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ACE Limited

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Introduction

The narrative of ACE Limited is a quintessential American story—one defined by innovation, resilience, and an unrelenting drive to address market needs. Emerging in the mid-1980s from the unique pressures facing the U.S. insurance market, ACE was born when leading corporations joined forces to find a solution for a seemingly intractable coverage crisis. Over the ensuing decades, ACE did far more than simply survive: it evolved into a global force, shaping and transforming the very industry that had necessitated its creation.

ACE's journey began in a time of turbulence and uncertainty. The surge in litigation and rapidly increasing claims costs had left numerous American companies exposed, unable to secure adequate excess liability and directors and officers (D&O) insurance. Traditional insurers either withdrew from the market or sharply limited their offerings, creating a vacuum that threatened industries across the country. Into this breach stepped a consortium of thirty-four blue-chip companies, leveraging their collective strength to establish a new enterprise: ACE Limited. This ambitious move marked both an act of self-preservation and a bold exercise in market ingenuity.

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What started as a specialized insurer, headquartered initially in Bermuda with firm American roots, quickly began to chart a course of strategic growth and global expansion. Visionary leadership, first under John Cox and later under Walter Scott and Brian Duperreault, saw the company broaden its product lines, go public, and enter new markets through a series of high-stakes acquisitions. From the incorporation of reinsurance leaders like Tempest Re to its historic purchase of the venerable Cigna property and casualty business, ACE continually reinvented itself to meet new challenges and capture new opportunities.

The new millennium brought with it fresh ambitions and expanding horizons. ACE deepened its presence in emerging markets, diversified its product offerings, and grew through calculated acquisitions. The appointment of Evan G. Greenberg as Chairman and CEO in 2007 signaled a new era, including the strategic shift of the company's headquarters to Zurich, Switzerland. Despite its global footprint and eventual re-domiciling, ACE's American conception and market-driven philosophy remained central to its identity, influencing everything from client relationships to risk assessment and corporate culture.

The defining moment in ACE's modern history came with its acquisition of The Chubb Corporation in 2016. This transformative deal created not only the world's largest publicly traded property and casualty insurer but also united two icons under a single, globally recognized brand: Chubb Limited. The newly combined company, drawing on

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ACE’s tradition of aggressive expansion and Chubb’s heritage of underwriting excellence, positioned itself at the forefront of the international insurance market with unmatched reach, expertise, and scale.

This book explores the development of ACE Limited from its inception to its reemergence as Chubb Limited. It provides an in-depth look at the decisions, personalities, and market forces that shaped the company’s evolution, as well as a review of its current state and future prospects. Through its rise, transformation, and enduring influence, the story of ACE Limited offers insights into the workings of the global insurance industry and the forces that continue to shape American business on the world stage.

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CHAPTER ONE: The Insurance Crisis of the 1980s: ACE's Genesis

The 1980s in the United States were a period of dynamic economic shifts, cultural evolution, and, for many businesses, a looming crisis in the realm of liability insurance. This was not a slow-burn problem; rather, it was a rapid escalation of costs and, in some critical areas, a shocking unavailability of coverage that threatened to grind industries to a halt. The roots of this turmoil were complex, intertwined with legal precedents, economic cycles, and a changing societal landscape that became increasingly litigious.

Prior to the mid-1980s, the insurance market had experienced a period of fierce competition, driven in part by high interest rates. Insurers, eager to attract premiums to invest, often lowered prices, sometimes even underwriting risks that, in hindsight, warranted higher rates. This era of aggressive "cash-flow underwriting" meant that companies were making significant profits from their investments, even if their core underwriting business was losing money.

However, as interest rates began to decline in the early 1980s, this dynamic shifted dramatically. The robust investment income that had previously offset underwriting losses dwindled, forcing insurers to confront the true cost of the risks they had taken on. This correction led to a sharp and sudden increase in premiums across various lines of liability insurance, alongside a dramatic reduction in available coverage. This phenomenon, known as the "insurance cycle," saw premiums for general liability insurance nearly triple between 1984 and 1986, while medical malpractice insurance premiums doubled in the same period.

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The crisis was particularly acute in areas such as excess liability and directors and officers (D&O) insurance. Excess liability coverage, which kicks in after a company's primary insurance limits are exhausted, became incredibly expensive and difficult to obtain. Similarly, D&O insurance, vital for protecting corporate leadership from personal financial ruin due to lawsuits, saw renewal premium increases exceeding 200%. Deductibles soared, coverage became more restrictive, and policy limits were slashed. This left many companies, from small businesses to major corporations, vulnerable to potentially catastrophic financial losses from lawsuits.

Several factors contributed to this sudden and severe hardening of the insurance market. One significant element was the expansion of tort law. Tort law deals with civil wrongs that cause a claimant to suffer loss or harm, resulting in legal liability for the person who commits the tortious act. Throughout the 1970s and into the 1980s, there

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was an expansion of tort doctrines, making it easier for individuals and entities to bring lawsuits and, in some cases, leading to larger jury awards. This proliferation of litigation and escalating claim costs directly impacted insurers' profitability and their willingness to provide coverage.

For example, the average cost of paid D&O claims, excluding legal fees, rose significantly in the early to mid-1980s. This increase in payouts naturally led insurers to project higher future losses, which in turn drove up the price of insurance. The fear of unpredictable and massive jury awards, coupled with the rising costs of defense, made insurers extremely cautious.

The crisis was also exacerbated by a disruption in the reinsurance market. Reinsurance, essentially insurance for insurance companies, plays a crucial role in spreading risk. As primary insurers faced increased losses and uncertainty, their reinsurers, particularly European ones, became more hesitant to provide coverage for American risks. This reduction in reinsurance capacity further constrained the ability of primary insurers to offer coverage, creating a ripple effect throughout the market.

Some theories even suggested collusion among insurance companies, arguing that the crisis was engineered through price-fixing. However, other explanations pointed to the natural progression of the underwriting cycle and the declining interest rates as key drivers. Regardless of the precise interplay of causes, the impact on businesses was undeniable and profound.

Companies in diverse sectors, including healthcare, pharmaceuticals, manufacturing, and banking, found themselves struggling to secure adequate protection. Non-profit organizations and government entities were also severely affected, with many unable to offer crucial social, medical, or recreational services due to the prohibitive cost or outright unavailability of liability coverage. Public outcry was widespread, and lawmakers across the nation began to grapple with proposals to address the crisis.

In California, for instance, testimony before the State Assembly highlighted the significant loss of human service programs, such as foster care and health services, directly attributable to soaring premiums and widespread policy cancellations. Motels removed diving boards from their swimming pools, pharmaceutical firms halted innovation on products with high liability risks, and entire industries, like private aircraft manufacturing, faced serious threats. The economic disruption was palpable, extending far beyond the confines of the insurance market itself.

The severity of the situation forced many insureds, particularly in the financial and energy sectors, to consider alternative methods for managing their risk. This included the formation of "captives," essentially self-insurance entities, or joining risk retention groups to collectively purchase insurance. States also began to enact tort reforms to limit the surge in insurance losses and premiums, and some laws were passed to

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encourage these alternative risk management methods.

It was within this turbulent and uncertain landscape that the idea for ACE Limited began to coalesce. The traditional insurance market, with its sudden withdrawal and exorbitant pricing, had failed to meet a fundamental need for corporate America. This void created an opportunity, a clear demand for a new, stable, and reliable source of high-level liability coverage. The crisis, therefore, was not merely a problem; it was the fertile ground from which a novel solution would emerge.

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