Q4 2019 Earnings Call

Company Participants

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

Other Participants

- Brian Meredith, Analyst
- David Motemaden, Analyst
- Elyse Greenspan, Analyst
- Gregory Peters, Analyst
- Meyer Shields, Analyst
- Michael Phillips, Analyst
- Michael Zaremski, Analyst
- Paul Newsome, Analyst
- Ryan Tunis, Analyst
- Yaron Kinar, Analyst

Presentation

Operator

Ladies and gentlemen, please standby. Good day, and welcome to the Chubb Limited Fourth quarter Year-End 2019 Earnings Conference Call. This conference is being recorded. (Operator Instructions)

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

Karen Beyer {BIO 6404488 <GO>}

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

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

Now it's my pleasure to introduce our speakers this morning. First, we have Evan Greenberg, Chairman and Chief Executive Officer; followed by Phil Bancroft, our Chief Financial Officer, we'll then take your questions. Also with us to assist you with your questions are several members of our management team.

And now I will turn the call over to Evan.

Evan G. Greenberg {BIO 1444445 <GO>}

Good morning. As you saw from the numbers, we recorded core operating income in the fourth quarter of $2.28 per share, up 13% from prior year. The quarter was marked by excellent premium revenue growth globally, driven by an improved and improving pricing and underwriting environment, that is spreading to more lines of business and more territories. Our organic growth in the commercial lines underwriting environment were the best in over five years. We also experienced a fairly active quarter globally for weather-related and man-made catastrophes, including the impact of weather on our US agriculture business.

Core operating income was just over $1 billion. Our published P&C combined ratio for the quarter was 92.7%, about 0.5% point improvement over prior year, with P&C underwriting income up 12%. On the one hand, we benefited from lower year-over-year catastrophe losses. You may have noticed that half of our total CAT losses in the quarter was from one event at Tornado that destroyed a mile by 1.5 mile affluent neighborhood in the suburbs of Dallas, where Chubb had significant market share. What are the odds? But that's our business.

On the other hand, as you saw from our pre-announcement, we reported an underwriting loss of $23 million for the quarter in our crop insurance business, attributable to yield shortfalls from difficult growing conditions compared with an underwriting gain of $161 million in last year's fourth quarter. As I pointed out before, by its nature, crop insurance is a business with CAT like exposures. After all, it's about moisture and temperature i.e., the weather. The risk-reward for crop insurance has been favorable for Chubb over the long, short and medium term. And after three exceptional years in '16 to '18, last year was below average.

For the quarter, the global P&C combined ratio, which excludes agriculture was 91.9% compared with 95.2% prior year. And on a current accident year basis, excluding CATs, it was an outstanding, 88.6% versus 89.9% last year. To briefly recap the year, core operating earnings of $4.6 billion were up over 5%. The P&C underwriting income, up 4.5%. Global P&C underwriting income, which again excludes Ag, was up 18.5%. The Global P&C combined ratios both calendar and current accident year were simply excellent. The calendar year was down from the year before, and the current accident year, excluding CATs was flat with prior year.

Booking tangible book value per share were up 11.7% and 18.6%, respectively for the year, driven by a combination of income and the mark from falling interest rates. So we'll have more to say about the investment income, book value, CATs and prior period development.

Turning to growth and the rate environment. P&C premium revenue in the quarter in constant dollars was excellent. And as I noted a moment ago, the strongest organic premium revenue growth in over five years. Net premiums grew 9.8% before foreign exchange, which had less than 1 point of negative impact. The pricing environment continued to improve quarter-on-quarter with the rate of increase accelerating and spreading to more classes of business and risk types.

Overall, prices increased in North America, commercial, which includes both major accounts and specialty, as well as middle market and small commercial by 8.3% on a written basis versus a current loss cost trend of about 4.5%. Renewal price change includes both rate of 9%, and a slight decline on exposure of about 0.5%. We continue to benefit from a flight to quality, more business continues to meet our underwriting standards and new and existing customers choose Chubb. New business was up nearly 10% in the quarter and renewal retention was excellent, 95.5% on a premium and 87% on a policy count basis.

In major accounts and specialty commercial, excluding ag, premiums grew over 10.5%, with major accounts retail growth of 9% and E&S wholesale growth of 10%. In terms of rate increases: rates for major accounts were up 10.5%; with risk management, up 5.5%; excess casualty, up 27%; and property and short-tail lines, up 20%. Management liability rates increased 20%. In our Westchester, E&S wholesale business, rates were up 15%; property, up over 19%; casualty, up 15%; and financial lines, up nearly 12%, all well above third quarter's increases. Rates in our Chubb Bermuda business were up 33%.

Turning to our US middle market and small commercial division, premiums grew over 7.5%, and excluding workers comp, we grew 10%. Renewal retention in our middle market business was nearly 94%. Middle market pricing was up 5%, and excluding comp, it was up nearly 7%. Pricing for casualty ex. comp was up about 6%, while comp pricing was down about 4.5%. Package was up 6%; property, up 10.5%; and financial lines rates were up almost 8%.

In our North America, personal lines business, net premiums in the quarter were up over 9%, but adjusted for additional reinsurance items, which negatively impacted prior year growth, we grew 4.5%. Retention remains strong at 97.5% on a premium basis, and over 89% on a policy basis. Homeowners pricing was up nearly 13% in the quarter. We are making great progress in reshaping the portfolio, the more closely focused on clients, who lead our risk profile.

Turning to our international business, growth remains strong in our Overseas General Insurance operations with premiums written, up 9% in constant dollars and FX then had a negative impact about 2.5 percentage points. Net premiums for our London market wholesale business were up 22%, while our retail division was up almost 8% with growth broadly distributed across the globe. Growth in our international retail was led by Continental Europe, up nearly 10.5% and the best growth in many years, followed by Latin America and Asia Pac, up over 9% and 8%, respectively, and the UK, up over 5.5%.

Overall, rates in our international retail business were up 10%; property, up 11%; casualty, up 3%; and financial lines, up 17%. Rates in our London wholesale business were up 20%; property, up 21%; financial lines, up 16%; and aviation, up 27%. Our Asia-focused international Life Insurance business had a strong quarter with net premiums, up over 14% in constant dollar and a contribution to earnings of $36 million, up over 12% from prior year. John Keogh, John Lupica, Paul Krump and Juan Luis Ortega can provide further color on the quarter, including current market conditions and pricing trends.

In closing, it was a good quarter and year for Chubb. Premium revenue growth continued to accelerate as more business meets our underwriting standards and we achieve greater price adequacy and a rapidly improving underwriting environment. We have started the New Year in excellent shape with a lot of momentum. Our organization was built on a global scale to capitalize on market conditions, such as this. We have patiently waited and remain disciplined and true to our culture and the craft of underwriting excellence. We are now capitalizing on greater opportunity.

At the same time, we are not taking our eye off the execution of our many important long-term strategic initiatives, that position us for future revenue and earnings growth, including our increasing ownership stake in Huatai Insurance Group, progress we are making with our digital efforts, our growing international consumer lines operation and our growth strategies for middle market and small commercial around the globe.

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

Philip V. Bancroft {BIO 4621336 <GO>}

Thank you, Evan. We completed the year with a very strong overall financial position. Businesses and investment performance produced positive cash flow of $1.4 billion for the quarter and $6.3 billion for the year. Our total capital grew to over $70 billion and our cash and invested assets grew $8.6 billion for the year, to $111 billion. In addition, as Evan mentioned our book and tangible book value per share were 11.7% and 18.6%, respectively. For the year, excluding unrealized gains from declining interest rates book and tangible book value per share grew 5.5% and 8.1%, respectively.

Among the capital-related actions in the quarter, we returned $650 million to shareholders, including $340 million in dividends and $310 million in share repurchases. For the year, we returned $2.9 billion to shareholders, including $1.4 billion in dividends and over $1.5 billion in share repurchases at an average price of $146.61 per share. In December, we issued $1.6 billion of five-year and 10-year debt in the European market at an average interest rate of 0.59%. For the year, we have issued $2.8 billion of euro debt and paid out of $500 million of debt that mature. This debt will be used to fund certain future debt maturities and other corporate uses.

Our annualized core operating ROE for the year was 9% and our core operating return on tangible equity was 14.6%. As previously announced in December, we increased our ownership stake in Huatai Insurance Group to 30.9% and agreed to purchase another 22.4% in two separate transactions, contingent on certain approvals and other conditions. We will hold a majority stake when we complete the second transaction. Until then, we continue to apply equity accounting to our Huatai ownership.

Adjusted net investment income for the quarter was $893 million pretax and $3.6 billion pretax for the year. The investment income in the quarter was slightly below our previous guidance due to lower than expected private equity distributions. While there are a number of factors that impact the variability in investment income, we now expect our quarterly run rate to be in the range of $885 million to $895 million. After-tax net realized and unrealized gains were $268 million for the quarter and $3 billion for the year, primarily from a decline in interest rates in the fixed income portfolio.

Net catastrophe losses for the quarter were $430 million pretax, or $350 million after-tax, as previously announced and are further detailed in the financial supplement. We had favorable prior period development in the quarter of $233 million pretax, or $199 million after-tax. This is net of $74 million adverse development from our legacy run off exposure principally related to asbestos. The remaining favorable development of $307 million is split approximately 67% in long-tail lines, principally from accident years 2015 and prior and 33% in short-tail lines.

The full year agriculture combined ratio was 95.1%, compared with 75.5% in the prior year, or a decline of $296 million in underwriting income from higher crop losses. Given this year's results, we do not expect the 2019 crop year to develop anywhere near as favorably in 2020, as the 2018 year developed in the first quarter of 2019. As a reminder, we had positive development of over $60 million in last year's first quarter.

On a constant dollar basis, net loss reserves decreased $118 million in the quarter, reflecting the impact of catastrophe loss statements, favorable prior period development and crop insurance payments in the quarter. On a reported basis, the paid-to-incurred ratio was 106%. After adjusting for the items noted above, the paid-to-incurred ratio was 98%. For the year, net loss reserves increased $514 million on a constant dollar basis. On a reported basis, the paid-to-incurred ratio for the year was 99% and was 92% adjusted for the items noted above.

Our core operating effective tax rate for the quarter was 14.2%, which is in line with our annual expected range, although, is there at the lower end of the range given the impact of catastrophe losses in the quarter. For the year, our core operating effective tax rate was 14.9%. For 2020, we expect our annual core operating effective tax rate to continue to be in the range of 14% to 16%.

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

Karen Beyer {BIO 6404488 <GO>}

Thank you. And at this point, we'll be happy to take your questions.

Questions And Answers

Operator

(Operator Instructions) We will begin with Michael Phillips with Morgan Stanley.

Q - Michael Phillips {BIO 21023048 <GO>}

Hey, good morning. Thank you, everybody. Appreciate it. I guess, first question, Evan, very high-level question and then kind of apologize in advance. It's kind of a generic question, but I really want to get your thoughts on this. Look, the industry is reacting to, I guess, sense of [ph] the past, if you will, from pricing, and the reactionary nature of the industry. You seemly don't have to do those much because your prior year stuff was already strong. And so the question here is kind of more, how do you think about -- the answer is really your account by account details of your underwriting, and which you guys do phenomenally well. But at a high-level, Evan, how do you steer the ship with thinking about just the trade-off between -- you have a cushion that you could maybe not really worry about margin expansion as much because you got such great envious margins and think about the growth that you could possibly get even higher growth, if you give up a little bit more on the margin expansion. So, just kind of a high-level. How do you think about the tug-of-war between the pricing that you want to get, the growth you want to get versus the margins that you get on that?

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

Yeah, I don't -- I don't think about it that way. And not how an underwriting organization really thinks about it. Your question is, in a sense, be simplistic. We quote the rates and prices and underwriting terms that we require in each line of business, to earn what we think is an adequate risk adjusted return as expressed by a combined ratio in that line of business. It then all mixes together in portfolio, which you then see as an overall published average combined ratio. And so you can't -- in the commercial P&C business, which runs higher than the average that you look at, as a whole company. You then dig down by line and there are lines of business that are -- that we think are adequate now, or maybe a bit above the adequate in some cases, and there are lines of business that are below adequate, and we'll continue to drive for rate. Wherever we see adequacy and we like the risk-reward, we're hardly holding back on growth. And I think the question is a little ironic this quarter, when you're asking it in the backdrop of fundamentally a 10% growth rate on an organization of this size. I hope that helps you.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Yeah, thanks. A little more detail than on the (Multiple Speakers).

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

I think you had a second question.

Q - Michael Phillips {BIO 21023048 <GO>}

I did. Yeah, thanks. This is more detail on Overseas General, it kind of nitpicky question here on your expense ratio, how to think about that in 2020? I mean, it looks like it's ticked up a bit throughout '19 more on the acquisition expense. And what's behind, anything deliberate there, and I guess, that's through 2020?

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

Yeah, it's pretty -- it's pretty simple. About one-third of it, as -- of the increase is related to one-time items last year that, that benefited last year's expense ratio, from about one-third of it is, is mix of business, where it's business runs a lower loss ratio, higher expense ratio, and some of the partnerships we have will have that signature to them, because the mix of product is a lower loss ratio related.

And the third is investments we've been making in certain businesses, particularly in Asia and to a degree in Latin America to grow -- for future growth, and we'll grow into our sleeves there and the expense ratio will ameliorate and improve.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Thanks a lot.

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

You're welcome.

Operator

We'll now hear from Paul Newsome with Piper Sandler.

Q - Paul Newsome {BIO 1541286 <GO>}

Good morning. Congratulations on the quarter and the year.

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

Thanks.

Q - Paul Newsome {BIO 1541286 <GO>}

I want to ask about North American casualty, the loss trend that you mentioned, because that seems to be a big topic of just how you might be accelerating. Could you a little talk about maybe what's going on there as well as, I would imagine, tell me if I'm wrong, there are pieces in there with some pretty high loss trends maybe D&O, professional liability? And then where are the offsets?

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

Yeah. No. Yeah, without going into too much detail, just to give the shape of that a little bit. First of all, I don't agree with your last comment. I think, it's -- I don't -- it's not how we see it. D&O is an old story. We've been talking about it for a while. Frequency and severity both moved up, but that was a couple of years ago. And we've seen it pretty steady at that elevated level. We don't see that continuing to deteriorate overall, and that's all classes that we've mixed together in there. There are some classes, individual classes, sub-classes that, that have an increasing frequency, but overall.

In primary casualty, we're seeing severity stable. We haven't -- in the risk transfer primary casualty area, we haven't noticed a deterioration. In workers comp, in the risk transfer comp business through the year, we've seen an increase of severity, particularly on the '18 and '19 years. And by the way, so all of our loss cost trends, we're comfortable with our picks. And we're constantly looking at updated data. And the trends we see are reflected in our loss cost fix for the year, for the back years and inform us as we go forward into the '20 year. I hope that helps you.

Q - Paul Newsome {BIO 1541286 <GO>}

No, no. It makes a ton of sense. And then secondly, I just want to make sure, and I think, I have a good guess at this, but that the Asian exposure to all this virus, just the economic turmoil that's resulting there. I would imagine, and tell me if I'm wrong that you've got fairly minimal exposures through losses, but there might be some sales disruption just because people won't be able to get out. Is that a kind of a good way to think about it, or is there something else I should be thinking about. I don't expect (Multiple Speakers)

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

We're experienced, we're informed in our underwriting from past pandemics and/or potential pandemics. SARs was a good run at this. And given our underwriting position, and how we think about supply chains, and how we think about property in the perils we cover, et cetera. We see very minimal loss exposure on this. We have a very small, almost non-existent, accident and health business in China. And we don't see -- we imagine modest impact from everything we can tell, from economic slowdown or economic activity. But time will tell in that regard. We don't know the true infection rate likely and we don't know when this is going to peak. And so that's what I can give you based on what we know today.

Q - Paul Newsome {BIO 1541286 <GO>}

Obviously, keep your fingers crossed there. So thank you very much.

Operator

Elyse Greenspan with Wells Fargo has the next question.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, thanks. Good morning. My first question, Evan, in your prepared remarks you talked about strongest growth you guys have seen in five years. You also painted a picture of a lot of price going through your book that you said continued into 2020. So, as we think about 2020, do you see price and growth picking up as we move throughout the year.

And I guess how long, do you have a line of sight in terms of how long do you think the upward pricing momentum might last?

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

Yeah. You're asking me a bunch of questions that you know, I'm not going to answer much, Elyse, but I admire you for asking. Look, I can't -- I'm not going to prognosticate the balance of the year. I mean, the only thing I'll tell you is this, I think growth, we ran about 7% in '19, and I think that will be in the range, if not better in the '20 underwriting year is my sense of it, but no guarantees and there's always a little volatility quarter-to-quarter given some seasonality and mix of business. So, you never see it in just some steady way.

On pricing, I think, it endures. The fundamentals speak to it. And so the environment we see is the environment I imagine and will continue for some time, it's rational. And there are many reasons for it. And there is nothing that I see that tells me the momentum will slow. If anything, it's picked up, and it is spreading more broadly. Industry needs rate and needs it in quite a number of classes and across the globe. And then you're in a low interest rate environment and you can hardly rely on investment income to bail you out. And the industry needs rate because rate has just not kept pace with loss cost trends for quite a number of years. The math is so simple. People seem to over intellectualize this.

And then on the other side of the coin, in the numerator, there are a few discrete classes where the loss environment is more hostile, and that is out there. That is understood. That is known and you either recognized it and reflected it in your reserves and in your loss picks and pricing in the past, or it's something that you're doing with currently and is in front of you. But I think that just varies by organization.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then secondly on -- we've heard a lot in the reinsurance market about prices going up at January 1, and I think there are some expectations. We'll see that continuing throughout the year. Does Chubb, have any thoughts of changing their reinsurance program in a significant degree for what you had placed in 2019, your outbound program?

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

I'm not -- that is a treaty-by-treaty book of business by book of business decision. We make rational decisions around all of that. And so I'm not going to make any general statements about that.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. And then one last question. In the past, you guys have given us your excess capital, in terms of the drag on your ROE. Could you let us know about where that will sit after you make the next investment within the Huatai. Have you increased your stake over the next couple of deals?

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

Yeah. Go ahead, Philip.

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

5% to 7%, drag on the ROE. I'm sorry, 5% to 7%.

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

Oh, it's not 5%, it's 0.5%.

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

I'm sorry, 50 basis points to 70 basis points.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, great. Thank you very much.

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

Elyse, what we said is 50 basis points to 75 basis points of drag on ROE.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, great. Thanks. I appreciate the color.

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

You're welcome.

Operator

And our next question will come from Yaron Kinar with Goldman Sachs.

Q - Yaron Kinar {BIO 17146197 <GO>}

Good morning, everybody. Evan, I think in response to previous question, you had said that, you'd seen the D&O option started to deteriorate at least two years ago or about two years ago. Just curious what happened, six months ago, four months ago, when rates started to really move up? Why was there kind of year-and-a-half lag there?

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

Yeah, sure. And by the way, we saw it, two years or three years ago, it's three years we've been talking about it, because it was the '17 year, '17, '18, '19. So, sorry, even longer. You know, look, you get notices. Notices turn into -- you get notices of circumstance. You get -- you then get notices of claim. You get those turning into incurs. And then ultimately they move to cash flow. And those who have large books of this, see [ph] and play both the primary and the excess they see it and they play. First, player excess, they see it earlier and have a sense of it, have the data, have the experience to know, which cases are going to turn into which -- what kind of loss. And what is a realistic loss amount around that case? They have the data and understanding to see a law firm behavior. And by the way, the nature of the type of claims that are changing and how they're being made. And so you get a sense of all of that early if you're in the position and which we are, and we're a market leader that way. And we see it on a global basis. We could look at it early. There are others who just -- they arrive at it late and they arrive at it when it turns into incurred and paid losses. And you get an education, but you pay a tuition for it.

Q - Yaron Kinar {BIO 17146197 <GO>}

That's helpful. Thank you. And then my second question not really related, North America Personal. I think that delta between adjusted net premiums written and our growth in net premiums growth had been positive for the last four quarters and then this quarter it turn negative. Just trying to understand that the dynamic there. I know that you guys have added a quota share insurance -- reinsurance policy for California. But just trying to understand what happened in the quarter.

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

I think you are -- I think you're confused -- I'm sorry, maybe we're looking at different numbers for you confused. We grew, first of all, on a published basis at 9%. When you adjust for the California reinsurance, which we placed last year and it had a bigger impact last year than this year because we made a premium transfer to them of an earned [ph] premium. If you understand how that works. And therefore the adjusted real growth rate is 4.5%. If you look back on previous quarters, is our best growth in premium terms and the year. And it has a combination of rate and a reasonable level of retention as we also shape the portfolio, and there are areas where we're eliminating exposure and by the way we got 13 points of price change in the quarter.

Q - Yaron Kinar {BIO 17146197 <GO>}

Got it. That's very helpful. Thank you. Yes, it does. Thank you.

Operator

Mike Zaremski with Credit Suisse has the next question.

Q - Michael Zaremski {BIO 20606248 <GO>}

Hey, good morning. First question maybe sticking on personal lines. Yeah, the pricing in personal lines seems to have accelerated and I know you've talked about reshaping the portfolio. And I also believe in past quarters, you've been cited as saying loss costs in personal lines is as high as the high-single digits. Maybe you can kind of talk about why loss costs inflation is at that level and some other of your competitors don't speak to it being that high and maybe you can talk about probably about the reshaping and what where you are in that reshaping? Thanks.

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

Yeah, sure. First of all, I don't know who you're thinking of as a competitor, but we don't write general market homeowners. We write only affluent. And the share of market we have in there is -- and our reach, our national reach on that business is just five-fold [ph]. The loss costs in the homeowners business are running in that 8% range. They have been for some time. Cost of materials, cost of labor, and there is a labor shortage and materials particularly at the high end, are very expensive. Business interruption, business interruption, homeowners out of their homes, interrupted an extra living expense is up, because there is more remediation work in a claim than there was in the past more around mold and other conditions that people are more concerned about and that are focused on and get attention. And then frequency of loss as contributed particularly in non-weather water-related, which we've talked about for some time and others have the same issues. So, when you add all that up, those are the main contributing factors to loss costs trend. I don't see it ameliorating by the way, not much.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay, that's very helpful. And lastly, thanks for the color on loss expense trend. I'm curious, when you talked about the trend in North America. Does that take into account some of the state changes in terms of the statutes of limitations, some reviver statutes? So maybe you could comment on that. Thanks.

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

Yeah. It takes into account everything we know in our portfolio. So, I'm not leaving anything out. However, on the reviver statute changes only -- there's notices. There is notice activity and filing of claims. Like there is very little information at this moment to respond to. And that's going to be in my judgment quite a while developing. And I don't -- there is not much to respond to at this point. Just take New York for example, all of the cases are being consolidated with one court and judge, who's going to just figure out how to move forward with these in a structured way. So the rules and the process by which these will be adjudicated is yet to be determined. So you can't take discovery. You can't get information. You can't do anything right now. And that's the plaintiff and the defendant, let alone then the insurer that is a derivative of all of this. So it's going to evolve over a period of time, but right now, anything we know where it's -- where it can be estimated is in our numbers.

Operator

And we'll now take a question from Ryan Tunis with Autonomous Research.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thanks, good morning. Evan, just in North America commercial, I was hoping you could give us some color on how you'd characterize the accident year loss ratio improvement, 64 versus 66 a year ago, 1.5 point of improvement sequentially. How -- is that mostly we earned premium and excessive trend was a benign attritional activity? I'm just trying to think about what's going on from a margin standpoint there?

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

How would I characterize it? I'd characterize it as darm good. There you go. And look last year we did take some reserve charge, you will recall. So think about it, for a short-tail that did not repeat. And we've recognized a higher loss pick for that. And the improvement is a combination of earned rate underwriting, which frankly is more powerful than the earned rate and actions we take in that regard. And that's about it, because we had seen a lot of change in loss environment.

Q - Ryan Tunis {BIO 16502263 <GO>}

Got it. To add one for Phil and then one more for Evan. But Phil, on the Huatai consolidation, how should we think about the impact that might have on either -- on book value per share, tangible book value per share, if you do go over that 50% threshold?

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

Yeah. It's way too early for that. We're evaluating it. We'll continue to evaluate it, but I'm not ready to give you an impact on tangible at this point.

Q - Ryan Tunis {BIO 16502263 <GO>}

Understood. And then, I guess keeping on these legacy issues we're having. For Chubb, and I guess the industry in general, how are you thinking about with the opioid litigation going on how that might manifest as an Insurance liability?

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

Yeah. And I don't think of that as legacy. I think of that is current. It's like other mass story that exists. So I don't see legacy in that. It's -- when it comes to opioid, you got to make -- we don't cover -- insurance doesn't cover financial loss. We cover a loss due to bodily injury property damage. And you have to have that clear linkage in liabilities. You got approved liability. And you got to prove in liability that have resulted in bodily injury and property damage, and/or property damage. And the cases that are brought against pharma right now, are brought for financial loss, because the municipalities and society had a big financial penalty as a result of the overuse of opioids. That's what's alleged.

Then making the case to Insurance. Well, you've got -- there's plenty of -- you got to leap the hurdle, I just said in that regard. You got to be able to demonstrate that you didn't know that you weren't aware when you bought insurance that these things were going on and other defenses. And so right now as far as coverage and what exist, we look at our portfolio through that lens and through those eyes and that we see an estimated liability. We reflected in our records -- in our books and records and therefore, our reserves.

Q - Ryan Tunis {BIO 16502263 <GO>}

And I guess, my one follow there would be -- is this something that the insureds understand the difference between BI and financial, or is just a type of -- in other words, this is something you're able to sort out with your clients, or is this something that ultimately is going to have to be resolved, insurance-related disputes policy wording like that sort of thing?

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

You know what Ryan, welcome to the insurance business. It varies by insured and a) both intellectually and their own character of do they -- do you understand the spirit of intent. And then versus let's go torture the language and see what we can get. And so it's all over the lot, always all over.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thanks.

Operator

We'll now hear from Meyer Shields with KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Great, thanks. Good morning. Evan, in your opening comments you noted that there was a small headwinds to premium growth from exposure as opposed to last quarter's small increase. I was wondering, whether there's anything significant in that change?

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

No. And what I gave you, Meyer, was simply, which is kind of an over simplistic way of doing it. What I said to you was that pricing was up 8.5 in North America, all the businesses rolled up. And when that it was made up of 9 in rate and the half and exposure. That -- negative exposure. That exposure change is just -- we have businesses with positive exposure change in -- more in the middle market and small commercial and then it jumps all over the lot in the large account business. And so, I wouldn't -- there is -- it's got puts and calls in it. There is no general theme to read into that whatsoever.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Fantastic. And then in the two North America, non-agriculture segment, so it was a bigger year-over-year increase in admin expenses than we've seen year-to-date through September. And I was hoping you could add some color to what's driving that?

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

In which one are you looking at North America?

Q - Meyer Shields {BIO 4281064 <GO>}

Commercial and personal, right, the admin expenses.

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

I'm sorry.

Q - Meyer Shields {BIO 4281064 <GO>}

The administrative expenses.

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

Did you say North America, though?

Q - Meyer Shields {BIO 4281064 <GO>}

Oh, I'm sorry, yeah. North America, commercial; North America, personal.

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

North America, personal. There was nothing. Go ahead, Phil.

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

There were a couple of items in the prior year related to pension and other benefits that benefited this last year. And so it makes it look like an increase this year.

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

Pension adjustment expense.

Q - Meyer Shields {BIO 4281064 <GO>}

Perfect. Thank you so much.

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

It can bounce around a little bit year-by-year. You don't know, it will depend on interest rate levels and all that at the end of this year, how it will look versus the year before.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Fair enough. Thank you very much.

Operator

Our next question will come from Brian Meredith with UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah, thanks. Two here for you. And then just a quick follow up on Meyer's question about the exposure. I'm just curious, are you guys picking up market share right now and kind of what is the unit kind of growth in North America, commercial, as well as in overseas, or is this not the time for you guys to pick up market share?

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

Well, I think we're picking up market share. But as far as unit, I think the numbers are trying to demonstrate that. But unit growth, we don't have a unit growth number for you in terms of policy, yes.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay. But -- I got you. But I guess --

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

Yes. No, we're picking up market share.

Q - Brian Meredith {BIO 3108204 <GO>}

You're picking up market share. So I guess -- the question I guess, Meyer was asking, the 8.5% pricing in North America, right? You said a little bit exposure. I would have thought that would be even higher --

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

You're missing it. No, you're missing how to define exposure.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay.

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

We are growing -- that's not how insurance companies, when they say exposure growth give it to you. So we're growing exposure by writing more clients. That 0.5% that goes into pricing happens to do with how clients -- clients have a rate against exposure to determine their premium. That's their own payroll. That's their own receipts, et cetera. And they then report that to you and that goes into their actual premium price. Do you what I mean?

Q - Brian Meredith {BIO 3108204 <GO>}

Right. Yeah, yeah. Absolute --

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

That's very different than -- that's very different than is Chubb in its written premium growing exposure or we're growing exposure.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay. That's helpful. And then my second question. I'm just curious, on your Global A&H business, growth has been fairly muted for a little while. Is that just a function of just economic activity globally, or is there something else to read into that?

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

No. Latin America is growing quite well. Europe grows at an unexciting sort of steady rate, low single digit. It's Asia Pac, where the underlying activity is very good and it's growing well, but we lost a client, Siam Commercial Bank earlier in the year and we talked about that and that has impacted that growth rate year-on-year. And what I -- you'll see as the year goes along that A&H growth will pickup.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, thank you.

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

You're welcome.

Operator

(Operator Instructions) We'll now hear from David Motemaden from Evercore.

Q - David Motemaden {BIO 18818634 <GO>}

Hi, thanks for taking the question. Just a quick numbers one for Evan and maybe Phil. Just on the civil unrest losses that we saw, the $33 million, is any of that spilling over into 1Q especially in Chile, just given the protests are still going on there?

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

No, not that we see, de minimis.

Q - David Motemaden {BIO 18818634 <GO>}

Okay, great. And then, just -- I saw in the December slides, Evan, you had laid out around 45% of your business is exposed to a hardening rate environment. Just wondering what that percentage is today. Just given that it's spreading into other lines in other geographies?

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

That's up. It's up -- it's not up dramatically. We have an updated the number yet.

Q - David Motemaden {BIO 18818634 <GO>}

Okay, great. And then with the Huatai investment or the increased stake, just wondering why you guys chose to increase your share there as opposed to maybe applying to get a fully owned license there like some of your peers have?

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

Well, we do. We have a fully-owned, and Chubb Insurance is a wholly owned, completely 100% foreign invested. And if you want to go in that direction, that's the 100-year plan or more. We have with Huatai 600 offices around the country. We have most all provinces. It's a life insurance company that -- and foreigners have just been allowed to now own majority in life insurance. But it has a life insurance company that we built and help to build that is doing, closing on $1 billion revenue. It's got P&C company doing that $1.5 billion or so. Got a retail mutual fund license. Good luck getting one of those. It's got so much capability that it gives us to build from. And if you go simply as a foreigner entering China, de novo build, it is very hostile, both the regulatory and the business environment. And very difficult to get it done. You have to do it province-by-province. You got to go city-by-city. And not simply you get it at a national level, it's not how it works in China. So this is a very precious asset, if we execute well in recognizing the future value of that asset.

Q - David Motemaden {BIO 18818634 <GO>}

Yeah, understood. And I guess just thinking about in terms of the number of board seats you there, I guess, how much control do you have over wide time? And obviously that will increase as you buy up your stake? And just some of those benefits that you had mentioned in terms of having the local expertise, which Pru UK has mentioned as well with their relationship with CITIC. Do you see any risk, once you guys go up to wholly ownership, or maybe even up to like 100% that, that becomes a headwind?

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

No, I don't. And you know, I've been doing business there for almost 30 years. So I know something about the environment there. And approach it with my eyes open and from a perspective that I'm going to -- that's the perspective with which I'm going to give you the next comment. When we have majority. We have very clear control. Right now we have substantial influence and control to do more things in there. But obviously, with the majority is when you have clear control, that will happen relatively near-term.

And secondly, China is like doing business anywhere. If you're a builder of business versus an investor, then you understand it not in some sterile way and that is that every territory, every country. China in particular are complicated and they have a risk around them. There is no guarantees. But the opportunity, if you execute well, and the opportunity in China is simply dramatic. It's a country of a lot of talented people. Our ability to source talent, ability to recognize leadership, our ability to use talent that we have around the region and around the world, including Chinese, we have those tools and those advantages. And we've got it's a country of relationships. We have a lot of them. And so it is again not without risk, but given the reward and the potential, and that it is the largest and what will be the largest economy in the world and it's the second largest now, well, I'll tell you what. It's not a hard decision to make that the long-term potential value creation for this organization. And that's what it's about long-term value creation.

Q - David Motemaden {BIO 18818634 <GO>}

Yeah, I totally agree. Thanks for the thoughts. Appreciate it.

Operator

Looks like we have time for one more question. And that question will come from Greg Peters with Raymond James.

Q - Gregory Peters {BIO 3111497 <GO>}

Great. Thank you for fitting me in. I mean, I just had one question. I guess, it sort of dovetails with this long-term value creation comment you just made. If I look in your earnings press releases, you always include both core operating, return on equity results. And then you include a core operating return on equity on tangible equity results. So, I'm not trying to be argumentative, but could you remind me of the thought process behind that tangible reference? I assume, the goodwill from Chubb and other acquisitions continues to be valuable. So just looking for clarification there.

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

Sure, it is. I am -- first of all, I think tangible is your most constraining factor, when you are -- when you in a balance sheet risk business. You can only pay claims against tangible. Can only grow your revenue and exposure to the extent of your tangible wherewithal. You can only borrow and you can only make acquisition to the extent of tangible, to your most constraining factor. Tangible is also the purest. Book, straight book has accounting, what I'd say is, more accounting related within it's more subjective than objective. When I look at the return on equity versus tangible return on equity, tangible is the one I have my eye on more for value creation. When I look at equity and return on equity, the Chubb, I look at it over a long-term. And you said it right to me, depends on, it varies by company and you have to able to assess that. The goodwill, I think is an appreciating asset in this company, not a -- hardly a depreciating or a stagnant. It opened the path to such future value creation of the organization that is occurring over time and will occur over time. And the goodwill you grow into that goodwill and because it's an appreciating asset, the Chubb and ACE combination that created most of that, created that value that way. So that's how we see it. And I think it's the right balance and how we think about value creation. So, thanks for the question, I didn't take it as argumentative.

Q - Gregory Peters {BIO 3111497 <GO>}

Thanks for fitting me in.

Operator

That will conclude our question-and-answer session. I'll turn the call back to your host for closing remarks.

A - Karen Beyer {BIO 6404488 <GO>}

Thank you all for your time and attention this morning. We look forward to seeing you again next quarter. Thank you and have a good day.

Operator

With that, ladies and gentlemen, this does conclude your conference for today. We do thank you for your participation. And you may now disconnect.