Q2 2016 Earnings Call

Company Participants

- Evan G. Greenberg
- Helen Wilson
- John Joseph Lupica
- John W. Keogh
- Juan C. Andrade
- Paul J. Krump
- Philip V. Bancroft

Other Participants

- Brian Robert Meredith
- Charles Joseph Sebaski
- Ian J. Gutterman
- Jay Gelb
- Jon Paul Newsome
- Josh D. Shanker
- Kai Pan
- Larry Greenberg
- Meyer Shields
- Michael Nannizzi
- Ryan J. Tunis
- Sarah E. DeWitt

MANAGEMENT DISCUSSION SECTION

Operator

Good day and welcome to Chubb Limited's Second Quarter 2016 Earnings Conference Call. Today's call is being recorded.

For opening remarks and introductions, I'd like to turn the call over to Helen Wilson, Investor Relations. Please, go ahead.

Helen Wilson {BIO 2078659 <GO>}

Thank you, and welcome to our June 30, 2016 second quarter earnings conference call. Our report today will contain forward-looking statements, including statements relating to company and investment portfolio performance, pricing and business mix, economic and insurance market conditions and integration of acquisitions including our acquisition of the Chubb Corporation, and potential synergies, savings and commercial and investment benefits we may realize. All of these statements are subject to risks and uncertainties. Actual results may differ materially.

Please refer to our most recent SEC filings, as well as our earnings press release and financial supplements which are available on our website, at investors.chubb.com for more information on factors that could affect these matters.

During today's report, our management will also refer 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 second quarter 2016 earnings press release and financial supplement.

Now, I'd like to introduce our speakers. First, we have Evan Greenberg, Chairman and Chief Executive Officer; followed by Phil Bancroft, our Chief Financial Officer. Then we'll take your questions. Also with us to assist with your questions are several members of our management team.

And now it's my pleasure to turn the call over to Evan.

Evan G. Greenberg {BIO 1444445 <GO>}

Good morning. As you saw from the numbers we had a pretty good quarter, though we were impacted by the higher level of industry insured cat events globally, 25 of them by our account. After-tax operating income for the quarter was just over $1 billion or $2.25 per share compared to $2.40 per share prior year. For illustrative purposes, excluding cat losses, operating income was $2.91 per share, up 7% over prior year and for six months up 11% demonstrating our excellent underlying operating results which are in line with our expectations and I think depict the accretive nature of our merger.

As I did last quarter when discussing our underwriting results and premium growth and to give you greater visibility into the health of the company, I will compare our results as the new Chubb, excluding the purchase accounting and one-time merger-related items in 2016 that distort underwriting to the 2015 year prior quarter as if we were one company back then or put simply as if. So you know as a manager this is how I look at our results.

So, to begin, the P&C combined ratio for the quarter was a published 91.2% and an as if, which again excludes merger-related items, 90.2%, a really good result that included $311 million in after-tax cat losses from a broad range of events globally. As we recently announced, our cat losses in the quarter were about $100 million above what we had contemplated on a pre-tax basis, but they are in line with our insurance and reinsurance exposures globally. It's worth noting that the level of industry cat losses while elevated when compared to the recent past appear in line with longer-term historical results.

The P&C current accident year combined ratio, excluding catastrophe losses, was 88.9% in the quarter versus 88% as if we were one company last year. Last year has the one-time benefit from the Fireman's Fund transaction and excluding that our year-over-year current accident year combined ratio was essentially flat. Both our North American and international insurance operations had very good calendar and current accident year results. Again, on an as if basis, positive prior period reserve development of $301 million pre-tax was down $35 million versus prior year.

Adjusted net investment income for the full quarter was $816 million, a good result given the continued impact of foreign exchange and low interest rates and very modestly below our expectations and guidance to you. Progress, repositioning our portfolio which will result in additional investment income as we discussed last quarter, is on track.

Book value per share was up 2.7% in the quarter and stands at $101.56. For the year, per share book value was up over 13%, our annualized operating ROE is circa 10% year-to-date. Phil will have more to say about the investment portfolio, tangible book value, as well as prior period reserve development in cats.

Turning to premium revenue, total P&C net premiums in the quarter on a constant dollar basis declined 4.7% on an as if basis. Excluding the previously disclosed one-time benefit from the portfolio transfer of Fireman's Fund business last year, total P&C net premiums were down about 1.5%. Commercial P&C net premiums written for North America were flat. International retail P&C was up 1.5%. International wholesale P&C was down 7% and Global Re was down 13%. Net premiums written for North America personal lives were down about 20%, or 5% excluding the one-time Fireman's Fund premium benefit last year. Excluding all of Fireman's Fund, so just imagining legacy ACE and Chubb personal lines, normalized premiums were in fact up.

Given the softer market conditions and the underwriting actions we took due to the consolidation of our two companies, I consider our commercial P&C revenue results this quarter to be reasonably in line with our expectations. As I mentioned on recent calls, when we were planning the merger, we contemplated underwriting actions in certain portfolios not meeting our standards or risk appetite, that would reduce our net premium. These underwriting actions, which include either canceling or reinsuring that business, will improve our risk/reward profile and will continue this year and into 2017. In addition, we are choosing to utilize a greater level of reinsurance in certain classes. Altogether, these actions impacted net premium growth in the quarter by about 1.5 points.

On the flip side of the coin, the strength of the combined organization, including cross-selling and the introduction of our total product portfolio to an expanded distribution base is beginning to show, and this contributed about 1.5 points of net premium growth in the quarter or about 13% of our North America retail commercial P&C new business growth.

I'm going to give you some more detail on our revenue results and pricing by major division, beginning with North America. In our retail commercial P&C business that serves the middle market, net premiums were up 1.2%, with a renewal retention rate as measured by premium of 89.3%. The market continued to gradually soften. Overall renewal pricing was up about 0.5% in the quarter. General and specialty casualty-related pricing was down 0.9%, with workers comp down over 2% and general liability down 0.5%. Financial lines pricing was up 1% and property-related pricing was down 0.5%.

Terms and conditions are generally holding, though we are noticing some erosion around the margins. New business writings for our middle market business were up 2% year-on-year. In our business serving large corporate customers and specialty E&S markets, what we call major accounts and specialty, net premiums were down just under 1%, with major accounts down 1% and Westchester E&S up 0.5%.

For our retail major accounts business, the renewal retention rate as measured by premium was 90.6%. We are continuing to experience downward pressure on pricing; however, for lead layers, both primary and excess, where capabilities make a real difference, and there are only a few of us who can stand up to that, pricing conditions are less competitive than straight excess layers, where it's simply about capacity.

Terms are conditions are generally holding in the major accounts customer segment. Pricing for the business we wrote was down 2.5%. General and specialty casualty-related pricing was up 0.5%. Financial lines pricing was down about 2.5%, particularly large account D&O, and property-related pricing was down 10%.

New business writings on a gross premium basis were up in the quarter about 23%, driven largely by risk management, primary and lead excess, environmental liability and cash flow property, which by the way has very little net premium associated with it. The new business growth is a combination of flight to quality and a few major competitors exiting or reducing their exposures.

In our North America personal lines business, normalized premiums were up about one point for the combined ACE and Chubb book of business, excluding Fireman's Fund. Overall rates were up 1.3% and exposure change was a positive 3.4%. Retentions remained quite strong, driven by the legacy Chubb and legacy ACE portfolios at over 95%. For the legacy Fireman's Fund portfolio, retentions were lower at 72%, driven by rate and non-renewal actions as we continue to convert the business to Chubb paper and some producers and customers choose instead to move to a cheaper, and in our judgment underpriced, option. These are a continuation of the actions we have taken since the start of the conversion last summer.

Looking forward, and for your information, effective July 1, we have purchased additional reinsurance protection for our North America personal lines business. This will have an annualized impact on net written premium of approximately $250 million. We obtained excellent terms and judge the risk management and financial benefits to be clearly in the interest of the company, resulting in an improved net retained risk/reward profile.

Net premiums for our agriculture business were down just over 1% in the quarter due to commodity prices, offset by growth in exposure.

Turning to our overseas general insurance operations, as I mentioned earlier, net premiums written for our international retail P&C business were up in the quarter, 1.5% in constant dollar. While in our London market-based excess and surplus lines business, premiums were down 7%, due entirely to market conditions. Growth in our international retail business varied depending on territory and product.

Asia Pacific was up 7%. Latin America was down 5%, mostly due to commercial P&C market conditions and personal lines in Brazil. Excluding Brazil, Latin America grew 1%. And Europe was flat, with the continent up 4% and the U.K. down 4%.

From a product perspective, commercial P&C net premiums grew just over 1%, while personal lines grew 2%. It's worth noting we have chosen to exit the legacy Chubb Brazil high net worth auto business due to underwriting and took actions on this earlier in the year. Excluding that impact, our international personal lines business grew 5%.

Overall renewal pricing, so for the business we wrote, for our international commercial P&C business was down 3%, consistent with our expectations and a stable, in fact slower, rate of decline relative to the 15-year. Property prices were down 5%, casualty was down 3% and financial lines were down 2%. Terms and conditions were largely in line with previous quarters.

In our global A&H business, net premiums written in constant dollars were up over 3% in the quarter, including 5% growth in our combined insurance operations in North America. As I mentioned before, while early days, we are beginning to see tangible revenue growth as a result of the power of the new Chubb. We have very focused, deliberate efforts underway around the globe to promote both account cross-selling and product introduction to expanded distribution. We have specific targets and objectives, internal programs to educate colleagues about each other's products and services, and promotional campaigns. Some areas where you've seen early cross-selling success include environmental, healthcare, professional lines, workers comp, specialty casualty, transportation and agriculture, to name a few. John Keogh, John Lupica, Paul Krump, Juan Andrade can provide further color on the quarter, including current market conditions and pricing trends as well as examples of how the power of the firm is contributing to cross-selling success.

Before I close, we remain on track with all of our integration plans and activities. We are meeting our milestones in terms of integration savings, support function expectations, underwriting and claims initiatives and growth initiatives. Our outstanding claims in risk engineering organization has not missed a beat during the integration, especially in light of the increased level of cats and continue to distinguish the firm in serving both our commercial and personal policyholders. Our people are continuing to knit themselves together and coalesce into one unified culture. In fact, most of our people are spending far less time on integration-related process and procedures and more and more of their time focused on serving their customers and distribution partners.

With all that, I'll turn the call over to Phil and then we'll come back and take your questions.

Philip V. Bancroft {BIO 4621336 <GO>}

Thank you, Evan. We've completed the second quarter as a new Chubb and reached two milestones. Our total capital position now exceeds $60 billion and our cash and invested assets now exceed $100 billion. During the quarter, S&P reaffirmed our AA rating and upgraded our outlook from negative to stable and A.M. Best reaffirmed our A++ rating with a stable outlook and removed their Under Review designation. Adjusted investment income of $816 million for the quarter was slightly lower than our expectation because of lower than estimated private equity distributions. As Evan mentioned and as we discussed last quarter, we're on track to reposition the portfolio to enhanced returns without taking significant additional risk.

However, based on the decline in investment deals during the second quarter, we are now expecting consolidated adjusted investment income to be in the range of $820 million to $830 million for the third quarter which compares to our most recent guidance of $830 million. This is subject to volatility in investment yields, prepayments in our mortgage-backed portfolio, private equity distributions and foreign exchange. Our portfolio continues to have an average AA rating and a duration of approximately four years. Our current book yield is 3.4% and new money rates are 2.3%. Net realized and unrealized gains for the quarter were $830 million pre-tax and include $933 million gain from the investment portfolio, primarily from the decline in interest rates, a $159 million mark-to-market loss on the VA portfolio, also primarily from the decline in interest rates and a $59 million gain from FX.

Operating cash flow for the quarter was $1.1 billion. Tangible book value per share was up 6.1% reflecting our strong earnings and the net realized and unrealized gains I just mentioned. Net loss reserves increased $269 million for the quarter. The paid-to-incurred ratio was 93%. Adjusted for cat losses and prior period development, the ratio was 89%.

As we announced, our catastrophe losses in the second quarter, net of reinsurance, were $390 million pre-tax or $311 million after-tax. Of the pre-tax total, $320 million was from natural catastrophes in North America, and $70 million was from events outside North America. We've included more details of where these losses were incurred in our supplement. Prior period reserve development was positive $301 million pre-tax and comprised $205 million from long-tail lines, principally from 2011 and prior, and $96 million from short-tail lines.

Our tax rate on operating income for the quarter is 16.7%, which is in the range of the expected annual effective tax rate of 16% to 18%. Quarterly tax rates will vary based on where our income emerges.

I'll turn the call back over to Helen.

Helen Wilson {BIO 2078659 <GO>}

Thank you. At this point, we'll be happy to take your questions.

Q&A

Operator

And we'll take our first question from Kai Pan of Morgan Stanley.

Q - Kai Pan {BIO 18669701 <GO>}

Good morning, and thank you. Thanks for all the details on the top line growth. Just wanted to focus on the North American personal P&C insurance. If you're excluding the Fireman's Fund one-time transfer, the overall premium like pro forma is down 5%. I was just wondering is that including sort of the, rather than the transfer for the legacy Fireman's Fund business as you re-underwrite that business and how long will it last? Because you've surely lost some and I just wonder at which point we could reach an inflection point on that?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Kai, I think I answered most of your question in my commentary, because I've said the Fireman's Fund ran a 72% retention rate. That's what impacted that 5% and excluding it we were up 1% and I gave you pricing and exposure numbers. The 72% was due to a couple of things. Non-renewal actions, we actually non-renewed a certain percentage of the portfolio and pricing action we took as we convert to the legacy Chubb/ACE pricing. When we take an expiring policy on Fireman's Fund paper and literally convert it to ACE or Chubb paper on our pricing, there is a very meaningful pricing differential in the majority of cases and that also impacted renewal retention rates.

There are customers and producers who chose a cheaper option, and by the way, an awful lot of that was contemplated when we actually determined to make the purchase of the Fireman's Fund portfolio. So you have those things. This will continue through the third quarter and in the fourth quarter while it'll continue, it's on a far diminished basis and we expect a substantially higher renewal retention rate because it's on business that's on legacy ACE paper.

Q - Kai Pan {BIO 18669701 <GO>}

That's great. And then the second question on the integration expense savings side. How much of the $275 million you guided for the 2016 was saved in the second quarter?

A - Philip V. Bancroft {BIO 4621336 <GO>}

It's about $67 million.

Q - Kai Pan {BIO 18669701 <GO>}

$67 million, okay.

A - Philip V. Bancroft {BIO 4621336 <GO>}

Yes.

Q - Kai Pan {BIO 18669701 <GO>}

And then just looking forward, you have these cost savings, by my calculation if you lump them all into the underwriting results, probably come to anywhere between 1 point to 2.5 points of your...

A - Evan G. Greenberg {BIO 1444445 <GO>}

That was your first mistake. You just counted them all into the underwriting.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. All right. So let me rephrase it. I'll just say will these cost savings be enough to overcome the pricing pressure in order for you to maintain that or improve the margin going forward?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Well, you know, that's a forward-looking statement and that's guessing everything that you can imagine about terms and conditions in pricing and renewal retention rates as we go forward. So that's guessing at market conditions. I think it's better to say that – by the way, the cost savings show up in operating expense line, they show up in the claims line, the portion that is UA (23:43) related, they show up in the acquisition line. So they show up in three different categories.

What it is safe to say is, the expense savings will ameliorate any deterioration in underwriting margins. Whether it offsets it, we'll see how future years look.

Q - Kai Pan {BIO 18669701 <GO>}

Okay, lastly if I may, is there any sort of impact from potential near-term and long-term impact from Brexit? Thanks.

A - Evan G. Greenberg {BIO 1444445 <GO>}

There is no near-term, and look, the long-term is going to depend on what's negotiated between the U.K. and the EU, which we don't know. You're all familiar with the term passporting and that would be the biggest impact to us, and in which case if passporting is not negotiated we will have a separate European sub which would have some capital implications. The exact amount I can't tell you, but we'll be able to handle it easily, and it'd have a modest amount of personnel impact as well. Not dramatic. I don't foresee a substantial impact, but let's wait and see what's negotiated.

Operator

And we'll take our next question from Michael Nannizzi of Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks. Just following up on that a bit if I could, Evan, on the personal lines business, it sounds like then the comparisons by year-over-year basis get a little bit easier as the year progresses. There isn't a distortion like we saw in the second quarter. I just want to try to understand if that's exactly right and also how we should be thinking about the net impact on underwriting from the change in reinsurance. Thanks.

A - Evan G. Greenberg {BIO 1444445 <GO>}

The change in reinsurance will improve the expense ratio in particular, and I'd say that. I'm not going to give the numbers. The third quarter will have less impact than the second quarter, because we don't have the one-time, and the one-time, the underwriting benefit, we had some in the third quarter and some in the fourth quarter last year as you recall. But it was much larger in the first quarter than in the third quarter and the fourth quarter. So you get that, we had that positive pickup that wouldn't repeat in 2016 from Fireman's Fund and we disclosed that to you. And so you have those numbers, and you know those.

The renewal conversion will have less of an impact in the third quarter than in the second quarter, but it'll still have an impact. And the fourth quarter will be dramatically less.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Great. Okay, thanks for that. And then you mentioned Fireman's Fund as far as conversion. Can you talk a little bit about for the legacy ACE clients on the personal lines side? I'm guessing the premium also there will be higher than it was, maybe that's not true but I'm assuming it is. So maybe you could help on that. But has that impacted retention? And then for legacy Chubb agents, has there been any change in commission structure or are their commissions across legacy ACE and Chubb similar? Thanks.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Okay. So the first part of your question I'm going to answer quickly and then I'm going to turn it over to Paul Krump.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay.

A - Evan G. Greenberg {BIO 1444445 <GO>}

But remember, a legacy ACE customer is renewed on legacy ACE paper. They remain. And a legacy Chubb customer is renewed on legacy Chubb paper. All new business is written on legacy Chubb, rates, terms and paper.

Paul?

A - Paul J. Krump {BIO 5211397 <GO>}

Sure, Evan. And maybe just to put a sharper point on that because we do see a little bit of account rounding coming in on ACE paper as well, so somebody might be buying an excess policy above their homeowners and automobile. So there is a small amount of "new" business coming on to ACE paper, but that's from account rounding and it's not truly a new customer. You mentioned commissions. There's been really no change in the commission structure whatsoever. Our agents enjoy good commissions and our GSC program is alive and well.

Q - Michael Nannizzi {BIO 15198493 <GO>}

And so do you plan on then maintaining the two separate platforms, so legacy ACE – so that will continue in perpetuity for legacy ACE insureds? Or is it anticipated at some point you'll have one product, one brand?

A - Paul J. Krump {BIO 5211397 <GO>}

For the foreseeable future, we'll have the two platforms. Evan has mentioned in previous calls that we're always looking for new product and we're kicking around how we can improve the current masterpiece, which is really the Cadillac of products out there. And over time we will work on that, and I would foresee at that point that there would be a conversion.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. Thanks.

Operator

We'll take our next question from Ryan Tunis of Credit Suisse.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Hey, thanks. Good morning. I guess just to follow up on the reinsurance discussion. We were curious, does the increase in the reinsurance spend allow for a broader strategic growth opportunity? Or does it really just improve the risk profile and profitability of the existing book?

A - Evan G. Greenberg {BIO 1444445 <GO>}

It does both.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Any interest in elaborating further?

A - Evan G. Greenberg {BIO 1444445 <GO>}

No.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Okay. I guess my other follow-up for Evan is just on where we are I guess in terms of tangible book. I noticed tangible equity's grown about $1.6 billion since March, and I think Evan has said in the past that one of his goals with this deal is to get tangible book value, I know it's per share, back to where it was prior to the deal. But we were just wondering, how important is it to get the tangible book value per share back to where it was prior to the deal before considering further deployment of capital, either through M&A or buyback?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Ryan, we're on track to do that. Our own projections when we originally did the deal was, from memory, 3.5 years, or under 3.5 years. Our updated projections hold us right on track with that, and growing tangible is important to us. That's a balance sheet, quality of balance sheet question to us. You can pay claims out of tangible capital and it's your most constraining factor financially, is tangible. So growth in tangible is important to us.

On the other side of the coin, we will generate, depending on if, you can't predict conditions, you can't predict losses precisely, but our own projections, if they hold, we will generate capital flexibility as well. So I think that's about as far as I want to go with that.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Okay. So, it's safe to say that if at some point you were comfortable with the risk profile and the rating agencies were comfortable with the risk profile of the business, you'd potentially be willing to extend that 3.5-year goal out further if there were an accretive opportunity?

A - Evan G. Greenberg {BIO 1444445 <GO>}

No. I am not willing to extend that 3.5-year goal out further. No. That's a misunderstanding. We can achieve that 3.5-year goal and at the same time, we will generate surplus capital.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Okay.

A - Evan G. Greenberg {BIO 1444445 <GO>}

And capital flexibility. Remember, I called out (32:39) capital flexibility. We like having capital flexibility. That's a good thing, and we're in the risk business and we're also a growth company in terms of book value. We like having capital flexibility on our balance sheet.

Q - Ryan J. Tunis {BIO 16502263 <GO>}

Okay. That's helpful. That makes a lot of sense. Thanks.

A - Evan G. Greenberg {BIO 1444445 <GO>}

You're welcome.

Operator

And we'll take our next question from Sarah DeWitt of JPMorgan.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Hi, good morning.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Good morning.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Congratulations on a good quarter. I was just wondering, first, if you could just elaborate a bit more on the cross-selling opportunities. I appreciate the marks, but if you could give some specific examples I think that would be really helpful.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Great. And thank you, Sarah. I'm going to actually ask John Keogh to elaborate on those, and John Lupica or Paul Krump or Juan Andrade may want to pile in.

A - John W. Keogh {BIO 2104739 <GO>}

Sure, and, Sarah, it's John Keogh. Listen, there's a bunch of examples I can give you, and Evan mentioned where we're seeing it in terms of the products. Maybe I'll give you one which I think kind of speaks to the strength of the two companies coming together in a piece of business we wrote this quarter that was worth a couple of million dollars of premium. And it was a relationship that legacy Chubb had, a very strong relationship going back for a number of years through their D&O position as a lead D&O carrier, and also in excess liability. The client is in the nursing home business, a large nursing home chain, legacy Chubb had chosen to stay out of the medical liability business over the years. Legacy ACE, we've been in that business for a long time, know it well, have done well in it. Knowing the client well, knowing the producer well, we went and had a conversation about their coverage for medical liability. Given the relationship they enjoyed with legacy Chubb, they were more than happy to talk to us about that, and that resulted in us writing them medical liability for a couple of million dollars of premium that I think we probably would not have written but for the two companies coming together.

A - John Joseph Lupica {BIO 4213297 <GO>}

Sarah, this is John Lupica. If I can just say from a branch and regional office standpoint, it's awesome to see this company come together. We have 48 branches that are really learning from one another and the momentum we're picking up is just terrific. We have policies in place with dual declination, so people get to see each other's opportunities. So we know each other's appetite. The product that ACE is bringing to the table is terrific. The capabilities Chubb's bringing to the table is awesome.

One example is we have a large risk management business out of a satellite office that came from an agent that wasn't even appointed on the ACE producer list. And this agent had a house account that was introduced to the ACE risk management team and our ESIS claims team. We took a small, single specialty line that Chubb had written on the financial lines and turned that into a $6.5 million relationship by being able to write the comp, GL, auto and claims, all on a clash flow basis. Again, from an office we didn't have presence in and an agent we didn't have licensed, just terrific.

A - Paul J. Krump {BIO 5211397 <GO>}

I'll probably add just a little bit. As I watch that people travel together and understand each other's appetite, Evan calls it knitting the organization together, we're seeing every day in the middle market lots of opportunities. I heard about one this week out in Chicago where we were traveling to an agent that was appointed by legacy Chubb and just wanted to meet some of the legacy ACE underwriters, and they walked away with a $221,000 account just because they did not understand ACE's appetite obviously from the past. But we're very excited about the opportunity to learn more, and just in the course of the last two days resulted in a $221,000 account.

A - Juan C. Andrade {BIO 16371272 <GO>}

Sarah, and this is Juan Andrade speaking for the international side. I think our theme is very much the same where particularly in places like Continental Europe, the U.K. and Asia Pacific, we've been very successful in cross-selling legacy ACE's property products into legacy Chubb's casualty portfolio. In addition to that, also bringing in legacy ACE's cyber products into the legacy Chubb financial lines portfolio. And probably the last example I would give has to do with our large account multinational business where now with the legacy Chubb workers compensation capability in the U.S., we're able to better round our multinational products for those companies.

A - Evan G. Greenberg {BIO 1444445 <GO>}

You got a mouthful there, Sarah.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Great. Thanks for the color.

Operator

We'll take our next question from Jay Gelb of Barclays.

Q - Jay Gelb {BIO 21247396 <GO>}

Thank you. On page eight of the supplement, it shows total commercial P&C on a constant dollar basis being down just 0.5%. I was trying to get some perspective on how that result compares to your expectations at this point in the integration?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Pretty much in line with our expectation. I gave you the color that we were down around 1.5%, we had an impact of about 1.5% negative growth due to actions we took related to the combined portfolio as we did the merger. And that is around underwriting actions that we had contemplated, either non-renewal or purchasing reinsurance protections. And that is in line – additionally we did, because the market is soft, we did also take some underwriting actions a little bit above what we might have and related around reinsurance as well where we judge the risk/reward. So, altogether, and that's what I said in the commentary, it makes good sense to me. Our renewal retention rates have remained very high, very good. And I've got to tell you, you look at the middle market business at 89.5%, that's high. That's a very good renewal retention rate which in the middle market commercial business in the United States today, the pattern is everyone who's responsible is trying to hold on to their renewals and there is less drive for new business.

Among those who really do have the data, have the presence, have good underwriting, there is a bunch of smaller wannabes who are doing some crazy things to, and I think fairly desperate things, to show growth and write new business. That's just normal stuff, nothing to do with the integration. And in our large account business, we ran over a 90% retention rate. Excellent. So what do you have? A high retention rate in the commercial businesses with good underwriting, underwriting action that we have taken to improve risk/reward that we contemplated, and some actions that we took that impact net premium but improve our risk/reward based on soft market conditions. Feeling pretty good to me.

Q - Jay Gelb {BIO 21247396 <GO>}

That's great. Thanks, Evan. And then I had a couple of quick ones for Phil. So, for the net investment income of $820 million to $830 million in the third quarter, would that have any impact on quarters beyond that as well?

A - Philip V. Bancroft {BIO 4621336 <GO>}

In the last call we talked about a range of $820 million to $840 million, and we saw that as a view over the rest of the year and thinking that in the second quarter we'd be closer to the lower end of that range and in the fourth quarter we'd be closer to the higher end of that range. At this point we've said, look, we really can't foresee what interest rates are going to do much beyond the third quarter, so we've decided to limit our guidance to the $820 million to $830 million for the third quarter alone.

Q - Jay Gelb {BIO 21247396 <GO>}

Okay. And then finally on debt-to-capital, it's already down to 22% taking into account AOCI which had a gain in the second quarter. Can you remind us what your goals are relative to financial leverage?

A - Philip V. Bancroft {BIO 4621336 <GO>}

Yes. Our leverage at this point is fine. From a rating agency standpoint, from any measure, our leverage is fine. I expect that as we continue to grow our capital base, just naturally that will decrease, but we're within our range.

Q - Jay Gelb {BIO 21247396 <GO>}

Thank you.

Operator

Our next question comes from Paul Newsome of Sandler O'Neill.

Q - Jon Paul Newsome {BIO 3522950 <GO>}

Good morning. I wanted to ask a question on the middle markets business. (42:28) and they were commenting that they thought that the new Chubb was expanding terms and conditions and the types of customers you take on in a fairly significant way. But I guess the question is, is that true? And if it is, if you could talk to the extent that that's happening in the market?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Well, we'll talk a little bit about it but we're not going to give a roadmap to everybody out there. Paul, go ahead.

A - Paul J. Krump {BIO 5211397 <GO>}

Yes, Paul, I would unpack that a little bit. You really have two thoughts going there. One is appetite, and I would suggest to you that the two companies have come together and have very complementary appetites. Legacy ACE is bringing a lot of skill in areas that legacy Chubb didn't have. For example, cyber or environmental. And we are certainly cross-selling and taking advantage of those new skills.

So, yes, there's been an absolute increase in the Chubb appetite if you think about legacy Chubb in the middle market space. So accident and health would be another one where we are cross-selling. If you are talking about terms and conditions, I think Evan said it in his remarks, that we're seeing a slight erosion around the margin, in particular around cat. Flood, we're seeing people lower deductibles for the same premiums or increasing the sub-limits around quake. We are resisting that as best we possibly can. We are not in the business of under-pricing exposure, so we're trying to be as disciplined as we possibly can in this marketplace.

Q - Jon Paul Newsome {BIO 3522950 <GO>}

And then I have sort of an unrelated question, but a broader one. Obviously, you put two big companies together and you have an executive leave because there's only one slot. Do you think we're pretty much through the period of time where we're going to see continuous headlines like we have in the past from people leaving and going else - is that process largely finished? More of a headline risk I guess that we sort of suffered through, wondering if you think we're done with that?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Well, you know, frankly, the words you're choosing to use, I don't even relate to most of those. So it's too much time and gossip. We have lost, since the acquisition was announced on the legacy Chubb side, so in over a year, we lost at middle level ranks, 60 people. We lost about 30 to 35 people we didn't want to lose. Now, that grinds on me, however that is out of 31,000 people around the world, that is not a very big number, and word exodus of people, large numbers of this or that, I don't even relate to that. The stability is tremendous and the depth of talent here is great. And somebody steps out, now I'll tell you what, there is someone else eager to take that opportunity and move along.

Q - Jon Paul Newsome {BIO 3522950 <GO>}

That's fair enough. Sorry for the poor choice of words, but thank you for the comments.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Well, what can I tell you, but I take it personally. This is personal.

Q - Jon Paul Newsome {BIO 3522950 <GO>}

Thanks, again.

Operator

We'll take our next question from Charles Sebaski of BMO Capital Markets.

Q - Charles Joseph Sebaski {BIO 17349221 <GO>}

Good morning. Thank you.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Good morning.

Q - Charles Joseph Sebaski {BIO 17349221 <GO>}

I have a follow-up on the cross-selling and the example that was given that was really helpful I think on the nursing home and the medical liability.

A - Evan G. Greenberg {BIO 1444445 <GO>}

We'll be ready for you, Charles, when you get there.

Q - Charles Joseph Sebaski {BIO 17349221 <GO>}

Wanted to get a little deeper on how that works internally. So you have different underwriters that have different background and the products that are so large. So how does the Chubb D&O underwriter and the medical liability underwriter get together to understand – how does that work internally to put those pieces together to realize or recognize that opportunity is there? Or is that on the agent or broker to kind of piece that together?

A - Evan G. Greenberg {BIO 1444445 <GO>}

I don't know. It's both. First of all, that's the management job to begin with. A, it's organization structure and then it is management activity. So product lines that you take the medical liability area. The person in charge of medical liability is now in charge of our whole medical practice group, and we know that there has been legacy Chubb had a large appetite on the property side for that business, it had a great practice. And so those people become part of a common unit and they begin that unit at underwriting, at the underwriting side and they put together lists of common risks where everyone would play.

And then that moves down to our underwriters in the regions who understand that and they're caused to come together in that practice group, and then their movement into the branches where we have salespeople and agent relationship people who get educated. And the underwriters go out with them and they visit producers that have that business in those portfolios of it, and then management feedback because if you can't count it, it ain't worth doing, and so you've got targets and objectives, both financial and non-financial.

In the beginning, it's non-financial, because it's activity-related. It's related around internal activities of how people organize and how they're educating each other and how they're doing discovery. And then that turns into an offering and then you start moving that into submissions, and then those submissions move into quotes and then those quotes move into bound business and you are measuring that. Now you have entered our life.

Q - Charles Joseph Sebaski {BIO 17349221 <GO>}

Thanks. And I guess one other question, more industry-based. It seems like there's growing appetite in the marketplace of people looking to get into trade credit and political risk. Curious if that's your take on what's going on in the market and any commentary on what's going on in those product lines where that may be the case, knowing that that's something you guys have done for a long time.

A - Evan G. Greenberg {BIO 1444445 <GO>}

First of all, it's not new. There have been people entering this for the last five years, you've seen more entering the marketplace there; a lot of wannabes, small facilities, one underwriter and a little bit of capital, and not a real franchise. You see more people trying to enter now only because – listen, they're scratching for business. They don't want to shrink their – they think growth and just the top line equals strength.

They want to show more franchise capabilities, so they begin entering the market. Just look at the world today and imagine to yourself, which I think is the background of your question. Is this a brilliant time to enter the trade credit or political risk business? Interest rates at record lows, $11 trillion in negative rates, invested in negative spreads. You have real rates, you have a world awash in capital, tremendous amount of misallocation of capital. And with all that you have a world growing below trend economically and slowing down more, protectionism growing and geopolitical risk everywhere. Sounds like a brilliant time to get into that business, by the way, where rates are at a – not a record low, but are certainly at a low point. I wish them a lot of luck, because that's all they've got going for them.

Q - Charles Joseph Sebaski {BIO 17349221 <GO>}

Thank you very much for the answers.

Operator

And we'll take our next question from Ian Gutterman of Balyasny.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Hi. Thanks. First, can I just get a clarification? Phil, when you talked about the $67 million of cost saves achieved, was that cumulative or was that just for the quarter?

A - Philip V. Bancroft {BIO 4621336 <GO>}

That's the amount realized from an accounting standpoint in the second quarter.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Okay, so the year-to-date then is closer to about $100 million?

A - Philip V. Bancroft {BIO 4621336 <GO>}

Yes, that's right. We had about $40 million in the first quarter.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Got it. Okay. And then just one quick clarification on the personal lines reinsurance, I assume that's a quota share for that size of premium?

A - Evan G. Greenberg {BIO 1444445 <GO>}

That's about as far as I'm going to go.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Okay. Fair enough. And then just a bigger picture question...

A - Evan G. Greenberg {BIO 1444445 <GO>}

We don't talk about our reinsurance. Those are privately negotiated and I know people - there are others who will talk about their reinsurance placements as a matter of practice, Ian, so I'm not trying to be rude. As a matter of practice, we just don't talk about it.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

No, that's all right. That's okay. I was just trying to take a better guess on the modeling side, if I need to adjust cat loads or anything like that. And then just a bigger picture...

A - Evan G. Greenberg {BIO 1444445 <GO>}

That was an intelligent thought right there, by the way; very intelligent thought.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

I tried. Then my bigger picture question, I thought I'd give you a platform if you want to use it. Following up on the Brexit question and what we're having here with the election, the world seems to be turning more anti-trade, anti-globalization. Chubb is obviously a big global insurance company. What ramifications are there if the world does go that way, and just what sort of things do you think about and worry about if we continue down this protectionist, populist path?

A - Evan G. Greenberg {BIO 1444445 <GO>}

You know, Ian, that is the right question. The United States is a leader in the democratic, liberal-minded free world. We have a responsibility in that leadership. And we have been absent from the stage of late. We, as a country, recognize the price we seem to pay for that leadership. But we hardly recognize the benefits, that are enormous, that we gain as a country because the world is hardwired, since World War II, to advantage the United States. And the benefits to our economy and GDP and the benefits in terms of stability, where – economies don't flourish but with stability and predictability. And so it's worrisome. And the growing protectionism is worrisome. And the only way you move past that is with leadership, and it's political leadership. Central banks can't help you with this.

And protectionism, we all get what that does. At the end of the day, it's beggar-thy-neighbor and the pie grows smaller. The pie doesn't grow bigger. And if you want to feed those who are disadvantaged and you want to provide them opportunities and you want a more prosperous world, you need to be able to afford it. And the only way is through growth. And growth in trade and growth in global trade, where each can bring and use its comparative advantage, that has served the world well. And the way we're vilifying it and somehow re-trading on the past and characterizing it that trade has been evil and has damaged our country and has damaged the world is just so misguided. And then to add to that, that immigration is somehow our enemy is, again, misguided populism and feeding on the suffering of those who may vote. So you get where I stand clearly.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Well said. Well said. So just as a follow-up, does it change your appetite at all for – when you're looking at maybe possible acquisitions overseas or putting more capital to grow certain countries, do you hesitate in certain parts of the world now?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Well, Ian, I hesitate wherever it's hostile.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Yes.

A - Evan G. Greenberg {BIO 1444445 <GO>}

And I give it thought. And obviously you go where you think the opportunity is. And if the opportunity looks more hostile, you're going to hesitate, you're going to wait, you're not going to rush. Even if you think longer-term, it's like, well, am I in a hurry right now, or do I have a year or two to wait? And you see lots of places around the world that way, as economic growth slows, insurance growth slows. That's the way it is, and so you adjust accordingly.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Got it. Appreciate the thoughts, thank you.

A - Evan G. Greenberg {BIO 1444445 <GO>}

You're welcome.

Operator

And we go next to Larry Greenberg of Janney.

Q - Larry Greenberg {BIO 16478161 <GO>}

Hi. Good morning. I was going to try to push you a little bit further on the reinsurance, but I get the sense that's probably not a good idea.

A - Evan G. Greenberg {BIO 1444445 <GO>}

Yes, you got it. I mean, you can push, but you're not going to get anywhere.

Q - Larry Greenberg {BIO 16478161 <GO>}

Let me just – so just from a modeling standpoint, since you gave me the opening. So we've got premiums going down and we've got the expense ratio going down. It seems under normal conditions the premium decline would more than offset the expense ratio decline. And I know we get into questions of is this tail coverage, is this more attritional loss coverage, but is there anything you could help us with in that equation?

A - Evan G. Greenberg {BIO 1444445 <GO>}

No, we each have our own hell to live in, and the only thing I could tell you is, is that we think we're pretty good analysts. We think we understand our business pretty well, and we are thoughtful when we make trades and transactions, and we plan for the long-term, not just short-term opportunistic. And we understand how to measure risk/reward. We're fiduciaries of shareholder money, and we're going to exercise that fiduciary responsibility carefully. And so when we make any trades or any transactions like that we do all the analysis. And as I said earlier, the risk/reward is in our benefit.

Q - Larry Greenberg {BIO 16478161 <GO>}

Great. That's helpful. And then, just reconciling...

A - Evan G. Greenberg {BIO 1444445 <GO>}

Didn't help your model, I know that.

Q - Larry Greenberg {BIO 16478161 <GO>}

No, no. Not at all, but that's okay. So you said that cats in the quarter were $100 million or so higher than you would have contemplated before. And you also said that industry-wide, cats were kind of in line with history but above near-term recent performance. So I'm just trying to reconcile, you know, that $100 million and looking forward and I know that personal lines reinsurance thing is going to change this a little bit. But was your cat assumption too low relative to history and would you adjust that at all at this point?

A - Evan G. Greenberg {BIO 1444445 <GO>}

No, I don't think so. And (60:29) what the companies and the two companies' historic averages are so they each have a different basis and remember I was looking at – I gave a worldwide average of industry that way. So you know you've got a little bit of chalk and cheese there when you're thinking about that, but where I link them is directionally when I look at the industry losses, even though they were more elevated, but historic – and I look at our share of them and relative to our share of business, et cetera, they didn't throw me at all. It made good sense to me, number one.

Number two, you saw the Global Re , actually had a part of cat losses in the quarter. And you know, they've been relatively quiet. They sell cat excess, we have for many, many years. And so, you know, you get the natural volatility of reinsurance that way, your reinsurance portfolio and they've done very well, by the way, and that business of ours. And so they contributed $50 million or $60 million to that increase. And it was above what they would have expected, but it's cat excess, so, what do you know. If I look at what we would have anticipated in the quarter, legacy ACE by itself would have been about five points of earned premium in the quarter would have been an expected – the two companies together now, about 5.75 points of earned premium. So the volatility signature hasn't really changed. So anyway, maybe that gives you a little color around it.

Q - Larry Greenberg {BIO 16478161 <GO>}

Helpful. Thank you.

A - Evan G. Greenberg {BIO 1444445 <GO>}

You're welcome.

Operator

Our next question comes from Josh Shanker of Deutsche Bank.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Good morning, everyone. As we get to the back half of the year, both companies do their asbestos analyses. I'm wondering if you have any thoughts on different procedures or a different approach or a concept of merging those two, sort of, processes together as we go through that.

A - Evan G. Greenberg {BIO 1444445 <GO>}

No, one company is under a statutory order and that is the Brandywine which is runoff. And so the State of Pennsylvania has an external review while we do our own internal and we do our own internal annually anyway. And legacy Chubb has done an annual review and we're bringing those two together. And by the way, it's on the margin what the differences are between the two in approach. Very, very similar, but it's a unified team that will – management team that will oversight the two together. That's it.

Q - Josh D. Shanker {BIO 5292022 <GO>}

And the seasonality, that's a 3Q situation for everyone?

A - Evan G. Greenberg {BIO 1444445 <GO>}

No, it's a fourth quarter.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Fourth quarter. Okay.

A - Evan G. Greenberg {BIO 1444445 <GO>}

We do environmental in the third quarter, asbestos in the fourth quarter.

A - Operator

That's right.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Okay. Thank you. All my other questions are answered.

Operator

And we turn next to Brian Meredith of UBS.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Yes. Thanks, Evan. A couple of questions here. First one, last quarter you talked a little bit about small commercial opportunity in the U.S. I noticed this quarter U.K., Ireland, a new product, some other stuff in Europe. Can you talk about what the SME opportunity is for you guys now that the combined Chubb here in Europe?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Yes. Juan, you want to just touch on it?

A - Juan C. Andrade {BIO 16371272 <GO>}

Sure. So, Brian, I think for us, the SME opportunity outside of the United States is also pretty significant. If you look at just the number of enterprises that are out there that really would fall into that category, there's a significant amount of premium. We've had an ongoing strategy in legacy ACE, I would say over the last six years, to really target that space. And initially we started in developing markets, particularly in Asia and Latin America, and frankly we've been pretty successful in growing that business profitably.

The emerging markets business is simpler. Basically small property-type packages, some liability, et cetera. In the U.K. and in Continental Europe with the distribution that legacy Chubb is bringing, we're now expanding some of those capabilities as well. And that's probably what you have seen in maybe some of the press releases that you may have been referring to is the fact that we're rolling out new product and new capability especially around specialty products. Small D&O, small environmental, that sort of thing, really to target the smaller enterprises in the U.K. and the continent.

A - Evan G. Greenberg {BIO 1444445 <GO>}

And that gets around packages, traditional packages, we're adding specialty coverages to them. We're after industry verticals the same way we do in the U.S. But understand that these are small premiums per policy.

And so to move the stick and really grow a volume takes years of patience. So, it's not something we're going to discuss every quarter. And it's one of those things that we'll polish it in the basement and we'll march out with it. It's looking pretty good there.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Great. Thanks. And then one other quick question here for you, Evan, another topic with the elections here coming up. Tort environment, what are your kind of thoughts on the tort environment? We've got a new Supreme Court Justice that's going to have to be put in place here. Are you seeing anything that anywhere is alarmist right now with respect to trend in the tort environment in the U.S.? What are your thoughts going forward?

A - Evan G. Greenberg {BIO 1444445 <GO>}

The tort environment is reasonably stable. There are hostile trends. There are rulings that we have noticed over the last year or two years, particularly in labor and labor-related liability, depending on the state because it's state-based, not Federal, workers comp, and which is again labor-related and that more in the main. On the other side of the coin, the Federal Courts and particularly the Supreme Court has been pretty friendly in its rulings more favorable for corporate. And when you look at class actions and security class actions-related rulings, those have been favorable. Look, you look forward, depending on who's elected, we could see a more liberal turn to the courts. And think that would ultimately be hostile to tort and for insurance.

Q - Brian Robert Meredith {BIO 3108204 <GO>}

Great. Thanks.

A - Helen Wilson {BIO 2078659 <GO>}

And we have time for just one more person to ask question, please.

Operator

And we'll take that final question from Meyer Shields of KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Evan, can you explain why the actions you're taking on legacy Fireman's Fund wouldn't necessarily work in Brazil, leading to the decision to sort of exit that high net worth market?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Say that again, excuse me.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. You talked about how you're exiting the high net worth personal lines market in Brazil. And I'm wondering why the same sort of actions that you're taking on Fireman's Fund – on legacy Fireman's Fund business aren't applicable there?

A - Evan G. Greenberg {BIO 1444445 <GO>}

Yes. Sure. It's the automobile business. If you look at structurally how Brazil works, there's two or three very large players who dominate the marketplace. And number one – and they have such an advantage in terms of distribution, claims management, data, et cetera. And high net worth auto in Brazil is code word for simply very high valued automobiles, and by the way, a lot of sports cars. You may not know this, but I think the second city in the world with the greatest number of Ferraris is São Paulo, and that's just a parlor statistic for you.

And the ability to be able to price that business, manage it well and have a business that is of a large enough size because the definition of high net worth in Brazil relative to high net worth, say in the United States, is so different. In the U.S., a fraction of our portfolio is automobile. Most of it is homeowners, jewelry, art, furnishings, it's a much broader portfolio. Auto is a minority portion of it. You get to Brazil, there is no high valued homeowners per se, and insuring all the rest, very tiny market. So it's the reverse. You end up with an automobile portfolio that is very, in a sense, anti-selected and hard to manage and that you don't get paid for and you don't have the benefits of all the rest. So there is an underwriting tutorial, Meyer, 101.

Q - Meyer Shields {BIO 4281064 <GO>}

Yes. That's helpful and I did not know that about the Ferraris. In the aggregate, I guess this is a question for Phil, was there an FX impact to EPS in the quarter?

A - Philip V. Bancroft {BIO 4621336 <GO>}

Yes. It was about $6 million to underwriting and $10 million to bottom line.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thanks. And then is there a run rate for the other income that we can anticipate?

A - Philip V. Bancroft {BIO 4621336 <GO>}

Yes. I think what I'll do, if you don't mind, we take that offline and I'll take you through the documents that we've put out that show the amortization of the intangibles and all of that, right? So we can help you with that.

Q - Meyer Shields {BIO 4281064 <GO>}

Perfect. Thanks so much.

Operator

And with no further questions in the queue, I'd like to turn the conference back over to Helen Wilson for any additional or closing remarks.

A - Helen Wilson {BIO 2078659 <GO>}

Thank you, everyone, for your time and attention this morning. We look forward to speaking with you again at the end of next quarter. Thank you and good day.

Operator

And this does conclude today's presentation. Thank you all for your participation.