Q1 2019 Earnings Call

Company Participants

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

Other Participants

- Brian Robert Meredith, Analyst
- Elyse Beth Greenspan, Analyst
- Jay Adam Cohen, Analyst
- Jay H. Gelb, Analyst
- Mark Dwelle, Analyst
- Meyer Shields, Analyst
- Michael Phillips, Analyst
- Ryan J. Tunis, Analyst
- Yaron Joseph Kinar, Analyst

Presentation

Operator

Good day, ladies and gentlemen. And welcome to the Chubb Limited First Quarter 2019 Earnings Conference Call. Today's call is being recorded. (Operator Instructions)

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

Karen Beyer {BIO 6404488 <GO>}

Thank you, and good morning, everyone. Welcome to Chubb's March 31, 2019 first quarter earnings conference call. Our report today will contain forward-looking statements, including statements relating to Company's performance and growth, pricing and business mix, and economic market conditions, which are subject to risks and uncertainties. And actual results may differ materially.

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.

And 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 today to assist with your questions are several members of our management team.

And now, I'll turn the call over to Evan.

Evan G. Greenberg {BIO 1444445 <GO>}

Good morning. We had a very good first quarter highlighted by good underwriting results, strong premium revenue growth globally and the best pricing environment in US and London wholesale market in maybe five years. Core operating income of $2.54 per share was up 8.5% from prior year. Book and tangible book value per share were up 4.3% and about 7%, respectively, in the quarter.

We reported the P&C combined ratio of 89.2%, which included 3.8 points of cat losses and favorable prior period reserve development of 3.1 points to 104 million pre-tax. On the current accident year basis excluding cats, the P&C combined ratio was 88.5%, simply world-class. Phil will have more to say about investment income, book value, cats, prior period reserve development.

P&C premium revenue growth in the quarter in constant dollars was quite strong, and frankly, better than we anticipated in our plans for the quarter. Net premiums grew just over 5%, while foreign exchange, given the strength of the dollar then had a negative impact of 2.2 percentage points. During the quarter and through April, thee pricing environment continued to improve, with overall price change in North America on a written basis equaled the loss cost trend.

In addition to property, pricing improved throughout the quarter in many casualty related areas, including general casualty, both primary and excess and D&O and professional lines. Renewal price change, which includes both rate and exposure was up over 5%. Retention of our customers remained strong across all of our North America Commercial and Personal P&C businesses, with renewal retention as measured by premium of over 94%. In Major Accounts and Specialty Commercial, excluding agriculture premiums were up 4%. Renewal price change for Major Accounts was 4.8%, with risk management pricing up 5%, excess casualty up 7% and property up nearly 9%. Public D&O rates increased 5.5%. In our Westchester E&S business, renewal pricing was up 8%.

Turning to our middle market and small commercial business in North America. Premiums overall were up about 6.5%. Our strongest quarter in terms of growth since the merger. New business was up 13% and renewal retention in our middle market business was over 91%. Middle market pricing was up 3% and excluding workers' comp, it was up 4.2%, again that's the best we've seen in a number of years. The middle market pricing for primary casualty pricing was up about 7%, excess umbrella was up 4.3 and D&O was up 9%.

In our US Small Commercial business premium revenue continued its positive growth momentum with net premiums up over 40%. In our North America Personal Lines business net premiums written in the quarter were up 1%, adjusted for the expanded quota share session we discussed last quarter net premiums were up about 2.5%. Retention remained quite strong at over 96%, with homeowners price -- with homeowners pricing was up over 8% in the quarter.

Turning to Overseas General Insurance operations, we had reasonable growth, which we expect to accelerate as the year moves along, particularly in Asia. Net premiums written for our International Retail division were up 5.7% in constant dollar and FX then had a negative impact of 5.8 percentage points. Growth was led by Latin America with premiums up almost 13%, while premiums in Europe were up 4.2% and Asia was up 4% or 8% adjusting for a one-time positive item last year. International growth in the quarter was driven by both commercial and consumer lines, consumer lines were up 6%, personal lines were up 5% and driven by Latin America growth of 17.5% and A&H was up 5%, driven by double-digit growth in both Latin America and Japan.

Net premiums for our London Market Wholesale business were up nearly 15% in the quarter in constant dollar. As I noted last quarter, this business is growing again on the impact -- on the back of improved pricing after several years of shrinking. Pricing conditions in our International Retail in London Wholesale businesses varied by line and by country. Overall rates in our Retail were up 2%, while rates in London Wholesale Open Market business were up over 8%. Property up over 8%, financial lines up 13% and marine up about 6.5%. Finally aviation up 18%. John Keogh, John Lupica, Paul Krump, Juan Andrade can provide further color on the quarter, including current market conditions and pricing trends. Since the beginning of the year, we have completed a couple of important transactions that represent important opportunities which will feed growth in the future.

January, we entered into a 15-year exclusive distribution agreement with Banco de Chile. The largest bank based in that country. We will distribute Life and General Insurance products to their customers throughout their branches, telemarketing and digital channels. Banco de Chile has a long track record of successfully marketing insurance to it's more than 2 million banking customers.

In March, we received approval to increase our ownership in Huatai Insurance Group. The holding company of P&C Life and Asset Management subsidiaries. Huatai Group's insurance operations have more than 600 branches and 11 million customers. With our increased stake Huatai Group became the first domestic Chinese financial services holding company to convert to a foreign invested joint venture. Our increased ownership is an important milestone towards our future goal with majority ownership.

In closing, we're off to a good start to the year, achieving increased growth in many of our businesses globally and momentum continues to build. The benefit of our broadly diversified presence and capabilities. We are experiencing continued and even accelerated pricing increases.

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

Philip V. Bancroft {BIO 4621336 <GO>}

Thank you, Evan. We are starting out the year in an exceptionally strong financial position. We have a very strong balance sheet to support our business activities, with total capital exceeding $65 billion. We also have $105 billion portfolio of cash and investments. That's highly rated in liquids and we generated operating cash flow of $1.3 billion in the quarter. Among the capital related actions in the quarter, we returned $702 million to shareholders, including $335 million in dividends and $367 million in share repurchases. Through yesterday, we've repurchased shares for over $435 million at an average price of $134.17 per share.

Since the Chubb acquisition, we have reduced our dilution on tangible book value per share, from 29% to about 2.5%. Our annualized core operating ROE was 9.2% and our annualized core operating return on tangible equity was 15.1%. Net realized and unrealized gains for the quarter were $1.6 billion after-tax. There was a gain of $1.4 billion in the investment portfolio, due to a decline in interest rates and the $50 million gain from our variable annuity portfolio primarily from the improvement in the equity markets. We also had a gain of $150 million from FX. The current quarter investment income of $882 million was within our previously communicated range. We continue to expect our quarterly adjusted net investment income run rate to be in the range of $880 million to $890 million.

As a reminder, as we discussed previously, we reduced the utilization of our cash liquidity program. On a basis of utilization comparable to last year's first quarter, our investment income would have been $902 million, $20 million higher than reported this quarter and our interest expense would have been $165 million, also $20 million higher than reported in the quarter.

Pre-tax catastrophe losses for the quarter were $250 million, 90% from weather-related events in the US and the balance from international events, primarily in Australia. The catastrophe losses were about 20% higher than we expected, which was worth about $0.06 on our EPS. We had favorable prior period development in the quarter of $240 million -- at $204 million pre-tax or $161 million after-tax, which included $61 million pre-tax related to the 2018 crop year loss estimates. The remaining favorable development is split approximately 60% from short tail lines and 40% long tail, primarily from accident years 2014 and prior.

Net loss reserves increased $39 million or decreased $63 million on a constant dollar basis, reflecting the impact of prior period development and catastrophe, and crop insurance payments in the quarter. Underlying reserves increased about $560 million. On a reported basis the paid-to-incurred ratio was 98% for the quarter, after adjusting for the items noted previously, the paid-to-incurred ratio was 86%. Our core operating effective tax rate for the quarter was 14.7%, which is in line with our expected range of 14% to 16%.

I'll turn the call back over to Karen.

Karen Beyer {BIO 6404488 <GO>}

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

Questions And Answers

Operator

(Operator Instructions) And we will take our first question from Elyse Greenspan with Wells Fargo.

Q - Elyse Beth Greenspan {BIO 17263315 <GO>}

Hi. Good.

Operator

Please go ahead.

Q - Elyse Beth Greenspan {BIO 17263315 <GO>}

Thank you. Good morning. My first question, just, Evan, going back to some of your pricing and loss costs commentary from your prepared remarks, in North America specifically you said that, written rate is now equal to loss trend, in your annual letter that recently came out, you did say that, pricing in the US and some other market is not keeping pace with loss trends, So, is that something that we saw change towards the end of the quarter and into April, if you could just expand on that, and then, give us your view for the rate versus trend that you see over the balance of this year?

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

First of all, I will answer your last part. I hardly -- if I had that insight, I wouldn't be doing this job, if I (Technical Difficulty) that way at least I'd -- I would -- I probably be in Vegas. But, when I wrote my shareholder letter, it was about the 18-year and it wasn't about the first quarter of 2018 and in 2019 in fact the -- in the first quarter in total all lines aggregated rate on a written basis equal loss cost trend and that is a change. The rate of increase is accelerating in short tail and long tail lines in the United States and in London Wholesale in particular.

Q - Elyse Beth Greenspan {BIO 17263315 <GO>}

Does this feel like a market where -- when you think, obviously, you don't want to project going forward. But does this feel like we're starting to get into a market where we can think about seeing some underlying margin improvement, given that you made a point of saying that things really improved as we got into April?

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

Well, I didn't say they really improved, I said, they continued to improve. And I don't want to prognosticate the future. Frankly, Chubb runs a world-class combined ratio and if we can continue to achieve rate that equals loss cost trend in areas that are adequately priced, that's brilliant. If we can continue -- If we can achieve rate in excess of loss cost trend in those areas that need rate because margin is not adequate, that too is the objective and we'll see how it plays out, whether it continues to accelerate. I like the tone of the market. I like what I see and what I feel. It's rational and I see what appears to be continued forward momentum.

Q - Elyse Beth Greenspan {BIO 17263315 <GO>}

Okay. Thanks. And then a couple of just quick numbers questions...

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

And that's particularly in larger -- in large account and in E&S business. Middle market, I would make the same comment, but it is not at the same rate of change that I observe in large account and E&S, and that is awesome as I think I can be with you.

Q - Elyse Beth Greenspan {BIO 17263315 <GO>}

Okay. Thanks. That's very helpful. And then a couple of quick numbers questions for Phil. Can we get the FX impact on EPS in the quarter?

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

Well, it was $23 million.

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

We gave it on the first page of the press release.

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

Yeah.

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

$23 million will be...

Q - Elyse Beth Greenspan {BIO 17263315 <GO>}

Okay. Great.

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

Yeah. That's on core operating income and it was about $18 million -- it was $18 million on underwriting.

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

And the percentage points...

Q - Elyse Beth Greenspan {BIO 17263315 <GO>}

Okay. Great.

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

...right on the first page of the press release.

Q - Elyse Beth Greenspan {BIO 17263315 <GO>}

And then my last question, Phil, you said that net investment income and interest expense kind of had offsetting impacts of the $20 million. Is the Q1 interest expense the right way to think about using that number as a run rate?

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

Yes. I would say that, I would use the netted number, right? So the -- I would take $20 million out of the number that I gave for both in investment income and for interest expense.

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

You'd add it to investment income, you take it away from interest expense.

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

Interest income will come down to the range of $8 million.

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

Yes.

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

It is $890 million and I take it out of interest expense.

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

Correct.

Q - Elyse Beth Greenspan {BIO 17263315 <GO>}

Okay. Great. That's very helpful. Thank you.

Operator

And our next question will come from Jay Gelb with Barclays. Please go ahead.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Thanks. Thank you and good morning. For the Chubb team there has been a number of fairly significant aircraft, terrorism and likely ongoing cyber claims in the industry. Can you talk about how you manage those exposures and maybe your typical net risk after reinsurance protection on those type of risks?

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

Well, you're talking about a variety of classes and we don't talk about on that, I'm not sure we're going to answer much of your question. We don't talk about individual losses and the net limits we retain per risk really vary by risk and by class of business, and that's not something we really disclose and talk much about. But it's all rolled up, all the experience related to loss events are all rolled up in that combined ratio you're looking at.

Q - Jay H. Gelb {BIO 21247396 <GO>}

It's -- it will be fair to say that we have a right that its -- reinsurance is probably a significant risk mitigation factor in those type of exposures?

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

Not necessarily. You don't know what risks we're on and so, you -- you're referring right now Boeing and then certain cyber events and those are just individual insureds and we're not -- and some of them we're on and some of them we have modest exposure, some we have more exposure. It varies a lot. But I have to say this...

Q - Jay H. Gelb {BIO 21247396 <GO>}

Okay. Fair enough.

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

...there is nothing we see in losses occurring in the industry. That gives us any pause about Chubb's underwriting of any of those risks.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Understood. Okay.

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

We do -- we're underwriters. So we do post claim underwriting reviews. When we see losses come in and we're in the business of losses and what we really look for is all we are proud of the underwriting. Do we think the judgments and the appetite were correct, and the pricing was and the terms and conditions, and there's nothing in what we've seen that gives us pause.

Q - Jay H. Gelb {BIO 21247396 <GO>}

I see. Okay. The broader question I had was, clearly, there is some favorable momentum in primary commercial lines. If 2019 is not a major cat year like we saw in the past two years, which I believe was the largest ever two-year period for the industry in terms of catastrophe experienced. Do you believe that this positive price momentum can persist, if it's not a big cat year this year?

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

You know, I do. Because, you don't look at, time will tell, but I frankly do because, this is becoming casualty driven. And remember casualty and kills insurance companies not short tail property. And casualty, you just all casualty related, so I'm using the term in a broad way with the exception of one or two classes rate and loss cost trends have been going in the opposite direction and loss cost trend depending on the class and the jurisdiction have worsened in some cases, because there is more pressure because of the things that we know and the industry is experiencing that. And I think many are just waking up to the results that are emerging for behaviors that have occurred over a number of years. So, I think, this is a rational reaction and I imagine it to continue.

Q - Jay H. Gelb {BIO 21247396 <GO>}

Thank you. Evan, does that mean that for maybe some of your weaker position competitors that they haven't trued up what their underwriting reserve position might be, if it's going to be the casualty driven turned?

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

Well, you have to ask them, I'm not -- I really can't speculate on that, because I don't know what they know and don't know.

Q - Jay H. Gelb {BIO 21247396 <GO>}

I see. Thank you.

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

Specifically, if they won't want to share their books with me, I'll tell you.

Operator

And our next question will come from Brian Meredith with UBS. Please go ahead.

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

Yes. Thank you. Thanks. A couple of questions here for you. Yeah. First one, I just noticed in North America, a big increase in the amount of ceded reinsurance, did you change reinsurance buying habits this year?

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

No. No, we didn't change. So that would just be idiosyncratic to the business in the quarter.

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

Okay. Just allocation stuff like that.

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

Risk management or crop insurance adjustments or any of that.

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

Okay. Okay. Excellent. And then, Even, my second question.

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

And you do know though on personal lines we increased the quota share.

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

Right. I was looking more...

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

We increased quota share as we told you last quarter. That has an impact on that line of business. It's not that material to the overall North America though.

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

Got you. Got you. I was looking more at your North America Commercial operations. It was like 18.5% increase in ceded premium.

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

Yeah. No. It's just -- that's just a timing quarter-to-quarter.

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

Great. Great. And then, Evan, I'm just curious, you're making a lot of continued investments in emerging growth areas, China, et cetera. What are the margins on that business like versus your kind of overall business is better, worse, how should we think about that potentially over the long-term impacting your business?

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

Yeah. I think when you look at the -- it varies. When you look at something like Banco de Chile or Banamex or some of the major bank related distribution agreements we have made. Those are the kind of business that produces is at the lower end of our combined ratio range by the nature of the business, it's consumer business and small commercial and accident and health, et cetera.

China, the -- and we are not consolidating China. Now, I hope that will occur in the medium-term when we cross the Huatai ownership mark and we are in the midst of our activity in front of us is to acquire more ownership. We are engaged in that activity, though, I can't give a precise timing. The Life business is a fast growing business and it is generating -- it is now turning the corner and beginning to generate positive GAAP earnings and I believe the biggest opportunity in China is Life Insurance.

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

Okay.

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

Just given them the macro and we got licenses, Huatai Life has licenses in all -- in fundamentally all the provinces and the majority of those offices of 600 are life related got 43,000 agents, though, for China that's small. I can imagine a Company with 250,000 in years from now. The P&C business, we will run a combined ratio that will produce an underwriting profit.

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

Okay.

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

And it will -- it won't be Chubb's average combined -- the average of Chubb's combined ratio, it will be on the higher end of the spectrum likely for a while. But that has -- that too has very good potential. And I think, when I think of it in the early days right now, as we -- when I say early days, the next number -- next few years. I imagine that when we consolidate it will be at least neutral to our ROE.

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

Okay. And does that also go for the PICC relationship you have?

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

Well, the PICC relationship is different. That's a...

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

Right.

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

That's a venture to where we're like really the international arm of the PICC. For Chinese business that's overseas and we do the underwriting and the servicing, and they do the marketing and relationship and sales side of it, and we share the business together.

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

Okay.

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

That's different.

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

Got you. Thank you.

Operator

And our next question comes from Michael Phillips with Morgan Stanley. Please go ahead.

Q - Michael Phillips {BIO 21023048 <GO>}

Thank you. Good morning. I kind of wanted to touch this, a lot of comments on the rates and how they changed now or at the point where as you say very good loss cost trends. It kind of a follow-up, I guess, to Jay Gelb's questions second go. Maybe you could spend a little more time talking to help us understand the other side of the equation, the loss trends. You said they worsened this year, it's casualty driven, rates and loss costs have been moving in the opposite direction. Now that's not the case. But can you talk little bit more about what you see in the loss cost, where are they worsen and maybe just more to the extent that they are worse this year versus last year?

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

I did not say they are worse this year than last year, so please...

Q - Michael Phillips {BIO 21023048 <GO>}

No. Right.

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

...listen to what.

Q - Michael Phillips {BIO 21023048 <GO>}

Loss cost trends, it worsened, I heard like you said them.

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

No. No, no. I did not say they were worsened. So, again, please you'll read the transcript and the question. I didn't say that. I said the overall -- I -- overall loss cost is behaving. We haven't seen a deterioration in overall loss cost trend. I was speaking about there are specific classes and that it's a mixed bag of some behaving, some not. But -- and when you wrap it all together, I don't see a deterioration in the overall. What I did say is rates have not kept pace with loss cost in a number of years and that naturally and the math is pretty simple as to what that equals. It equals margin pressure and -- well, if you don't have margin pressure than I can guarantee you got reserve pressure and that the industry's response to that right now, I think, is rational and I see it having lags based on all I know right now.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Thank you for that clarification. I appreciate it. I guess was -- a quick numbers question on the reserve side. Do you have any exposure to what, I guess, what travel had mentioned for that Child Victims Act in New York and so were there any reserve movements because of that?

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

No. Mike, do you want to. Sorry about that.

A - Michael Smith {BIO 3467276 <GO>}

Sure. Evan, you'll recall, we recorded additional IBNR in the fourth quarter in response to the difficult environment around molestation and abuse. That was not specifically related to the Child Victims Act, but it wasn't part response to the trend in certain states to introduce revive of legislation. By the way, I should also remind you, a large number of states don't constitutionally allow for such legislation. As the New York specifically, it's a fluid situation, too early to predict the outcomes of any claims since the statute doesn't even take effect till August. So, therefore, it's really premature to talk about any potential impact.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Great. Thank you very much.

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

You're welcome.

Operator

And our next question comes from Jay Cohen of Bank of America Merrill Lynch. Please go ahead.

Q - Jay Adam Cohen {BIO 1498813 <GO>}

Thank you. Just a quick one on the Overseas General business the -- there was the development was very minimal in the quarter. I just didn't know if you had any exposure to spillover from events that occurred in 2018.

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

No. We did not Jay. We don't actually review much in a way of reserves in Overseas General in the first quarter to couple of the regions there are short tail business that we review in the quarter. And so you see that sometimes just bounce around a bit. But nothing -- there was no development in the quarter and we had no jebby [ph] development by the way, which is what everyone is trying to talk about.

Q - Jay Adam Cohen {BIO 1498813 <GO>}

Exactly. Thanks, Evan.

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

You're welcome.

Operator

And our next question comes from Yaron Kinar from Goldman Sachs.

Q - Yaron Joseph Kinar {BIO 17146197 <GO>}

Good morning, everybody. First question is around the normalized cat load. So I think you said the cats were about $20 million in excess of your expectations. I think that gets about 3.5% cat load?

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

It was 20% more than our expectation.

Q - Yaron Joseph Kinar {BIO 17146197 <GO>}

Oh! 20%.

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

Yeah.

Q - Yaron Joseph Kinar {BIO 17146197 <GO>}

Okay. I missed that. Okay. That's helpful. And is there a reason that you start offering the normalized cat load in the supplement?

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

Normal -- the ROE normalized cat load.

Q - Yaron Joseph Kinar {BIO 17146197 <GO>}

Yeah.

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

We did much of it.

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

We decided to put it into the commentary that was no conscious. Yeah, there was nothing. Yeah, we put -- there was no signal there that we, yeah.

Q - Yaron Joseph Kinar {BIO 17146197 <GO>}

Okay. Okay.

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

There was nothing like we were -- we have some change of philosophy or this or that. It was an item that we had put in, particularly, when we saw -- when there was elevated cats of significance, where it was a real cat event quarter and we just didn't see it this quarter is that, that's all.

Q - Yaron Joseph Kinar {BIO 17146197 <GO>}

Yeah. And given that the quarter was relatively benign quarter from an industry perspective -- from a cat load perspective. I guess I was just a little bit surprised to see the catalog being close to 4% for the quarter. Are you still comfortable with your longer term guidance or targets of under 4% for the year?

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

Yeah. I -- we are -- we really are. And when you think about how we do which we've been quite transparent and we think that the Street estimates are pretty good proxy for what is our own work on expected cat and the way it's done, we model, obviously, the perils that have good models, hurricane had done and earthquake have reasonable models and we model our exposure based on that. And then on non-modeled, tornado activity and flood and the like. We look at long-term averages. We trend them. We adjust for our exposure. We adjust for reinsurance. And when you bake all that in the Street number is pretty good.

When I look at the number over our "expected" and expected it is a quarter. In a quarter, you just going to have volatility around that and by the way on any annual basis, of course, you're going to have volatility, you're never, it's so hard that you're going to hit the actual expected, you're either going to be under it a little bit, you're going to be over a little bit. I mean, it's -- that's just real world, there any quarter you're going to have a little volatility.

Some of that was international related because we had Australia and I don't think I'm not sure how you guys think about all that. And then the balance was just in the homeowners line and the winter storms that occurred and that's about it. So it didn't fuss us at all as we looked at it and it didn't have us re-imagine cat losses on an expected basis.

Q - Yaron Joseph Kinar {BIO 17146197 <GO>}

Okay. That's helpful. And then, when I look at the expense ratio in Overseas General and Global Reinsurance, it seem to go up a little bit, is that just the business mix shift, is there an FX impact there. Can you maybe walk us through what drove the increase?

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

Yeah. In Overseas General very simple, last year we had one-time items that benefited and they were all around pension and compensation, and they were one-time and that we had over accrual and that came down and you normalize for that and the expense ratio is flat.

Q - Yaron Joseph Kinar {BIO 17146197 <GO>}

Okay. And then Global Reinsurance.

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

Global Reinsurance is a mix of business question.

Q - Yaron Joseph Kinar {BIO 17146197 <GO>}

Okay. Thank you very much.

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

You're welcome.

Operator

And we will take our next question from Meyer Shields of KBW. Please go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Thank you. Good morning. When we're in an environment where rate increases are matching loss trends. Is there an internal expectation that various underwriting efforts should translate into margin expansion because the external catalysts are neutral?

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

Very line specific where we -- where lines of business are more stressed or don't meet ours -- our combined ratios standards than there we drive for more rate. We drive for change in terms and we reshape portfolios and that is actively going on there.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Perfect. That's all I had. Thank you.

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

You're welcome.

Operator

And our next question will come from Ryan Tunis with Autonomous Research. Please go ahead.

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

Hey. Thanks. Good morning. Just following up on that question Meyer had. I mean there's clearly some lines we're seeing a lot of rate, excess casualty, I mean, is plus 7% and middle market which is plus 3%. I mean, Even, I guess, I'm curious, is the rate and the pricing even a good indicator of on a line by line basis what's happening with margins, like for instance, are the lines that are getting plus 7% likely to see more margin improvement than the lines are only getting plus 3% or is that really just based on relative need?

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

So based on relative need you can't translate it. We can, but we don't, we are not disclosing that and we don't go there.

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

So what are some areas where you think that loss trend is, I'm sorry, the rate is below lost trend, what are some lines that jump to you?

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

The rate remains below loss trend, a lot of E&S casualty, it varies by line of business, but rate continues and not below loss trend, it's actually above loss trends. I shouldn't say that, let me take that back. But it needs more rate because you look at the combined ratio starting point in those lines. I see this -- I see stressed lines right now and the better way of saying it, because I am not going to give it to you by line in real specific detail. But I see stressed lines getting above loss cost trend and it need to, which helps to begin to improve the margin in that area. Now, in many of those areas we shrank and shrank substantially, because that you could see it in our numbers. We've talked about it. Go back in how we talked about shrinking our Westchester business, our London E&S business, our reinsurance business, as examples, because of the competitive environment. And in those areas, some of them have classes where we see growth opportunity right now, because rate is exceeding loss cost trend and it presents opportunity. Some rate is exceeding loss cost trend, we right a modest portfolio and we're -- but it's still not adequate enough where we want to grow that business.

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

That's helpful. And then, Evan, I know you don't want to prognosticate...

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

I believe there are some lines where rate frankly is still not adequate relative to loss cost trend, and they're coming up, but they're still not there yet.

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

Got you. And I -- again I know you don't want to prognosticate on pricing. But I am curious, how much -- how important is -- what's going on with reinsurance pricing do you think in terms of how much primary pricing can continue to improve. Is it such that the reinsurance and what happens there, you can tell most of the story or is it still a situation where you have a primary company or ROEs are inadequate and you think you could continue to have at least firming in primary while reinsurance stays sort of not so spectacular?

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

Right now this is primary insurer driven. It's not reinsurance market driven.

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

Thank you very much.

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

You're welcome.

Operator

And we will take our final question from Mark Dwelle from RBC Capital Markets. Please go ahead.

Q - Mark Dwelle {BIO 4211726 <GO>}

Yeah. Good morning. Just a question related to the agriculture business with the various flooding and other events that we've seen so far. Does that likely to have any impact on either the premium or potentially where how you might think about losses this year?

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

Yeah. Frankly, the -- let's take it in two pieces. The wet season and how people think about late plantings and all of that. The planting season right now and the pace of it is really the same as last year and you know how last year turned out. So it's very early days and -- but right now planting conditions are pretty good and improving. And then, on the loss side from flooding, most of the flood -- most of that flooding occurred in flood plain areas. And from a loss point of view, therefore, it's -- when we look at our portfolio, it's really about late planting question. And as I said, we see the conditions of that equal to last year.

Q - Mark Dwelle {BIO 4211726 <GO>}

That's helpful. Thanks very much. That's my only question.

Operator

And I'd like to now turn the call back over to Ms. Karen Beyer for any additional or closing remarks.

A - Karen Beyer {BIO 6404488 <GO>}

Thank you, everyone, for joining us this morning. We look forward to speaking with you again next quarter. Have a great day.

Operator

And this concludes today's conference. Thank you for your participation and you may now disconnect.