Q3 2019 Earnings Call

Company Participants

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

Other Participants

- Brian Meredith, Analyst
- David M., Analyst
- Elyse Greenspan, Analyst
- Greg Peters, Analysts
- Jay Gelb, Analyst
- Meyer Shields, Analyst
- Michael Phillips, Analyst
- Mike Zaremski, Analyst
- Paul Newsome, Analyst
- Ryan Tunis, Analyst
- Yaron Kinar, Analyst

Presentation

Operator

Good day, everyone and welcome to the Chubb Limited Third Quarter 2019 Earnings Conference Call. Today's call is being recorded. Later we will conduct a question-and-answer session. (Operator Instructions)

And now for opening remarks and introductions, I would like to turn the call over to Karen Beyer, Senior Vice President, Investor Relations. Please go ahead ma'am.

Karen Beyer {BIO 6404488 <GO>}

Thank you, and good morning everyone. Welcome to Chubbs September 30th, 2019 third quarter earnings conference call. Our report today will contain forward-looking statements, including statements relating to company performance and growth opportunities, pricing and business mix, and economic and market conditions, which are subject to risks and uncertainties, and actual results may differ materially.

Please see our recent SEC filings, earnings release, and financial supplement, which are available on our website at investors.chubb.com, for more information on factors that could affect these matters. We will also refer today to non-GAAP financial measures, reconciliations of which to the most direct comparable GAAP measures and related details are provided in our earnings press release and financial supplement.

Now it's my pleasure to introduce our speakers this morning. First we have, Evan Greenberg, Chairman and Chief Executive Officer, followed by Phil Bancroft, our Chief Financial Officer, we'll then take your questions. Also with us to assist you with your questions are several members of our management team.

And now I will turn the call over to Evan.

Evan G. Greenberg {BIO 1444445 <GO>}

Good morning. We had a strong third quarter with core operating earnings up double-digit, an excellent premium revenue globally. Growth benefited from a continuously improving pricing and underwriting environment, where insurance rates and terms continue to firm quarter-over-quarter in major areas of our business.

Our growth is also benefiting from our many products, customer, and distribution related growth initiatives around the globe, particularly in the US, Asia and Latin America. Core operating income was $270 per share, up 12%.

The balance of our earnings between underwriting and investment income was very good, with underwriting income of $754 million, up 12.5% and adjusted net investment income of 910 million, up 3%. Global P&C underwriting income, which excludes agriculture was up 27.7%.

The combined ratio was 90.2 and benefited from lower year-on-year CAT offset partially by higher crop losses, another CAT like risk. On a current accident year basis excluding CAT, the combined ratio was 89.5 and excluding Ag, it was 83.3, up modestly like four tenths of a percent from prior year.

Book and tangible book value per share were up 2% and 3.3% respectively in the quarter and are up 9.8% and 15.7% since December 31, driven by a combination of strong income and the mark from falling interest rates. While benefiting temporarily our company's book value growth, prolonged low interest rates are result of over-reliance on monetary policy that penalized savers and led to misallocation of capitals and over valuation of assets, without substantially supporting business investments and economic growth.

Annualized core operating return on equity for the quarter was 9.5%. Phil will have more to say about investment income, book value, CATS, and prior period development. Turning to growth, and the rate environment, P&C premium revenue in the quarter in constant dollars was quite strong.

Net premiums grew 7.2% and then foreign exchange had a one point negative impact. As I noted at the beginning, the pricing environment continued to improve quarter-on-quarter with the rate of increase accelerating and spreading to more classes of business and risk type.

For our perspective, rate increases in both our North America commercial lines and on our London wholesale businesses this quarter were double those of the first quarter, 6.4% versus 3.2% and 17% versus 8% respectively. In the US, rates continue to firm in major accounts, E&S wholesale specialty, and the middle market.

In our international operations, we continue to observe firming conditions in the London wholesale market and in Australia, while rates began to increase in the UK retail market and parts of the continent, particularly for large risks. The market is responding to the fact that rates have not kept pace with loss cause over a number of years, which has put pressure on margins and ultimately on reserves. Rates have gone down, while loss cause have risen, pretty simple math.

However, as we have been saying for some time, the frequency of severity on certain long tail and short-tail classes has been worsening, while at the same time in other classes, it has remained subdued or declined. For the sake of simplicity, let's divide long-tail loss into three buckets. General -- bucket one, generally speaking in the attritional loss layers severity has been increasing, at a relatively modest pace and frequency has been steady, though there were exceptions.

In the second bucket, in excess layers the frequency of large claims settlements has been increasing and putting pressure on rate adequacy, a consequence of so-called social inflation, but also casualty attachment points not moving for years. A $1 million attachment point for casualty access 10 years ago is worth a fraction of the amounted.

And finally the third bucket. There has been an increase in class actions, large to mega, everything from securities and anti-trust related to science based, for example, chemical, pharma, and physical trauma related. And there were casualty CAT type events, such as molestation related revivor statute legislative actions. I have spoken about all of this for some time now. In my judgement, given the simple math, the risk environment, and a reset of risk appetite on the part to many, the current market conditions are sustainable.

Returning to the quarter, overall prices increased in North America commercial on a written basis by 6.8% versus a loss cost trend of about 4.5%. Renewal price change includes both rate of 6.4% and exposure change of 0.4%. As I noted last quarter, we are also benefiting from a flight to quality, particularly in large accounting specialty as more business meets our underwriting standards. Given the choice, many potential customers prefer Chubb.

New business in North America commercial lines was up 18.5% in the quarter with major accounts in specialty up over 23%. And middle market and small commercial up over 9.5%. Retention of our customers remained very strong across all of our North America commercial and personal P&C businesses, with renewal retention as measured by premium of 96.6%.

In major accounts and specialty commercial, excluding agriculture, premiums were up 9.5% with major accounts retail up about 5.5%, and E&S wholesale up over 18%. Rates for major accounts were up over 8% with risk management up 4.5%, excess casualty up 17.5%, and property up over 29%. Public D&O rates increased over 17.5%. In our E&S wholesale business, rates were up about 7.5%, with property up 17%, and financial lines up 8.5%.

Turning to our middle market and small commercial business, premiums overall were up 5.6%, and renewal retention in our middle market business was 92%. Middle market pricing was up over 6%, and excluding workers comp up about 6.5%. pricing for primary casualty was up 7.7%, property up 7.3%, excess umbrella up 7%, and public D&O rates up 32%. In our North America personal lines business, net premiums written in the quarter were up 2.7%. But adjusting for the expanded reinsurance that we have discussed in the past, net premiums written were up almost 4%. Our best quarter of the year.

Retention remained strong at 97% on a premium basis and steady at over 90% on a policy basis. Homeowners pricing was up 10.7% in the quarter. Turning to our international business, growth accelerated in our overseas general insurance operations with net premiums written up about 11% in constant dollar and FX then had a negative impact of about 3.5% points.

Net premiums for our London market wholesale business were up 29%, while our retail division was up over 9.5% with growth broadly distributed across the globe. Growth in our international retail business was led by Latin America and Asia Pacific up circa 10% and 9% respectively, with UK retail in the continent up over 8% and 6%, a very good result.

Overall rates in our London wholesale business were up 17%. Our Asia focused international Life Insurance business had a strong quarter with net written premiums up over 20% in constant dollar and a contribution to earnings of $40 million, up over 43% from prior year. John Keogh, John Lupica, Paul Krump can provide further color on the quarter, including current market conditions and pricing trends.

In closing, this is a very good quarter for Chubb. Premium revenue growth continued to accelerate as more business met our underwriting standards and we continue to achieve greater price adequacy in an improving underwriting environment. At the same time, we are executing on our many long-term growth initiatives around the globe. Our organization is firing on all cylinders.

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

Philip V. Bancroft {BIO 4621336 <GO>}

Thank you, Evan. We ended the quarter with a very strong overall financial position. Our businesses and investment performance produced positive cash flow in the quarter of

$2.2 billion. We grew our assets to $175 billion, including cash and invested assets of $109 billion, which generated strong investment income and we grew total capital to over $68 billion.

Among the capital related actions in the quarter, we returned $819 million to shareholders, including $341 million in dividends and $478 million in share repurchases. Year-to-date through yesterday, we have repurchased over $1.3 billion in shares at an average price of $145.70 per share. Our annualized core operating return on tangible equity was 15.6%. Adjusted net investment income for the quarter of $910 million pretax was higher than our estimated range and benefited from higher private equity distributions and increased corporate bond call activities.

Net realized and unrealized gains for the quarter were $263 million after tax. There was a gain of $503 million in the investment portfolio from a decline in interest rates, partially offset by a loss of $112 million from our variable annuity portfolio and a loss of $116 million from FX.

Although market yields have declined significantly in recent months, we will remain conservative in our investment strategy and do not contemplate any significant shift in asset allocation. Despite the negative impact of lower interest rates, we expect our growth in invested assets and strong cash flow will support current investment income levels.

We now expect our quarterly adjusted net of this investment income run rate to be approximately $900 million. Pre-tax catastrophe losses in the quarter were $232 million with about 90% from US weather related events, including Hurricane Dorian and the balance from international events primarily in Japan.

In addition, agriculture underwriting income was adversely impacted by weather conditions resulting in underwriting income of $1 million compared to $79 million in the prior year. We had favorable prior period development in the quarter of $167 million pretax or $112 million after tax. This included $27 million pretax adverse development related to legacy environmental exposures.

The remaining favorable development of $194 million comprises $279 million favorable development from long tail lines, principally from accident years 2015 and prior and adverse development of $85 billion in short tail lines, principally from non-cut large losses in commercial property loans.

On a constant dollar basis, net loss reserves decreased $137 million reflecting the impact of favorable prior period development and catastrophe losses. On a reported basis, the paid to incurred ratio was 103% for the quarter. after adjusting for the items I discussed the paid to incurred ratio was 96%. Our core operating effective tax rate for the quarter was 15.1%, which is in line with our annual expected range of 14% to 16%. Through nine months, our core operating effective tax rate was 15%.

As a clarification to a point in the press release relating to North America commercial, we had a two point increase in our loss ratio. One point is property-related, year-to-date losses were higher than our selected loss ratio. The other point is long-tail related, simply higher loss fix this year than last, and in line with previous quarters. No change.

I'll turn the call back over to Karen.

Karen Beyer {BIO 6404488 <GO>}

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

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question from Paul Newsome with Sandler O'Neill. Please go ahead.

Q - Paul Newsome {BIO 1541286 <GO>}

Good morning. Congratulations on the quarter, everyone. I was hoping you could touch a little bit more on your comments on the tort environment which I found very interesting. And specifically I am curious if the buckets and descriptions you're using are just attributed to the US or given your national focus also something we can think about having similar issues in their -- or developments in the international markets?

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

Yeah, that's a good question. And good morning, Paul. The -- when it comes to securities-related and we don't see it in general casualty. General casualty is behaving in a steady way. We don't see the same factors that we see in the US.

However in securities-related, so in D&O, the UK, Germany which is always been the troubled environment, and Australia, there you see the same trends -- I don't know, a place like Australia, it's even more acute. But that's been for some time, and I've been talking about it for a while because it's the same -- we've observed the trends for the last couple of years.

The UK is worsened over the last two years, maybe three. Australia has been -- so it for -- it began deteriorating about four years ago, and accelerated and it's just a stupid environment now. And Germany given their insured versus insured, and the fact that they have -- you have two boards in a company has been -- it's been a difficult environment for a long time. But that's about -- Yeah, the other markets around the world kind of minor.

Q - Paul Newsome {BIO 1541286 <GO>}

Great. And then separately, just a more topical comment on the California wildfires exposures. Is there anything about Chubb's exposures out there that would be different from the last couple of years, just from a peer -- from an exposure or from a reinsurance perspective?

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

Well, Huh, let's see. The last couple of years. We do have a quota share that we did not have before, that would be the one major difference. Over the last year in particular -- though it began two years ago, but really it's been the last year we've been reshaping the portfolio, given the underwriting environment, and the level of rate we can charge. We've been -- we've aggressively pursued more rate increase, so that earns into the portfolio and has a benefit. And we've reshaped the portfolio around the margin and that continues, particularly on extreme wildfire zones.

Q - Paul Newsome {BIO 1541286 <GO>}

Great, thank you. Congrats on the quarter.

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

Thanks a lot.

Operator

Our next question will come from Elyse Greenspan with Wells Fargo. Please go ahead.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, good morning. My first question on -- Evan , going back also to some of your comments on inflation. You know, in North America Commercial you guys -- you just pointed to consolidate trend about 4.5% which is in line with what you guys have been saying in the past couple of quarters.

So, just given the whole environment and what you see out there in terms of, class action, lawsuits, etc, picking up I mean, do you view that as kind of the right base, as we think about where we trying to be over the next 12 months?

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

Elyse, our trend reflects everything we know. And we have -- and it's the overall portfolio. So that's everything long and short-tail. We have classes in long and short-tail, where the loss cost trend is benign. And we have in both long and short tail classes where it is less benign and I specifically spiked out to talk about the casualty, and I'm using casualty in the broad sense including professional lines, the areas where we for some time have been talking about that loss cost trends or the strike loss cost trends. The loss environment has been worsening or becoming more hostile. That's all baked into that 4.5%.

Our selected trend factors by line reflect everything we know that we can mathematically calculate is -- and substantiate is in our loss picks. Now, we can't speak about the future, because we don't know the future. We only know what we can observe today and the trends as we see them today, and we've reflected all of that.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then my second question in terms of North America commercial, the prior year development slowed. I believe it's all due to -- but Phil pointed out in terms of the non-CAT losses in commercial property. I just wanted to clarify, so did all -- away from these non-CAT property, did all the lines within commercial developed favorably in the quarter? If we can just get a little bit more color on that reserve releases within that business.

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

In the current accident year -- you're speaking to current accident year?

Q - Elyse Greenspan {BIO 17263315 <GO>}

No, I was talking about the prior-year development. So the 109 this year versus 216 last year within North America commercial.

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

We had releases and we had -- we took reserve charges, as we told you. And when you say lines, it's the lines that we study in the quarter. We don't study -- or we don't do a deep dive study on all lines every quarter. And as we've described numerous times, we have a schedule for that.

And so all of the lines studied in the quarter, those would be the long tail ones that had releases.

Q - Elyse Greenspan {BIO 17263315 <GO>}

(Multiple Speakers) Okay.

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

And by the way, it's many sub-lines. And so, some have some increases, some have decreases, but the aggregate that we gave you was a decrease in reserve.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thanks for the color.

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

Sure.

Operator

We'll take our next question from Greg Peters with Raymond James. Please go ahead.

Q - Greg Peters {BIO 3111497 <GO>}

Good morning. I have one question and a follow-up. Evan in your prepared remarks and I'm not trying to put words in your mouth, but I believe you suggested that assets might be overvalued due to the low interest rate environment. And I'm curious how you want your investors to view those comments in the context of your investment portfolio?

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

Yeah, what I was really relating to more than anything in my mind is, I look at the prices people are paying to buy assets, all kinds of assets. And in my mind, in particular, I think about is the -- we purchased insurance companies and we look at those assets and I find the market knows to be tremendously overvalued.

And when I look at the prices being paid and so much private equity, in high-tech, in IT-related, and technology related, the asset values are tremendously inflated and really making a comment that investors are chasing absolute yield and not risk-adjusted yield. When I come to our own investment portfolio, we're very careful about how we invest for risk-adjusted returns. not absolute yield.

And so that's why Phil made the comment that there won't be and you won't see a change in our investment philosophy and strategy because we're disciplined and we're not just going to chase the highest yield, for example in high-yield bonds where we are active, we know what the -- we know what we think the right risk adjusted price is, I'm looking at historic default trends, etc, we're not going to chase. And that's what my comments were related to.

Q - Greg Peters {BIO 3111497 <GO>}

Excellent, thanks for the clarification, I want to pivot. And at the outset, I just want you to realize, I'm not trying to get you to criticize your distribution partners. But if I consider the stock market performance as a measure of success, the insurance brokers have outperformed the underwriters on a one, three and five-year basis. And I was wondering if you could just update us on your views about the symbiotic relationship with your insurance brokers and/or if it's changed?

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

Yeah. That bounces around and we're in the risk taking business. Brokerage is in the intermediation business only, and I realize it bo -- we are both in the advisory business that way. I -- that they have done well, it's not a zero-sum game. They have done well, I applaud them for it. That reflects they've done a good job and congratulations. And we'll run our own race. And I'm not concerned with Chubb's ability to outperform over reasonable periods of time, and that's particularly in comparison to those who are like us, risk takers.

Secondly, has the relationship changed? No, it's fundamentally the same relationship, it has been for years. It changes based on tools and capabilities, change, but beyond that the relationship is -- the foundation of it is -- hasn't changed. And that is a broker is in the business of representing their client and their client's interest and helping them to select -- advising them and helping them to select the right coverages, the right Insurers, and put together the right program, they intermediate that. And our relationship is brokerage -- is an ambivalent relationship. You work in partnership together and you also work -- you work for each of your respective interest. Hello?

Q - Greg Peters {BIO 3111497 <GO>}

Thanks a lot for your answers.

You are welcome.

Yes, I got it. Thank you.

Operator

Our next question will come from Mike Zaremski with Credit Suisse.

Q - Mike Zaremski {BIO 20606248 <GO>}

Hey, good morning. First question. Evan, when you were talking about the competitive environment in your prepared remarks, I think you used the term reset of risk appetite on the part of some competitors, do you feel that that reset is causing maybe pricing to move, well in excess of loss trend and low interest rate pressures in certain lines?

I guess I'm trying to get it as that -- we think we all know that there is a number of competitors kind of resetting and that gives us confidence and new confidence that the rate environment stays -- is moving in the right direction. But I'm -- I guess, a lot of investors ask us whether Chubb's margins can maybe eventually benefit more so than peers if the environment persists.

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

Yeah, look, I can only speak about what I know not what I don't know. There are lines of business -- there are numerous lines of business where rate is exceeding loss cost trend and that is it's healing margins and therefore it is naturally ameliorating and benefiting margin. And then there are other lines and some of that, it's actually improving the underwriting margin. And in some areas it needs to go further, because it's not -- it's still not adequate to earn an under -- a positive underwriting margin.

So, it's all over the line. As far as Chubb's margin goes, I'm not going to prognosticate about the future. The trends as we see them are positive, they are good, and all things being equal hit benefits margin. However, I can't speak to the future loss cost environment and future trends that way. So that's why I never predict the future when it comes to that. We're in the risk business.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay, that's helpful. And lastly, kind of as a follow-up to one of the previous questions, I mean you said that, broadly speaking, asset values are inflated. I think you alluded to also the M&A environment, but you can correct me if I'm wrong.

So does that imply that there is maybe less M&A opportunities today than -- I guess, well, there hasn't been much M&A for you guys in the -- in recent years and maybe Phil can also remind us of the drag excess capital is having on your ROE? Thanks.

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

Yeah, in the environment, sure, you haven't -- you've seen us quiet and and you observe the prices for assets yourselves. I assume you come to the same conclusion I do. So on the ROE is...

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

(Multiple Speakers) Keep track on the ROE.

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

...it's in the range of 0.7% to 1%.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thanks.

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

You're welcome.

Operator

Our next question will come from Yaron Kinar with Goldman Sachs. Please go ahead.

Q - Yaron Kinar {BIO 17146197 <GO>}

Good morning, everybody. Evan, this is probably just may not in full capacity after a busy night, so I apologize in advance, but there is something I don't quite understand. I'm sorry.

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

Did you drink too much?

Q - Yaron Kinar {BIO 17146197 <GO>}

I drank a lot of Insurance P&L. Yes.

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

That's is intoxicating.

Q - Yaron Kinar {BIO 17146197 <GO>}

Yeah. So overall loss trend remained stable at 4.5% which incorporates lines that are deteriorating others that are benign. But if it remained stable, why are we seeing Chubb and peers increasingly vocalizing concerns over loss trend deterioration? And why are rates as a whole firming?

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

Because the loss environment in those troubled lines you do see trends and you do see it showing up in overall loss picks that you've seen loss ratios in casualty rising. Okay. And I'm using casualty broadly. I'm using the term to include professional lines and general casualty, and taking out workers comp.

It varies by line, but you've been hearing about it and seeing it in commercial auto. You've been hearing about it and you've seen it in D&O and medical malpractice, and excess liability. And so that has focus on attention from -- underwriters see it and the investing community sees it.

So there's dialog about that and I do think that it is the loss cost environment, there has not been benign, I've been talking about it for a while. Our own loss picks in those areas have been increasing. It does have an impact on our overall loss ratios, because it gets blended in there and it has. And so, you need to be aware of it and focus on it and it is a trend right now. It has been and is. Am I making sense to you?

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. Yeah. Yeah. And if this is the way it means though that even for the loss -- long term loss remains stable, there is a certain reset of a base given the recent experience?

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

No, not a reset of a base. But remember we're talking loss ratios. And that's calendar year that can include prior period reserves, that includes current accident year. So naturally, you've seen very strong rate, and with more benign loss years releasing reserves -- industry releasing reserves into earnings, when I take prior period.

And you know as you get to more recent years, rates had been going down, loss cost trends have been rising. And you've seen underneath the surface of these loss cost trends. Some of these ones that I just talked about and have been talking about that are more troubling and they show up.

And then in the current -- that all then rolls forward to the current accident year loss specs where you raise your expectations based on what you see today and how has it trended from the recent in past years.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay, and then my follow-up question is..

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

Am I making sense? Am I being clear for you?

Q - Yaron Kinar {BIO 17146197 <GO>}

I think so. I may follow up offline, but I think I got the general just -- and then my second question is just around -- you had mentioned the three buckets attritional loss ratio -- layers excess and large to mega, can you offer maybe a broad distribution of premiums for Chubb by those buckets?

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

No. No.

Q - Yaron Kinar {BIO 17146197 <GO>}

No. Okay, thank you.

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

You're welcome. I don't have those in my head.

Operator

Go next to Michael Phillips with Morgan Stanley. Please go ahead, sir.

Q - Michael Phillips {BIO 21023048 <GO>}

Thank you. Good morning. I guess I appreciate having comments on, not wanting to kind of go and predict the future. I guess I would ask then on your North America commercial, when you had 90 bips of deterioration in the core, how much of -- and you call out the commercial property. I mean, can you say how much that 90 bips would have been without that commercial property losses?

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

When we said the -- I'm a little lost. The 90 bps is in the combined ratio.

Q - Michael Phillips {BIO 21023048 <GO>}

That's correct. Yeah.

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

The loss ratio in North America commercial was two points. We told you one point was year-to-date property, where losses outside the loss speck and we said, the other one point was casualty related, got to casualty long tail lines which is casualty broadly and that was just -- and that was in line with our loss specs all year. No change. That's just rate and trend.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Yeah, all right, thank you.

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

And we --

Q - Michael Phillips {BIO 21023048 <GO>}

And then --

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

Phil gave you that.

Q - Michael Phillips {BIO 21023048 <GO>}

Yes, no. Perfect, thanks. And then I guess on those three buckets again, that we just asked, do you have any concerns on what you see in that second layer kind of filtering back down into the first layer that you talked about in the first bucket?

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

No, we're not -- no, we're not seeing it that way. And think about it a little bit. The average loss always it increases by the -- a normal trend factor in the primary layer. Frequency has been pretty steady. So we jittery a little bit and -- but steady. And the severity has risen at a kind of a normal loss cost trend.

But what it does is when attachment points and that's what I was trying to say in excess don't change, over years and years and years, then more losses bleed into that layer. Do you get it?

Q - Michael Phillips {BIO 21023048 <GO>}

Yeah.

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

And that's separate from the larger one-offs -- that large excess losses that I talked about. I broke bucket two down into two pieces for you.

Q - Michael Phillips {BIO 21023048 <GO>}

Right. Okay.

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

And so to answer your question. No, I don't see that. It's actually quite the opposite.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Thank you, Evan.

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

You're welcome.

Operator

We'll go next to Ryan Tunis with Autonomous Research. Please go ahead, sir.

Q - Ryan Tunis {BIO 16502263 <GO>}

Hey guys, good morning. Evan, I wanted to go back to your comment in your prepared remarks, where you said that conditions are sustainable. I was just a little bit confused on what in particular is sustainable. Is it the pricing environment, is it where you view the loss, and the loss trend environment? Just, I guess, maybe a little more specificity on that please.

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

Yeah. But you are overthinking it. I was talking about the underwriting and pricing environment only.

Q - Ryan Tunis {BIO 16502263 <GO>}

Got it. So broadly speaking. And I guess my follow --

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

(Multiple Speakers) Broadly speaking the trend we see in pricing and underwriting, we see -- in the areas that this is impacting, we see it continuing.

Q - Ryan Tunis {BIO 16502263 <GO>}

Understood. And then I guess my follow up is keeping on this discussion about -- it sounds like -- and I might be wrong on this. But it sounds like there might be a difference between the conversation about loss trend and the conversation about loss picks. Like for instance Phil mentioned -- sorry, Evan.

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

Go ahead. No, go ahead.

Q - Ryan Tunis {BIO 16502263 <GO>}

So first comment that -- because of casualty lines in North America, the accident year loss ratio deteriorated a point. Yeah, that's similar to previous quarters, but in previous quarters you seemingly didn't have quite as much rate. So is it such that there is an uncertain enough loss environment that you're observing a certain level of trend. But maybe you're saying we should -- out of abundance or conservatism discontinue the set loss picks a little bit higher and that's why that's perhaps taking a point or is it more simple than that and it's -- I just have that wrong?

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

It's more simple than that. I -- trying to understand what you're -- how you're thinking about it. But remember the loss ratio is based on earned rate, not written rate. And it's earned rate over the -- the loss pick you have -- the earned rate goes into -- again you trend losses forward. We have an overall loss trend factor of 4.5%, we had an earned rate of whatever it was in those long tail areas, that went into us imagining a loss pick for the year in those casualty areas of X and that has remained steady. We have not changed the loss ratios we have selected in part of that -- in any of our casualty areas.

Q - Ryan Tunis {BIO 16502263 <GO>}

So as more of that earned rate comes in, we would expect that point of deterioration to moderate?

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

(Multiple Speakers) When the earned premium grows, then you look at the loss cost trend for each line and you decide it -- does it remain the same or does it go up or go down.

Q - Michael Phillips {BIO 21023048 <GO>}

Got it. I'll leave it there. Thanks, Evan.

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

Okay. Best I can give you, Ryan. That's why I'm not prognosticating future, I go back to that. But, I'll -- based on what I see right now, I got a 4.5 loss cost trend and then I've got -- and that is a blend of all lines of business. And we've got rate that exceeds loss cost trend in North America on a written basis. Hello?

Operator

Next, Brian Meredith with UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah, thanks. And I'm just curious --

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

(inaudible)

Q - Brian Meredith {BIO 3108204 <GO>}

I'm just curious, are you getting tightening terms and conditions and enough to maybe ameliorate some of this loss cost trend going forward or should we not think about it that way?

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

Are we getting changes in terms and conditions?

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah, tightening it up maybe you can -- (Multiple Speakers) yeah, the 4.5% that you're seeing on some of the social inflation.

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

You know, in some -- and I don't want to over state it. So I don't -- you can't bake it in the overall. But we are getting more changes in deductibles, we're getting changes in sub limits, we're getting changes in attachment points, in casualty excess. And those things are all part and are ameliorating and we put values on those.

Q - Brian Meredith {BIO 3108204 <GO>}

And that's not in your -- when you give us your price increases, that's not included in that is it?

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

It's - in some lines it is. Because where we can actually measure it. It is in exposure adjustment and then we take rate against exposure and we determine -- what we can determine mathematically that allows us -- that is the same thing as rate. So we do, we consider it.

Q - Brian Meredith {BIO 3108204 <GO>}

Great.

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

Yeah.

Q - Brian Meredith {BIO 3108204 <GO>}

And then my follow-up question, Evan. I am just curious. PG&E, I know it's been talked about a little bit. There is some nice subrogation that should be coming through there. What are your thoughts on that subrogation? When could you potentially see some of that come through?

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

I'm not going to speculate on that. But we don't see any material or substantial future subrogation opportunity for Chubb from PG&E .

Q - Brian Meredith {BIO 3108204 <GO>}

Got you. Thank you.

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

You're welcome.

Operator

Our next question come from Ryan Tunis with Autonomous Research.

Q - Ryan Tunis {BIO 16502263 <GO>}

I actually didn't have another one, but I'll ask. I guess I'll ask on agriculture. I think I asked last quarter on this as well.

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

(inaudible)

Q - Ryan Tunis {BIO 16502263 <GO>}

No, no, no I don't think anyone got to it. But, yeah, I guess a little bit of a higher loss pick there. I mean, I guess first of all, what does that incorporate, how much development can we potentially expect on that in the fourth quarter? And what are you still thinking a good combined ratio you use for that business is when we look at 2020 or just, I guess, a normalized annual combined ratio for the overall crop segment?

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

No, I'll just take that last part. We've run in the high 80s to 90s, historically, and we don't see a change to that. And by the way, look at the last number of years we had excellent results. The last few years in that business, it has a natural volatility, it's crops. It has both an attritional and a CAT like nature to it. And this year we're going to have less than average year for that business. And let me turn it over to John Lupica for a minute, to give you a little more color on that.

A - John Lupica {BIO 4213297 <GO>}

Yeah, thanks Evan and Ryan. We certainly adjusted the year-to-date numbers in the quarter based on what we know today. We still have to capture all the yields from the field before we can really put a final number. The nice part about the year is prices are pretty much at base price as we finish out the October harvest price schedule. So now due to the delay plantings the harvest period has been pushed out five or six weeks. So I think by the end of the year, we'll obviously have a better sense of the year. And as Evan noted, if we don't see any change of our expectation, we certainly expect it to be in that low 90s area.

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

Low 90s combined for the fourth quarter, would be about where we would. Imagine, if nothing changes from what we know now. But God! there is a lot of unknowns out there. We have no idea right now about yields. We just don't know.

Q - Ryan Tunis {BIO 16502263 <GO>}

Perfect. And I guess what I'll ask one more. Workers comp, Evan. Obviously, there has been some rate pressure. I mean how-- how are you see absolute levels of profitability there? This year opportunities stay in that one -- without one point. I mean, what's the outlook right now on workers' comp?

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

For Chubb, that's not a growth area at this time. We -- it has loss cost trends have been quite benign and the industry has responded with a lot of competition and lowering of prices, some of it rational, some of it to as -- just beginning to overshoot that mark.

And loss -- the benign loss cost environment, it's questionable whether that will remain. And so we have been -- as rates have been coming down, we have been exerting more discipline in that area. It has not been a growth area for us.

And I'm speaking about first dollar primary risk transfer business. In our risk management business that's a whole different book and that's where the -- that's large account where it's self-insured, we're self funded on some basis, and we provide all kinds of services and we provide excess coverage.

And there -- that we are quite active and probably the largest writer of that in the United States and we have a lot of knowledge and capability. And that's where the client has skin in the game. And so that's...

Q - Ryan Tunis {BIO 16502263 <GO>}

(Multiple Speakers) All right.

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

...different.

Q - Ryan Tunis {BIO 16502263 <GO>}

Makes sense. Thanks.

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

You are welcome.

Operator

Next we'll go to to Jay Gelb with Barclays. Please go ahead.

Q - Jay Gelb {BIO 21247396 <GO>}

Good morning. I know it's early days with regard to other catastrophe loss potential in 4Q. But any initial perspective on Typhoon hydro business and the California wildfires? And looking at that relative to what was a pretty heavy catastrophe loss a year ago in the fourth quarter, around eight points of catastrophe losses on the combined ratio. How should we think about that?

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

Well, you should think that this is the end of October. So we're one third through the movie. And I can't tell you how the movie ends. I didn't see it before. So I don't know. We're in the risk business and we're -- and part of being in the risk business, we take catastrophe exposure.

And so I don't wring my hands about having catastrophe losses. I'm just concerned, did we measure the exposure correctly and did we charge a proper price for taking the risk. Other than that, I'm going to have that volatility. And so I'm not wringing my hands.

On the Japan Typhoon, so far from everything we know, it is not a significant event for Chubb. On the California wildfires they are ongoing right now. The only thing we know is the tick fire is the one that's out and on that one, we didn't have any -- we didn't have loss -- we didn't have any losses. And on the other two I --, it's just very early days, and I'd rather not predict. And I don't know what the outcomes will be. At this moment, our losses are very minor.

Q - Jay Gelb {BIO 21247396 <GO>}

Right, understood. And then on a separate issue. I just want to follow up on the North America commercial. The gross written premium in the third quarter was up 10% year-over-year, was there anything -- any one timers in there that would have influenced that or is that -- was that kind of a true perspective on the growth rate that you're now seeing in that business giving improving market conditions?

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

We didn't have anything mega, in the quarter. But we write large account there. And so we won a number of new large accounts and and that's what just gets baked into that. But nothing in particular that stands out to us.

Q - Jay Gelb {BIO 21247396 <GO>}

So strong acceleration in the core business production.--

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

With a strong growth quarter, we won a number of new large accounts in the quarter. I -- but remember it's lumpy business. So I can't tell you the next quarter is going to be the same. It bounces around a bit. But it was very good.

Q - Jay Gelb {BIO 21247396 <GO>}

That's great. Thank you.

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

We like everything we saw about how the market behaved and moved towards us in terms of rate and terms.

Q - Jay Gelb {BIO 21247396 <GO>}

Excellent. Thank you.

Operator

Our next question will come from David Momeiden [ph] with Evercore ISI. Please go ahead.

Q - David M. {BIO 5916626 <GO>}

Hi, good morning. Just had a question and appreciate the color on the three buckets. Just wanted to get a little bit more detail on when you really saw or have seen an acceleration in the loss trends in the last two buckets. And specifically, if you've seen any increase over the last couple of quarters that you -- that you'd note?

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

Nothing over the last couple of quarters that we've note. I've been talking about this. If you go back into shareholder letters, into quarterly commentaries, we've been talking about this for two years.

Q - David M. {BIO 5916626 <GO>}

Got it. So, no meaningful acceleration beyond what you've been mentioning. Okay, that's helpful. And then just on the PPD and North America Commercial. The Child Victims Act obviously went into effect this quarter. Just wondering any early indications, you got on your exposure there and if that was an element that led to the lower year-over-year PPD?

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

No. Zero, number one. Number two, I think you're referring to New York. California went into effect, I believe the Governor signed it last week. And there are a number of other states that are in the middle of passing revivor statutes now. We have no way at this point of estimating the exposure and ultimate loss to Chubb -- in that it's -- you're at the very beginning, it's way too early.

Q - David M. {BIO 5916626 <GO>}

Okay, great. Thank you.

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

You're welcome.

Operator

And ladies and gentlemen at this time we'll take the final question from Meyer Shields with KBW. Please go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Great, thanks very much. Evan, I was wondering if there's any way of quantifying broadly, how much of the current insurance market is adequately priced compared to a year ago?

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

Oh, Meyer, we haven't -- we haven't added it up that way or thought about it that way. And when you say the market, I -- that's asking me -- I can -- I cannot tell you the adequacy of the ocean overall. So, no.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, fair enough. The second question, given -- I don't know where there external weather issues with the underlying chronological changes. Is there any way of assessing what loss trend is for North America property lines?

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

There is no way for you to assess that, but we can assess that.

Q - Meyer Shields {BIO 4281064 <GO>}

Can you tell us what you have come up with?

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

And it will vary -- Meyer, I'm not disclosing it, but it will vary. We're not going into sub-lines. But it will vary. We have a number of property portfolios. We have first dollar property that is a admitted risk. We have first dollar property that is E&S and they behave differently. We have access property and we have other coverages that go along with that, and then we have large account property. And so -- and they all -- it all behaves a little bit differently.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, thank you very much.

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

You're welcome.

Operator

And this does conclude today's question-and-answer session. I'd like to turn the call back over to today's presenters for any additional or closing remarks.

A - Karen Beyer {BIO 6404488 <GO>}

Thank you all for your time and attention this morning. We look forward to speaking with you again next quarter. Thank you, and have a good day.

Operator

And this does conclude today's call. Thank you for your participation, you may now disconnect.