



**ace insurance**

INSURING PROGRESS®



ace insurance

A night-time photograph of a city skyline, likely Auckland, New Zealand. The Sky Tower is the most prominent feature, illuminated in white and standing tall against the dark sky. Other buildings are lit up with various colors, and their lights reflect on the water in the foreground. The scene is captured from a low angle, looking across the water towards the city.

New Zealand  
Annual Review 2007

The ACE Group of Companies® is a global leader in insurance and reinsurance serving a diverse group of clients. Headed by ACE Limited (NYSE: ACE), a component of the Standard & Poor's 500 stock index, the ACE Group of Companies conducts its business on a worldwide basis with operating subsidiaries in more than 50 countries with a strong presence in Asia Pacific.

ACE New Zealand delivers a broad range of quality risk products and exceptional service to large corporates and small to medium businesses. In New Zealand, ACE has the depth of local knowledge and insight coupled with strong analytical skills backed by the organisation's global reach and breadth of resources. With over 9 years of brand presence in the New Zealand market and operating experience dating back to the 1920s, ACE is a growing supplier of insurance protection to many of the country's largest companies.

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# Managing Director's Report

It is a pleasure to be furnishing my second full year report on the performance and outlook for ACE New Zealand.

2007 has been a year of consolidation in the market place and ACE New Zealand maximised the opportunity to reposition itself during the year. The ACE New Zealand strategy remains very much aligned with the successful Asia Pacific regional strategy, but tailored to local conditions.

It is a recurrent theme throughout all areas of ACE globally that we will not sacrifice underwriting profit for the sake of market share, and we are generally respected by our distributors and key clients for this resolve. Our global financial strength, the security of our credit rating, and our service provision in areas such as risk management and claims are key differentiators for our business.

The relocation of our office to modern premises at Princes Wharf in Auckland during the year together with the changeover of administration to the 'Apollo' workflow imaging system are two key examples of our local strategy to keep ACE at the forefront of our industry. The consumption of time and administrative challenges associated with the latter change was significant. It necessitated the scanning of all historical files as well as new business to enable a paperless office environment so as to ensure we have the strongest possible competitive positioning to take us forward. Doing this from a new office environment has engendered a great sense of energy and momentum, and it is a credit to our team that we still achieved our targeted result in the face of significant change.

Apollo has not only brought considerable efficiency, compliance and environmental benefits to our business, it has also benefited the community (particularly schools) through the donation by ACE of various office equipment that is now obsolete in the modern ACE environment. Another leap forward in efficiency came about through the establishment of a Shared Services Unit ('SSU') for certain Asia Pacific countries including New Zealand. The SSU presently handles straight-through processing for Accident & Health claims and will take on processing of further non-interventional transactions on a case by case basis in the future.

Despite the challenging market conditions prevalent in our industry, we were able to maintain a very high retention of our existing business, and given the environment, this is an achievement that we are particularly proud of. We look forward to developing stronger ties with our clients and producers in the year ahead.

Sincerely,



Richard Parkinson  
Managing Director



# The ACE Difference

ACE actively writes local insurance in over 50 countries, and we serve clients in 140 markets. Over 50% of ACE's revenue today comes from Long-Tail Casualty products. ACE also generates more than half of its earnings from outside the US. As one of the few global, integrated commercial Property & Casualty companies in the world, ACE is a unique franchise.

The ACE Group is structured around four major business segments, namely:

- Insurance – Overseas General ('ACE Overseas General')
- Insurance – North America ('Insurance – North America')
- Global Reinsurance ('ACE Tempest Re Group')
- Life Insurance and Reinsurance ('ACE International Life')

ACE Asia Pacific and ultimately ACE New Zealand are part of the 'Insurance – Overseas General' division. The Group as a whole is investing a great deal in Asia Pacific, whether it's in people, IT, acquisitions and at the same time creating a Life Insurance infrastructure to support our clients' needs.

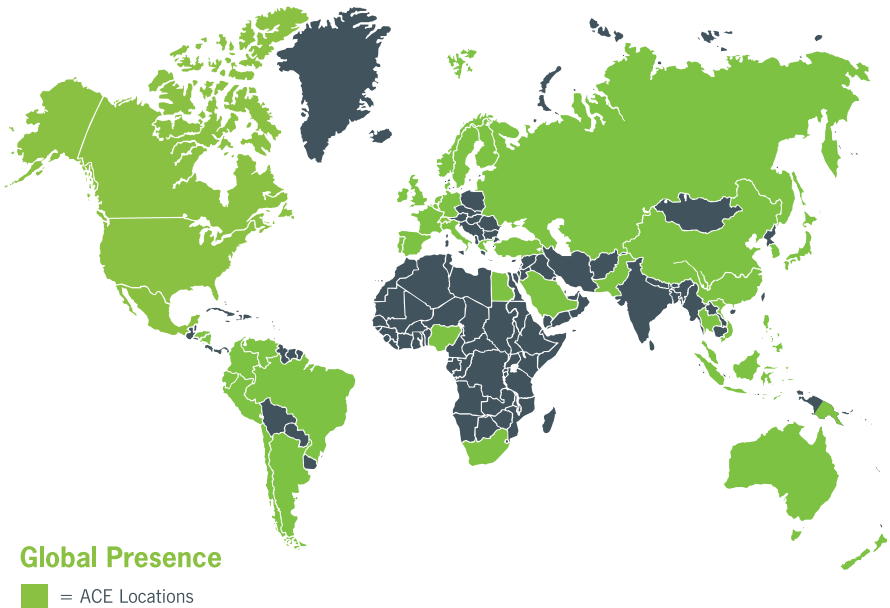
The strategic priorities for ACE in the Asia Pacific region include:

- The execution of sustainable Accident & Health growth plans
- Growth in niche areas of Property & Casualty lines
- Leveraging the e\*placement platform and expanded distribution to exploit selected SME and Personal Lines opportunities
- Building a more efficient and competitive operating platform to reflect the changed mix and business model

The two most valuable assets of the ACE Group of Companies are our Balance Sheet and our People. With approximately US\$20 Billion in capital and net loss reserves of around US\$23 Billion, the Balance Sheet is fundamentally what we are selling because it represents our ability to meet future claims. ACE as an organisation has also successfully built and nurtured a culture that encourages entrepreneurship, innovation, autonomy and a sense of involvement. Our Balance Sheet and our People combined are a strength that we believe sets us apart from our competitors.



ACE has earned a cumulative underwriting profit since its inception in 1985. This has been achieved because of our global underwriting discipline. ACE is at its core an underwriting company; this is our stock in trade, and our earning power is centred on the principle of achieving an underwriting profit at all times. We readily expand and shrink our businesses with market conditions, and it is the maintenance of this restraint that has served us well over the years.




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<b>Global presence</b>	Global platform, diversified earnings stream and distribution
<b>Stability</b>	Track record of performance – underwriting profit and investment returns
<b>Balance sheet strength and performance</b>	Capital growth and quality, asset growth and quality, loss reserve strength, reduced leverage, strong liquidity, strong enterprise risk management, book value and dividend growth

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## 2007 Global Performance

The 2007 result capped off an outstanding year for the ACE Group. All global divisions of the Group contributed profitably to overall performance and delivered a well balanced result for all stakeholders.

Income performance in 2007 set new records for the Group despite the competitive challenges in the market generally. ACE achieved an increase of 15% in Operating Income to US\$2.7 Billion and an 11% increase in Net Income to US\$2.6 Billion.

Other key performance indicators and financial highlights for the Group include:

- Growth of Book Value by 16%
- Return on Equity of approximately 18%
- Total Capital of US\$20 Billion
- Invested Assets of US\$42 Billion
- Cashflow of US\$4.7 Billion
- Net Loss Reserves now US\$23 Billion

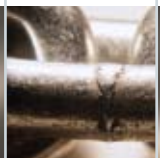
Since the close of the 2007 reporting year, ACE announced the proposed re-domestication of its Holding Company from the Cayman Islands to Zurich, Switzerland. The proposal signifies a tremendous milestone for the Group which commenced as a mono-line insurer in the Cayman Islands in 1985. The objective behind this proposal is to substantially increase the strategic and capital flexibility for the Group and ultimately provide ACE with greater certainty to continue doing what ACE does.

ACE also announced two acquisitions just prior to the close of 2007. These were Combined Insurance Company of America ('Combined') and Atlantic Insurance. The Combined acquisition brings further scale and increased diversification to ACE, particularly for Personal Accident business which will serve to further balance and distinguish the uniqueness of our franchise in the global market. The Combined acquisition includes business operations in both Australia and New Zealand and the process of operationally bringing these businesses into the ACE family necessitates care in understanding the existing value proposition of that business to all its stakeholders at local, regional and global levels.

# Overview of ACE New Zealand

ACE Insurance Limited (New Zealand) is a member of the ACE Group of Companies,<sup>®</sup> a global leader in insurance and reinsurance with offices in more than 50 countries worldwide.

ACE New Zealand has an 'A' (Strong) insurer financial strength rating which was reaffirmed on 11 January 2008 by Standard & Poor's (Australia) Pty Ltd, an approved company under the Insurance Companies (Ratings and Inspections) Act 1994. The 'A' rating is indicative of ACE New Zealand's strong capitalisation and reflective of its parent's rating outlook. ACE New Zealand offers broker-based corporate property and casualty business, group personal accident and corporate travel products. In each area of specialty, ACE in New Zealand leverages global expertise and local acumen to create specific solutions to mitigate client risks. With a focus on building strong relationships by offering responsive service, ACE New Zealand's clients range from large multinational companies to local corporates.



## ACE New Zealand Board of Directors



**Richard Parkinson**  
Managing Director  
ACE New Zealand



**Steve Crouch**  
Chief Executive Officer  
Australia &  
New Zealand



**Damien Sullivan**  
Executive Vice President  
& Chief Operating Officer  
Asia Pacific Region



**Jarrod Hill**  
Head of Property  
& Casualty  
Asia Pacific Region



**Roger Scholes**  
Claims Manager  
ACE New Zealand



**Daniel Vanderkemp**  
Chief Financial Officer  
Australia &  
New Zealand

# Distribution

ACE's clients mainly come from a sophisticated group of buyers who utilise brokers for placement and advisory services in the risk transfer process. They transact business with ACE via their brokers because they understand the benefits of dealing with an organisation with the capabilities and financial strength that ACE possesses. Broker distribution accounts for nearly 90% of our business written. The remainder is generated by our direct marketing business that distributes either via, or in partnership with, sponsor organisations. This is directed at efficient distribution of consumer Accident & Health products in the main.

For broker distributed business, we are committed to ensuring that the service we provide is of the highest quality so that the experience our clients and brokers enjoy in transacting business and maintaining sound relationships is the best in the industry. Important to this outcome is understanding the role of the broker, as their client's advocate, in the relationship between the insured and ACE.

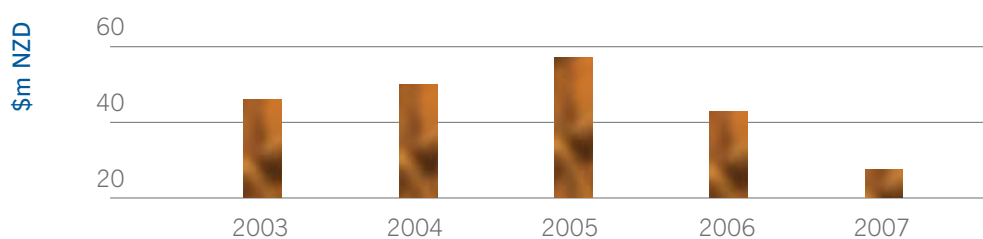
Our approach to distribution for our Corporate clients is about face-to-face connection. We seek to understand the broker's strategic intent as it relates to each client's affairs. We identify the role that ACE can play in this strategic plan and look to develop solutions to meet the needs of our clients in consultation with the broker. We are committed to making the process as efficient as possible and with the help of technology, we have reduced the administrative burden of paper handling to a significant extent with the introduction of our Apollo workflow imaging system.

# Financial Information – New Zealand

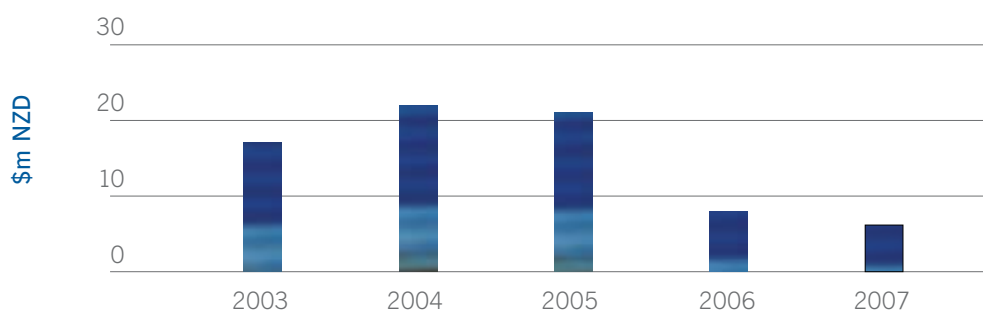
## 2007 Performance Highlights

\$'000 NZD	2003	2004	2005	2006	2007
Gross written premium	112,008	116,685	116,037	104,617	73,959
Net earned premium	44,995	46,697	58,645	41,202	24,060
Underwriting result	14,827	28,642	25,638	5,901	5,384
Investment revenue	4,281	4,564	5,736	4,574	3,535
Profit after tax	16,777	22,190	20,707	7,360	5,623
Operating cashflows	31,908	16,764	20,893	(6,927)	6,573
<b>Return on Equity</b>	100.6%	66.8%	57.5%	20.7%	17.7%
<b>Combined ratio</b>	67.1%	38.7%	56.3%	84.7%	77.0%

## Net Earned Premium



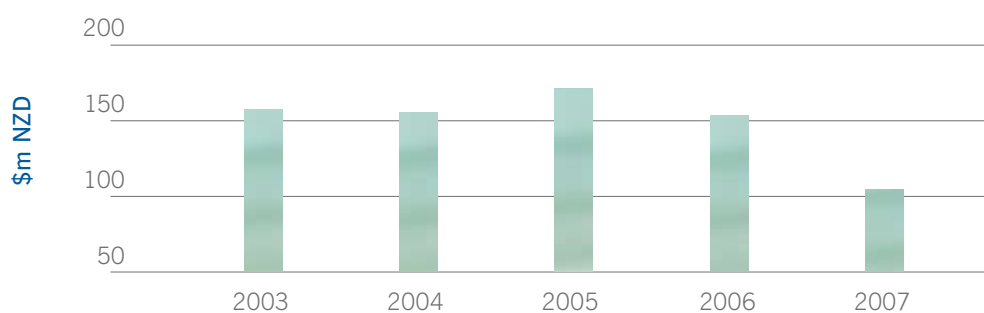
## Profit After Tax



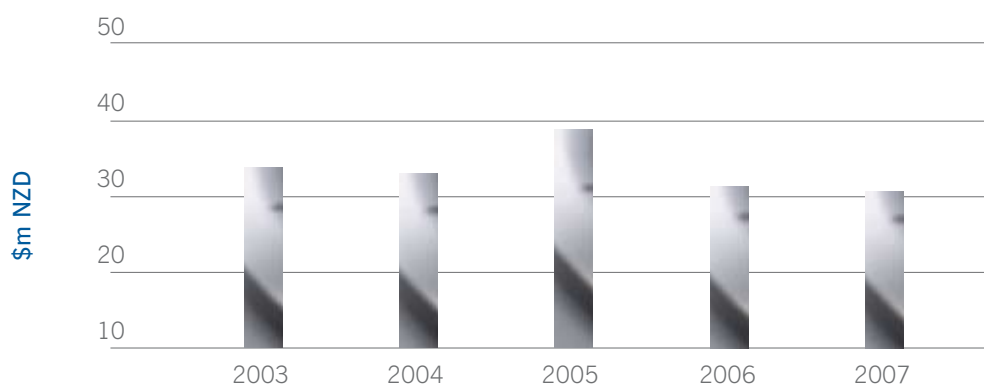
## Balance Sheet

\$'000 NZD	2003	2004	2005	2006	2007
Cash	21,862	11,984	3,076	865	7,266
Receivables	33,285	36,442	35,701	23,714	17,250
Reinsurance recoveries	27,031	28,812	36,599	50,194	24,846
Investments	66,271	69,132	83,719	66,425	58,408
Property, plant & equipment	3,413	3,588	3,979	3,454	969
Other assets	4,386	5,047	7,112	8,985	3,936
<b>Total Assets</b>	<b>156,248</b>	<b>155,005</b>	<b>170,186</b>	<b>153,637</b>	<b>112,675</b>
Creditors	15,201	21,412	15,063	14,589	10,206
Outstanding claims	58,140	53,780	67,639	82,058	53,288
Unearned premiums	47,298	45,449	45,179	21,780	16,933
Other liabilities	2,246	1,338	3,288	3,091	1,001
<b>Total Liabilities</b>	<b>122,885</b>	<b>121,979</b>	<b>131,169</b>	<b>121,518</b>	<b>81,428</b>
Share capital	16,900	16,900	16,900	16,900	16,900
Retained earnings & reserves	16,463	16,126	22,117	15,219	14,347
<b>Total Equity</b>	<b>33,363</b>	<b>33,026</b>	<b>39,017</b>	<b>32,119</b>	<b>31,247</b>

## Total Assets



## Total Equity



# Key Divisions

## Property & Casualty

ACE provides Property & Casualty (P&C) product solutions to businesses of all sizes and has strong local underwriting expertise in place that is further backed by experienced ACE people operating throughout the Asia Pacific region.

The Global ACE structure and commitment to providing global solutions enables ACE New Zealand to position itself for success with companies that transact business worldwide. Our service standards are second to none, as is the access that our clients have with ACE professionals worldwide.

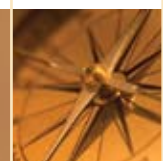
Our Casualty Risk Engineers provide risk identification and recommendations to safeguard businesses through detailed assessments of an Insured's operation covering product liability, premises liability and environmental liability services. We benchmark clients against global best industry practice. Our Casualty Risk Engineers also have extensive expertise including a thorough understanding of EU and US consumer law and protection standards relating to exports to these countries.



The financial performance of this segment was consistent with the ACE strategy of not sacrificing profit for market share.

ACE New Zealand continues to be the local leader in Corporate Property insurance and has an involvement with the majority of New Zealand's leading producers and exporters. Consequently, we have a strong underlying portfolio to support our financial objectives for 2008. We pride ourselves on having an excellent understanding of our insured's needs and the ability to tailor our products to suit individual companies as required. Our globally recognised Risk Management Division gives us the ability to provide our local clients with the latest best practice risk management tools. Finally, it is a credit to our claims team that they are recognised by our industry peers as being one of the best in managing large loss claims.

The ACE Financial Lines unit comprises a team of underwriting professionals who are able to leverage ACE's global strengths in this business area to develop global and local solutions according to the clients' needs. The ACE Financial Lines unit is able to offer customised solutions to local clients through a comprehensive suite of products.



# Key Divisions

## Accident & Health

ACE has considerable experience in underwriting Accident & Health (A&H) business in New Zealand and a proven track record of developing innovative products which effectively meet the changing needs of our clients. Our product range includes Business Travel Insurance, Leisure Travel Insurance, Expatriated Medical, Inpatient Medical, Personal Accident and Sickness, and Credit Insurance.

The ACE New Zealand A&H portfolio is one built around service, and in particular the responsiveness and flexibility of our underwriting and claims staff. We distribute our products through our well developed broker network to reach a broad range of industries and association groups.

The year in review was a challenging one for the A&H portfolio and resulted in us needing to embrace significant changes within our business. One of these challenges included the migration of over 3000 policies from paper files onto our paperless operating platform called 'Apollo'. Management and physical office changes during 2007 added a further layer of challenge, yet despite these, we are proud to be able to boast that all of our Top 10 A&H policies were successfully renewed throughout the course of 2007.

The other significant disruption during the year involved the migration of the A&H claims processing function to a newly established Shared Services Unit ('SSU'). The strategy behind this move is ultimately to deliver an efficient and cost-effective claims service that will be second to none in the industry. This initiative will allow ACE to take on large programs without having to consider the impact of fixed and variable costs associated with the expansion of local claim handling facilities and resources.

The financial performance of this segment was excellent given internal changes and external market conditions, and we achieved premium growth despite the soft market and fierce competition.

## Commercial Lines

Our focus is on the design and implementation of simple products for partnering associations, sponsors, group organisations and industry segments in the small to mid market sectors via strategic broking partners. As well as standard and tailored SME covers, our product range also includes strata schemes.

Our approach is holistic whereby we seek to offer the array of products necessary to meet the insurance needs of our clients. We are unique in our delivery because our approach encompasses a horizontal underwriting system instead of the traditional 'vertical silo' system, which means one division administering the complete package of insurance products. This system enables ACE New Zealand to be a very user-friendly and easy to deal with underwriter which is greatly valued by our clients.

Approximately 90% of all New Zealand companies are businesses with less than 50 employees, and are hence regarded as Small-Medium Enterprises ('SME'). It is for this reason alone that we see our focus in the SME/Specialty Affinity space within Commercial Lines as an integral component of our strategy moving forward.

## ACE New Zealand Product Line Leaders



Paul Martin  
Property



Mark Downes  
Casualty



Andrew Nisbet  
Accident & Health



Kane Butler  
Commercial Lines

# Contact Details – New Zealand

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