Company Name: Chubb Ltd
Company Ticker: CB US
Date: 2017-10-27
Event Description: Q3 2017 Earnings Call

Market Cap: 69,976.82
Current PX: 150.74
YTD Change($): +18.62
YTD Change(%): +14.093

Bloomberg Estimates - EPS
Current Quarter: 2.532
Current Year: 7.404
Bloomberg Estimates - Sales
Current Quarter: 8061.000
Current Year: 32639.500

Q3 2017 Earnings Call

Company Participants

- Helen M. Wilson
- Evan G. Greenberg
- Philip V. Bancroft
- Paul J. Krump

Other Participants

- Kai Pan
- Elyse B. Greenspan
- Jay Gelb
- Brian Meredith
- Ian J. Gutterman
- Meyer Shields
- Jay A. Cohen
- Josh D. Shanker

MANAGEMENT DISCUSSION SECTION

Helen M. Wilson

Financial Measures

We will also refer today to non-GAAP financial measures

- Reconciliations of these non-GAAP financial measures to the most direct comparable GAAP measures and related information are provided in our earnings press release and financial supplement, at investors.chubb.com
- In particular, references to 2016 underwriting results will be on an As If basis, which includes The Chubb Corporation's results for the first 14 days of 2016 and excludes the impact of purchase accounting adjustments relating to the merger

Now, I'd like to introduce our speakers

First, we have Evan Greenberg, Chairman and CEO, followed by Phil Bancroft, our CFO

Then we'll take your questions

Also with us to assist with your questions are several members of our management team

Now, it's my pleasure to turn the call over to Evan

Evan G. Greenberg

Q3 Review

Q3 Highlights

- It was a difficult quarter for the insurance industry and Chubb, a quarter dominated by catastrophe losses
  - But frankly, it's a part of the business we're in
- The headlines were obviously the series of large natural cats, specifically Harvey, Irma and Maria, as well as the Mexican earthquakes
- While no one has certainty at the moment, Q3 events will likely cost the industry in the range of $80B to $100B plus anyway
- For Chubb, our after-tax net cat losses estimate over $1.5B, cost us about one quarter of earnings or about 3.5% of our September 30 tangible capital
- In the aggregate, this was within our risk tolerance, and the amount of loss we would expect from these types of events
- We view the loss for these events as between a one-in-five year and one-in-ten year industry and Chubb event on a worldwide aggregate basis
  - This gives you a sense of how we think about risk, including basis risk in the models and significant amount of non-modeled loss that is included primarily from Harvey and likely, Maria and Irma

Insured Cat Losses

- By the way, 2017 is on track to join 2005 and 2011 as the third $100 billion-plus year for insured cat losses in the last 12 years
  - The events of Q3 for Chubb were first and foremost about service and responding to our customers in their time of need
- Let's remember, that's what insurance is all about, and that's why we exist
- Our claims organization is large, experienced and so capable, and with a mindset to serve
  - They performed admirably and at times, heroically, often sacrificing their own personal well-being in the impacted areas of Texas, Florida, Puerto Rico and Mexico to come to the aid of our customers and distribution partners and fellow employees
- In a spate of about six weeks, they responded to nearly 17,000 claims in five different major events
- Service levels remained consistently high with over 95% of the 52,000 customer calls in North America answered in less than five seconds and by a human being from our company, not a machine or third-party
  - As of today, over 90% of Harvey and Irma claims have been physically inspected

Loss Prevention and Claims Organization

- I should add, our loss prevention and claims organization continued to perform at the highest levels and distinguish our company as they respond to both our personal lines and commercial lines customers impacted by the California wildfires, which as you know, remain an active cat
- On the prevention side, our special Wildfire Defense Services teams have so far visited over 250 homeowners and taken active measures to protect more than half of them

    - By the way, when it comes to wildfire prevention services for high net worth customers, there are a few pretenders touting capability, but with little exception, no one holds a candle to our vast network of capability

Catastrophe Losses

- Looking beyond this quarter's catastrophe losses and the shadow it casts, there is an important story to tell about our company
- Our underlying health is excellent
- Excluding the cats, operating income was about $1.5B or $3.12 per share
- Our published combined ratio was 111% because of the cats; excluding them was 84.7%
- And on a current accident year basis, excluding cats, the combined ratio was 88.5% compared with 88.9% last year, with the loss ratio up over 1 point and the expense ratio down 1.7%
    - While the expense ratio last year included an adverse impact of about 0.5 percentage point from purchase accounting, the one-and-a-quarter point improvement illustrates our merger-related efficiency efforts

Net Investment Income

- Net investment income for the quarter was a record $893mm, up nearly 8% over prior year and a very strong result, which included a one-time item Phil will speak more about
- In the quarter, per share book value grew 0.5%, while per share tangible is essentially flat
- Book and tangible are up nearly 5% and 7.5% respectively so far for the year
- Phil will have more to say about investment income, book value, the cats and prior period development
- Given the inadequacy of pricing and terms in a number of important classes around the globe and the consequent anemic industry results along with the magnitude of YTD cat losses, we should be at the beginning of a firming market and I believe we are
- How extensive and broad, the firming remains to be seen and the timing will vary by geography and type of business, but pricing should and will move
- While conditions vary depending on territory, line of business and size of risk, pricing overall today is too cheap and we should strive for price adequacy
- Chubb is a leader and we recognize our responsibility to insist on receiving an adequate rate for the coverage we provide
    - This includes educating our customers and distribution partners about the reason and need to move pricing to adequacy where it is not, so that we earn a reasonable risk-adjusted return and avoid more volatile price moves in the future, if prices continue to stagnate or erode

Property Rates

- Following years of rate decreases, property needs rate to return to adequacy
- Property rates have two components:
    - The catastrophe
    - And attritional loss elements

- Property cat risks should be priced to model, and today, it is priced at a substantial discount to model in many instances
- The attritional loss component of property is also, in many cases, inadequately priced and should return to adequacy
  - And by the way, even though it is inadequately priced, property cat premiums have been used by many to subsidize inadequate pricing in other classes during the recent years of lighter cat losses, a pretty dumb strategy
- As I have said in the past, many classes of D&O and employment practices liability are not adequately priced

Loss Frequency and Severity

- Loss frequency and severity have been increasing
- Combined ratios have reached a point in certain classes that are simply unacceptable
- Many primary and excess casualty-related classes, including U.S. commercial auto need rate
- Loss cost trend, while more benign in recent years, has nonetheless continued while rates have moved down
- Chubb's risk appetite has not changed
- We have an exceptionally strong balance sheet and we're willing to deploy it where we can achieve an adequate underwriting margin

Pricing Environment

- Before Q3's cat events and during Q3, like the second, we were beginning to see signs of a bit more stable pricing environment for the business we wrote
- Remember though, we pay a penalty in terms of new business to achieve this result
- We began to achieve rate in a few areas while rates were essentially flat or the rate of decline slowed in others
  - For example, in U.S. publicly traded D&O, rates went flat in Q2, and were in fact up 2% in the third
- Rate movement for the business we wrote in the quarter varied by territory and market segment
- In our U.S. middle-market and U.S. major accounts and specialty businesses, renewal pricing in aggregate was up about 1.5%, with exposure change an additional positive 1%
- By major class of business, pricing for our risk management business is up 1.5%
- General and specialty casualty-related pricing was up about 4%
- Financial lines pricing was flat with management liability up 2% and property-related pricing was down about 2.5%
- In our international retail commercial P&C business, pricing for general and specialty casualty, financial lines and property-related rates were all down 2%
  - For our London wholesale business, property rates were up 1%, and marine, down 2% and financial lines, flat

Revenue Results

Now with that as context, let me give you some color on our revenue results for the quarter, which were stronger on both a published basis and when adjusted for merger noise

Continuing the trend from prior quarter, this was our best quarter since the merger in terms of growth and reflects a careful balance between leveraging the power and broad capabilities of the organization and underwriting discipline where we would trade market share for an underwriting profit

For the quarter, P&C net premiums written globally were up over 4.5% in constant dollars

Adjusted for merger-related underwriting action, they were up 4%

- As a reminder, the impact from these merger-related items will continue to ameliorate as we move forward

North America

- In our North America commercial P&C business, net premiums were down about 0.5%
- Normalizing for merger-related actions, they were up 1%
- The renewal retention rate for our North America commercial P&C business was steady at 92%, with major account and specialty at 94% and middle market at 88%
- Overall new business writings for North America commercial were up about 1.5% over third quarter 2016, with new business growth coming from major accounts, middle market, small commercial and Bermuda wholesale
- In our North America personal lines business, net premiums written were up 18%
- Excluding the 13-point impact of a one-time unearned premium transfer that reduced premiums written in the prior year, growth was about 5%
- Rates were up about 2%, and exposure change added 3%
  - Retention remained very strong at 95%

International Operations

- Turning to overseas general, net premiums written for international retail P&C were up over 2% in the quarter in constant dollar, and nearly 4% excluding merger-related actions
- Latin America led the way with growth of 12% while the UK, Ireland had a good quarter with growth of 4%
- Our Asia-focused international life insurance business had a very strong quarter with net premiums written and deposits up 28% bringing their YTD growth to 18%
- John Keogh, John Lupica, Paul Krump and Juan Andrade can provide further color on the quarter, including current market conditions and pricing trends
  - We are in good shape with the remainder of our integration activities; operationally and financially, all areas of integration are on track or ahead of schedule

Summary

Lastly, we're continuing to plant seeds to capitalize on future growth opportunities around the globe

You saw, for example, our recent announcement of a 15-year exclusive distribution agreement with one of Asia's most respected banks, Singapore-based, DBS

At the heart of our venture is our joint ability to market and service insurance digitally to DBS customers, both consumer and business

In sum, the company is in great shape and we are optimistic about the future

While it was a tough quarter for cats, again it's the business we are in

We should be at the beginning of a firming market, and we intend to help lead in that direction

Our company is in great shape from the perspectives of risk management, growth opportunity and financial efficiency

- We are investing aggressively in our future, while delivering results to shareholders today

Philip V. Bancroft

Financial Results

Operating Loss

- Due to the unusually high level of catastrophe losses in the quarter, we sustained an operating loss of $60mm or $0.13 per share
- Catastrophe losses totaled over $1.5B after-tax or $3.27 per share net of reinsurance and reinstatement premiums
  - Our underlying results were strong with current accident year underwriting income, excluding catastrophes, a record $839mm, up over 5.5% from the prior year

Balance Sheet

- Our balance sheet remains strong, and we maintain the necessary liquidity to support our business around the globe with total capital exceeding $63B
- Among the capital-related actions in the quarter, we returned $563mm to shareholders, including $331mm in dividends and $232mm in shares repurchases
- YTD through September 30, our share repurchases have totaled $707mm and our program for the year remains open
- Operating cash flow for the quarter was a record $1.8B
- As Evan mentioned, book value and tangible book value per share were up 0.5% and down 0.3% respectively
- Our operating loss and capital-related actions in the quarter were offset by positive portfolio returns and favorable currency movements

Investment Income

- Our invested assets grew by $2.2B or over 2% for the quarter, reflecting the favorable impact of foreign currency and positive cash flows
- Investment income of $893mm was a record and higher than expected due to $44mm distribution from a co-investment by Chubb with one of the company's private equity fund partners
- We now expect our quarterly run rate to be in the range of $845mm to $855mm

- Net realized and unrealized gains for the quarter were $829mm pre-tax, and included $680mm gain from FX and $223mm gain from the investment portfolio, driven by a slight decline in yields and a positive return on our private equity portfolio
- Our pre-tax catastrophe losses in the quarter, principally from Hurricanes Harvey, Irma and Maria were $3B gross and $1.9B net of reinsurance and reinstatement premiums
  - This compares to an expected net catastrophe loss for Q3 $330mm pre-tax
- Additional information on catastrophe losses is detailed in our financial supplement

Net Loss Reserves

- Net loss reserves increased over $2.3B for the quarter
- After adjusting for cat losses, our loss reserves increased $616mm
- The paid-to-incurred ratio in the quarter was 69%
- Adjusting for cat losses and prior period development, the ratio was 87%
- We had positive prior period development in the quarter of $270mm pre-tax or $206mm after-tax
  - This included $77mm pre-tax of adverse development for our legacy environmental liability exposure vs. $52mm in 2016
- The remaining favorable development of $347mm was principally in long-tail lines related to accident years 2012 and prior
- Overall, our favorable prior period development is down compared to last year by $79mm pre-tax
  - This is primarily due to the higher environmental charge in 2017, and the fact that 2016 included the release of an individual legacy liability case reserve of $25mm

Financial Outlook

In Q4, we expect our combined ratio to be favorably impacted by incremental benefits from integration savings at a level similar to Q3

By year-end 2017, we will have achieved our full annualized run rate integration-related savings in accordance with the disclosed target of $875mm

As we move through 2018, the relative impact on our combined ratio will dissipate

Merger-related underwriting actions were $87mm in the quarter

We expect this to increase modestly in Q4 because it includes the impact of the accounting policy alignment we discussed on this year's first quarter conference call

The merger-related impact on premiums will decrease substantially beginning in Q1 2018

The operating income tax rate for the quarter was impacted by the high level of catastrophe losses

Excluding catastrophe losses, in excess of our expectation, the effective tax rate in the quarter was 16.5%

- We continue to expect our annual effective tax rate excluding the impact of the excess third quarter catastrophes to remain within the 16% to 18% range for the year

QUESTION AND ANSWER SECTION

<Q - Kai Pan>: Evan, on the pricing outlook, some argue that industries do have plenty of excess capital and that it is a very fragmented marketplace. So what gives you comfort that this is the beginning of a firming market and the potential price increase will be sustainable?

<A - Evan G. Greenberg>: Well, Kai, it's one thing for there to be plenty of capital and I agree that there is. It's another thing to receive a reasonable return on that capital. And when you look at industry results, in aggregate, many in the industry are not even achieving cost of capital, let alone, a reasonable risk-adjusted return.

Combined ratios are under pressure. You take out cat premiums that's subsidized, that mask the underlying health, you got rate going in one direction, the trend going in the other. And so in my judgment, it has reached a point where the industry – there is enough pressure that I think among all the responsible companies, there is a recognition of that need. And you'd like the market to behave, markets are markets and hardly, they behave always rationally. But if we were to suppose a rational and responsible industry, you'd like to not have volatility in terms of pricing and terms to customers. You'd like it to behave in a more orderly way. And I believe all that bodes towards that direction.

The other thing I'd tell you is losses were concentrated. These events weren't just evenly spread. They were concentrated in a number of important places. And those are the plumbing – the financial plumbing for insurance is global and it is connected. And I think how the loss disproportionately hits some of those centers, London as an example, drives a behavior that has an impact on many other markets at the same time. So while there's no guarantees, that's my point of view.

<Q - Kai Pan>: Okay, that's great. And my second question on your I guess revenue growth that – the underlying premium growth you said is best since merger. And could you quantify how much about is attributable to the revenue opportunities you discussed in the merger? And would a hardening market accelerate the realization of the revenue opportunities?

<A - Evan G. Greenberg>: Well, look, I can't put a – I'm not putting a dollar or a coin estimate on that. The fact is, when you look at the parts and pieces of this organization combined and the complementarity nature of the strengths of what we now have, that is one organization, so I'm hardly going to talk about it two years on in some artificial way of two organizations, it's all one.

And the complementary strengths and capabilities are simply compelling from a market point of view for customers, whether it is from small commercial to middle-market to large commercial, and whether it is in the United States or it is overseas, or it is for a global customer, no one has the total capability that this organization has in terms of product and service and reputation for delivering. And we are capitalizing on that. And the fact is, is we're underwriters and we're disciplined in underwriting and we will trade growth for underwriting discipline. And then more the market rationalizes to a reasonable risk-adjusted price for the risk they take, the more opportunity that will create for Chubb. Thank you for the question.

<Q - Elyse B. Greenspan>: Just following up a little bit, on the market outlook as well. You having insinuated to there being about $100B of losses this quarter, now we look at the disclosures that we've seen to-date, where obviously there's a decent sized delta between the losses that are out there and that $100B figure. Do we need to see $100B, meaning if the losses come in lower, will the potential and the start of what you said is a firming market not be there, I mean, how do you view the need to see about $100B of losses?

<A - Philip V. Bancroft>: Look, that's thinking of it a little too simplistically, you're just putting a point estimate. So if it's $99B, Elyse, what do you think? $101B, what do you think?

<Q - Elyse B. Greenspan>: I'd more manage it...

<A - Philip V. Bancroft>: Excuse me. We're talking circa in the range of, and what you always see in large cats, if you look back through experience, and let's take Katrina as an example. What was the initial reported loss by insurers, and what did Katrina ultimately develop to? I recall somewhere in the $30B range that ultimately became $42B to

$45B. I think that's what you're seeing here, and I think you're going to continue to see creep. And it happens over a period of time.

<Q - Elyse B. Greenspan>: Okay, that's great. I more meant just because there's estimates out there now that you can ballpark to maybe $50B. I wasn't talking about $1B, but in terms of pricing just when you think...

<A - Philip V. Bancroft>: Well, you pick your number, I'll pick mine. If that's okay?

<Q - Elyse B. Greenspan>: Okay. Thank you. And then when you're talking about pricing in this firmer market, how are you thinking about price specific to really property and then, certain pricing levels that you think are needed for Chubb to get a lot more aggressive? I mean, how has the dialogue been with your clients following on these events in and around the potential to push for more price?

<A - Evan G. Greenberg>: Elyse, it is very early days when you think about the rhythm of how things move and how the business actually works. So in October, you're really quoting late November and December business. In September, your business for October was already done. So there is a lag and it takes time, and that is just building now. The rate increase, I was very clear in my commentary. It varies by customer in the way Chubb will approach this. It's not some blunt instrument, here is how much it needs to move.

Some customers, it needs to be flat, some customers need to go up 30% because what's the adequacy? Where are you priced the model on cat and where are you priced for attritional loss and that both need to be adequate and overall for the industry, if you're large account shared and layered, you're talking double digit and it has to be. If you're talking middle-market commercial, well, the pricing is going to vary depending on the class and where you are located in the United States, or where you're located overseas. We're underwriters and so we price to the exposure.

<Q - Elyse B. Greenspan>: Okay, that's helpful and then one last for Phil on the tax side. You said 16% to 18%. That's of Q4 and a full year figure?

<A - Philip V. Bancroft>: I would say in general on a quarterly run rate basis, yes. We would expect to run 16% to 18%. Now if you're talking about this year, as I said, that 16% to 18% excludes the impact of the excess cats in this quarter. So on a normal year, I would say 16% to 18%.

<Q - Jay Gelb>: Given the expectations for primary commercial insurance rates, it would seem that reinsurance rates could go up more. Could you talk about how much of its reinsurance protection Chubb already has placed for 2018? Or how much it might purchase next year relative to this year, please?

<A - Evan G. Greenberg>: Our purchase appetite is pretty steady, Jay. And that isn't something that changes year-on-year in any dramatic way. Our notion of risk and how we see risk has not changed. These cats didn't show us something else about risks that we didn't already know and that's what I tried to speak to in the beginning and I think that speaks to it. Remember something about reinsurance. If primary gets rate, the reinsurer automatically got rate because excess pricing, when you think about cat protection, is a derivative of the premium that is collected. And that premium is a proxy for the underlying rate and exposure. And so they automatically get rate. Now you're talking about rate-on-rate and how much that will be. And I can't speak to that at this moment in time. It would be pure speculation. Our treaties come up through the year, and we already have – so depending on as they come up through the year, we have treaties that will run for six months into 2018 and three months into 2018, and nine months into 2018. It all varies. We don't have it all piled into one date.

<Q - Jay Gelb>: My next question is on the California wildfires. Can you discuss what you think the industry total insured loss might be and then Chubb's exposure given its market presence in high-net worth homeowners as well as the winery industry?

<A - Evan G. Greenberg>: Sure. Look, I can't speak to the industry loss right now. My own gut feel for it is the numbers that are out there, they have a range around them where it sort of coalescences around that $5B mark. It doesn't feel off to me. But I don't know with any certainty. And for Chubb, I'm not going to give you a number because it's too early. It's too early to estimate our losses with precision. But from all we know at the moment, the net loss appears to be in the range of our cat load for Q4. But again, it's early days.

<Q - Jay Gelb>: Appreciate it. What's the ...

<A - Evan G. Greenberg>: ...you then can say what's our cat load for Q4, and I'm not going to disclose our cat load for Q4. We don't do that. But I think you have a way of doing research into the past.

<Q - Jay Gelb>: Would it be – will Q4 typically be less than Q3? Third quarter number, right. How much less?

<A - Evan G. Greenberg>: It's less.

<Q - Brian Meredith>: Evan, just one other quick question just on the pricing one here. So history, I think, has shown that, particularly in the casualty line and even in the property lines, that firming markets typically follow an increase in the kind of perception of risk in those lines of business or higher loss trend, something happening. Do we really have that this time around?

<A - Evan G. Greenberg>: I think we do among a lot of players; I do. Remember, you had a lot of non-modeled risk here. Let's take Harvey as an example. Harvey was a rain event. It wasn't a wind event. It was a flood event. And models hardly imagine that. I think when the dust all settles and you look at Maria, the devastation in Puerto Rico, I mean it was pummeled back to the Stone Age. And the kind of business interruption exposures that can emerge from that, I think, stand up and people take attention.

When you saw Irma approaching, if Irma moved 70 miles east, you were looking at $150B event. I think people stood up to take attention to that. The number of territories that were in essence correlated in single event and then aggregate in the events. While people understood it theoretically possible, it's another thing when it actually occurs.

And it's something about human nature that when you're taking a bet and you don't lose the bet over years, your perception of risk just has a way of moderating. Humans start to feel almost omnipotent that way. And then as soon as it hits, isn't it amazing how people feel chastened. It's not just in catastrophes. It's in any kind of risk-taking. It's just the human condition. And that's what you've got going on.

<Q - Brian Meredith>: Got you.

<A - Evan G. Greenberg>: And that's why I start out by saying, it's not my company. And cat losses, well, stop your crying. This is the business we're in. This is what we do for a living.

<Q - Brian Meredith>: Got you. And then what do you think about the reaction of the alternative markets or capital markets? And could they put a lid on any type of large-ticket property pricing, property cat, those types of things?

<A - Evan G. Greenberg>: Well, we'll see. Look, the retro market was hit very, very hard, and both with impaired capital and capital that is tied up because of a big question mark of whether it's impaired or not in the ultimate loss, to Elyse's question, of what we've seen reported, but there will be a big delta between what's been reported and when you look back a year or two years from now what the ultimate loss is. And that capital, a lot of capital is tied up. And how much capital comes back in and based on what kind of return will be expected, which I can guarantee, is a lot higher than – to get a return, a lot higher than the rates they took in the past. Well, that's in front of us, and it's a short window because here comes January 1 and reinsurers have to make their plans about how much capacity to commit.

<Q - Ian J. Gutterman>: So I had a couple questions, similar to Brian's, but I'll ask couple others first. So I guess, Maria, can you talk about more – I've been surprised that that's been everyone's lowest number. I know there's a lot of different ranges on the industry event, but nothing – at least for a lot of people, it's half or less of the others. And I would have thought for a company like yours, frankly, it would've been higher just given your national account exposure. There is almost as many Home Depots and Walmarts, et cetera, on the island of Puerto Rico as New Orleans. So I guess I'm surprised we're not seeing more national account-type losses for the DI obviously...

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

<Q - Ian J. Gutterman>: ... if you can open the doors.

<A - Evan G. Greenberg>: I don't mind telling you that Chubb fundamentally, overall our company, in the last two years, three years, we cut our exposure in the Caribbean and Puerto Rico in half or more.

<Q - Ian J. Gutterman>: Got it.

<A - Evan G. Greenberg>: We didn't like pricing, we didn't like aggregations, and we didn't like terms, period. Number two, you're referring to big real estate schedules when you're using proxy of the kinds of accounts you named. And by the way, the most underpriced business is big – with the greatest basis risk and exposure is real estate schedules. And any underwriter worth half their salt understands that. So that's how I comment on it based on Chubb. I can't comment – I can't comment for you based on others. And on one hand, I scratch my head a little bit, but on the other hand what I do know is many simply don't have good data yet. They don't know. And unlike us, they're not on the ground with people actually examining the exposure with – through the eyes of experienced adjusters and with that kind of command and control around it. And I think there will be a surprise. I think business interruption when – time will tell and I could be wrong, but I think business interruption is going to be uglier out of Maria than is imagined for the obvious reasons, Jay (sic) [Ian], electricity, ports, and transportation, ability to operate.

<Q - Ian J. Gutterman>: Exactly, that's what I was wondering about. So I'm glad you're not on it, but I'm worried that others are. On your cat load, I'm doing some very back-of-the-envelope math, which is maybe a little unfair. But I think Phil said – I guess I'm wondering, do these events make you rethink your annual cat load. Just – you said this is a one-in-five to one-in-ten and Phil said I think $330mm is a normal Q3. So over 10 years that will be the $3.3B. And if you had $1.9B every seven years that's about $2.9B with nothing in the other years. So, again, that's a little bit cheating just using Q3, but do these sort of return periods make you rethink what your normal cat load should be?

<A - Evan G. Greenberg>: No. It actually – and it depends, look, are you talking AALs or you are talking expected cat in a normal year?

<Q - Ian J. Gutterman>: Yeah.

<A - Evan G. Greenberg>: And so there's different basis for thinking about it, number one. And number two, as I said, a one-in-five to a one-in-ten and it fit within our expectation as we model the aggregations and what our appetite would be at various return periods based upon our loss as a percentage of capital, as a percentage of earnings, and as a percentage of industry as we imagine industry. These losses don't throw us.

<Q - Ian J. Gutterman>: Okay. Fair, fair. Okay. So then sort of ...

<A - Evan G. Greenberg>: I know what you want me to square for you on this call, and I'm not falling into a mathematic trap with you.

<Q - Ian J. Gutterman>: That's okay.

<A - Evan G. Greenberg>: ... of rapid-fire back-and-forth math.

<Q - Ian J. Gutterman>: I'm going to move on. I'm going to move on to next question, Evan. I gave it my shot. I'm going now to the next question.

<A - Evan G. Greenberg>: Okay.

<Q - Ian J. Gutterman>: So to build on Brian's point about sort of what – the magnitude we might be seeing here. I guess to me the question is 2005 vs. 2011, right, and you could argue 2011 we hadn't seen many quakes in a year? And some of those quakes were in places where the quakes weren't even on quake maps, right. I mean those were significant surprises. And you had the Thai flood. Maybe that's like the wildfires being the final gut punch. And yet, all you really got was localized pricing. And I guess, I'm just sort of going through sort of supply-demand and listening to all the calls so far. The companies have had much bigger losses than you, none of them are saying they're retreating. They're all saying they are looking to maintain their net and grow their gross. So no one's pulling out. The alternative guys certainly are looking to reload. And as the models aren't changing and the rating agencies aren't changing, it doesn't necessarily seem there's more demand. So if the demand is the same, the capacity is at least the same, if not more, I just struggle with outside of obviously where there's been losses, why this isn't 2011-like where it makes sense there should be pricing, but at the end of the day, there's just too many people who want to grow and not enough people who are feeling pain.

<**A - Evan G. Greenberg**>: Ian, there's your thesis.

<**Q - Ian J. Gutterman**>: Yeah.

<**A - Evan G. Greenberg**>: I gave you – I don't agree with you, and I gave you my thesis.

<**Q - Ian J. Gutterman**>: Fair. There's nothing else you want to add to that?

<**A - Evan G. Greenberg**>: I don't.

<**Q - Ian J. Gutterman**>: Okay.

<**A - Evan G. Greenberg**>: I'm not going to. I don't think I'm going to repeat myself.

<**Q - Ian J. Gutterman**>: Got it. Okay. Fair enough.

<**A - Evan G. Greenberg**>: I'm comfortable where I am. And, by the way, I'm looking at property prices already moving.

<**Q - Ian J. Gutterman**>: Yeah, agreed. Agreed. And then just lastly ...

<**A - Evan G. Greenberg**>: I can see trades and you can't. Now time will tell. Time will tell. I think the industry's reserve position is tighter than it was back in 2011. I think the published results ex-cat are under a lot more pressure than they were, and I've given you all my rationale.

<**Q - Ian J. Gutterman**>: Understood. No, makes sense. It's a fair debate. We'll have to see how it plays out. Good luck.

<**A - Evan G. Greenberg**>: No. We don't need to debate it. We just need to get on.

<**Q - Ian J. Gutterman**>: Exactly. Fair enough. All right. Thank you.

<**A - Evan G. Greenberg**>: Hey, Ian, you know what, I'm going to give you an answer. I can only be wrong.

<**Q - Ian J. Gutterman**>: I am good at being wrong. So that's okay. I understand.

<**A - Evan G. Greenberg**>: Yeah, I mean, I can only be wrong. So what the heck. I told you what I imagined, I told you what – if we can have anything to do with crafting reality, the reality we're going to craft.

<**Q - Meyer Shields**>: A couple of small ball questions, if I can. One, let me start with Phil. So the guidance that you gave for net investment income, we've seen it kind of sneak up in the past couple of months. Does that anticipate a continuation of that trend, or is it just based on current levels?

<**A - Philip V. Bancroft**>: Well, it's a current view of our short-term run rate. We update the run rate periodically, and we think that it's based on the cash flow that we expect, and we do an analysis to estimate what we think our – what we estimate as our investment income for the upcoming quarters.

<**A - Evan G. Greenberg**>: Yeah. Let me just add. That's just for Q4. So for that, for higher rates to bite, it's going to take a while. So as we look forward, yeah, we are anticipating some increase in rates and that will affect income as we go forward in the next few quarters.

<**Q - Meyer Shields**>: Okay, that's helpful. And can you talk to the adverse development in North America Personal?

<**A - Evan G. Greenberg**>: Yes, Paul Krump is going to – will speak to that.

<**A - Paul J. Krump**>: Sure. As we had adverse PPD of $32mm in PRS in Q3, that was some unfavorable loss development in homeowners. We had little bit of an offset to that from the umbrella. That compares to $38mm in Q3

2016. Recall here, Meyer that we're harmonizing the three books of business and this is a huge portfolio. Within the homeowners line, it's very short-tail, and you just get a little bit of a movement on some of these losses. So there's nothing what I would consider as average noise. That's all in the prior period, but I'm going to help you, Meyer. Okay Paul, but we saw the loss ratio in the current accident year also continue to go up in Personal. So, why? I'm being your lawyer, Meyer.

<Q - Meyer Shields>: Thank you.

<A - Paul J. Krump>: That's a great question, Evan. And I don't consider that small ball. I consider that big boy ball. The Personal Lines current accident year loss ratio excluding cat is $51.9B in Q3. While at $51.9B, Evan, I think, you and I would agree that's still a good number, it is $2.6B, higher than Q3 2016 comp, which was at $49.3B, and that is several points higher than where we target the business to run.

The causes of that elevated loss ratio were more large random fires than expected as well as an increase in water damage claims, specifically burst pipes. Given the high severity low frequency nature of large fire losses, we anticipate random differences in their quarter-to-quarter impact. As you often say, it is our business.

As I've mentioned in the past, we've been experiencing an elevated level of losses from burst pipes. We believe these water losses are an industry issue and are not isolated to us. Well, burst pipe losses typically cause us less than home fires, they're incredibly inconvenient for the homeowner and oftentimes require them to be out of their homes for a period of time.

Fortunately, no other carrier has more high-net worth home data than us, and we have a proactive program to directly reach homeowners we've identified as more likely to have a water loss. We arm our customer with facts, and we give them practical advice on how to mitigate their chances of loss. We provide them with list of qualified professionals who can install devices such as sensors, water softeners and especially automatic shutoff valves.

And of course, once these devices are installed, we provide them with the premium credits because of their improved risk. While it's still early days for this proactive program, our agents and brokers are excited about it and readily embracing it. In fact, they like being advocates for tangible tools to reduce risks and rates. This is part of the Chubb high net worth advantage that so differentiates us in the market.

<Q - Meyer Shields>: And final question which is a little bit of dead horse-beating. But Evan, can you talk about the mechanics of the leadership position that you have emphasized this time that Chubb is taking in terms of driving pricing.

<A - Evan G. Greenberg>: Yeah. It's in some ways a continuation of our playbook, we just crank it up. And it's the command-and-control aspect of underwriting management. So on one hand, it's materials you use to educate customers of why you need rate increases, and what is mathematically the logic behind your statements and your action. And that is to educate both the customer and your distribution partners and prepare the environment.

At the same time then, it's how you train and arm your underwriters many of who have never been in an environment where they ask for a rate increase. They've only provided rate decreases and they're the ones on the front end.

And for those of you who are not in the business and you're not. You just observed the business. This is one of the reasons why it takes time for markets to move. Because going from the head to the tail to those who actually have to administer it on a daily transaction-by-transaction basis, the command-and-control to get them to move can take time.

We understand that. And we're usually quicker. And it's getting our underwriters therefore and training them and having them work alongside others who've done it before and being able to actually experience getting a rate increase and that you can do it and you can ask for it.

Sounds simple? Not as simple as you might imagine. And then to reinforce that, what you do, is you start changing underwriting authorities and you say I'm only giving – you have no authority to quote less than X.

And if you're going to quote less than X as an increase, it needs approval. It has to go up to a manager and you limit the number of managers who have that authority to move off of your stated instructions.

And that has a way of putting discipline within an organization. So that's just an example to you of the kinds of tools and how you do it and you get out there in a very granular way to drive execution of something like this. We've done it before and we know how to do that.

<Q - Jay A. Cohen>: Yeah, kind of different topic I guess. I was wondering if you could talk about the tax proposals that are floating around Washington. We don't have a lot of specifics yet, but you probably have some view and also, how it could affect Chubb given the complexity of Chubb's tax arrangements?

<A - Evan G. Greenberg>: Yeah. I won't comment directly on the proposals right now because you got House constructing their views of tax and details in proposals and they're looking at pay-fors et cetera. And then you got Senate doing the same. But thank you for the question, I want to make a few other comments and observations about all this that I think are important at this moment. There's been a lot of noise recently from protectionist U.S. insurers who were seeking to upset the global insurance market that is working well for U.S. consumers.

They want to stop competition from foreign insurers who help keep rates down and who are providing the majority of the cash that is paying claims from, let's take the recent hurricanes, U.S. insurers claim they are suffering compared to foreign insurers because of tax rules. Well, this is fundamentally untrue. If you look at their stock prices over the last decade, shareholders of U.S. insurers, including Berkley and Travelers have been richly rewarded over the last decade. Just compare a cohort of U.S. insurers and foreign insurers, and you'll see a dramatic difference in how much more the U.S. insurers have improved their stock prices.

And when they're not running the Congress, to limit foreign competition, they are telling shareholders in the public just how well they are doing, just read their annual reports and listen to their analyst calls, it's a litany of market successes and bright futures. They also make false claims about insurance jobs moving overseas and decreasing tax revenues.

In fact, look at what Chubb has done. It has invested for growth in the U.S. As ACE we turned Cigna from a money loser into a profitable taxpaying company, securing the jobs of thousands of employees, and we used our capital to combine ACE and Chubb, we created a powerful competitor, offering U.S. customers an array of new products and efficiencies while rewarding shareholders at the same time. And increasing revenue and payrolls means an expanded U.S. tax base, bringing in more personal and corporate tax at all levels of government.

While Chubb was investing in the U.S., what were U.S. companies, like Berkley and Travelers doing, complaining about decreasing market share while using their capital to buy back stock, maybe boosting their share price as a result, but failing to make the investments that are essential for long-term growth and creating more jobs.

They know that strategy doesn't work against companies like Chubb, which are investing in innovation and growth. So they want to slow us down by changing the tax rules and protect their market share at the customers' expense.

The current tax system, including the rules about affiliate re's makes sense because it recognizes the tax should be applied where the risk resides and that system has encouraged global distribution of risk, which maximizes the efficient use of capital, resulting in more competition and lower premiums. But you don't have to take my word that this system works to benefit customers and not as the tax avoidance scheme the U.S. insurers have fantasized.

The OECD looked at the tax avoidance question and they would be skeptical of any industry claims. And they concluded that affiliate reinsurance has a legitimate business purpose. And the U.S. Treasury Department also concluded that affiliate re is an important tool, allowing insurers to lower overall costs by pooling capital. So don't be fooled by claims of the U.S. insurers who are trying to hide behind a false patriotism and drape themselves in the flag. They are not interested in lowering costs for U.S. customers. They want to blow up the system that has worked so well to keep prices competitive in the United States. Thank you Jay for that question.

<Q - Josh D. Shanker>: Thank you very much for letting me ask the question. I want to dovetail a little what Meyer asked about demonstrating leadership. I mean you guys have done a phenomenal job here, broken even in $100B loss quarter. Your combined ratios on an underlying basis are about 100BPS better than they were three years ago. Interest rates are higher for pricing. It looks like it's a better situation maybe for you, and maybe not the industry. Why is Chubb in best position to seek rate? Why not let others make mistakes and allow you to capitalize on their mistakes as they come to you? Does Chubb need to be the one that demonstrates the leadership on the rate side of things?

<A - Evan G. Greenberg>: Well, yes. I think Chubb and I think others will do as they think is in the interest of their own company. I know we'll do what's in the interest of our company. Josh, you're looking at the booking aggregate and it's a global book you're looking at. You don't see the underlying parts and pieces as I do.

And I know in the large commercial business, and I know in pockets of all of our commercial business, the different classes and the different customer segments and where we are running a combined ratio that is adequate to earn a decent risk-adjusted return and where it is not. And we have many classes that are under pressure. They may earn an underwriting profit but their combined ratio is too high. It is inadequate to earn a reasonable risk-adjusted return.

And by the way, as I always say, we pay a penalty in terms of growth by maintaining underwriting discipline, particularly in those classes, in any class as it approaches inadequacy. And then what you know is, trend continues, it just marches on minute-by-minute, day-by-day. And you want to get ahead of that. You want to stay ahead of that.

And what you don't want to do, and I don't want to see happen. I care about our industry, because I care about our industry's reputation and what customers don't want ultimately is volatility in pricing. They want more predictability. And so all of that says to me, when you add it all together between opportunity, between need and between responsible behavior in an industry that is important to the plumbing of our economy, that we behave in a responsible and rational way, so prices should and need to move.