Company Name: Chubb Ltd
Company Ticker: CB US
Date: 2018-01-31
Event Description: Q4 2017 Earnings Call

Market Cap: 72,344.06
Current PX: 155.97
YTD Change($): +9.84
YTD Change(%): +6.734

Bloomberg Estimates - EPS
Current Quarter: 2.954
Current Year: 10.814
Bloomberg Estimates - Sales
Current Quarter: 7902.500
Current Year: 34225.200

Q4 2017 Earnings Call

Company Participants

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

Other Participants

- Elyse B. Greenspan
- Kai Pan
- Sarah E. DeWitt
- Yaron Kinar
- Jay Gelb
- Jon Paul Newsome
- Ian J. Gutterman
- Jay A. Cohen
- Brian Meredith
- Josh D. Shanker

MANAGEMENT DISCUSSION SECTION

Helen M. Wilson

GAAP and Non-GAAP Financial Measures

We will also refer today to non-GAAP financial measures

Reconciliations of these non-GAAP financial measures to the most direct comparable GAAP measures and related information are provided in our earnings press release and financial supplement, which are available at investors.chubb.com

Evan G. Greenberg

Business Highlights

Core Operating Income, Premium Revenue Growth and Headwinds

- As you saw from the numbers, we reported fourth quarter core operating income of $3.17 per share, up about 16.5% from prior year
- These results were impacted positively by the U.S. tax reform law at the end of the year and negatively by the California wildfires, which included the two largest fires in California history

- Those items aside, our company's results were highlighted by excellent underlying or ex-CAT underwriting performance in every division and improving commercial P&C pricing conditions in a number of our businesses globally, leading to what should be a more favorable underwriting environment in 2018 for many of our businesses
- Our premium revenue growth for the quarter, excluding merger-related actions, was 3.7%
- Headwinds to growth related to these actions are almost all behind us, about $150mm remains or less than 0.5% of annual net premiums
  - That, along with the strong economy, both domestic and global, and with an improving pricing environment, makes us quite optimistic about our growth prospects for the year ahead

Tax Reform and Core Operating ROEs

- Tax reform will benefit our economy and our company will benefit from both a lower corporate rate and additional exposure growth as the economy and, therefore, insurance exposures grow
- Our quarterly operating income included a onetime $450mm tax benefit related to tax reform and we will benefit in the future from a lower overall corporate rate
- We chose to share a portion of the benefits of tax reform to make a difference in society with a contribution to the Chubb Charitable Foundation of $50mm
- For the year, we produced $3.8B in core operating income, which was down 20% from what we would have earned with a normalized level of CAT losses and without the benefit from tax reform, or about $4.8B
- Our results led to core operating ROEs of 12% for the quarter and nearly 8% for the year
- For the year, we had strong book and tangible book value per share growth of 6.5% and 8.6%, respectively

P&C Combined Ratio and Catastrophe Losses

- In the quarter, the P&C combined ratio was 90.7% and for the year, it was 94.7% and that's with $2.7B in catastrophe losses
- That kind of combined ratio in the face of this level of CATs simply speaks to the quality of our underwriting and underlying book
  - And to that point, on a current accident year basis, excluding CATs, the combined ratio for the year was 87.6% compared with 89% in 2016, with the loss ratio up over just 0.5 point and the expense ratio down over 2 points
- By the way, while it was a heavy year for CAT losses, on the other hand, we had an outstanding year in our Agriculture business, another CAT-like business, which I'll touch on later

Net Investment Income

- Net investment income for the quarter was $873mm, up 3.5% over prior year and a good result that contributed to record net investment income for the year of $3.5B, up over 6%.Considering the historically low interest rate environment, this was an outstanding result
- Phil will have more to say about investment income, book value, the CATs and prior-period development

Pricing

- On our third quarter call, I reported that we began to see signs of a bit more stable pricing environment for the business we wrote
- In Q4, that positive rate movement continued and, in fact, accelerated month-by-month as the quarter progressed, with prices beginning to firm in a number of important classes, both property and casualty related, and that trend has continued into January
- I believe we're in a transition market globally and rates should continue to firm as the year goes along, although not all classes and not in all countries or territories
- The current trend in terms of rate change is the best we've seen in the last few years

Renewal Retention and P&C Net Premium Revenue Growth

- Renewal retention remained steady overall across the company and are quite good, but they varied by line of business during the quarter
- Some areas of our business paid a price in terms of a modestly lower renewal retention level in order to maintain pricing discipline
- The same with new business – some areas of our company were up, while others suffered in terms of new business
  - Those areas where we suffered are what speaks to a market in transition, some companies are pressing for rate and, in my judgment, understand the need to improve rate to exposure, while other market participants have yet to respond and are using this moment to grab underpriced share
- As I said at the beginning, P&C net premium revenue growth, excluding merger actions, was 3.7% for the quarter, and that includes 1.2 points from foreign exchange

Growth and Rate Change

Retail and E&S Wholesale Divisions

- Now let me give you some specifics around growth and rate change
- In our U. S. major account retail and E&S wholesale divisions, what we call Major Accounts & Specialty, P&C net premiums, excluding merger-related actions, were down just over 3%
- For major accounts, our renewal retention remained at historic highs of over 95%, due in large part to our risk management portfolio where we are market leaders
- For wholesale E&S, there was a reduction in renewal retention of about 2 to 3 points to the mid-70s
- New business in major accounts was up 3.5% while in E&S, it was down about 8%
- The change in price we achieved for both major accounts and E&S wholesale was the best we've seen in a number of years and let me give you some examples of both rate and its movement during the quarter
- Major accounts rates overall were up 1% for the quarter, improving to up 1.9% by December and they are as strong or stronger in January depending on class
- Property rates were up over 7.5% in the quarter, improving to up 10% by December
- Casualty rates were essentially flat in the quarter, improving to up 1.5% in December

- And public D&O rates were up 2.5% for the quarter and up 6% for December, though overall professional lines rates for major accounts was down 0.5 point in the quarter
  - It was a similar story in E&S wholesale
- Rates overall were up 2.7% for the quarter, improving to 4.8% in December
- And again, they were as strong in January
- Property rates were up 2.8% in the quarter, improving to up 6.3% in December
- Casualty rates were up 3.8% in the quarter, improving to up 4.6% in December
- And unlike in major accounts, financial lines rates were up 2.3% in the quarter, improving to up 5% for December

Middle Market and Small Commercial Division

Net Premiums and Renewal Retention

- Now let's turn to our middle market and small commercial division where net premiums, excluding merger-related actions, were up 2% in the quarter
- P&C lines were up 3.1%, while financial lines were up 1.2%
- Renewal retention was reasonably steady, down about 1 point to 86% and exposure growth added 0.3 point
- New business growth for our midmarket business was quite strong, up 10%, and the best in a while and by the way, 50% of that growth came from cross-sell efforts

Rates

- Rates excluding comp were flat, which marks the first reversal in declining rates in three years
- Property rates were flat and rates for package were down about 1.5 points, while exposure-related pricing for package was up almost 2 points
  - So there was a net positive change to renewal price for package
- Casualty-related rates were flat and financial lines rates were up about 1 point
- Comp rates were down about 4 points, while comp pricing-related exposure was up over 2.So net pricing for comp was down 2
- Pricing in January for middle market appears to have continued the trend and in some classes firmed incrementally from Q4
- For example, property is now up 2 points, while casualty continues to be flat
- Commercial auto rates continue to accelerate, but remember, we're not a huge commercial auto writer

North America Personal Lines Business

- In our North America personal lines business, net premiums written were up almost 6% in the quarter
- Rates were up about 2% and exposure change added 3%

- Retention remained very strong at about 95% and new business was up 12% overall and up 16% for our targeted premier and signature high net worth clients

Overseas General Insurance Operations

- Turning to our Overseas General Insurance operations, net premiums written for our international retail P&C business were up over 7%, excluding merger-related actions, or over 4% in constant dollars
- Latin America and Asia Pac led the way with growth of 11% and 9%, respectively, while Europe also had a good quarter with growth of 5%
- The trend in pricing in the quarter was the best we have seen again in three years in both our international retail and wholesale business

Retail

- First, in retail, financial lines rates were up 3%, property-related rates were up 2%, and marine was up 2%
- Both general and specialty casualty were down 1%
- For our London wholesale business, property rates were up 5% and by December, up 7%, marine was up 6% and financial lines were up 1%
- In January, London wholesale property moved to double-digit rate

Agriculture Business

- Our Agriculture business, where we are the clear market leader, had an excellent year, highlighted by a combined ratio of 74% and over $390mm of underwriting income, up 15%
- As I noted last year, this is a CAT-like business and, therefore, it has a certain volatility to it by definition, is weather-exposed with weather impacting crop yields and commodity prices
- We've experienced both sides of volatility, years with great growing seasons and others with drought
  - This has been and continues to be a good business for Chubb
- John Keogh, John Lupica, Paul Krump and Juan Andrade can provide further color on the quarter and year, including current market conditions and pricing trends

Strategic Cooperation Agreement with PICC

- In the quarter, we announced a strategic cooperation agreement with PICC, Property & Casualty Company of China, the country's largest P&C insurer
- The agreement will leverage Chubb's global capabilities and support the PICC customers and other Chinese affiliated companies around the world in line with the Chinese government's drive to promote the country's Going Out and One Belt One Road initiatives
- With this 10-year agreement, PICC has the ability to offer some of China's largest enterprises, many of which have complex operations in multiple foreign jurisdictions, access to Chubb's leading capabilities and countries beyond their home market

Outlook

I am both optimistic and confident about the year in front of us

We have positive, synchronized economic growth globally as well as the benefits of tax reform, which should produce exposure growth, which is good for insurance and good for Chubb

We have the many investments we have been making to enhance our capabilities and growth potential, like the PICC and recent DBS announcements

Our middle market and small commercial business globally represents 30% of the company and we expect good growth in this area globally

Our global A&H and personal lines businesses are 35% of the company and we expect good growth this year

We are seeing and are reasonably optimistic that we should continue to see positive momentum building for commercial P& C pricing

We would like to see it spread to more classes and more businesses that need rate and we will do our part as industry leaders to drive that momentum

In sum, we are bullish that our growth will continue to accelerate and 2018 will be quite strong

Philip V. Bancroft

Financial Highlights

Operating Cash Flow and Tangible Book Value per Share

- We completed the year in excellent financial condition
- We have a strong balance sheet with top financial strength ratings, excellent liquidity and significant capital-generating capability
- Despite significant catastrophic loss payments, our operating cash flow was quite strong at $1.1B for the quarter and $4.5B for the year
- As Evan noted, we grew tangible book value per share by 8.6% for the year
- Originally, down 29% at the merger closing, tangible book value per share has recovered over 20 points
- We have total capital of $64B

Dividends, Share Repurchase and Investment Income

- During the quarter, we returned $453mm to shareholders, including $330mm in dividends and $123mm in shares repurchased
- For the year, we returned over $2.1B, including $1.3B in dividends and $830mm in share repurchases
- In the quarter, investment income of $873mm was higher than our previously expected range of $845mm to $855mm due to increased call activity on our corporate bond portfolio and higher-than-projected private equity distributions
- We now expect our quarterly run rate to be in the range of $865mm to $875mm with an upward trajectory as the year progresses

Net Realized and Unrealized Losses

- Net realized and unrealized losses for the quarter were $384mm after-tax and included $390mm loss from foreign currency movement, $93mm loss from the investment portfolio, primarily due to increased interest rates and a gain of $99mm principally from positive asset returns on our retiree benefit plan portfolio

Pre-Tax Catastrophe Losses and Net Loss Reserves

- Pre-tax catastrophe losses for the quarter were $447mm
- The Northern California wildfires and other catastrophe losses in the quarter were $320mm, as previously announced
- Additionally, there was $157mm from the Southern California wildfires and a favorable adjustment of $30mm from last quarter's catastrophe events
- Net loss reserves decreased $1B in the quarter on a constant dollar basis, primarily reflecting catastrophe loss payments and crop payments, which are typically higher in Q4

Paid-to-Incurred Ratio

- The paid-to-incurred ratio was 120% and was impacted by these payments and by the favorable prior-period development in the quarter
- Adjusting for these items, the paid-to-incurred ratio was 91%
- We had positive prior-period development in the quarter of $158mm pre-tax, or $130mm after-tax
  - This included $138mm pre-tax of adverse development, principally from our legacy asbestos exposures
- The remaining favorable development of $296mm pre-tax was split about evenly between long-tail and short-tail lines
- The long-tail is primarily from accident years 2012 and prior

Operating Income Tax Rate

- The operating income tax rate for the quarter and for the year reflects the provisional income tax benefit of $450mm relating to the 2017 Tax Reform Act
- This benefit comprises $743mm benefit to book value relating to intangibles, reflecting the favorable impact of the reduced U.S. corporate tax rate on our gross deferred tax liability established at the time of the Chubb Corp acquisition and a charge of $293mm for tangible book value, primarily reflecting a negative impact of the tax rate reduction on our gross deferred tax asset balances
- We have previously announced an estimate that was in excess of $250mm
  - The increase in our estimate reflects a more favorable impact with the newly established excess foreign tax credit generated by the new deemed repatriation rules
- We expect our annual core operating effective tax rate to be in the range of 13% to 15% under the new rules

QUESTION AND ANSWER SECTION

<Q - Elyse B. Greenspan>: My first question, I appreciate all the disclosure in the market. Just trying to gather your color, and I think there are some speculation out there that maybe some of the tax reform benefit, at least in the U.S. to a certain degree, could get competed away. Evan, when you think about the outlook on the market and some of your commentary on the rating environment, how does that play into how you think about the commercial lines environment on the pricing side playing out in 2018?

<A - Evan G. Greenberg>: Yeah. Look, Elyse, it's right now idle speculation and who knows, there is no certainty. I'd make a few observations. Look at the P&C – commercial P&C combined ratios, you got to make profit to have something to compete away. So you can't. And if you take out CAT premiums as well as CAT losses to look at ex-CAT accident year, so truly take out CAT, the combined ratios of the industry, I mean, commercial P&C are very anemic, hovering around 100%or over 100%.And so how are you going to compete away with a tax benefit without profit – without underwriting profit? Number one.

Number two – the industry is [ph] heartily (21:56) running some brilliant ROE. It's mid single-digit to low single-digit. And on a risk-adjusted basis, that's an anemic return. Number three, the industry has operated at very low interest rate environment that has really pressured investment income. The tax benefit starts, in my judgment, to give some amelioration to that. And I think anyone who's kind of rational in thinking about this is a leader and projecting ahead on this considering all these factors.

<Q - Elyse B. Greenspan>: Okay. Thank you. And then when you said, you pointed to some companies that are looking to grab share in the market in under pricing business, is that specific to certain lines or is that just something you're observing broadly throughout the commercial lines market?

<A - Evan G. Greenberg>: It truly varies by line of business. There's a cohort that we can identify that is by line of business and it's generally by territory or country that we note, that we have our eye on.

<Q - Elyse B. Greenspan>: Okay, great. And then one last question, if I may?

<A - Evan G. Greenberg>: I'm not going to name and shame, Elyse.

<Q - Elyse B. Greenspan>: Yeah. I figured. One last question. Can we just get a little bit of an update on where you see loss cost broadly within your commercial lines book right now?

<A - Evan G. Greenberg>: Loss costs have been and it varies by line of business. It has been pretty steady from what I've said in prior quarters. You're looking at primary casualty, depending on the line of business is running in that 3% to 5% range, excess is typically running in that 7% to 9% range. We've seen a net in professional lines, particularly in D&O, new employment practices. There has been an uptick in both frequency and severity trends over the last two years, three years, and that is very troublesome because it's related generally in the United States to merger-related objections and to securities class actions.

And by the way, I've noticed recently some public information release about D&O loss ratios and they're pure loss ratios, they don't even have loss cost in it. And the interesting part about loss cost and loss adjustment cost, when you add it all up, half the cost insurance companies are paying out goes to the legal profession to either defend or it's the trial bar settlements, hardly a benefit to corporate America or to shareholders who are supposedly aggrieved. Pardon me for going beyond loss cost trends.

<Q - Kai Pan>: My first question is that if you look back two years ago when you first set up the goal for the merger, the twin drivers: one is expense savings, which you have exceeded the original target; the other one is substantial revenue growth, but the revenue growth in the past few year has been limited. So where are the revenue opportunities and how do you think this will play out in the next three years?

<A - Evan G. Greenberg>: Yeah. Kai, very interesting. When we look at it, revenue growth, ex the merger-related actions, which was planned and understood all along, we're actually very clear about it upfront. So I'd take a little exception to how you're characterizing it. You take that out and you look underneath it. When we look at the market conditions, the two companies together are doing better in growth than these two companies would have done standalone, and that is really clear to us.

Secondly, we said and we put a time horizon on the growth of between that three- and five-year window because of the seeds we are planting and have been planting and I just said that 30% of our business is small and middle market, and the growth in the small and middle market globally is accelerating and, in fact, we had no small commercial globally between the two companies until we brought them together and took capabilities that both had and invested behind them and now have growing businesses, as an example. So I'll stop right there.

<Q - Kai Pan>: All right. And then on the sort of industry consolidation, recently we have seen some sort of merger announcement and now you're two year into the merger integration, will you be sort of a more outward looking and looking for potential growth opportunities through acquisitions?

<A - Evan G. Greenberg>: I know you didn't imagine I would answer that question for you. You're just trying me on for size.

<Q - Kai Pan>: All right. I tried.

<A - Evan G. Greenberg>: Okay, Kai. Nice talking to you.

<Q - Kai Pan>: Yeah. Can I take on another question to replace that one, so on the foreign exchange? In the past, you have said if U.S. dollar is strengthening that will be sort of hurting your book value. But now fourth quarter after U.S. dollar have been sort of weakening, so why there's a drag on your book value?

<A - Philip V. Bancroft>: So the balance sheet FX impact in the quarter was a result of the U.S. dollar strengthening against most major currencies from 9/30 to 12/31, notably, the Canadian dollar, the Brazilian real, the Australian dollar. So, for the quarter, we had a book value loss of $390mm. For the year, though, the dollar has weakened and we've had a cumulative gain of $512mm.

<A - Evan G. Greenberg>: It depends where it took place, Kai. So when you're looking at the dollar weakening as a headline and how it impacts premium revenue growth on book value, it depends where you have your asset.

<A - Philip V. Bancroft>: But it actually strengthened in Q4.

<Q - Kai Pan>: If dollar stay the same, would that possibly impact for the full year results 2018?

<A - Philip V. Bancroft>: There'd be no change.

<Q - Sarah E. DeWitt>: On the revenues, now that the merger-related underwriting actions are behind you, can you help us think about what sort of premium growth we should be looking for, given your pricing actions, the economy and all these growth opportunities that you're seeing?

<A - Evan G. Greenberg>: First, remember, I just gave you a number of $150mm remaining, so it's not zero. But it's very modest now. Secondly, we don't guide revenue growth. I gave you as much color around revenue growth as I'm going to provide.

<Q - Sarah E. DeWitt>: Okay. All right. Thank you.

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

<Q - Sarah E. DeWitt>: And then just on the pricing outlook, how high do you think you could raise prices if we look out a year or two? Or maybe another way to think about it, how much rate do you think you need across your book in the current environment?

<A - Evan G. Greenberg>: I'm not going to speculate on that how much we could achieve. We're doing it in a responsible way. We're only going for rate that is required to earn a reasonable risk-adjusted return and it varies by line of business, by kind of customer cohort and by country. So it's not a simplistic answer that way.

What I would say is, unlike others, you look at our total portfolio and you look at the combined ratio we put up and it's world-class. It's the best in the industry. But that does vary by line and commercial P&C, particularly larger business and E&S business, it runs in the 90s. We have other businesses that all together mix our portfolio down into the 80s.So it varies by area and we've had underwriting discipline. We are willing to trade and we'll continue to trade market share and growth to maintain a reasonable underwriting return.

And as the market responds to anemic returns and prices go up and as the market responds to an understanding that loss cost trends are something that just continue to grind away and put pressure on margins that the responsible thing to do is for both client and for companies, so you avoid volatility in the future in pricing is to respond by raising rates. And as that happens, that increases opportunity for us and increases growth. And that's about as much as I'm going to say, Sarah.

<Q - Yaron Kinar>: I had a question regarding the comments on the acceleration of rate improvement over the course of the quarter and then for January. I think looking at some of the comments made by brokers, I got almost the opposite impression from them. So I was just curious to better understand why there may be a discrepancy between what we're hearing from brokers and what we're hearing from some of the insurers?

<A - Evan G. Greenberg>: Well, you're going to have to go to figure that out. I can't help you with that. I can only relate to the data we see. So I know our information and if you're getting contrary information – and by the way, the brokers we talk to, what we see, what they see is consistent. So I think you may be confused in some ways and not comparing apples-to-apples of type of business, insurance vs. reinsurance, London vs. the United States or whatever, but I can't help you with your – you live in your hell, I live in mine.

<Q - Yaron Kinar>: Fair enough. And then with regards to major accounts, I guess, most of your competitors aren't necessarily even impacted by U.S. tax reform. So would you see the dynamic in major accounts being different over the course of the year than the dynamic in other account?

<A - Evan G. Greenberg>: No.

<Q - Yaron Kinar>: I'm sorry?

<A - Evan G. Greenberg>: No.

<Q - Yaron Kinar>: No? Okay. And then maybe one final question. With regards to the 30% of the U.S. premiums that you had seeded to overseas affiliates in the past, given tax reform, are you trading that portion of the book or have you adjusted in any way to adjust corporate tax reform there?

<A - Evan G. Greenberg>: We're not really going into any detail about our capital management [indiscernible] (34:12) capital management, that is proprietary. And, Phil, you want to...?

<A - Philip V. Bancroft>: I would have said the same thing. We've looked at, obviously, the change in the U.S. tax rate as one of the most important drivers of the reduction in our tax rate. We've looked at also rates around the world where we expect our income to emerge, and we've done it all in light of our planned capital management. We operate in 54 jurisdictions. We're constantly seeing changes in tax law and we've analyzed the new rules and we've thought about modifying our capital management strategies and other border transactions – other cross-border transactions. But as Evan said, we're not just prepared to provide any more color on that. And in determining the rate, we've considered all those things.

<Q - Jay Gelb>: My first question is on the California wildfires. Could you perhaps provide some perspective on how large do you think Q4 industry insured losses were for the wildfires?

<A - Evan G. Greenberg>: I don't have a great handle on it. The numbers bouncing around have been between sort of that $9B and $12B, and I think that's probably a pretty good number, but I don't know with certainty. But the size of both of these fires, when I said they were the largest in history, not the insured loss, which obviously will be, but what I was really referring to is the geography on the burn was greater than we've seen and has been seen in recorded history. I'm sure you get back past recorded history and they were probably bigger ones, but this is as big as you've seen, so they're massive.

We do know that – so we think probably that $9B to $12B wouldn't surprise me if it comes out there on the northern fires. Southern fires are much smaller. They did burn in concentrations, greater affluence, though, they were smaller fires and they'll be a few billion dollars anyway for the [indiscernible] (36:45).

<Q - Jay Gelb>: Does that have implication in terms of how Chubb would position its homeowners business in California going forward?

<A - Evan G. Greenberg>: The whole notion of non-modeled CAT and being able to model better is we're an underwriting company and that is just such a part of our craft and I'm more enthusiastic about that. That fascinates us. So the notion of how much concentration do you really have to an event as you can define an event and what is your appetite for that, are you getting paid adequately and how you protect yourself are all the questions we dwell on in great detail as we expand our personal lines in smaller commercial portfolios.

Flood and the ability to manage flood that way is further advanced than wildfire, and I'll come back on wildfire. In flood, the tools we can now use, the mapping, the analytics of portfolio and how to respond to various flood scenarios is getting better and better, and it gives us much better confidence depending on the geography and the area that we're looking at flood concentrations.

In wildfire, the tools have not been good, but they're improving and there are some new tools that are out that give you a better way to imagine wildfire and the impact on the concentrations of the portfolio. So we're all over that. The regulatory environment in California in particular is you have to take it into consideration. It's difficult when it comes to being able to get a proper price for the risk you're taking and that's not to California's benefit, given the values of concentration there, they need to attract insurers. But we take that into consideration when we think about our appetite in California.

<Q - Jay Gelb>: Right, of course. One last sort of big picture one, if I could.

<A - Evan G. Greenberg>: Does that help you?

<Q - Jay Gelb>: Very much, thank you. There's an announcement yesterday regarding three major companies in terms of trying to tackle their own employee health care costs. Do you have any thoughts on that in terms of how perhaps Chubb could address that issue that's affecting all companies?

<A - Evan G. Greenberg>: Yeah. I think it's – look, I only know and read what you did. I think it's a very rational and I think it's a very encouraging move they're making. First of all, between them, they have a cohort of employees of 1mm. So that is a big enough group to truly make a difference and to allow you to craft a more efficient healthcare delivery and they want to tackle the structural questions of cost related to delivery. And I think that's – I applaud what they're doing. And we have 15,000 employees roughly in the U.S. We don't have anywhere near what they have. And I think that they're going to start blazing that trail as great and there'll be others who will follow and I'm sure in time, but I hope it starts the right kind of movement. We need reform in healthcare. And the cost I think Mr. Buffett said it pretty well, it's a tapeworm that's eating away the economy in the United States.

<Q - Jon Paul Newsome>: You mentioned the cross-sell efforts. Was wondering if you could give us kind of an update of how those efforts are going and what you expect for the coming year?

<A - Evan G. Greenberg>: Well, I'm not going to tell you about the coming year because I don't guide on that. But I'm going to let Paul Krump talk about and reflect on current cross-sell and then John Lupica will add to that.

<A - Paul J. Krump>: Great. Thank you, Evan, and thank you, Paul. As Evan mentioned, in the middle market space, we actually had 50% of our new business come from cross-sell, and so those are existing customers where we're adding additional product to. What was so encouraging to me in Q4 was that about a third of that cross-sell came from clients who were only purchasing professional liability lines from us and we cross-sold the package comp and auto to them, and I haven't seen that happen in years and years to that extent. So that was just incredibly encouraging.

On the small side, we are cross-selling all kinds of product to customers. That's being very warmly received because there the bulk of our competitors really only sell a BOP product comp and auto. We're out there selling professional liability alongside of that umbrella, et cetera. We've been doing some cross-selling on the personal lines side where we're selling small commercial business to people that have in-home businesses. So recently had a big win on a very large personal lines client who got rejected in the marketplace because one of the spouses was raising bees and selling honey at the local fair and nobody else could handle it but Chubb's. So, pretty interesting little story.

<Q - Jon Paul Newsome>: Second question...

<A - Evan G. Greenberg>: Lupica, you want...?

<A - John Joseph Lupica>: Yeah. Let me just add a little more color, and Paul had given you a statistic on what we call cross-sell. We also keep track of something very interesting called strength of the organization where we brought the two organizations together, it gives us more capabilities. And about 10% of our new business this quarter was a result of our two organizations coming together. And we are two years in and our 48 branch offices really have a familiarity and a comfort level with one another and cross-selling and driving our products and specialty services into that organization is as good as it's ever been and we're very optimistic about it in the coming years.

<Q - Jon Paul Newsome>: Fantastic. Second question. A little bit of a follow-on from Jay's in terms of lessons learned in the flood business. Do you think that Chubb and the industry can underwrite that if the government went away? Are we as sophisticated enough now to be able to underwrite flood?

<A - Evan G. Greenberg>: Yeah. I would say I'm going to give you an answer that – it's something in between. I think we clearly, the way the NFIP is crafted today, it discourages more private sector participation and the private sector can do much more than it is doing in terms of taking on flood risk. The government's role I would suggest would be in two areas, and one of those areas may disappear over time, but in the short and medium term.

Number one, for those who can't afford flood insurance protection, they can't afford to pay for it, but they live in a flood-exposed area, subsidizing – that's a social decision and to subsidize those people because you can't charge an actuarially sound rate that I see as a role for government. The industry should be charging actuarially sound pricing.

Number two, there is a tail on flood that goes for a while beyond the industry's wherewithal or appetite. And I see the government like TRIA or like in crop insurance playing a role. But I do think that over time, given the global balance sheet and both traditional capital and alternative capital, that tail risk over time the private sector could displace the federal role.

<Q - Ian J. Gutterman>: I guess, first, Evan, if I can ask about capital. If I take consensus, you're going to earn in round numbers, $5B this year. You can certainly do a lot better than $100-somethingmillion of repurchase if you wanted to. I know you're not going to talk directly about M&A, but can you just give us some sort of sense of how to think about, how you might deploy earnings over the next, say, two, three years as far as – is there sort of a target mix in your head or are we sort of back to pre-acquisition thinking on buyback, just how should we think about all that?

<A - Evan G. Greenberg>: Ian, we will build capital flexibility. That is a priority for this organization. And I think we can generate greater returns to shareholders over time by retaining capital, building capital flexibility and deploying it in various strategies and areas for growth. This is a growth company. We measure growth primarily by growth in book value.

To the extent that we generate capital that is in excess of the capital flexibility, we need to execute those strategies. We will do what we have a long history of doing. We will return it to shareholders through dividends and other capital management strategies, such as buybacks. That's about it. So I hope that gives you a sense of the sentiment, but I'm not going to put any more specifics.

<Q - Ian J. Gutterman>: Fair enough. Maybe if I can ask it a slightly different way is – and certainly before the acquisition, there were a lot of questions about you having people wondering about you guys having a sort of more than normal amount of excess capital. And clearly, after the deal, you had been below your probably target for capital for a little while as you rebuild. Are we sort of back to neutral now? Or do you think you're still sort of building back to the cushion you would like to have? Or maybe we're over that cushion? Just some sort of sense of where the starting point is.

<A - Evan G. Greenberg>: Ian, we're building.

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

<A - Evan G. Greenberg>: And understand that we just paid out a couple of billion dollars in CAT losses this year.

<Q - Ian J. Gutterman>: Sure.

<A - Evan G. Greenberg>: We incurred a couple of billion. Actually I'd correct that, a few billion, not a couple.

<Q - Ian J. Gutterman>: Understood. On tax, I guess, I wanted to try the previous question from someone else a little differently as well.

<A - Evan G. Greenberg>: I know you're going to scratch on a subject that – you're going to scratch on the door, we ain't going to open it, but go ahead.

<Q - Ian J. Gutterman>: Well, I'll try. I guess, what surprised me about the 13% to 15% is I just sort of go around the world in my head about which countries you're big in and I think most of those of having at least a 20% tax rate other than Bermuda obviously and Switzerland, which I don't think you write that much direct business anymore as a proportion anyway. So, I guess, I'm struggling to figure out if it's harder to do intercompany quota shares why the tax rate went down from tax reform? I understand the U.S. rate went down, but I would have thought some of the intercompany stuff would have went out.

<A - Evan G. Greenberg>: Ian, in the balance, the U.S. rate reduction, if you look at puts and calls, as you're imagining, we're not going to give you the details at all of puts and calls. But if you look at the puts and calls, the reduction in the U.S. tax rate more than offset the negatives of reduction in affiliate rate.

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

<A - Evan G. Greenberg>: And by the way, intercompany debt or anything else that you want to add in here.

<Q - Ian J. Gutterman>: Exactly, exactly. Okay. And then just last one is I was wondering if you...

<A - Evan G. Greenberg>: I can just tell you that I trust our finance department, that all of them have done – that the math is right, we tried that external and internal [indiscernible] (50:41).

<Q - Ian J. Gutterman>: I'm sure it's right. I just was trying to get my head around it. But...

<A - Evan G. Greenberg>: I got that. I got that, buddy.

<Q - Ian J. Gutterman>: I was wondering if you can talk a little bit about the outlook in Mexico because we don't talk about that one maybe as much as some of the other ones, but I know it's obviously been a good business for you guys. And just sort of the outlook given, A, we have an election that sounds like it might go in a way that's not market friendly and, B, if NAFTA goes in a bad way, does that matter for the business or is it really much more oriented towards domestic activity than trades? Just sort of what things matter in Mexico going forward?

<A - Evan G. Greenberg>: The health of the Mexican economy, and that is able to continue to grow ex the energy sector as it is and, in fact, accelerate. NAFTA has been a great contributor to that. And Mexico is so integrated and dependent on the U.S. economy. So, on one hand, as the U.S. economy improves, so does the Mexican economy because we are so intertwined that way. On the other hand, the NAFTA – and NAFTA has created an environment of certainty and predictability that encourage greater investment cross-border.

The NAFTA negotiations going on today and the way they're occurring and how long they're taking creates an environment of uncertainty, on the other hand. And that potentially, it hasn't shown up yet, creates the risk of instability. You said it, on the political end, there is the possibility of the elections results moving in a populist direction, that could be more anti-foreign and that would be bad for Mexico, it would be bad for the United States. It could damage the growth of the Mexican economy.

Our business is very focused on the domestic and the growth of the domestic economy. We insure consumers and small and midsized businesses and we insure large Mexican corporations and multinationals doing business there, but the predominance of our business is consumer and small business-oriented, which is very domestically focused. And so the health of that business and the continued growth of it and we are growing double-digit in Mexico and it is with very stable returns, and we are investing in Mexico and we are bullish about the future of that country. And if there is, in any rational world, NAFTA will be concluded and we will deepen the integration in North America and I hope that kind of rational world prevails.

<Q - Jay A. Cohen>: Just one other topic I love you to comment on. The investigations going on now into the brokerage business in the London market, Evan, do you see a role for regulators to play in that market on the distribution side?

<A - Evan G. Greenberg>: What do you mean by a role for the regulators to play? It is a regulated industry. And the regulator always has a role to play in ensuring that regulation, both the weather and the spirit of what it intends is properly adhered to. And I think that's what their investigation is about. But I don't know a lot – I got to be honest with you, I don't know a lot because it's not focused on us and we're just not really involved in any material way.

<Q - Jay A. Cohen>: I guess, the question was, do you think the regulators should be more involved with what's going on there and take maybe a slightly more heavy-handed approach given some of the changes in that market?

<A - Evan G. Greenberg>: I am more in favor, I'm always in favor of the private sector policing its own behavior and to behave in what is the interest of a healthy marketplace and not over-relying on regulators to perform that role. But we're market participants and the private sector fails to address issues that may exist, and I'm just not going to sit here and speculate further about that, but issues that may exist in practices, then it requires regulator to get involved. Now do those exist or not, I can't really – Jay, I'm not in a position to really say.

<Q - Brian Meredith>: A couple questions here for you, Evan. The first one, just back on tax reform and maybe implications on kind of lines of business. In the Agricultural business, would you think that maybe there is some pressure on kind of A&O reimbursement rates and stuff as a result of tax reform?

<A - Evan G. Greenberg>: God, I don't know. I'm not going to speculate about that. The only thing I know is crop insurance is just so core to the U.S. farmers when they look at a farm bill, what's the most important thing to them and it is the stability of crop insurance because what that does to give them predictability and support as they do their business and face the vagaries of weather, but I'm not going to speculate on that.

<Q - Brian Meredith>: Okay. And then my second question, Evan, is it possible to give us broadly kind of what the potential revenue opportunity is from the PICC relationship over the next five years? I know it's a 10-year agreement. And also on that topic, what impact at all does it have on your Huatai ownership?

<A - Evan G. Greenberg>: It has zero impact on our Huatai ownership or our 100% owned Chubb operations in China. And as far as revenue goes, it depends on how we each execute and on how well we execute and it requires both of us in that execution and to do it well. But I think the revenue opportunity is reasonably significant. I don't want to put a dollar amount on it, but it's significant when you start thinking about Chinese multinational exposure and how that's growing and how it will continue to grow in the years to come and the need to insure them. And when you think about PICC as an SOE, state-owned enterprise, and you think about how many of their clients and how many of the Chinese multinationals to begin with are SOEs and that is an ecosystem unto itself and this between us gives us access and an ability to serve that ecosystem.

<Q - Josh D. Shanker>: Just I wonder if you could add any color onto what we're hearing about the winter wheat harvest. And then are these significant drought-like conditions and what that means for the Agriculture business? And two, given the big reserve release vs. a intra-year reserve change in Q4 in crop, is that a behavior on how you reserve for the business? Should we expect you to be extremely conservative in H1 and then true it up in the back half of the year?

<A - Evan G. Greenberg>: No. First of all, we're not in the winter wheat harvest season. We're in the...

<Q - Josh D. Shanker>: It's the planting. It's the planting, I guess.

<A - Evan G. Greenberg>: We're not in the planting season either. We're in the growing season...

<Q - Josh D. Shanker>: Yeah. Fair enough.

<A - Evan G. Greenberg>: ...for winter wheat, so we'll start with that. Number two, and those are important distinctions. Number two, the drought conditions, very spotty, there is nothing we see at this moment that gives us concern with winter wheat. So I'll start with that.

Number two, we have not changed any of our reserving practices around crop and we use a historic loss ratio, as we have said in the past. We use a historic loss ratio when we start a season. I have no idea how it's going to play out and you never know until the fall, so you can't really move unless you have really some kind of early very clear data of significance, you can't really move off of the average until you have real clear knowledge of the present and that doesn't occur until Q4.

<Q - Josh D. Shanker>: And [ph] whether or not it's changed (01:01:33), but does that mean we should expect Q4 in most years is going to look very different from the other three quarters?

<A - Evan G. Greenberg>: Just look back on the years and you've answered your own question