

Edgar Filing: ST PAUL COMPANIES INC /MN/ - Form 8-K

ST PAUL COMPANIES INC /MN/
Form 8-K
July 24, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

Date of Report (Date of earliest
event reported): July 23, 2002

THE ST. PAUL COMPANIES, INC.

(Exact name of Registrant as specified in its charter)

| | | |
|-----------------------------|-----------------------------|---|
| Minnesota | 001-10898 | 41-0518860 |
| ----- | ----- | ----- |
| (State of Incorporation) | (Commission File Number) | (I.R.S. Employer Identification No.) |

| | |
|---|------------|
| 385 Washington St., St. Paul, MN | 55102 |
| ----- | ----- |
| (Address of principal executive offices) | (Zip Code) |

(651) 310-7911

(Registrant's telephone number,
including area code)

N/A

(Former name or former address, if changed since last
report)

Item 5. Other Events

Edgar Filing: ST PAUL COMPANIES INC /MN/ - Form 8-K

The St. Paul Companies, Inc. today announced its consolidated financial results for the second quarter and six months ended June 30, 2002. Those results are summarized as follows:

| (in millions except per share amounts) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|--|-------------------------------|----------------|-----------------------------|----------------|
| | 2002 | 2001 | 2002 | 2001 |
| Revenues: | | | | |
| Premiums earned | \$1,920 | \$1,743 | \$3,855 | \$3,371 |
| Net investment income | 286 | 300 | 579 | 635 |
| Asset management | 89 | 85 | 179 | 170 |
| Realized investment gains (losses) | (33) | 7 | (71) | 84 |
| Other | 52 | 28 | 89 | 65 |
| Total revenues | 2,314 | 2,163 | 4,631 | 4,325 |
| Expenses | | | | |
| Insurance losses and loss adjustment expenses | 1,986 | 1,346 | 3,379 | 2,529 |
| Policy acquisition expenses | 405 | 356 | 815 | 736 |
| Operating and administrative expenses | 287 | 328 | 605 | 629 |
| Total expenses | 2,678 | 2,030 | 4,799 | 3,894 |
| Income (loss) from continuing operations before income taxes | (364) | 133 | (168) | 431 |
| Income tax expense (benefit) | (146) | 37 | (98) | 126 |
| Income (loss) before cumulative effect of accounting change | (218) | 96 | (70) | 305 |
| Cumulative effect of accounting change, net of taxes | - | - | (6) | - |
| Income (loss) from continuing operations | (218) | 96 | (76) | 305 |
| Discontinued operations, net of taxes | (5) | 8 | (14) | 1 |
| Net income (loss) | \$ (223) | \$ 104 | \$ (90) | \$ 306 |
| Basic earnings (loss) per share: | | | | |
| Income (loss) from continuing operations | \$(1.07) | \$ 0.43 | \$(0.41) | \$ 1.37 |
| Discontinued operations, net of taxes | (0.02) | 0.04 | (0.06) | 0.01 |
| Net income (loss) | \$(1.09) | \$ 0.47 | \$(0.47) | \$ 1.38 |
| Diluted earnings (loss) per share: | | | | |
| Income (loss) from continuing operations | \$(1.07) | \$ 0.41 | \$(0.41) | \$ 1.32 |

Edgar Filing: ST PAUL COMPANIES INC /MN/ - Form 8-K

| | | | | |
|--|-----------|---------|-----------|---------|
| Discontinued operations, net of taxes | (0.02) | 0.04 | (0.06) | 0.01 |
| | ----- | ----- | ----- | ----- |
| Net income (loss) | \$ (1.09) | \$ 0.45 | \$ (0.47) | \$ 1.33 |
| | ===== | ===== | ===== | ===== |
| Dividends declared on common stock | \$ 0.29 | \$ 0.28 | \$ 0.58 | \$ 0.56 |
| | ===== | ===== | ===== | ===== |

The St. Paul's results in the second quarter of 2002 included a \$585 million pretax loss provision (\$380 million after-tax) related to the previously announced settlement of the Western MacArthur asbestos litigation. Excluding the impact of that settlement, net income for the second quarter would have been \$157 million, or \$0.71 per diluted share. The company's estimate of the impact of the Western MacArthur settlement includes the application of approximately \$150 million of asbestos reserves and \$250 million in net reinsurance recoverables. Related to the Western MacArthur settlement, and as part of an in-depth analysis of the company's asbestos and environmental reserves, the company recorded a \$150 million reduction in net environmental reserves, and a corresponding \$150 million increase in net asbestos reserves. The Western MacArthur litigation settlement agreement is filed as an exhibit to this Current Report on Form 8-K.

The company established \$941 million in net reserves for the September 11, 2001 terrorist attack. Net paid losses were \$63 million in the second quarter, and totaled \$210 million through June 30, 2002.

The table on the following page summarizes key financial results for each of The St. Paul's property-liability underwriting business segments (underwriting results are presented on a GAAP basis; combined ratios are presented on a statutory accounting basis).

| (dollars in millions) | Three Months Ended June 30 | | Six Months Ended June 30 | |
|-------------------------|-------------------------------|-------|-----------------------------|-------|
| | 2002 | 2001 | 2002 | 2001 |
| ----- | ----- | ----- | ----- | ----- |
| | n | | | |
| Specialty Commercial: | | | | |
| Written Premiums | \$604 | 485 | 1,180 | 941 |
| Underwriting Result | \$60 | 17 | 64 | 7 |
| Combined Ratio | 88.5 | 95.7 | 93.8 | 98.9 |
| Commercial Lines Group: | | | | |
| Written Premiums | \$381 | 388 | 887 | 818 |
| Underwriting Result | \$(530) | 37 | (527) | 114 |
| Combined Ratio | 226.5 | 90.3 | 161.6 | 83.1 |

Edgar Filing: ST PAUL COMPANIES INC /MN/ - Form 8-K

| | | | | |
|---|---------|-------|-------|-------|
| Surety and Construction: | | | | |
| Written Premiums | \$329 | 257 | 677 | 521 |
| Underwriting Result | \$5 | 21 | 9 | 41 |
| Combined Ratio | 96.7 | 87.8 | 95.6 | 89.1 |
| Health Care: | | | | |
| Written Premiums | \$29 | 147 | 177 | 324 |
| Underwriting Result | \$(102) | (124) | (100) | (254) |
| Combined Ratio | 205.0 | 175.3 | 142.4 | 172.9 |
| Lloyd's and Other: | | | | |
| Written Premiums | \$245 | 296 | 312 | 394 |
| Underwriting Result | \$(20) | (28) | (59) | (51) |
| Combined Ratio | 111.2 | 113.5 | 120.9 | 115.2 |
| Total Primary Insurance: | | | | |
| Written Premiums | \$1,588 | 1,573 | 3,233 | 2,998 |
| Underwriting Result | \$(587) | (77) | (613) | (143) |
| Combined Ratio | 137.8 | 105.2 | 120.1 | 104.6 |
| Reinsurance: | | | | |
| Written Premiums | \$201 | 280 | 662 | 701 |
| Underwriting Result | \$(4) | (36) | 11 | (57) |
| Combined Ratio | 104.5 | 114.6 | 96.5 | 107.5 |
| Total Property- Liability Insurance: | | | | |
| Written Premiums | \$1,789 | 1,853 | 3,895 | 3,699 |
| GAAP Underwriting Result | \$(591) | (113) | (602) | (200) |
| Statutory Combined Ratio: | | | | |
| Loss and Loss Expense Ratio | 103.5 | 77.2 | 87.7 | 75.0 |
| Underwriting Expense Ratio | 28.8 | 29.3 | 28.3 | 30.2 |
| Combined Ratio | 132.3 | 106.5 | 116.0 | 105.2 |
| | ===== | ===== | ===== | ===== |

In the fourth quarter of 2001, The St. Paul announced that it would exit its worldwide Health Care business, significantly reposition its Reinsurance and Lloyd's operations, and that such operations would exit certain types of business and exit a number of non-U.S. primary insurance markets. The businesses being exited are termed "runoff" businesses. In the second quarter of 2002, the company announced its intention to sell the ongoing reinsurance operations of St. Paul Re to Platinum Underwriters Holdings, Ltd. upon Platinum's completion of its initial public offering. The St. Paul would retain the liabilities and associated reserves for contracts incepting prior to January 1, 2002. The company intends to execute this strategy as capital market conditions allow. As a result, all reinsurance underwriting operations are now considered runoff business. The following table summarizes the written premiums and underwriting results, by segment, of those businesses being exited.

Edgar Filing: ST PAUL COMPANIES INC /MN/ - Form 8-K

| (in millions) | Three Months Ended | | Six Months Ended | |
|--------------------------|--------------------|-------|------------------|-------|
| | June 30 | | June 30 | |
| ----- | 2002 | 2001 | 2002 | 2001 |
| Specialty Commercial: | | | | |
| Written Premiums | \$15 | 35 | 42 | 55 |
| Underwriting Result | \$(6) | (12) | (10) | (17) |
| Surety and Construction: | | | | |
| Written Premiums | \$- | 2 | 2 | 3 |
| Underwriting Result | \$1 | 1 | 2 | 1 |
| Health Care: | | | | |
| Written Premiums | \$29 | 147 | 177 | 324 |
| Underwriting Result | \$(102) | (124) | (100) | (254) |
| Lloyd's and Other: | | | | |
| Written Premiums | \$65 | 169 | 115 | 241 |
| Underwriting Result | \$(29) | (29) | (53) | (46) |
| | ----- | ----- | ----- | ----- |
| Total Primary Insurance: | | | | |
| Written Premiums | \$109 | 353 | 336 | 623 |
| Underwriting Result | \$(136) | (164) | (161) | (316) |
| Reinsurance: | | | | |
| Written Premiums | \$201 | 280 | 662 | 701 |
| Underwriting Result | \$(4) | (36) | 11 | (57) |
| | ----- | ----- | ----- | ----- |
| Total Runoff Operations: | | | | |
| Written Premiums | \$310 | 633 | 998 | 1,324 |
| | ===== | ===== | ===== | ===== |
| GAAP Underwriting Result | \$(140) | (200) | (150) | (373) |
| | ===== | ===== | ===== | ===== |

A significant portion of the company's loss reserves relate to runoff businesses. The payments for claims from these reserves will negatively impact investment income as invested assets related to the reserves decline.

Item 7. Exhibits

An Exhibit Index is included herein.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Edgar Filing: ST PAUL COMPANIES INC /MN/ - Form 8-K

THE ST. PAUL COMPANIES, INC.

By: Bruce A. Backberg

Bruce A. Backberg
Senior Vice President

Date: July 23, 2002

EXHIBIT INDEX

Exhibit

- 99 (a) Settlement Agreement dated June 3, 2002 among MacArthur Company, Western MacArthur Company and Western Asbestos Company, together with each of their predecessors and successors, affiliates and subsidiaries, United States Fidelity & Guaranty Co., The St. Paul Fire and Marine Insurance Company, The St. Paul Companies, Inc., its affiliates and subsidiaries, and the Asbestos Plaintiffs.