

Q1 2021 Earnings Call

Company Participants

- Evan G. Greenberg, Chairman and Chief Executive Officer
- Karen Beyer, Senior Vice President of Investor Relations
- Philip V. Bancroft, Executive Vice President and Chief Financial Officer

Other Participants

- Brian Meredith, Analyst
- David Motemaden, Analyst
- Elyse Greenspan, Analyst
- Greg Peters, Analyst
- Meyer Shields, Analyst
- Michael Phillips, Analyst
- Ryan Tunis, Analyst
- Yaron Kinar, Analyst

Presentation

Operator

Good day and welcome to the Chubb Limited First Quarter 2021 Earnings Call. Today's call is being recorded. (Operator Instructions)

For opening remarks and introductions, I'd like to turn the call over to Ms. Karen Beyer, Senior Vice President of Investor Relations. Please go ahead.

Karen Beyer {BIO 6404488 <GO>}

Thank you. Welcome everyone to our March 31, 2021 first quarter earnings conference call. Our report today will contain forward-looking statements, including statements relating to company performance, pricing and business mix, growth opportunities, and economic and market conditions, which are subject to risks and uncertainties, and actual results may differ materially. Please see our recent SEC filings, earnings release and financial supplement, which are available on our website at investors.chubb.com for more information on factors that could affect these matters.

We will also refer today to non-GAAP financial measures, reconciliations of which to the most direct comparable GAAP measures and related details are provided in our earnings press release and financial supplement.

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. And then we'll take your questions. Also with us to assist with your questions today 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.

We had a really good start to the year highlighted by excellent premium revenue growth globally, powered by our commercial businesses, double-digit commercial P&C rate increases, and expanding underwriting margins leading the record ex-CAT underwriting results and simply world-class margins. It was an active quarter for natural catastrophes, due primarily to the winter storm losses in Texas. So even with that, we produced a really good calendar year combined ratio, which speaks to our improved risk adjusted underwriting returns.

The published P&C combined ratio was 91.8% and included catastrophe losses of 9.1 percentage points compared with 3.3% last year. The current accident year combined without CATs was 85.2% compared to 87.5% prior year. The 2.3 percentage point improvement was made up of a point of loss ratio with the balance related to the expense ratio.

Adjusted net investment income in the quarter was \$930 million, up about 1.5% and that excludes private equity gains which most other companies include. On that basis, investment income grew 50%. In some core operating income in the quarter of \$2.52 per share was down \$40 million from prior year to \$1.1 billion, while net income of \$2.3 billion was up significantly over prior year's \$252 million. Phil will have more to say about the expense ratio, CAT, prior period development, investment income and book value.

Turning to growth and the rate environment. P&C premiums were up 9.7% globally with commercial premiums up 15.6%, and consumer lines down 2.5%. Foreign exchange had a positive impact on growth of 1.6 points. The consumer lines result included negative growth in global A&H, flat revenue, and international personal lines and about 2.5% underlying growth in North America personal lines. We continue to experience a very strong commercial P&C pricing environment globally. And based on what we see today, I'm confident these conditions will endure.

Chubb was built at all aspects over years to capitalize on these conditions. In North America, commercial P&C premiums grew almost 15%. New business was up 21.7% and renewal retentions remained strong at 95% on a premium basis.

In North America, major accounts and specialty business, net premiums written grew about 17.5% or about 15% excluding year-over-year impact of large structured transactions. Our middle market and small commercial business grew over 11%. Overall

rate increases in North America commercial were up by 14.5%, while loss costs are trending up about 5.5%, though it varies up or down depending upon line of business.

Let me give you a better sense of the rate environment. In major accounts, risk management related primary casualty rates were up almost 8%, general casualty rates were up 34.5%, and varied by category of casualty. Property rates were up nearly 20%, and financial lines rates were up almost 21%.

In our E&S wholesale business, property was up 15.5%, casualty and financial lines rates were up 25%, and our middle market business rates for property were up 16%, casualty was up 12%, excluding comp with comp up 1%, and financial lines rates were up 18.5%.

In our international General Insurance operations, commercial premiums grew over 20% on a published basis or 15% in constant dollar. International retail commercial grew about 17.5%, and our London wholesale business grew 38.5%. Retail commercial growth varied by region, with premiums up over 26.5% in Asia/Pac, 22.5% in Europe, with equally strong growth in both the U.K. and on the continent. Our Latin America commercial lines business returned to growth in the quarter, with premiums up 4.7%.

Internationally, like in the U.S., in those markets where we grew we continued to achieve improved rate to exposure across our commercial portfolio. And overseas gen, rates were up about 14.5% with a loss cost trend of 3%, though that varies by class of business and country. Rates were up 14% in our international retail business, and 20% in our London wholesale business.

Keep in mind, these outstanding commercial insurance growth rates in the U.S. and overseas were achieved in spite of the headwinds we faced from negative exposure growth due to reduced business activity. On the other hand, consumer lines growth globally in the quarter continued to be impacted by the pandemics effects on consumer-related activities.

During the quarter, there were signs of recovery beginning, breaking consumer down between A&H and personal lines. Our international personal lines business produced modest growth of 1.2% on a published basis, fundamentally flat, constant dollar. While our international A&H business shrank 3.7%.

Travel globally, both business and consumer-related remains depressed and that hits A&H hard. While our direct marketing and group employee benefits A&H business is beginning to pick up modestly. If we exclude the travel business, our international A&H business grew almost 2% on a published basis.

We expect growth to continue to improve as the year goes along, though predicting the continued impact of the pandemic in Asia, Latin America and Europe is difficult. Net premiums in our North America high net worth personal lines business were up about 2.5%, excluding reinsurance reinstatements, auto renewal credits in California, and wildfire exposure-related cancellations.

FINAL

Bloomberg Transcript

FINAL

As I have said before, this outstanding franchise is about customers who choose Chubb for the service and richness of coverage and we're willing to pay for them. These client segments, which are at the heart of what we do, grew 8% in the quarter. Overall portfolio retention remains strong in high net worth at over 94% and we achieved positive pricing, which includes rate and exposure of 11% in our homeowner's portfolio.

Looking ahead, we have been and are taking continued action to shape this portfolio. To that point, we're taking ongoing action to reduce our wildfire exposure in parts of California as a consequence of our inability to achieve adequate rate and terms for the coverage. This will have an impact for the remainder of the year of about \$50 million or about 1.25% impact on our growth rate.

Lastly, in our Asia-focused international life insurance business, net premiums plus deposits were up over 18.5% in the quarter. In sum, as I have said the past few quarters or longer, we are in a harder-firming market for commercial P&C in most of the world. The rate environment in my judgment is irrational and necessary to response to years of industry underpricing, and a more uncertain risk environment today driven by climate change, the litigation environment and cyber-related exposures.

Given our years of data and analytics capabilities and underwriting know-how, we know what rate we need in order to achieve an adequate risk-adjusted rate of return from underwriting, and that is the objective. And it is a relentless focus. Though we're never perfect, some lines are there other have a way to go. Virtually all of our commercial P&C lines of business continue to achieve rates that exceed loss cost, and so margins continue to improve.

As you can see, we're off to an outstanding start to the year. My colleagues and I are confident in our ability to grow our business and continue to expand margins. And as I said, I expect that as the year progresses, our sizeable consumer business will return to growth. Our organization is focused. It's mission-driven. The quality of Chubb's service and consistency is a widely recognized differentiator. They are the well head of our reputation. We are leaning into the current favorable underwriting conditions and capitalizing wherever we can get paid adequately to assume risk and volatility. We are growing exposure. Our people are energized and focused. And we have all of the capabilities in place to grow our company profitably, while increasing shareholder value.

In light of recent events concerning the Hartford and for the sake of absolute clarity, I want to reiterate once again, our enduring views concerning M&A and capital management. We look at lots of deals every year, different sizes, small to large, different geographies and product areas.

And we pull the trigger infrequently. We have lots of optionality. We have made 17 acquisitions over the past 15 years, and have an excellent track record of advancing the company's capabilities, while creating shareholder value. Our approach is steady and consistent. We are extremely patient, disciplined, and the money is not burning a hole in our pocket.

If we believe a transaction will advance our strategy and further what we are building organically and is good for shareholders, we won't hesitate to pull the trigger. As regards surplus capital, we're again very consistent. We hold capital for risk and growth, both organic and non-organic, beyond that we return surplus capital to shareholders.

We are highly confident about our future and wealth creation prospects, and we approach the Hartford from that position of strength. This was another opportunity to create additional value and would not distract us from capitalizing our organic growth opportunity.

With that said, the purpose of today's call is to discuss our first quarter financials and our company's business. I'll now turn the call over to Phil, and then we're going to come back and take your questions.

Philip V. Bancroft {BIO 4621336 <GO>}

Thank you, Evan.

Our financial position remains exceptionally strong. Our balance sheet includes a \$121 billion AA-rated portfolio of cash and invested assets. We have over \$74 billion in capital, stemming from our superior operating and investing performance. Our operating cash flow remains very strong and was \$2.1 billion for the quarter. Among the capital-related actions in the quarter, we returned \$871 million to shareholders, including \$352 million in dividends and \$519 million in share repurchases.

Adjusted pretax investment income for the quarter of \$930 million was higher than our estimated range, and benefited from increased corporate bond call activities. While there are a number of factors that impact the variability in investment income, we expect our quarterly run rate to be approximately \$900 million. Our annualized core operating ROE and core operating return on tangible equity were 8.2% and 12.8%, respectively for the quarter.

Separately, as Evan mentioned, we continue to present the fair value mark on our private equity funds outside of core operating income as realized gains and losses instead of net investment income as other companies do. The gain from the fair value mark this quarter would have added 3.1 percentage points to core operating ROE.

Book and tangible book value per share decreased by 0.4% and 0.6%, respectively, for the quarter due to unrealized losses of \$1.9 billion after-tax in our investment portfolio from rising interest rates. This loss was tempered by adjusted realized gains of \$1.2 billion after tax, mainly from the mark-to-market gains in private and public equities and in our variable annuity reinsurance portfolio.

At March 31, our investment portfolio remains in an unrealized gain position of \$2.8 billion after tax. Our pretax P&C net catastrophe losses for the quarter were \$700 million from severe weather-related events globally, including \$657 million of losses from the storms in the U.S. We had favorable prior period development in the quarter of \$192 million pretax

or \$156 million aftertax. The favorable development is worth approximately 20% in long tail lines, principally from accident year 2017 and prior and 80% in short tail lines.

So there was no change to the previously reported aggregate P&C COVID-19 losses, the majority of which remain as incurred, but not reported. For the quarter, our net loss reserves increased \$1.1 billion, and our paid-to-incurred ratio was 77%. The P&C administrative expense ratio of 8.6% in the quarter, improved by 70 basis points over the prior year, about half related to onetime items that we don't expect to repeat. Our core operating effective tax rate was 15.5% for the quarter, which is within our expected range of 15% to 17% for the year.

I'll turn the call back over to Karen.

Karen Beyer {BIO 6404488 <GO>}

Thank you, Phil. At this time, I'm happy to take your questions.

Questions And Answers

Operator

(Operator Instructions) We'll go first to Michael Phillips with Morgan Stanley.

Q - Michael Phillips {BIO 21023048 <GO>}

Thanks. Good morning. And congrats on the nice quarter, again Evan, appreciate it the time hear. I guess I want to focus first on -- you sound still very bullish on commercialize and exposure growth that you want to push for. You said last quarter, commercial line size lags, this quarter you're confident that conditions will continue or endure. I guess with your numbers that you gave on pricing and loss trends, there's still quite a bit of a gap there. That's good. A little bit narrow than what you said prior.

But I guess, two-part question is, how adequate are current rates across the Board? It's hard to imagine they're not. And then I guess, and -- say, you want to push for exposure growth still. So is commercial lines still the place to push given what might be a narrowing gap in the rate versus loss trend?

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

It's funny how people think about rate right now. And this obsession with our rate increases, decelerating the rate of increased decelerating, accelerating? Where is it? What are you trying to achieve? You're trying to achieve a risk-adjusted return, which translates to a combined ratio that is at least adequate to return a good risk-adjusted return. So let's call that 15%, or it depends on the line of business, let's call it 15%.

And as you approach that, as you achieve it, do you need to keep increasing rates? So you ask yourself that question. And you need rates to remain there, you got to achieve at

FINAL

least loss cost. We're achieving. We have more and more of our portfolio and its proprietary, so I will not go into what percentages of the portfolio are at a proper risk-adjusted return in terms of combined ratios on a policy year and accident year basis, and we measure both of them. And with that, in total, look at the overall level of rate increase and look at the margin between the rate and exposure -- and loss cost.

Now with that, let me go a step further for you because of this obsession about this. When I look at the third and fourth quarter last year, and I measure the first quarter against it right now. And I'm taking the time on this question because I know all of your colleagues or most of them have this question on their minds.

When I look at the level of rate increase, this quarter measured against prior. Okay. Property in North America in aggregate, got rate increases in the mid-teens which is about 2 to 3 points lower than it was in -- when I look at the average of the third and fourth quarter last year. Property has been getting rate on, rate on, rate on rate. When I look at primary casualty, the rates are up, they're higher than they were on the average.

When I look at excess and umbrella, the rate of increase is flat with the average of the quarters. When I look at financial lines, the rate of increase is flat with prior quarters. When I look at marine, it's up. When I look at aviation, it's flat to down. When I do this internationally, kind of the same trend, property down 2 to 3 points, but the rate of increase from what it was the other 2 quarters. Primary casualty is flat. Excess and umbrella, the rate of increase is flat. Financial lines, is up. And marine is down. So, no sorry marine is up, and aviation is down a little bit.

So you know what, I think that gives you guys as much color as I can give you and to answer that question that -- from every angle I can that I know is on everyone's mind. You know what, the conditions are excellent. Thank you very much for the question, Mike.

Q - Michael Phillips {BIO 21023048 <GO>}

Yes. Thank you. That's helpful. Conditions are excellent. So that leads to this one. Frankly, I'm not even quite sure how to ask it, Evan, but I'm curious to hear what you can say. Not even asking about Hartford, but specifically at all. But just in general, I mean, clearly, there was some capital to be deployed there. And as you said, we're not going to hold in our pocket, you're very infrequent, you pose very infrequently.

If something like that size is off the table and in the conditions are still pretty right. I guess, how should we think about where to go from here for maybe another capital deployment round of authorization versus more organic or just kind of what can we expect for what was possible to be used there and, how it might be used in the near term?

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

What you can imagine, Michael, is steady as she goes. We have clear minds, and we're at rest. We adopted our buybacks from \$1.5 billion to \$2.5 billion, and we will -- we will actively resume that. We had to take a pause during the -- this episode with Hartford and

beyond that, steady as she goes. We got capital for risk and opportunity, and we are patient people.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Thank you very much. I appreciate it. Congrats.

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

Thank you very much.

Operator

We'll go next to Greg Peters with Raymond James.

Q - Greg Peters {BIO 3111497 <GO>}

Good morning. I don't want this to count as a question, but I believe, Phil, this is going to be your last earnings call, if I'm correct. Well, congratulations on your retirement.

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

Well, thank you very much. It was, by the way, number 78.

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

He's going over the wall, Greg.

Q - Greg Peters {BIO 3111497 <GO>}

Number 78. Yes. I know you guys.

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

Yes. Thanks.

Q - Greg Peters {BIO 3111497 <GO>}

I knew that would be -- I knew that would be an issue.

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

I remember to be here with me is like dog, here.

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

I wouldn't say that as all. You do not already looks there.

Q - Greg Peters {BIO 3111497 <GO>}

While the rumors about working for you are apex so, I am sure it's been a good time.

FINAL

Bloomberg Transcript

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

I don't know what they're talking about. I don't know --

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

Greg, they're just rumors.

Q - Greg Peters {BIO 3111497 <GO>}

So one of the areas that you've spent time in previous calls talking about is the expense ratio because it has -- it showed improvement last year because of, in part, some COVID-related T&E savings and things like that. And then it still seems like it's on a general pathway of improvement. So I was wondering perhaps if you can give us an updated view. When we look at these other companies that we follow, most of them try and map out of between a 40 to 70 basis point operational improvement in their expense ratio year-in, year out. I'm wondering if you can just give us an updated view on your expense ratio.

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

Yes. Most of them are bloated. Look at our -- look at our expense ratio in absolute terms versus others, our operating expense ratio. And North America is in the single-digits, and continuing to head marginally lower. And it will, through efficiencies, which I have talked about numerous times that with technology and in all forms. So I won't go into it in great detail but analytics, robotics, straight-through processing, et cetera. We are on track to continue to drive efficiencies in the operations.

And the same in overseas general, the difference there is, you're across 50-some-odd countries. And so, by its nature, you have a different expense structure, and it continues to improve. So we're growing our P&C business, the commercial businesses, at a rate far in excess of growing operating expense, operating expenses up marginally, so we're leveraging against that. Both exposure and policy count is up, but you also got the added benefit, which drives the ratio down of simply price increase that feeds in there also.

It runs a lower acquisition cost than does the consumer lines business, but it runs a higher loss ratio. That's just axiomatic and true, but that business will continue to operate in the range that it's in that you see right now, up or down a couple of tenths of a percent in my mind as we look forward.

The consumer businesses will come back. And as they come back, they have a higher acquisition cost, the operating expense, so the internal expense ratio will go down because you will have more volume returning against it.

But the acquisition ratio, which will remain steady within the line, it will become a greater mix of our total. And so that will go the other way. It's just natural. And -- but that business then runs a lower loss ratio. The margins are excellent, as you know. So maybe that gives you the color you're looking for.

Q - Greg Peters {BIO 3111497 <GO>}

FINAL

Indeed. Thanks. And my follow-up question, yes -- boy, so many different areas I could go in, but I'm going to focus on operations. You said in your prepared remarks that loss cost trend was running around just above five points across the book. And then during your comments and in your response to the previous question, you talked about really some -- really robust rate actions being taken across certain lines of business, like general casualty, financial lines, things like that. Should I think about the loss cost trend in those lines is running higher because of the rate you're able to achieve? Or is that just an industry loss cost trend that you're able to get the rate you're getting?

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

Let's see if I answer it this way for you. The marketplace in terms of rate is striving the marketplace, because you operate within the marketplace. Is striving for two things; and that is, you have those who have a hole to fill, because they have deficiency in lines of business. Remember, the industry operates like a giant or retro.

And then they also need rate for adequacy today. That's the marketplace. If you have operated at adequacy along the way, you don't have that first part, that hole to fill; and achieving market rate, you're achieving better than adequate. And that benefits you. We'll see -- we're in a -- we're certainly in an active loss cost period when you remove the transient impact of COVID. And so, we'll see how it all plays in terms of margin. We play things conservatively.

But we are receiving rate that ensures the portfolio will achieve adequacy in terms of risk-adjusted rate of return across the book. And if we have more than that, well that will just speak for itself over time.

Q - Greg Peters {BIO 3111497 <GO>}

Got it. Thanks for the answers.

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

That's the best I can give you.

Q - Greg Peters {BIO 3111497 <GO>}

Understood.

Operator

We'll go next to David Motemaden with Evercore ISI.

Q - David Motemaden {BIO 18818634 <GO>}

Hi, thanks. Good morning. Evan, I just wanted to follow-up a little bit on the loss cost trend in North America commercial. It sounds like that's ticked up a bit to 5.5, sounds like it's been ticking up. I guess it's obviously a minor detail given the amount of rate that you're getting and continuing to earn in above trend. But wondering if you could just talk about what you're seeing that's driving that increase? I know there's a lot of moving pieces, mix

Bloomberg Transcript

and everything else. But just sort of wondering if maybe you can just elaborate on what was driving the increase in the loss trend?

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

Yes. And my God, you're looking at about 0.5 point change. So let's just keep it in perspective. You have a couple of things. So in the short-tail lines, you have non-modeled cat loss that is on an accelerated trend. Everyone sees it. You know that. I'll move on from there. But that finds its way into -- if you're prudent, in your expected loss cost.

Secondly on the casualty side, given the litigation environment and across different lines of business, you know we have watched and have talked about it endlessly that it is -- the loss cost environment there is not benign; and so, as we always relentlessly study our trends across each class, we reflect it over a period of time in how we view loss cost, and we react very quickly, particularly if there's any bad news. We react very slowly to good news. And so it's those two that are -- conspire between short and long-tail.

Q - David Motemaden {BIO 18818634 <GO>}

Got it. That's helpful. Was there anything in the quarter or, I guess, some of the courts started to reopen. Was there anything specifically on the litigation environment that you saw during the quarter? Or it's just more a reflection --?

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

No. Not. David, no news in a quarter. We just do study that we look at -- we're looking at years past, and trending forward. When you think about these things, they don't -- you don't react to -- loss cost trends aren't based upon news of this or that in any given quarter. They're based on a more stable period of time and a much bigger data set, obviously.

Q - David Motemaden {BIO 18818634 <GO>}

Yes. Got it. That makes sense. Thanks for that. And then I wanted to switch gears a little bit to the international life business, another good quarter, strong sales there, up 14% constant currency. I was hoping maybe you could dive into the different regions between Asia and LatAm, and what's driving success there in each region. And maybe just stepping back a bit, just talk about the opportunity here. And if you think M&A is a lever that you're evaluating to maybe increase scale in any of these markets.

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

So, great question. The business is overwhelmingly Asia. Latin America, think predominantly Chile, and Banco de Chile and our partnership with them. And Chile is a great market, but Chile has truly been suffering from COVID, and the lockdowns. And while it's a very good business, it has some headwind in terms of growth related to that. But it's coming back and that'll continue to do very well. It's bank distribution, both branch and direct marketing related. It's more credit-related-type products and short-term than it is long-term product, though there is a mix of that in the portfolio.

FINAL

When you go to Asia, the growth is coming predominantly, right now and in this quarter, Vietnam, Thailand, Hong Kong, Taiwan, doing well. And our business in Korea, getting better, but it's small, and it will take a while to cash shot up. What's not consolidated in those numbers, but we -- that we add as a line item because we don't have over 50% yet is the increase in LatAm [ph], which is doing well. And by the way, we are on our path. And it's at a very sensitive moment, so I don't want to talk about it much, but that will consolidate. I'm confident we'll finish what we got to get done to be able to consolidate one time. And that life business is growing well.

So the organic growth -- and those are agency-based businesses for the most part, with some direct marketing as well, particularly in Thailand and bank distribution in Taiwan. But if you look at Vietnam, Thailand, Hong Kong, China, and those are predominantly -- those are agency businesses, where our agency force is growing. These are long-term products; guarantees are extremely low, like in the 1% to 2% range. And there's a healthy mix of savings and protection product. And that business is -- we built it from dust predominantly. And it's cast in a shadow. It's a few billion dollars now. And I see great growth potential for that.

As regards M&A, I made the statement when I came to the end of my commentary, I said we have lots of optionality. We have optionality when we're looking at opportunity. What that means is across product lines, across geographies, across customer segments, and that includes the life insurance business. And if we found the right thing and it was accretive to our strategy and was good for shareholders, we wouldn't hesitate for a minute. Thanks for the question.

Q - David Motemaden {BIO 18818634 <GO>}

Thank you.

Operator

We'll go next to Elyse Greenspan with Wells Fargo.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi thanks. Good morning. My first question is tying together some of the comments we've heard throughout the call. Just in terms of market conditions, Evan, you still seem pretty positive there. And then as we think about the rest of this year, right, we'll have -- the economy continues to improve, so exposure growth should pick up. So, as we think about your commercial businesses, both within the U.S. and internationally, given the dynamics of maybe some stabilization to slight deceleration in pricing, but --

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

So, what's the question, Elyse?

Q - Elyse Greenspan {BIO 17263315 <GO>}

I guess the question is, I'm trying to understand, should we think about -- as we think about premium growth within commercial, should we think about that being stable relative to the Q1 and perhaps even improving as we get the economic improvement picking up from here?

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

I don't -- there's nothing on the horizon that I see that tells me we're going to really decelerate in the commercial area. It varies by business as we look at it. But we're feeling very good about it.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. Then my second question, Evan, as I was reading on your annual letter, you made mention of social inflation. I know throughout the call, we've kind of brought it up in terms of just what we're seeing today. But there's obviously issues that the industry is dealing with it. It goes back to many, many decades. And I was just hoping to kind of get your updated view, kind of elaborate on some of the -- what you mentioned in your annual report, if you guys think of about some of, kind of, the looming issues that the industry, yourselves and others are dealing with today?

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

Yes. It's not a new issue to us. We've been on top of it for a while. The reviver statutes, they produced lots of notices. They then start to ripen, and you get facts, and you're able to match them up against coverage's that were in force at a period of time. And as they do, we recognize any live we have been and continue to recognize liabilities that we have against those. And that is all baked into our published loss ratios that you see.

The reviver statutes have been open for a period of time. And so, in most all jurisdictions, the reported notices of circumstances have decelerated tremendously from when they first open up. There are some states that are continuing to consider opening up reviver statutes and theirs. And so this is an event that the industry deals with over time. These things evolve over time.

I might add, we're very sympathetic to those and it breaks your heart where you see the circumstances of children abused by adults sexually, and where they're for real. And then on the other side of the coin, the trial bar is a money-making machine. And there is -- that, combined with new technologies of social media, and litigation funding, they see it as another dog bowl to eat out of. And there is also a lot of suspect and specious behavior that is involved here. And our job is to tease out what's real and defend against anything that we suspect is just for ill-gotten gains.

Q - Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. Thanks for the color, Evan. And I also just want to extend my congrats on to Phil on his upcoming retirement.

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

Elyse, was that also because he went over the wall.

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

Thank you, Elyse.

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

Thanks, Elyse.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Thank you. Thanks.

Operator

We'll next go to Yaron Kinar with Goldman Sachs.

Q - Yaron Kinar {BIO 17146197 <GO>}

Good morning, everybody. So I'm a bit obsessive in my nature. So I hope you can indulge another question on rates.

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

Only if it's not asking me to be redundant, Yaron. Don't ask me to do that.

Q - Yaron Kinar {BIO 17146197 <GO>}

I'll try.

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

Ask me something new.

Q - Yaron Kinar {BIO 17146197 <GO>}

I'll try. So you expect market conditions to hinder. I think that we are seeing more lines achieving rate adequacy. As you pointed out, we're in 30-year rate increases in excess of trends. Interest rates have increased. So why wouldn't Chubb specifically or the industry more broadly, be willing to give up more rate for volume as we look at the year ahead?

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

That doesn't make any sense to me at this point. Look at combined ratios of most -- look at the loss environment and I'll tell you what I think the industry overall is not in a place where it has achieved adequate risk-adjusted when you consider both things I talked about.

And by the way, we are driving. I can't speak about the industry, but I'll tell you what, Chubb is -- just look at it. Chubb is growing exposure. We're achieving rate and we are

growing a lot of business because it's at prices that we think are adequate to produce an adequate risk-adjusted return. Our new business was up over 20%, well; and our renewal retentions are high. We're growing. We're growing market share because the pricing is right. You're in a risk business. Pricing is an adequacy is where you start. That's as good as I can give you on. Beyond that, you're overthinking it.

Q - Yaron Kinar {BIO 17146197 <GO>}

That's very helpful. And clearly, you guys are growing off of a very large base to begin with. So -- yes, no other questions on that front. I guess switching gears a little bit. We've heard some talk about potential tax reform. I realize these are very early days here. But can you maybe share your views on corporate tax reform, its potential impact on Chubb and Chubb's positioning?

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

You know what, I don't know enough. And we have both the corporate tax rate that could go up. They're talking 21% going to 25% or 28%. We'll see how that plays. And then secondly, you've got guilty and be. And then you've got the notion of a minimum global tax rate, multilateral agreement with OECD. All of these plates are spinning. The green book is not yet out that would tell us any detail of what's in the tax reform or the tax increase. Heck, it's not a reform proposal. And so we don't even know what the administration is yet proposing other than in headlines. And so we really can't speculate at this point. We just don't know. And when it comes out, we'll have a better sense. And then it's got to run the gauntlet in Congress. And we'll see from there. So, I can't speculate at this point, yet.

Q - Yaron Kinar {BIO 17146197 <GO>}

Fair enough. I appreciate the thoughts.

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

You're welcome.

Operator

We'll go next to Brian Meredith with UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes. Thanks. A couple of them here quickly for you, Evan. The first one, if I look at the rate activity that you've been generating in the last several quarters in North America, commercial. And then the 5.5% loss cost inflation. You do the math and you get a lot more underlying loss ratio in your booking right now. Is that because of your just conservatism with respect to potential social inflation trends? Or is there something else that we're just not thinking about?

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

Brian, I don't know what you're thinking about. I don't know what you guys are thinking about, but we have always operated the company conservatively, and I'm not going to -- I'm going to stop right there.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay. And then second question, I'm just curious if --

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

I will say this to you. Let's see. We produced over 2 points of margin improvement. It was accident year combined ratio of 85.2%. My god, world-class.

Q - Brian Meredith {BIO 3108204 <GO>}

No doubt. I completely agree. The second one, just sticking with North America commercial, written premium -- net written premium growth, really attractive in the quarter. Gross written premium growth also kind of increased. But clearly, you're seeing some benefits from just lower ceded premium. Any change in kind of the reinsurance strategy as we head into 2021?

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

No, not a change of strategy. Not a change of strategy. It varies by line of business. There's mix within there. And then, there is also within some lines of business, we have increased our net appetite.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you. Make sense. Thank you.

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

The more exposure, we have better spread of risk.

Q - Brian Meredith {BIO 3108204 <GO>}

Thank you.

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

You're welcome.

Operator

We'll go next to Ryan Tunis with Autonomous Research.

Q - Ryan Tunis {BIO 16502263 <GO>}

Hey, thanks. Good morning. My question was just on sort of a language from the statement that you guys put out last week, just looking for some clarification. There's a

comment where you said -- and this is involving the Hartford. The path to your transaction would have been engagement coming from the Hartford on the terms of our last proposal. I guess my question is, is that just a general comment about your desire to do friendly M&A? Or are you trying to say something about that being your last proposal?

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

Look, the chapter with the Hartford is closed. We have moved along. And beyond that, Ryan, I'm not going to now engage and talk about past events.

Q - Ryan Tunis {BIO 16502263 <GO>}

Understood. That's it. But I -- in terms of like thinking about M&A now, I guess, it's been five years since job. Back then, I think the big gating item was you didn't want to dilute tangible book value per share. I'm just trying to understand, as you think about M&A targets, has any of your thinking evolved in terms of what's most important financially? Is it earnings accretion? Is it still mainly accretion or dilution to tangible book value per share?

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

First of all, Ryan, with all due respect, your comment about tangible book is a nonsense comment. It was dilutive to begin with to tangible and then it powered its way out of it.

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

Almost 29%.

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

And so I don't know what -- how you're thinking about it, it's hard to do M&A that isn't dilutive to tangible. And then the question is, in the first moment, and then the question is how accretive is it, and how quickly do you return? So, with all due respect, I don't think you're thinking clearly.

Number two, let me make one -- I'm not going to go into Chubb's metrics of what's most important. That's not important here. And by the way, every deal has its own signature. And so, you wanted to fit on a bumper sticker and it doesn't work that way.

But I'm going to make one comment about M&A, today. EPS accretion, when you use a lot of cash, is a midget lift. That's really easy. And I don't miss that one, whatsoever. None of us do. So that's the easiest metric. That's not what it's about when you measure wealth creation value. Thank you very much for the question.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thanks for your thoughts.

Operator

We'll take our last question from Meyer Shields, KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Two really quick ones, I think. One, Evan, should we infer anything significant about reinsurance pricing from the fact that gross written premiums were down year-over-year?

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

No.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Second question, I was hoping you could comment on non-travel actions and help pricing.

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

On accident and health pricing?

Q - Meyer Shields {BIO 4281064 <GO>}

Yes, please.

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

Non travel. Yes. Meyer, it's -- remember, we don't do a lot of health insurance. It's supplemental health and accident business. So, it's fundamentally stable and actually up a few points. Rates have been moving up, particularly in the corporate travel area, the commercial business. And in our direct marketing business, it's very steady.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. That's perfect. Thank you.

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

You're welcome.

Operator

And at this time, there are no further questions.

A - Karen Beyer {BIO 6404488 <GO>}

Thanks, everyone, for your time and attention this morning, and we look forward to speaking with you again next quarter. Have a great day.

Operator

This does conclude today's conference. We thank you for your participation.

FINAL

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

Bloomberg Transcript