

October 27, 2008

The Honorable Henry M. Paulson, Jr.
Secretary of the Treasury
United States Department of the Treasury
1500 Pennsylvania Avenue, N.W.
Washington, DC 20220

Via Fax: 202-622-0073

Dear Mr. Secretary:

On behalf of ACE Group Holdings, I write in response to Treasury's inquiry regarding whether insurers should be covered by the Capital Purchase Program ("CPP"). While we supported creation of the rescue plan for deposit-taking institutions, and perhaps for investment banks, we do not support the inclusion of the insurance industry in this program. We believe that the CPP part of the rescue plan should be directed solely at actual instances of market dysfunction that pose systemic risk to the financial system resulting from counter-party failure or major liquidity crises in the credit markets. This is the standard Treasury has announced, and we agree with it.

When we consider the risks of systemic failure of the financial system, the case for governmental capital assistance to insurers is weak or non-existent. There is no information that problems at insurance companies threaten the availability of credit, or counter-party credit exposure, posing systemic financial market risk in general. The public effects of financial difficulties for insurers are, generally speaking, more limited, and they are already ameliorated by the highly regulated nature of the insurance industry in America and throughout the world. Although it is possible to imagine potential systemic financial risk in the form of a widespread failure to make claim payments to policyholders, claimants are already protected in all 50 States by priority rules and capitalization requirements imposed on operating insurance companies throughout the land. There is no information at all to suggest that the protocol normally applicable to insurers who may become "at risk" – guarantee funds, supervision, rehabilitation and ultimately liquidation in the interests of policyholders pursuant to State law – will be ineffectual in the current environment. Even the one seeming exception to these propositions – AIG – was largely the result of problems at the holding company level pertaining to sophisticated financial instruments that placed the entire organization at risk. AIG was acting not as a traditional insurance company but using its holding company as a seeming guarantor of credit worldwide, obligations that have now fallen to the government. We are informed that its operating insurance companies remain well-capitalized.

With regard to liquidity risks, while it is possible that some insurers– particularly life insurers – may face liquidity issues as a result of an inability to liquidate assets to meet current obligations, such a problem can be handled with federal assistance such as the asset-sale part of TARP or the facilities being run by the Federal Reserve. These do not involve government investment in the common equity of the industry. The exchange of assets for cash is the proper remedy for individual liquidity problems as they arise, and it is unnecessary to inject capital through government ownership of insurance companies. Thus, potential liquidity problems at individual insurance companies do not rise to the stated threshold for use of the CPP – the prospect of immediate systemic risk caused by counter-party failure or a widespread breakdown of credit availability. We believe that it is unlikely that prudently managed property-casualty insurers will face such problems. Though there may be liquidity issues in the life insurance segment of the industry, the problems that a few life insurers may face do not warrant broad government capital support, but rather far more focused solutions.

The insurance industry is, by and large, not the cause of the financial crisis. Even in the current environment, private capital is available to insurers at market prices that, though certainly affected by the cascading difficulties of markets right now, remain available within the traditional processes of market capitalism. While there will undoubtedly be exceptional circumstances affecting a few insurers, we believe that a broad program like CPP should not be used to address those problems. Instances of true liquidity problems arising out of particular insurers' portfolios can be dealt with through liquidity-oriented solutions, rather than the general infusion of taxpayer capital.

Our recommendation that CPP not be used for the insurance industry arises out of our agreement with the fundamental standards Treasury has announced for that program, i.e., the avoidance of systemic failure. In turn, that standard arose out of recognition of the risks inherent in governmental capitalization and ownership of private enterprise, and the prospect of unintended consequences. Among the major risks of over-expansion of the CPP are the inherently anti-competitive effects of taxpayer equity capitalization of insurers. The insurance industry has historically been one of the most competitive and it remains so today. A major point of competition – and one that implicates all aspects of management, risk management, profitability, capital efficiency and effective delivery of the right insurance products into the right markets – is access to private capital through navigation of market forces. Insurance pricing is notoriously volatile, particularly within the property-casualty segment, and this reflects competition and access to capital. The infusion of taxpayer capital into insurers (especially at far-below-market rates) will clearly disrupt the normal market forces that sort strong insurers from weak ones. Such an infusion will simply subsidize weaker insurers while unjustifiably eliminating their need to go to the market for capital at market-efficient prices. Were there some indication that such markets are now unavailable, we could see the need for some form of intervention. But that is not the case. That capital is just more expensive than government money under the CPP. In the absence of a broken market and a public crisis, we should reward those companies who make prudent decisions and not subsidize those who do not.

Based on our understanding of the terms of the CPP, capital of this sort has never been available to insurers so inexpensively even in the best of times. This capital will not help alleviate systemic financial risk and will not provide a solution to a broad credited-related liquidity need. It is the wrong tool for individual insurer liquidity issues. If CPP were to be made available, perfectly healthy insurers may well have to accept participation in CPP as a dramatically discounted alternative to the capital markets, or in order to compete with the companies that do participate. Such behavior will turn CPP on its head – It will become a general government capital subsidy rather than a means of crisis correction. Taxpayer capital should be a last resort, and we believe it should not be cheap.

We appreciate the opportunity to provide comments and would welcome a more detailed discussion of our views.

Sincerely,

Evan G. Greenberg
Chairman & Chief Executive Officer