Q4 2012 Earnings Call

Company Participants

- Dino Robusto, EVP, President, Personal Lines and Claims
- John Finnegan, Chairman, CEO
- Paul Krump, EVP, President, Commercial and Specialty Lines
- Ricky Spiro, EVP, CFO

Other Participants

- Adam Klauber, Analyst
- Amit Kumar, Analyst
- Greg Locraft, Analyst
- Ian Gutterman, Analyst
- Jay Cohen, Analyst
- Jay Gelb, Analyst
- Josh Shanker, Analyst
- Josh Stirling, Analyst
- Matthew Heimermann, Analyst
- Meyer Shields, Analyst
- Mike Nannizzi, Analyst
- Mike Zaremski, Analyst
- Vinay Misquith, Analyst

Presentation

Operator

Good day, everyone. Welcome to The Chubb Corporation Fourth Quarter 2012 earnings conference call. Today's call is being recorded.

Before we begin, Chubb has asked me to make the following statements. In order to help you understand Chubb, its industry and its results, members of Chubb's management team will include in today's presentation forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. It is possible that actual results might differ from estimates and forecasts that Chubb's management team makes today. Additional information regarding factors that could cause such differences appears in Chubb's filings with the Securities and Exchange Commission.

In the prepared remarks and responses to questions during today's presentation, Chubb's management may refer to financial measures that are not derived from

Generally Accepted Accounting Principles, or GAAP. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures and related information is provided in the press release and the financial supplement for the Fourth Quarter 2012, which are available on the investor section of Chubb's website at www.chubb.com. Please also note that no portion of this conference call may be reproduced or rebroadcast in any form without the prior written consent of Chubb. Replays of this Webcast will be available through February 28, 2013. Those listening after January 31, 2013 should please note that the information and forecasts provided in this recording will not necessarily be updated. And it is possible that the information will no longer be current.

Now I will turn the call over to Mr. Finnegan.

John Finnegan {BIO 1735942 <GO>}

Thank you for joining us. For Chubb and the P&C industry, the big story for the Fourth Quarter of 2012 certainly was Storm Sandy. Which resulted in tragic loss of life, human suffering and devastating damage to residential and commercial property across a large, densely populated region of the country. Although Sandy generated, by far, the largest number of claims of any catastrophe in Chubb history, our people rose to the challenge, bringing empathy and moral support, along with tangible help, to thousands of people in distress. At a time when many of our employees were affected by the storm in the same way as our customers.

Sandy had a huge financial impact on Chubb, as well. $882 million before tax. The largest net impact of any catastrophe in the history of Chubb. Nevertheless, we were able to produce an operating profit in the quarter. We achieved this by continuing to do the things we've discussed in recent quarters. Expanding our margins through the pursuit of renewal rate increases, writing new business only when we believed we were securing adequate rates. And continually refining our risk selection to improve the profitability of our book of business.

So, while our combined ratio for the Fourth Quarter was 111.2%, including the 29.7 point impact of catastrophes, on an ex-CAT basis the combined ratio was 81.5%. This was an 8 point improvement over the corresponding quarter of 2011 and the second best quarterly ex-CAT combined ratio we've achieved over the past five years. It was a clear demonstration of the strong underlying performance of our business units.

Fourth-quarter operating income per share was $0.16 and net income per share was $0.38, while the impact of catastrophes for the quarter was $2.13 per share. Premiums worldwide for the quarter were down 2%, although were up about 1% excluding the effects of reinsurance reinstatement premiums related to Sandy, and foreign currency translation. In the US, we continued to secure renewal rate increases in all three of our business units at or above the levels of the last few quarters. Rates were up 8% for commercial, 9% for professional liability, and renewal change was up 6% for personal lines. In countries outside the US, which accounted for 27% of our total net written premiums, we secured rate increases in the low single digits.

During the Fourth Quarter, we also had favorable ex-CAT loss experience, reflecting the impact of our underwriting initiatives and we had some good luck in the form of lower non-CAT-related weather losses. GAAP book value per share at year end was $60.45, up 8% compared to year end 2011. Our capital position is strong, as evidenced by the new share repurchase program we announced today. As you saw in our press release, we provided operating income for share guidance for 2013 of $6.40 to $6.80.

Ricky will provide some more detail on guidance, as well as our capital management activities. Now I'll turn it over to Paul.

Paul Krump {BIO 5211397 <GO>}

Thanks, John. At Chubb Commercial Insurance, net written premiums for the Fourth Quarter declined 2% to $1.2 billion. Excluding the $28 million impact of reinsurance reinstatement premiums related to Storm Sandy, CCI's quarterly premium growth was flat. CCI's quarterly combined ratio was 118.7% versus 93.2% in the Fourth Quarter of 2011. Excluding the 36.8 point impact of catastrophes, CCI's Fourth Quarter combined ratio improved 11.7 points to 81.9% from 93.6% in the Fourth Quarter of 2011, due to the disciplined risk selection and the compounding effect of overall rate increases.

We are pleased that CCI's average US renewal rates were up 8% in the quarter. This is identical to the average rate increases we obtained in the Third Quarter, as well as the average for all of 2012. The 8% increase in the Fourth Quarter of 2012 is on top of the 6% average renewal rate increase in the Fourth Quarter of 2011, so we are obtaining rate on rate. In the Fourth Quarter, CCI secured average renewal rate increases in the United States in every line of business. Increases by line were in a fairly tight range around the overall average, led by workers' compensation, general liability, and monoline property. We received rate increases on 90% of the renewal book, compared to 70% in the Fourth Quarter of 2011.

In CCI markets outside of the US, average renewal rate increases were in the low single digits, and generally varied little by country. CCI's Fourth Quarter US renewal retention was 83%, down 1 point from the Third Quarter. The new to lost business ratio in the US was 0.7 to 1 in the Fourth Quarter, down from 0.9 to 1 in the Third Quarter. New business can be choppy on a quarter-to-quarter basis. That being said, given the extent that new business was underperforming renewals, we implemented underwriting actions in the areas of risk selection and pricing in order to narrow that profitability gap, at the expense of some growth. I believe CCI's outstanding ex-CAT performance demonstrates the success of these actions.

Mid-term endorsement volume in the Fourth Quarter of 2012 was down relative to the Fourth Quarter of 2011. Audit premiums were flat. In the Northeast, activity in the property market for the quarter was driven by the effects of Storm Sandy. Prior to the storm, there was some easing of rate increases in CAT-prone areas. While it is too soon to tell the full effect of Sandy on the market, the storm has generally stemmed this dynamic in the Northeast property market, especially for the more CAT-exposed locations.

For the full year, CCI's net written premiums increased 2% to $5.2 billion. The combined ratio was 99% in 2012 and 99.3% in 2011. The impact of catastrophes accounted for 11.4percentage points in 2012, compared to 10.5 points in 2011. Excluding the impact of CATs, CCI's combined ratio improved to 87.6% in 2012 from 88.8% in 2011.

Turning to Chubb Specialty Insurance. Net written premiums declined 7% in the Fourth Quarter to $688 million. The combined ratio improved to 88.5% from 89.8% in the Fourth Quarter of 2011. For the professional liability portion of CSI, net written premiums were down 5% to $613 million and the combined ratio improved to 93.7% from 96.1% in the Fourth Quarter of 2011. We are encouraged that average renewal rates for professional liability in the US increased by 9% in the Fourth Quarter of 2012, continuing the positive rate momentum that began in the Fourth Quarter of 2011. The 9% average renewal rate increase obtained in the Fourth Quarter compares to 8% in the Third Quarter, and 1% in the Fourth Quarter of 2011. Like CCI, professional liability is now achieving rate increases on top of rate increases.

Each of our professional liability lines of business in the United States experienced renewal rate increases in the Fourth Quarter. Increases were led by private company D&O, EPL, public D&O and not-for-profit D&O. All four of these lines achieved low double-digit renewal rate increases. The crime, fiduciary and E&O lines obtained average renewal rate increases in the mid single digits.

In markets outside of the US, renewal rate increases for professional liability in the Fourth Quarter were consistent with the Third Quarter, rising modestly by low single digits on average. Renewal premium retention for professional liability in the Fourth Quarter was 81% in the US, down 1 point from the Third Quarter. In order to improve the profitability of the book, we continued to differentiate our push for rate based on many factors, including segment, jurisdiction, and individual account. The new to lost business ratio for professional liability in the US in the Fourth Quarter was 0.6 to 1, the same as in the Third Quarter of 2012.

Regarding the surety portion of our CSI book, net written premiums in the Fourth Quarter were down 15% to $75 million, and the combined ratio was 51.4%. For the full year 2012, CSI net written premiums declined 6% to $2.6 billion, and the combined ratio was 91.3%, compared to 85.1% in 2011. Professional Liability premiums declined 5% to $2.3 billion, and the combined ratio was 96.7%. Surety premiums declined 11% to $295 million, and the combined ratio was 51.4%.

And with that, I will turn it over to Dino who will review our personal lines results, as well as corporate-wide claims.

Dino Robusto {BIO 15021398 <GO>}

Thanks, Paul, and good evening, everyone. Chubb Personal Insurance net written premiums increased 2% in the Fourth Quarter to $1 billion. Excluding a $25 million reinstatement premium related to Storm Sandy, CPI's premiums grew 5% in the quarter. CPI produced a combined ratio of 117.9% compared to 86.9% in the corresponding quarter last year. The impact of catastrophes for the quarter was 40.1percentage points in 2012, whereas in the Fourth Quarter of 2011, the impact of CATs was 1.6 points. CPI's ex-CAT combined ratio for the quarter improved 7.5 points to 77.8% in 2012 from 85.3% in 2011.

Homeowners premiums were up 1% for the quarter, and were up 6% excluding reinstatement premiums. The homeowners combined ratio was 131.3% compared to 82.3% in the corresponding quarter last year. The impact of CATs accounted for 62 points of the homeowners combined ratio in the Fourth Quarter of 2012, compared to 2.8 points in the Fourth Quarter of 2011. Excluding the impact of catastrophes, the homeowners combined ratio was 69.3%, compared to 79.5% in the corresponding quarter last year. This 10.2 point improvement is largely attributable to lower non-CAT weather-related losses in the US, as well as higher rates.

In terms of homeowners policy retention, it remains steady in the United States, with the Third Quarter at 91%. Homeowners new business premiums worldwide were up 8% over the Fourth Quarter of 2011. Personal auto premiums for the Fourth Quarter increased 4%, and the combined ratio was 97.1%, including a 9.3 point impact from Sandy. On an ex-CAT basis, the Fourth Quarter personal auto combined ratio improved 6.7 points to 87.8% from 94.5% in the same period 2011, reflecting strong profitability across all jurisdictions. Personal auto policy retention in the US was also consistent with the Third Quarter of 2012 at 89%.

New business premiums worldwide were up 8% over the Fourth Quarter of 2011, driven by strong growth in Brazil and Europe. In other personal lines, premiums were up 3%, and the combined ratio was 97.1%, including a 2.7 point impact of CATs, largely from our yacht business. On an ex-CAT basis, the other personal combined ratio of 94.4% is consistent with the 2012 full-year result of 94.9%, and the Fourth Quarter 2011 result of 94.2%.

Turning now to full-year results. CPI's net written premiums in 2012 increased 4% to $4.1 billion. CPI produced a combined ratio of 94.4%, including a 13.7 point impact of catastrophes, compared to a combined ratio of 98.3% including a 13.1 points of catastrophes in 2011. Excluding the impact of catastrophes, CPI's combined ratio for the full year improved 4.5 points to 80.7% in 2012 from 85.2% in 2011. For all of 2012, homeowners premiums were up 3%, or 4% excluding reinstatement premiums. The homeowners combined ratio was 94.2%, including a 21 point impact from catastrophes, compared to a combined ratio of 100.2% in 2011, including a similar impact from catastrophes of 20.6 points. Thus, the 6 point improvement in the combined ratio for the year was attributable almost entirely to the improvement in the underlying ex-CAT performance.

Personal auto premiums increased 1% in 2012 to $691 million, and the combined ratio was 93.4%. Other personal lines premiums for the full year rose 8% to $880 million, and the combined ratio of 95.6%. It's noteworthy that even with the occurrence of a geographically immense storm, that struck a densely-populated and highly important area for Chubb, our homeowners business still produced nearly 6 points of underwriting profit for the year. But, as we think about Storm Sandy within the context of the last several years of increasing weather-related losses, we recognize the need for additional price increases. Prior to Sandy, we had been implementing mid single-digit rate increases for homeowners in the Northeast. Post-Sandy we plan to file for rate increases up to the low teens in some areas of the Northeast.

Let me turn now to discuss claims for Chubb overall. The impact of catastrophes accounted for 9.6percentage points of the combined ratio for the full year 2012, and 29.7 points in the Fourth Quarter. The impact of catastrophes in the Fourth Quarter of 2012 was $876 million before tax, reflecting the $882 million net impact of Sandy, less $6 million of favorable reserve development from earlier periods. $4 million of that was from events earlier in 2012, and $2 million was from events prior to 2012.

Sandy was the largest catastrophe in Chubb's history, both in terms of the number of claims and the cost on a net of reinsurance basis. While Sandy affected 16 states and several Canadian provinces, about 90% of our claims originated in New Jersey, New York and Connecticut. Roughly 53% of our loss was attributable to commercial accounts, and 47% to personal insurance customers. I'm proud to say that our claim teams, along with hundreds of other Chubb employees who helped out, turned in an outstanding performance, despite the large volume of claims and some unique challenges they faced. Such as gasoline shortages, lengthy power outages, the inability to gain access to some affected areas due to flooding and closed roadways. And, in some cases, dealing with the impact on their own homes. Despite these handicaps, our customer survey feedback on closed claims for homeowners and personal auto customers currently indicates nearly a 98% highly satisfied rating, which is the highest rating on the survey form.

Catastrophes like Sandy are terrible events, which take lives and cause massive disruption to survivors. But times like this also reinforce for our customers and their neighbors and friends that there is a Chubb difference. One that is manifested in the speed, empathy and fairness with which we handle claims.

And now, I'll turn it over to Ricky who will review our financial results in more detail.

Ricky Spiro {BIO 15061279 <GO>}

Thanks, Dino. Let me begin by pointing out that we have included some additional detailed information about the impact of Storm Sandy, including our estimated gross loss, in the supplementary investor information, which can be found on our website.

Now, turning to our Fourth Quarter operating results. We had an underwriting loss of $332 million in the quarter, due to the impact of Sandy. For the full year, underwriting income was $548 million. Property and casualty investment income after tax was down 6% to $296 million in the quarter, due once again to lower reinvestment rates in both our domestic and international fixed maturity portfolios. Net income was higher than operating income in the quarter, due to net realized investment gains before tax of $90 million, or $0.22 per share after tax. For comparison, in the Fourth Quarter of 2011 we had net realized investment losses before tax of $12 million, or $0.03 per share after tax.

Unrealized depreciation before tax at December 31, 2012 was $3.1 billion. For comparison, unrealized depreciation before tax was $2.7 billion at year end 2011. The total carrying value of our consolidated investment portfolio was $44.2 billion as of December 31, 2012. The composition of our portfolio remains largely unchanged from the prior quarter. The average duration of our fixed maturity portfolio is 3.6 years and the average credit rating is AA3. The slight change in the average credit rating of our fixed maturity portfolio this quarter from AA2 is largely due to the fact that, on the margin, we have seen better total rate of return opportunities by purchasing select high-quality corporate bonds over the past few years, as opposed to government mortgage-backed securities due to the fed activity in the MBS sector. Our core investment strategy remains the same.

We also continue to have excellent liquidity at the Holding Company. At December 31, 2012, our Holding Company portfolio had $2.6 billion of investments, including approximately $940 million of short-term investments. The increase in Holding Company liquidity from September 30 reflects the payment of a regularly scheduled dividend from the operating companies to the Holding Company in December and the suspension of share repurchases for most of the quarter, which I will discuss in more detail in a few minutes.

Book value per share under GAAP at December 31, 2012 was $60.45, compared to $56.15 at year end 2011, an increase of 8%. Adjusted book value per share, which we calculate with available-for-sale fixed maturities at amortized costs, was $53.80, compared to $50.37 at 2011 year end. As for reserves, we estimate that we had favorable development in the Fourth Quarter of 2012 on prior-year reserves by SBU as follows. In CPI, we had approximately $40 million. CCI had $105 million. CSI, $50 million. And reinsurance assumed $10 million. Bringing the total favorable development to approximately $205 million for the quarter. This represents a favorable impact on the Fourth Quarter combined ratio of about 7 points overall. For comparison, in the Fourth Quarter of 2011 we had about $185 million of favorable development for the Company overall, including about $35 million in CPI, $90 million in CCI, $55 million in CSI, and $5 million in reinsurance assumed. The favorable impact on the combined ratio in the Fourth Quarter of 2011 was about 6 points.

For the Fourth Quarter of 2012, our ex-CAT accident year combined ratio was 88.4%, compared to 95.8% in last year's Fourth Quarter. This was our best quarterly ex-CAT accident year combined ratio since 2007. Favorable development for the full year 2012 totaled about $615 million, and had a favorable impact on the combined ratio of approximately 5 points, compared to $765 million and a favorable impact on the combined ratio of 6.5 points for 2011. For the full year 2012, our ex-CAT accident year combined ratio was 90.6%, compared to 93% in 2011, an improvement of almost 2.5 points.

During the Fourth Quarter, our loss reserves increased by $472 million, including an increase of $497 million for the insurance business, and a decrease of $25 million for the reinsurance assumed business, which is in run-off. The impact of catastrophes increased reserves by about $520 million and the impact of currency translation on loss reserves during the quarter resulted in an increase in reserves of about $20 million.

Turning now to capital management. As we announced previously, in light of Storm Sandy and the uncertainties surrounding it, after the storm we temporarily suspended the repurchase of common stock under our share repurchase program, which we had announced in January 2012 and which provided for the purchase of up to $1.2 billion of our common stock. We resumed repurchases under the program after the December 11, 2012 announcement of our estimated losses from Sandy. In total, during the Fourth Quarter we repurchased 369,900 shares at an aggregate cost of $28 million. The average cost of our repurchases was $76.54 per share. And for the full year 2012, we repurchased 13.1 million shares at an aggregate cost of $935 million, at an average cost of $71.38 per share. In January 2013, we repurchased an additional 1.4 million shares at an aggregate cost of $108 million, at an average cost of $78.77. That brings the total repurchases under the January 2012 repurchase program to $979 million.

As we had anticipated in our previous disclosure, as a result of the temporary suspension of repurchases related to Sandy, our total repurchases under the January 2012 program are below the $1.2 billion in repurchases we had previously contemplated completing by the end of this month. As we announced today, our Board of Directors authorized a new $1.3 billion share repurchase program, which replaces our prior program. Our 2013 guidance assumes that our repurchases during the calendar year will be roughly equal to expected operating income for 2013, less shareholder dividends. We intend to complete this new repurchase program by the end of January 2014, subject to market conditions and other factors.

Finally, before I turn it back to John, let me make a few additional comments regarding our guidance. We expect operating income per share for 2013 to be in the range of $6.40 to $6.80. Which, at the midpoint, is $1.37 higher than our actual operating income per share for 2012. This guidance is based on our expectation that for the full year 2013, net written premium growth will be 2% to 4%. We assume a continuation of current exchange rates, resulting in no currency impact. We will have a combined ratio of 89% to 91%. Property and casualty investment income after tax will decline 7% to 9%. As a reminder, unlike some of our competitors, we do not include our share of the change in the net equity of our alternative investments in property and casualty investment income. We include it in net realized investment gains and losses. And our guidance assumes 260 million average diluted shares outstanding. Our guidance also assumes 4percentage points of catastrophe losses. This has been adjusted upward by 0.5 point from last year's initial guidance to reflect the higher CAT losses that we have experienced recently. The 4 points is also consistent with our median annual catastrophe impact over the last 10 years. In terms of sensitivity, the impact of each percentage point of catastrophe losses on 2013 operating income per share is approximately $0.30.

And now, I'll turn it back to John.

John Finnegan {BIO 1735942 <GO>}

Thanks, Ricky. Chubb performed well in 2012 despite the historic catastrophe losses from Sandy. Here are some of the highlights. For the Fourth Quarter we were profitable, despite Sandy. For the full year 2012, net income was $1.5 billion, and generated an ROE of 9.9%. Operating income per share for the year was $5.23, despite a $2.73 per share impact from catastrophes. Operating ROE for the year was 10.3%. These are strong results, given the impact of catastrophes and the continued low interest rate environment.

Our 2012 ex-CAT combined ratio was 85.7%. Our ex-CAT accident year combined ratio was 90.6% for 2012. Renewal rates improved in all three SBUs, with average US rate increases for full year of 8% for commercial, and 7% for professional liability and average US renewal increases of 5% for personal lines. Book value per share was up 8% for the full year.

We continued to actively manage our capital in 2012 by returning almost $1.4 billion to our shareholders through a combination of share repurchases and dividends. From the time our share repurchases began in December 2005, through the end of 2012, we have bought back 47% of our then outstanding shares. During that period we have returned a total of $13.9 billion to our shareholders, through $10.6 billion of share repurchases and $3.3 billion of dividends. Our continued commitment to capital management is demonstrated by the new $1.3 billion share repurchase program we announced today.

To sum up, 2012 was a year in which nominal results were somewhat disappointing due to the impact of Storm Sandy. However, these outsized catastrophe losses masked strong underwriting performance, which allowed us to still make a profit in the Fourth Quarter, and generate $1.5 billion in net income for the full calendar year. The strong underlying performance reflects the impact of both higher rates and favorable loss experience. Especially in the Fourth Quarter, where we posted our best ex-CAT accident year combined ratio since 2007. In terms of losses, we had favorable experience throughout 2012 after experiencing an uptick in losses in the second half of 2011. This was due, in good part, to the myriad of underwriting initiatives we undertook in late 2011 aimed at improving our profitability, even at the expense of growth.

However, while I would like to take credit for all of the improved loss experience which subsequently occurred in 2012, the fact is that some of it was merely due to good fortune. For example, non-CAT-related weather losses in homeowners in 2012 were 3 points below our longer-term historical experience. A similar, albeit smaller, positive non-CAT-related weather impact was experienced in CCI related to our property business. We believe it would be unduly optimistic to expect a recurrence of these unusually low non-CAT-related weather losses in 2013.

Looking ahead, we expect to see continued rate increases in 2013 which, on top of 2012 rate increases, should improve our accident year margins. On the other hand, we expect some of this benefit to be offset by what we assume will be a reversion to more normalized levels of non-CAT-related weather losses in 2013. We also expect headwinds in the form of lower investment income in 2013 due to continued low interest rates. On balance, however, we're optimistic going into 2013, as evidenced by our $6.40 to $6.80 per share operating income guidance. Achievement of earnings at anywhere near the midpoint of this guidance would result in the highest calendar year earnings per share in our history. While 2012 was a challenging year because of unusually high catastrophe losses, the rate and underwriting initiatives we undertook last year have established a foundation for strong performance in 2013.

With that, we'd be glad to open it up to questions.

Questions And Answers

Operator

(Operator Instructions)

Amit Kumar with Macquarie.

Q - Amit Kumar {BIO 15025799 <GO>}

My first question relates to the guidance. And I'm trying to reconcile the guidance with the price increases. Your guidance for 2013 is exactly similar to your initial guidance for 2012. I understand the new to lost business numbers and the retentions discussion. Why wouldn't it still be higher than what your guidance was for 2012? What's the additional component?

A - John Finnegan {BIO 1735942 <GO>}

This has been a subject, this question of margin expansion and impact on earnings, has been a subject of discussion in prior quarters. Also, a subject of discussion, I think, this quarter with a number of our competitors. So let me talk a little bit about it. It might be a little lengthy. But it seems to be an issue in everyone's mind.

First of all, when you're talking about rate increases, I assume you're talking prospective margin expansion. Which is the impact on 2013 combined ratios from earned rate increases in excess of long-term loss trends. And then, the follow-up question is how do we reconcile this projected improvement in margins with our combined ratio guidance of 2013. So let's start with some facts. For 2013, we're estimating that earned rate increases will be about 3 points above long-term loss trends for the business as a whole. Assuming renewal rates continue to increase at about 2012 levels. This compares to guidance for 2013 which implies an 85% to 87% ex-CAT combined ratio, similar to the ex-CAT ratio we ran in 2012.

Thus, I suspect you're asking why our projected ex-CAT combined ratio isn't improving by 3 points, in line with our pro forma margin expansion.

Q - Amit Kumar {BIO 15025799 <GO>}

Yes.

A - John Finnegan {BIO 1735942 <GO>}

So I got the question. The first thing I would say, that this isn't an apples-to-apples comparison. Margin expansion only applies to the business that is currently being earned and which is reflected in current accident year results. In contrast, our combined ratio guidance is provided on a calendar year basis, which means that it's based on a variety of scenarios that includes both accident year results and potential prior-period development. Such development, which could have a significant impact on year-over-year changes in combined ratios, is not affected by current rate increases. So, as such, the appropriate comparison is how pro forma margin expansion compares with the projected year-over-year change in ex-CAT accident year results.

Since we do not provide expected development in our guidance, you have to make your own judgment on the ex-CAT accident year combined ratio difference between 2012 and 2013. But it is this change in accident year ex-CAT combined ratio from 2012 to 2013 which should form the basis of our comparison with our 3 point projected margin expansion, not the calendar year combined ratio given in our guidance. So, that's the starting point. You have to come up with an accident year and compare it there.

But even making the comparison in accident year, should note that the 3 points by which earned rate increases are expected to exceed longer-term loss trends, they only translate into a similar improvement in ex-CAT accident year combined ratios to the extent that actual losses in 2013 track longer-term trends, both directionally in 2013 and 2012. As a practical matter, actual losses in a given year frequently are a good deal above or below longer-term loss trends.

Let me give you a clear illustration. Fourth-quarter 2012 results, we ran an ex-CAT accident year combined ratio 7 points better than the Fourth Quarter of 2011. Over the same period, earned rate increases only exceeded longer-term loss trends by about 1 point. The remaining improvement for the Fourth Quarter of 2011 to the Fourth Quarter of 2012 reflected the difference in actual loss experience in each quarter, not longer-term trends. In the Fourth Quarter of 2011, you may recall, actual losses ran well above trend lines. In fact, they were highest in recent memory. While actual loss experience reverted to below trend line levels in the Fourth Quarter of 2012. To sum up, it was the actual experience, not the longer-term trend lines embedded in margin expansion calculations, which accounted for most of the year-over-year improvement in the Fourth Quarter of 2012.

So for this reason, in developing our 2013 projections, start by looking at the loss experience in 2012. The base year from which these projections are developed, and the base year at which you're making the comparison. In this case, we enjoyed very benign ex-CAT loss experience in 2012, well below longer-term trend lines. For example, in 2012 we benefited from a low to normal non-CAT US weather impact in homeowners of about 3.5 points, versus a roughly 6 point average in the previous five years. So, in developing our 2013 outlook, we assumed some reversion to the mean in loss trends, especially related to a potential increase in losses from non-CAT related-weather to more historical experience levels. If this occurs -- and there's no way of knowing with any degree of certainty whether it will -- such higher non-CAT-related weather losses would be a partial offset to the positive impact of margin expansion on homeowners and commercial property classes of business.

So, the bottom line is that earned rate increases should exceed longer-term loss trends in 2013, and that's the basis of your question. But you've got to back out favorable development to make an apples-and-apples comparison. And even in the accident year, you can never assume that margin expansion will convert into a dollar-for-dollar improvement in earnings from 2012, since actual loss levels last year were well below trend lines. Any actual accident year improvement would be a function of not only rate increases but of changes in actual losses from 2012 to 2013, not longer term trend lines.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. That's very helpful. The only other question I have, and I don't want to take up too much time, is the discussion on capital management. If I look at your buyback for 2013, and if I back out the carried over number, the $221 million which was left from the last buyback, in some senses your adjusted buyback for 2013 is $1.079 million[ph], which is lower than the 2012 initial number of $1.2 billion. Am I overdoing this math? Or is this a function of the stock price, why your adjusted buyback would be, in some senses, lower than your 2012 buyback?

A - John Finnegan {BIO 1735942 <GO>}

I don't think it's lower. I think our projected buyback for 2013 is precisely a level of expected income, operating income less dividends. The reason you're having the $200 million jump is, while we had original buyback intentions in 2012, along the lines you suggested, we only bought back a little bit less than $1 billion in buybacks. Which, by the way, ended up to be in line with operating income less dividends in 2012, too. So in both years the expectation is we're buying back shares in the amount of operating income less dividends.

Q - Amit Kumar {BIO 15025799 <GO>}

Okay. I'll stop and requeue. Thanks.

Operator

Josh Shanker with Deutsche Bank.

Q - Josh Shanker {BIO 5292022 <GO>}

John, you mentioned two numbers in your semi-prepared remarks you just gave. The 3.5 points versus the 6 points, is that a non-CAT weather loss '12 versus '11? What was that exactly?

A - John Finnegan {BIO 1735942 <GO>}

It was non-CAT weather loss '12 versus the average of the prior five years. In '11 it was a little bit higher, it was maybe 7 or something.

A - Ricky Spiro {BIO 15061279 <GO>}

Yes, it was 8.5.

A - John Finnegan {BIO 1735942 <GO>}

8.5 instead of 5. But it's prior five years.

Q - Josh Shanker {BIO 5292022 <GO>}

And not to sound cheeky, but what is non-CAT weather, as you think about those kind of losses versus the normal going of things kind of losses?

A - John Finnegan {BIO 1735942 <GO>}

Non-CAT-related weather -- It's like this time of year when your pipes freeze. It's not part of a catastrophe.

A - Ricky Spiro {BIO 15061279 <GO>}

Yes, not modeled.

A - John Finnegan {BIO 1735942 <GO>}

Like, remember 2011 we had all those storms. It wasn't a modeled catastrophe but you had a tremendous amount of freezes. That kind of stuff.

Q - Josh Shanker {BIO 5292022 <GO>}

So there's like burglary and fires and damage.

A - John Finnegan {BIO 1735942 <GO>}

Fire would be the other example of something that's not in that category.

Q - Josh Shanker {BIO 5292022 <GO>}

Right, okay. So you have CAT weather, you have non-CAT weather and then everything else is generally not weather related.

A - John Finnegan {BIO 1735942 <GO>}

Right.

Q - Josh Shanker {BIO 5292022 <GO>}

That's excellent. And so, just trying to understand. And I don't think you're going to guide me completely on it, but of course it's very impressive that you guys are back at 2007 margins for the quarter. In terms of, can we go back to the 4Q '11 and talk about the impact of non-CAT weather there, the impact of non-CAT weather this quarter, margin improvement between the two, and luck, I guess? It's an amazing quarter. It's hard to digest the numbers.

A - John Finnegan {BIO 1735942 <GO>}

Listen, the improvement from Fourth Quarter 2011 was significant. It was 8 points. But 2011 was a miserable quarter. It was the worst ex-CAT accident year quarter we can find in recent history. So we're not -- we can't brag about improvement from 2011. That was awful. But on the other hand, 2012 was the second best ex-CAT accident year we've seen -- the best ex-CAT accident year we've seen in five years. As I talked about, 8 points, one was favorable development, 7 points were accident year, it was a difference in actual losses from very bad to very good. Yes, non-CAT-related weather was a difference but not anywhere near in explaining 7 points for the overall business. It couldn't amount to 1 or 2 points. Because, remember, we're comparing -- when we're talking 3.5 to 6 and 7, we're talking in the homeowners line. The impact at the corporate level, overall ex-CAT accident year, is diluted to more like 1 point if you average that out. It's more important when you relate it to 2012 to 2011 calendar year. And when we looked at 2013 versus 2012. Fourth quarter versus Fourth Quarter was a great quarter versus a lousy quarter. Non-CAT-related weather was not a big player in that.

Q - Josh Shanker {BIO 5292022 <GO>}

It still feels like a great quarter even with the luck, so congratulations.

Operator

Vinay Misquith with Evercore Partners.

Q - Vinay Misquith {BIO 6989856 <GO>}

I just want to reiterate it's a very good quarter, so great job guys, congratulations. The first question was on the non-CAT weather benefit. You provided information on the homeowners. If you could also provide information on the CCI. You said on the commercial property business last year was a good year. So what's the benefit for that?

A - Paul Krump {BIO 5211397 <GO>}

This is Paul. Non-CAT weather in Commercial is a little bit different. There, we're really talking like a big fire. Occasionally you'll get like a tornado that will come and land on a commercial facility. But what we're really talking about are things that are not modeled CATs and get a CAT designation. We have had the experiences before where Chubb might get hit by a tornado that doesn't really affect other people. But we just didn't have any of that in this last quarter.

A - John Finnegan {BIO 1735942 <GO>}

The impact is far less in commercial, of course, than it is in homeowners.

Q - Vinay Misquith {BIO 6989856 <GO>}

All right. For the year, how much of a benefit do you think that actually gave to Chubb for the year within that line?

A - John Finnegan {BIO 1735942 <GO>}

It depends what you want to revert it to. Versus 2000-and -- let's take simple. If you took 3.5 points versus 8.5 points, if you're comparing 2012 to 2011, that's 5 points on a business that's maybe 30% of our business. So you're talking 1.5 points or something like that. If you compare it to historical five-year averages, you're talking 3 points. Take 30% of our business, it's worth 1 point.

Q - Vinay Misquith {BIO 6989856 <GO>}

So it's roughly about 3 points better than the historical average. Okay, that's helpful.

A - John Finnegan {BIO 1735942 <GO>}

But again, in the homeowners line it gets diluted when you roll it over the whole corporate consolidated numbers.

Q - Vinay Misquith {BIO 6989856 <GO>}

Right. Fair enough. The second question was on the retentions of new business. You guys have done a great job of pulling back on new business but your retentions have also fallen. Just curious about management's willingness to let the retention remain low, and to let the new business remain low, and to continue rate increases this year versus last year.

A - John Finnegan {BIO 1735942 <GO>}

They're two different questions. Retention, that's not low. I think that personal lines at 90% is as good as you're going to get -- better than anybody in the industry. Commercial and professional liability in the low 80s is right up there with any of our competitors. They all report it different ways. It depends. If you want to put renewal price increases in the retention base. We don't. We think it's as good as any.

This quarter, the commercial business in the US was 83%. That's down 1 point from the Third Quarter and the same as the First Quarter of this year. So not a significant decline, especially since we've, early this year, undertook some triage on some areas of the business. Professional liability of 81%, 82% was down 1 point, again. This is a barrier where we've had more loss in market share and retention in this business over the course of two years, but that was the focus of our attention. We're running over 100% combined ratio.

We focused on either getting substantial, in many cases, just culling weaker-performing accounts. And I think we've given you statistics on that in the last call. And in others just needing rate increases. If we don't get it, getting off the account. When you're running 102%, 103%, on average, you must be running 110% and 120% in certain sectors and certain customers. So no reason to be in that business. It comes down to, there's no bright lines across the board. We're okay with retention as it is. We look at the economics of the business by segment and account in order to determine the price. In certain areas of professional liability, we just have to get off it if we don't get rate. Commercial now is becoming more profitable. Sometimes the tradeoff is a little more difficult in there. But we focus more on retention in the case of our highest-ranked accounts, reflecting the superior economics of this business.

Q - Vinay Misquith {BIO 6989856 <GO>}

That's helpful. Just one last question. Your premium to surplus is really low. Just wondering if you have any desire to take out the excess capital from the surplus level. Thanks.

A - Ricky Spiro {BIO 15061279 <GO>}

Our premium surplus ratio I think is at 0.84 to 1. I think it's the same as it was last year, and up a little bit from where it was the prior years. I think we're comfortable with where we are.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay. Thank you.

Operator

Greg Locraft with Morgan Stanley.

Q - Greg Locraft {BIO 4221265 <GO>}

Just wanted to look at the top line. It's the same guidance as last year. Excellent trends on the pricing side. High single digits in many lines. Are you just assuming -- what are the embedded assumptions to get to the top line guidance that's the same year-over-year? I'm curious why it's not up.

A - Ricky Spiro {BIO 15061279 <GO>}

Sure. Greg, it's Ricky. I'll take a shot at trying to put that in perspective. There are a lot of interrelated parts. Let me start, by the way, and say that for the full year 2012, forget about guidance from last year, but for the full year actual growth in 2012, just to level set, net premiums were an increased 1%. And they were up 2% if you exclude the effect of foreign currency translation. So our 2% to 4% premium growth in 2013 is higher than last year. And we think that's a pretty attractive growth rate, given the continued global economic headwinds that we and the industry are facing.

Having said that, though, why aren't we expecting to see more growth in 2013 given the higher rate environment? I think there are a number of interrelated factors here that need to be understood. I'll go through those relatively quickly and then maybe even give you a quick mathematical example to show you how it works. But first off, as we've mentioned in our earlier remarks, while we're seeing positive rate trends in most of our business lines and geographies, the amount of these rate increases vary significantly. And in particular, we're getting higher rate increases in the US than we are outside the US. Bear in mind, 27% of our business comes from outside the US. And, there, we're not getting the same high single-digit rate increases that we're getting here. So, on a blended basis the actual rate increase is a little bit lower.

Second, as John just talked about, as we continue to push for rate, we expect some tradeoff between retention and new business levels in 2013. And we've taken this into consideration in our guidance. And the reality is, it's this new to lost concept that has the biggest impact on why, if you're thinking about a high single-digit rate increase, it doesn't boil down to the bottom line of a similar number in terms of net premiums written, and growth.

And then last point I'll make before I try to give you a quick example. Given some of the economic headwinds that I just talked about, we're being realistic about some of the 2013 growth components, such as exposure increases on items such as commercial properties, mid-term endorsement activity, and premium audits. We believe that these tradeoffs make sense. And getting the right price, terms and conditions for the risk we write, and for our value proposition is in our DNA.

Now for the example. And this isn't necessarily the numbers that will tie to our guidance but just to give you some numbers that you can think about. Just for illustrative purposes, let's assume for a second that you get rate increases of 7%. And then let's assume that your retention is in the low 80s. I'll pick 83% for purposes of this example. So the impact, as I said earlier, of price on growth only applies to the retained premium. So, in this example, you're getting 7 points that's applied to the 83% retention, which gives you about 6 point improvement in growth. Then you've got to look to the new to lost business ratio. And for this purpose let's assume it's 0.8 to 1. So on that basis, our lost business would exceed our new business by 3 to 4 points. And then when you add the numbers up, you end up with growth somewhere in the 2 to 3 points of growth before any other adjustments. So, even though we started at 7 points of rate increases, you don't get there when you get down to net premiums written.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. Great. Very thorough. And so, embedded in the answer and the illustration, is that you're going to continue to, at the margin, choose pricing over new business and retention. That's just better for the economics of The Chubb Corporation, based on what you see in the market.

A - John Finnegan {BIO 1735942 <GO>}

We don't expect any significant deterioration in retention. And we expect new business to rise from Fourth Quarter levels. But we certainly don't expect to see it get back to 1 to 1 yet. Now, if the pricing environment continued to improve, new business becomes more attractive. First in commercial, then eventually in professional liability. But it was 0.6 and 0.7 this quarter. We're not assuming it's going to be back for the full calendar year next year to 1 to 1.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. Perfect. And then last one, just the top line is, you're not the only carrier to report that the international pricing environment is lackluster compared to the US pricing environment. ACE and Travelers cited the same. Why do you guys think that is? Why is it so difficult to push price outside the US in the P&C markets versus what's happening in our country?

A - Ricky Spiro {BIO 15061279 <GO>}

Want me to try to take a stab at that? Greg, I think again, it's broad, the whole globe outside of the United States. Obviously it's been much easier in a place like Chile and Australia and Japan that have experienced some terrible catastrophes. There are parts of the world that are less CAT-prone than the East Coast of the United States. I think it really just comes down to the laws of supply and demand. And there's still some excess capital out there. And I think some of the underwriters are just less disciplined, from my experiences, than in the United States.

A - John Finnegan {BIO 1735942 <GO>}

But having said, the combined ratios overseas over the last few years have run pretty well in line with the US. So that hasn't proved to be a less profitable area. Not for us.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. Great. Thank you, very much.

Operator

Adam Klauber with William Blair.

Q - Adam Klauber {BIO 1494359 <GO>}

Favorable development of roughly $500 million for 2012. If you had to ballpark, how much of that is pre-2007 and how much of that is post-2007?

A - John Finnegan {BIO 1735942 <GO>}

All right. Let's see. We have a breakdown. We won't break it by dollars but give you an idea. The answer is, most of it came from years 2006 through 2009.

Q - Adam Klauber {BIO 1494359 <GO>}

Okay. And then reserve development, favorable development, still at a good level but it's come down from 2010, 2011 levels. To try to predict is very tough, but if you could just give us your gut feeling right now for 2013. Are we around the same, do you think, potentially, for more or less?

A - John Finnegan {BIO 1735942 <GO>}

I've said for years that our level of favorable development, which was 6 to 7 points to be unsustainable. I wasn't right for most of those years. It stayed at 6. Which, by the way, wasn't -- if you're going to make an error, it's good when it works in your favor. Now, in 2012, we saw a decline for the first time with development falling a little over 1 point to 5 points. But it's difficult to predict and it's lumpy because while it fell to 5 points for the year, it jumped up to 7 points for the quarter. So it's a function of loss cost trends. I believe over time if someone predicts that development should be -- it can't be 5 points on a going forward basis for indefinitely, I'd probably have to agree to them. I don't know where it's going to be in 2013. And we run the guidance at a variety of scenarios, different mixes for accident year and developments. So can't tell. I think over the longer term you would expect to get less but we haven't seen much of that. And if we get a surprise in the Fourth Quarter of 2012.

Q - Adam Klauber {BIO 1494359 <GO>}

Okay. And one last question. Casualty loss trend, I'm guessing, is still pretty benign. What do you think is driving that? And what could change that? Or what do you worry about as you look over the next couple years?

A - Dino Robusto {BIO 15021398 <GO>}

We worry about emerging hazards. We try to track those as best we possibly can. We worry about changes in the laws and we track those very carefully. Obviously medical inflation is something that we worry about on both a GL and work comp perspective. Those are the three broad categories that we keep a very close eye on.

Q - Adam Klauber {BIO 1494359 <GO>}

Okay. Thank you, very much.

Operator

Mike Zaremski with Credit Suisse.

Q - Mike Zaremski {BIO 20606248 <GO>}

A follow-up on capital management. Could you comment on the plans for other items, such as the debt coming due in April, pension, and capital for growth initiatives? And then I have one follow-up.

A - Ricky Spiro {BIO 15061279 <GO>}

Sure. Let me start with the debt. We have $275 million of senior notes that mature in April. We have not made any decision yet regarding whether or not to refinance our maturing debt. I'll point out that we believe we have a lot of financial flexibility to deal with the maturity. In particular, we have lots of liquidity at the Holding Company should we decide to simply pay it down as we did with our last maturity in 2011. And, at the same time, we're very comfortable with our current leverage ratios and believe we have open access to the capital markets if we want to refinance at today's attractive levels. However, at this time, it would be premature to comment on our specific intentions. So, lots of flexibility. It's only a $275 million maturity. We have plenty of options. I'll also point out, our next maturity after this isn't until 2018. So we've got a long way in between.

In terms of the pension, we've been making our normal contributions to the pension and we made the normal contributions during the year. We did have a negative hit in terms of equity in the Fourth Quarter, given where interest rates were at the end of the year. And I think it was about $70 million or so in terms of the hit in the Fourth Quarter. But other than that, nothing that I'd particularly highlight as it relates to the pension. And then in terms of capital for growth initiatives, we continue to believe that we are in a strong excess capital position, based on both our internal assessment and rating agency models. And we believe that we have plenty of capital to support any growth that we see coming down the pike, as well as to support our share buyback and other initiatives. So we feel very good about our capital position.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay, got it. And then lastly, so double-digit homeowners price increases were cited in the Northeast. Any changes to terms, conditions? And what about the same items on the Commercial side in the Northeast? Thanks.

A - Dino Robusto {BIO 15021398 <GO>}

Whenever you get an event as large as Sandy, it's always going to bring some adjustment to our underwriting, clearly to the pricing, as was just indicated. We always do an after-action review of our claims, look at what we found. I think we'll see some narrowing of our underwriting appetite in some coastal areas based on the state of beaches and the infrastructure available to access certain towns. We'll probably avoid certain construction characteristics that we thought were compromising the ability for these structures to withstand the effects of Sandy. The FEMA recently released some new flood maps for New Jersey and Long Island. And that will probably continue to contract some of our appetite.

We're going to continue to encourage our customers to select higher all-peril deductibles. We're fortunate We have 40% of our book has got deductibles of $5,000 or higher. We'd love to see that in more than half of our book. And I think, in addition to Sandy, the weather events really throughout 2011 generated some significant home repair and rebuilding. So we, in turn, increased our construction cost adjustment factors to reflect these new alterations. This is going to result in some higher exposure changes at renewal that offset some underlying loss cost trends. And then, of course, with all of the elevated CAT activity and non-weather activity we just have to continue to push those prices. And clearly we're going to do that in some places in the Northeast, as I indicated earlier.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thank you.

A - Paul Krump {BIO 5211397 <GO>}

On the commercial side, similar to what Dino just articulated. We push ourselves very hard to continually improve. Dino touched on this after-action review. We do the exact same thing commercially after every big loss, every CAT. And I would say that from Sandy we have learned a handful of things and we'll be implementing lessons. For the team in CCI, those range from everything from non-renewing a few commercial customers who were hit with flood claims in both Irene and Sandy. And that we just don't believe, after speaking with them, they can't or won't implement some loss control measures to make us more comfortable moving forward. We're altering some of our flood aggregations down to a neighborhood level, business districts. And we've tightened some of the underwriting referrals for those specific locations, as well.

Q - Mike Zaremski {BIO 20606248 <GO>}

What about pricing on the Commercial side? Is Sandy having a big impact in those areas?

A - Paul Krump {BIO 5211397 <GO>}

I would tell you that, one of the things, just to point out, is that, you may not know this, but New York state has a moratorium in place in and around much of greater New York City. That's a restriction for all insurance companies, not just Chubb. So our ability to non-renew customers, change terms and conditions, or charge renewal rate increase greater than 9.9% right now is hampered. And for all intents and purposes that will be throughout the First Quarter. So I think we're getting a cloudy view of what will exactly happen to rates post-Sandy, just because we're primarily a big writer in and around New York City, commercially.

Q - Mike Zaremski {BIO 20606248 <GO>}

Interesting. Thank you.

Operator

Jay Gelb at Barclays.

Q - Jay Gelb {BIO 21247396 <GO>}

I had just a few quick ones. What was the gross losses for Sandy?

A - Ricky Spiro {BIO 15061279 <GO>}

Yes, the gross loss, which, as I mentioned, by the way, in my comments, you can find that in our supplementary information. I think it's page 6. It was $1.1 billion.

Q - Jay Gelb {BIO 21247396 <GO>}

Okay. And then next, on the outlook for after-tax net investment income being down 7% to 9% in 2013, it was down 6% in 2012. So I'm just trying to get a sense of why you feel that decline could accelerate this year.

A - Ricky Spiro {BIO 15061279 <GO>}

It's a combination of things related to maturities, investable cash flows. There's been further declines in interest rates. And it's just a combination of all those factors. So we think 7% to 9% is the number for 2013. I would point out, though, assuming rates stay where they are, we also would expect to see declines in investment income in the years following, at least the next couple years following 2013. Although we would expect the rate of decline, or the percentage decline, to be a little bit narrow or smaller, given that the portfolio would have had a few years to run. And we would have had a lower overall book yield on the portfolio by that time.

A - John Finnegan {BIO 1735942 <GO>}

It's driven by maturities. I think Ricky's pointed out in the past, that we have about $15 billion of maturities over the 2012-2014 period.

A - Ricky Spiro {BIO 15061279 <GO>}

Yes, and we have about $13.5 billion of maturities, '13, '14, '15.

Q - Jay Gelb {BIO 21247396 <GO>}

In total.

A - Ricky Spiro {BIO 15061279 <GO>}

In total.

A - John Finnegan {BIO 1735942 <GO>}

They're pretty comparable by year. Obviously the maturities -- the rates can go as low as you want as long as the assets don't roll off. When they roll off, it hurts you more.

Q - Jay Gelb {BIO 21247396 <GO>}

Right, we all understand that. For the yield, there's a 25 basis point decline in overall portfolio yield in 2012 versus 2011. Are you looking for a consistent decline in '13?

A - Ricky Spiro {BIO 15061279 <GO>}

I don't know that I can give you a number that would be comparable to that. What I can tell you, at least from where we sit today, obviously as I've said on prior calls, the reinvestment rates that we're getting today vary by asset class. But on average across the portfolio today, we are reinvesting at about 200 basis points below our maturing book yields.

A - John Finnegan {BIO 1735942 <GO>}

I'd guess, Jay, at 25 points, if you took a $40 billion portfolio and your investment income's coming down $100 million, that's 25 points, is probably somewhere, in farmer's math, somewhere close.

Q - Jay Gelb {BIO 21247396 <GO>}

Right, $100 million after tax. Okay. Thank you.

Operator

Josh Stirling at Sanford Bernstein.

Q - Josh Stirling {BIO 17463087 <GO>}

If I could ask a big picture question. We're clearly seeing a cycle turn and companies are responding differently. You guys are obviously being disciplined driving profitability, not chasing new business. So, presumably that's a strategic choice. If we're trying to look at the market broadly, and Chubb specifically, how much more rate and re-underwriting do you think you're going to have to do before you'd seek to bring your new to lost business ratio back to 1 to 1? And just more broadly, try to keep your share stable?

A - John Finnegan {BIO 1735942 <GO>}

It depends on line of business. I would say that we're not -- in terms of rate adequacy, if you factor in, as one should, as we do here when we price, fully load CAT loads in, we're not rate-adequate in our CAT-exposed business areas. And we're certainly not rate-adequate for professional liability. So we need rate increases to get rate-adequate. Now, to the extent, eventually the market won't give it to us, we'll have to make a judgment on what we're willing to trade off.

But we're happy with our retention level as it is. We're very happy with our book. We've had to get it fixed from 2011. If you're going to get -- generally if you're going to get 1 to 1 in new business, you're going to have to write new business at higher combined ratios than you write retained business, renewed business. But if your combine ratio on your renewed business is pretty good, like it's now becoming in Commercial and as it used to be for a number of years in a number of our businesses, that's okay. You don't mind having a few points higher in combined ratio on new business. But if you're running 100 to 105 in professional liability, you can't afford to be writing new business at 5 and 10 points higher. In each business line it depends on the economics, and we do the trade all the time, and we do expect new to lost to be up from the Fourth Quarter levels, especially in Commercial as the market improves in 2013.

Q - Josh Stirling {BIO 17463087 <GO>}

That's helpful. The final question I'd ask would be on the professional liability business. You guys commented last quarter you saw improving trends broadly, and some of the things, that it surprised you. Has that continued and led to you guys taking down prior accident year quarters? Is that something that's going to continue to work for you in 2013?

A - John Finnegan {BIO 1735942 <GO>}

We didn't -- I don't remember commenting on improving trends. We commented on all the initiatives we had to undertake to try to get improving trends. Professional liability, although it's not the instant feedback loop you see in Commercial -- you get such a small loss base -- the actions we started taking were as a result of year end 2011. Most of these actions weren't even in place until halfway through 2012. Plus, one of the big actions was rate, and rates lagged in professional liability. We're sure happy as heck they came out at 9% in the Fourth Quarter. For the year, earned premium was up less than 2%. So, if anything, we had negative margin expansion during the year.

We think that these actions will -- Fourth Quarter this year was better than the rest of the year, but that's mostly expense ratio, seasonal stuff. And it's not really better in the Fourth Quarter. It's better in the Fourth Quarter last year but the calendar year isn't better. We think it's going to take hold. And if we get the kind of rate increases we're seeing in the marketplace now, it will start to improve. We think the culling our accounts will result in improvement. The feedback loop is long for most of the lines. And, unfortunately, the lines where it's short, like crime, we've had unfavorable experience. And we're still bothered by EPL. But, overall, I think these actions will get us back to where we used to write this on an accident year basis.

Q - Josh Stirling {BIO 17463087 <GO>}

Okay. Thank you, so much.

Operator

Mike Nannizzi with Goldman Sachs.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Just trying to square a couple comments. John, I think you mentioned about 3 points better ex-CAT, underlying non-CAT weather in 2012 versus trend. And then it looks like in personal and commercial lines you were about 3 to 4, 2 to 3 points better year-over-year. But both have seen rate gains in mid to high single digits. So how much of the rate gains you've taken in '12 are already earned through, versus how much are not? And then just one follow-up.

A - John Finnegan {BIO 1735942 <GO>}

I can give you that, that's easy. In 2012, when you look at margin expansion, you look at earned rate increases versus long-term loss trends. And in CPI and CSI, we didn't have any margin expansion. And in CCI we had 2 points of margin expansion. And next year we expect about 3 points of margin expansion overall from a corporate perspective. But, again, margin expansion doesn't get through to the bottom line. It's actual loss experience that gets through on the bottom line. So we're starting off a benign 2012, so I'm not sure we're going to enjoy all of that expansion. Or, stated another way, I'm not sure that the year-over-year losses will track the longer-term loss trends.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Okay. So that margin trend will come through if long-term trends -- if next year matches up with your long-term trends.

A - John Finnegan {BIO 1735942 <GO>}

Absolutely. But start from a good base. So that's good. In the Fourth Quarter it was like flat in the two businesses. And we had longer-term rate increases. Rate year increases exceeded longer-term trend lines by about 2 points in CCI.

Q - Mike Nannizzi {BIO 15198493 <GO>}

And when you look at, whether it's CI or CSI, through the quarter and into January, was the trend continuing upward? Flattish across the board?

A - John Finnegan {BIO 1735942 <GO>}

I think the market tone was pretty much the same throughout the quarter. And it's remained about the same in January. Now, rate increases, they change based on mix of business and one-time big accounts, so nominal rates aren't always the same. But within 1 point either way. I see a couple of people commented that market improved in January from the Fourth Quarter. And it may be true for them. But I note that those carriers were generating 4% rate increases in the Fourth Quarter versus our 8%. So if they started pushing -- we were leaders, they were lagging -- if they started pushing for rate more, it's very possible they could have seen an improvement in January from the 4%. I doubt they're up to the 8%. We're both starting from a different environment. In the area we're in, I think that January looked -- December looked like the rest of the year, Fourth Quarter and January looked like the Fourth Quarter.

Q - Mike Nannizzi {BIO 15198493 <GO>}

All right. And then just last quick one. If you look at your peer group, you have others calling for high single digit rate, mid to high single in commercial. But very few people are showing the same level of rate improvement you are on the professional liability side. Do you find that you're leading the charge more on CPI, and that's why new business is down and premiums are down? Or what's your competitive position versus peers on the rate side? And thanks for all the answers.

A - John Finnegan {BIO 1735942 <GO>}

I think that -- listen, if you look at the numbers, I think you'd have to say that the market has been tougher in professional liability. I think, because of the catastrophe losses, I think the foundation was there for improvements in commercial. We saw significant improvement in rates in commercial take place earlier. And professional liability was tough. And as we started pushing for rate early, that's when we lost a good deal of business. Over the last three quarters we haven't lost too much. I think now we believe the market has improved. We see it in our numbers. And we see it in competitive numbers. The ones that have come out showed some rate increases there, too. And our people tell us that the market's more amenable to rate increases now in professional liability. I'm sure you've seen carriers suffering losses in areas like EPL, similar to what we are. And probably running higher combined ratio. So, yes, I think professional liability's been tough. We've been saying that all along. But all of a sudden it's picked up.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Great. Thank you, very much.

Operator

Matthew Heimermann at JPMorgan.

Q - Matthew Heimermann {BIO 6153567 <GO>}

First question's just on the expense ratio this quarter. I was just curious if there was any reversal of incentive comp in the first nine months.

A - John Finnegan {BIO 1735942 <GO>}

Good question. I'd say that -- I'll let these guys correct me -- I think the answer is this. I think incentive comp probably improved the expense ratio by close to 1 point. But that was partially offset by about a 0.5 point negative impact from reinstatement premiums in the quarter. So, net-net it was probably 0.5 point-- really, you'd have to adjust it about 0.5 point to get the run rate, I think.

Q - Matthew Heimermann {BIO 6153567 <GO>}

Okay, that's fair. The other question I had was just with respect to the agent feedback you're getting. My own conversations with agents and other surveys I've done, what-not, there doesn't seem like agents are having much time pushing prices through. I would assume you're seeing the same thing. But my question would be, when you think about why price increases might slow down at some point, do you think it's more likely to be because agents have a hard time pushing price increases to clients? Or because companies will be more driven, let's say, algebraically by what they feel like the new business returns are? I'm just curious who will blink first. Would a company like Chubb just try to push rates as far as they can push them, even if it means exceeding what you would think would be a reasonable ROE? Or do you just start to pull back the reins yourself?

A - John Finnegan {BIO 1735942 <GO>}

As I said, we're not price-adequate in our overall business. We're price-adequate in some lines, not price-adequate in many, especially CAT-exposed area and professional liability. I'd just point out, though, too, when you get to price-adequacy, sometimes the way the question comes it sounds like price-adequacy is a permanent state of mind. In truth, you get the price-adequacy. And we're not there yet. But when you get there, you've got to get 4 or 5 points of rate to stay there. We've been talking a lot here about margin expansion and loss trends. And annual loss trends are about 4 points. When you take into account the other thing we were talking about, with lower investment returns on rolled over money, you maybe need 5 points. So if I'm price-adequate on January 1, 2014, I need 5 points the next year to remain price-adequate or I'm back to being price-inadequate.

Q - Matthew Heimermann {BIO 6153567 <GO>}

That's fair. And then just in terms of how you think about rates, because I've struggled with -- when you think about rates, do you think about what the -- and versus what the returns of the business are and rate-adequacy -- relative to where your reinvestment rate is? Or relative to your portfolio yield?

A - John Finnegan {BIO 1735942 <GO>}

Reinvestment rate.

A - Ricky Spiro {BIO 15061279 <GO>}

We measure the current reinvestment rates.

Q - Matthew Heimermann {BIO 6153567 <GO>}

All right. That's helpful. Thank you for that.

Operator

Meyer Shields with Stifel Nicolaus.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks for staying on so late. When we look at the all-lines full-year combined, ex-CAT, combined ratio outside the United States, it's up by 300 basis points. Can you talk about whether that's mix or a loss trend issue?

A - John Finnegan {BIO 1735942 <GO>}

I think overseas had performed extremely well for a number of years. I think we got -- we incurred some more losses. Over the last year, we've had to cut back in a few areas overseas because we picked up some new business that didn't perform well. We had several large losses. So some of it was maybe one-time. But also I think that a couple -- we got it down to, let's say, three things. One, we're coming off a pretty good base over the last few years. Second, we had several large losses. Hopefully, it's not indicative of anything. And, third, as we talked about, we haven't been getting any rate overseas. We're getting 2 or 3 points of rate. Ultimately, even in a benign loss environment, you disguise it for a while, but ultimately, as we found out in professional liability, you don't get rate for a long period of time, you're going to eventually have margin contraction. And we've seen that.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's helpful.

A - John Finnegan {BIO 1735942 <GO>}

If you measure 2 points out, when you look at -- as we talked about before, between calendar year and accident year, when you look at the business you're writing, you look at accident year. In this case, a good deal of the 300 points is less favorable development, too. So it doesn't necessarily go to the business you're writing.

Q - Meyer Shields {BIO 4281064 <GO>}

Right, that makes perfect sense. Are you planning on changing reinsurance buying at all? I know you ticked up the CAT provision on what you're retaining.

A - Ricky Spiro {BIO 15061279 <GO>}

We renew our major CAT treaties in April. And we'll update you on the impact of those renewals on the next call. But at this point it's way too early to know just how we might be impacted by Sandy and what the market really looks like, and how our weather, if at all, will modify our program. But if we make any changes we'll certainly let you guys know on the next call.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Great. Thanks very much.

Operator

Jay Cohen at Bank of America-Merrill Lynch.

Q - Jay Cohen {BIO 1498813 <GO>}

Just a couple other questions. The first is, the workers' comp underwriting result was really quite good in the quarter. And I'm wondering if there's anything unusual there. Have claims eased up a bit in that line of business?

A - Paul Krump {BIO 5211397 <GO>}

It's a combination of a couple l things. A, we had a good quarter on a calendar year basis. And we had a little bit of prior-period favorable development. We've been growing the line pretty well. It's basically been growing off of rate, as we've talked about. It's been a high rate class of business. So that's helped our expense ratio a little bit in the Fourth Quarter. But we're real pleased.

A - John Finnegan {BIO 1735942 <GO>}

Yes, expense ratio was probably 2 points better than one would expect on a normalized basis. As Paul would call it, it's inside baseball. It has something to do with all these adjustments and incentive compensation and reinstatement premiums affect each line of business a little bit differently on the expense ratio side. I'd say that it's probably 2 to 3 points inflated in terms of our performance there, due to expense ratio. But even with that, it's a pretty darn good quarter, and rate has counted a lot.

Q - Jay Cohen {BIO 1498813 <GO>}

That's helpful. And then the other topic, you don't really break it out too much but the A&H business is not an insignificant line of business for you. The profitability of that line has been up and down over the past three years. I'm wondering if you can give us an update there, in 2012, what the profitability looked like. And any sense of what the premium contribution was.

A - John Finnegan {BIO 1735942 <GO>}

This is Paul, Jay. I've mentioned in the past the last couple years we brought on an A&H team. And they've been revamping our book of business. They took out a couple of very unprofitable programs. So one of the things, if you're looking at the US A&H numbers that are published, I would just point out, that's the bulk of where the culling so far took place. But those numbers haven't been that good. All up, though, we've got a lot of plans for it to continue to grow and get more profitable. Right at this point in time, it is profitable but not quite where we need it to be. But, again, we're growing it and changing the mix. About 75% of the business is overseas. We don't give a specific number on it. It's in personal lines, other, right now. But as it grows we'll probably give you more on it over time.

Q - Jay Cohen {BIO 1498813 <GO>}

Great. Thanks, Paul.

Operator

Ian Gutterman at Adage Capital.

Q - Ian Gutterman {BIO 3106649 <GO>}

Thanks. I made it at the end of the marathon. Two questions, if I can. First, I think it was Paul who talked about new business in CCI being a little bit more conservative due to some maybe negative performance of some of the new business you had. Could you expand on that? Because what's surprising about it is, I think over the last year many of your competitors have said very strongly that the quality of new business is closer to renewal than it's ever been. And that, frankly, new business has been very favorable. You're the first ones to say something a little different. I was wondering if you can provide some more color.

A - Paul Krump {BIO 5211397 <GO>}

Sure, Ian. I'll give it a go here. I agree with you, first off. There's just been a lot of noise around new business. It seems to be all over the map. We listen to some calls. One of our major competitors is attributing some of their low premium growth to less new business. Similar to the tone that we're trying to pass on to you. I think renewal business just tends to be quite a bit more profitable than new business. So they're probably being very careful about what they're picking up. I know that we're being very careful in all of our ranking of our renewal business. And trying to make certain we don't lose our best accounts. I can tell you we're not doing that. We're losing the accounts that we think we should be losing. We're not getting enough rate on them.

But new business just has not been as attractive. If I go back in CCI's history a little bit, the new business in 2011 began to pull away from where the renewal book was at. We look at that on an accident year basis, break out the new lines from the renewals. And we had to take some decisive underwriting and pricing actions to bring that back in line. We culled a couple of troublesome segments. We funneled some of those classes of business to the most experienced underwriters. And then we increased our rate targets on those segments and lowered our new business goals. And the combination has made a marked improvement on our results in CCI, as you can see. We're doing similar things in CSI, as John pointed out, though the feedback loop is longer. But we're confident they'll ultimately flow through, as well.

A - John Finnegan {BIO 1735942 <GO>}

We track 12 months, 24 months on new business versus renewals. And we expect, as I talked about, before some higher combined ratios on new, you're willing to pay that price for it. But it got out of hand about two years ago when we aggressively attacked it. Now our new business in 2012 accident year, 12 months, our new business looks like our renewals. Now, the price has added -- we have much lower volume. Now, I hear some of the people talking about the great new business in the marketplace. I'll leave it to you. Do you suspect that -- does it sound logical? Does it sound logical that -- the reason business goes to marketplace most of the time is because the customer doesn't like the rate and terms on the renewal and wants better. So the broker comes in and saying -- I'm going to get you better. He goes out to the marketplace, puts it out to a competitive bid. Do you believe for a moment it comes in 10% higher in rate? That sounds ridiculous. It's just counterintuitive. The brokers wouldn't be in business very long if that's how they -- if that's what came about. I just -- I don't get it. Unless you're comparing, new business goes to the marketplace for another reason, which is the incumbent carrier doesn't want the business. And then it probably goes at a higher nominal price. But I hope you're not comparing the nominal price on a much higher-risk profile business to the rate you're getting on your nice renewal business. If you're doing that, maybe you're getting a higher rate but that's certainly not a risk-adjusted rate comparison.

Q - Ian Gutterman {BIO 3106649 <GO>}

Very fair. To be honest, I agree 100% with you John. I just am very confused about those comments from others over the last year. My last one real quick is just a follow-up on risk management of Sandy. I was just wondering specifically if you could talk about commercial business in Manhattan. I don't want to get too dramatic about it, but your loss on this event was double Katrina. It was worse in similar-sized events, or close to similar-sized events like Ike or Wilma, or Japan. It seems like the two big CAT events in, at least, reasonably recent history for you guys are both in Manhattan, which is this event and 9/11. I know it's an important part of your business and you can't necessarily abandon it or anything. But I just wonder long-term is that really as good a business as you thought it was? Or is it maybe a tougher business than you hoped, when you look at the 10-, 20-year track record, but with these two huge CATs?

A - Paul Krump {BIO 5211397 <GO>}

I think if you looked at it before Sandy, even when you had World Trade Center, it looks like a highly profitable. More profitable than our business in the rest of the country, on average.

A - John Finnegan {BIO 1735942 <GO>}

But it's still a good question. It's like any of this area, it depends when you take the snapshot. After Irene and Sandy, it doesn't look quite as highly profitable as it once did. So, you're right, we have to focus on it. That's what we're doing. You need rate, but you also need to focus your underwriting on it. And decide if a place has gotten wiped out two storms in a row, it may be a difficult risk to underwrite. So, now, we do. We do have to take a hard look at it, and we're doing that, Ian.

Q - Ian Gutterman {BIO 3106649 <GO>}

Great. I'll let you go. Let everyone get some dinner.

A - John Finnegan {BIO 1735942 <GO>}

Okay. Thank you, all for joining us tonight.

Operator

Ladies and gentlemen. this does conclude today's teleconference. We thank you for your participation.