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ACE Progress Report Details Taxation & Transfer Pricing Challenges in Structuring Multinational Insurance Programs

New White Paper Released from ACE and KPMG

New York, February 22, 2011 – Sophisticated buyers of multinational insurance programs want their insurers to provide consistent coverage for their worldwide exposures to risk. They also expect superior service and execution certainty with respect to claims handling.

In addition to consistent coverage, superior service and execution certainty, taxation and transfer pricing should also be a central component of the design and implementation of a compliant multinational insurance program, according to a white paper released today by the ACE Group of insurance and reinsurance companies and KPMG, LLP, a global professional services company.

The white paper, “Structuring Multinational Insurance Programs: Addressing the Taxation and Transfer Pricing Challenge,” is co-authored by ACE Group’s Suresh Krishnan, General Counsel, Multinational Client Group, and Richard Sica, Executive Vice President, ACE Risk Management. Representing KPMG, LLP, co-authors include Lucia Fedina, Ph.D., Managing Director in its Economic and Valuation Services practice, and Aaron Maguire, Partner in its Insurance Tax practice.

The new white paper explores those factors that risk managers and their financial colleagues should consider - with respect to transfer pricing -- when designing and implementing a multinational insurance program.

The discussion includes a summary of how multinational insurance programs could work, the importance of using an arm’s-length, bargained-for exchange standard for allocating premium and loss recoveries, objectively documenting the negotiations, and having an independent third party assess the risks involved—all major elements for a global transfer pricing program.



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The authors' commentary is part of ACE Progress ReportsSM, a collection of white papers, articles, and executive reports on current and emerging risk management issues. This new white paper was produced in conjunction with KPMG, LLP.

“Since many multinational companies consolidate risk management functions in the parent office, the parent frequently takes the lead in negotiating and arranging insurance policies that provide consistent worldwide coverage as well as consistent limits to its worldwide interests. Compliance with local insurance laws is critical, but, without giving consideration to income tax and transfer pricing, may be insufficient to establish a robust and measurably compliant multinational insurance program.” commented Mr. Krishnan of ACE Group. Mr. Sica added, “By entering into appropriate transfer pricing agreements, the purchaser of a master policy may be reasonably assured that the global insurance program will receive the appropriate income tax treatment.”

Ms. Fedina of KPMG stated, “When designing and implementing a multinational insurance program, companies entering into such programs need to, at the outset, understand the income tax consequences. Although insurance regulatory compliance has historically fallen on the shoulders of insurers and insurance brokers, issues related to transfer pricing are largely the concern of the companies purchasing such insurance.” According to Mr. Maguire, “Working with experienced accounting, tax, and financial specialists to design a comprehensive global transfer pricing program can result in a materially compliant international insurance program, and may also ensure that the program ultimately satisfies the collective objectives of the client, insurance brokers, and insurance carrier.”

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About KPMG:

KPMG LLP, the audit, tax and advisory firm (www.us.kpmg.com), is the U.S. member firm of KPMG International Cooperative (“KPMG International”). KPMG International’s member firms have 140,000 professionals, including more than 7,900 partners, in 146 countries

About ACE:

Celebrating 25 years of insuring progress, the ACE Group is a global leader in insurance and reinsurance serving a diverse group of clients. Headed by ACE Limited (NYSE:ACE), a component of the S&P 500 stock index, the ACE Group conducts its business on a worldwide basis with operating subsidiaries in more than 50 countries. Additional information can be found at: www.acegroup.com.