Q1 2020 Earnings Call

Company Participants

- Evan G. Greenberg, Chairman and Chief Executive Officer
- Karen Beyer, Senior Vice President, Investor Relations
- Philip V. Bancroft, Executive Vice President Chief Financial Officer
- Timothy Boroughs, Executive Vice President, Chief Investment Officer

Other Participants

- Brian Meredith
- David Motemaden
- Elyse Greenspan
- Greg Peters
- Larry Greenberg
- Meyer Shields
- Michael Phillips
- Mike Zaremski
- Paul Newsome
- Ryan Tunis
- Yaron Kinar

Presentation

Operator

Good day, and welcome to the Chubb Limited First Quarter 2020 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 welcome to our March 31st, 2020 first quarter earnings conference call.

Our report today will contain forward-looking statements, including statements relating to company performance and the impact of the COVID-19 pandemic and its economic and other effects, pricing and business mix, and economic and market conditions, which are subject to risks and uncertainties, and actual results may differ materially.

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

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

And now, it's my pleasure to turn the call over to Evan.

Evan G. Greenberg {BIO 1444445 <GO>}

Good morning.

We're in an unprecedented moment of historic proportions. None of us living today has experienced an event of this nature of magnitude. It is at once surreal and catastrophic. As a country, we will manage through and heal both our society and economy and it will take time.

The decisive heroic actions taken by our health professionals in combination with the support and leadership of our federal and state governments, and our vast private sector and civil society are a powerful force to combat the virus, stabilize our financial markets, support our economy which remains in a virtual coma, and set the stage for recovery.

The most important thing we can do now to achieve stability and health while reopening the economy is to improve our test, digital trace and isolate capability. The insurance industry plays an important role in our economic foundation. During this health and economic crisis, we are shouldering our responsibilities, and carrying our share of the financial load. This event impacts both the liability and asset side of our industry balance sheet.

With that, I'm going to divide my remarks into two parts. First our quarterly results, which were very good. Then I'll provide some perspective on the current environment and how we are operating. To begin, as you saw from the numbers, we reported core operating income in the first quarter of $2.68 per share.

The quarter was marked by very strong premium revenue growth globally, an excellent underwriting results on both a published and current accident year basis. The calendar year P&C combined ratio for the quarter was 89.1% versus 89.2% prior year with P&C underwriting income up over 9.5% in constant dollar.

On a current accident year basis, excluding cats, the combined ratio was 87.5%, a full point improvement over prior year with current accident year underwriting income up over 18%, the major difference between calendar year and current accident year, underwriting income growth was a reduced benefit from the runoff of the '19 crop insurance year. You'll recall '19 was a difficult year for agriculture while '18 was an excellent one. Book and tangible book value per share declined 5.5% and 7.5% respectively for the quarter, and Phil will have more to say about investment income book value, cats, and prior period development.

Turning to growth in the rate environment; P&C net premiums grew 8.9% on a published or 9.3% in constant dollars. The commercial P&C pricing environment continued to firm across the globe. We secured greater market share as we achieved improved rate to exposure in more lines of business and this necessary firming continued into April.

Overall rates increased in North America commercial, which includes both major accounts and specialty as well as middle market and small commercial by 10.5%. New business was up 27.5% in the quarter, and renewal retention was 95% on a premium basis.

Our North America commercial P&C business had a strong quarter with net premiums growth of over 10%. In major accounts and specialty commercial, excluding ag premiums grew about 9.5% with major account retail growth of 7% and E&S wholesale growth of over 19%. In terms of rate increases, rates for major accounts were up 13%, and in Westchester and Bermuda, they were up 16% and 42% respectively.

Turning to our U.S. middle market and small commercial division; premiums grew 11% overall with middle-market up 9% and small commercial up over 40%. Renewal retention in our middle market business was 94.5%. Middle market pricing was up over 6.5%; and excluding workers comp, it was up over 7%.

In our North America personal lines business, net premiums written in the quarter were up 4.8% and the retention remained very strong at 98% on a premium basis. In our international general insurance operations, growth remains strong with net premiums written up 10% in constant dollar, and FX then had a negative impact of about 1.3 points.

Net premiums for London wholesale business grew over 27% while our retail division was up over 8.5%. Growth in our international retail business was led by Latin America, which was up 13, Continental Europe and the UK had growth of 9.7% and 9.1% respectively. And overall rates in our international retail business were up 8% and 18% in our London wholesale.

Our international life insurance business had a strong quarter with net written premiums up nearly 30% in constant dollar. John Keogh, John Lupica, Paul Krump, and Juan Luis Ortega can provide further color on the quarter including current market conditions and pricing trends, but that's ancient history and from another time. What's important is to recognize the underlying strength and momentum of our company as we entered this moment.

Turning to the current environment, the COVID-19 pandemic and consequent economic crisis will of course impact Chubb. Our growth momentum, particularly in our commercial P&C business globally continued into April, and we continue to experience improved rate to exposure.

As we go forward, offsetting that will be a meaningful impact to growth from the health and economic crisis as exposures in important areas shrink for a time with the impact varying by country. This includes consumer-related lines; for example, travel insurance, A&H discretionary purchases, automobile insurance, commercial lines, where exposures are reduced while businesses are closed or as they reopen and are diminished or simply go out of business.

Small commercial businesses in aggregate will be more impacted than medium, which will be more impacted than large companies, but it will vary substantially by industry. The credit related products such as trade credit surety and other lines such as workers comp, premium revenue will be impacted by reduced exposures.

As you know, we do not give forward guidance; and in this case, the degree of revenue impact is simply unknowable. On the other hand, as I said, we are and will continue to benefit in terms of growth from improved technical conditions as many insurance companies take actions to reduce exposures or improve their rate to exposure to correct for inadequate underwriting.

This will be an earnings event for Chubb. It will not threaten our balance sheet. Operating earnings will be impacted predominantly on the liability side of the balance sheet from increased insurance claims though the asset side will likely be impacted as well from increased asset impairments. In addition, as I just mentioned, earnings will be impacted by a reduction in premium revenues for a period of time.

In sum, from what we know now, this will be a manageable cat-like event. However, from an exposure, we really don't discretely price for, so its impact is additive to our normal projected loss exposure; in a sense, it's like what terrorism exposure was before 9/11.

We have a very strong balance sheet. Our capital and liquidity position are robust, and Chubb will continue to operate at a high level and emerge strong or stronger. Again, insurance has an important role to play in society and in the economy and we are shouldering our share of responsibility while doing our job to support our employees, our customers, and our business partners.

We have been quite clear about our priorities and it shows in our response. First, to the extent possible, we have taken care of our 33,000 people around the world and endeavored to keep them safe through aggressive work-from-home protocols. We have provided them a degree of peace of mind knowing their jobs and benefits are secure during the health crisis with a no layoff pledge.

Second, we have remained consistent in how we take care of our customers and distribution partners doing what we can to support their needs. In fact, we are operating around the globe as a normal company during abnormal times.

I am so proud and absolutely grateful for how my colleagues are performing every day as a group from the smallest to the largest unit, from the biggest to the smallest country, how each is focused on delivering on our mission from internal operations to underwriting sales, claims, marketing, and finance. It's really quite remarkable.

We're extending payment terms to commercial customers recognizing their cash flow pressures. We're providing a premium credit for auto policy holders in the U.S. recognizing their reduced exposures. We're supporting our U.S. small business clients with premium reductions for their reduced exposures, and we're supporting our small commercial clients by providing healthcare workers, and first responders with gift cards redeemable at our customers' businesses.

Lastly, as a corporate citizen, we're contributing to the immediate emergency response today while supporting the future tomorrow. Our commitment of $10 million to pandemic relief efforts globally is being directed to a range of organizations that provide essential resources immediately in areas that are facing the most acute need.

This includes providing emergency medical equipment and supplies to healthcare facilities and helping community food banks to support those, who are hungry and vulnerable, including so many who've become unemployed as a result of the pandemic. This is only the first chapter. As we move into the recovery phase, The Chubb Foundation will commit substantial additional funds.

In sum, our country -- our company is very strong. Our balance sheet is in good shape, and we are operating well. While I see pressure on revenue and earnings in the short term, I see much opportunity for us in the future. Given all of our capabilities, I am confident Chubb will weather these difficult times, and emerge stronger from this challenge.

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

Philip V. Bancroft {BIO 4621336 <GO>}

Thank you, Evan. I want to begin with a few words on our financial position, which remains exceptionally strong. Our balance sheet includes a AA-rated investment portfolio with a relatively short duration and a conservative approach to our loss reserves. We have over $67 billion in total capital, which as we enter this period is very strong stemming from superior operating performance.

Our access to liquidity on a global basis is excellent and unimpaired. Our operating cash flow remains quite strong, and was $1.7 billion for the quarter. Net realized and unrealized losses for the quarter of $3.7 billion after tax included $2.2 billion from an investment portfolio, which resulted primarily from widening credit spreads in the investment grade and high yield bond portfolio through March 31st.

Even after considering the valuation adjustments noted, our portfolio remained in an overall unrealized gain position through the quarter end. Since that time, credit markets have recovered and liquidity has improved as a result of the extraordinary actions taken by the Fed in response to the COVID-19 pandemic.

The portfolio mark has improved by approximately 1.7 billion pre-tax through this Monday. We also had a mark-to-market loss on our variable annuity reinsurance portfolio of $560 million. This was primarily due to negative equity returns and an increase in implied volatility.

Again, this is purely a mark-to-market adjustment required because the transactions are deemed to be derivatives for accounting purposes and it does not indicate a reduction in cash flows from our reinsurance treaties for the quarter. The results are in line with our expectations given these market conditions.

Finally, realized and unrealized losses included $896 million after tax losses from FX related to our net asset exposure to foreign currency. These represent a point in time mark-to-market valuation adjustment, and do not affect the capital position of our international operating units. As we noted in the press release, the marks are market price-driven based on the last day of the quarter and a moment in time. We believe they are largely transient and will accrete back to book value over time.

Adjusted net investment income for the quarter was $893 million pre-tax, and was within our guidance range. During March, we engaged on the margin in several tactical adjustments to the portfolio. We purchased a modest amount of high-quality equities, and modestly increased our exposure to investment-grade corporate bonds.

While there are a number of factors that impact the variability in investment income, we expect our quarterly run rate to remain in the range of $885 million to $895 million. Net catastrophe losses for the quarter were $237 million pre-tax or $199 million after tax including $224 million from global weather-related events, and $13 million so far from COVID-19, which has been classified as an ongoing catastrophe.

While there was no significant impact on core operating income in the first quarter relating to COVID-19, the company anticipates that this global catastrophe event will have an impact on revenue as well as net and core operating income in the second quarter, and potentially future quarters as a result of an increase in insurance claims due to both the pandemic and recessionary economic conditions.

On a constant dollar basis, net loss reserves increased $363 million in the quarter and include the impact of catastrophe loss payments, favorable prior period development, and crop insurance payments in the quarter. On a reported basis, the paid-to-incurred ratio was 95%. After adjusting for the items noted above, the paid-to-incurred ratio was 88%.

We had favorable prior period development in the quarter of $118 million pre-tax or $94 million after tax. The favorable development is split approximately 28% in long tail lines principally from accident years 2016 and prior and 72% in short tail lines.

Last year's favorable development of $204 million included $61 million of positive development from our agriculture segment resulting from stronger than expected results from the 2018 crop year. As we said at year-end based on a difficult 2019 crop year, this level of development would not recur in the first quarter of 2020.

Among the capital related actions in the quarter, we returned $666 million to shareholders, including $340 million in dividends, and $326 million in share repurchases at an average price of $142.67 per share. Given the current economic environment and to reserve capital for both risk and opportunity, the company has suspended further share repurchases indefinitely.

Our annualized core operating ROE in the quarter was 9.4%, and our core operating return on tangible equity was 15.1%. Our core operating effective tax rate for the quarter was 16.3%. We continue to expect our annual core operating effective tax rate to be in the range of 14% to 16%.

I'll turn the call back to Helen -- I mean, to Karen, sorry, excuse me, to Karen.

Karen Beyer {BIO 6404488 <GO>}

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

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) And with that we will take our first question from Michael Phillips with Morgan Stanley. Go ahead.

Q - Michael Phillips {BIO 21023048 <GO>}

Thank you, and good morning, everybody. Thank you. Good morning. Thanks Evan for your comments. I guess the first question is going to be on the future impact on the wealth side from COVID in the coming quarters. And obviously without giving numbers, but maybe just where you feel Chubb is most exposed to that from I guess a geographic and coverage perspective?

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

I'm not going to give any specifics in that, there will be -- it'll come from a variety of areas as we imagine right now. And there will be the reason we didn't put up numbers in the first quarter is because we're going to do it in a thoughtful way based on claims that come in, that are analyzed and reported and then we're able to have a framework to project IBNR with that in a thoughtful way as well.

But claims will come from travel insurance, and A&H will have business interruption losses, where we purposely provided coverage as opposed to where we -- the vast majority where we did not provide coverage, we'll have it through credit related that is surety and trade credit, and maybe political risk who knows, workers comp will produce losses, I'm sure.

And so, kind of gives you a sense, and it'll be -- I think it'll be pretty broad-based, because it's created exposures for clients, for the industries, and the economies broadly. And it'll geography -- well, over half our business is in the United States. So, I expect all things being equal since our greatest exposure is in the US, by territory, the greatest amount of loss will come out of the US and I hope that helps you.

Q - Michael Phillips {BIO 21023048 <GO>}

Yes, it does. Thank you very much. You know -- I know Evan, you've been pretty actively involved with -- in task force and things that are happening here in the US. And I guess, clearly all the pressure from states on BI and states on workers comp and the big restaurants that are there with Trump and things like that, all these different pressures in the US. And not really looking for your one expectation, but just your thoughts on how this all kind of shakes out in different scenarios on how the pressure on insurance kind of unfolds? And what to expect maybe as this thing kind of shakes out?

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

You know, the insurance industry is a -- is an important part of the financial plumbing of our economy in the US. And frankly, it's part of the financial plumbing that's critical globally.

The insurance industry I think is performing quite well and I think it will perform very well in meeting their obligations and our obligations. When it comes to business interruption, there is activity that I put into two categories.

One is on the political side where there's talk about retroactively imposing cover on insurers for something that they didn't cover and didn't charge a premium, that is retroactively changing contract and increasing our exposure.

I think that's unnecessary harm and would do great damage, it would damage or destroy the insurance industry in a terrible way. It would simply take money from one to give to another who does not serve. And frankly, it's unconstitutional and we are a constitutional democracy and preservation of that and the certainty of that in such uncertain times is paramount. So I'd start with that.

Secondly, the insurance industry for the most part except for those customers who discretely purchased it, BI insurance doesn't cover COVID-19. It covers and requires direct physical loss to a property. And the regulators, who approved these forms, because we're highly regulated, confirmed them -- confirmed that themselves, that it's not contemplated. Now lawyers and the trial bar will attempt to torture the language on standard industry forms and try to prove something exists. That actually doesn't exist. And try to twist the intent, when the intent is very clear. And the industry will fight this tooth and nail. We will pay what we owe.

And finally, what I'd say is business interruption insurance. Actually, we should remember is very good value for money, because what it does cover, we pay out as an industry, roughly from what we can estimate about $0.70 on the $1 and every business inter -- for every business interruption dollar of premium we collect in claims and that's pretty good value for money. So thank you for the question.

Q - Michael Phillips {BIO 21023048 <GO>}

All right. Thanks a lot of Evan. Appreciate it.

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

Welcome.

Operator

And we will take our next question from Elyse Greenspan with Wells Fargo. Go ahead.

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

Good morning.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi. Good morning, Evan. My first question I guess picks up on the BI conversation a little bit. So internationally, due to the policy language typically follow the standard language within the US, I guess you did mention that you could see some business interruption losses from COVID. But should we think conceptually that the same exclude by with exclusions would imply internationally as well as you attribute it to within the US?

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

Yes. Elyse, two comments. First, internationally it follows the same pattern generally which is, it requires direct physical loss to property as a trigger for BI. And number one -- and then number two, the exceptions are to that for Chubb are where we purposely extended cover for different clients in different industries and purposely took on the exposure. And in those cases, it's clearly defined.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thanks. And then my second question, you guys suspended your buybacks on indefinitely in the language and -- the prepared remarks as well as your press release kind of attributed to seem like economic uncertainty as well as just having capital flexibility.

We've obviously seen suppressed prices throughout the insurance space coming off of this COVID uncertainty. So can you just kind of provide us a little update in terms of suspending the buybacks and how you think about just having more capital as well as the potential for some M&A here, given that valuations are much more attractive right now?

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

You know, Elyse, when you look at the historic -- and let's just look at this from a big picture perspective. We are in the worst economic event that we have faced as a nation and globally since the great depression. The economy is shut down. The opening of the economy is going to take time and it's not going to happen in a smooth way and no one knows for sure the shape or size or duration. No one knows with any certainty.

And frankly, to be buying back stock at that time, to me, is so clearly unwise. And the fiduciary responsibility is to our customers, our shareholders, our employees, and I think capital strength of balance sheet, capital and liquidity are king in this environment. And those are attributes and strength you can't have enough of. And very fundamental, very basic. And when there is visibility, and there is certainty, and we all have a better sense then we will reassess.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. Thanks for the color.

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

You're welcome.

Operator

And we will take our next question from Paul Newsome with Piper Sandler. Go ahead.

Q - Paul Newsome {BIO 1541286 <GO>}

Good morning. Thanks for the call. So first question, I was wondering if you could talk about how you might see a really fundamental change in the perception of risk. I think it's sort of hard and soft markets is happening, because of underwritings fee risk change.

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

I can't really hear what you're saying. Can you speak up Paul? And --

Q - Paul Newsome {BIO 1541286 <GO>}

I'm sorry about that.

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

Because we're on a funny line right now, yes.

Q - Paul Newsome {BIO 1541286 <GO>}

My apology. It's hopefully that's better. I was hoping you could talk about where you see the perception of risk changing in the insurance industry, given the current environment. Where do we see underwriters likely changing how they do underwriting and rethinking risk concentrations and such?

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

Yes. First of all, we're asking a question right now that is asking about what do you think of the results of the wildfire when we're in the middle of the fire, this event is unfolding. And I would urge you to think that way. It's not like it has occurred and now we're looking back. We're in the middle of it. And so, some of the implications, it's too early to tell, don't know. But the one thing I will say perception of risk as always occurs when a new peril rears its head from the more academic to the actual. It has a powerful impact, and impacts perception of risk.

And in this case the last time we had that was really terrorism. And now in this case, we will go through in a similar exercise, in some ways underwriters will. It'll vary by company whether they actually had considered pandemic in their ERM modeling, which we do or had not and really examine concentrations and how it impacts both sides of the balance sheet. And then by the way, how you modeled and what the actual looks like are always different. There's always basis risk.

And reality is always different than the laboratory. And this no different, but this is a peril that the industry really didn't discreetly charge for, it's a peril that has no bounds in terms of geography nor time. So it's a very different kind of cat and that has in a practical sense infinite tail. So it will impact.

And by the way, no doubt in my mind, better underwriters had better control over the exposures and underwriters who were maybe not as good will have many surprises that will emerge. And time will tell, and we'll see that as this event unfolds. I hope that helps you.

Q - Paul Newsome {BIO 1541286 <GO>}

No, that's great. My second question, we've focused very much on the business interruption issues and the political risks in the US, could you speak to how that may differ outside the US? And I think, just some of the basics, I think sometimes you just don't know how extensively it was included overseas and how the political situation may differ?

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

Yes, the overseas, we're not the -- in any one country, Chubb is not a large middle market or small commercial writer. It's a business we're growing. And in most every jurisdiction, no different than the United States, small commercial and middle market customers have standard industry forms providing coverage in their country. They require direct physical loss.

Most countries that I know of adhere that where there's significant concentration of exposure for the industry, adhere to the rule of law and their forms are pretty darn clear. Large commercial customers business interruption insurance is typically on a more manuscript basis. And so, each customer's forms speak to a large degree for themselves and in each jurisdiction, they'll be adjudicated based on the wordings as they were drafted.

Q - Paul Newsome {BIO 1541286 <GO>}

Thank you very much.

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

And frankly Paul to-date, I feel more stability outside the United States on the regulatory and legal front than I do in the United States, the irony.

Q - Paul Newsome {BIO 1541286 <GO>}

Absolutely.

Operator

And our next question will come from Mike Zaremski with Credit Suisse. Go ahead.

Q - Mike Zaremski {BIO 20606248 <GO>}

Hey, good morning. First question. Do you feel the COVID losses will impact your reinsurance cover and you'll get some help from your reinsurance partners?

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

You know, that's good. That's specific to each reinsurance cover, it's very fact specific, we'll see.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay. My next question, if I look at the North America commercial segment, and I heard your commentary about exposure in pricing being at 10% I think plus and I'm looking at gross written premiums in the segment growing up a lesser 6%. As there -- is exposure shrinking in the North America commercial segment? Trying to understand the dynamics there.

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

North America commercial grew like 9%.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay.

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

So I don't know what you're saying --

Q - Mike Zaremski {BIO 20606248 <GO>}

So still less than --

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

Middle and small grew, you can see double digit, large account grew a little slower. And last year, we wrote a one-off transaction related to or two one-off transactions related to wildfire last year that didn't repeat this year.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay, got it. So maybe some noise in there?

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

But underlying, it's like really strong growth.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay, I'll just sneak one quick one in. Given you announced the no layoff policy for your valued employees and there will be top-line pressure. Should we expect a material spike in the expense ratio in 2Q?

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

No.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thank you.

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

That's as far as I'll go on forward guidance, because I don't give forward guidance, but nope.

Operator

And we will take our next question from Greg Peters with Raymond James. Go ahead.

Q - Greg Peters {BIO 3111497 <GO>}

Good morning. So on the call and then your press release, you reported $13 million of catastrophe losses related to COVID-19. Then you made the statement saying this will be tracked as a separate ongoing catastrophic event. So it's clear that there's going to be losses and revenue and I'm cured -- revenue hit and losses related to this. Is the tracking that you're going to provide going to give us color on both? And then maybe you can dovetail that into the accounting geography of your announced premium reduction programs, in the interim US small business to personal lines, et cetera.

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

Yes, well, I'm not going to give you much satisfaction on that question, but the -- nice try. The loss part will be tracked. You're doing your job. So the loss part will be tracked as part of cat. And that's what we report as cat. The revenue reduction from exposures, et cetera, those will just come out in our published numbers and we'll give you as much color as we can around it as we understand it or know it. We don't see it yet. But we know it's coming. You can't have an economy. It's a common sense, you can't have an economy shutdown and exposures are shrinking and premium is a function of rate to exposure.

So just a pretty basic there and that'll just be on a published basis, but we call is cat and assigned to cat number is to coral the losses and distinguish them from this -- for the cat event from what we would think is the underlying sort of run rate at the time.

Q - Greg Peters {BIO 3111497 <GO>}

Got it. I had to try. But maybe --

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

I gave you a framework and I think that will help you.

Q - Greg Peters {BIO 3111497 <GO>}

I understand, and I do appreciate it. So I guess my second question, the investment market has been clearly thrown into chaos. And so, I was curious if you could comment one -- and I know you guys did provide some color in the opening comments, but just some additional color around, how your approach to investing is going to change. And then maybe also dovetail on the life insurance business, because a lot of that business is a spread-based business and with interest rates at nearly zero, I've got to imagine that the outlook for those types of businesses is under a great deal of duress.

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

Remember, I'll just answer the life insurance part quickly for you. Our life business is not in the United States, it's in Asia. It's savings and protection related and very strongly protection related. And the interest rate environment is quite different. It's -- and so -- and the minimum guarantees we provide are extremely low. So -- and you can see we published it to you on our earnings on the international life business are pretty good, grew nicely.

On the investment portfolio, I'm going to ask Tim Boroughs, our Chief Investment Officer to give you a little more color, but fundamentally the changes we are making in investment activity are tactical and not strategic and the fundamentals remain in place. Tim, you're on.

A - Timothy Boroughs {BIO 2284585 <GO>}

Yes. Thanks. Maybe a little of context around, as you watch the fed, their response to the markets has been I think very impressive. It's been large and historic and included the purchase of corporate bonds both in the investment in the high-yield sectors. So, I guess that one way you might think about our portfolio is that the fed is buying or supporting with financing over 80% of what we own. So, I think in that regard we are in good shape.

As Phil mentioned in his commentary, we have made a few tactical adjustments to our portfolio. I think this advantage of the dislocations that occurred in March with liquidity and that included corporate bonds and equities.

And as Evan mentioned overall, I think that there's -- there remains too much uncertainty on how the virus will progress and how quickly the economy recover to make any significant moves off our current allocation.

Q - Greg Peters {BIO 3111497 <GO>}

Great. Thank you.

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

I hope that helps you little bit.

Q - Greg Peters {BIO 3111497 <GO>}

Yes.

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

Welcome.

Operator

And next we will hear from Meyer Shields with KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Good morning, all. We're hearing a lot of I think very legitimate opposition to changing the definition of business interruption exposure. And it seems like a lot less concern over expanding production within workers' compensation. Is that a fair read? And should we expect that difference in attitude to persist?

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

I'm -- say that again Meyer, the second part or repeat the question for me?

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. There's a lot of I think completely appropriate opposition to retroactively changing the exposure on business interruption policies. But if my hearing that much pushback from insurance companies about the fact that workers compensation presumptions are changing a lot of states. And I understand the sort of emotional components of that, but from an economic standpoint, how are you thinking about that change of exposure?

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

Yes Meyer, a very bright line distinction that should not confuse anyone. Business interruption insurance, not the regulatory, the political activity around it where there are those who are suggesting to retroactively change contract and add coverage that was never contemplated nor charged for is very different than the workers comp, where I think you're referring to healthcare workers and first responders, where there is the notion of presumption that you got the virus on the job. That is not a change of contract, that is something perfectly within the purview depending on the state of the regulators and the legislator -- legislatures.

And so, that's within legal bounds to do that. And so, very, very different. And I wouldn't confuse the two. And by the way, it varies by jurisdiction. Some jurisdictions right now have all along said that, that a medical worker for instance who contracts an illness, it is presumed to have occurred on the job. Whereas in other in -- for any other profession, it's construed to be a general illness you could have gotten anywhere, and so it's not job related. So workers comp is very different in that regard.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thank you. That really helps to illustrate the difference.

Operator

And next we'll hear from Brian Meredith with UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes, thanks. Evan, so just curious, I understand the implications for exposures here going forward. And do you think any impact that on pricing going forward be it -- will, where companies lax up a little bit on pricing, given the economic strain or is it going to go the other way, given potential increase in exposure?

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

I think that the industry is -- has woken up to rate to exposure in the last year in particular last year one and a half. And understands generally the need to get paid for properly for the exposures take on. I don't see that trend changing. And I think this event is very likely -- more than very likely, I think this event will be the largest event in insurance history, wwhen you add it all up, both asset side and liability side of the balance sheet and I think that just raises the specter of risk and the notion of managing exposure and I think it'll just put a point on getting the right rate to exposure. So I think that absolutely continues.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thanks. And then second question, just on the business interruption. Is it possible to give us a percentage of number of your policies that actually carry a virus endorsement and maybe some perspective on would it typical kind of supplement on that is, I know it's typically pretty heavily supplemented?

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

No, Brian, I'm not going into that level of detail and -- but what's very clear, the vast majority of our policies require direct physical loss. And then the sub limits vary by whether it's in a major account or it's a middle market or it's a small commercial client, it really varies. And on both, what we offered and what they bought because we offer different options.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thank you.

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

You're welcome.

Operator

And next we'll hear from David Motemaden with Evercore ISI. Go ahead.

Q - David Motemaden {BIO 18818634 <GO>}

Thanks. Good morning. Evan, just hoping to get your outlook on D&O and other management liability lines, mid-COVID and likely lawsuits, alleging misleading disclosures and other things related to COVID. I mean how big of an issue do you think this is for the industry and then for Chubb in particular?

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

Who knows. So I'm not going to overly speculate about that and I'd just -- but out of every event and every event creates trial bar, ambulance chasing, drive-by shooting, where they get most of the money and the supposed aggrieved to get very little.

I have no doubt that there will be COVID related D&O suits related to price drop and disclosure, et cetera, and frankly it is frivolous, it is an unnecessary tax on business and society at this point, it is a waste of time in terms of both resource and time and money and Congress ought to grant immunity to business in some form against that kind of activity, that is so counterproductive enriches one industry as the expense of an economy that is trying to emerge, all stocks dropped broadly.

The COVID-19 was no one's fault and the foreseeability of it, no one is -- no one has that kind of vision. And so, there's still the notion of buyer beware for basic things. And in my mind, that's something that we ought to deal with and I'm glad you asked that question.

Q - David Motemaden {BIO 18818634 <GO>}

No, great. Appreciate the color there Evan. And then just also -- you guys are obviously I think top five in the workers comp market. Just wondering if you could give us a sense for the percentage of your book that is healthcare and other frontline responders, what sort of exposure you have there?

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

It's -- I won't give you specifics and only to say though, healthcare is not a meaningful part of our book of business.

Q - David Motemaden {BIO 18818634 <GO>}

Great. Thank you.

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

You're welcome.

Operator

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

Q - Yaron Kinar {BIO 17146197 <GO>}

Hi. Good morning, everybody. Just couple questions. One, I've heard a lot about cyber risk being greater in this environment as a lot of locals are working from home.

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

I can't hear you. Can you speak more clearly? I'm sorry. Just -- it's not coming --

Q - Yaron Kinar {BIO 17146197 <GO>}

Can you hear me better now?

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

Now I can hear you.

Q - Yaron Kinar {BIO 17146197 <GO>}

Yes. So my first question is around cyber. I know you guys have a large cyber practice. There's been speculation or talk about an increased cyber risk, considering that a lot of employees are working from home. Do you see that as a large issue? And if so, how can the industry address that?

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

No, to-date, we're not seeing a meaningful change in patterns.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. And then the second question is probably more philosophical question. But I think, you've seen several insurers as renewals come up, maybe articulate some of the exclusions around pandemic and around COVID-19 specifically in policies. Do you think of that actually could create an opening for the plaintiffs bar to go after a prior language that was maybe less explicit in the exclusions?

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

You know, I can't speak to what people's manuscript forms look like and therefore whether they're correcting weaknesses with that value, I can't speak to that, but generally no, I think COVID-19 or pandemic-related exclusions are just belt and suspenders on policies, on the basic policies that require direct physical loss.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. If I could sneak one -- other quick one then. I think in response to Brian's question if we look at the vast majority of your business interruption policies have physical damage trigger requirements. Can you say anything about what -- how many of your policies have viral exclusions?

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

No, it really -- no, it's -- I'll leave it at that, no, there is -- it's -- where it's appropriate, it does.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. Thank you.

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

You're welcome.

Operator

And we will take our next question from Ryan Tunis with Autonomous Research. Go ahead.

Q - Ryan Tunis {BIO 16502263 <GO>}

Hi, thanks. Good morning. I guess one more time on this business interruption. But I mean, I guess one question I have is, should we -- is the real question in terms of business interruption exposure, how many? Or is it how long is this lockdown happen? What's kind of more relevant in terms of sizing that loss?

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

Say that again.

Q - Ryan Tunis {BIO 16502263 <GO>}

Is the question more about the number of policies? Because that's sort of what the questioning and then so far that what percentage might actively cover the virus? My question is, how dependent will that loss ultimately be? And how long the lockdown is in place? Or in other words, are there other caps and limits on that?

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

There are caps and limits in all policies and duration of shutdown, it's just axiomatic in business interruption, that length of shutdown can impact and does impact severity of loss, pretty basically any BI cover.

Q - Ryan Tunis {BIO 16502263 <GO>}

Okay. Got it. And then my other question just taking a step back. I know you mentioned in the general op ed that this morning that you think ultimately the industry will pay out tens of billions of dollars in claims, is there any reason in your mind that you should think that Chubb's market share of those claims should be more or less than what its global market share is currently as a global leader in P&C?

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

I think, Chubb from everything I know, we're pretty good underwriter. We're pretty buttoned-up disciplined shop. We have good controls within the organization and I have no reason to believe that Chubb would produce something outsized.

Look, this is a significant event for the industry and it's going to be a significant event for Chubb as well, it's an earnings event. It's not a balance sheet event as I said. And I do think, it will be the largest loss, single loss in the industry history when you add up both sides of the balance sheet and look at the capital impact to the industry.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thank you.

Operator

And our final question will come from Larry Greenberg with Janney. Go ahead.

Q - Larry Greenberg {BIO 16478161 <GO>}

Thank you very much. I just want to be certain that I understand the accounting and the intent of how you're going to recognize losses in the second quarter. So should we assume that you will put up a catastrophe loss or what you expect will be your ultimate exposure from COVID, recognizing that so much is changing and there's a lot of unknowns down the road? But is that your plan?

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

We will let the facts speak to us. We will put up our loss based on the facts as we know them at the time, when we come to close the books on the second quarter. And I'm not going to speculate ahead right now and we will then provide our perspective and color around that to help define it and give you a sense. But I'm not going to speculate on where we'll be by the end of the second quarter to give you a definitive color on the question you asked.

Q - Larry Greenberg {BIO 16478161 <GO>}

Okay. And then --

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

Depends on what we know. Get used to being in a world with a lot of unknowns and a lot of uncertainty right now. And you're requesting certainty when there's a great deal of uncertainty. And a lot of that is for worksheet projection related. And I would caution against trying to over speculate on any of them.

Q - Larry Greenberg {BIO 16478161 <GO>}

Yes. I'm really not asking for any level of certainty, but really just is the intent to, do you put a number up for what you, given your level of information at that given point of time for what you can best estimate as your ultimate exposure?

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

Exactly right. We will put up and we always do our best estimate of ultimate loss to an event. We always do that. And I think it'll be no different here -- we're consistent that way. So you can expect that of us.

Q - Larry Greenberg {BIO 16478161 <GO>}

Thank you.

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

You're welcome.

Q - Larry Greenberg {BIO 16478161 <GO>}

And then just curious on your thoughts on legislative proposals that might be productive, probably just prospectively, but is there any conceivable model, where government involvement would be helpful on a retrospective basis?

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

There is a -- I absolutely see a public private partnership, prospectively. I don't see the sense of one on some retrospective so there is -- and I'm going to give you both very quickly. The retrospective one would say well, why don't you pay the BI losses and the government will back stop you 100%.

Well, right now the government's current program to provide loans that then become grants, if you retain your employees is a very efficient way versus now we create some BI way and by the way BI insurance to adjust the claim requires that you prove it's an ascertained net loss, you have to prove what your expenses were and what -- and your loss of revenue and all of that and that's -- and the adjudication of that is messy and takes time very, it's time consuming and it's one at a time.

And what matters right now is cash flow to small businesses. And so, it wouldn't be an efficient way of dealing with the cash flow needs, the government's already created a program, so what problem are we trying to solve. On a prospective basis, I see it differently. Why doesn't the industry underwrite pandemic? Because of the size of the tail, as I say it's an event that has no geographic or time limit. And so, the tail is so great.

The industry has a finite balance sheet that can't take infinite risk. If the government would take the tail risk and take the significant loss on -- in a pandemic event, the industry I believe, could take a retention and could be underwriting pandemic, a little very different, but a little like think about TRIA and I can tell you I am in favor of a public private partnership in shouldering the burden in the future and Chubb has put together its own proposal and we will be sharing that around shortly with the appropriate parties, both inside the industry and outside the industry.

Q - Larry Greenberg {BIO 16478161 <GO>}

Thank you very much.

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

You're welcome.

Operator

And this concludes today's question-and-answer session. And I would now like to turn the call back to Karen Beyer for any additional or closing remarks.

A - Karen Beyer {BIO 6404488 <GO>}

Thank you all for joining us this morning. We look forward to speaking with you again. Have a nice day and stay well.

Operator

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