Company Name: Chubb
Company Ticker: CB US
Date: 2019-02-06
Event Description: Q4 2018 Earnings Call

Market Cap: 59,641.33
Current PX: 129.88
YTD Change($): +.70
YTD Change(%): +.542

Bloomberg Estimates - EPS
Current Quarter: 2.693
Current Year: 10.969
Bloomberg Estimates - Sales
Current Quarter: 8240.500
Current Year: 34926.333

Q4 2018 Earnings Call

Company Participants

- Karen L. Beyer
- Evan G. Greenberg
- Philip V. Bancroft
- Paul J. Krump

Other Participants

- Kai Pan
- Michael Zaremski
- Elyse B. Greenspan
- Jon Paul Newsome
- Yaron Kinar
- Jay Gelb
- Brian Meredith
- Meyer Shields
- Larry Greenberg
- Ryan J. Tunis

MANAGEMENT DISCUSSION SECTION

Karen L. Beyer

GAAP and Non-GAAP Financial Measures

We will also refer to non-GAAP financial measures

Reconciliations of which to the most direct comparable GAAP measures and related details are provided in our earnings press release and financial supplement

Evan G. Greenberg

Business Highlights

Core Operating Income

- As you saw from the numbers, we reported core operating income in Q4 $2.02 per share
- The quarter was marked by greater volatility from elevated natural catastrophes around the world from a variety of perils and from increased property loss activity in the U.S
- On the other hand, we had strong premium revenue growth, enjoyed improved commercial P&C pricing globally, and produced record net investment income

- Core operating income was $935mm, and included $506mm of after-tax CAT losses, compared with $1.5B of income last year, which included a tax benefit of $450mm, and CAT of $331mm
- Simply to give you a sense of underlying strength, excluding CAT and the tax benefit, core operating income per share in the quarter was up 6.5% over prior

Published P&C Combined Ratio

- Our published P&C combined ratio was 93.1% and included 8.5 points of CAT on the combined
- On the current accident year basis, excluding CAT, the combined was 88.3%, vs. 86.4% prior year
- The accident year was impacted in the quarter by elevated large loss activity in our U.S. commercial property portfolio, in both our major account and E&S businesses, as well as in our middle market division, and this added about 1.4 points to our combined ratio
- From what we can see, this is simply volatility or variability in a short period result, not a trend

U.S. Homeowners Book

- We also continued to experience elevated losses in our U.S. homeowners book, which we have discussed in some detail with you
- We are on track with the pricing, product, and underwriting strategies that we outlined on last quarter's call
- Given the state by state regulatory nature of this business, it will take some time to show through in the results on a run rate basis
- On the plus side of short tail activity, our combined ratio in the quarter included a strong contribution from our crop insurance business, as well as positive pre-tax prior period reserve development, which benefited by $130mm from a onetime reinsurance settlement and our legacy A&E runoff liabilities

Premium Revenue Growth

- Premium revenue growth in the quarter was 5.8% in constant dollars, and FX then had a negative impact of 1.6 points, bringing the published growth to over 4%
- The pricing environment overall improved over Q3 in a number of our businesses, and this momentum continued into January with much better tone and actual rate movement compared to Q4 prior year
- In fact, in terms of price movement globally, this was the best and most broad-based quarter of the year, and the best in several years
  - We are also seeing more dislocation in certain markets, and that means opportunity

Geoeconomic Environment

- For the full year, our growth was 4.4%
- Geoeconomic environment, not withstanding, I expect we will, at a minimum, maintain that range in constant dollars, and with some natural variability quarter-to-quarter
  - There is a great deal of optimism and positive energy across the company

Net Investment Income

- Net investment income in the quarter was $903mm, was up about 3.5%, and contributed to net investment income for the year of $3.6B
- Both were records
- Our results are being driven by strong positive cash flow, and higher reinvestment rates that now exceed our current book yield, and are beginning to benefit from an improving interest rate environment

Core Operating Income

- Core operating income for the year was $4.4B or $9.44 per share, up 18% on a per share basis from 2017
- Earnings were split between P&C underwriting income of $2.6B and adjusted pre-tax investment income of $3.6B.
- For your information, pre-tax CAT losses for the year were $1.6B, about $700mm more than we planned for when calculating our expected CAT amount
- Our earnings led to a core operating ROE of 8.7% for the year or 9.8% on an expected CAT basis
- For the year, the P&C combined ratio was 90.6%, compared to 94.7% prior
- And on a current accident year basis, excluding CAT, the combined ratio for the year was 88% vs. 87.6% prior year

Book Value per Share

- Book value per share was down about 0.5%, and tangible book per share was flat, unfavorably impacted by the mark-to-market effect of rising interest rates and foreign exchange
- Adjusting for the mark, book and tangible per share were up 2.7% and 5.8%, respectively
- Phil will have more to say about investment income, book value, CAT and prior period development

Market Conditions

- Turning to growth in market conditions
- Commercial P&C pricing and underwriting for the business we wrote in the quarter was as good or better than what we saw in Q3 and overall for the year and materially better than this time last year
- The industry, and Chubb is no exception, is experiencing margin pressure in numerous classes and an improving rate environment, particularly in the U.S. and the London wholesale market, is important
- I hope it continues to improve and spread because rate is needed in other markets
- I mentioned at the opening that we began to see some signs of dislocation on the margin in the market as some carriers curbed their appetite for certain lines of business by reduced line sizes or exiting from markets altogether
- And that's another marker of affirming our market correction

North America

- In North America, the positive pricing trend in Q3 continued, in fact, improved in several areas, particularly in our major accounts, retail and E&S wholesale divisions
- Overall rates in North America were up about 2.5%, the same as last quarter, while renewal price change, which includes exposure, was up 4%
- Retention of our customers remains strong across all of our North America commercial and personal P&C businesses
- Renewal retention as measured by premium of nearly 92%

Accounts and Specialty

- In major accounts and specialty, which doesn't include agriculture, premiums were up 5%
- Rates for major accounts were up over 3% with risk management rates up less than 1%, while excess casualty rates were up 10%, property was up 12%, and public D&O was up 8.5%

Westchester Specialty Business

- In our Westchester specialty business, rates were up 4.5%
- In our North American middle market and small commercial business, premiums overall were up over 4.5% in the quarter, our best growth in many quarters
- New business was up almost 14% with a meaningful percentage of that coming from growth initiatives
- Renewal retention in our middle market business was 90%
- Middle market pricing, which includes rate and exposure change, was up 2.5%

U.S. Small Commercial Business

- In our U.S. small commercial business, premium revenue continued its positive growth momentum with net premiums up almost 30%
- In our North America personal lines business, net premiums in the quarter declined 2.5%
- In the quarter, we added California to our existing homeowners' quota share treaty effective October 1, and this impacted growth by 4.2 points
- Excluding premiums paid to reinsurers, premiums were up 2.3%
  - Retention remained very strong at about 96%
- Homeowners pricing was up 7.5% in the quarter, which included again both rate and exposure change
- Our North American agriculture business had a very good year, highlighted by a full-year combined ratio of 75.5%, which was about flat with prior of 74%
- Our crop insurance business is a great franchise, and we are the clear leaders

General Insurance Operations

- Turning to our overseas general insurance operations, $10B business
- As I mentioned, we experienced excellent growth this quarter in our international P&C division

- Net premiums written for our international retail division were up 8% in constant dollars, and FX then had a negative impact of 4.5 points
    - This compared favorably to YTD constant dollar growth of about 6%
- Growth was broad-based
- Asia Pacific and Latin America grew 10% and 8.5%, respectively, while the continent was up over 5%, and UK/Ireland was up 4%
- We benefited from our growth initiatives and improved price environment in certain markets, particularly London and Australia

Commercial P&C Lines

- Net premiums for our commercial P&C lines overall, international retail were up 8.5% in the quarter with strong growth in particular coming from our middle market and small commercial initiatives
- Net premiums for our London market wholesale business were up 12% in the quarter in constant dollars
    - This business is growing again on the back of improved pricing after several years of shrinking
- It's an excellent example of how Chubb is nimble and can quickly take advantage of changing in dynamic market conditions

Pricing Conditions

- As for pricing conditions outside the U.S., rates in our international retail and London wholesale business varied by line and by country
- Overall rates in our retail were up 4%, the best in some time, though concentrated in a few countries and lines of business
- For example, property was up 5%, and professional lines were up 7%
- Rates in our London wholesale business were up 10%

International Personal Lines Premiums

- International personal lines premiums were up 8.5% in constant dollar driven again by Asia and Latin America with growth of 19.5% and 9.5%, respectively
- And finally, our Asia life insurance business had an excellent year with premium revenue of $2.4B, and earnings of over $100mm
- John Keogh, John Lupica, Paul Krump, Juan Andrade, and Ed Clancy can provide further color on the quarter including current market conditions and pricing trends

Summary

In summary, Chubb performed quite well despite a quarter of greater short tail volatility

We have a good momentum and it's continuing to build in terms of executing on our growth initiatives and taking advantage of an improving pricing and underwriting environment in the U.S., London and a few important territories

Our organization is optimistic about the year ahead and we are off to a good start

Philip V. Bancroft

Financial Highlights

Capital, Dividend and Share Repurchasing

- We completed the year with a strong balance sheet and an excellent overall financial position with total capital of over $63B
- Even with significant catastrophe loss payments, our operating cash flow was quite strong at $1.6B for the quarter and $5.5B for the year
- During the quarter, we returned $654mm to shareholders, including $336mm in dividends, and $318mm in share repurchases

European Markets

- For the year, we returned over $2.3B to shareholders, equaling 54% of our earnings, including over $1.3B in dividends and over $1B in share repurchases
- Also during the year, we issued $2.2B of debt in the European markets, paid off $1B of debt that matured throughout the year, and redeemed $1B of hybrid securities, which together reduced our annual interest expense run rate by approximately $47mm

Mark-to-Market Gain

- Net realized and unrealized losses for the quarter were $958mm after-tax, which included $383mm of losses in the investment portfolio, reflecting the widening of credit spreads on corporate fixed income securities late in the quarter, partially offset by declining interest rates
- Since December 31st, the mark-to-market gain on the portfolio is in excess of $900mm
- We also had unrealized losses of $205mm related to the annual review of our retirement benefit plans, a mark-to-market loss of $263mm on our variable annuity portfolio, principally driven by a decline in the equity markets, and $95mm loss from FX.
  - Since December 31st, the mark on the VA portfolio is a gain of $65mm
- Since the Chubb acquisitions, we have reduced our dilution on tangible book value per share from 29% to 9%, an improvement of 20 percentage points
- Since December 31st, the dilution improved to 6% based on market movements in the portfolio

Core Operating ROE

- If we had included the fair value mark on our private equity portfolio in our operating income, as others do, core operating ROE for the year would have been 9.5% compared to the reported 8.7%
- Our adjusted net investment income for the quarter was above our expected range due principally to higher private equity distributions and higher reinvestment rates

- While there are a number of factors that impact the variability in investment income including interest rates and private equity distributions, we now expect our quarterly adjusted net investment income to be in the range of $880mm to $890mm
- We had favorable prior period development in the quarter of $253mm pre-tax or $202mm after-tax
  - This includes pre-tax favorable prior period development from our legacy runoff exposures of $22mm, comprising adverse development of $108mm, principally related to asbestos, offset by a favorable reinsurance settlement of $130mm

Net Loss Reserves

- The remaining favorable development of $231mm was split approximately 60% from long tail lines, principally accident years 2013 and prior, and 40% from short tail lines
- On a constant dollar basis, net loss reserves decreased $661mm for the year, reflecting the impact of catastrophe loss payments and the impact of favorable prior period development

Core Operating Effective Tax Rate

- On a reported basis, the paid-to-incurred ratio was 102% for the year, after adjusting for the items noted above, the paid-to-incurred ratio was 93%
- Our core operating effective tax rate for the quarter was 17.1%, driven in part by catastrophe losses, which were incurred in lower tax jurisdictions as previously disclosed
- Our full year operating effective tax rate was 14.4% in line with our range of 13% to 15%
- For 2019, we expect our annual core operating effective tax rate to be in the range of 14% to 16%
- There has been a report that the tax deductibility of our intercompany debt will be affected by the provisions of the tax law that impact hybrid debt
  - That is not true

QUESTION AND ANSWER SECTION

<Q - Kai Pan>: Evan, you mentioned that the large property losses in commercial line you considered one-off. Can you give a little bit more details what give you confidence it's a one-off rather than a trend?

<A - Evan G. Greenberg>: Well, what gives me confidence? There's just a variability. There was a variability of frequency in North America, larger losses in a very short period of time. I mean, it's just a deviation, and it wasn't a huge number of losses, but it has an impact. And there's nothing we see in the underwriting that leads us to believe – there's nothing we see in data that leads us to believe it's a trend. It's just you can have quarter-to-quarter volatility and we had more volatility. So that's what I can tell you. And beyond that, we've been – short tail lines need rate, and we have been achieving rate full year. We actually began in 2017, and that continues into Q1, and that too has an ameliorating impact. And in fact, we're achieving rate that achieves or exceeds trend, so that's all beneficial.

<Q - Kai Pan>: Okay, great. My second question on the catastrophe losses, you mentioned that without catastrophe, your ROE would have been 9.8% for the year vs. 8.7%. So my calculation points you probably imply the 4 points of normal CAT load. I just want to make sure my math is right. And also, given the elevated losses last few year, do you think that that's still a good run rate going forward? Are you taking any actions in terms of reinsurance coverage potentially could mitigate the CAT exposure?

<A - Evan G. Greenberg>: Well, we're constantly managing our portfolio, and it's dynamic in terms of how we protect. And so I'm not going to give any forward-looking on that, but that's something that we constantly are engaged in, Kai. And as far as what to expect, look, we work on longer range period than just a couple of years in looking at what's expected CAT. So the last two years have been elevated. People have short memories. I'll remind you that the 4 or 5 years prior to that had far lower CATs, and yet we don't adjust the number of expected down to that. You're using a longer-term average, 10, 15 years. The most recent years become a part of that average. And so they reflect that experience for both modeled and the way you project non-modeled loss and put a factor on that, as well.

And so that's what informs how we look at CAT loss over a longer period. And so it has more stability to the expected number. Just to editorialize one step further, to imagine that, well, the last two years, now climate change has arrived, and boy, this is the new normal. Well, what would you have said about the 4 or 5 years prior to that? I think it's simplistic thinking to imagine on that way, on that basis. I think longer-term averages have a bit more stability to them. It's sort of like the same as looking at a quarterly result variability and short tail vs. looking at the annual current accident year number, which is a far more credible number.

<Q - Michael Zaremski>: A follow-up to the question on the CAT load. Given there was a merger that took place, do you know – can you tell us what your 10 to 15-year average has been because the math that some of us have done here points to the 10 to 15-year average being 30% or so above what your expectation was in 2018 in terms of the CAT load?

<A - Evan G. Greenberg>: Well, I don't know what your math is. I can't comment on that. I only know how we do our own math, and to imagine modeled and non-modeled loss. So what I can't do is on this call engage in, here's my math vs. your math.

<Q - Michael Zaremski>: Okay, I can follow up with a...

<A - Evan G. Greenberg>: But you're free to call us and tell us about your math, and while some of this we disclose, some we don't, we'll discuss it with you.

<Q - Michael Zaremski>: Okay, all right, great. I'll follow up with Phil on that. And so my next question is regarding relationship of commercial P&C pricing vs. loss trends line. We always appreciate your insights.

<A - Evan G. Greenberg>: By the way, I'm confident in my math, okay, than your math. I just thought I'd put that out to you, but go ahead.

<Q - Michael Zaremski>: Okay, that's fair. So, yeah, regarding pricing vs. loss trend on the commercial side, we're always trying to parse whether you feel the clearly improving rate environment is largely due to just the industry reacting to higher loss trends, or do you feel that Chubb could potentially see some marginal improvement if the commercial rate environment kind of hovers around the current levels?

<A - Evan G. Greenberg>: No, I don't see an improvement.

<Q - Michael Zaremski>: Okay, that's a simple answer. And maybe one quick follow-up to that, some [indiscernible] (00:26:45)...

<A - Evan G. Greenberg>: It was a simple question.

<Q - Michael Zaremski>: That's fair. If I can slip one more in, a lot of management teams, including yourself, have talked about a more legal, active legal bar. And some teams have also talked about the rise of third party capital backing lawsuits. Some people call litigation finance or funding. Do you think that's having – that asset class is having an impact on the insurance industry's loss trends?

<A - Evan G. Greenberg>: On the margin. I think only on the margin.

<Q - Elyse B. Greenspan>: My first question is going back to where Kai was asking about the higher non-CAT property losses in commercial lines. I know you made the comment that it seemed just due to the variability to be a one-off quarter. Did you see non-CAT property elevated in any of the other quarters of 2018? And then could you also give us a sense, I know it's only one month and we're just into February, do you have a sense that the level of loss has reverted back to normal in January?

<A - Evan G. Greenberg>: Well, January is only one – yeah, the answer on January is, yes, but, Jesus, it's one month, and hardly a credible period. And to answer your other question, it was basically fourth quarter. We saw a little bit in late third quarter occur, and then it was fourth quarter. And January, sure, but that's a fool's game. And by the way, Elyse, you're really – when you're looking at something like property, and let's keep in perspective, we write, what, in North America, about $4B? Sorry?

<A - Philip V. Bancroft>: $2.8B.

<A - Evan G. Greenberg>: About $2.4B (sic) [$2.8 billion] of property business. So a very large portfolio we have a lot of experience with it. Variability quarter-to-quarter is not that unusual. Obviously, it's a short period of time; it's not that credible. The annual period is far more credible. But anyway, I think I've answered your questions, and please don't take one month of January better as well. It was – it's a month.

<Q - Elyse B. Greenspan>: Yeah, no, I get that. That was helpful. And then, in terms of homeowners, you guys, you pointed to in your prepared remarks, it takes time with the states to get the rates into the system. Would you expect to start to see the margin improve in Q1? Or is that something that we should start to think about seeing more of the underlying margin improvement coming later in 2019?

<A - Evan G. Greenberg>: We were pretty clear when we talked about it in Q3 to you, that it would be something in the latter part of 2019, we should begin to see it come through on a run rate basis, all things being equal.

<Q - Elyse B. Greenspan>: Okay, and then my last numbers question, you guys bought more reinsurance timely in California this year at the start of the quarter. Can you give us a sense of your growth losses for the California fires? And then how did the growth loss in 2018 compare to the growth losses that you guys saw from the fires in 2017?

<A - Evan G. Greenberg>: Yeah, we're – we didn't – and it was really a miscommunication in here. We didn't publish a CAT page, but we're going to give you a CAT page, and put one out to you, so you can see by CAT how it breaks down. And we're giving you the net. The gross number is not applicable really to an investor's view of the company. The net is what impacts our balance sheet and financial statement, and so we will give you what you need for that.

<Q - Jon Paul Newsome>: I was hoping you could maybe just add on to the high net worth environment. We still seem to have [ph] in the personal lines fire (00:31:35), we seem to have still a large number of new entrants to that market and I'm just interested if there's been any really change in the competitive environment, seeing how it does feel like there's a lot of folks that are announcing new efforts.

<A - Evan G. Greenberg>: Yeah, I'll ask Paul Krump to comment on that. From my point of view, we don't see a change of any consequence in the competitive environment over the last year. It's pretty stable that way. You get new entrants who come in and they're particularly in the mass affluent category, not the true high net worth. They don't have the coverages and the services and the capabilities to really manage that market. And when they come in, they got one thing to offer in a segment of the market that is, I would say in some ways, it's the price sensitive end of the market. And in there, where coverage matters or service matters less, they have one way in, and that's to underprice the business. But we've seen that for a while and it's on the margin.

But Paul, do you want to expand?

<A - Paul J. Krump>: Evan, I'd agree with everything you just said. Just to try to put some more color around it. Our retention in the homeowners and PRS space is 96%. It's actually even better on the high net worth, the real wealthy homes, what we call premiere and signature. So we do lose a couple of customers through death, and we're trying to figure out how to stop that, but can't. So I can't – maybe on two hands, I could count the number of accounts that we've lost to any new entrants in the last 12 months. They are definitely going after the low end of the market. And if you look at their writings, I think you'd be shocked at how little traction they're getting in the market. It really is a service game, and agents and brokers are very conscious of that. It's not just the one-off fire loss they worry about.

They worry about what happens when the big CAT rolls in and there are hundreds, if not thousands, of claims to handle.

<A - Evan G. Greenberg>: And I would say this, we don't – we're not arrogant about it. We're not at rest about it. It's like everything else in the world. Service has to constantly improve. Your standards of service must constantly improve. Coverages have to constantly improve. You got to be able to offer more choice to customer. Some who want to buy a full boat of coverage, and some who want to buy something a little lighter, and you've got to be able to do this in a digital world with a customer service and experience that represents that. And the same thing with marketing and sales, and we're continuing to iterate and to crank up our capabilities in all of those areas because we think there is and remains a large opportunity in this marketplace.

<Q - Jon Paul Newsome>: And second, I wanted to ask about the accident and health business. We haven't talked about that in quite some time. At one point, it was a huge focus for the old Chubb to have I think as much as 25% of the revenue coming from [indiscernible] (00:35:07).

<A - Evan G. Greenberg>: I think you mean [ph] 8% (00:35:07).

<Q - Jon Paul Newsome>: Pardon me, you're right. And I was curious if that – is it still an idea to have or a goal to have that kind of high percentage of the A&H business in the new combined entity?

<A - Evan G. Greenberg>: Yeah, when you look at, which I know you did, the – our investor dinner deck and you look at growth lines and I believe from memory 31% on that pie chart that would grow high single to double-digit, you saw the accident and health business as one of those areas of business. And in Asia and Latin America and in North America, in particular, the growth rate is improving in that business, and will continue to improve in 2019, and a lot of the distribution that we have, deals that we have made over the last year, including what we just announced as Banco de Chile will directly benefit that accident and health business. And so it is a growth area for the company. And our objective is to increase, because if it's growing at high single to double-digit, it will increase, continue to increase as a percentage of our total business because it's a specialty and a capability of ours that's deep in our DNA. And by the way, whether it is combined in the U.S., where we reinvented and are growing our work site benefits business, it's now $150mm premium from nothing, it's growing at serious double-digit to serving the lower middle income through Grab, which is the largest – which is the Uber of Southeast Asia or DBS's customers or Banamex's customers or Banco de Chile or many other sponsors that we have on a direct marketing and digital basis, it's the full boat.

<Q - Yaron Kinar>: Two questions on North America commercial. So, the first, I just want to confirm that the 1.4% impact from adverse property claims experience or loss experience, that's consolidated, right?

<A - Evan G. Greenberg>: Consolidated? Well, we booked this on total P&C.

<Q - Yaron Kinar>: Total P&C, sorry.

<A - Evan G. Greenberg>: Total P&C.

<Q - Yaron Kinar>: Okay. So...

<A - Evan G. Greenberg>: Yes, I'm so sorry. Sorry. On total P&C, I mean like, yeah, we can solve – we booked the number.

<Q - Yaron Kinar>: So, if my math is correct, it would suggest that the accident year loss ratio excluding the elevated property losses actually improved y-over-y. And if that is correct, could you maybe talk about what's led to that improvement? Is it earned rates? Is it something else that's driving that?

<A - Evan G. Greenberg>: Are you saying the accident year loss ratio on the total business?

<Q - Yaron Kinar>: No, on North America commercial, excluding the property deterioration.

<A - Evan G. Greenberg>: Excluding the property deterioration, and are you looking at the combined ratio or the loss ratio?

<Q - Yaron Kinar>: No, the accident loss year ratio for North America commercial.

<A - Evan G. Greenberg>: Yeah, we'll take that offline with you and go through that with you. I'm not sure I'm completely relating to that number the way you're saying it and would be very modest. And it would be likely mix related but before I jump to that, we'll take that offline with you.

<Q - Yaron Kinar>: Fair enough.

<A - Evan G. Greenberg>: We can go right through it with you.

<Q - Yaron Kinar>: Okay, thank you. I appreciate that.

<A - Evan G. Greenberg>: You're welcome.

<Q - Yaron Kinar>: And then my second question on North America commercial, Evan, in your comments, you talked about the rate increases. Sounds to me like you may be actually leading the rate increases here, maybe a little bit above industry here. And if that is the case, would you expect that to impact the growth, the top line growth, over the next few quarters as maybe the industry tries to catch up?

<A - Evan G. Greenberg>: Well, a couple of things. One, the industry you saw – I would glue it together this way. You saw Q4 growth rate. And in January, our growth relative to our own plans was good. And we were on or exceeded our plan in the month of January. You don't know our plan, and we don't disclose it. And we got better rate in January, or the same rate. It varied by line that we – and particularly in North America and in our wholesale business, that we saw in Q4. Now – and our renewal retention is good. So that implies to me, the industry environment is improving as well. And you have a couple of things going on. You have not just driving for rate, but you have companies reacting to the loss environment and to the pressure by reducing limits in areas, or competitors, depends on the area, withdrawing from a line of business. That starts to – that plays with the supply/demand part of the dynamic of the market, okay. So you're only thinking just in terms of rate. And that's why I was trying to signal that there is more than that going on. But you see our retention rates, you see our business, and yet we're pressing for rate adequacy. And anyway, I think that's the best way I can explain it to you.

<Q - Jay Gelb>: Based on the commentary that Chubb is off to a good start in 2019, and if I look back over the past 3 years, there's a remarkably stable underlying action in your combined ratio. Given that pricing is improving, should we expect that trend on the accident year combined to be the same in 2019, the same or better as 2018?

<A - Evan G. Greenberg>: Well, I wouldn't look for an improvement. And what I have said is that remarkably stable, remarkably stable rate on some of the business, particularly in short tail, is achieving or exceeding trend, which it needs to do, which is beneficial. In long tail lines, it varies. There are many classes where rate is not keeping pace with loss cost trend. We constantly are exercising portfolio management, use of reinsurance. And so, therefore, mix of business to balance it. But this is a risk business, and I wouldn't imagine, and I don't imagine, that you just pick a combined ratio, and that's a static number. It has variability around it. And so I would say, what you see is what you get within a reasonable range of deviation. That's all.

<Q - Jay Gelb>: Right, of course. Okay. And then separately, given the strong operating cash flow for full year 2018, I believe you said around $5.5B, what would you quantify as Chubb's excess capital position as of year-end?

<A - Evan G. Greenberg>: What we've said is that the impact of the excess capital like on a full year basis would strip about 0.5 of a point off of our, or 0.5 point I should say, of our ROE. So you can do the math. You got it.

<Q - Jay Gelb>: I hope so.

<A - Evan G. Greenberg>: I trust you, buddy.

<Q - Brian Meredith>: A couple quick questions here for you. Just first one, Phil, I'm just curious, tax rate guidance, it looks like it's actually up a little bit on a y-over-y basis. Is there anything to that? Is it just mix of business, something else going on geographically?

<A - Evan G. Greenberg>: Yeah, there's two things. One is in the past two years, we've had some compensated-related deductions and we don't expect them --

<A - Paul J. Krump>: Compensation-related.

<A - Evan G. Greenberg>: What did I say? Compensation-related deductions that we don't expect to recur. And we're going to have lower tax exempt income. We've sold about $4.4B of our municipal bond portfolio, and as we look at the after-tax yields, we would expect that some of that will continue. Remember that that doesn't take away from our income because our after-tax yield is going to be higher based on the judgment to sell the munis.

<Q - Brian Meredith>: Got you, makes sense. And then I noticed that administrative expenses on a y-over-y basis were actually down this quarter. Was that FX driven? Was there anything else going on?

<A - Evan G. Greenberg>: It's principally just timing as we look at it. There's nothing specific that I would point to. It's just going to be variable and it's a timing issue.

<Q - Brian Meredith>: Got you, great. And just lastly, Evan, just on this whole commercial property thing, if I take a look at your North American commercial, I mean your underlying combined ratio for the year was pretty much flat to down modestly. Is that the way we should kind of think about kind of how the business is kind of performing? You'll have some ups and downs every quarter, I assume.

<A - Evan G. Greenberg>: Well, yes, you should think about it that – and you can see it if you look in past years. There's a variability. There's a little more in this quarter than it is in the recent quarters, but you'll have some variability by the nature of the business. It's a risk business.

<Q - Brian Meredith>: Right.

<A - Evan G. Greenberg>: And so that can just happen. And I – of course, we're underwriters, and we, when we see a spike in something, we take a pretty close look. We want to know what an early – what that's telling us, and is there something that has changed in our business? Or is it just a natural variability that you can see? But we more judge than on longer period, and an annual period of time is a more stable measure, obviously, than one 3-month period. And so again, when we look at this, we judged it from everything we could see as just a deviation around the mean, and the annual was more stable period. But, look, we – I expect, and it doesn't surprise me, given the nature of the business, it's a risk business that you see some variability.

<Q - Brian Meredith>: Right. Yeah, I just want to make sure because if you strip out that...

<A - Evan G. Greenberg>: If it was casualty, I got to tell you, I have a whole different view.

<Q - Brian Meredith>: Right. Which makes sense?

<A - Evan G. Greenberg>: Unless it was just some one-off large loss of some kind. But if I saw a frequency of casualty, that's a whole different story to me.

<Q - Brian Meredith>: Yeah, that makes sense because if you strip out that large loss, all of a sudden your underlying combined ratio in North America looks way down on a y-over-y basis. I just want to make sure that's not the kind of way to model off of.

<A - Philip V. Bancroft>: Yeah, I don't think that's the right way.

<Q - Brian Meredith>: Right.

<A - Evan G. Greenberg>: And we will take it offline and do some work with you about those.

<Q - Meyer Shields>: I just wanted to follow up on Brian's question. [indiscernible] (48:37) saw particularly lower admin expenses y-over-y in North America commercial and personal, is that also just randomness or is there some connection to the elevated losses?

<A - Evan G. Greenberg>: No, no connection to the elevated losses. It is a randomness quarter-to-quarter.

<Q - Meyer Shields>: Okay, perfect. And Evan, I was hoping you could take us through the thought process of buying more quota share protection in California homeowners over excess.

<A - Evan G. Greenberg>: Well, we – it benefited the company. Look, we wanted to reduce our exposure and balance our exposure in California, where we have a lot of concentration in both CAT and non-CAT, modeled and non-modeled CAT. The quota share was initially purchased for the New England states and the northeast, where we had – we have an unusual amount of concentration. We weren't simply trying to balance CAT, but the exposures of non-modeled CAT as well, like just frequency of winter losses that you had in the northeast, and the impact it could have on the total book when we put all these books together. So it was really looking for to spread the risk of the ground-up concentration, not simply a single event concentration, or the losses produced because of the concentration from a single event. And that was the reason for purchasing the northeast quota share, and it made sense to us to extend that then to California as well. And we gave the reinsurers a better balance. They weren't concentrated in just one territory.

<Q - Larry Greenberg>: And my question also is on the underlying in commercial North America, and you've probably given me enough to answer it, but I'm going to still ask it.

<A - Evan G. Greenberg>: So then why are you asking me, Larry?

<Q - Larry Greenberg>: Because I'm not sure if I know the answer, but let me just ask it this way, the underlying loss ratio deteriorated by about 60BPS for the year. And over the course of the year, you've called out some things. You actually called out some things last year as well. But would you say the 60BPS is fairly representative of the price vs. loss trends in the business?

<A - Evan G. Greenberg>: Perfect. Perfect.

<Q - Larry Greenberg>: Okay. Okay, thanks.

<A - Evan G. Greenberg>: There is gravity, I mean.

<Q - Larry Greenberg>: Yeah. Okay. And then the expense ratio improved more this year than at least I was thinking, and I would say maybe you guys had indicated coming out of last year. And is that just kind of operating leverage in the business? Are there any other explanations to discuss there?

<A - Evan G. Greenberg>: Larry, there is – I'm going to give you three answers. Number one, we had the runoff, if you will, of all the projects we have put in place since the merger, and those had some runoff final benefits that emerged in the year. We have a constant expense control in here. And yes, there's one-off items that benefit the expense ratio during the year, but every year, we have one-off items. They vary by quarter, and that sort of thing, but there always seems to be a number of them. It's just the nature of the business. So all – but the first two I gave you are really the enduring drivers of it. Expense ratio is part of strategy.

<Q - Ryan J. Tunis>: Just a couple for Evan. I guess, first of all, thinking about casualty lines in North America commercial, how do you feel about loss trend today vs. maybe a year ago? Do you feel like there's more pressure? Has the pressure alleviated some?

<A - Evan G. Greenberg>: No, it's about stable. We haven't seen – over the last year, we haven't seen a change in loss trend from the year before.

<Q - Ryan J. Tunis>: Is it still mostly limited to the management liability lines? Or have you seen it creep at all into excess casualty or anything else?

<A - Evan G. Greenberg>: No, not creep. But, Ryan, the way you're asking it, I want to make sure we have clarity here. You're asking about change in loss trend, and I'm responding to change in loss trend. And that's stable. But there is a loss trend to every line of casualty. I mean, I could tell you that middle market, our comp business, the frequency is stable, so is the severity trend, but it has a trend on our book of over 5 points, 5%. So it's real. Excess casualty. Excess casualty has a loss trend to it, whether it's major account or it's middle market, all casualty does. And so loss costs go up every year.

<Q - Ryan J. Tunis>: Got it. And then my follow-up was just on the personal lines?

<A - Evan G. Greenberg>: But the trend is stable.

<Q - Ryan J. Tunis>: The trend is stable. Got you. And on the personal line side, [ph] I believe (00:55:39) it's going to take some time for your rate increases to earn in, but would you say that loss activity has peaked? Or is that still getting worse at this point and you're still kind of trying to pin that down on the knock out side?

<A - Evan G. Greenberg>: No, I would say, and we were just looking at it yesterday for the last 12 months, looking month-by-month, the actuals vs. expected. The frequency and severity, average severities by cause of loss, we believe they have stabilized. We're seeing it stabilized. We're not still trying to get a handle on it. It has stabilized, we see it, and it is a clear trend we have seen for a period of time. And so we know the target we're shooting at.