

■ IMPACT MINIMAL

Finite Deals Prompt ACE Restatement

BY SUSANNE SCLAFANE

ACE LTD. SAID LAST WEEK THAT IT had improperly accounted for eight finite transactions, prompting the company to restate its financial results for five years and 2005's first quarter as a result.

The financial impact is limited, however, as the restatements will actually push nearly \$10 billion in shareholders' equity up by \$1.0 billion in total, the company said.

The Hamilton, Bermuda-based carrier also said other "unrelated corrections" were being made, some related to immaterial items discovered during last year's Sarbanes-Oxley compliance process.

"The practice is that you restate all known errors, regardless of materiality, because you've opened your books," Evan Greenberg, president and CEO, explained

during a conference call.

Shareholders' equity as of March 31 now stands at \$9.966 billion (rather than \$9.965), ACE said, noting that the cumulative impact of finite-deal corrections was an equity boost of \$13 million, while other corrections lowered shareholders' equity \$12 million.

The finite-risk investigation, conducted by three outside law firms under the guidance of ACE's audit committee, resulted in the review of more than 100 contracts, Mr. Greenberg said. He noted that 1,500 hours of professional time were devoted to these reviews, which had been undertaken in response to industrywide

regulatory investigations of non-traditional products.

Generally, finite insurance and reinsurance is distinguished from traditional in-



"Sitting here right now, we don't expect anything additional. We can't speak with certainty, [but] we're not aware of any items we haven't recognized." —Evan Greenberg, President & CEO, ACE

insurance and reinsurance in that the provider's risk is more limited than it is in traditional contracts. ACE disclosed that counterparties to the agreements were not all insurance or reinsurance companies.

ACE said that seven of the eight deals
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■ REACTION POSITIVE

American Re Reserve Boosted By \$1.6 Billion

BY STEVEN TUCKEY

MUNICH RE ANNOUNCED LAST week that it would boost reserves for its American Re subsidiary by \$1.6 billion to cover U.S. casualty and asbestos policies.

Chief Executive Officer Nikolaus von Bomhard said Munich Re will maintain its targeted return on equity of 12 percent. He said the Princeton, N.J.-based American Re will remain the core for its parent company.

The increase will cut second-quarter profits by \$480 million, he noted. "The effects of the reserve strengthening on our group results are limited due to early provision made through group [incurred but not reported] reserves," he said during an analysts' conference call.

Moody's Investor Service reaffirmed Munich Re's "Aa3 with stable outlook" rat-

ing but said it would re-examine American Re's rating. While noting the reserving was larger than expected, Moody's said the parent company has made progress in taking some risk out of the asset side of the balance sheet.

The hike will cut second-quarter Munich Re group profits by \$480 million

Moody's added the fact that Munich Re has reduced its financial leverage and committed itself to further reduction over the next 18 months was also a factor in the lack of any ratings change.

Standard & Poor's said it expected to raise ratings on American Re by one notch since the actions Munich Re has taken indicate its American Re subsidiary is now a core member of the German company.

Mr. von Bomhard said he had confidence in the reserving since the figures chosen for each accident year and line of business were in the higher range of the actuarial projection. ■

■ MARKET BAROMETER

Rates Heading South

THE AVERAGE RATE for property-casualty insurance slipped another percentage point in June to a decline of 3 percent versus a 2 percent drop in May, according to MarketScout.com, a Dallas-based electronic insurance exchange. In June 2004, rates increased by 7 percent, while in June 2003, they were up 18 percent.

"The slow, methodical market decline is continuing with property renewals leading the way," said Richard Kerr, chairman and CEO of MarketScout, noting that "the larger the account, the greater the premium reduction." He warned, however, that changes to or elimination of the Terrorism Risk Insurance Act could impact property and workers' comp cost trends. ■

