



**25** years of  
insuring progress

## ACE Acquisition of Rain and Hail Insurance Service, Inc.

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*September 14, 2010*



# Safe Harbor Disclosure

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Forward-looking statements, including references to the acquisition process, expected synergies and future operations, savings and efficiencies, EPS accretion, returns on investment and required capital, and financial forecasts (including pro forma forecasts and estimates), are being made in this presentation; actual results could differ materially from projected results

Factors that could cause actual results to differ materially include, but are not limited to:

- If the acquisition of Rain and Hail Insurance Service, Inc. were not to close, if Rain and Hail Insurance Service, Inc. and its subsidiaries were to perform differently than currently expected, if management departed unexpectedly or if anticipated expense-related efficiencies are not realized
- The competitive environment in which we and Rain and Hail Insurance Service, Inc. operate, including pricing and policy trends
- The agriculture industry and regulatory oversight of that industry
- Developments in financial markets, including changes in interest rates, availability of credit or exchange rates
- The actual amount of new and renewal business, market acceptance of our products and risks associated with new products
- The occurrence of catastrophic events or other insured or reinsured events with a frequency or severity exceeding estimates and actual loss experience
- The amount and timing of reinsurance collections and credit developments among reinsurers
- The uncertainties in the loss reserving and claims settlement process
- Rating agency action
- Economic, legal, tax, regulatory, litigation, judicial, legislative and governmental developments or uncertainties and the resulting effects
- See our SEC filings and our latest earnings press release and financial supplement, which are available on our website, for more information on factors that could affect our forward looking statements



# Compelling Strategic Transaction

ACE is acquiring Rain and Hail Insurance Service, Inc., the holding company of Rain and Hail LLC, one of the largest MGAs serving the U.S. crop insurance industry, and Agri General Insurance Company (AGIC), an insurer specializing in writing multiple peril crop insurance, crop-hail insurance, and other named perils on growing crops.

## Strong Industrial Logic

- Acquisition is consistent with ACE's defined specialty lines strategy
- ACE has in-depth knowledge of Rain and Hail Insurance Service, Inc. ("Rain and Hail") through its long-standing relationship as insurer and shareholder dating back to 1980, limiting transaction execution risk
- Rain and Hail acts as ACE's Managing General Agent (MGA) under ACE's Standard Reinsurance Agreement (SRA) with the federal government; virtually all of the company's gross premiums flow through ACE under ACE's SRA
- Highly successful and profitable franchise
  - Rain and Hail Insurance Service, Inc. (consolidated) produced 2009 gross premiums of \$2.0 billion, net premiums of \$0.8 billion and GAAP net income of \$199 million
- Crop insurance not correlated to broader P&C commercial insurance pricing cycle
  - Increases ACE's proportion of less-cyclical business
  - Further diversifies ACE's global product mix
- Recent finalization of SRA provides greater predictability of future terms

## Attractive Specialty Franchise

- 2<sup>nd</sup> largest U.S. crop insurer; serving America's farmers since 1919
- Focused, experienced and stable management team and staff
- Well-established brand with extensive distribution through over 11,000 appointed agents
- Superior, proven financial track record (5-year average statutory combined ratio of 73%)



# Summary Transaction Terms

Consideration	<ul style="list-style-type: none"><li>■ Approximately \$1.1 billion cash consideration for 80% of shares not owned by ACE</li><li>■ Funded with available ACE cash on hand</li><li>■ Final purchase price to be adjusted based on 12/31/10 closing balance sheet</li></ul>
Valuation	<ul style="list-style-type: none"><li>■ 1.59x GAAP book value at 12/31/10E (projected to be \$840 million)</li><li>■ 6.7x 2009A earnings</li></ul>
Brand & Post-merger Operations	<ul style="list-style-type: none"><li>■ ACE will maintain Rain and Hail's current operations and brand</li><li>■ Rain and Hail will remain a unique and distinct franchise within the ACE Westchester division of the ACE Group and will serve as the core of ACE's Agriculture business going forward</li><li>■ Rain and Hail management team to remain in place</li><li>■ Continuity for major stakeholders and existing business relationships (agents, policyholders, staff)</li></ul>
Timing	<ul style="list-style-type: none"><li>■ Closing subject to regulatory approvals, Rain and Hail shareholder approval, and other closing conditions</li><li>■ Expected close by 12/31/2010</li></ul>



# Financially Attractive Transaction

## Considerable Value Generation Potential under ACE 100% Ownership

- Capital efficiencies and meaningful dividend capacity significantly reduce ACE's effective purchase price in the early years of ownership; 50% of investment repaid within the first 2 years
  - Expected cash payback period is less than 5 years
- Return on capital to exceed ACE's 15% hurdle rate
- Increased retention on profitable program through reduction of 3<sup>rd</sup> party reinsurance purchases
- Over \$900 million in 2011 additional net retained premium volume to ACE
- Modest expense efficiencies expected under ACE infrastructure

## Attractive Transaction Economics for ACE Shareholders

- 2011 return on cash investment, net of dividends, expected to be 16% in 2011 and higher thereafter <sup>(1)</sup>
- Immediately accretive to ACE 2011 financial metrics

	Estimated Impact on 2011
EPS	+ \$0.22
BVPS	+ \$0.18
ROAE	+ 31 bps



# Overview of Rain and Hail Insurance Service, Inc.

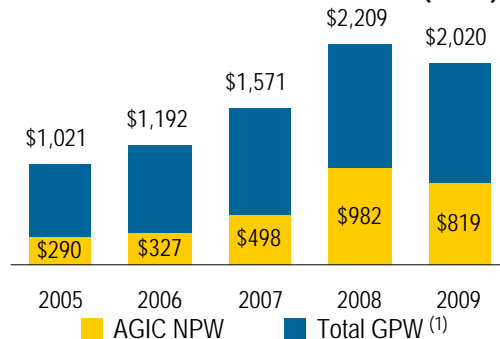
## Company Overview

- Rain and Hail Insurance Service, Inc. is the holding company of Rain and Hail LLC and Agri General Insurance Company (AGIC)
  - Rain and Hail LLC, with its network of over 11,000 agents, is one of the largest MGAs serving the U.S. crop insurance industry
  - AGIC specializes in writing crop insurance coverages including Multiple Peril Crop Insurance (MPCI), crop-hail insurance, other named perils coverage on growing crops, and commercial farmowners insurance
- Headquartered in Johnston, Iowa, with 8 regional offices, including a location in Canada; licensed to write business in 48 states
- ~400 full-time employees
- Profitable underwriting track record, with 5-yr average combined ratio of 73%

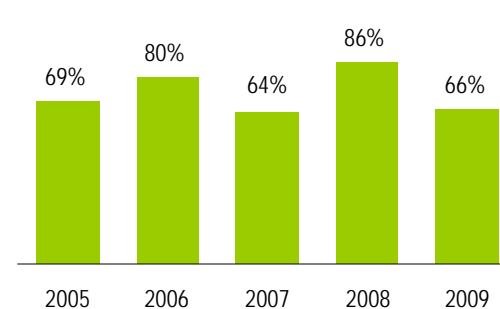
## Existing Relationship with ACE

- ACE acquired its 20% stake in Rain and Hail Insurance Service, Inc. through acquisition of CIGNA P&C in 1999; institutional relationship goes back to 1980
- ACE serves as primary insurer of Rain and Hail's business
- ACE has a seat on Rain and Hail's Board of Directors

Gross and Net Premium Written (\$mm)



AGIC Combined Ratio





# Rain and Hail is the #2 Crop Insurer

## Overview of Crop Market

- MPCl provides farmers with protection based on crop revenue and/or yield expectations
- MPCl business is written through the Federal Crop Insurance Corporation's (FCIC) federally subsidized farm risk management program, administered by the FCIC's Risk Management Agency (RMA)
- Individual insurers receive expense subsidies and reinsurance protection on eligible crop insurance contracts through a Standard Reinsurance Agreement (SRA) contract with the FCIC through the RMA
  - The SRA is consistent among all insurers and is periodically revised by the RMA, most recently earlier in 2010, with terms set for next 5 years

## Unique Dynamics of Crop Insurance Market

- There are currently 16 private insurers that hold SRAs; significant barriers to entry exist due to technology and systems requirements
- An Administration & Operating (A&O) subsidy is paid to insurers to offset a portion of the expense of providing this government sponsored program, thereby reducing insurers' expense ratios
- SRA holders are required to write all business that is submitted; the FCIC program allows insurers to place business in different funds where the government takes varying amounts of risk
- Profitability affected by crop prices and yields
- Crop insurance continues to be a critical risk management tool for the farming industry

## Top 5 U.S. Crop Insurers Ranked by 2009 Direct Premium

\$ in billions			
Crop Company	SRA Holder	2009 Premium	Mkt Share
1 Rural Community Insurance Services	Wells Fargo	\$2.2	24.7%
<b>2 Rain and Hail</b>	<b>ACE</b>	<b>1.9</b>	<b>21.1%</b>
3 NAU Country	QBE (as of 7/1/10)	0.9	10.3%
4 American Financial Group	-	0.8	9.1%
5 ARMtech	Endurance	0.6	6.5%

Source: FCIC accounting reports as of 11/7/09. Based on reinsurance year premiums.

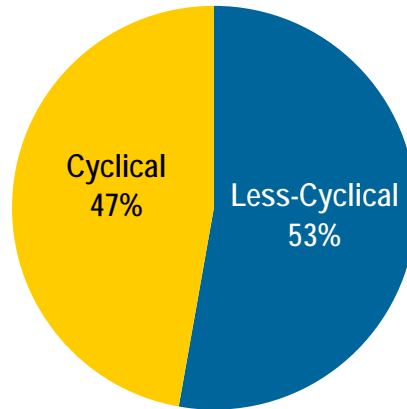


# Transaction Further Diversifies ACE's Portfolio

**Less-Cyclical Products <sup>(1)</sup>**

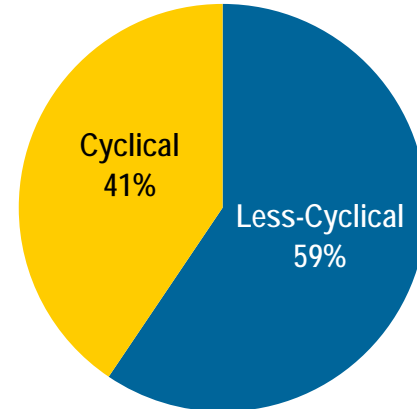
**ACE North America**

ACE 2009 Actual NPW



**\$5.6 billion**

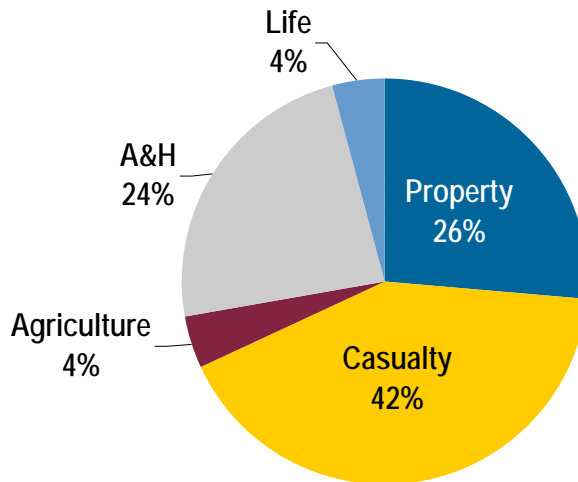
ACE 2009 NPW Pro Forma for R&H <sup>(2)</sup>



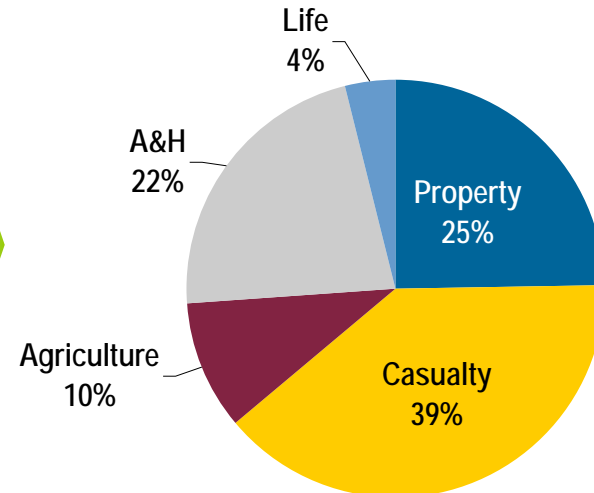
**\$6.5 billion**

**Product Mix**

**ACE Global**



**\$13.3 billion**



**\$14.2 billion**