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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
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(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

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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

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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

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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.

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(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.

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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.