this is a very simplistic measure of a very complicated issue. However, we understand this ratio is used as a means to compare companies with A&E exposures. Thus, if we average the last 3 years of claim payments and expect payments to continue at the same pace, our survival ratio is 7.8 years. Using the 2001 calendar year payments, our survival ratio increases to 9.1 years. These ratios take into account the remaining coverage under the National Indemnity Company reinsurance contract.

We continuously evaluate our estimates of liabilities and related reinsurance recoverable for A&E exposures. While most of these liabilities for such claims arise from exposures in North America, we have also provided for international A&E exposures. We have considered asbestos and environmental claims and claims expenses in establishing the liability for unpaid losses and loss expenses. We have developed reserving methods, which incorporate new sources of data with historical experience to estimate the ultimate losses arising from asbestos and environmental exposures. The reserves for asbestos and environmental claims and claims expenses represent our best estimate of future loss and loss expense payments and recoveries which are expected to develop over the next several decades. We continuously monitor evolving case law and its effect on environmental and latent injury claims. While reserving for these claims is inherently uncertain, we believe that the reserves carried for these claims are adequate based on known facts and developing law.

**Asbestos-Related News:**

[Asbestos Might Divide Insurers and Reinsurers \(Published April 04, 2003\)](#)

[Ace CEO Calls Asbestos Suits A 'Drag' on Economy \(Published March 7, 2003\)](#)

[Ace Ltd. Adds \\$2.18B to Reserve for Asbestos Charges \(Published January 31, 2003\)](#)