

SERFF Tracking Number: ACEH-125483522 State: Arkansas
Filing Company: ACE American Insurance Company State Tracking Number: EFT \$100
Company Tracking Number: 08-PR-2007499 (R)
TOI: 17.1 Other Liability - Claims Made Only Sub-TOI: 17.1015 Municipal Liability
Product Name: 08-PR-2007499 (R)
Project Name/Number: Public Entity Liability/08-PR-2007499 (R)

Filing at a Glance

Company: ACE American Insurance Company

Product Name: 08-PR-2007499 (R)

TOI: 17.1 Other Liability - Claims Made Only

Sub-TOI: 17.1015 Municipal Liability

SERFF Tr Num: ACEH-125483522 State: Arkansas

SERFF Status: Closed

Co Tr Num: 08-PR-2007499 (R)

State Tr Num: EFT \$100

State Status: Fees verified and received

Filing Type: Rate/Rule

Co Status:

Reviewer(s): Betty Montesi, Edith Roberts, Brittany Yielding

Authors: Connie McFarlane, Bob Wolfrom, Sharon Yacuzzo, Viola McBride

Disposition Date: 02/13/2008

Date Submitted: 02/12/2008

Disposition Status: Exempt from Review

Effective Date Requested (New): On Approval

Effective Date Requested (Renewal): On Approval

Effective Date (New):

Effective Date (Renewal):

State Filing Description:

General Information

Project Name: Public Entity Liability

Project Number: 08-PR-2007499 (R)

Reference Organization:

Reference Title:

Filing Status Changed: 02/13/2008

State Status Changed: 02/13/2008

Corresponding Filing Tracking Number:

Filing Description:

Status of Filing in Domicile:

Domicile Status Comments:

Reference Number:

Advisory Org. Circular:

Deemer Date:

We are filing a new Public Entity Liability program. The ACE Municipal Advantage Public Entity Liability program has been developed for public entities and the people who act on their behalf. Coverage is provided for management, administrative and employment practices activities. The policy provides coverage on a claims-made and reported basis. The ACE Municipal Advantage Public Entity form has multiple coverage grants, or insuring agreements.

SERFF Tracking Number: ACEH-125483522 State: Arkansas
 Filing Company: ACE American Insurance Company State Tracking Number: EFT \$100
 Company Tracking Number: 08-PR-2007499 (R)
 TOI: 17.1 Other Liability - Claims Made Only Sub-TOI: 17.1015 Municipal Liability
 Product Name: 08-PR-2007499 (R)
 Project Name/Number: Public Entity Liability/08-PR-2007499 (R)

Company and Contact

Filing Contact Information

Robert Wolfrom, CPCU, Regulatory Specialist robert.wolfrom@ace-ina.com
 436 Walnut Street (215) 640-5123 [Phone]
 Philadelphia, PA 19106 (215) 640-4986[FAX]

Filing Company Information

ACE American Insurance Company CoCode: 22667 State of Domicile: Pennsylvania
 PO Box 1000 Group Code: 626 Company Type:
 436 Walnut Street
 Philadelphia, PA 19106 Group Name: State ID Number:
 (215) 640-5123 ext. [Phone] FEIN Number: 95-2371728

Filing Fees

Fee Required? Yes
 Fee Amount: \$100.00
 Retaliatory? No
 Fee Explanation:
 Per Company: No

COMPANY	AMOUNT	DATE PROCESSED	TRANSACTION #
ACE American Insurance Company	\$100.00	02/12/2008	17936189

SERFF Tracking Number: ACEH-125483522 State: Arkansas
Filing Company: ACE American Insurance Company State Tracking Number: EFT \$100
Company Tracking Number: 08-PR-2007499 (R)
TOI: 17.1 Other Liability - Claims Made Only Sub-TOI: 17.1015 Municipal Liability
Product Name: 08-PR-2007499 (R)
Project Name/Number: Public Entity Liability/08-PR-2007499 (R)

Correspondence Summary

Dispositions

Status	Created By	Created On	Date Submitted
Exempt from Review	Edith Roberts	02/13/2008	02/13/2008

SERFF Tracking Number: *ACEH-125483522* *State:* *Arkansas*
Filing Company: *ACE American Insurance Company* *State Tracking Number:* *EFT \$100*
Company Tracking Number: *08-PR-2007499 (R)*
TOI: *17.1 Other Liability - Claims Made Only* *Sub-TOI:* *17.1015 Municipal Liability*
Product Name: *08-PR-2007499 (R)*
Project Name/Number: *Public Entity Liability/08-PR-2007499 (R)*

Disposition

Disposition Date: 02/13/2008

Effective Date (New):

Effective Date (Renewal):

Status: Exempt from Review

Comment:

Rate data does NOT apply to filing.

SERFF Tracking Number: ACEH-125483522 State: Arkansas
 Filing Company: ACE American Insurance Company State Tracking Number: EFT \$100
 Company Tracking Number: 08-PR-2007499 (R)
 TOI: 17.1 Other Liability - Claims Made Only Sub-TOI: 17.1015 Municipal Liability
 Product Name: 08-PR-2007499 (R)
 Project Name/Number: Public Entity Liability/08-PR-2007499 (R)

Item Type	Item Name	Item Status	Public Access
Supporting Document	Filing Memo	Accepted for Informational Purposes	Yes
Supporting Document	Actuarial Memo	Accepted for Informational Purposes	Yes
Supporting Document	Form RF-1	Accepted for Informational Purposes	Yes
Supporting Document	AR Profit Provision	Accepted for Informational Purposes	Yes
Rate	General Rule (01/08)	Accepted for Informational Purposes	Yes
Rate	Rating Plan (01/08) - Range	Accepted for Informational Purposes	Yes
Rate	AR State Exception Page	Accepted for Informational Purposes	Yes

<i>SERFF Tracking Number:</i>	<i>ACEH-125483522</i>	<i>State:</i>	<i>Arkansas</i>
<i>Filing Company:</i>	<i>ACE American Insurance Company</i>	<i>State Tracking Number:</i>	<i>EFT \$100</i>
<i>Company Tracking Number:</i>	<i>08-PR-2007499 (R)</i>		
<i>TOI:</i>	<i>17.1 Other Liability - Claims Made Only</i>	<i>Sub-TOI:</i>	<i>17.1015 Municipal Liability</i>
<i>Product Name:</i>	<i>08-PR-2007499 (R)</i>		
<i>Project Name/Number:</i>	<i>Public Entity Liability/08-PR-2007499 (R)</i>		

Rate Information

Rate data does NOT apply to filing.

SERFF Tracking Number: ACEH-125483522 State: Arkansas
 Filing Company: ACE American Insurance Company State Tracking Number: EFT \$100
 Company Tracking Number: 08-PR-2007499 (R)
 TOI: 17.1 Other Liability - Claims Made Only Sub-TOI: 17.1015 Municipal Liability
 Product Name: 08-PR-2007499 (R)
 Project Name/Number: Public Entity Liability/08-PR-2007499 (R)

Rate/Rule Schedule

Review Status:	Exhibit Name:	Rule # or Page #:	Rate Action	Previous State Filing Attachments Number:
Accepted for Informational Purposes	General Rule (01/08)	Pages 1-3	New	Public Entity General Rules 01 2008.pdf
Accepted for Informational Purposes	Rating Plan (01/08) - Range	Pages 1-9	New	ACE Municipal Advantage Rating Plan-Range (01-2008).pdf
Accepted for Informational Purposes	AR State Exception Page	Page 1	New	AR Public Entity State Exception Pages.pdf

ACE American Insurance Company

ACE Municipal AdvantageSM Public Entity Liability

SECTION I. GENERAL RULES

A. Contents

This manual contains the rules, rating procedures and company rates for the ACE Municipal Advantage Public Entity Liability Insurance.

The rules, rates, forms and rating plans filed by or behalf of the company govern in all cases not specifically provided for in this manual.

B. Sections

This manual is divided into separate Sections for:

1. General Rules
2. Eligibility
3. Coverage Forms
4. Company Rates

C. Policy Term

Policies are written for a term of one year. A policy may be extended beyond the policy expiration date, with the additional premium calculated on a pro-rata basis. For example, an annual policy with an original premium of \$120,000 can be extended one month at an additional premium of $\$120,000 / 12 = \$10,000$.

D. Factors or Multipliers

Factors or multipliers are to be applied consecutively and not added together, unless otherwise specified.

E. Rounding Procedure

1. Rates

Round rates, factors and multipliers after the final calculation to three decimal places. Five tenths or more of a mill shall be considered one mill, e.g., .1245 = .125.

2. Premium

Round the premium for each coverage for which a separate premium is calculated to the nearest whole dollar. Round a premium involving \$.50 or over to the next higher whole dollar.

F. Policy Writing Minimum Premium

1. Policy writing minimum premium is the lowest amount of premium for which a policy may be written and such amount is not subject to adjustment for any reason.
2. Apply a minimum premium for each annual period.
3. Minimum base premiums are the lowest amounts for which insurance may be written for each full year of coverage.
4. The minimum allowable premiums are shown in the Step 1 table on the State Exception Page.

G. Additional Premium Charge

1. Calculation of Premium

ACE American Insurance Company

ACE Municipal AdvantageSM Public Entity Liability

- a. Prorate all changes requiring additional premium.
- b. Apply the rates and rules in effect on the effective date of the policy, or if the change is made after an anniversary date of the policy, apply the rates and rules in effect on that anniversary date. The additional premium developed is in addition to any applicable policy writing minimum premium.

2. Waiver of Premium

- a. Additional premiums at or below \$25 may be waived.
- b. This waiver applies only to that portion of the premium due on the effective date of the policy change.

H. Return Premium Charges

1. Premium Computation

- a. Compute return premium at the rates used to calculate the policy premium.
- b. Compute return premium pro-rata and round to the next higher whole dollar when any coverage or exposure is deleted or an amount of insurance is reduced.

2. Waiver of premium

- a. Return premiums of \$25 or less shall be waived.
- b. This waiver applies only to that portion of the return premium due on the effective date of the policy change.
- c. Any return premium due the insured must be granted if the insured requests it.

I. Policy Cancellation – Pro Rata Cancellation

Calculate return premium pro rata and round to the next higher whole dollar when a policy is canceled.

J. Extended Reporting Period

1. The insured can elect the Optional Extended Reporting Period upon payment of the additional premium. Extended reporting periods are available as follows:

Extended Reporting Period	Premium (as a % of expiring policy premium)
1 Year	100%
2 Years	150%
3 Years	200%

2. The Extended Reporting Period premium and term are noted on the Declarations.

K. Prior Acts Coverage

- 1. Full Prior Acts Coverage is available and contemplated in the rates for the coverages afforded with the ACE Advantage Public Entity Liability Insurance.
- 2. Refer to the ACE Municipal Advantage Public Entity Liability Rating Plan if limited Prior Acts coverage is afforded by the company.

ACE American Insurance Company

ACE Municipal AdvantageSM Public Entity Liability

SECTION II. ELIGIBILITY

ACE Municipal Advantage Public Entity Liability Insurance is designed for state, county and local municipalities, special districts authorities, including housing, utilities, water, mass transit, port authorities, and regional airports and airport authorities.

SECTION III. COVERAGE FORMS

A. The eligibility guidelines, rates and rules outlined in this manual apply to the following coverage form.

ACE Municipal Advantage Public Entity Liability Policy PF-23536 (01/08)

B. The appropriate

1. Coverage forms;
2. Optional endorsements;
3. Mandatory endorsements (including those required for use in a particular state, required by other manual rules, or as required by a footnote in the classification table);
4. Other applicable endorsements; and,
5. The Declarations

make up a coverage part.

SECTION IV. RATES

Refer to the ACE Municipal Advantage Public Entity Liability Rating Plan.

ACE American Insurance Company

ACE Municipal AdvantageSM Public Entity Liability

The enclosed rating plan provides Public Entity Liability. This coverage is a blended policy which provides coverage for Public Officials Liability and Employment Practice Liability for municipalities, cities, counties and special district entities written by ACE. This plan covers risks that do not qualify for individual risk rating.

Step 1: Base Premium Determination

Select the base premium from the chart in the State Exception Page, depending on the Total Annual Budget (TAB) of the applicant.

Step 2: Increased Limit and Retention Factors

Base rates contemplate an aggregate limit for indemnity plus defense of \$1,000,000 and a self-insured retention of \$25,000 per claim as defined in the policy. A different limit of liability and retention may be selected by the insured. We have developed two separate Increased Limit and Retention factor tables which vary depending on the TAB. Curve 1 applies to the development of premium for entities with \$500,000,000 or less in TAB. Curve 2 applies to the development of premium for entities with more than \$500,000,000 in TAB. These two limit curves are intended to reflect the inherent differences in the severity distribution between entities with different budget size (the larger entities having increased exposure to class action litigation).

Primary Pricing Rule

For Primary limits with retentions of \$500,000 or less, multiply the result of Step 1 by the sum of the appropriate factors from Table 1 below.

For additional Primary limits not shown Table 1, determine the increased limit factor for a given limit using the curve and parameters below.

Curve 1 –Small Entity

Weibull Model: $y=a-b*\exp(-c*x^d)$

Parameters:

X = Limit in Millions

a = 7.6253
b = 7.4849
c = 0.1220
d = 0.4700

Curve 2 –Large Entity

Weibull Model: $y=a-b*\exp(-c*x^d)$

Parameters:

X = Limit in Millions

a = 15.6237
b = 15.2206
c = 0.0400
d = 0.6600

Large Retention and Excess Pricing Rule:

For Primary policies with retentions greater than \$500,000 or for excess pricing above an attachment point, determine the Excess Limits factor from Table 1 below as follows:

- Excess Limits Factor:**
- (1) Determine factor for sum of retention plus limit plus attachment (if applicable).
 - (2) Determine factor for sum of retention plus attachment (if applicable).
 - (3) Excess Factor = (1) - (2)

Apply the Excess Limits factor to the results as noted below.

ACE American Insurance Company

ACE Municipal AdvantageSM Public Entity Liability

TABLE 1 - Increased Limit/Retention Factors

Aggregate Limit	Curve 1 Small Risks	Curve 2 Large Risks	Retention	Small Risk	Large Risks
\$0	0.000	0.000	\$5,000	0.250	0.350
\$500,000	0.771	0.784	\$7,500	0.200	0.300
\$1,000,000	1.000	1.000	\$10,000	0.150	0.200
\$2,000,000	1.304	1.335	\$15,000	0.100	0.150
\$3,000,000	1.524	1.610	\$25,000	0.000	0.000
\$4,000,000	1.702	1.850	\$30,000	-0.030	-0.020
\$5,000,000	1.854	2.066	\$35,000	-0.050	-0.030
\$6,000,000	1.986	2.265	\$40,000	-0.060	-0.040
\$7,000,000	2.105	2.451	\$50,000	-0.090	-0.060
\$8,000,000	2.213	2.625	\$75,000	-0.130	-0.100
\$9,000,000	2.312	2.790	\$100,000	-0.160	-0.130
\$10,000,000	2.404	2.946	\$125,000	-0.230	-0.160
\$11,000,000	2.489	3.096	\$150,000	-0.260	-0.190
\$12,000,000	2.569	3.239	\$200,000	-0.290	-0.240
\$13,000,000	2.645	3.377	\$250,000	-0.320	-0.300
\$14,000,000	2.716	3.510	\$300,000	-0.380	-0.350
\$15,000,000	2.784	3.638	\$350,000	-0.410	-0.360
\$16,000,000	2.848	3.762	\$400,000	-0.430	-0.390
\$17,000,000	2.910	3.882	\$450,000	-0.450	-0.410
\$18,000,000	2.969	3.999	\$500,000	-0.480	-0.450
\$19,000,000	3.025	4.112			
\$20,000,000	3.080	4.222			
\$25,000,000	3.323	4.733			
\$30,000,000	3.531	5.189			
\$35,000,000	3.713	5.603			
\$40,000,000	3.874	5.981			
\$45,000,000	4.019	6.331			
\$50,000,000	4.150	6.655			

For Retentions not shown in the table below, the underwriter will apply a linear interpolation to determine the appropriate factor.

Step 2a: Split SIR Factor

The rates assumed that the same retention will be applied to claims reported under the policy's Insuring Agreements. However, the underwriter may choose to quote using one retention level for claims reported under the Public Entity Reimbursement and the Public Entity Liability (POL) Insuring Agreements and the Employment Practices Liability (EPL) Insuring Agreement. If this is the case, the underwriter will:

- (1) Calculate the Increased Limit and Retention Factor for the POL limits and retention;
- (2) Calculate the Increased Limit and Retention Factor for the EPL limits;
- (3) Calculate the percentage difference between the POL factor and the EPL factor (Unadjusted Split SIR Factor);
and
- (4) Apply the below weighted factor to the Unadjusted Split SIR Factor Debit or Credit to get the Adjusted Split SIR Factor:

POL SIR > EPL SIR: 20%
POL SIR < EPL SIR: 80%

ACE American Insurance Company

ACE Municipal AdvantageSM Public Entity Liability

Example:

Policy Limit of Liability= 1,000,000

	POL	EPL
SIR	\$50,000	\$100,000
Increased Limit and Retention Factor	0.910	0.840

Unadjusted Split SIR Factor= $(0.910 / 0.840) - 1 = -0.0769$

Since POL SIR (\$50,000) < EPL SIR (\$100,000), adjust Split SIR Factor by 80%:

Adjusted Split SIR Factor = $-0.0769 * 80\% = \underline{-1.54\%}$

Step 2b: Split limit Factors

For Split Limits, divide the Aggregate Limit by the Per Claim Limit to determine the Split Limit Ratio. Select the Split Factor from Table 2 presented below based on the calculated Split Limit Ratio. For Aggregate/Per Claim Ratio not listed in the Table 2, the underwriter will apply a linear interpolation to determine the appropriate factor.

Example: The Aggregate Limit is \$3,000,000 and the Occurrence Limit is \$1,000,000, the Split Limit Ratio is 3.0 (3M /1M). So the Split Limit Factor would be 1.35.

Aggr / Per Claim	Factor
1.0	1.00
2.0	1.15
2.5	1.25
3.0	1.35
3.5	1.45
4.0	1.55
4.5	1.65
5.0	1.75

Step 3: Public Entity Risk Type Modification

Applicants with multiple operations provide a broad range of public services to the community such as the granting of permits, zoning, collection of tax revenue and the dispersal of state and federal funds for community services. Each of these can lead to potential claims against the public entity. They may also provide services through special district operations (e.g. overseeing the management of regional or international airports, managing the municipal port authority, etc.) that increase the complexity of the risk and create a greater potential for loss. Single purpose applicants focus on providing a single public resource (i.e. transit, parks, water/sewer services, etc.) reducing the potential for claims. Within the single purpose group, however, exposures can vary from financial to blue collar. The underwriter will evaluate and document the applicant's structure of the entity and assess the complexity of the organization and the types of special operations are being managed by the municipality. Based on this assessment, the underwriter will assign a Confidence Factor which reflects the degree of underwriting concern/confidence in the complexity of the applicant's structure and organization and the impact this will have on the severity of future claims the applicant may incur: The POL Risk Management Factor is multiplied times the premium derived in Step 2:

<i>Rating</i>	<i>Degree of Concern/Confidence as respect the Complexity and Structure of the Entity</i>	<i>Comfort Level Factor</i>
1	Confident	0.75 to 0.85
2	Comfortable	0.85 to 1.00
3	Low Concern	1.00 to 1.10
4	Material Concern	1.10 to 1.20
5	High Concern	1.20 to 1.35
6	Very High Concern	1.35 to 1.50

ACE American Insurance Company

ACE Municipal AdvantageSM Public Entity Liability

Step 4: Public Entity Risk Management Procedures Factor

The underwriter will evaluate and document the applicant’s Risk Management Practices, including training policies, disaster planning and emergency management procedures, contract review processes, and the use of a planning board. Based on this assessment, the underwriter will assign a Confidence Factor which reflects the degree of underwriting concern/confidence in the strength of the applicant’s practices and the impact these practices will have on the severity of future claims the applicant may incur: The POL Risk Management Factor is multiplied times the premium derived in Step 3.

<i>Rating</i>	<i>Degree of Concern/Confidence as respect the Entity's POL Risk Management Processes</i>	<i>Comfort Level Factor</i>
1	Confident	0.75 to 0.85
2	Comfortable	0.85 to 1.00
3	Low Concern	1.00 to 1.10
4	Material Concern	1.10 to 1.20
5	High Concern	1.20 to 1.35
6	Very High Concern	1.35 to 1.50

Step 5: Employment Practices Risk Type Modification

Applicants with multiple operations can have differing levels of exposure to EPL losses given the diversity of their operations. Municipalities that provide a broad range of public services to the community such as police and fire departments, water and electricity distribution and/or manage port authorities have a greater potential for loss because of the dissimilar composition of their labor force. Single purpose applicants focus on providing a single public resource (i.e. transit, parks, water/sewer services, etc.) reducing the potential for claims. However, the nature of the operation (e.g. a municipal Fire Department poses a greater potential for loss than a water authority) can lead to risks which have disparate loss activity. Even within the single purpose group, exposures can vary from financial and office workers to blue collar laborers and unions. The underwriter will evaluate and document the structure of the entity and assess the complexity of the organization and the types of special operations (as it relates to its employee population) are being managed by the municipality. Based on this assessment, the underwriter will assign a Confidence Factor which reflects the degree of underwriting concern/confidence in the complexity of the applicant’s structure and organization and the impact this will have on the severity of future claims the applicant may incur: The EPL Risk Type Factor is multiplied times the premium derived in Step 4.

<i>Rating</i>	<i>Degree of Concern/Confidence as respect the Complexity of the Entity's Workforce</i>	<i>Comfort Level Factor (Minimum)</i>	<i>Comfort Level Factor (Maximum)</i>
1	Confident	0.50	0.75
2	Comfortable	0.75	1.00
3	Low Concern	1.00	1.25
4	Material Concern	1.25	1.50
5	High Concern	1.50	1.75
6	Very High Concern	1.75	2.00

Step 6: Employment Practices Risk Management Factor

The underwriter will evaluate and document the applicant’s EPL Risk Management Practices, including layoff and downsizing expectations, historic employee turnover trends, and applicant’s human resources practices and procedures, including if the applicant has a HR manager and/or department (and the extent of their experience), the quality of HR manuals and management guidelines, training policies and procedures related to harassment, discrimination and sensitivity, performance appraisal and disciplinary procedures, and the extent to which the applicant is compliant with federal and state employment-related laws, statutes and regulations. Based on this assessment, the underwriter will assign a Confidence Factor which reflects the degree of underwriting concern/confidence in the strength of the applicant’s practices and the impact these practices will have on the severity of future claims the applicant may incur: The EPL Risk Management Factor is multiplied times the premium derived in Step 5.

ACE American Insurance Company

ACE Municipal AdvantageSM Public Entity Liability

<i>Rating</i>	<i>Degree of Concern/Confidence as respect the Entity's EPL Risk Management Processes</i>	<i>Comfort Level Factor</i>
1	Confident	0.75 to 0.85
2	Comfortable	0.85 to 1.00
3	Low Concern	1.00 to 1.10
4	Material Concern	1.10 to 1.20
5	High Concern	1.20 to 1.35
6	Very High Concern	1.35 to 1.50

Step 7: Financial Condition Factor

The underwriter will evaluate and document the applicant's Financial Condition, including reviewing the applicant's current and historic budget surplus or deficits, the quality of its Bond Ratio, the evaluation and rating of the applicant's debt by Moody's, S&P and/or Fitch, and the applicant's default history. Based on this assessment, the underwriter will assign a Confidence Factor which reflects the degree of underwriting concern/confidence in the strength of the applicant's financial condition and the impact this condition will have on the frequency and/or severity of future claims the applicant may incur: The Financial Condition Factor is multiplied times the total premium derived in Step 6.

<i>Rating</i>	<i>Degree of Concern/Confidence as respect the Entity's Financial Condition</i>	<i>Comfort Level Factor</i>
1	Confident	0.75 to 0.85
2	Comfortable	0.85 to 1.00
3	Low Concern	1.00 to 1.10
4	Material Concern	1.10 to 1.20
5	High Concern	1.20 to 1.35
6	Very High Concern	1.35 to 1.50

Step 8: Loss Experience Factors

The underwriter will evaluate and document the applicant's Historic Loss Experience, considering the following issues related to Claims Frequency and Severity:

Claim Frequency: The number of claims made annually on average, the nature of the claims encountered by the applicant, have past claims led to insurance payments, trends in the applicant's claims history, corrective measures and procedures implemented to mitigate future claims activity.

Claim Severity: The size and magnitude of current and past claims experienced by the applicant, including the a review of the largest claim, the average incurred losses and loss expenses, whether or not past claims payments included punitive or exemplary damages, the applicant's past experience with class actions and mass torts.

Based on this assessment, the underwriter will assign a Confidence Factor which reflects the degree of underwriting concern/confidence in the strength of the applicant's financial condition and the impact this condition will have on the frequency and/or severity of future claims the applicant may incur: The Financial Condition Factor is multiplied times the premium derived in Step 7.

<i>Rating</i>	<i>Degree of Concern/Confidence as respect the Entity's Loss Experience</i>	<i>Comfort Level Factor</i>
1	Confident	0.75 to 0.85
2	Comfortable	0.85 to 1.00
3	Low Concern	1.00 to 1.10
4	Material Concern	1.10 to 1.20
5	High Concern	1.20 to 1.35
6	Very High Concern	1.35 to 1.50

ACE American Insurance Company

ACE Municipal AdvantageSM Public Entity Liability

Step 9: Optional Coverages and Key Coverage Exclusions

Additional Professional Liability Coverage

If the applicant has employees who are attorneys, accountants, architects or engineers, and they intend to extend professional liability coverage for their professional activities performed on behalf of the entity, the premium may be modified based upon the number of professionals listed as listed in Table 3. Professional Liability exposure rating is multiplied by the total premium derived in Step 8:

Table 3

<u>Number of Professionals</u>	<u>Additional Premium</u>
1 to 5	+5%
6 to 10	+7.5%
11 to 20	+10%
20 or more	+15%

Network Security Liability Coverage Extension

+15%

If coverage for Network Security Liability is covered by endorsement, apply the above noted debit to the total premium calculated through Step 8. Additional premium for the Network Security Liability Coverage Extension is subject to a \$1,500 minimum premium.

Limited Sexual Abuse and Molestation (LSAM) Coverage Extension

A Limited Sexual Abuse and Molestation coverage extension is available via endorsement. The coverage will be included as a sub-limit of liability to the policy aggregate limit of liability. If coverage for Sexual Abuse and Molestation is requested, the underwriter will evaluate and document the applicant's Sexual Abuse loss experience, and the applicant's sexual abuse risk management and loss control practices and procedures, including employee training policies and procedures related to sexual abuse and molestation issues, employee monitoring and supervision policy, and disciplinary procedures. Based on this assessment, the underwriter will assign a Confidence Factor which reflects the degree of underwriting concern/confidence in the strength of the applicant's practices and the impact these practices will have on the severity of future claims the applicant may incur.

<i>Rating</i>	<i>Degree of Concern/Confidence as respect the Entity's Sexual Abuse Loss & Risk Management Processes</i>	<i>LSAM Confidence Factor</i>
1	Confident	0.75 to 0.85
2	Comfortable	0.85 to 1.00
3	Low Concern	1.00 to 1.10
4	Material Concern	1.10 to 1.20
5	High Concern	1.20 to 1.35
6	Very High Concern	1.35 to 1.50

To calculate the Limited Sexual Abuse and Molestation additional premium, the following steps are taken:

- (1) Calculate the Base LSAM Premium by multiplying the premium calculated in Step 1-8 by 25%
- (2) Apply the LSAM Confidence Factor from the above table, based on the underwriter's assessment of risk quality
- (3) Calculate the ILF and SIR factor for the LSAM sub-limit, based on the table and calculations from Step 2.
- (4) Divide the factor calculated in (2) above with the overall policy ILF/SIR factor calculated in Step 2
- (5) Apply this premium modifier to the premium calculated in (1) above.

ACE American Insurance Company

ACE Municipal AdvantageSM Public Entity Liability

Example:

Policy Limit: \$5,000,000 per Claim / \$5,000,000 Aggregate
Policy SIR: \$50,000 per Claim
Step 1-8 Premium: \$100,000
LSAM Sublimit: \$1,000,000
LSAM SIR: \$100,000 per Claim
LSAM Confidence: Comfortable

- (1) Calculate Base LSAM Premium
 $\$100,000 \times 25\% = \$25,000$
- (2) Apply Confidence Factor as determined by underwriting assessment.
Comfortable = 0.850
 $\$25,000 \times 0.850 = \$21,250$
- (3) Underwriter applies premium modifier based on sub-limit vs. the full limits:
Policy ILF/SIR Factor= $1.854 + -0.09 = 1.764$
LSAM ILF/SIR Factor= $1.000 + -0.16 = 0.84$
Modifier= $0.84 / 1.764 = 0.4762$
- (4) Calculate the Modified LSAM premium = (2) x (3)
 $\$21,250 \times 0.4762 = \$10,119$

Prior Acts Exclusion

This rate plan contemplates full prior acts coverage. For less than full prior acts coverage apply the factor from Table 4 below:

Table 4

# of Years of Prior Acts	Factor
1	0.75
2	0.90
3 or more	1.00

Employment Practices Liability Coverage Exclusion -20%

The underwriter may opt to provide a quotation that only covers the Public Officials Liability exposures and exclude the Employment Practices Liability exposures, If coverage is excluded by endorsement, apply the above noted credit to the total premium calculated through Step 8.

Third Party Liability Coverage Exclusion -10%

If coverage for Third Party liability is excluded by endorsement from the Employment Practices Liability part of the policy, apply the above noted credit to the total premium calculated through Step 8.

Other Restrictive or Expansive Endorsements

Certain endorsements will tend to broaden or limit coverage available under the policy. If the underwriter uses these rate-bearing endorsements, the appropriate debit or credit will be applied to reflect the expansion or restriction in coverage offered. Determine the applicable factor from the table in Appendix A, subject to the following maximum impact of +/- 25%. The Endorsement Credit/Debit shall be applied to the total premium calculated through Step 8.

ACE American Insurance Company

ACE Municipal AdvantageSM Public Entity Liability

Step 10: Schedule Rating

Multiply the result of Step 9 by the Schedule Rating factors from the table presented below. The total Schedule Rating is the product of the factors selected below. The application of rating credits/debits requires the maintenance of sufficient support in the underwriting file. The maximum amount of credit/debit for Step 10 is noted on the State Exception page.

<u>Schedule Rating Category</u>	<u>Maximum Credit</u>	<u>Maximum Debit</u>
Population Trends	-25%	25%
Rural vs. Urban	-25%	25%
Appointed vs. Elected Officials	-25%	25%
Use of a Planning/Zoning Board	-25%	25%
Termination for Cause History	-25%	25%
EEOC Complaint History	-25%	25%
Employee Salary	-25%	25%
Growth Rate	-25%	25%
Labor Relations	-25%	25%

Step 11: Expense Modification

The policy premium contemplates a standard allowance for direct commission expense. If direct commission expenses vary from the standard, the premium may be reduced to reflect this difference (e.g., reduced commission paid to agents on net of commission arrangements). The premium may not be increased for additional expense.

ACE American Insurance Company

ACE Municipal AdvantageSM Public Entity Liability

Appendix A

Other Restrictive and Expansive Endorsements

Determine the applicable factor from the table below, subject to the following maximum total net credit or debits:

Combination of one or more endorsements: +/- 25%

Name	Number	Rate
Additional Public Entity Endorsement	PF-23538 (01/08)	0.0%
Arbitration – Nonbinding	PF-23539 (01/08)	5.0%
Automatic ERP Amended (Variable Days)	PF-23540 (01/08)	0.0%
Bond Exclusion	PF-23541 (01/08)	-1.0%
Claims Mediation Endorsement	PF-23542 (01/08)	2.5%
Coinsurance – 10%	PF-23543 (01/08)	-5.0%
Coinsurance – 15%	PF-23543 (01/08)	-7.5%
Coinsurance – 20%	PF-23543 (01/08)	-10.0%
Coinsurance – 25%	PF-23543 (01/08)	-12.5%
Coinsurance – 5%	PF-23543 (01/08)	-2.5%
Contingent Bodily Injury and Property Damage	PF-23544 (01/08)	10.0%
Derivatives Exclusion	PF-23545 (01/08)	-1.0%
Benefit Liability Exclusion – Claims Expense Coverage	PF-23546 (01/08)	2.5%
Endorsement Deletion	PF-23549 (01/08)	0.0%
EPLI Coverage – Police & Fire Fighters	PF-23547 (01/08)	0.0%
Exclusion Removal Endorsement	PF-23550 (01/08)	0.0%
Extended Reporting Period – One, Two or Three Years	PF-23551 (01/08)	0.0%
Insured Choice of Defense Counsel Endorsement	PF-23552 (01/08)	2.5%
Insuring Agreement A.1 Non-Rescindable	PF-23553 (01/08)	10.0%
Investment Exclusion	PF-23554 (01/08)	-1.0%
Named Insured and Address Endorsement	PF-23555 (01/08)	0.0%
Non-Monetary Damages – \$1,000,000 Sublimit	PF-23556 (01/08)	15.0%
Non-Monetary Damages – \$250,000 Sublimit	PF-23556 (01/08)	5.0%
Non-Monetary Damages – \$500,000 Sublimit	PF-23556 (01/08)	10.0%
Notice – Risk Manager, Legal Counsel Endorsement	PF-23558 (01/08)	2.5%
Notice of Cancellation by Insurer Endorsement	PF-23557 (01/08)	0.0%
Outside Directorship – For Profit – Triple Excess	PF-23559 (01/08)	10.0%
Personal Profit Exclusion	PF-23560 (01/08)	1.0%
Policy Period Endorsement (Non-Premium Bearing)	PF-23561 (01/08)	0.0%
Policy Period Endorsement (Premium Bearing)	PF-23562 (01/08)	0.0%
Prior Acts Exclusion – Specified Date Endorsement	PF-23563 (01/08)	0.0%
Securities Exclusion	PF-23564 (01/08)	-1.0%
Specific Matter (Claim Type) Exclusion	PF-23566 (01/08)	-1.0%
Specific Services Exclusion	PF-23567 (01/08)	-1.0%
Tax Assessment Exclusion	PF-23568 (01/08)	-1.0%
Waiver of Application	PF-23571 (01/08)	0.0%

ACE American Insurance Company

ACE Municipal Advantage® Public Entity Liability

State Exception Page – Arkansas

Step 1: Base Rate

The base rates contemplate an aggregate limit for indemnity plus defense of \$1,000,000 and a self-insured retention of \$25,000 per claim.

Budget Tier		Rate Factor (per \$1,000)	Tier Charge	Total Budget	Cumulative Charge
From	To				
\$ -	\$250,000	FLAT	\$ 4,235	\$250,000	\$ 4,235
\$250,001	\$500,000	3.900	\$ 975	\$500,000	\$ 5,210
\$500,001	\$1,000,000	3.390	\$ 1,695	\$1,000,000	\$ 6,905
\$1,000,001	\$2,000,000	2.710	\$ 2,710	\$2,000,000	\$ 9,615
\$2,000,001	\$5,000,000	1.860	\$ 5,580	\$5,000,000	\$ 15,195
\$5,000,001	\$10,000,000	1.360	\$ 6,800	\$10,000,000	\$ 21,995
\$10,000,001	\$20,000,000	1.100	\$ 11,000	\$20,000,000	\$ 32,995
\$20,000,001	\$30,000,000	0.850	\$ 8,500	\$30,000,000	\$ 41,495
\$30,000,001	\$50,000,000	0.680	\$ 13,600	\$50,000,000	\$ 55,095
\$50,000,001	\$100,000,000	0.420	\$ 21,000	\$100,000,000	\$ 76,095
\$100,000,001	\$250,000,000	0.330	\$ 49,500	\$250,000,000	\$ 125,595
\$250,000,001	\$500,000,000	0.230	\$ 57,500	\$500,000,000	\$ 183,095
\$500,000,001	\$750,000,000	0.160	\$ 40,000	\$750,000,000	\$ 223,095
\$750,000,001	\$1,000,000,000	0.100	\$ 25,000	\$1,000,000,000	\$ 248,095
\$1,000,000,001	\$2,000,000,000	0.050	\$ 50,000	\$2,000,000,000	\$ 298,095
\$2,000,000,001	\$20,000,000,000	0.020	\$ 360,000	\$20,000,000,000	\$ 658,095
\$20,000,000,001	or Greater	0.010			

Step 2: Increased Limit and Retention Factors is amended by adding the following:

The minimum limit of liability provided shall be \$1,000,000.

Step 10: Schedule Rating

The maximum total net credit or debit available is -40% or +40%.

SERFF Tracking Number: ACEH-125483522 State: Arkansas
Filing Company: ACE American Insurance Company State Tracking Number: EFT \$100
Company Tracking Number: 08-PR-2007499 (R)
TOI: 17.1 Other Liability - Claims Made Only Sub-TOI: 17.1015 Municipal Liability
Product Name: 08-PR-2007499 (R)
Project Name/Number: Public Entity Liability/08-PR-2007499 (R)

Supporting Document Schedules

Satisfied -Name: Filing Memo **Review Status:** Accepted for Informational Purposes 02/13/2008

Comments:

Attachment:

PEL Explanatory Memo - Rate Rule.pdf

Satisfied -Name: Actuarial Memo **Review Status:** Accepted for Informational Purposes 02/13/2008

Comments:

Attachment:

POL Actuarial Memorandum.pdf

Satisfied -Name: Form RF-1 **Review Status:** Accepted for Informational Purposes 02/13/2008

Comments:

Attachment:

ARRFARF1.pdf

Satisfied -Name: AR Profit Provision **Review Status:** Accepted for Informational Purposes 02/13/2008

Comments:

Attachment:

Profit Provision - Arkansas 2007.pdf

ACE GROUP OF INSURANCE COMPANIES

ACE American Insurance Company ACE Municipal AdvantageSM Public Entity Liability Program Explanatory Memorandum

We are filing a new Public Entity Liability program. The ACE Municipal Advantage Public Entity Liability program has been developed for public entities and the people who act on their behalf. Coverage is provided for management, administrative and employment practices activities. The policy provides coverage on a claims-made and reported basis. The ACE Municipal Advantage Public Entity form has multiple coverage grants, or insuring agreements:

A. Public Entity Management Liability

Provides coverage to officials and commission members for loss related to their function as managers of the public entity.

B. Public Entity Liability

Addresses errors and omissions of the public officials in the performance of duties for a public entity.

C. Employment Practices Liability

Addresses actual or alleged employment practices violations in the performance of duties for a public entity.

D. Public Entity Crisis Management Coverage

A supplemental coverage which provides the Named Insured with an auxiliary limit to fund public relations expenses to help abate material crisis events that, if not addressed, could lead to a break-down in confidence in the public entity's managers and exacerbate litigation against them.

This is a new program filing which covers a variety of public entities including state, county and municipal governments, special district authorities (which would include housing, utilities, water, mass transit, and port authorities), finance and development authorities, and regional airports and airport authorities.

We will utilize the public entity's annual budget as the exposure basis for pricing since we believe this is a correlated and relatively unbiased indicator of exposure to loss. We further augmented our plan with rating variables that draw upon the expertise of our professional liability underwriting team. Our rating modification factors recognize the importance of size and breadth of the workforce to be insured, claims experience, financial conditions and risk management. We have structured our underwriting guidelines to ensure each thorough review, careful analysis and proper documentation for each individual account.

A. Forms

See the companion forms filing 08-PR-499(F)

B. Rules

Manual

ACE Municipal Advantage Public Entity Liability - General Rules
Page 1-3 (Ed. 1/2008)

ACE Municipal Advantage Public Entity Liability Rating Plan Ed. 1/2008

State Exception Page (Ed. 1/2008)

ACE American Insurance Company
ACE Municipal Advantage™ Public Entity Liability
Actuarial Memorandum

The ACE Municipal Advantage Public Entity Liability program provides pricing for all types of public entities. This is a new program filing which covers a diverse entities size as measured by the total budget of the applicant. The attached plan uses total annual budget as the exposure basis for pricing since we believe this is a correlated and relative unbiased indicator of exposure to loss.

Our base rates and rating variables are based on a compilation of the approved rating plans for other carriers such as AIG and market intelligence. We constructed two sets of increased limit factor tables to better represent the inherent frequency and severity potential. The increased limit factors vary depending of the total budget. Curve 1 applies to the development of premium for entities with less or less than \$500M in annual budget. Curve 2 applies to the development of premium for entities with more than \$500M in annual budget.

We further augmented our plan with rating variables that draw upon the expertise of our professional liability underwriting team. Our rating modification factors recognize the importance of contract language, claims experience, financial conditions and risk management. We have structured our underwriting guidelines to ensure each thorough review, careful analysis and proper documentation for each individual account. The underwriters selected credits and debits will be applied multiplicatively.

FORM RF-1 Rate Filing Abstract NAIC LOSS COST DATA ENTRY DOCUMENT

1.	This filing transmittal is part of Company Tracking #	08-PR-2007499
-----------	---	---------------

2.	If filing is an adoption of an advisory organization loss cost filing, give name of Advisory Organization and Reference/Item Filing Number	
-----------	--	--

Company Name		Company NAIC Number	
3.	A. ACE American Insurance Company	B.	22667

Product Coding Matrix Line of Business (i.e., Type of Insurance)		Product Coding Matrix Line of Business (i.e., Sub-type of Insurance)	
4.	A. Other Liability	B.	17.1 Other liability - Claims Made Only

5.

(A) COVERAGE (See Instructions)	(B) Indicated % Rate Level Change	(C) Requested % Rate Level Change	(D) Expected Loss Ratio	FOR LOSS COSTS ONLY			
				(E) Loss Cost Modification Factor	(F) Selected Loss Cost Multiplier	(G) Expense Constant (If Applicable)	(H) Co. Current Loss Cost Multiplier
Other Liabilities	N/A	N/A					
TOTAL OVERALL EFFECT	N/A	N/A	.721				

6. 5 Year History Rate Change History

Year	Policy Count	% of Change	Effective Date	State Earned Premium (000)	Incurred Losses (000)	State Loss Ratio	Countrywide Loss Ratio
N/A	New Program	No	Experience	available			

7.

Expense Constants	Selected Provisions
A. Total Production Expense	17.5%
B. General Expense	4.0%
C. Taxes, Licenses & Fees	2.5%
D. Underwriting Profit & Contingencies	(8.2)%
E. Other (explain)	
F. TOTAL	15.8 %

- 8.** Y Apply Loss Cost Factors to Future filings? (Y or N)
9. _____ Estimated Maximum Rate Increase for any Insured (%) Territory (if applicable): _____
10. _____ Estimated Maximum Rate Decrease for any Insured (%) Territory (if applicable): _____

Other Liability - Claims Made
Development of Expense Provisions and Permissible Loss Ratio
ACE Consolidated

	Direct IEE Data in (000) - ACE Consolidated				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Total</u>	
(1) Written Premium	2,274,341	2,447,968	2,589,778	7,312,087	
(2) Earned Premium	2,229,024	2,287,724	2,393,865	6,910,613	
(3) Commission & Brokerage Fees	211,607	202,981	216,867	631,455	
(4) Other Acquisition Expense	53,039	48,991	50,971	153,001	
(5) General Expense	97,147	100,488	86,406	284,041	
(6) Taxes, Licenses, and Fees	36,874	45,952	46,492	129,318	
(7) Unallocated LAE	120,188	155,720	151,603	427,511	
(8) Allocated LAE	385,952	272,801	638,719	1,297,472	
				<u>Average</u>	<u>Selected</u>
(3)/(1) Commission & Brokerage Fees	9.3%	8.3%	8.4%	8.6%	15.0%
(4)/(2) <u>Other Acquisition Expense</u>	2.4%	2.1%	2.1%	2.2%	<u>2.5%</u>
Total Production Expense					17.5%
(5)/(2) General Expense	4.4%	4.4%	3.6%	4.1%	4.0%
(6)/(1) Taxes, Licenses, and Fees	1.6%	1.9%	1.8%	1.8%	2.5%
(7)/(2) Unallocated LAE	5.4%	6.8%	6.3%	6.2%	N/A
(8)/(2) Allocated LAE	17.3%	11.9%	26.7%	18.8%	N/A
					Expense Provision 24.00%
					Pre Tax Profit Provision - Target 5.0%
					<u>Investment Income Recognition</u> -13.2%
					Pre Tax Profit Provision - Net of Inv Inc -8.2%
					Permissible Loss and LAE Ratio 84.2%
					1.188

ACE
Other Liability - Claims Made
Estimated Investment Earnings

A. Unearned Premium Reserve				
A1.	Direct Earned Premium (for this line, from the IEE)	CY =	2006	2,393,865,000
A2.	Mean Unearned Premium Reserve		(Sheet 2)	1,157,665,212
A3.	Deduction for Prepaid Expenses		(Exhibit 1 Sheet 1)	
	a.) Commission and Brokerage Expense			15.0%
	b.) 50% of Other Acquisition Expense			1.3%
	c.) 50% of General Expense			2.0%
	d.) Taxes, Licenses, and Fees			2.5%
	e.) <u>Profit and Contingencies</u>			<u>5.0%</u>
	f.) Total Prepaid Expense			25.8%
A4.	Deduction for Federal Income Tax Payable		(Exhibit 2 Sheet 2)	7.0%
A5.	Net Subject to Investment		[A2 x (1.0 - A3f - A4)]	778,529,855
B. Delayed Remission of Premium (Agent's Balances)				
B1.	Direct Earned Premium (for this line, from the IEE)			2,393,865,000
B2.	Ratio, Agents Uncoll Prem Balances to Dir Earned Prem		(Exhibit 2 Sheet 2)	24.0%
B3.	Delayed Remission		[B1 x B2]	574,415,969
C. Loss Reserve				
C1.	Direct Earned Premium (for this line, from the IEE)			2,393,865,000
C2.	Expected Loss and LAE Incurred		[C1 x ELR on Exhibit 2 Sheet 3]	1,699,644,150
C3.	Expected Mean Loss Reserve		[C2 x After Tax Reserve Ratio on Exhibit 2 Sheet 3]	6,076,081,833
D.	Reserve Funds Subject to Investment		[A5 - B3 + C3]	6,280,195,719
E.	Average Rate of Return on Investments - After FIT		(Sheet 5)	3.3%
F.	Investment Earnings on Reserve Funds - After FIT		[D x E]	205,015,256
G.	Investment Earnings on Reserve Funds as a % of Premium - After FIT		[F / A1]	8.56%
H.	Investment Earnings on Reserve Funds as a % of Premium - Before FIT		[G / .65]	13.18%
I.	P/S - Premium to Surplus Ratio		(Sheet 6)	1.022
J.	E/S - Equity to Surplus Ratio		(Sheet 6)	1.110
K.	Surplus Funds Subject to Investment		[A1 / I]	2,341,955,303
L.	Equity Funds Subject to Investment		[K x J]	2,599,502,928
M.	Investment Earnings on Equity Funds - After FIT		[L x E]	84,860,056
N.	Investment Earnings on Equity Funds as % of Premium - After FIT		[M / A1]	3.5%
O.	Investment Earnings on Equity Funds as % of Premium - Before FIT		[N / .65]	5.5%
P.	Target Total Return as % of Equity - After FIT		(Sheet 7)	8.2%
Q.	Target Total Return as % of Premium - After FIT		[P x J / I]	8.9%
R.	Target Total Return as % of Premium - Before FIT		[Q / .65]	13.6%
S.	Target UW Profit as % Premium - Net of all II - After FIT		[Q - G - N]	-3.3%
T.	Target UW Profit as % Premium - Net of all II - Before FIT		[S / .65]	-5.0%

ACE
Other Liability - Claims Made
Explanatory Notes
Estimated Investment Earnings On Unearned
Premium Reserves And Loss Reserves

Line A2

The mean unearned premium reserve is determined by multiplying the direct earned premium in line A1 by the ratio of the mean unearned premium reserve to the direct earned premium for the above

		<u>IEE Amount</u> <u>For the Above Line</u>
1)	Direct Earned Premium CY = 2006	2,393,865,000
2)	Direct Unearned Premium Reserve as of 12 / 31 / 2006	1,255,555,000
3)	Direct Unearned Premium Reserve as of 12 / 31 / 2005	1,059,775,424
4)	Mean Unearned Premium Reserve: $.5 \times [(2) + (3)]$	1,157,665,212

Line A4

The Tax Reform Act of 1986 taxes 20% of the unearned premium reserve. The effective tax rate on UPR is calculated as follows:

Corporate Tax Rate	35.0%
Portion of Unearned Premium Taxable under TRA 1986	20.0%
Effective Tax Rate on Unearned Premium Reserve	7.0%

Line B2

Delayed remission of premium:

This deduction is necessary because of delay in collection and remission of premium to the companies beyond the effective dates of the policies. Funds for the unearned premium reserve required during the initial days of all policies must be taken from the company's surplus. The ratio of agents' uncollected premium balances to net earned premium is calculated as follows:

		<u>ACE Consolidated</u> <u>Ann Statement Amt</u>
1	Net Earned Premium - Total All Lines CY = 2006	4,556,582,473
2	Net Agent's Balances (Net Admitted) as of 12 / 31 / 2006	1,207,124,679
3	Net Agent's Balances (Net Admitted) as of 12 / 31 / 2005	979,609,943
4	Ratio: $[(2) + (3)] / [2.0 \times (1)]$	0.240

ACE
Other Liability - Claims Made

Explanatory Notes
Estimated Investment Earnings On Unearned
Premium Reserves And Loss Reserves

Line C2

The expected loss and loss adjustment expense incurred is determined by multiplying the direct earned premium by the expected loss and loss adjustment expense ratio determined below.

1 General Expenses	(Exhibit 1 Sheet 1)	4.00%
2 Commission and Brokerage Expenses		15.00%
3 Other Acquisition Expenses		2.50%
4 Taxes, Licenses, & Fees		2.50%
<u>5 Profit & Contingencies</u>		<u>5.00%</u>
6 Total Expense Ratio:		29.00%
7 Expected Loss and LAE Ratio: 1.00 - (6)		71.00%
8 Direct Earned Premium	Cal Yr 2006	2,393,865,000
9 Expected Loss and LAE Incurred (7) x (8)	Cal Yr 2006	1,699,644,150

Line C3

The expected mean loss reserve is determined by multiplying the expected incurred losses in line C2 by the IEE ratio of the mean loss and loss adjustment expense reserves to the loss and loss adjustment expense incurred in the last 2 calendar years for the above named line of business. This ratio, which includes an adjustment for the estimated Federal Income Tax payable due to discounting of loss reserves, as required by the Tax Reform Act of 1986, is based on the following:

		<u>IEE Amount</u> <u>for the Above Line</u>
1 Direct Loss and Loss Adjustment Expense Incurred	Cal Yr 2006	1,807,813,000
2 Direct Loss and Loss Adjustment Expense Incurred	Cal Yr 2005	2,050,634,363
3 Direct Loss and Loss Adjustment Expense Reserves	Year End 2006	7,689,090,000
4 Direct Loss and Loss Adjustment Expense Reserves	Year End 2005	7,162,847,514
5 Direct Loss and Loss Adjustment Expense Reserves	Year End 2004	6,518,130,000
6 Mean Loss and Loss Adjustment Expense Reserve	Cal Yr 2006	7,425,968,757
7 Mean Loss and Loss Adjustment Expense Reserve	Cal Yr 2005	6,840,488,757
8 Pre Tax Reserve Ratio: (6) / (1)		4.108
9 Pre Tax Reserve Ratio: (7) / (2)		3.336
10 Mean Pre Tax Reserve Ratio: 0.5 x [(8) + (9)]		3.722
11 Estimated Reserve Discount - Sheet 4		0.113
12 Federal Taxes (ratio to reserves): (11) x 0.35		0.039
13 After Tax Reserve Ratio (10) x [1.0 - (12)]		3.575

ACE Consolidated - Annual Statement - Schedule P
Other Liability - Claims Made
Calculation of Reserve Discount
Data in (000's)

<u>Year</u>	(1) Net Loss & Expense <u>Unpaid</u>	(2) Reserve Discount <u>Factor</u>
Prior	20,518	0.88205
1997	1,771	0.88815
1998	3,020	0.87131
1999	1,459	0.88401
2000	(946)	0.87980
2001	21,600	0.87412
2002	58,531	0.86494
2003	67,523	0.86812
2004	85,221	0.86532
2005	306,939	0.87450
2006	<u>314,643</u>	<u>0.91534</u>
	880,279	0.88728 = Average
		0.11272 = 1.00 - Average

(1) ACE Consolidated Annual Statement, Schedule P, Part 1, Column 24
(2) Internal Revenue Bulletin 2005-49, December 5, 2005

ACE Consolidated
Calculation of Average After Tax Rate of Return
2006

<u>Assets Available for Investment</u>	(1) Average of Latest 2 Year Ends Asset Value	(2) Interest & Dividend Income	(3) Net Interest and Dividends (2) x (1 + a)	(4) Pre-Tax Return (3)/(1)	(5) Federal Tax Rate	(6) Federal Tax (3)x(5)	(7) After Tax Return ((3)-(6))/(1)
Cash & Short Term Invested Assets	852,508,376	37,128,871	35,838,706	4.2%	35.0%	12,543,547	2.7%
Bonds							
Tax Exempt		19,717,257	19,032,116		2.4% (b)	464,622	
Taxable		571,972,807	552,097,731		35.0%	193,234,206	
Total	11,732,825,810	591,690,064	571,129,848	4.9%		193,698,828	3.2%
Affiliated Stock at Fair Value							
Preferred	0	0	0		0.0%	0	
Common	88,656,145	0	0		0.0%	0	
Total	88,656,145	0	0	0.0%	0.0%	0	0.0%
Unaffiliated Stock at Fair Value							
Preferred	62,006,976	2,892,337	2,791,833		14.2% (c)	395,742	
Common	668,195,971	63,182,828	60,987,333		14.2%	8,644,954	
Total	730,202,947	66,075,165	63,779,166	8.7%		9,040,697	7.5%
Mortgage Loans on Real Estate							
Preferred	0	0	0	0	35.0%	0	0.0%
Total	83,074,693	0	0	0.0%	35.0%	0	0.0%
Contract Loans							
Preferred	0	0	0	0	35.0%	0	0.0%
Total	464,899,224	0	0	0.0%	35.0%	0	0.0%
A/O Inv. Assets							
Preferred	0	0	0	0	35.0%	0	0.0%
Total	13,952,167,193	694,894,100	670,747,720	4.8%	32.1%	215,283,072	3.3%

NOTES:

a. Investment Expenses and Write-ins for Investment Income of apply uniformly to all items of income.

	Total Interest and Dividend Income (excluding Write-ins & Expenses):	694,894,100
PLUS	Write-ins for Investment Income:	4,818,528
LESS	<u>Investment Expenses & Real Estate Depreciation:</u>	<u>28,964,908</u>
	Total Net Investment Income (incl. Write-ins, Net of Investment Expenses):	670,747,720

Write-ins / Expense Multiplier: (a) = -3.5%

b. 46.5% of the income on tax-exempt bonds is subject to proration; that is, 15% of that income is taxed at a full corporate rate of 35%.

The applicable tax rate is therefore: $2.4\% = [.465 \times .15 \times .35]$

c. For domestic corporations, 30% of dividend income from unaffiliated stocks is taxed as ordinary income at a full corporate rate of 35%.

and 100% is subject to proration, so that 15% of the remaining 70% is taxed as ordinary income at a full corporate rate of 35%.

The applicable tax rate is therefore: $14.2\% = [(0.30 \times 0.35) + (0.70 \times 0.15 \times 0.35) + (0.70 \times .85 \times 0.00)]$

**ACE Consolidated
EXPLANATORY NOTES
FOR RETURN ON EQUITY CALCULATION**

Line I Premium to Surplus Ratio

Surplus was determined by dividing the premium in Line A1 by a premium to surplus ratio.
The calculation of the premium to surplus ratio is as follows:

	2006 <u>All Lines</u>
A/S Net Written Premium	4,518,540,247
A/S Surplus as Regards Policyholders	4,420,558,091
A/S Premium to Surplus Ratio	1.022

Line J Equity to Surplus Ratio

Equity was determined by applying an equity to surplus ratio to the surplus in Line K.
The calculation of the equity to surplus is as follows:

	2006 <u>Year End</u>
ACE Consolidated	4,420,558,091
<u>ACE Ins. Co. Puerto Rico</u>	<u>15,038,362</u>
SAP Surplus: ACE Consolidated ex PR and International	4,405,519,729
GAP Equity: ACE Consolidated ex PR and International	4,890,000,000
Equity to Surplus Ratio	1.110

ACE
EXPLANATORY NOTES
FOR RETURN ON EQUITY CALCULATION

Line P.

	Return on
<u>Year</u>	<u>Equity</u>
1996	13.0%
1997	13.0%
1998	9.6%
1999	6.6%
2000	6.3%
2001	-2.2%
2002	3.1%
2003	9.7%
2004	10.7%
2005	11.6%
Average	8.2%
Selected	8.2%

Note: The source for the historical industry Returns on Equity is
Net Income / Average Policyholder Surplus from:

1995 - 2000	Standard & Poor's Industry Surveys
2001 - 2004	Best's Aggregates and Averages - QAR

Put Cell Pointer in Cell D4 , Paste Values the Box Copied From IEE Data 2005.xls



Important !!
Check That
Captions Line Up
If Wrong,
Line up Data Using
Copy Paste
Not Cut Paste

Holding Cd	(All)
Consol?	(All)
Surplus?	(All)
Co	(All)
Co Name	(All)
LOB	(All)
LOB Name	Oth Liab

Amt(000)				Year				
DirNet	Page	Col	Caption	2002	2003	2004	2005	2006
Dir	IEEP3	1	Written	1,680,237	1,887,492	2,274,341	2,447,968	2,589,778
		3	Earned	1,298,051	1,872,111	2,229,024	2,287,724	2,393,865
		7	Inc Loss	1,121,103	1,709,821	1,870,066	1,622,113	1,017,491
		9	Inc Def CC	519,806	111,155	385,952	272,801	638,719
		11	Inc Adj AO	56,607	70,819	120,188	155,720	151,603
		13	OS Loss	3,189,256	4,170,639	5,399,448	5,949,726	6,109,255
		15	OS Def CC	887,953	790,949	962,568	1,023,284	1,366,058
		17	OS Adj AO	136,828	113,188	156,114	189,838	213,777
		19	UPR	838,839	854,216	899,533	1,059,775	1,255,555
		21	Ag Bal	193,676	6,355,746	325,863	470,808	609,044
		23	Comm	209,051	185,308	211,607	202,981	216,867
		25	Tax	40,139	14,799	36,874	45,952	46,492
Net	IEEP2	1	Written	628,288	1,034,313	1,410,208	1,340,500	1,044,440
		3	Earned	451,425	946,323	1,258,003	1,322,595	1,079,843
		7	Inc Loss	459,626	714,656	1,204,082	1,003,428	273,616
		9	Inc Def CC	203,054	31,632	342,803	149,727	199,508
		11	Inc Adj AO	55,815	70,170	123,455	159,019	143,161
		13	OS Loss	1,474,147	1,757,605	2,744,193	3,256,367	3,179,150

Written	1	→
Earned	2	→
Inc Loss	4	→
Inc Def CC	5	→
Inc Adj AO	6	→
OS Loss	7	→
OS Def CC	8	→
OS Adj AO	9	→
UPR	10	→
Ag Bal	11	→
Comm	1	→
Tax	2	→
Oth Acq	3	→
General	4	→
Written	1	→
Earned	2	→
Inc Loss	4	→
Inc Def CC	5	→
Inc Adj AO	6	→
OS Loss	7	→

Part :	A	B	C	D	E	F-1	F-2	G	H-1	H-2
Accid	HomeOwn	PP Auto	Comm Auto	Workers	Comm	Med Mal	Med Mal	Spec Liab	Oth Liab	Oth Liab
Year	FarmOwn	Liab Med	Liab Med	Comp	Multiperil	Occurrence	Clms Made	OM/Air/BM	Occur	Clm Made

Reserves - Schedule P - Part 1 - ACE Consolidated Yellow Book - 2006 Year End

Prior	-51	12,112	18,007	433,984	150,079	30,963	324	16,449	1,406,664	20,518
1997	198	24	2,831	22,355	1,321	947	51	5,429	19,908	1,771
1998	140	1	2,397	73,565	1,137	162	73	3,523	36,007	3,020
1999	123	2	6,545	61,861	2,381	1,831	174	7,765	57,890	1,459
2000	92	18	13,196	2,999	3,619	623	-81	4,693	64,686	-946
2001	1,005	2	9,332	19,740	-3,521	931	2,279	7,857	94,283	21,600
2002	1,173	34	9,746	92,674	8,679	1,953	2,010	33,738	104,463	58,531
2003	1,587	420	19,751	158,639	6,256	704	4,355	16,965	241,177	67,523
2004	13,649	1,115	56,998	269,581	17,279	3,281	30,643	44,282	407,781	85,221
2005	13,798	4,161	82,219	443,607	53,894	3,324	60,085	82,493	444,617	306,939
<u>2006</u>	<u>12,279</u>	<u>19,434</u>	<u>85,047</u>	<u>737,675</u>	<u>100,273</u>	<u>6,477</u>	<u>59,746</u>	<u>143,412</u>	<u>417,680</u>	<u>314,643</u>
Total	43,993	37,323	306,069	2,316,680	341,397	51,196	159,659	366,606	3,295,156	880,279

Discount Factors - IRS - Internal Revenue Bulletin: 2007-3 dated January 16, 2007

Prior	0.890	0.908	0.922	0.889	0.938	0.934	0.902		0.788	0.882
1997	0.907	0.906	0.910	0.861	0.890	0.909	0.892		0.815	0.888
1998	0.887	0.907	0.909	0.843	0.907	0.890	0.885		0.803	0.871
1999	0.886	0.916	0.913	0.834	0.887	0.887	0.876		0.828	0.884
2000	0.861	0.921	0.913	0.814	0.886	0.886	0.870		0.815	0.880
2001	0.893	0.927	0.917	0.814	0.861	0.878	0.892		0.826	0.874
2002	0.889	0.928	0.921	0.822	0.893	0.869	0.893	0.977	0.831	0.865
2003	0.891	0.926	0.917	0.845	0.889	0.855	0.895	0.954	0.839	0.868
2004	0.917	0.931	0.913	0.877	0.891	0.826	0.882	0.960	0.838	0.865
2005	0.923	0.936	0.919	0.885	0.923	0.838	0.891	0.963	0.848	0.874
2006	0.929	0.947	0.921	0.876	0.929	0.839	0.877	0.967	0.868	0.915

Part :	I	J	K	L	M	N	O	P	R-1	R-2
Accid	Fire/IM/EQ	Auto	Fidelity	Other Incl	Composite	Rein NonP	Rein NonP	Rein NonP	Prod Liab	Prod Liab
Year	<u>Burg/Thft</u>	<u>Phys Dam</u>	<u>Surety</u>	<u>Cred/AH</u>	<u>Intern'l</u>	<u>Assm Prop</u>	<u>Assm Liab</u>	<u>Assm Fin</u>	<u>Occurrence</u>	<u>Clms Made</u>

Reserv

Prior					241	1,875	493,707	3	303,445	1,013
1997					1	0	0	1,998	4,958	1,215
1998					10	0	0	0	5,132	732
1999					-3,799	0	12,957	48	9,383	72
2000					-276	333	17,718	280	10,949	62
2001					-26	871	18,456	316	3,698	718
2002					169	131	14,970	206	4,041	63
2003					-120	594	28,245	2,041	11,724	877
2004	84,312	7,389	14,812	48,218	-5,801	8,048	40,011	3,460	35,019	8,019
2005	144,967	1,477	5,787	17,811	-572	3,058	57,566	3,080	98,525	13,933
<u>2006</u>	<u>242,566</u>	<u>6,670</u>	<u>21,353</u>	<u>52,815</u>	<u>421</u>	<u>1,400</u>	<u>53,847</u>	<u>2,116</u>	<u>123,586</u>	<u>19,372</u>
Total	471,845	15,536	41,952	118,844	-9,752	16,310	737,477	13,548	610,460	46,076

Discou

Prior					0.770	0.812	0.722	0.510	0.746	0.955
1997					0.787	0.850	0.752	0.725	0.742	0.933
1998					0.785	0.796	0.748	0.700	0.766	0.817
1999					0.811	0.883	0.774	0.574	0.752	0.820
2000					0.816	0.827	0.792	0.648	0.800	0.885
2001					0.851	0.882	0.789	0.808	0.816	0.869
2002	0.977	0.977	0.977	0.977	0.864	0.866	0.791	0.838	0.838	0.831
2003	0.954	0.954	0.954	0.954	0.876	0.922	0.807	0.869	0.835	0.834
2004	0.956	0.975	0.932	0.958	0.895	0.914	0.812	0.882	0.819	0.835
2005	0.959	0.977	0.937	0.961	0.902	0.920	0.824	0.889	0.831	0.846
2006	0.947	0.971	0.943	0.969	0.920	0.876	0.870	0.869	0.831	0.881

Part :	S
Accid	Guaranty
<u>Year</u>	<u>Fin/Mortg</u>

Reserv

Prior	
1997	
1998	
1999	
2000	
2001	
2002	
2003	
2004	2,673
2005	0
<u>2006</u>	<u>0</u>
Total	2,673

Discou

Prior	
1997	
1998	
1999	
2000	
2001	
2002	0.977
2003	0.954
2004	0.936
2005	0.941
2006	0.956

<u>Code</u>	<u>State</u>	<u>Prem Tax Rate</u>		<u>All</u>	<u>Additional Taxes</u>		
		<u>Property</u>	<u>Casualty</u>	<u>Lines</u>	<u>Fire</u>	<u>Muni Prop</u>	<u>Muni Cas</u>
AL	Alabama	7.60%	4.60%	0.0360		0.0400	0.0100
AK	Alaska	2.70%	2.70%	0.0270			
AZ	Arizona	2.20%	2.00%	0.0200	0.0020		
AR	Arkansas	3.00%	2.50%	0.0250	0.0050		
CA	California	2.35%	2.35%	0.0235			
CO	Colorado	2.00%	2.00%	0.0200			
CT	Connecticut	2.00%	2.00%	0.0200			
DE	Delaware	2.00%	2.00%	0.0200			
DC	Dist Colomb	2.00%	2.00%	0.0200			
FL	Florida	2.85%	1.75%	0.0175	0.0110		
GA	Georgia	5.75%	4.75%	0.0225	0.0100	0.0250	0.0250
HI	Hawaii	4.27%	4.27%	0.0427			
ID	Idaho	2.75%	2.75%	0.0275			
IL	Illinois	1.50%	0.50%	0.0050	0.0100		
IN	Indiana	2.00%	2.00%	0.0200			
IA	Iowa	2.00%	2.00%	0.0200			
KS	Kansas	2.00%	2.00%	0.0200			
KY	Kentucky	16.55%	15.80%	0.0200	0.0075	0.1380	0.1380
LA	Louisiana	7.20%	3.70%	0.0300	0.0350	0.0070	0.0070
ME	Maine	3.40%	2.00%	0.0200	0.0140		
MD	Maryland	2.00%	2.00%	0.0200			
MA	Massachusetts	2.28%	2.28%	0.0228			
MI	Michigan	2.00%	2.00%	0.0200			
MN	Minnesota	2.00%	2.00%	0.0200	0.0000		
MS	Mississippi	4.00%	3.00%	0.0300	0.0100		
MO	Missouri	2.00%	2.00%	0.0200			
MT	Montana	5.25%	2.75%	0.0275	0.0250		
NE	Nebraska	2.75%	2.00%	0.0200	0.0075		
NV	Nevada	3.50%	3.50%	0.0350			
NH	New Hampshire	2.00%	2.00%	0.0200			
NJ	New Jersey	2.10%	2.10%	0.0210			
NM	New Mexico	3.00%	3.00%	0.0300			
NY	New York	2.00%	2.00%	0.0200			
NC	North Carolina	3.85%	2.02%	0.0202	0.0183		
ND	North Dakota	2.00%	2.00%	0.0200			
OH	Ohio	2.15%	1.40%	0.0140	0.0075		
OK	Oklahoma	2.57%	2.25%	0.0225	0.0032		
OR	Oregon	3.00%	2.00%	0.0200	0.0100		
PA	Pennsylvania	2.00%	2.00%	0.0200			
RI	Rhode Island	2.00%	2.00%	0.0200			
SC	South Carolina	5.25%	3.25%	0.0125	0.0200	0.0200	0.0200
SD	South Dakota	3.00%	2.50%	0.0250	0.0050		
TN	Tennessee	3.25%	2.50%	0.0250	0.0075		
TX	Texas	1.70%	1.70%	0.0170			
UT	Utah	2.25%	2.25%	0.0225			
VT	Vermont	2.00%	2.00%	0.0200			
VA	Virginia	3.29%	2.29%	0.0229	0.0100		
WA	Washington	2.00%	2.00%	0.0200			
WV	West Virginia	4.50%	4.00%	0.0400	0.0050		
WI	Wisconsin	4.00%	2.00%	0.0200	0.0200		
WY	Wyoming	2.00%	2.00%	0.0200			

Other Liability - Claims Made
Development of Expense Provisions and Permissible Loss Ratio
ACE Consolidated

	Net IEE Data in (000) - ACE Consolidated			
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Total</u>
(1) Written Premium	1,410,208	1,340,500	1,044,440	3,795,148
(2) Earned Premium	1,258,003	1,322,595	1,079,843	3,660,441
(3) Commission & Brokerage Fees	110,047	89,353	-92,856	106,544
(4) Other Acquisition Expense	53,039	48,992	50,972	153,003
(5) General Expense	97,149	100,488	86,406	284,043
(6) Taxes, Licenses, and Fees	42,460	45,940	46,477	134,877
(7) Unallocated LAE	123,455	159,019	143,161	425,635
(8) Allocated LAE	342,803	149,727	199,508	692,038
				<u>Average</u>
(3)/(1) Commission & Brokerage Fees	7.8%	6.7%	-8.9%	2.8%
(4)/(2) <u>Other Acquisition Expense</u> Total Production Expense	4.2%	3.7%	4.7%	4.2%
(5)/(2) General Expense	7.7%	7.6%	8.0%	7.8%
(6)/(1) Taxes, Licenses, and Fees	3.0%	3.4%	4.4%	3.6%
(7)/(2) Unallocated LAE	9.8%	12.0%	13.3%	11.6%
(8)/(2) Allocated LAE	27.2%	11.3%	18.5%	18.9%

Expense Provision

Pre Tax Profit Provision - Target
Investment Income Recognition
Pre Tax Profit Provision - Net of Inv Inc

Permissible Loss and LAE Ratio

Exhibit 1
Sheet 1

Selected

2.8%

4.2%

7.0%

7.8%

3.6%

N/A

N/A

18.40%

	<u>Standard</u>	<u>Wshngtn</u>
5.0%	5.0%	13.6%
<u>-13.2%</u>	<u>-13.2%</u>	<u>-18.6%</u>
-8.2%	-8.2%	-5.0%

89.8%