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ACE Insurance Ltd. (Hong Kong)

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ACE Insurance Ltd. (Hong Kong)

Major Rating Factors

Strengths:

- Strategically important member of ACE group
- Good niche position in Hong Kong
- Conservative investment portfolio

Weaknesses:

- Competitive operating environment in Hong Kong

Operating Company Covered By This Report

Financial Strength Rating

Local Currency

A/Stable/--

Rationale

The ratings on ACE Insurance Ltd. (Hong Kong) (ACE HK) reflect the strong implicit support from the company's parent, ACE group (main operating subsidiaries: A+/Stable/--). The ratings also reflect ACE HK's good niche position in Hong Kong's general insurance market, conservative investment profile, supportive capitalization, and satisfactory operating performance. These factors are moderated by the company's relatively small size in the competitive Hong Kong market.

ACE HK is viewed as strategically important to ACE group's regional business strategy in Asia. Together with other subsidiaries in the Asia-Pacific region, ACE HK reports to ACE Asia Pacific. Through this reporting hierarchy, ACE HK maintains high integration with the group and has access to technical resource support, such as actuarial, investment, risk management and reinsurance.

The company has a good niche position in Hong Kong in providing accident and health insurance and specialist corporate insurance through underwriting guidance from the wider ACE group. However, ACE HK remains a relatively small player with a market share of 2.7% of gross premiums in 2007. As the market remains soft, the company's prudent underwriting policies should offset any downward pressure on the underwriting profits of its property and casualty lines. Its accident and health lines, subject to less pricing volatility, are likely to continuously grow.

The company's investment strategy is very conservative. The majority of its invested assets consisted of bonds (83% of total invested assets) and the rest in cash and deposits (17%) at the end of 2007. The company's bond portfolio mainly consists of government bonds and issuers rated 'A' or above. The company uses a professional asset management company, Western Asset Management.

ACE HK's capitalization is adequate. The company's ratio of shareholders' funds to net premium income increased to 97.4% as at the end of 2007 compared with 84.5% as at the end of 2006, but remains lower than some regional peers'. The company's adequate capitalization is supported by its heavy use of reinsurance, as reflected in its low retention ratio of 38% in 2007 as well as its prudent investment management.

ACE HK's operating performance is good, supported by its favorable underwriting profits and stable investment income through its fixed income and cash investment portfolio. The company's return on revenue was 27.9% in

2007. Its combined ratio remained satisfactory at 79% in 2007 compared with 80% in 2006. The company's loss ratio declined in 2007 to 23% from 29% in 2006, while its expense ratio increased as the company ceded more business to reinsurers. Thanks to its diversified portfolio and prudent underwriting policy, the company's underwriting performance should remain favorable in the near future.

Enterprise risk management

ACE HK's enterprise risk management (ERM) is strong, reflecting the company's high integration with the wider group. Through reporting to ACE Asia Pacific, ACE HK obtains guidance from the regional office for risk management. The company reports to a risk management committee quarterly at the operational level and then it passes to the board audit risk committee of the wider ACE group. The company has a strong risk culture to enforce its ERM policy by conducting training and workshops to facilitate the staff's involvement. At the same time, the company has internal audits and annual reviews of its risk management strategy.

Outlook

The stable outlook reflects Standard & Poor's view that ACE HK will maintain its strategically important status within the ACE group, adequate capitalization, and a good operating performance. We expect the company to maintain its current niche strategy while enhancing its distribution channels. The ratings could be lowered if the company's strategic relationship with the group weakens or its underwriting performance deteriorates significantly, affecting its capital position. The rating is unlikely to be raised unless the rating on the group is raised and the company's own business profile and underwriting performance improve.

Table 1

ACE Insurance Ltd. (Hong Kong) Selected Statistics					
(mil. HK\$)	Year ended December				
	2007	2006	2005	2004	2003
Total assets (mil. US\$)	163.70	151.70	124.70	130.80	92.70
Total assets	1,276.59	1,180.18	967.15	1,016.58	719.37
Equity	239.28	222.80	185.92	207.96	167.89
Net premium earned	243.83	269.89	254.88	287.85	219.74
Net profit after tax	71.48	86.66	67.46	109.79	40.58
Return on equity (%)	30.90	42.40	34.30	58.40	26.30
Combined ratio (%)	79.10	79.90	71.00	53.90	77.10
Equity/Net premium income (%)	97.44	84.48	68.90	69.20	68.52
Equity/Assets (%)	18.74	18.88	19.22	20.46	23.34

Table 2

ACE Insurance Ltd. (Hong Kong) Business Statistics					
(%)	Year ended December				
	2007	2006	2005	2004	2003
Gross premiums written (GPW) (mil HK\$)	658.96	637.51	653.02	613.20	514.38
GPW growth per annum (%)	3.37	(2.40)	6.49	19.21	44.21
Business mix - GPW (%)					
Property	19.00	20.30	N.A.	N.A.	N.A.

Table 2

ACE Insurance Ltd. (Hong Kong) Business Statistics(cont.)					
Accident and health	26.50	22.40	N.A.	N.A.	N.A.
Motor	-	-	N.A.	N.A.	N.A.
General liabilities	48.50	53.10	N.A.	N.A.	N.A.
Marine	6.00	4.10	N.A.	N.A.	N.A.
Other	-	0.00	N.A.	N.A.	N.A.
Total	100.00	100.00	100.00	100.00	100.00

N.A.--Not available.

Table 3

ACE Insurance Ltd. (Hong Kong) Operating Statistics					
(mil. HK\$)	Year ended December				
	2007	2006	2005	2004	2003
Net premium income	245.58	263.75	270.00	300.50	245.02
Underwriting profit	50.10	57.45	69.07	119.62	40.41
Investment income	21.33	30.40	19.04	7.35	6.36
Net profit before tax	81.28	98.92	73.86	131.60	46.66
Net profit after tax	71.48	86.66	67.46	109.79	40.58
Return on assets (%)	5.82	8.07	6.80	12.65	6.87
Return on equity (%)	30.94	42.40	34.25	58.42	26.31
Investment yield (%)	4.66	7.06	4.79	2.03	2.31
Investment return (%)	5.24	7.13	1.18	3.33	2.28
Loss ratio (%)	23.28	29.49	27.19	23.96	38.20
Expense ratio (%)	55.80	50.40	43.80	30.00	38.90
Combined ratio (%)	79.10	79.90	71.00	53.90	77.10

Table 4

ACE Insurance Ltd. (Hong Kong) Investment Statistics					
	Year ended December				
	2007	2006	2005	2004	2003
Total investment assets (mil. HK\$)	452.89	461.43	399.50	395.88	329.25
Investment split (%)					
Public securities	32.63	33.10	30.47	34.72	51.98
Shares	0.00	0.00	0.00	0.00	0.00
Debentures/notes	50.42	40.58	58.72	60.70	0.00
Cash and deposits	16.95	26.32	10.81	4.58	48.02
Property	0.00	0.00	0.00	0.00	0.00
Other	0.00	0.00	0.00	0.00	0.00
Total	100.00	100.00	100.00	100.00	100.00

Table 5

ACE Insurance Ltd. (Hong Kong) Capital Statistics					
(%)	Year ended December				
	2007	2006	2005	2004	2003
Equity (mil. HK\$)	239.28	222.80	185.92	207.96	167.89
Solvency (shareholders' equity/net premiums written)	97.44	84.48	69.89	62.77	68.52
Equity/Gross outstanding claims provision	32.52	32.99	37.45	40.77	46.68
Equity/Assets	18.74	18.88	19.22	20.46	23.34

Ratings Detail (As Of November 5, 2008)*

Operating Company Covered By This Report

ACE Insurance Ltd. (Hong Kong)

Financial Strength Rating

Local Currency

A/Stable/--

Counterparty Credit Rating

Local Currency

A/Stable/--

Domicile

Hong Kong

*Unless otherwise noted, all ratings in this report are global scale ratings. Standard & Poor's credit ratings on the global scale are comparable across countries. Standard & Poor's credit ratings on a national scale are relative to obligors or obligations within that specific country.

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