Company Name: Chubb Ltd
Company Ticker: CB US
Date: 2016-05-05
Event Description: Q1 2016 Earnings Call

Market Cap: 56,728.02
Current PX: 122.21
YTD Change($): +5.36
YTD Change(%): +4.587

Bloomberg Estimates - EPS
Current Quarter: 2.436
Current Year: 9.814
Bloomberg Estimates - Sales
Current Quarter: 8379.000
Current Year: 33090.200

Q1 2016 Earnings Call

Company Participants

- Evan G. Greenberg
- Philip V. Bancroft
- Sean Ringsted

Other Participants

- Kai Pan
- Ryan J. Tunis
- Charles Joseph Sebaski
- Jay Gelb
- Michael Nannizzi
- Vinay Misquith
- Brian Robert Meredith
- Josh Stirling
- Sarah E. DeWitt
- Jay Arman Cohen

MANAGEMENT DISCUSSION SECTION

Evan G. Greenberg

Q1 Operating Business Review

This is our first quarterly earnings report for the combined company, the new Chubb

As you know, we closed the merger of the Chubb Corporation during the quarter, the largest P&C insurance transaction ever done

Our earnings for the quarter were very good, while our premium revenue results were somewhat impacted by market conditions, foreign exchange and the merger, and I will explain

After-Tax Operating Income

- On a reported basis, after-tax operating income for the quarter was over $1B or $2.26 per share, compared to $2.25 per share prior year
- Since we closed on January 14, our reported results are missing two weeks of legacy Chubb earnings
- For comparison purposes, when adjusted for that two-week stub period, operating income was, in fact, $2.29 per share as compared to $2.25 last year, quite good
- When discussing our underwriting results and premium growth and to give you greater visibility into the underlying health of the company, it's more insightful for you and relevant if we compare the new Chubb, excluding purchase accounting and one-time merger-related items that distort underwriting, to the 2015-year first quarter, as if we were one company since January 1, 2015

P&C Combined Ratio

- As an operator, this is the way I look at our results
  - Therefore, on pro forma apples-to-apples basis, the new Chubb produced simply excellent underwriting results, highlighted by a CY P&C combined ratio of 88.9% and $720mm of P&C underwriting income
  - That was up 23% from prior-year first quarter
- The P&C current accident year combined ratio, excluding catastrophe losses, was 88.8%

Pre-Tax Cat Losses

- Pre-tax cat losses of $258mm in the quarter were lower than pro forma prior year by $57mm
- Positive prior-period reserve development of $247mm pre-tax was up $55mm vs. prior year
- Both global P&C, which excludes agriculture, and our agriculture business produced excellent CY and accident year underwriting results

Net Investment Income

- Net investment income for the full quarter was $812mm, again on a pro forma basis
  - This is a good result given the continued impact of foreign exchange and low interest rates, and it was right in line with our expectations
- Book value per share was up 10% in the quarter and stands at $98.85, while per-share tangible book value declined as expected, reflecting the dilution from the acquisition
  - If the acquisition had closed December 31 – so, again, on a pro forma basis – tangible book grew 4%
- Our annualized operating ROE for the quarter was 10.2%
- Phil will have more to say about the investment portfolio, tangible book value, as well as prior-period reserve development and cat

Revenues

- Turning to revenue growth for the quarter, on a pro forma basis, global P&C net premiums written, which excludes agriculture, were down 1% in constant dollars or $65mm
- Foreign exchange impacted premium revenue results in the quarter by about 4 points
- Renewal retention rates were very good, so the impact to growth was mostly new-business related
- As expected, market conditions have grown more competitive around the globe, and that impacted us
  - I will speak about that later

Merger-Related Activities

- With the acquisition closing mid-January, there were also many merger-related activities in Q4 and January/February, with employees focused on executing integration and learning the new organization

- However, we are moving past this and will continue to do so

- We had improved new-business growth in March and then April
- Momentum is building, and to the extent premium revenue was impacted by the integration, we are expecting improved growth

North America Business

- Let me give you some more detail of our pro forma premium revenue results by major division, beginning with North America
- For all of North America, including our commercial P&C business, agriculture and personal lines, net premiums written were down about 1.8% in the quarter
- Let me break that down

Retail Commercial P&C Business

- In our retail commercial P&C business that serves the middle market and small commercial enterprises, net premiums were down 2%
- The renewal retention rate as measured by premium was a solid 87%
  - Renewal pricing was flat in the quarter, and both exposure growth and rates were essentially flat
- General and specialty casualty-related pricing was down 1%, financial lines pricing was up about 2%, and property-related pricing was down 1%
- New business writings were down 4% year-on-year
- In our businesses serving large corporate customers and specialty E&S markets, what we collectively call Major Accounts & Specialty, net premiums were down 5%
- For our retail broker distributed Major Accounts business, the renewal retention rate as measured by premium was a very strong 91.5%
- Pricing for the business we wrote overall was down 1%
- General and specialty casualty related pricing was down about 0.5%
- Financial lines pricing was down 2%
- And property-related pricing was down about 4.5%
- New business writings were down 32% year-on-year, impacted by market conditions, plus merger-related focus, particularly again in January/February
- New business activity in this division has, in fact, improved in March and April
- Our North America personal lines business had a reasonably good quarter, with net premiums up 7.5% in constant dollars
  - Excluding the impact of Fireman's Fund, growth was over 3%
- Rates were up 1%, and exposure change was a positive 3.7%

Agriculture Business

- Net premiums for our agriculture business were down 27% in the quarter, primarily due to the premium gain/loss sharing formulas with the U.S. government for the 2015 crop year, which, by the way, was an excellent underwriting year
  - In fact, as we begin this year's growing season, and as far as we can tell, we have gained market share, and the number of farms we will be insuring may very well be at an all-time high

International Business

- Turning to our international business, results were pretty good, and in fact better than we planned
- Net premiums written for our global retail P&C business were up in the quarter nearly 4% in constant dollars
- Growth varied depending on territory and product
  - Asia Pacific was up 6%
  - Latin America was up 4%
  - And Europe was up 2%

Product Perspective

- From a product perspective, commercial P&C net premiums grew just over 1%, which was a bit slower than expected
- A&H grew 3%, and personal lines grew a strong 12%
- In our London market-based E&S – Excess and Surplus lines business – premiums were down 12% due totally to market conditions
- Just as an FYI, as contemplated by us when we initially planned the merger, in 2016 and 2017 we plan to shed or shrink net written premiums in certain portfolios, simply because we cannot earn adequate underwriting returns or because we want to reduce net cat-related exposures
- These actions will benefit both the returns and the risk/reward profile of the company
- We will update you periodically as to the impact this has on our net written premium growth rates
  - This will be in addition to the business-as-usual underwriting actions we take as market conditions warrant

Market Conditions

- Concerning market conditions, we are seeing a really great response from agents, brokers and customers all over the world and in all regions of the U.S. about the new Chubb
- On the one hand, for agents, the combination of our commitment to the independent agency system, the service levels and attention they are experiencing, and the new products and capabilities we are and plan to bring to them are creating a lot of excitement and goodwill
- For brokers and large-account clients, the size and quality of our balance sheet, our enhanced global capabilities (both service- and product-related), our consistency and focus in contrast to the problems they are experiencing with others, are all attracting more opportunity and our pipeline is building
- I might add, the continuity of the employees our agents and brokers are working with at the local, regional and home office levels is both confidence-building and much valued by both our agents and brokers

  - This includes our outstanding claims and loss control organization, which hasn't missed a beat in terms of responsiveness

Pricing Environment

- The pricing environment continues to grow incrementally more competitive, particularly in shorter tail lines
- And, again, it really varied depending on the territory, line of business, and size of risk
- As noted in prior quarters, large account business, particularly shared and layered, is more competitive than mid-sized, wholesale is more competitive than retail, and property is certainly more competitive than casualty-related, though casualty pricing in the main is not keeping pace with loss cost trends
  - None of this is a surprise
- During the quarter, for our large middle-market commercial business, pricing was marginally better than we had anticipated, and for Major Accounts, about in line with expectations
- John Keogh, John Lupica, Juan Andrade, and Paul Krump can provide further color on the quarter and current market conditions and pricing trends

Integration-Related Savings

- On another subject, namely integration-related savings and the one-time costs associated with realizing them, as we continue to do our work, we are providing an update to our initial disclosures regarding value creation and efficiencies
- In terms of integration-related savings, we are now projecting to exceed our original target of $650mm, or $610mm at current foreign exchange rates, and expect an annualized run rate of approximately $750mm by year-end 2018
- Total one-time costs related to the merger are expected to be $811mm and consist of one-time expenses of $525mm directly attributable to achieving the $750mm savings and other one-time expenses of $286mm related to the merger, such as transaction costs, branding and employee retention costs
  - In addition, as a result of the merger, by Q4 we are also now projecting an improvement to our annualized investment income run rate of $100mm to $120mm in what we would otherwise earn as we improve investment portfolio management
- Phil will have more to say, including the timing by year for achieving integration-related savings and the related costs, as well as the timing for achieving the improved investment income run rate and how you should think about that

Business Integration Plans

- We are on track with all of our integration plans, including organization structure, process, people, technology, and growth initiatives, which are at a very early stage
- Integration is going as expected, including cultural integration, which is going well
- As we've said from the beginning, you don't just wave a wand and put two strong cultures together
- It takes some time
  - It's a process that you pay attention to, that you care about and that you lead

- While there are some differences between our two cultures, they are not profound
- We are far more alike than different
- As we focus on day-to-day business activities, we are breeding familiarity and knitting ourselves together at every level of the company
- All employees, starting with leadership, are invested and paying attention
- Our organization is stable, and in fact it is doing well
- Our people are more and more engaged and focused on serving clients, writing business, and overall value creation
- Again, client retention is excellent and customer and distribution partner reception in the marketplace has been outstanding

Summary

- In sum, we're off to a really good start, and the value creation that will come from our company is greater than we imagined when we announced the acquisition

Philip V. Bancroft

P&L Highlights

This is our first quarter as the new Chubb, and we're starting out in an exceptionally strong financial position

We have a very strong balance sheet to support our business activities around the globe, with total capital exceeding $59B

Our loss reserves are conservative and in great shape

We have $99B portfolio of cash and investments that's highly-rated and liquid, and we're generating substantial positive cash flow

Adjusted Net Investment Income

- Adjusted net investment income was $767mm in the quarter
  - This was within our expectations when factoring in the 14 days of investment income prior to the close of the acquisition on January 14, which amounts to approximately $45mm
- As Evan noted, we've analyzed the investment portfolio and believe that through more active management we can raise the run rate of investment income higher than it otherwise would have been by approximately $100mm to $120mm annually without taking any significant additional risk
- We plan to maintain a high level of quality with our AA rating and keep duration at approximately four years
  - This increase in investment income, together with future operating cash flow, will help to offset the natural impact of reinvestment at lower new-money rates
- Our current book yield on the portfolio is 3.4% and new money rates are 2.5%
- Before the improvements in investment portfolio management, we would have expected quarterly investment income to be in the range of $790mm to $810mm

- Now, with the improvements, we expect quarterly investment income to be in the range of $820mm to $840mm for the balance of the year
    - As a reminder, the estimated investment income run rate is subject to variability in portfolio rates, call activity, private equity distributions and foreign exchange

Net Gains

- Net realized and unrealized gains for the quarter were $952mm pre-tax and include $846mm gain from the investment portfolio, primarily from the decline in interest rates; $244mm mark-to-market loss on our VA portfolio, also primarily from the decline in interest rates; and $350mm gain from FX
- Before you ask, hedge fund investments represent less than 0.5% of our portfolio
    - They have never been a significant part of our strategy

Cash Flow

- Operating cash flow for the quarter was a little over $1B, and $1.3B when adjusted for the 14-day stub period and one-time merger-related costs
- Tangible book value per share was down 25.5%, reflecting the expected dilution of 29% at the acquisition close, offset by our strong earnings and the net realized and unrealized gains I just mentioned
- Net loss reserves increased $21.4B for the quarter, largely due to the Chubb acquisition
- On a pro forma basis, loss reserves increased $125mm, adjusting for foreign exchange
- The paid-to-incurred ratio was 97%
    - Adjusting for cat losses and prior-period development, the ratio was 92%

Cat Losses

- Cat losses for the quarter were $258mm pre-tax, primarily from U.S. weather events
- Prior- period reserve development was positive $247mm pre-tax, and comprised $135mm from long-tail lines, principally from 2010 and prior, and $112mm from short-tail lines
    - The positive short-tail development includes $41mm relating to agriculture for the settlement of the 2015 crop year
- Our Life segment earnings were negatively impacted by $9mm after-tax of unfavorable claim reserve development in our U.S. combined insurance operations and the run-off of our VA reinsurance book
- Our press release includes a table showing our expectations for the amount and timing of the recognition of integration savings and one-time integration expenses over the 2016, 2017 and 2018 years
    - We also include the annualized run rate for savings we will achieve by the end of each year
- For 2016, we expect the expenses to be weighted more heavily to H1 and the savings to be weighted to H2

Tax Rate

- Our tax rate on operating income from the quarter is 16.5%, which is in the range of the expected annual effective tax rate of 16% to 18%
- Quarterly tax rates will vary based on where our income emerges
- For example, Q1 tax rate is at the low end of the range due to the timing of the integration savings, which again are weighted to H2, and front-end purchase accounting amortization
  - As additional color, embedded in our annual effective tax rate estimate is the impact of our higher debt leverage
- As part of the transaction, we have an intercompany loan that benefits our tax expense by $19mm in the quarter
- We are comfortable that the loan will not be affected by the recent treasury guidelines
- The combination of our internal and external financing of the Chubb acquisition favorably impacts the annual effective tax rate by approximately 2 points, which is contemplated in the range that I noted

Financial Disclosures

Lastly, I'll point out that we have added some disclosures this quarter as highlighted in our 8-K filing last week

We now show our North America Personal Lines business as a separate segment, and we're providing premium information for the regions of our Overseas General Insurance segment

We plan to provide a global line of business written premium chart in Q2

- We have also provided pro forma underwriting information for 2016 and 2015 that shows 2016 without purchase accounting adjustments related to the Chubb transaction, and includes the 14 days of January before the acquisition closing for comparative purposes

As a reminder, when estimating our net written premium growth for Q2, last year's quarter included $252mm of one-time benefit from Fireman's Fund that will not repeat

- Therefore, when Evan referenced improved net written premium growth that we expect in Q2, that growth is over a 2015 base that does not include the one-time Fireman's Fund benefit

QUESTION AND ANSWER SECTION

<Q - Kai Pan>: First question is on the expected merger synergy about – raised to $750mm. And also the pace of the realization seems faster than originally anticipated. So, could you give more detail about so why it's bigger now, and what's the difference from what you'd previously anticipated, as well as the pace of it?

<A - Evan G. Greenberg>: Well, first of all, the pace of it, you already have. We gave you a chart that shows you, by year, the annualized and the realized of the expenses, I don't think anybody gives you that. And so you have that clarity already. The $750mm – the increase, it doesn't come from one place. It comes from actually many places. As we've simply done more ground-up detailed work, it comes from operations all over the world, and it's more focused in support operations and back-room than it is in any front-room activities.

<Q - Kai Pan>: Okay. Outside these merger synergy and increased investment income, are there other areas you think there could potential opportunities for the combined entity?

<A - Evan G. Greenberg>: No. We will update you periodically if anything materially emerges beyond that. I think the real ultimate benefits, which take time, and which are really the vision of it, is revenue-related growth synergies, and those are at a very, very early stage, but we're already beginning to see benefits there in terms of the increased product capabilities we bring to customers at distribution.

<Q - Kai Pan>: Then to just follow up on that, potential revenue growth opportunities, could you talk a little bit more about sort of three specific area in terms of high net worth and also middle market commercial lines, as well as international opportunities?

<A - Evan G. Greenberg>: Yeah. In high net worth, what did you want me to tell you?

<Q - Kai Pan>: Just wondering, like, is that how the integration has been, and because we recently heard some of the competitors essentially hiring likely Chubb people, try to start a business there. Do you see potential lose of business, and what's the area of growth from current levels?

<A - Evan G. Greenberg>: First of all, when we did the merger, we imagined – it doesn't take a lot of imagination, in fact, to imagine that as a result of putting three of the four major players in high net worth together, that you would ultimately breed additional competitors in that space. And I've said that from the beginning, and that is a healthy thing. The market needs choice, number one.

Number two, the – it isn't about the roughly $10B high-net-worth market, or $8B or whatever it is, that exists today. It's about the market that we imagine is in the $30B or $40B range of those who require or really need a richer product that is rich in service, rich in coverage, rich in benefits, and more about service and benefits than it is about price. And those individuals who have a lifestyle and assets to protect are insured in more standard lines companies right now. And the long-term play is to attract them and serve them in the high-net-worth market. So that's the real play.

What I'd say about competition is pretty simple. To step up to the standards and the level that Chubb represents, which is the gold standard of the business, requires years of investment and attention. You don't build something like this overnight. The capabilities you have to bring in terms of service capabilities, both risk and engineering services to individual customers, and the claims service capabilities, and the richness of the coverages, and the ability to service them all over the globe. Well, I'll tell you what, that's not an easy lift, and you win these customers one by one, and the average premiums can vary anywhere from $5,000 to a couple of $100,000. It's hard work.

So to anybody entering the space, it is a good business. And if you do it right, it takes a lot of patience, a lot of capital, and good luck. And by the way, we'll put the welcome mat out for you.

<Q - Kai Pan>: Okay. That's good. When do you expect those revenue growth opportunity will emerge materially to the income statement?

<A - Evan G. Greenberg>: I'm not speculating on the period. But what I did say is, you would – I did say initially, and I hold to that, that we expect for all the efforts we're doing right now that are revenue-related, they will really begin to show in a material way by year three. Though we're already seeing it in cross-sell around the organization as we bring more specialty and our large account capabilities to the middle market and agency distribution that we have. And we will, as we have something meaningful to say about that, update you as we go along. And that I don't expect as a year three, I expect that's a year one, two, and three.

<Q - Ryan J. Tunis>: Evan, I guess my question is just on new business in North America. It sounds like that was more of an issue this quarter potentially than retention. Just wanting a little more detail on what was driving the softness there, it sounds like earlier in Q1. And what's allowed things to improve more recently?

<A - Evan G. Greenberg>: Sure. Ryan, you see, or you heard me say it, it was more large account than it was in the middle market area, though middle-market new business was down about 4%. Large account was down around 30%. January was a much tougher month in terms of new business than February, and March was better, and April was better than March as we go forward.

So we know a combination of things as we look at it. Definitely there was – it was a more competitive environment in January. And January is always a competitive month relative to other months. Matter of fact, if – I have to tell you, the softer part of cycle, you're better off to try to write your new business in the off months of a quarter. January is tough, April can be tough, March/April, and June/July is like January, the way people go after it. And they have some growth objectives that they want to achieve. So, there was some impact from that, and we see that.

But in Q4, we had a lot of people – we focused for six months very intensely on planning the merger. And there were sort of 11th-hour jitters of people as we come up to close and everybody is focused on to a degree of the integration and the structure and who am I working for and what is my job. And then the integration itself, all the planning of that, just takes time, and it's some time away from working on new business.

And January, and to a degree February, is impacted by your activities in Q4, which is November/December. And then we close the middle of January, so everybody then has to execute. And there is just a mountain of execution when you take it by function, by area of business, by geography, all over the world.

And I'm very proud about how we've executed, because people have done it – it's been in a – there haven't been a lot of surprises, everybody's known what to do, and it's gone very smoothly. And then people have been – spent a lot of time getting to know each other, and getting to know what the capabilities were and learning the products of each other before you can take it out to market. And we could really begin to feel that start to take hold in February, move into March, and as it moves into April it just keeps on building. So, maybe that gives you a little sense.

<Q - Ryan J. Tunis>: Yeah. That's very helpful. Thanks. And then my follow up is just on small commercial. I'm just hoping you could a little bit more about the opportunity there, now that you've brought out more detail on it, I think, from a product standpoint earlier in the quarter. And just how important is the small commercial initiative overall to your revenue synergy outlook over the next few years? Thanks.

<A - Evan G. Greenberg>: As is characteristic of, I suppose, of our organization and of me, I'm not going to do a lot of talking about something that we're building and planning. I'm hardly going to stick a roadmap out there. And we let results and activities speak. But we have all the parts and ingredients, we have the sticks to rub together and make fire. And we have the distribution, we have the data and the know-how, and we have the insight, we have the focus, we have the resource that we're putting attention to, we have the roadmap for technology and we're coming.

And we are building right now, and focused on building – we already had, between the organizations, a nascent, what I call a nascent small commercial business, modest, very modest in size, and specialty-oriented. And that continues. Those efforts continue, and they have a reasonably aggressive plan in action – a set of actions to achieve results in 2016. But that's not the main event for us. This is an $80B marketplace, and we intend over the next number of years to grow – to be a meaningful player.

I might say, a little like I said about high net worth, you really have to – it takes time to build capabilities, to build all the services and product know-how, to have the right insights into pricing, and to execute, because it's work-intensive. The average premium sizes are small, it's high transaction volume, and you've got to win over and wire up the distribution, and we are focused on all of that. And so, over the next few years, I expect that to grow and be a meaningful contributor to our business, and as it's appropriate, we will update you more specifically.

<Q - Ryan J. Tunis>: Thanks for the answers...

<A - Evan G. Greenberg>: Don't look for much out of me in 2016.

<Q - Ryan J. Tunis>: Thanks. And appreciate the good new disclosure and information on the merger you guys gave.

<Q - Charles Joseph Sebaski>: First question, Evan, I guess is on the Personal Lines, on international. The growth was strong there. And curious what parts or regions you're seeing and how the brand change, I guess, is working on international. Obviously, the Chubb brand I think has better name recognition in the U.S. than it might internationally. And curious about how the international Personal Lines is going.

<A - Evan G. Greenberg>: Yeah. So, the brand change had no impact on our revenue growth in the quarter. The growth is pretty broad-based. It came from both specialty and traditional. It came from a wide range of geographies, from Mexico to Malaysia to Europe, where we do a lot of specialty, so broad-based. In Mexico it's automobile and small commercial-related, but automobile in particular. In Malaysia it's auto and, again, specialty and small commercial-related. We write cell phone insurance out in Asia, and that had nice growth. In Europe we write cell phone-related insurance, and that had really nice growth.

So, it isn't from one place nor one geography, and it isn't traditional vs. specialty, it's broad-based. But it's very – when I say broad-based, we're very targeted and focused about where we choose to do Personal Lines and how we choose to do it. It's easy to put on a lot of revenue in that business. It's not easy to do it and make a decent margin.

<Q - Charles Joseph Sebaski>: What's the opportunity on the high-net-worth business on the international front, as opposed to how – the size of the business in the U.S.? Is that a meaningful focus for you guys now, or...

<A - Evan G. Greenberg>: It's a focus. Meaningful? It's nothing like the United States. And it's not going to – I don't think of it in terms of – if I think of the U.S. as high net worth is a meaningful business, I don't think of international high net worth that way. I think of it as a good business. It's a very good business and a good opportunity. But it's really focused in a limited number of territories. UK, Australia, maybe a little bit on the continent, that's the majority of it. The balance is small pockets of high net worth, and that's mostly serviced by us out of our London operation.

<Q - Charles Joseph Sebaski>: Okay. Thanks. And just one final one, and maybe it's for Phil. On the tangible book value calculation that you guys do, the tangible – the goodwill is done net of tax…

<A - Evan G. Greenberg>: Yes it is.

<Q - Charles Joseph Sebaski>: …which I think is different than how you did it before. Just trying to understand how that – to expect to flow through going forward?

<A - Philip V. Bancroft>: Yeah. It would definitely be done net of tax. Goodwill and other intangibles would be reflected net of tax in our calculation of what tangible book value represents.

<Q - Charles Joseph Sebaski>: And will that tax basis off the goodwill, will it be fluctuating over time or going down, or is that kind of – it seemed like the goodwill, in historic, kind of stayed flat. So I'm just wondering if that's something that's going to change.

<A - Philip V. Bancroft>: It should not. It would decrease in relation to the amortization of the intangibles.

<Q - Jay Gelb>: Thank you. I was hoping you could expand a bit more on the opportunity to gain market share resulting from several of the other large global commercial insurers facing some dislocation, in terms of the brokers looking to have stable capacity for their customers?

<A - Evan G. Greenberg>: Yeah. I've talked about this a little bit in the past. And so I'm going to – I'll talk a little more about it. The first thing I'll tell you is, is it's a double-edged sword and you got to be careful. On one hand, as I said the last time, when there's a wounded animal loose, be careful. Stay out of the way and don't try to corner it.

On the other hand, look, we represent – and that's what I tried to say in my commentary – we represent a very attractive market, an alternative for large accounts seeking a deep balance sheet, great underwriting expertise, as you know, great reputation for service, global capability, broad product offering and services. There are – and by the way, which has become more and more the play in large account business, your technology, your ability to deliver in a way that the service standards are met, the service expectations are met – and those standards of service have only risen, the expectations have only risen over the last decade, in the last five years and three years.

People expect great data, great information in a very rapid way, self-served way where they can serve themselves. We have that technology. Very few have that. Our ability to move money, our ability to service self-insureds, our ability to risk engineer, our ability to provide primary casualty coverages, including professional lines, all over the world, and service claims, very few can do that. And we have been stable in terms of our capacity offering and our approach to underwriting and/or pricing. Sometimes the market moves closer to us, when the market is more disciplined in terms of underwriting. Sometimes the market moves further away from us because others are willing to sell something at a price we consider too cheap or at terms we consider too broad.

So, on one hand, we're in a market where it's competitive and some things are being sold at prices that are below costs we think are reasonable. On the other hand, there is this pull and desire for stability and certainty and familiarity, and that is drawing more towards us. So I can tell you, we just came back from RIMS. All of us there, I have not seen a reception towards our company in – towards this company, I don't think I've ever seen the reception like I saw at RIMS. We were really popular kids on campus.

<Q - Jay Gelb>: All right. Thanks for that. And then for Phil, should we still think about, in terms of share buybacks, no activity for 2016, but perhaps more likely in 2017?

<A - Philip V. Bancroft>: We have no plans at this point for buybacks, and we'll keep you posted as we go, as we see how our capital develops.

<Q - Michael Nannizzi>: Just a couple of questions, if I could, quickly on Personal Lines within the overseas segment. You mentioned the growth there. What does the profitability look like in that book? Is it closer to the segment overall, or is it closer to what you generate in the North America personalized business?

<A - Evan G. Greenberg>: I am hardly going there.

<Q - Michael Nannizzi>: All right. Okay, well then back to the U.S. Do you think that in that book, that you have an opportunity to grow at these levels of profitability? I mean, is there still enough room in that high-net-worth segment, either because of your consolidation really or because of the expansion of that market, for you to grow consistently?

<A - Evan G. Greenberg>: Yeah. And, Michael, on international, the profitability meets our hurdle rates, and it meets our underwriting standards or we wouldn't be doing it. But I'm hardly going to put a roadmap out to others. On the domestic and margin, there's been questions to us of, well, now that you're so dominant in that business, we assume you're now going to now, in a sense, be predatory, take advantage, raise prices, et cetera. Increase margins.

I think there's a naïveté about all of that, and I think that's wrong. Our approach is to earn an adequate risk-adjusted return in the business. The business does that reasonably well today. There is a lot of risk in the business. The business is regulated. You have to file your rates, and they have to be just – they have to be actuarially justified, and we do that. And that adds a complexity, but adds a stability as well.

Secondly, we want to win customers by offering a great service at a fair price, and hardly do we want to try to push it where we make our money simply on – try to make more money on the cohort we have, rather than grow the cohort, if we're making an adequate risk-adjusted.

So, with all of that, what I'd say to you is, we see stability as we look forward in the margins in the business, and we don't consider that we're making excessive returns. On a risk-adjusted basis, we are not. We're making reasonable returns.

<Q - Michael Nannizzi>: Got it. And then, is there a material difference between legacy Chubb's acquisition cost in sort of the personalized business vs. legacy ACE's? And is that something – if there is, is that an opportunity for the combined company?

<A - Evan G. Greenberg>: There is not. Agents are – they are very efficient when it comes to acquisition cost, and they are a great market leveler, and they are highly intelligent.

<Q - Vinay Misquith>: The first question is on the premium growth. There was a modest 1% premium decline this quarter, I guess because of competition and some integration. And curious, Evan, if you could parse out what was the bigger impact, and when do you think the drag from the integration will recede?

<A - Evan G. Greenberg>: Vinay, I think I just have gone on about that for the last 20 minutes. And I think my commentary said it. So, I can't – if you're looking for a point estimate, a numeric estimate of what was specifically integration-related vs. market-related, I can't give you that. Nobody knows that.

<Q - Vinay Misquith>: Okay, sure.

<A - Evan G. Greenberg>: But I can tell you that the market – market discipline, for those who are disciplined in underwriting, absolutely is having an impact on growth rate, and you could see that as you look at players who have reported. And that definitely has an impact on us. And you know there were times, and I've said this, I've been very clear, that there are times that revenue is for vanity, and revenue growth is for vanity, and it's best you take your eye off of that.

And there are pockets of the business, many pockets of the business where I and my colleagues think that it's not an overly attractive market, and you better discriminate very carefully on what you choose to write and how you choose to write it, if you want to maintain underwriting margins. And that's our first objective. So I will shed revenue without a tear in any class, in any line of business, where we can't make an underwriting profit, period. And you know that about us.

The retention rates were very high. And that to me shows me the market reaction towards us and the demand for business from Chubb, from doing business with Chubb, by both distribution and customers, and the good work of our people. When I look at the pattern of new business and how it came in, and where it came in, and the timing of it, it's very clear to me that the integration – and in discussions with our people – that the integration had an impact. And when I look at how we're moving month-to-month, I can see that beginning to recede. And people really getting on without getting out there and driving for it.

So I see a combination of both impacting it. I can't do anything about the market, and that will be what it will be. But I can tell you, getting the organization focused, that is something we can do something about. And we're all focused on that. Everyone is out there. We've been to many regions, to many offices, working with our people and helping them to get on the front foot, and I feel really good about the energy level and the focus of the organization that is taking hold. And to the extent that that impacts revenue growth, you can look forward to improved results as we go forward.

<Q - Vinay Misquith>: No, that's helpful. The second question is for Phil. And first of all, thank you so much for the expanded disclosure. That's really helpful and is helping all of the sell-side with these – our numbers. From the expense synergies, how much of that was actually realized in Q1?

<A - Philip V. Bancroft>: So, the actual accounting saved in Q1 was $29mm.

<Q - Brian Robert Meredith>: Yes, thanks. Just two quick numbers questions, and one other one just quickly. So, Phil, on the $100mm to $120mm of additional investment income, what's the after-tax number?

<A - Philip V. Bancroft>: Let see. Let's call it $75mm on the low end of the range. So $100mm translates into $75mm.

<Q - Brian Robert Meredith>: Okay. Terrific. And then second question, exposure to couple of earthquakes we've seen recently, and some of the activity in Texas?

<A - Evan G. Greenberg>: Yeah. We will have losses from the activity in Texas, from the earthquake in Latin America, from the earthquake in Japan. From the two earthquakes, from what we know at the moment, our losses will relatively modest. Nothing outsized. And from the losses in Texas, normal spring losses, you expect these kinds of losses in the springtime. It's the volatility of weather. More tornado-related activities, severe storm related, flooding, hail, all occurs, as we know, in Q2. And so this kind of activity, so far to date, what we're seeing is not producing losses beyond what we would imagine or expect.

<Q - Brian Robert Meredith>: Great. And then last question, Evan, you struck this relationship with Suning and, hopefully, I'm pronouncing that correctly, in the quarter. Could you give us – elaborate a little bit on what the potential is there for that relationship, how quickly you expect it to ramp up?

<A - Evan G. Greenberg>: Yeah. I expect it to ramp up and begin showing – potentially, you don't know with certainty, but potentially – real premium revenue in 2017. It is direct response marketing in all its forms, digital, phone-based, predominantly of simple accident-, travel- and credit-related products, maybe some small commercial; householder's-type products to serve the customer base of Suning, that is approximately 130mm people that are active users of Suning. Suning has about 1,500 – thereabouts, I'm sure I have the number wrong, but thousands of stores throughout the country, and then they have a very large, very active online business. They serve financial needs of over 30mm customers, and we will be active – and do it in a digital way, and we will be actively marketing to those.

The cooperation – it's one thing to sign one of these. It's another thing that actually operationalize. And we're just beginning the operational phase. And this is something that the real meaningful benefit will come over a few years. But Suning, in very early days, is showing to be a very active and cooperative partner and is giving us a lot of access to data, a lot of encouragement in terms of use of their distribution, and is very welcoming with building the business, and I'm grateful for that effort. So, this could be – we're cautiously optimistic this could be a great venture.

<Q - Brian Robert Meredith>: And it's on your paper or Ho Tai's paper?

<A - Evan G. Greenberg>: No, this is on our paper. It's on Chubb.

<Q - Brian Robert Meredith>: Great. Great. Thank you.

<A - Evan G. Greenberg>: We've got 100% of this.

<Q - Josh Stirling>: So, listen, I just wanted to touch a bit more on growth from more of a long-term perspective. Obviously, we all think of you as a growth company, but with the moving pieces of the market and integration, it was obviously a flat quarter. When you, Evan, look across the portfolio and look a couple of years out, what kind of long-term organic growth rates do you guys think are potential? And I think this is an important question for us, because it's hard to figure out from the outside, given all the different growth businesses you have at legacy ACE – and in combination with, obviously, the legacy Chubb opportunity. And I would really love to get a sense of what you're shooting for, and what you think may be able to get through the cycle, kind of long-term underlying organic growth potential might be?

<A - Evan G. Greenberg>: Yeah. So, I'm going to answer – give you two answers. First, you didn't define growth the way I define growth. And the way, therefore, we define growth – a growth company for us. A growth company in this business is growth in book value and tangible book value. That's how you define growth in a risk business. Not revenue growth, which is an overly simplistic way. Ultimately, you have to gain revenue growth as well. So I reject that notion of what's a growth company.

Number two, we will – we don't give guidance. And so I'm not going to start giving guidance about revenue growth. But I will say this to you. I firmly believe that whatever the growth rate was projected – and at ACE, we do long-term – at ACE, we did long-term five-year plans. We would roll forward every year. And we had a projection of what we thought our growth rates would be over a coming five-year period. I have a sense of what Chubb, legacy Chubb, would have thought of its growth potential over a two-year to three-year period and what they would have seen.

I do firmly believe that when you sum those two together, the two together will have greater growth than the two would – the sum of the two separately would. There is little doubt of that in my mind. How significant? We have ranges internally from what we think might be conservative to what we think might be more aggressive, but when I pitch it up the middle, I think it will be meaningful. And I did say that I thought that by the fifth year, it would come into the billions of dollars range, and multiples of billions, and I believe that, from what it otherwise would be. While that's not a – what you wanted as an answer from me specifically, I hope that gives you some insight.

<Q - Josh Stirling>: Sure. Sure. We'll take it and work with what we can. If I just were to ask you more tactically, managing risk through the soft market is a major focus for a lot of investors. Could you walk us through a little bit of your sort of tactical playbook as you think about maintaining margins through the next three years or four years?

<A - Evan G. Greenberg>: Well, maintaining margins is about underwriting, and it's about underwriting selection, and it's about your portfolio. What I love is the balance of business in this company. By geography, when I look at opportunities through Asia, when I look at opportunities in Latin America, when I look at opportunities through the United States, and I just look geographically, I see – and in Europe – I see so much room to move, where there are some territories and some lines of business that, you know, to maintain margin you need to shrink. I see other areas where we have the capabilities, we have the presence, and it's about execution to grow in those areas. And when you have the data we have and the knowledge we have, putting that to work, it is a job of execution at that point. When I look at our spread of business by type of business, by customer, from large segment where it's obviously – except for the dislocation of others that put some wind at your back, it's obviously the more difficult area to grow. And in fact, you're going to go sideways or shrink in many areas of that business if you're going to maintain underwriting discipline. But I then look on the other side of the coin at the middle market, and the capabilities we have in that area, and our reputation and our relationships and our ability to drive more product and grow that more quickly, that just gives me a lot of optimism.

I look at our A&H business around the world. I look at our personal lines business, both in the United States and outside the U.S., and potential in that area, I add it all up. And there are areas where you apply the gas and then areas where you apply the brake. And we know how to do that quite well. And as I said, I will never get baited into revenue growth to maintain margins. And when my guys are feeling a little bad because they have to shed business to maintain margin, I got to tell you what, I suck it up and I cheerlead it, because it's the right thing to do.

<Q - Sarah E. DeWitt>: Congratulations on a strong first quarter at the new Chubb. I just wanted to drill down on the expense savings. How much do you expect to drop to the bottom line? My sense is legacy Chubb was somewhat underinvested in, so are the expense savings net of any reinvestment, or how much could that be?

<A - Evan G. Greenberg>: No. We haven't figured in – that's not net of reinvestment. And Sarah, you have a natural growth – I'm not going to give you any point estimate number. You have a – but I'll give you a way I think about it, and – two ways. One, you have a natural growth rate of expenses based on your invested base of businesses, and you can see that, you see how ACE has been disciplined in expense and Chubb was disciplined in expense. So the overall organization is disciplined that way.

You then have some investments you make in new businesses. So, small commercial, as an example, or maybe you're expanding your cyber business or other businesses, and those will take investments. And then on the other side of the coin, we're – if we talk about legacy Chubb as being starved in some ways – and I think that's right – on one hand, it's technology. And so you invest in technology, but there you have a cash spend, but you then capitalize and amortize over many years. So that impact will not be, as you would imagine, sort of $1 of expense and $1 drops to the bottom. But you got a cash flow, and then you have an amortization of it. So those are what draws away from expense saved. And from the direct – coming directly all to the bottom.

<Q - Sarah E. DeWitt>: Okay, great. Thank you.

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

<Q - Sarah E. DeWitt>: And then on the reserve...

<A - Evan G. Greenberg>: I didn't help you worksheet manage it that much better, I got it. But we each live in our own hell.

<Q - Sarah E. DeWitt>: No, no. That's helpful insight, though. And then on the reserve releases, that was higher than I would have expected. Could you just talk about the difference...

<A - Evan G. Greenberg>: What did you expect?

<Q - Sarah E. DeWitt>: A little bit lower than the pro forma year-ago.

<A - Evan G. Greenberg>: How did you do your number?

<Q - Sarah E. DeWitt>: It was not that scientific, I will tell you.

<A - Evan G. Greenberg>: I thought so. I'm sorry, I just had to do that. It was like, well, what do you think, how'd you do it?

<Q - Sarah E. DeWitt>: More directional. But could you just elaborate, are there differences between the reserve processes at legacy Chubb and legacy ACE? For example, does one company let the reserves season for longer, or does one company take them down quicker, historically?

<A - Evan G. Greenberg>: Yeah, there was – the one thing I'm going to say, and then I'm going to ask a colleague of mine to give you a little more insight into it, there was not a change in reserving process, the way of thinking about reserve at either legacy Chubb or legacy ACE, that produced this. There was consistency. And I'm going to ask Sean Ringsted to now just give you a little more.

<A - Sean Ringsted>: Morning, Sarah. I think, just by way of background, as we went into the integration we found a lot of similarities between the companies, as opposed to differences, and the differences are very much at the margin. Both companies have robust processes, we've got really good teams of actuaries and good control environments, and the methods and the assumptions in the reserving methodology are pretty consistent across like products. And I think too, and you've heard Evan emphasize this on prior calls, we – both legacy companies have a conservative approach, especially to long-tail casualty lines. There are some differences, I'd put those at the margin. Clearly, our process in terms of timing and frequency of studies would be different, our reserving platforms are different, but we're working to converge those processes and expect to have that done in 2017. So I think you'll find far more similarities in the respective processes, and we're going to enjoy continuing those in the future.

<Q - Jay Arman Cohen>: Great. Just two questions, I think they're relatively quick. First for Phil, the interest expense on an ongoing basis, where will that land?

<A - Philip V. Bancroft>: It's in our interest expense in the corporate segment.

<Q - Jay Arman Cohen>: No, I mean what's the number? Is Q1 a good number to use going forward?

<A - Philip V. Bancroft>: It is. It's a complete number. All right, you know what…

<Q - Jay Arman Cohen>: Okay.

<A - Philip V. Bancroft>: …I would do – there's 14 days of the interest expense that we didn't put into operating income, so I would just gross that up, the one-sixth of the quarter that wasn't there.

<Q - Jay Arman Cohen>: That's what I figured, I wanted to check that. Thank you. And then secondly, on the investment income, the pick-up you talked about, what changes to the portfolio are you making to achieve that higher run-rate of investment income?

<A - Philip V. Bancroft>: Well, we've had extensive discussions with our outside managers who have a real deep expertise in asset allocation and municipal and corporate credit research, and our analysis shows that we can restructure the portfolio within securities and sectors that enhance the yield and diversify the holdings. And I just want to re-emphasize that those actions are not going to alter the risk profile of the portfolio, we'll keep the overall credit rating at AA.

<Q - Jay Arman Cohen>: Phil, is part of the benefit that Chubb had a big muni portfolio? The tax structure of the overall company, was it a bit different? Can that be restructured a bit, or is that really not…

<A - Philip V. Bancroft>: I think…

<Q - Jay Arman Cohen>: …part of the game plan?

<A - Philip V. Bancroft>: …over time, I think we can more actively manage the municipal portfolio, but that'll take time, as a lot of that is long-dated. So that's certainly part of it, to change from a really high-rated long-term hold strategy to more active management in the muni portfolio. But not…

<A>: Your question was, as a percentage of the total portfolio.

<A - Philip V. Bancroft>: We don't expect that to change.

<A>: Right.