Company Name: Chubb Ltd
Company Ticker: CB US
Date: 2017-04-26
Event Description: Q1 2017 Earnings Call

Market Cap: 64,871.66
Current PX: 139.275
YTD Change($): +7.155
YTD Change(%): +5.416

Bloomberg Estimates - EPS
Current Quarter: 2.529
Current Year: 10.281
Bloomberg Estimates - Sales
Current Quarter: 8080.000
Current Year: 32145.500

Q1 2017 Earnings Call

Company Participants

- Helen M. Wilson
- Evan G. Greenberg
- Philip V. Bancroft
- Paul J. Krump
- John W. Keogh

Other Participants

- Kai Pan
- Elyse B. Greenspan
- Jay Gelb
- Jay A. Cohen
- Jon Paul Newsome
- Brian Meredith
- Ian J. Gutterman
- Larry Greenberg
- Meyer Shields
- Ryan J. Tunis
- Sarah E. DeWitt

MANAGEMENT DISCUSSION SECTION

Helen M. Wilson

GAAP and Non-GAAP Financial Measures

We will also refer today to non-GAAP financial measures

Reconciliations of these non-GAAP financial measures to the most direct comparable GAAP measures and related information are provided in our earnings release and financial supplement, which are available at investors.chubb.com

Evan G. Greenberg

Business Highlights

Earnings

- As you saw from the numbers, Chubb had a very good start to the year with strong results
- After-tax operating income for the quarter was $1.2B or $2.48 per share, compared to $2.26 per share prior year, up nearly 10%
- As a reminder, we closed the acquisition on January 14 last year

- So our 2016 first quarter results excluded two weeks of Chubb earnings
- For comparison purposes, adding those 14 days back in the last year's first quarter, operating income per share this quarter was up 8%
- When discussing our underwriting results and premium growth, I will occasionally use the term as if to compare our results to last year's first quarter as if we were one company for the entire quarter and excluding merger-related accounting and underwriting actions
- I expect, as the year progresses, we will reduce the need to reference as if for quarterly year-on-year results comparisons

P&C Underwriting Income

- Our combined ratio for the quarter was simply excellent at 87.5%
- That compares to 90% last year or 88.9% as if we were one company for the full quarter
- Total P&C underwriting income of $783mm was up 28% or about 9% as if
- The underlying current accident year combined ratio, excluding cat losses, was simply outstanding at 88% and better than last year, driven by a strong performance in our core global P&C business in particular

Adjusted Net Investment Income and Operating ROE

- Adjusted net investment income for the quarter was $836mm, in line with the guidance we gave you last quarter and up 9% over prior year or 3% if we include the investment income from the 14-day stub period
- Chubb's strong earnings produced a good operating ROE of circa 10% for the quarter, while book and tangible book value per share were up 1.7% and 3.1% respectively
- From post merger closing to this March 31, book value per share has increased over 9.5% and tangible book has increased about 16%
- Bill will have more to say about investment income, tangible book value, cats and prior period reserve development

Premium Revenue Growth

- For the quarter, premium revenue growth was about in line with our expectations and what we described last quarter
- The same themes prevailed: strong retentions of business; growth in new business over last year's first quarter, but constrained nonetheless due to market conditions; a contribution of new business from cross-selling and the strength of the organization; and a reduction in revenue due to merger-related underwriting actions, including the purchase of additional reinsurance
- As a reminder, the impact from these last items, which, this quarter, amount to about 3% of PNC net premium, should ameliorate as we move through the year

P&C Net Premium

- For the quarter, P&C net premiums were up about 13.5% in constant dollars
- Foreign exchange had a 0.5-point impact

- On an as if basis, P&C net premiums were up over 2%
- The commercial P&C insurance market is soft globally, and conditions varied depending on the territory, line of business and size of risk
- Rates are flat or declining depending on class of business, size of customer and territory
- The rate of decline is slowing because pricing in many classes has reached or is reaching unprofitable levels

Cost Inflation

- On the other hand, there are a few stress classes where we're able to achieve or hold rate
- Market terms and conditions continue to soften in a number of classes
- At the same time we are discussing rate and term movement, keep in mind that for the industry claim inflation is hardly non-existent and pricing hasn't kept pace, contributing further to industry combined ratios under pressure
- And as you have noticed, in fact, loss cost inflation has increased in certain classes, while overall reserve adequacy is starting to come under pressure

U.S and Europe

- As noted in prior quarters, large account business, particularly shared and layered, is more competitive than mid-sized, though middle market is incrementally more competitive, particularly in the U.S. and Europe, as companies stress about growth and reach more aggressively
- Wholesale again is certainly more competitive than retail
- Again, like last quarter, certain markets are noticeably more competitive than others
- London, Bermuda and Brazil by example are particularly competitive, while in the U.S. and Continental Europe, competition is a little less ferocious and a bit more orderly, but soft or softening nonetheless

New Business

- Globally, new business remains harder to come by in what simply can be characterized as a hungry market
- Competitive new business conditions are ameliorated for us to some degree where the power of the organization is brought to bear for a client or producer
- Also, our total capabilities in terms of product, ability to serve many different types of insurance customers, our deep distribution strength and expensive geographic reach means our optionality or ability to capitalize on opportunity is exceptional

Renewal Pricing

- And by the way, we'll only improve with time
- Rate movement for the business we wrote in the quarter varied by territory and market segment
- Renewal pricing was down about 0.5% in our U.S. middle market business with exposure change of positive 0.5%

International Retail Commercial P&C Business

- In our U.S. major accounts business, renewal pricing was down about 1.5% with exposure change of positive 1.2%
- In our international retail commercial P&C business, pricing was down 2%
- By major class of business, beginning with North America retail, general and specialty casualty-related pricing was down about 1%

Financial Lines Pricing

- Financial lines pricing was down about 0.5% and property-related pricing was down about 3.5%
- Internationally, general and specialty casualty-related pricing was down 1%
- Financial lines pricing was down 1% and property-related pricing was down 2%

North America Commercial P&C Business

- Now, with that as context, let me give you some more detail on our revenue results for the quarter
- In our North America commercial P&C business, net premiums were up over 19%
- Normalizing for the 14 days in January and the impact of merger-related underwriting actions, net premiums were flat

Renewal Retention Rate

- The renewal retention rate as measured by premium was 88.5% with middle market and small commercial at about 87% and major accounts at nearly 94%
- It is worth mentioning that while the overall market is competitive, there are a few classes such as property and casualty coverage for real estate-related risks, where one or two companies, simply for volume, defy any logic and are writing at terms that will produce very large underwriting losses in the future

Risk Management Business

- In these instances, we just walk away
- On the other hand, where there is a flight to quality advantage and the strength of our firm stands out, such as in our risk management business, renewal retention could be as high as 100%
- Overall new business writings for North America commercial lines were up 16% over first quarter 2016

North America Personal Lines Business

- In our North America personal lines business, net premiums written were up 13%
- On an as if basis and excluding the 5-point impact of additional reinsurance, growth was about 6.5%
- Rates were up over 2% and exposure change added 3%
- Retention remained quite strong at over 95%

Overseas General Insurance Operations

- Turning to our overseas general insurance operations, net premiums written for our international retail P&C business were up 10.5% in the quarter in constant dollars or nearly 6% as if
- Growth for our global A&H business was up more than 5% in constant dollar or 1.5% as if made up of 4.5% in North America, which includes combined insurance and our group A&H business, and about 1.5% in international

Market Conditions and Pricing Trends

- John Keogh, John Lupica, Paul Krump, and Juan Andrade can provide further color on the quarter, including current market conditions and pricing trends
- I want to say a few words about integration
- Operationally and financially all areas of integration are on track or ahead of schedule
- Integration-related savings are directly contributing to our margins in the face of declining rates and continuing loss cost trends, while giving us room to invest in our competitive profile, including our technology, talent, product expansion, and future operating efficiency
- Total integration-related savings impacted our combined ratio by about 2 points

Conclusion

In closing, there is a combination of strength and stability in our company that is highly attractive to our distribution partners and customers

Our people are intently focused on execution of strategies

- We have a lot of energy in the organization right now and a great deal of optimism and passion

Personally, I am confident in our people and capabilities and in our prospects near and long term

Philip V. Bancroft

Financial Highlights

YTD

- Chubb's overall financial position grew stronger in the quarter as we continued to generate substantial capital and positive cash flow
- Among the capital-related actions in the quarter, we returned $460mm to shareholders, including $320mm in dividends and $140mm of shares repurchased
- YTD through yesterday, we have repurchased $200mm
- We also paid off $500mm of debt that matured in the quarter
- Our $1B of 2007 hybrid notes converted to a floating rate earlier this month, which, at current rates, will reduce our 2017 interest expense by over $30mm

Investment Income

- Investment income was $836mm and was within our expectations
- While there are always a number of factors that impact the variability in investment income, we expect our quarterly run rate to remain in a range of $830mm to $840mm

Foreign Exchange

- Net realized and unrealized gains for the quarter were $360mm, primarily from our investment portfolio and principally due to decreases in interest rates
- Foreign exchange had a positive impact on book value of $118mm and a small unfavorable impact on operating income of $3mm
- Operating cash flow in the quarter was $1B

Net Loss Reserves

- Net loss reserves decreased $191mm for the quarter on a constant dollar basis
- This primarily reflects a seasonal decrease in our crop reserves, favorable prior period reserve development in the quarter, and the amortization of the fair value liability adjustment established in purchase accounting
- After adjusting for these items, net loss reserves increased by $319mm

Pre-Tax

- The paid-to-incurred ratio in the quarter was 91% after adjusting for the items noted above
- We had positive prior period development of $231mm pre-tax or $155mm after-tax
- This included $41mm pre-tax of adverse development related to the change in the Ogden discount rate in the UK, which impacted our casualty-related exposures
- We also had favorable development of $79mm related to the 2016 crop year loss estimates
- The remaining favorable development was split evenly between short-tail and long-tail lines with the long-tail coming from accident years 2013 and prior

Catastrophe Losses

- Our catastrophe losses in the quarter were $206mm or $164mm after-tax, compared to $258mm or $204mm after-tax in the prior year
- Catastrophe losses this quarter were primarily from North America weather events and Cyclone Debbie in Australia

P&C Premium Growth

- During the quarter, P&C premium growth was negatively impacted by incremental merger-related underwriting actions and additional reinsurance of $187mm, impacting growth by 3%
- In addition, the alignment of accounting policies related to the timing of recognizing premiums in 2016 for certain of Chubb Corp's foreign subsidiaries adversely impacted the quarter by an additional $73mm or 1.1%

- When considering these items, P&C premium growth was 2.2%
- As Evan mentioned, our integration efforts are either on track or ahead of schedule
- Total incremental integration-related savings realized in the quarter were $124mm, leading to total cumulative realized savings of $449mm

Operating Income Tax Rate

- On an annualized run rate basis, savings through March are $710mm
- The operating income tax rate for the quarter is 14%, which is below our expected range of 16% to 18%, primarily due to a tax benefit related to our employee benefit programs, including the required adoption of new accounting guidance on stock compensation

QUESTION AND ANSWER SECTION

<Q - Kai Pan>: First question on the cost savings side [indiscernible] (17:41) contribute 2 points to the P&C combined ratio. I just wonder do you see potential upside to the $800mm target and how much of that will flow through bottom line vs. reinvestment?

<A - Philip V. Bancroft>: Upside to the $800mm.

<A - Evan G. Greenberg>: We're right now ahead of schedule in our realization of the $800mm on both an annualized and realized basis. We're thoughtfully reviewing where we are and we will update our views about expense savings we will realize, both annualized and realized, at the end of Q2 when we do Q2 call. At that time, I expect we will upsize the $800mm, but beyond that I'm not going to give you any guidance.

<Q - Kai Pan>: And how much was that flow through the bottom line?

<A - Evan G. Greenberg>: We're not – you know what, Kai? We're not going there. Substantial portion will flow through to bottom line. It's offset by natural rises in our operating expenses. We're a very efficient company. As you've noticed over the years, we control expenses well, but you still have natural inflation in expense, then we have investments we're making in the company in technology in particular. So I note that it seems that there is a misunderstanding about how that works. Those are capitalized expenses, so you have a timing question. And we hardly – like anybody, we hardly layout a model of here's how our – here's the detail how our expenses look. So you'll figure that for yourself.

<Q - Kai Pan>: Okay, great. My follow-up question is if we step back, look at your earning growth potential, you see your combined ratio is very good and already very good and premium growth probably is limited given the pricing environment and buyback could help EPS a little bit probably a couple of points. What do you see could drive the EPS higher from here and what do you see as the sort of the earnings power for this franchise?

<A - Evan G. Greenberg>: Well, I'm quite bullish about the earning power for the franchise. Margins as you saw this quarter, the loss ratios naturally rise as you're in a pricing environment that is soft and you have loss cost inflation. And that's ameliorated for us by both portfolio management choices we can make in terms of where we grow our business, because we have far greater optionality in that regard, which helps to mix loss ratio. And then, as you know, we have substantial expense improvements that help margin.

Secondly, the organization did grow. The underlying – when you account for the underwriting noise due to the merger and the accounting, underneath it all, we did grow and that growth was pretty broad based. And in spite of the world we see, I see momentum [indiscernible] (21:50) what we can do internally, the part we control, I see that part only improving and momentum building as time goes on, particularly in that middle market and small commercial business in pockets around the world, our A&H business and our large account business, which had frankly quite good growth.

If you look at our risk management business this quarter, it stood out because of [ph] slate quality (22:24) and capability and stability that Chubb presents that frankly is a standout. And then you look at our personal lines business that actually showed underlying growth in the quarter. I am quite bullish over time about our capability to produce wealth creation.

<Q - Elyse B. Greenspan>: I first had a question, the cat losses unscreened pretty low this quarter just given the size of the industry losses that we saw in the U.S., so I was wondering if you can comment just on your exposure and did the greater reinsurance that you guys purchased last year, did that help to alleviate some of the cat losses in the quarter, and so when we think about Chubb is your kind of quarterly cat loss load lower now than it would've been for each of the legacy companies?

<A - Evan G. Greenberg>: No, the additional reinsurance that we have purchased really didn't have an impact on ameliorating cat loss in the quarter. We set our appetite on cat losses as a percentage of capital in particular. And frankly, the cat losses in the quarter, it's geographic, it's where do they hit, and they happen to hit where we had less concentration.

<Q - Elyse B. Greenspan>: Okay. Thanks. And then, can you provide – in your opening commentary, you spoke about higher inflation for the industry. Can you give a little bit more color by line where you're seeing greater inflation and what prior period would you potentially compare the inflationary levels we're seeing today within the property-casualty industry?

<A - Evan G. Greenberg>: Yeah, I'm not going to go on that part. But, look, you could see it pretty simply. You see it. Anything with wheels on it has inflation. That doesn't take a genius. And professional lines, I would call out in particular, where D&O is experiencing more inflation and you're seeing it in security class action in particular, merger-related objection in particular, employment practices liability in particular, there is inflation. And you don't just see it in the United States, you see it on other geographies around the world such as Australia, such as security class action beginning in Europe in the UK, you're seeing more of that. So those are two examples for you.

<Q - Elyse B. Greenspan>: Okay, great. And then just, Phil, the Ogden charge in the quarter, did that hit both overseas gen and reinsurance?

<A - Philip V. Bancroft>: It was about $8mm in reinsurance and the remainder was in COG.

<Q - Elyse B. Greenspan>: Okay, great. And then, do you have a share repurchase update as of quarter-to-date?

<A - Philip V. Bancroft>: YTD as of yesterday was $200mm.

<Q - Jay Gelb>: Evan, I had a couple of follow-ups with regard to your annual letter. In 2017...

<A - Evan G. Greenberg>: You read it, did you?

<Q - Jay Gelb>: With great interest. In 2017, you – I think – I believe you said we should expect growth from Chubb in constant dollars even while taking to account the soft market conditions. I know you touched on in your prepared remarks, but if there's any other insight you could add on that, that would be helpful. Thank you.

<A - Evan G. Greenberg>: Yeah. I said to you that in the last earnings call, I believe that, look, first quarter would look to a degree like fourth quarter. You'd begin to see the amelioration of some of the underwriting actions we took, et cetera, and that minus 1.9% or 2% was less than you saw in prior quarters.

Secondly, the normalized for all that and I hate as if and I hate noise. You want it just as published and we're getting there. But the underlying of 2% growth is an improvement and it's pretty broad-based to me when I look at by region, I look at the P&C business broken down between its various segments, between its various lines of business, and I see a building momentum in that regard but offset by what you have to do in underwriting to maintain margins.

I'm not looking for this company to be publishing mid-90s combined ratios. And that means you – on various portfolios, as pricing or terms reach a point, you have to be disciplined and trade growth for underwriting discipline.

I think that we're showing great restraint and great discipline in that regard of underwriting and, at the same time, getting more and more after the growth opportunities that you put them all together and that you can produce combined ratios like that and grow on the underlying at 2% or greater. That's a pretty good trick to me. And I expect, as I say, in certain areas where we really see opportunity for that to continue to build momentum.

<Q - Jay Gelb>: It's helpful. Thank you. The other area of the letter that really caught people's attention was the unfavorable comments on the insurance brokers. Can you give us some insight there in terms of what issues you see as most problematic?

<A - Evan G. Greenberg>: Yes. You made me win the – I won the bet because of your question. I do – I believed this question was going to come up. Look, I want to put a little context around this, and then I want to just expand on my comments. And this is hardly some cause célèbre for me. It was one comment out of a letter that commented on many things in the industry and beyond the industry.

Chubb is an agency and a brokerage company. We are not a direct writer. This is our chosen form of distribution. One of the reasons, one of the main reasons, I am a firm believer that brokers and agents, intermediaries provide a necessary role in the selection and market making function in our business. And if they didn't, then frankly, there wouldn't be – there wouldn't long term be a place for them. In a market-based economy if you don't really have a role that's necessary, you soon disappear. I believe it is a vital role in our business.

And agents and brokers are our partners. In brokerage, it's more ambivalent. It's by the nature of brokerage. They represent a client, an agency. They truly are an extension of us, they represent us and they are our partners. My comments came about because I've been in this industry for over 40 years. I care about this industry and I care about its long-term health.

I was referring in particular to the facilitization of business that I see predominantly, that we see predominantly, but not exclusively, in the wholesale markets. And I think some of that behavior has gone beyond what is reasonable. How does it work?

A broker, particularly in the wholesale area, will [ph] box up (32:32) – will collect a class of business for efficiency sake into one portfolio; business that was placed as one-off risks, particularly smaller or mid-size risks, but not exclusively. It could be just simply a class of business. But they bring it all into one place and so there's a lot of volume.

And so, in the first instance, it's spoken of as efficiency, but that volume is used to attract underwriters who no one comes with clean hands, who, for the sake of volume, will do things to pricing and terms and conditions that aren't that prudent, that aren't sustainable and that they otherwise wouldn't do when it's one-off risk plays. And then for the sake of efficiency, it is more efficient for the broker to place it this way, more efficient for the underwriter in some cases to receive it this way, but not in all cases.

Compensation goes up; price goes down, compensation goes up. What's the logic of that? And frankly, in this world today, a digital world where there is greater efficiency and greater transparency, what industry or business do we know about where prices are going down, but an intermediary percentage of the dollar of what's being placed goes up and that's what's occurring in the facilitization of the business.

I don't think it's advisable. I don't think it's in the long-term interest or even in the medium-term interest of our business, of our industry. I don't think it's sustainable. I say it because I care about the industry. And I think, like every other industry, those who are knowledgeable of markets, who are knowledgeable of how to use technology in markets, they will notice this, and change will come without a doubt in my mind.

<Q - Jay Gelb>: Thank you for that. And if I could just focus on one separate issue given your position in the industry, given the media speculation on the CEO transition that looks like it's forthcoming at AIG, any perspective you'd like to provide on that?

<A - Evan G. Greenberg>: No, I wish them well. I'd like to see a healthy AIG and I can guarantee you Chubb's ability to thrive and to execute our strategy is hardly based around a competitor stumbling or not thriving. And I'd like to see a healthy company. So I wish them well in their selection.

<Q - Jay A. Cohen>: Couple of numbers questions. So I believe you said there was an accounting adjustment on the premiums of $73mm. I guess it was a negative. Does that continue going forward or was that a one quarter issue?

<A - Philip V. Bancroft>: It looks like it would also recur in Q4 in the neighborhood of $50mm, but the second and third quarters are immaterial impacts.

<Q - Jay A. Cohen>: Okay. And then beyond this year, there's no impact?

<A - Philip V. Bancroft>: No. That's correct. It will all be over this year.

<Q - Jay A. Cohen>: That's helpful. And then, secondly, on the administrative expenses in both U.S. personal and U.S. commercial, that number dropped quite a bit from where it had been running for the past couple quarters. And obviously, you're recognizing some synergies, but it was a pretty notable drop-off. I understand that there was a pension benefit essentially vs. a year ago. And I'm wondering if you could break that out. We want to see how much the number came down beyond just a pension change.

<A - Philip V. Bancroft>: The expense savings, the incremental expense savings over Q1 last year was $124mm. The pension change was not included in that number. That's an additional $28mm that's been allocated to the units.

<Q - Jay A. Cohen>: And that's mostly in the U.S.?

<A - Philip V. Bancroft>: It is mostly in the U.S., but it's spread amongst the units. Well, actually, no, the pension change was all in the U.S. Sorry.

<Q - Jon Paul Newsome>: We're past – a year past the deal between ACE and Chubb and we have an ongoing soft market, what does that mean from a capital management perspective? Would we see continued higher dividends and perhaps more stock repurchases as the benefits of the deal come through?

<A - Philip V. Bancroft>: We said we have an authorization of $1B for this year and we have no plans beyond that.

<A - Evan G. Greenberg>: No change to our – no change to our playbook. Steady as she goes.

<Q - Jon Paul Newsome>: Steady as she goes. Okay, thank you.

<A - Evan G. Greenberg>: That's right, there is – Paul, maybe to go a step further, there was no surprise to us in the landscape you just painted; there hasn't been a change to us. It's a year since the merger. It's gone well. The market is soft. The market was soft, the market is soft; that's exactly within our expectation. And so, actually, there is no change in what we see internally and expected of ourselves, and there is no change in what we expected to the external environment.

<Q - Jon Paul Newsome>: That's great. What about the M&A outlook at this point? Again, you're through a good chunk of the merger integration, do you think – should we expect to see you more active in the market?

<A - Evan G. Greenberg>: No, I'm not comment – I'm not going there. I'm not commenting on that. We have plenty to do in not only completing integration, but in unlocking the power and potential we see of this organization. And if we never do another deal, the value creation potential we have in our hands is enormous, simply enormous from both the product, geographic, customer perspective. God! Don't lose sight. This is – P&C industry is what? About $2.5 trillion a year of business? We write about 1.5% of it, almost a rounding error.

And we have what? Something like 10 countries that we do over $400mm a year in? Hardly excessive market penetration. And the opportunities when you put together, the capabilities and knowledge of both organizations is simply stunning, and the only thing that stands in the way is, you got to maintain – you got to balance it with underwriting discipline when people are doing dumb stuff.

So, over any period of time, I look at this organization, we're going to win, and we're going to outperform. And there are going to be moments in every micro market and in every product area, where there is – because the world doesn't move in lock step, we're going to be able to adjust zip ahead. So, in that regards, forget about M&A. Stay tuned.

<Q - Brian Meredith>: Yeah. A couple of quick question for you. First one, I'm just curious, on the home owners business, how much of the growth that you're seeing right now is rate vs. unit volume growth? Because I know you've been taking pretty substantial price increases on the Fireman's Fund business.

<A - Evan G. Greenberg>: So, we told you – in my commentary, I told you 6.5% growth normalized and that there was 3 points and 2 points between rate and trend. So rate and trend was about 5% together and, overall, we're up 6.5%.

<Q - Brian Meredith>: Okay, just unit growth. Great.

<A - Evan G. Greenberg>: And Paul Grump – hang on. Paul Krump is going to expand on that a little bit.

<A - Paul J. Krump>: Hi, Brian. It's Paul.

<Q - Brian Meredith>: Yeah.

<A - Paul J. Krump>: And just a couple of thoughts there; just want to note that Q1 growth was a little bit higher than the previous run rate because there were some timing issues related to the integration and some of the impacts from ending the Fireman's Fund conversion. So I think that the run rate is really long term, I think, right now. We're seeing around 3%, 4%.

<Q - Brian Meredith>: Got you. Great. And then Phil, just quickly, back on the administrative expenses, just follow-up on Jay's question; so the pension's all going through the admin line right now, but still a pretty substantial decline on a y-over-y basis. Was there any shifts with respect to kind of reallocation of kind of expense this year vs. last year vs. loss in the...?

<A - Philip V. Bancroft>: There was, there was. There's about $24mm that moved from administrative expenses to [ph] ULE, our (43:57) lost cost.

<Q - Brian Meredith>: Great. That's helpful. Thank you so much.

<A - Philip V. Bancroft>: That was just an attempt to make the policies consistent between Chubb Corp and legacy ACE.

<Q - Ian J. Gutterman>: ... I was hoping you could expand a little bit on the comments on incipient loss cost inflation and just what drivers you're seeing in the environment? And I guess if I tried a few maybe to prompt a response, is this the delayed impact of more liberal judges appointed? Is it the populism we've seen across the country showing up in the jury box or is it something more close to home to the industry, meaning, say, terms and conditions have deteriorated and things that wouldn't have prompted a lawsuit, now that plaintiffs' bar sees a hole they can drive through and take you to court?

<A - Evan G. Greenberg>: Yeah. I'll come to that. Let me go a step further beyond professional lines and commercial auto. We regularly look at portfolios and it happened just last week, we – a group of us spent many hours doing a deep dive with our casualty folks from around the world, going through all casualty portfolio, and giving updates on what we see in pricing and trend, and our updated look at trend right now would say the casualty-related trend primary is running around 4%, and so you'll say, well, that's not 5%. And we see the same thing in comp by the way.

And so that's not zero. And that's my point, while it's still a little tamer than what we had seen historically in the past. You take 4% that goes y-over-y over y-over-y, and you got prices that are flat or down, well, do the math of what happens to loss ratio? And you know what you do with the risk selection, et cetera, and portfolio management or terms to alleviate that plus expense or your anecdotes. But other than that, it does grind.

When it comes to professional lines in your question, it is about the external environment and I'll ask maybe John Keogh and John Lupica, who both grew up in the business to speak, maybe give you a few comments, but I would tell you this. It's not that we're seeing populism. Remember, this doesn't happen on a dime or appointments of judges recently.

Appointment of judges that has occurred for the last eight years, you've stocked a more liberal court on one hand. But what we're also seeing is a change in the plaintiff bar environment. There are more plaintiff bar law firms, more boutique law firms who are like ambulance chasers and out to make a buck, and it's a tax on society by the way. It's a tax on corporations and it's a problem, where anything that represents any kind of bad news that is natural exposure to any kind of business. And by the way, this is not restricted to one industry like healthcare or – I read some of that and that's just not right. It's very broad based. And there is not a merger that goes down where there isn't a lawsuit filed on both sides; you pay too much, you pay too little.

And do these get settled, they settled for nuisance money, but it's still money and it increases the frequency. And then security class actions around absolutely everything. And then employment practices liability as an example has found its way into higher paying jobs when it seems its part of layoff today that, okay, another retirement benefit you get or another benefit you get is a payment from an EPL suit. That's the kind – that's just what's going on. Now, I'll ask my colleagues if they want to add to that.

<A - John W. Keogh>: Great. As usual – this is John Keogh. As usual, Evan, you kind of covered it all. I would just, for color, make the point that when I was deep in the D&O business 15 years ago, there were a handful...

<A - Evan G. Greenberg>: Did you say 50 years ago?

<A - John W. Keogh>: 15. Not that bad. It feels like 50 though. 15 years ago, there were a handful of plaintiff firms that drove all the litigation at least here in North America. Today, when you look at the list of plaintiff firms and most of whom are led by people who worked at those handful of firms have gone out on their own. There are dozens of firms today, all of whom are going to work every day with the ambition to make money and find ways to create new theories of litigation, new theories of liability against corporate America.

And I think that is a fundamental change in the business that we're witnessing in terms of the frequency of claims in the D&O business. That is not in my mind a temporary change, it's a secular change. This is going to be with us and probably if there's a dozen more firms the next five years that won't surprise me that are making living doing this.

And then outside of the U.S., in Australia and UK, they see what goes on here, the lawyers. They see an opportunity and the thing I would add that Evan did not mention is litigation funding. Whether it's here in the U.S. or in UK or in Australia, there are funds that are attracting some serious money to fund the litigation in the D&O world, which obviously creates more both frequency and severity in this business than we've seen before.

<Q - Ian J. Gutterman>: Got it. Thank you. And if I could sort of tie that in and have...

<A - Evan G. Greenberg>: [indiscernible] (51:09).

<Q - Ian J. Gutterman>: I think you guys got it. Just to tie that in, Evan, with your comments in the press release about the softening market, and when I think about sort of a true soft market bottom, I guess I think more than just price. I think about terms getting worse and winning business through that. We've seen, obviously, maybe one example is a program business where are lot of people are starting to get burned and I kind of wonder if that's terms of selection.

And the other is reserves. And just when I look at reserves, you see across most liability classes and professional lines, a lot less IBNR than you would've seen three years ago, five years ago. Do you look at those type of signs and say, boy, it's really maybe it's not 1999, but it's the seventh inning or the eighth inning and all the same things are repeating, and it's more than just price or is it really just we're still on that pricing stage, and the rest of it doesn't worry you as much yet?

<A - Evan G. Greenberg>: Ian, I have been saying for five or six quarters or more now that I've mentioned terms and conditions softening.

<Q - Ian J. Gutterman>: Right.

<A - Evan G. Greenberg>: And I have mentioned the insidious nature of that because there's a lag before you feel the claim effect from that. That impacts both frequency and severity. We see it beginning to show up in claims around the industry. We see claims that wouldn't have been covered by wordings in the past that all of a sudden become claims now because the wordings have been broadened and we can see that in both short-tail physical lines and we see it in – particularly in various casualty-related classes.

I think the impact of that is more in front of us, but the notion, when I say soft market, I am not simply at price, I am right on term and condition. Remember, what we do for a living is manage exposure and that's how we think about it. So wording and coverage, that's part of what drives your view of exposure, then you're putting pricing against that.

<Q - Larry Greenberg>: Not much left to cover, but I'm curious, Evan, with regard to corporate tax reform, if you could talk just specifically on what impact you think that might have on the industry. And more specifically, whether or not that could really impact insurance demand.

<A - Evan G. Greenberg>: Larry, first of all, tell me what tax reform I'm commenting on because I don't know. So, I just say that so that we keep this in perspective. I cannot…

<Q - Larry Greenberg>: Yeah, and I would just say lower tax rate.

<A - Evan G. Greenberg>: I understand the general question.

<Q - Larry Greenberg>: Yeah.

<A - Evan G. Greenberg>: I can't respond with specificity, but I'd say this. We have needed tax reform for so many years and American business requires tax reform, and if we do major tax reform, i.e. if we move to a territorial system and we lower the rates, even if we lower the rates to 25%, 20%, it's going to have a major stimulant – and it's done the right way, it can have a major stimulative impact on our economy. Not simply the cash that comes home but the eagerness to invest. And growth, we ensure growth and exposure. Faster the economy grows, the better it is for the insurance business, because exposure grows.

<Q - Meyer Shields>: Evan, I want to jump off that recent comment. Are you seeing signs yet of more new business in the U.S. from economic growth?

<A - Evan G. Greenberg>: No. Not really. I don't – I think there was a – animal spirits were obviously awaken by the policy direction of the new administration, policy direction that I personally endorse when it comes to deregulation of business; less regulation. God, get government out of our way.

When it comes to tax reform, when it comes to infrastructure, which will simply have a multiplier impact on our ability to grow efficiently in productivity and the economy, those are great things. I think that the reality that is setting in is that stating policy and implementing policy are two different things, and it will take time to implement policy.

And at the same time, I personally and I know many were cautious about the stance we're going to take regarding trade because that can have, depending on the stance we take and the approach we take as a country, that can have a negative impact on economic growth. And I think, right now, it's natural. The moment of euphoria is passing and I think we're at a moment where there is a sense of realism. And so, therefore, I'm not really seeing a pickup in economic activity that – a trend change that is impacting our business.

<Q - Meyer Shields>: Okay. Thanks. And Phil, quick question, the $73mm accounting adjustment to premiums, did that have any impact on net or operating income in the quarter?

<A - Philip V. Bancroft>: Very little.

<Q - Ryan J. Tunis>: So I just had a follow-up I guess just thinking about expenses. And I guess, thematically, and you can correct me if I'm wrong here Evan, but is it right to think about the integration processes, the job at year one was about the making the cost base more efficient and then years two and three perhaps is investing to position the enterprise for future growth. And then I think sort of – that's not the right assessment, okay. So, I need to…

<A - Evan G. Greenberg>: No, absolutely not. The expense efficiencies that we're gaining from integration synergies and all of that, that we told you how that plays out between – we gave you a schedule and showed you how that plays out between 2016, 2017 and 2018. And that is on track or ahead of schedule. What I said to you was on this call is that may get – that we're looking at that right now. We could very well upsize that and we'll talk to you about it in Q2. So, no, it's not like you put it in these neat packets.

The investments we're making, we began making them – ACE was making investments all along and Chubb, in some ways, was starved for investments. And we're making and we began, and I was very clear about it and I was clear about it to you on calls and I was clear about it in the shareholder letter. And that is that we have been making investments and continue to make investments in expanding product, in digitizing the company, and in putting in place foundational technologies that will give us greater flexibility to move in many directions, including lower cost. So, no, it all goes on at once, that's more how a corporation works.

<Q - Ryan J. Tunis>: Okay. Understood. So, in the letter, the comment about the investments in digitalization was not really referencing an acceleration of investment, just an ongoing part of an investment cycle?

<A - Evan G. Greenberg>: Yeah, except that got a much bigger company now with more opportunities to invest in. And as I said, some who were starved for investment. So, we are upsizing investment. But, at the same time, given all the efficiencies we gain, we have tremendous flexibility to ameliorate margin pressure and, at the same time, invest for our competitive profile and grow this company in a competitive, sustainable way for the future. That is our job for shareholders.

<Q - Ryan J. Tunis>: Okay. Thanks. Understood. And then just a quick follow-up for Phil. Could you give us an update on the revenue synergies produced as of the end of the quarter? Thanks.

<A - Evan G. Greenberg>: The revenue synergies, Phil, is about…

<A - Philip V. Bancroft>: $111mm?

<A - John W. Keogh>: Globally.

<A - Evan G. Greenberg>: $111mm globally in the quarter.

<Q - Sarah E. DeWitt>: Most of my questions have been answered, but just one follow-up on your comments on professional lines inflation. To what extent are you concerned about the potential for inflation with no pricing power or do you think the industry could get pricing power if higher inflation emerge?

<A - Evan G. Greenberg>: I don't really understand that question with all due respect. The industry, it's, we have free will. Lincoln freed us all. And so we have free will and we can react to exposure changes as we see.

<Q - Sarah E. DeWitt>: Okay. So, you don't see excess capacity and competitive pressures as the preventing pricing power to offset that inflation?

<A - Evan G. Greenberg>: Well, those are all factors that – it's a marketplace, each will determine for themselves. Ultimately, we all exist in the same world. We're all going to ultimately have the same experience. And some will play it in an intelligent way like a marketplace and some will be a little less intelligent, and we'll see.

What I am confident about is we have the capacity, we got the paper, we have the balance sheet, we have the data, we have the knowledge, we have the global reach, we have the claims capability and the insight in this business that is unrivaled, and so our ability to manage this business and to be attractive to customers that want Chubb, well, that's an asset, and we'll take advantage and protect our asset.