Company Name: Chubb Ltd
Company Ticker: CB US
Date: 2016-10-26
Event Description: Q3 2016 Earnings Call

Market Cap: 59,091.34
Current PX: 127.00
YTD Change($): +10.15
YTD Change(%): +8.686

Bloomberg Estimates - EPS
Current Quarter: 2.436
Current Year: 9.620
Bloomberg Estimates - Sales
Current Quarter: 7753.000
Current Year: 31379.750

Q3 2016 Earnings Call

Company Participants

- Helen Wilson
- Evan G. Greenberg
- Philip V. Bancroft
- Paul J. Krump
- Timothy Alan Boroughs
- John W. Keogh
- John Joseph Lupica
- Juan C. Andrade

Other Participants

- Kai Pan
- Ryan J. Tunis
- Elyse B. Greenspan
- Michael Nannizzi
- Charles Joseph Sebaski
- Sarah E. DeWitt
- J. Paul Newsome
- Meyer Shields
- Jay Arman Cohen
- Ian J. Gutterman
- Brian Meredith

MANAGEMENT DISCUSSION SECTION

Helen Wilson

GAAP and Non-GAAP Financial Measures

During today's report, our management will also refer to non-GAAP financial measures

Reconciliations of these non-GAAP financial measures to the most direct comparable GAAP measures and related information are provided in our third quarter 2016 earnings press release and financial supplement

Evan G. Greenberg

Business Highlights

EPS, Underwriting Results and Premium Revenue Growth

- Chubb had an excellent quarter with record operating EPS, excellent core underwriting results and premium revenue growth in line with our expectations

- After-tax operating income for the quarter was $1.4B were $2.88 per share compared to $2.74 per share prior year, again demonstrating in my judgment the accretive nature of our merger
- As I have done in the last two quarters when discussing our underwriting results and premium growth and to give you greater visibility to the health of the company, I will compare our results to the 2015 prior quarter as if we were one company back then and exclude the effects of purchase accounting, again this is how, as a manager, I look at the company's performance

P&C Combined Ratio and Catastrophe Losses

- The P&C combined ratio for the quarter was a published 86% and excluding purchase accounting 85.5%
- That compares to an 85% last year as if we were one company back then
- There are three components to that
- Catastrophe losses were up over prior year to $144mm pre-tax vs. an exceptionally low $101mm last year
- Second, positive prior period reserve development of $349mm pre-tax was down $40mm vs. prior year
  - So that leads to the P&C current accident year combined ratio excluding cat losses of 88.4% vs. 88.9% last year benefiting in particular from a reduced expense ratio
- Both our North American and international insurance operations had excellent calendar and current accident year results

Adjusted Net Investment Income

- Adjusted net investment income for the quarter was $830mm, a very good result, particularly given the record low interest rate environment
- Investment income was at the top of the guidance we gave you
- We have made good progress repositioning our portfolio in ways we have discussed on past calls
  - And this has in fact contributed to the quarter's results

Portfolio

- Tim Boroughs, our Chief Investment Officer, is prepared to make a few comments on the portfolio
- If you like, just ask him
- Book and tangible book value per share were up 2.4% and 5.5% respectively
- And our annualized operating ROE for the quarter was 12%, a really good result
- Phil will have more to say about tangible book prior period reserve development and cat

Premium Revenue

- Turning to premium revenue, total P&C net premiums in the quarter were on a constant dollar basis declined 3.5%
- Foreign exchange had a one point impact

- As I have discussed on our previous calls, when we were planning the merger, we contemplated underwriting actions in certain portfolios not meeting our standards or exceeding our risk appetite
    - These actions which include either canceling or re-insuring certain business reduce our premium, but improve our risk reward profile
    - The impact from these actions will continue for the balance of this year and 2017 though at a reduced level and will dissipate as the year goes along
    - If we normalize for these underwriting actions including the purchase of additional reinsurance, total P&C net premiums in the quarter grew over just 1% in constant dollars, a 4.5 point difference
- The additional reinsurance accounts for 3.6 point of that 4.5 point difference with business cancellations representing the balance
- Keep in mind, the additional reinsurance had an outsized impact this quarter because of the one-time unearned premium transfer in personal lines

Commercial P&C Insurance Market

Pricing Environment

- I want to say a few words about current commercial P&C insurance market conditions globally
- Pricing environment continue to grow more competitive in the quarter for our commercial P&C business and 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 midsize
- And wholesale is more competitive than retail
- Certain markets are noticeably more competitive than others
- London, Bermuda, Australia, and Brazil, by example, were particularly competitive while the U.S. and Continental Europe competition is a little less ferocious and a bit more orderly but continuing to soften nonetheless
- Globally, new business is harder to come by
- It is a hungry market and competition is fierce for new business; both rate and increasingly terms and conditions, particularly when it comes to large account business

Retention of Renewals

- Retention of renewals is a high priority
- Our renewal retentions are excellent and I will give you some details shortly
- Rate movement varied by territory and market segment, but in general, fluctuated in a reasonably tight range
- For example, renewal pricing for the business we wrote ranged from flat in our U.S. middle market business to down 2% in our U.S. major accounts business to down 3% and our international retail commercial P&C operations
- Globally, general and specialty casualty related pricing ranged from down or 0.5% to down 2.5%

- Financial lines pricing range from flat to down 3% and property related pricing range from down 1% to down 5%

Net Premiums

North America Commercial P&C Business

- Now, with all of that as context, let me give you some detail on our revenue results
- In our North America commercial P&C business, net premiums were down about 2.5%
- Normalizing for the impact of the additional reinsurance we purchased and for the underwriting actions, net premiums were flat
- The renewal retention rate as measured by premium was quite good at just over 90%
- And new business writings were up about 1.5%
- In our North America personal lines business, net premiums written were down about 16%
- The additional reinsurance we purchased had a 16.5 point impact, and the Fireman's Fund had a 3 point impact
- Therefore, growth was over 3% for the combined Chubb and ACE portfolios
- Overall, North America personal lines rates were up 1.5% and exposure change added about 3%

Legacy Chubb and Legacy ACE Portfolios

- Retention remained quite strong for the legacy Chubb and legacy ACE portfolios at 94% and 95% respectively
- The legacy Fireman's Fund portfolio as we continue to convert the business to Chubb paper, retention was 75%
  - The impact of the Fireman's Fund conversion is diminishing and will be virtually gone by first quarter

Agriculture Business

- Net premiums for our agriculture business were up over 15% in the quarter
- While still early, from what we can see today, based on yield forecasts and commodity prices, this is shaping up to be a very good year for crop insurance results

Overseas General Insurance Operations

- Turning to our overseas general insurance operations, net premiums written for our international retail P&C business were down in the quarter 1% in constant dollar, and up about 1.5% when normalized with the additional reinsurance and underwriting actions
- While in our London market based E&S and surplus lines business, premiums were down 4%, were flat when normalized for underwriting actions

International Commercial P&C Business

- The renewal retention rate for our international commercial P&C business was 84% in the quarter, actually right in line with historic averages, and new business writings were down 2%
- International by line of business commercial P&C net premiums declined 3% but were flat excluding the additional reinsurance and underwriting actions, while personal lines grew 3% on the same basis

Global A&H Business

- Our global A&H business, net premiums written in constant dollars were flat in the quarter and up 1% adjusted for the underwriting-related portfolio actions
- We expect improved growth in our A&H business in Q4
- Meanwhile, our combined insurance operations in North America grew 4% in the quarter

Summary

- Again, in sum, total company P&C net premiums in the quarter on a normalized basis grew just over 1% in constant dollar
- While market conditions globally are competitive, I expect as we progress through future quarters and the impact of the merger continues to fade, given the compelling power and capabilities of the new Chubb, we will produce faster growth in the near future
  - In particular, we are building on the tremendous potential of our middle market businesses both domestic and international with both traditional core package and specialty product
- We also have greater growth potential in our A&H and personal lines business
- To the large account and upper middle markets, the power of one Chubb is compelling, as we combine product and expertise to bring total solutions to clients
- It is a real differentiator and will provide more opportunity in spite of soft market conditions
  - We are already seeing evidence of this potential growth
- We estimate that our efforts to promote new areas of coverage to midmarket and large account producers and account cross-selling in all of our businesses around the globe contributed about $88mm to our company’s new business growth in the quarter, or 16% of North America’s new business and 5% of international’s new business

Digital Distribution

Packaged Plans

- We are also on the front foot with new products in digital distribution
- For example, we recently began to introduce our small commercial business owner’s package policy, the so-called BOP, during the quarter
- What began as a small pilot with 12 agents in one state, has now been rolled out methodically to several hundred agents and we were approved to write business in 43 states
- We are executing a disciplined plan and currently have capabilities to write some 500 industry classes of business
- We have proven and deep expertise

- Our package includes broad coverage for property and liability exposures and is complemented by workers' comp, commercial auto, and financial lines products

Technology and Data

- Technology and data are a differentiator for us
- Our business package can be quoted and issued by an agent online in as little as four minutes with minimal questions
- We expect 80% of our packaged plans won't require underwriter intervention with an eventual goal to be 90% plus

Cyber Risk Product

- We also recently launched a cyber risk product specifically designed for micro-businesses via digital distribution through CoverHound as part of their new commercial insurance solutions for micro-size small businesses
- We will soon add to that a miscellaneous professional liability product and a business owner's P&C package all featuring strength through processing from quote to issue

Micro-Insurance Products

- A number of Chubb's existing micro-insurance products are scheduled to be redesigned for digital distribution on the CoverHound platform and other web-based producers in the near future
- Just stay tuned
- John Keogh, John Lupica, Paul Krump and Juan Andrade can provide further color on the quarter including current market conditions and pricing trends as well as examples of how our expanded capabilities are benefiting the company

Integration Plans and Activities

- Before I close, we are in good shape with our integration plans and activities
- We are ahead of schedule in terms of both realized and annualized savings as you can see from the updated table in the press release
- And in fact, we have now increased the total annualized run rate savings we will achieve by the end of 2018 to $800mm, up from $750mm

Hurricane Matthew

- Finally, our outstanding claims and risk engineering organization is performing at an especially high level as tested recently with a number of cats including Hurricane Matthew in the U.S
- Let's remember, outstanding claims service is what this organization is all about
- Speaking of Hurricane Matthew, while early days and from everything we know, we project our cat losses from this event to be circa $200mm pre-tax

Philip V. Bancroft

Financial Highlights

Loss Reserves, Cash Flow and Book Value per Share

- Our balance sheet and overall financial position remains strong
- Our loss reserves remain conservative
- We have $102B portfolio of cash and high-quality investments that are well rated and liquid and we are generating substantial capital and positive cash flow
- Operating cash flow for the quarter was $1.7B
- We grew our tangible book value per share by 5.5% in the quarter
- You will remember that at the close of our merger, the initial dilution to our tangible book value per share was 29%
  - As of the end of Q3, our YTD dilution has been reduced to 16%, an improvement of 13 percentage points in three quarters
  - Of course, that includes five points of benefit in unrealized gains because of lower interest rates

Investment Income

- In the quarter, investment income of $830mm was at the top end of our estimated range and benefited from strong cash flow and from the changes we are making to the management of our portfolio
- There are a number of factors that impact the variability in investment income including the level of interest rates, prepayment speeds on our mortgages, corporate bond call activity, private equity distributions and foreign exchange
- Our expected quarterly investment income run rate remains at $820mm to $830mm

Net Realized and Unrealized Gains

- Net realized and unrealized gains for the quarter were $264mm pre-tax and include $307mm gain from the investment portfolio primarily from a narrowing of credit spreads, $44mm mark-to-market gain on our VA portfolio primarily from the improvement to equity markets and $95mm loss from FX.
- Our investments are in unrealized gain position of $2.5B after-tax
- Net loss reserves increased $315mm for the quarter
- The paid-to-incurred ratio was 90%
- We had positive prior period development of $349mm pre-tax or $252mm after-tax with about 20% from short-tail lines and 80% from long-tail lines, principally from accident years 2010 and prior
  - This included $52mm of adverse development for legacy environmental liability exposures which are now included in our corporate segment
- As a reminder, we conduct our environmental review in Q3 and our asbestos review in Q4

Catastrophe Losses and Personal Lines Reinsurance Premium

- Our catastrophe losses in Q3 net of reinsurance were $144mm pre-tax or $107mm after-tax principally from U.S. weather related events
- During the quarter, we purchased additional reinsurance that reduced our net written premiums by $260mm. $200mm related to personal lines, the remainder related principally to commercial lines
  - The $200mm personal lines reinsurance premium included $128mm of one-time unearned premium reserve transfers which impact net written premiums for Q3 only
  - Excluding the one-time transfers, the annual impact of personal lines of this new treaty is expected to be approximately $280mm

Integration Related Savings and Tax Rate

- As we have mentioned, we are increasing our estimate of integration related savings
- There is no increase in our integration and merger-related expenses
- Our tax rate of 18.4% is slightly higher than our normal range due to a higher tax rate on our positive prior period development because of the jurisdictions in which the development occurred

QUESTION AND ANSWER SECTION

<Q - Kai Pan>: The first question on the capital management and you generate in the first nine months $3.5B of operating income. You recovered more than one third of the tangible book dilution and debt leverage is towards the low 20% and you've purchased additional reinsurance, I'd assume, that would limit some of the earnings volatility. And also you said market is more competitive. So how do you think your current excess capital position and the potential buyback in 2017 and beyond?

<A - Evan G. Greenberg>: Well, Kai, it's early days. We are pleased with building our capital position. It's in line with our own expectations. Capital management, we pay an awfully good dividend. We understand the potential for share repurchase and that always fits into our overall thinking when we look at all of our options and what we will do with our capital. Stay tuned. We are not in a hurry.

<Q - Kai Pan>: Okay. That's good. And then thank you for all the details on the sort of new products. I just wonder what's the reaction from your distribution networks including the middle market about this new products and also if you're worried about sort of too much concentration in terms of a like a carriers from – more from the high net worth perspective. Thanks.

<A - Evan G. Greenberg>: For the small commercial that we just launched and that's in line with our plans as we told you from the very beginning and it's a book of business that we'll build over. It takes years to do. That's right in line and that goes to agents. And we've just begun really rolling out a real way and that will continue as our technology and product comes online into the middle of next year when it will be fully operational. But as far as agent reactions, very good and I'm going to turn it over for two moment – for a moment to Paul Krump who will give you a little more sense of the feedback we are getting in the marketplace.

<A - Paul J. Krump>: Sure, Evan. I'd say that the agent feedback has been very positive. The new organization really hasn't missed the beat in terms of service to both agents and clients. I think the agents have been extremely complementary, how focused team is on finding solutions to our risk exposures.

Just one quick example. We were all recently at the CIAB and we ran into an agent who had a Fortune 500 CEO who had a personal lines risk and – but it included both the cattle and a horse ranch. And I would tell you that in the past legacy Chubb would have absolutely struggled to figure out a solution to that. And today, we were able to put that together in a very seamless way and our new capabilities in that area are unmatched and they'll only become crisper and better as we go along. So we are very excited about that.

As respect to the piece about some concentration, yeah, I would suggest to you that some of the agents have been a little concerned about the concentration. We have seen that more so and if anything in how they have moved some of the Fireman's Fund business. We expected that in the retention and that has shown up. You have to remember that that Fireman's Fund book was a conversion and we anticipated that there would be more price dislocation on the Fireman's Fund and that, as Evan said it in his remarks, will dissipate as we go forward.

<A - Evan G. Greenberg>: Kai, the market reaction to the small commercial has been very good. As we have begun to roll that out. You know the legacy Chubb brand name with agency distribution and the relationships are so deep and as we bring additional product to market, they – the reception and the goodwill couldn't be better.

And I would remind you on the dislocation question. Sure, the concentration issue is an element with producers. Look at our renewal retention rate. We are holding the business and we are in fact writing the business. So while that tension and that dynamic is there, as Paul started saying to you, our capabilities are beginning to improve that we could do farm and ranch and do high net worth together starts opening up a whole another market dimension that others can't follow. And we have other product and technology plans on the drawing board that over the next two years will start – will roll out and continue to differentiate us.

<Q - Ryan J. Tunis>: I guess my first question is on the repositioning and investment portfolio and I guess if you guys could just talk a little bit more about the changes there – made there so far. And I guess potentially if there is an opportunity to even do more there, I guess, just looking at average yield on invested assets has been flat over the past few quarters? Thanks.

<A - Evan G. Greenberg>: Yeah, well, when you say that I'm going to turn it over to Tim Boroughs but when you say that that's in the face of the declining reinvestment yield.

<A - Timothy Alan Boroughs>: Right. So Ryan, at this point we fully integrated the legacy Chubb portfolio with our investment process and operating platforms. So that's taking place. The assets have been placed with several of our managers with whom we share a long history of success. We have been working with these teams to implement strategic and tactical changes to the taxable, municipal and our international portfolios to improve risk-adjusted returns.

In addition, earlier this year, I think this is important, we shifted most of our equity portfolio into the upper tier of the BBB sector of the high yield bond market which had the impact of reducing overall portfolio volatility. This sector has returned over 14% this year vs. a gain in stocks of about 7%.

The result of all these adjustments have produced additional net investment income of over $120mm annually above what the portfolio's run rate would have been since the time of acquisition. This has been accomplished with a better balance to our asset allocation, overall reduction in portfolio volatility while we have maintained an average rating of AA.

<Q - Ryan J. Tunis>: Okay, that's helpful. And then I guess just a follow-up on the additional reinsurance and the merger-related underwriting actions. And I know Evan pointed out that most of the action, if not all the action, so far has been taken on books that were planned at the beginning in the deal. But I'm just curious how dynamic that process still is. And if whether or not you are still finding books in areas where there are sizable opportunities, I guess, to improve either the volatility profile or the loss ratio profile of the business? Thanks.

<A - Evan G. Greenberg>: Thanks for the question. No, we have been through the portfolio, and we – by the spring, so early in Q2, we had finished going through everything together. And we understood exactly where it either wasn't meeting our return expectations or where we had individual risk accumulations that would exceed our guidelines and appetite or we had aggregate risk accumulations concentrations that would exceed our appetite. So that's all done and we put in place our plans to either fix or get off of business or secure additional reinsurance.

Let me go a step further, though, because I think there is this question out there also, well, risk reward ratio and how do you think about that? And how do you as investors judge that?

First of all, I don't believe you can judge that, we can judge that, but you can't accept that how our ultimate results turn out. And I think we have a track record that speaks to pretty good underwriting and reinsurance as part of the underwriting process. We don't give away premium easily. Why would we do that? You ask yourself that question. We wouldn't.

Reinsurance and the way we look at things is not an expense. But it's rather a risk management and a capital management tool. We have very well-established use and guidelines in process to determine and manage our risk tolerances, our appetite for individual per risk volatility as an example. Our accumulations of how much we would take in anyone geography among our various products as they clash from a single event that might occur.

We have very sound capabilities to analyze the alternatives. The alternatives, do we retain the risk, do we reinsure it, and if we're going to reinsure it, what's the best reinsurance structure and the pricing alternatives? We can evaluate reinsurance pricing vs. what we think a risk is worth. We can then track the results, gross and net and adjust as facts and circumstance both company and market change over time. So it's a very thoughtful process that we go through. And frankly the question you ask yourself if you are me in the very beginning when you do something a merger like this is do you worry about the optics of the premium revenue or do you just do what you know is the right thing to do to manage the business to give the optimal return on a risk-adjusted basis. And for me, it's a no-brainer. You just do that. And anyway, thank you for the question and I answered more than you asked.

<Q - Ryan J. Tunis>: That's helpful and I guess just one follow-up, Evan, is I mean clearly we have seen the cost in the NPW growth. I mean when you look at the results thus far, to what extent are we seeing the benefit of this? I mean do you look at this and think that all the underwriting actions and reinsurance you have done have improved results so far? Or do you think that's largely just still on the come. In other words, the benefit hasn't really played out at all on what you have reported?

<A - Evan G. Greenberg>: Well, look, you can't measure with absolute precision. But what I will tell you is this. The actions you take are on a written basis and then that earns in over a period of time; generally a one-year period of time. So the results will – of that will emerge over time. It ameliorates margin pressure you get from rate reduction and trend, loss trend that occurs on your book of business. It ameliorates your results due to – you know from a single catastrophe or a series of catastrophes when they occur. It ameliorates your results in frequency of large losses if you have limited your per risk net because you don't think you are getting paid for that excess layer or have the spread of risk worth taking the volatility. And so you judge it over a period of time. But I think you are liking our underwriting results and it's all part of that.

<Q - Elyse B. Greenspan>: First kind of high level question. We have a specter of inflation picking up next year. We have seen some of your peers report spinning reserve releases. Evan, do you think that it will reach a point where the industries start potentially taking more prices to get ahead of what could potentially be a painful inflection point in terms of inflation?

<A - Evan G. Greenberg>: Yeah, let me just clarify one thing. Did you say inflation is taking off next year?

<Q - Elyse B. Greenspan>: I said there is a specter that maybe inflation could pick up when we get to next year.

<A - Evan G. Greenberg>: Yeah, I think they just hang that ghost out there and it just hung there the last few years. Everybody looks at it and says maybe it's coming. Look, loss trend hasn't – it's not like there is no loss trend. There is inflation in claims. It varies by class. But it isn't like it has disappeared. It continues and you see it in certain classes where it rears its head and then in other classes it's there, it just is a bit more benign.

Pricing is flat or down and it's interesting to me the way I listen to people talk about the market because they will say, well, see the market is not softening because the rate of decline of prices has ameliorated. Well, that's almost – that's mindless to me. The rate is still going down, just going down at a slower rate. That's still softening. And even if it's flat, it doesn't keep trade – pace with loss cost trend.

So eventually, it's going to show up in results. When? I can't say with any specificity. And you know at that point when it shows up does that mean a market turns? It's a lot of capital. And there is a hunger for a rate of return. Even the insurance industry giving a mid-single digit ROE which is miserable on a risk-adjusted basis to me; that is attractive to many where there is trillions of dollars sitting in negative returns right now and just hungry for yield. And if they can get absolute yield of 2%, 3%, 4%, 5% on an absolute, forget risk adjusted basis, they are interested. So you just continue to see more capital coming into the business. So I am not imagining and I don't run our company, I can tell you, we don't build a strategy based on a market turn. We base it on the market we see.

<Q - Elyse B. Greenspan>: Okay. That's helpful. And then just a couple of numbers questions for Phil. How much of the integration savings came into the numbers in Q3?

<A - Philip V. Bancroft>: So third quarter actual realized savings from an accounting standpoint were $102mm and that would bring – so it was $28mm in Q1, you'll remember, $72mm in Q2 and $102mm in Q3, bringing the YTD total to $202mm.

<Q - Elyse B. Greenspan>: Okay, great. And then what was the FX impact on EPS in the quarter?

<A - Philip V. Bancroft>: It was $10mm.

<Q - Michael Nannizzi>: I guess you spoke a bit about developments on the commercial side in terms of the policy in small commercial. Can you talk a little bit about investments you have made on the personal lines side and maybe either new products or new geographies or further integration of those previously three separate brands? Thanks.

<A - Evan G. Greenberg>: Yeah. We are making investments in the area and this is only a certain number of months, but they will roll out as we go along. So let me give you a little more color. We, first of all, have reorganized ourselves between all the disciplines, between actuarial, underwriting, marketing and sales where we can in a faster and more practical way react to each region in the United States which each one behaves a little differently where the States behave differently in terms of both competitive behavior and what we see from a financial profit and loss perspective of pricing.

Number two, we are right now in the middle of making investments and executing on actions around what will ultimately come out in the next – I'm not going to predict the month precisely, but we're going to start rolling out a digital experience around our high net worth business where customers will be able to interact with us and procure service and actually manage coverage in a more digital way.

Foundational technology, there is a need to make large investment to update and be state-of-the-art in our foundational technology around underwriting and claims, claims we've already done it and we will be investing in the underwriting side and plans are afoot to do that.

In product, Paul began to tell you one of the initiatives that we're already engaged in and that will emerge and that is the high net worth. There is a large segment to that population that has farm and ranch exposure. And you can't – typically you can't get it all from one carrier. We have the capability with our farm and ranch capabilities, as well as our high net worth capabilities. We are putting them together. We have already been piloting where we will be able to serve that segment and that distinguishes us from anybody else, one-stop shop.

Coverages around cyber liability, which on a personal basis and particularly for high net worth, is a new exposure. We've rolled out product to address that area before anyone else in the market did. And so you know we are – this is not something where you throw a switch. I mean I said from the beginning it would take a couple years but we have a lot underway.

<Q - Michael Nannizzi>: Great. Thanks. And then maybe just a quick one for Phil just on the reserve development, and we have seen some sort of divergent trends from other folks so far this year particularly this earnings season around development. Just curious if we will be able to get a little bit of color on whether the development came from legacy ACE or legacy Chubb and if the trends have been different from the two legacy books and how we should think about the standardization of those two as we go forward. Thanks.

<A - Philip V. Bancroft>: Let me start with – I will turn it over to Paul in a second, let me just start with - in general, this cycle was primarily related to the casualty book. I mean the most weight in our studies were casualty. But we also had some personalized development that I'll ask Paul to talk about.

<A - Paul J. Krump>: Yeah, yeah, thanks. Thank you both. As Evan has mentioned on previous calls, we are integrating our actuarial process for all lines. And in doing so, we are bringing together much more credible data than previously available in the personal lines space as we've got the three big portfolios. And that data just caused us to increase our expectation slightly on the legacy ACE personal lines book. In particular, the homeowners and personal access lines were increased ever so slightly. Again, that's on the legacy ACE book, it's not in the personal auto. I suspect I know what you are pointing towards and it's not the auto.

<A - Evan G. Greenberg>: And then remember, it's on a base of a couple of, few billion dollars actually – $0.9B base [indiscernible] (43:48).

<Q - Charles Joseph Sebaski>: I guess a follow-up on the new initiatives with the BOP and small cyber in commercial. If we are taking a couple of years out, what's – how large of a component of the book to this part of the business be? Can these small policies, small risk component be a material component of the overall commercial business?

<A - Evan G. Greenberg>: Yes.

<Q - Charles Joseph Sebaski>: Okay. All right. Fair enough. We had another one on cross-sell and how the cross-sell opportunity set is with these small policies and personal line and then the A&H business. I guess I'm thinking in the U.S. Is A&H a differentiator in the Chubb, the larger personal lines book that you have now and are those pieces integrated or am I thinking about that wrong?

<A - Evan G. Greenberg>: No, you are thinking right. And I am going to start with an answer to you and then I wanted to take your question even a little broader and I'm going to ask Paul and John to talk a little bit about middle market cross-selling and what's going on in upper middle market. But let me take your A&H and by the way on small commercial when you ask could it be material? I am going to repeat to you one thing I have said before. First of all, it's about $90B market in the United States. Number two, average premiums though keep in mind a couple thousand dollars. So it takes – you've got to write a lot of customers to build to cast a real shadow. In a number of years – in a few years, I expect that this will be a book of business with a B on the end of it, okay. That's what I mean by significant.

When you talk about A&H, it's in two pieces. First, in the combined, we do a worksite marketing and we have great technology and we now have quietly built over $100mm of business that is growing quickly where we are doing supplemental A&H products not traditional health. Sort of like the same thing that you would see Allstate or Aflac doing. We are competing very well in that business.

We have now introduced it to the Chubb independent agency distribution system right alongside our P&C offerings. And because most of the agents have an employee benefits division, and so we can come in where it is 50 to a couple of hundred lives, that's a sweet spot for us, and with technology and enrollers offer supplemental health products such as accident insurance, dread disease, hospital cash, et cetera, and that is a real initiative that we think has legs that over a number of years is going to grow substantial business.

Secondly, through our corporate A&H division as part of our major accounts and our middle market, traditional travel accident insurance and global business travel to corporations where they pay for the insurance for employees, we are – that is a real initiative for us and it is part of our cross-selling along with a whole host of other products that I'm going to ask John to start talking about and Paul and just give you a better sense of that cross-selling.

<A - John W. Keogh>: Sure. Thanks, Evan. And, Charles, yes, to Evan's earlier point, we've really focused on our cross-selling into our existing customer base and agency books. And also we call strength of the organization where we've added resources and distribution.

I will remind you that with the Chubb, we've picked up 48 branch offices that are just terrific assets for us. Some of the things that we are selling is clearly the specialty product that ACE brought to the table, things like environmental. Things like global programs, a broader access appetite, deeper financial lines, cyber, international, construction, transactional risk. These are all specialty plays that our branch operation is just doing a wonderful job at distributing and getting to our relationships and adding that cross-sell.

A couple quick examples on the upper middle market side. We had a global digital company where the Chubb organization had a small specialty product. This client needed a worldwide program from domestic casualty to international casualty and to the new ACE products with the Chubb relationship and the Chubb team and this organization holds together the rate in excess of $3mm deal. So, there's a number of those examples I can run you through, but it just brings to life one example where the organization has brought together additional capabilities.

<A - Evan G. Greenberg>: And I want to add one thing about that account and that was beyond the capabilities – it took the capabilities of both organizations. The product set that legacy Chubb brought and that legacy ACE brought by themselves, each one was hardly enough to win the day. The two together, there was no one who stood up to us in the competition. It was fascinating. Paul?

<A - Paul J. Krump>: Yeah. Maybe just another quick example, because I think John did a great job outlining it. Going back to the strength of the organization an agent friend of mine told me a story where one of our clients in the personal lines world runs a business. It's in the healthcare industry. And this prospect of his was very anxious to get a Chubb quote. He explained to them that he didn't think that this risk was within Chubb's appetite. But he also admitted to the client prospect that, in fact, now that legacy Chubb has changed to new Chubb that the appetite has shifted as well because the legacy ACE was bringing on so many more capabilities and skills.

So he approached us. And he was shocked that within days we put together a very competitive program. The underwriter that he knew helped guide his colleague through the relationship and we wrote the account with several hundred thousand dollars. So that in itself is personally very satisfying for me. But what also is very satisfying is that this agent has really turned on to Chubb right now and their submission activities increased nicely.

<Q - Charles Joseph Sebaski>: I really appreciate all the answers. I guess just one final, if I could ask, might be helpful for us is on the personal lines business, I know there's a lot of work on re-underwriting and reinsurance. If possible, if we could get some PIFF data, potentially over time help us understand the trend of the book q-over-q would be appreciated.

<A - Evan G. Greenberg>: We will note that.

<Q - Sarah E. DeWitt>: The 12% operating ROE in the quarter was very strong and you still have about another point of expense savings to realize. So is the 13% ROE about the way to view the right run rate for the company or was there lower than average losses this quarter, some seasonality in the business? Just trying to get a sense of the ROE profile for the new company?

<A - Evan G. Greenberg>: Yeah, well, I think that's a – maybe a simplistic way, it's just still a mathematical way of looking at it. You've got to figure all the other factors. So you just loaded additional expense on top, let's see what happens to rate and trend and losses and mix of business and all the rest. I'm not projecting. I don't give guidance.

<Q - Sarah E. DeWitt>: Okay. Thanks. And then the underlying...

<A - Evan G. Greenberg>: You are welcome.

<Q - Sarah E. DeWitt>: ...the underlying combined ratio in the quarter remains steady despite your comments about market conditions. What's driving that and you view that as sustainable?

<A - Evan G. Greenberg>: Not giving you guidance. On the other side of the coin, I feel pretty confident in our underwriting – in our ability to produce superior results relative to the industry. Our mix of business, our underwriting discipline, our willingness to shed business, to reinsure business, not to grow where it doesn't make sense and to grow where it does make sense, our global reach and our balance of businesses by geography, by country where we selectively determine to write each line of coverage, not mindlessly across the globe, but selectively decide which country to write which business in, our mix between middle market, small, and large commercial, our mix between specialty and traditional.

The fact in major accounts business where we have superior capability, so it's not simply about the cheapest price per shared and layered but that you bought the franchise and therefore it's our ability and primary casualty to be able to pay your claims, to be able to issue the paper all around the globe, collect the money and move the cash flow, pay the taxes for you and then write all the excess coverages. Our ability to write multiple coverages on you on a global basis and not simply one coverage, I think, all that goes into those results, Sarah.

<Q - J. Paul Newsome>: I've got a couple of unrelated questions. The first one is – I cover a lot of regionals which is, I guess, my problem. But they are all telling me that they are going after the high net worth personalized business. I think some of this maybe they are not really going up to really targeting your affluent as opposed to affluent, but it's hard for me to tell exactly how far up the scale they are going towards Chubb's business. So the question really is are you seeing those folks and are they indeed trying to take the incremental customer out of that truly high net worth marketplace?

<A - Evan G. Greenberg>: We are seeing the competition in one or two in the mass affluent space, creeping into the lower end of high net worth. It's a price play, offer a cheaper price. Having the broad coverages and the service capability, that's what it's really about. And so people are going to compete simply on price but not the same quality of product and service and that's the game. That's fine. You will always have that.

And as I have said from the beginning, we expect that with the merger, there would naturally be others who would come into the space. It makes sense. It ought to happen. That doesn't disturb us. But your ability to actually become a true high net worth player requires a lot of investment, a lot of patience, and because you've got to build a hell of a capability and service and you've got to be able to follow your customers where they have exposure. And by the way, you've got to have a balance sheet and appetite for greater volatility or risk because high net worth behaves like a commercial account, not a traditional personal lines account.

<Q - J. Paul Newsome>: Great. And my other question which is completely unrelated. We have the impact from the Department of Labor coming up in April of next year. And there are some folks, I think, are very smart like the folks at Milliman that think that the – essentially you're going to again end up with very few 1035 exchanges and the retentions for in-force annuity books will just sort of skyrocket. You have a life reinsurance business haven't had an issue with it or seen much impact out of lately but if you saw a large increase in retentions in that in-force book, would that have a material impact positive or negative on your results?

<A - Evan G. Greenberg>: This is variable annuity business, not fixed annuity business. You realize that.

<Q - J. Paul Newsome>: Yeah. I think that the thought is actually the variable annuity business will also – because a lot of those features are in the money will become un-transferable because they will have to explicitly estimate those – the value of those derivatives to the customer and it's very hard to swap them into something else if they are in the money.

<A - Evan G. Greenberg>: Yeah. We will have to take that off-line with you but I would say this. We study the lapses in the annuitization rates on a regular basis. We react to the changes as we see them. You realize we write an [ph] XOL (58:54) book, an excess of loss book. That has been in run-off since 2007. Our lapses have been running to date better. They have been running lower, in fact, than we – than originally imagined and we watch those annuitization rates pretty carefully.

<Q - Meyer Shields>: Evan, one sort of big picture question in light of the quarter's reflection of pricing trends and sort of the overall economy. Are you more or less optimistic about the revenue synergies from the combination of ACE and Chubb than you were 6 months to 12 months ago?

<A - Evan G. Greenberg>: Yeah, I am the same about the revenue synergies between ACE and Chubb, absolutely the same. What I can't speak about is, yes, the capabilities and our ability to bring those capabilities and differentiate whether it's new product and absolute like small commercial or bringing product to customer through – in middle market or in large account. I am absolutely right where I was about that. What I can't tell you is how much joy you get at any one moment for it depending on market conditions. And you know I expected a competitive market and we certainly got one.

<Q - Meyer Shields>: Okay. That's helpful.

<A - Evan G. Greenberg>: And remember this, which is very interesting to me. I told you that really you can't be Pollyannish about it that. In the beginning we would take some actions that would have dis-synergies, I hate the word – give me a better word where we would cancel some business, we would reinsure some business. So you'd reduce some premium revenue that growth initiatives would occur over a number of years and I said a three-year to five-year period to show a meaningful difference. We are keeping track of it.

At the same time, you are going to have on your basic book of business. You are going to have a certain lapse pattern and a certain new business pattern and if you are a disciplined underwriter that pattern is going to vary depending on the market conditions. Then you add the two together and there you go. But what I know – there you go as your ultimate growth rate, but what I know is we can measure the power of the integration from a revenue point of view and be able to track how one plus one is better than the two by themselves in any market condition. Are you following me?

<Q - Meyer Shields>: I do. Yes, that's very helpful.

<A - Evan G. Greenberg>: Okay. You are welcome. Did you have another question, Meyer?

<Q - Meyer Shields>: Just a very quick one in terms of the reinsurance purchasing. Is there any – I don't know guidance is the wrong word but ball-park you can give in terms of how the ceding commissions compare to the acquisition expenses?

<A - Evan G. Greenberg>: How the ceding commission compares to what?

<Q - Meyer Shields>: The acquisition expenses on a gross basis.

<A - Evan G. Greenberg>: Yeah, sure. The ceding commission is better than the acquisition expense. Otherwise, I didn't even cover my operating expense.

<Q - Meyer Shields>: Okay.

<A - Evan G. Greenberg>: Let alone are you giving me a margin for my good business I'm giving you.

<Q - Jay Arman Cohen>: I think about the environment and just as you are really emerging as this mammoth global company, two of your competitors are clearly pulling back. And I am wondering if you are seeing that in the number of submissions you are getting?

<A - Evan G. Greenberg>: We are not only seeing it in the number of submissions we are getting in that – particularly in that large account business but we are seeing it in the writings. John Lupica.

<A - John Joseph Lupica>: Yeah, absolutely, thank you.

<A - Evan G. Greenberg>: And then Juan Andrade.

<A - John Joseph Lupica>: Yeah, Jay, there is no question in that global casualty business where we have invested a bunch of resource and time and people over the last 7 years to 10 years delivering a terrific product and being consistent with our pricing and our offerings. We are absolutely seeing opportunity from a couple of our competitors stumbling a bit. We are seeing more submissions and we are seeing more new business come into the portfolio at adequate rates. I remind you, we compare our new business to our renewal business and the adequacy is on par to our portfolio.

So that is one area when Evan noted our new business was up that we're definitely seeing new business increasing. It's all global casualty risk manager business. And that would include lead layer umbrella; that would include global property fronts and lead layer financial lines in there as well.

<A - Juan C. Andrade>: On the international side, Jay, I would add the same thing. We are really seeing more opportunity here as some of our competitors stumble particularly on the service side. We are seeing more risk managers coming to as we – the large brokers looking for essentially the franchise opportunities that Evan described given our multinational capability. So we see it in our pipeline but we also see it in our new business particularly in places like Continental Europe.

<A - Evan G. Greenberg>: And, Jay, the factor on the other side that stops us from writing all of it depends on is the market condition. They will come to us if they want the service now, are you willing to pay us the price we want? And in an awful lot of instances they are bringing in the risk and it's at a price that the expiring price is at a discount to what we think it's worth. And there you go. There's the bid/ask and whether we are going to write it or not.

<Q - Jay Arman Cohen>: Got it. The other question on the auto side. Obviously, there was some noise on the personal auto side, all the stock seemed to go down on some of those days. Our suspicion is that personal auto is a very small part of your business. Can you talk about how big that business is for you?

<A - Evan G. Greenberg>: Yeah. Paul Krump is actually looking for his statistics at the moment. But, yeah – and our combined ratio is behaving pretty well. It's not a huge book for us. Paul?

<A - Paul J. Krump>: Yeah. Just to level set again it is not a lead line for us in personal lines. I mean we generally write automobile only along with our other coverages for our customers. In addition our auto product really appeals to customers looking for much broader coverage and service particularly when it comes to vehicle repair and especially around safety systems. So I would tell you that we are just not the best source for confirming standard market auto trends. Our premium is much more skewed towards the homeowners and we have far more cars typically than we have drivers.

<A - Evan G. Greenberg>: We do see – and we have seen for a while what some others in the market have seen and that is there is a – particularly there's been an upward trend in severity. Look, the kinds of cars that our drivers drive are more valuable cars. The technology continues to evolve both in the materials used to manufacture the cars and the computerization, the digitalization of automobiles. And so that drives severity and we have seen that severity increase over a period of time we have been taking rate and we are making an underwriting profit in auto. And by the way, the volumes – look at page seven of the supplement you get the total – you get the volumes on a global basis.

<Q - Jay Arman Cohen>: Got it. Well, such is my experience because you write my house but you don't insure my crappy car, so...

<A - Evan G. Greenberg>: Thank you. You are a friend, so I'll just withhold my comment – my report to you. You have teenagers in the house? I don't want them.

<Q - Ian J. Gutterman>: I guess I have a comment, first, maybe building off the last comment there is I am looking forward to the new digitization in high net worth because the current Chubb website for homeowners feels like something out of the 1990s, so I'm hoping for something more customer friendly. So my first question on the cost saves. It looked like the incremental $50mm if I just compare the chart to the old chart, pretty much all comes in 2016, so it's basically already done or about to be done. A, is that accurate? And, B, can you give us a little color on sort of what's been done YTD and sort of where we see it? Is it expense ratio in the segments? Is it corporate? Is it LAE? Is there a way for us to sort of identify it, I guess, in our models or is it too broad-based?

<A - Evan G. Greenberg>: No, there is – I'll make that part short. There's no way for you to identify it.

<Q - Ian J. Gutterman>: Okay.

<A - Evan G. Greenberg>: You will not be able to. Number two, you'll identify it in the overall as you watch the expense ratio...

<Q - Ian J. Gutterman>: Right.

<A - Evan G. Greenberg>: ... and we can also identify to you in the loss ratio what percentage change in LAE exists then on – so we are tracking the savings. By the way, we track it in a very buttoned up mathematical way. It comes through finance and accounting. It's got controls around it. It can be audited both externally and by internal audit. And so we don't put out these numbers without real governance and control around it all and that's how we manage to it anyway. So it's all for real. And then what you have on the other side is what counterbalance is any investments you have that you make that will increase expense for normal inflation and expenses. So, we kind of track between the two pieces. Your question about the $50mm, no, it's not in 2016, it's in 2017 and 2018.

<Q - Ian J. Gutterman>: Okay. I have to go back and look at that again.

<A - Evan G. Greenberg>: And if you want, Phil, I think we are going to expand on that.

<A - Philip V. Bancroft>: I was just going to say that's right, it was across the years, the $50mm increase. And you can just compare to Q1 disclosure, you'll see it.

<Q - Ian J. Gutterman>: Right. Before you had – so now you have $310mm of actual achieved in 2016 before you had $270mm – $275mm. That's why I'm saying it's mostly in 2016.

<A - Philip V. Bancroft>: Well, the realized was, I think, the $800mm is the annualized.

<A - Evan G. Greenberg>: Is the annualized. Look at the annualized again.

<A - Philip V. Bancroft>: Yeah, yeah.

<Q - Ian J. Gutterman>: Okay. I will follow up off-line that one. So...

<A - Philip V. Bancroft>: We definitely did accelerate what we would have expected in 2016.

<Q - Ian J. Gutterman>: Okay.

<A - Philip V. Bancroft>: But you will see that the additional $50mm is spread across the years.

<Q - Ian J. Gutterman>: Got it. And then just to follow up on the small commercial effort. I guess, Evan, can you help me understand sort of, I guess, what I am struggling with there, right, is that business is obviously as you said it's very low ticket, very sticky. It doesn't change carriers a lot and it's very dependent on sort of the experience with the CSR almost as much or more certain with the customer. What sort of your edge going to be? Is it going to be a new take-on service centers? Is it going to be a new take-on front-end quoting to make the CSRs want to do business with you instead of someone else? What sort of the hook, I guess?

<A - Evan G. Greenberg>: So the hook is a couple. First of all, in the agency, they are predisposed to grow their business with Chubb.

<Q - Ian J. Gutterman>: Okay.

<A - Evan G. Greenberg>: The market concentration of this business when you think of the guys who are – that you would think of are the ones who are leading brands in it. Well, in aggregate, they have 20% market share of $90B market. So it's incredibly spread. And there's a lot of carriers in there that frankly the agents, if you take the relationship and their – with Chubb they want to grow that relationship and they have more confidence in that. So you start with that.

Number two, our technology and our ability to quote find an issue and a four-minute to do it and that you don't touch? That's something that is a great differentiator to CSRs.

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

<A - Evan G. Greenberg>: And then that we will offer the total product package plus specialties wrapped around it that others don't have is a differentiator. So I think when you add all three together over time, we will grind this out and this is not a passing game where you make a 50 yard gain in one play. This is a grind it out foot by foot, yard by yard.

<Q - Ian J. Gutterman>: Well, that's surprising – that's what I was actually going to ask. Thanks a lot.

<A - Evan G. Greenberg>: And that's great. That's what we are in the business of. We are all not trying to get out of the business tomorrow. We are here for a long time building a company and this is part of the effort. So it's not something like what's the update every quarter? How it's looking? Come on, you measure it over years.

<Q - Ian J. Gutterman>: Okay. So is it a by agency approach? I mean you are trying to win over agents and get book roles one at a time or is [ph] it canopy to get it (1:13:30)

<A - Evan G. Greenberg>: No, you go agent by agent, you love book roles, but that's again, that's like a short pass.

<Q - Ian J. Gutterman>: That's what I'm wondering.

<A - Evan G. Greenberg>: You go yard by yard and sure you would love book roles and maybe you'll get some of those, but you're taking a policy by policy.

<Q - Brian Meredith>: Just a couple quick ones here for you. Evan, just looking at the global reinsurance business, big decline in premiums. Is that all just market related or are you seeing some customers shying away from you now that you're just a much bigger primary player and what is the outlook for that business for you guys?

<A - Evan G. Greenberg>: No, there is nothing related to – we have been a big primary player for a long time. There is nothing related to that, Brian. It is truly market. Our reinsurance folks, we liberated them a long time ago from volume. You will do the right thing to earn an underwriting profit or you will walk away from the business.

<Q - Brian Meredith>: Okay.

<A - Evan G. Greenberg>: And that's – all that's a reflection of and look, it's a little like the E&S business. In reinsurance, you have to be prepared in the way we run reinsurance, everybody a little differently. Where it has more volatility to it based on the market signature, you will have moments where you [ph] handle (1:15:15) the moments when you may grow very quickly and then you've got to be willing and prepared that on the other side there's volatility and you just shut like mad if you have to if your intent is to earn an underwriting profit. Wholesale E&S is next like that and it expands – the market expands or shrinks depending on market conditions.

<Q - Brian Meredith>: Great. And then my next question for you, Evan, can you tell a little bit about what you are doing efforts to roll out the Chubb brand particularly in the personal lines side in some of your emerging markets platform that ACE used to have? Or it has, sorry.

<A - Evan G. Greenberg>: Yeah, we are focused in just a couple of geographies around the world. We are focused in the U.K. There is a business and it has been a good business and we are putting more effort and more investment into that U.K. business and Juan is exploring a couple of places on the continent in a thoughtful way where there is opportunity we believe.

And beyond that, we are in Australia and – where we have a portfolio and are growing that. Other than that, it's where our customers emanating out of the U.S. or one of those markets may in fact have a property or an exposure in another country, then we have a Lloyd's platform that is used to be able to quote an issue that alongside their U.S. policy because they have a home in Mexico or they have a home in Colombia. So we can serve it on a global basis.

<Q - Brian Meredith>: Got you.

<A - Evan G. Greenberg>: The notion of expanding high net worth into a whole lot of countries, if you understand the market environment in those countries and the actual consumer behavior, there is – as we know it, there is not a high net worth market to be pursued in most markets of the world. That's just a fact.

<Q - Brian Meredith>: Got you. And it is more and more rolling out the Chubb brand in some of those emerging markets, does that kind of carry weight in areas like China and some other areas?

<A - Evan G. Greenberg>: Well, it does carry weight. And we are pushing – I would say this, the ACE brand was a bigger brand in China, as an example. The Chubb brand – the conversion to the Chubb brand is – it gets the halo of what was the ACE brand because it's based on personal relationship more than anything. In the other markets of the world, the Chubb brand, ACE brand we are promoting the brand and building it.

And I think it's very well received. And I – there is a tremendous brand equity in that Chubb name. And it just has a distinguishing brand image in terms of service and claims like no other insurance company I know. And that is an asset. And that is an asset that we will promote that we will burnish that we are fiduciaries of and we will protect