



ACE Political Risk & Trade Credit Insurance Review

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About the Presenters

Price Lowenstein

- President & CEO, Sovereign Risk Insurance Ltd.
- 12 years in the Political Risk Insurance brokerage market
- 12 years at Sovereign

Julian Edwards

- Head of Political Risk & Credit, ACE Global Markets
- 23 years in the private Political Risk Insurance market



ACE's Political Risk & Trade Credit Operations

Sovereign Risk (Bermuda based)

Coverages:

- Political risk only

Underwriting locations:

- Bermuda
- Dubai

ACE Global Markets (London based)

Coverages:

- Political risk
- Trade credit
- Structured trade credit

Underwriting locations:

- London
- Hamburg
- New York
- Singapore



Political Risk Insurance

History

- As part of the Marshall Plan after WWII, the Agency for International Development (AID) began an “investment guarantee program.”
- AID program led to formation of U.S. Government’s national PRI agency, Overseas Private Investment Corporation, in 1969.
- Private PRI market developed during the 1970s.

Political risk insurance is a specialized form of coverage that protects against unexpected, catastrophic political or macro-economic events in emerging markets. The coverage protects:

- ***Lenders*** against loan defaults
- ***Investors*** against equity losses
- ***Exporters*** against contractual defaults



Political Risk Insurance

What's Covered

Commercial lenders

- Missed scheduled loan repayments due to:
 - Acts of confiscation, expropriation or nationalization by the host government
 - Currency inconvertibility or exchange transfer restrictions
 - War or other acts of political violence
- Scheduled payments against risks of nonpayment or non-honoring of government guarantees

Equity investors and corporations

- Financial losses due to acts of confiscation, expropriation and nationalization by the host government
- Inability to repatriate dividends due to currency inconvertibility or exchange transfer restrictions
- Physical damage losses due to war or other acts of political violence

Exporters

- Contract frustration due to:
 - Non-payment by a government entity
 - Unilateral Contract repudiation by a government buyer/supplier
 - Currency inconvertibility and exchange transfer restrictions
 - Export or import embargo
 - War or civil war and political violence



Trade Credit & Structured Trade Credit Insurance

What's Covered

Trade Credit and Structured Trade Credit insurance cover losses due to insolvency, protracted default and political risk perils such as export embargoes and license cancellation.

Trade Credit

- ACE primarily covers larger companies with:
 - sophisticated credit risk management systems,
 - exposure from multiple customers, and
 - the ability to self-insure losses up to a certain level.
- Typically covers short-term tenors (30 to 90 days) within 12-month policy periods

Structured Trade Credit

- Covers trade-related financing instruments (i.e., letters of credit or pre-export finance)
- Main buyers are trade finance banks, exporters and trading companies



Political Risk & Trade Credit Insurance

What's Not Covered

PRI and Trade Credit are “named peril” coverages that respond to specifically defined events.

PRI, Trade Credit and Structured Trade Credit do not cover:

- Currency devaluations
- Bond defaults
- Any form of derivatives
- Movements in overseas equity markets
- Transactions that are deemed illegal, where corruption or misrepresentation have occurred, or where a debt is not legally enforceable



Political Risk & Trade Credit Insurance

Structural Features Control Potential Losses

Ultimate loss severity is limited by standard structural features:

- **Basic loss sharing features** – including co-insurance, deductibles and non-qualifying losses.
- **Waiting Periods** (usually 180 days) – Allow the bank/exporter to try to remedy the problem and, if unsuccessful, enable the insurer and insured to agree on recovery strategies.
- **Subrogation** – Following a claim payment, insurers are subrogated to the rights of the lender/exporter so that once payments resume, insurers are made whole.
- **Non-acceleration** – Claims are paid over the original loan repayment schedule, not in a lump sum, stretching payments out and giving the insured and insurer time to remedy problems and work towards full recoveries.
- **Conditionality** – PRI and Trade Credit policies are conditional insurance contracts, not financial guarantees, and claims are only paid after conditions and warranties are fulfilled.



Political Risk & Trade Credit Insurance

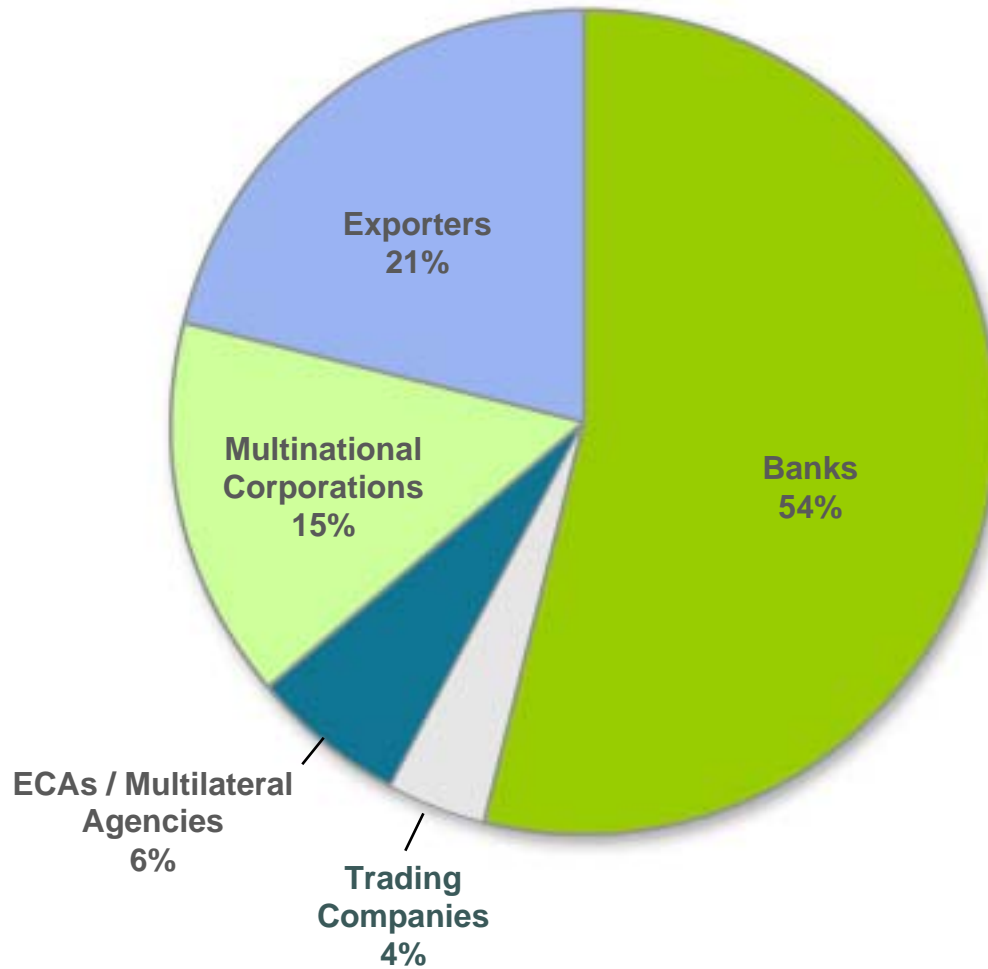
Risk Management

While portfolio exposures for an insurer's PRI and Trade Credit book may seem large, actual exposures are limited by:

- Country and individual transaction limits are based on country risk and credit ratings and reviewed by ACE's Enterprise Risk Management Board.
- Combined single loss limit on multi-country policies.
- Quota share and excess of loss reinsurance treaties.
- PRI and Trade Credit portfolios are constantly modeled and stress-tested by the business group's Country and Credit Risk Management team as well as ACE's Risk Management group.
- PRI and Trade Credit carry IBNR reserves for claim reporting and development after the policy exposure periods.

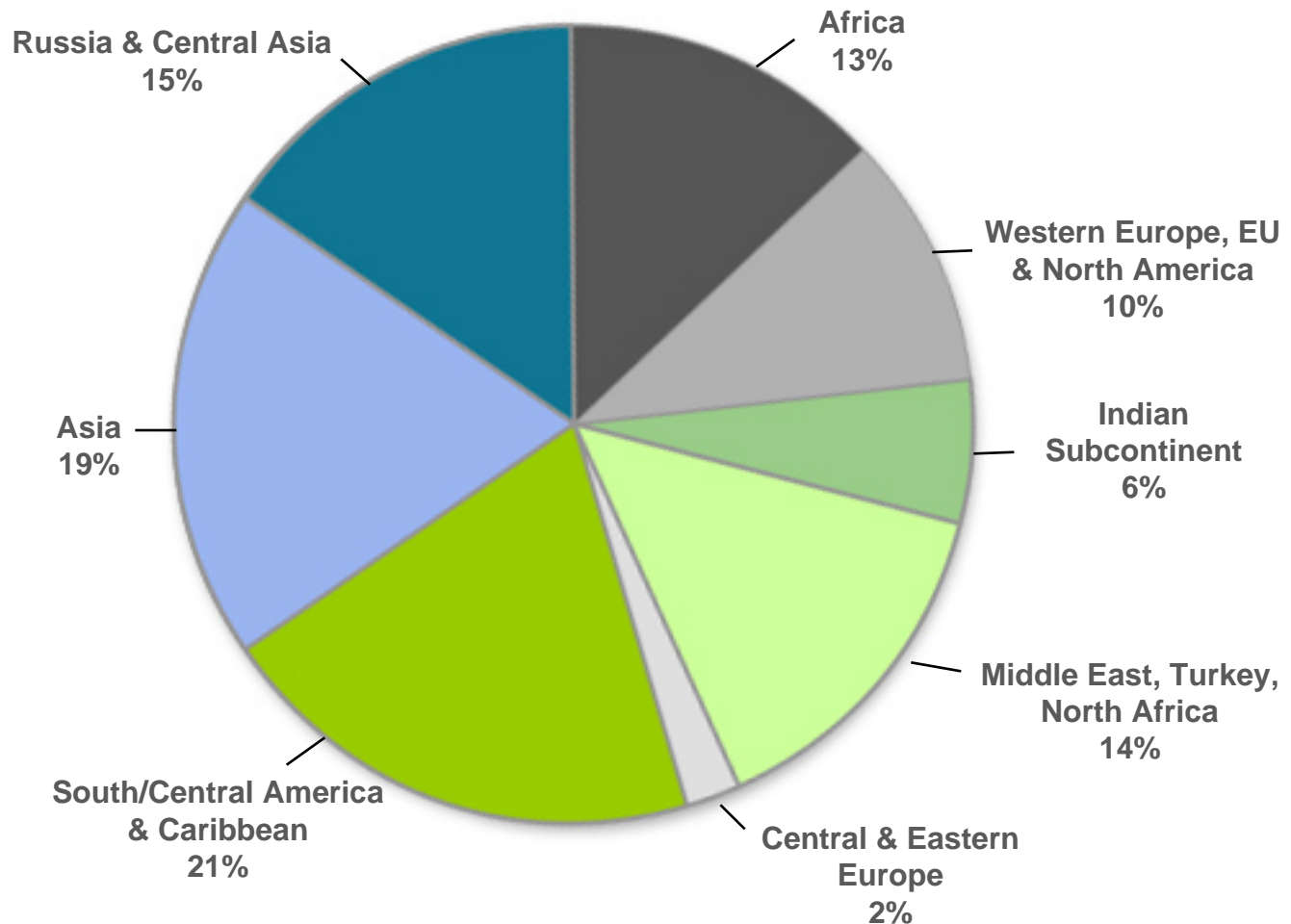


PRI & Trade Credit Client Profile



PRI & Trade Credit Portfolio by Region

Exposure balanced across more than 140 countries



Political Risk & Trade Credit Insurance

Historical Results & Summary

- In its 30-year history, the PRI market has consistently seen ultimate loss ratios of under 20%.
- Trade Credit and Structured Trade Credit ultimate loss ratios are typically between 25% and 50%.
- ACE has outperformed these averages by taking a conservative approach to underwriting these coverages.
- We expect most of the current financial crisis-related losses to occur in Trade Credit and Structured Trade Credit.
- We are confident that these losses are within our expectations and reserving levels.
- We are comfortable with our overall portfolio, individual country exposures and loss projections.

