Q4 2014 Earnings Call

Company Participants

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

Other Participants

- Amit Kumar, Analyst
- Ian Gutterman, Analyst
- Jay Cohen, Analyst
- Jay Gelb, Analyst
- Josh Shanker, Analyst
- Josh Stirling, Analyst
- Kai Pan, Analyst
- Meyer Shields, Analyst
- Michael Nannizzi, Analyst
- Vinay Misquith, Analyst

Presentation

Operator

Good day, everyone. Welcome to The Chubb Corporation's Fourth Quarter 2014 earnings conference call. Today's call is being recorded.

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

In the prepared remarks and responses to questions during today's presentation, Chubb's management may refer to financial measures that are not derived from generally accepted accounting principles or GAAP. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures and related information are provided in the press release and the financial supplement for the Fourth Quarter 2014, which are available on the investor section of Chubb's website at www.Chubb.com.

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

John Finnegan {BIO 1735942 <GO>}

Thank you for joining us. In the Fourth Quarter of 2014, Chubb had record operating income per share of $2.29. Net income per share was $2.35. This capped off another great year with operating income per share of $7.63 for the full year and net income per share of $8.62, each of these being the second best results in Chubb history. As you will recall, 2013 earnings per share were the best in our history. So great back-to-back performance reflecting superior underwriting execution.

Our combined ratio for the Fourth Quarter was 84.3, the best combined ratio for any quarter in the past six years and a 1.2-point improvement over the year-earlier Fourth Quarter. The impact of catastrophe losses in the 2014 Fourth Quarter was 8/10 of a point compared to 2.1 points in the Fourth Quarter of 2013. On ex-cat basis, our combined ratio was 83.5, essentially the same as in the Fourth Quarter of 2013. Premiums worldwide were up 3% in the Fourth Quarter or up 4% excluding the impact of currency. As in recent quarters, we saw higher retention levels, continued rate increases. And new business. GAAP book value per share at year-end was $70.12, up 8% for the year.

Our capital position remains very strong and we just completed our existing share repurchase program. Today we announced a new $1.3 billion buyback program. As you saw in our press release, we have provided 2015 operating income per share guidance of $7.35 to $7.65. And Ricky will have more to say about guidance as well as our capital management activities. And now Dino will provide detail on commercial and specialty lines and then Paul will discuss personal lines and claims. Dino?

Dino Robusto {BIO 15021398 <GO>}

Thanks, John. In a marketplace that was competitive. But still behaving rationally, regarding price and terms and conditions, commercial and specialty both had strong performance in the Fourth Quarter. This was characterized most importantly by excellent underwriting profitability and by executing our stated plans of emphasizing the retention of our profitable portfolio while pushing for rate increases on those accounts that still require it. We also leveraged our distinct underwriting and claims advantages to write new business in our targeted niches.

Beginning with CCI, the Fourth Quarter combined ratio was 88.5 compared to 89 in the Fourth Quarter of 2013 and 89.5 in the Third Quarter of 2014. The Fourth Quarter impact of catastrophe losses accounted for 1.8 points of the combined ratio in 2014 and 0.6 points in 2013. Excluding the impact of catastrophe, CCI's Fourth Quarter combined ratio improved to 86.7 in 2014 from 88.4 in the prior year. Drilling down into the CCI lines, we had another strong performance in the multiple peril where the combined ratio was 85.4 compared to the unusually low 73.5 in the Fourth Quarter of 2013.

The casualty combined ratio for the Fourth Quarter of 2014 was 99.8 compared to the 102.9 we posted in the Fourth Quarter of 2013. Our workers compensation combined ratio was 80.2 was outstanding, more than an 11-point improvement over the 91.5 that we posted in the Fourth Quarter of 2013 and well below our 10-year average of 88. Property in marine produced a Fourth Quarter combined ratio of 84.4 compared to 83.1 in the year ago quarter.

In recent conference calls, we told you that in light of rate increases over the past several years, we were increasingly focused on retention. While, at the same time, taking advantage of better priced new business in market segments we target. This focus is contributing to our positive growth. In CCI, Fourth Quarter net written premiums grew to 5% to $1.3 billion.

Workers comp group 16%. But as you would see, if you look back at results in previous quarters, this line can fluctuate substantially from quarter to quarter due to the presence or absence of larger premium accounts. For example, our workers comp growth rate for the Third Quarter of 2014 was down 1% while for the full year we grew the line by 6%, a little less than the 8% we grew at it in 2013. Notwithstanding these fluctuations, we were able to achieve several points better retention in the Fourth Quarter versus the Third Quarter along with a slight increase in rate and we were able to cross sell a few large policies to existing customers.

Overall retention for CCI in the Fourth Quarter was 88% in the US, high by historical standards and a one-point improvement over the Third Quarter. Now, please note that in our press release the retention and renewal rate changes for CCI and CSI that are stated to be for our Third Quarter are in fact those for our Fourth Quarter. We apologize for any inconvenience. A corrected release is in the process of being issued.

Now, even with this higher retention, we achieved an overall written renewal rate increase of 2% for the US book. This was the 16th consecutive quarter we obtained rate increases and the earned premium impact continues to keep pace with our long-term loss cost trend. Outside the US, CCI's average renewal rate increases in the Fourth Quarter were marginally positive.

As we noted last quarter, the successful execution of our rate retention strategy resulted in there being fewer accounts in our portfolio that needs substantial rate increases, or that needs to be culled from the book entirely. Of course, in those instances where we cannot secure appropriate rates and terms, the culling will persist.

With respect to new business, we continue to take advantage of our unique expertise and products and services to target the market segment in which we specialize. In the Fourth Quarter, we were able to secure new business opportunities that we believe will meet our required return target in many of these segments. In the US, our new to lost business ratio was 1.4 to 1 compared to 1.0 to 1 in the Third Quarter of 2014. This improvement reflects the historically high retention rate and some additional new business.

Notwithstanding the continued improvement, new business writings as a percentage of our overall portfolio were still slightly below levels we were writing several years ago. For the full year, CCI's net written premiums increased 2% to $5.4 billion. The combined ratio was 89.9 in 2014 versus 86.5 in 2013. The impact of catastrophes accounted for 3.8 points of the 2014 combined ratio compared to 2.1 point in 2013. Excluding the impact of cat, CCI's combined ratio for the year was 86.1 in 2014 and 84.4 in 2013.

Turning out to Chubb's specialty insurance, our Fourth Quarter combined ratio was an outstanding 76.7 in 2014 and represented a five-point improvement compared to 81.9 in the Fourth Quarter of 2013. In professional liability, which represents the majority of our portfolio, the combined ratio was 80.3 compared to 85.9 in the Fourth Quarter of 2013, due mainly to a higher level of favorable development. Our continued strong underwriting results in the quarter stemmed from our disciplined underwriting, which is increasingly informed by our use of advanced analytics; continued culling action, where we don't believe we can achieve our required return; and the cumulative effect of rate increases which, on our US book, exceeded 20% over the last three years.

With respect to growth, CCI's (sic-see Press Release, "CSI") net written premiums in the Fourth Quarter were $701 million, down about 1%. For the professional liability portion of CSI, net written premiums of $628 million were essentially flat on a worldwide basis. But up 3% in the US. As we have noted in the past, premium growth in Chubb specialty can vary from quarter to quarter, in part due to the absence or presence of large premium accounts and in the Fourth Quarter we did see fewer good new business opportunities outside the US than we did in the Third Quarter.

In the Fourth Quarter, renewal retention for professional liability in the US remained at the very high 89% level achieved in the Third Quarter. At the same time, we secured a 4% average renewal rate increase in our US book in line with our long-term loss cost trend. The Fourth Quarter was the 13th consecutive quarter in which we achieved rate increases in the US. In markets outside the US, average renewal rate change was close to flat.

In the US, professional liabilities new to lost business ratio in the Fourth Quarter was 1.3 to 1, unchanged from the Third Quarter. This was a function of high retention levels in both quarters and our ability to find quality new business opportunities in our target markets, following several years of industry rate increases and underwriting action.

Turning now to the surety portion of the specialty book, the combined ratio of 48.6 in the Fourth Quarter represented a five-point improvement over the Fourth Quarter of 2013 and a six-point improvement when compared to Third Quarter of 2014. Net written premiums for surety were $73 million, down 6%, reflecting the lack of large premium transactions like those booked in the Fourth Quarter of 2013 for our customers who were performing work on major construction projects. It is not uncommon to experience this variation in work orders. But with the US economy improving, we expect that our surety customers, who are about the best in their fields, should particularly benefit from that growth.

For the full year 2014, CSI's net written premiums increased 2% to $2.7 billion and the combined ratio was an outstanding 80.5 compared to 84.3 in 2013. Professional liability premiums increased 3% to $2.4 billion and the combined ratio was 82.2 versus 89.3 in 2013. Surety premiums for 2014 declined 4% to $300 million and the combined ratio was 67.3 versus 47.2 in 2013. Bottom line, we are very pleased with the strategies we implemented and the actions we have taken to improve the profitability of our specialty business. And we are well-positioned to continue to grow profitably over time.

And with that, I will turn it over to Paul.

Paul Krump {BIO 5211397 <GO>}

Thanks, Dino. Chubb personal insurance performed very well in the Fourth Quarter of 2014. CPI net written premiums increased a healthy 4% to $1.1 billion. CPI delivered a terrific combined ratio of 83.9 in the Fourth Quarter, which is in line with the 83.5 produced in the corresponding quarter of 2013. Catastrophes had only a tenth of a percentage point impact on CPI's Fourth Quarter combined ratio compared to a 5.3-point impact in the Fourth Quarter of 2013. CPI's ex-cat combined ratio for the Fourth Quarter of 2014 was 83.8 versus 78.2 in the Fourth Quarter of 2013.

Homeowners premiums increased 3% for the quarter. The homeowners combined ratio was 76.5 compared to 75.8 in the corresponding quarter of 2013. Catastrophes had a tenth of a percentage point impact on the homeowners combined ratio in the Fourth Quarter of 2014 compared to 8.5percentage points in the corresponding quarter of 2013. Excluding catastrophes, the homeowners combined ratio in the Fourth Quarter was 76.4 versus 67.3 in the Fourth Quarter of 2013. As you might recall, we pointed out last year at this time that the 76.3 [ph] ex-cat combined ratio for homeowners was an unusually good result. The average homeowners renewal premium increase totaled 6% in the US compared to 7% in the Third Quarter.

In the Fourth Quarter, net written premiums for personal auto grew 4%. The personal auto combined ratio was 95.2 compared to 93.9 in the corresponding quarter of 2013. CPI policy retention in the US in the Fourth Quarter of 2014 was 89% for both homeowners and personal auto. Homeowners policy retention was down slightly, while personal auto was unchanged from the Third Quarter of 2014. In other personal, which includes our accident, personal excess liability. And yacht lines, we had strong growth of 6% in the Fourth Quarter of 2014 and the combined ratio was 95.1 compared to 96.8 in the corresponding quarter of 2013.

Looking now at our full-year results, CPI's net written premiums increased 4% to $4.5 billion. CPI produced a combined ratio of 90.9, including 5.5percentage points of catastrophe losses compared to a combined ratio of 87 for 2013 including a 7.2-point impact from catastrophes. Excluding catastrophes, CPI's combined ratio for the full year was 85.4 in 2014 versus 79.8 for 2013.

For all of 2014, homeowners premiums increased by 4% to $2.8 billion. The homeowners combined ratio was 88.3, including an 8.9percentage point impact from catastrophes compared to a combined ratio of 82.3 in 2013, including an 11.5-point impact from catastrophes. Excluding the impact of catastrophes, the homeowners combined ratio for the full year was 79.4 in 2014 versus 70.8 in 2013.

Personal auto premiums increased 1% in 2014 to $740 million and the combined ratio was 96.8 compared to 94.8 in 2013. Other personal lines premiums increased 8% for the full year to $1 billion and the combined ratio was 94 versus 94.8 in 2013.

Turning now to claims for Chubb overall. It was a fairly benign quarter from a loss perspective. On an ex-cat basis, new arise claim counts increased only 3% from the Fourth Quarter of 2013, which is in line with our premium growth.

Regarding catastrophes, their impact in the Fourth Quarter of 2014 was 0.8percentage points of the combined ratio or $25 million before tax. This includes $35 million of favorable development from cat events earlier in 2014, which was partially offset by $11 million of unfavorable development from cat events in 2013 and prior years. Losses from catastrophe events that occurred in the Fourth Quarter of 2014 totaled $49 million and were dominated by two hail and wind storms, one in Brisbane, Australia. And another that impacted Texas and Kansas. The impact of catastrophes for the full year 2014 was 3.6percentage points or $444 million before tax, reflecting $11 million of unfavorable development from events that occurred in 2013 and prior years.

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

Ricky Spiro {BIO 15061279 <GO>}

Thanks, Paul. Looking first at our operating results, we had strong underwriting income of $477 million in the quarter. For the full year, underwriting income was $1.4 billion. Our combined ratio for the Fourth Quarter was 84.3 compared to 85.5 in the same quarter a year earlier. Our expense ratio for the quarter was 30.5 in 2014 versus 30.8 in 2013. For the full year, our combined ratio was 88.3 in 2014 compared to 86.1 in 2013. And our expense ratio for the full year was 31.4 in 2014 and 31.9 in 2013. Please note that over the past few years, our expense ratio in the Fourth Quarter has been lower than for other quarters and the full year due to seasonality. The expense ratio varies from quarter to quarter due to mix of business and other variables.

Property and casualty investment income after taxes down 6% in the Fourth Quarter to $267 million, due, once again, to lower reinvestment rates in our fixed maturity portfolios and, to a lesser extent, the impact of foreign currency translation. Net income was higher than operating income in the quarter, due to net realized investment gains before tax of $18 million or $0.06 per share after-tax, including a $0.01 per share loss from alternative investments. For comparison, in the Fourth Quarter of 2013, we had net realized investment gains before tax of $67 million or $0.17 per share after-tax, including again $0.09 per share from alternative investments.

Unrealized depreciation before tax at December 31, 2014, was $2.7 billion. For comparison, at year-end 2013, unrealized depreciation before tax was $1.9 billion. The increase in unrealized depreciation in 2014 largely reflects the decrease in interest rates and the increase in equity markets that occurred during the year.

The total carrying value of our consolidated investment portfolio was $43.5 billion as of December 31, 2014. The composition of our portfolio remains largely unchanged from the prior quarter. The average duration of our fixed maturity portfolio is four years. And the average credit rating is AA3.

We continue to have excellent liquidity at the holding company. At December 31, our holding company portfolio had $1.8 billion of investments, including approximately $585 million of short-term investments. Book value per share under GAAP at December 31, 2014, was $70.12, compared to $64.83 at year-end 2013, an increase of 8%. Adjusted book value per share, which we calculate with available per sale fixed maturities at advertised costs, was $65.03 compared to $61.86 at 2013 year-end, an increase of 5%.

With regard to book value, as you may know, companies like Chubb that have defined benefit pension and postretirement benefit plan are required to prepare an annual revaluation of the plan's assets and benefit liabilities. As a result of our revaluation at the end of 2014, the estimate of our planned liabilities increased and our change in book value for the Fourth Quarter was adversely impacted by approximately $350 million after tax. The increase in our plan's liabilities was primarily due to the decrease in our discount rate assumption that resulted from the decrease in interest rate at December 31, 2014, compared to the prior year-end rates and to a lesser extent, a change in our mortality assumption. The change in our mortality assumption reflects the impact of the October 2014 revision of the Society of Actuaries mortality tables, which many companies, including Chubb, take into account in the measurement of their benefit plan liabilities. In addition, the change in book values during the quarter was negatively affected by about $75 million, due to the impact of foreign currency translation.

As for loss reserves, we estimate that we have favorable development in the Fourth Quarter of 2014 on prior year reserves by SBU as follows. In CPI, we had about $15 million. CCI had about $50 million. CSI had about $90 million. And the runoff reinsurance assumed business had done, bringing our total favorable development to about $155 million for the quarter. This represents a favorable impact on the Fourth Quarter combined ratio of five points overall, including an adverse impact from prior year catastrophes of $11 million. For comparison, in the Fourth Quarter of 2013, we had about $115 million of favorable development for the company overall, including $25 million in CPI, $35 million in CCI, $55 million in CSI. And none in reinsurance assumed. The favorable impact on the combined ratio in the Fourth Quarter of 2013 was about four points overall, including a favorable impact from prior-year catastrophes of $6 million.

Favorable development for the full year 2014 totaled about $635 million and had a favorable impact on the combined ratio of approximately five points, compared to $710 million in 2013 and a favorable impact on a combined ratio of approximately six points.

For the Fourth Quarter of 2014, our ex-cat accident year combined ratio was 88.8 compared to 87 in last year's Fourth Quarter. And for the full year 2014, our ex-cat accident year combined ratio was 90 compared to 88.4 in 2013.

During the Fourth Quarter of 2014, our loss reserves decreased by $350 million, including a decrease of $344 million for the insurance business and a decrease of $6 million for the reinsurance assumed business, which is in runoff. The overall decrease in reserves reflects a decrease of $53 million related to catastrophes, the impact of currency translation on loss reserves during the quarter resulted in a decrease in reserves of about $155 million.

Turning now to capital management, during the Fourth Quarter, we repurchased approximately 3.4 million shares at an aggregate cost of $346 million. The average cost of our repurchases in the quarter was $100.58 per share. For the full year of 2014, we repurchased 16.9 million shares at an aggregate cost of $1.6 billion and an average cost of $92.05 per share. As of December 31, 2014, there was approximately $52 million remaining under our January 2014 repurchase program, which we completed this month.

As we announced today, our Board of Directors has authorized a new $1.3 billion share repurchase program. The size of the share buyback program is essentially in line with the 2015 operating income reflected in our guidance, less shareholder dividend. We intend to complete this program by the end of January 2016, subject to market conditions and other factors.

Finally, let me make a few additional comments regarding our guidance. We expect operating income per share for 2015 to be in the range of $7.35 to $7.65 with the midpoint of $7.50. Before reviewing the key assumptions underlying our 2015 operating income per share guidance, I would like to highlight a couple of external factors that will impact our financial results this year.

First, interest rates have continued to decline on a global basis which will, once again, put pressure on investment income. In addition, the impact of lower interest rates on our discount rate assumption will increase our pension and post retirement benefit costs in 2015, which will be reflected in the slightly higher expense ratio for the full year compared to the 31.4% expense ratio in 2014.

Second, since roughly a quarter of our business is generated outside the United States, the recent strengthening of the US dollar against most major currencies will have a negative impact of both premium growth and investment income. As we said in our press release, we are for the full year a negative 2percentage point impact of foreign currency translation on written premium growth and a negative 1percentage point impact on the growth of property and casualty investment income after-tax.

Our operating income per share guidance assumes for the full year of 2015 and increase of 1% to 3% in net written premium or 3% to 5%, excluding the negative impact of foreign currency translation. A combined ratio of 89 to 90, a decline of 6% to 8% in property and casualty investment income after taxes, or 5% to 7%, down 5% to 7%, excluding the negative impact of foreign currency translation. And our guidance assumes 230 million average diluted shares outstanding. Our guidance also assumes 4percentage points of catastrophe losses in line with our median annual catastrophe impact over the last 10 years. In terms of sensitivity, the impact of each percentage point of catastrophe losses on 2015 operating income per share is approximately $0.36.

And now, I will turn it back to John.

John Finnegan {BIO 1735942 <GO>}

Thanks, Ricky. Chubb had an excellent Fourth Quarter posting record operating income per share of $2.29, which generated annualized GAAP ROE of 13.6% and annualized operating ROE of 14.8%. These Fourth Quarter results topped off a terrific year in which we achieved excellent operating and net income per share. Renewal rates improved in all three SBUs with average US great increases rate for the full year of 3% within [ph] commercial, 5% for professional liability. And we also achieved average US renewal increases of 6% for personal lines.

The growing rate adequacy of our overall book has increased our focus on retaining more of our profitable portfolio as evidenced by our high renewal retention rates. And in light of broader industry rate increases in the last few years, we are able to secure some additional new business that was attractively priced within the market segment we targeted.

We continued to actively manage our capital in 2014 by returning more than $2 billion to our shareholders through a combination of share repurchases and dividends. Our ongoing commitment to capital management is demonstrated by the new $1.3 billion share repurchase program we announced today. As you can tell from our 2015 guidance, we are expecting another overall strong year despite the dual headwinds of continued low interest rates and the strong dollar.

And with that, I will open the line to your questions.

Questions And Answers

Operator

(Operator Instructions) Amit Kumar, Macquarie.

Q - Amit Kumar {BIO 15025799 <GO>}

Congrats on the results. Two quick questions on the guidance. The first is on the MPW [ph] guidance for 1% to 3% and even if I exclude the foreign-exchange impact and factor in the comments on retentions, why wouldn't the top line move directionally in the opposite direction more versus what we have seen previously? Is it simply a function of new business or are you factoring in some maybe rate momentum going forward?

A - Ricky Spiro {BIO 15061279 <GO>}

Well I think it is a combination of things. I will start by putting our 2014 premium growth in perspective. So for the full year 2014, net premiums written increased 3% or 4%, excluding the effect of foreign currency translation. So we are expecting next year that, ex-currency premium growth, we will be consistent with our 2014 growth and we believe that it is reasonable be based on the current market environment.

In terms of assumptions, I can't go through each of the individual pieces. But obviously retention is strong. You heard the commentary on rates of what we are seeing in the near term and then there has been some new business of course as well. And I would highlight also, just think about the relationship between growth -- premium growth and renewal rate increases. They are not necessarily correlated. So for example, if you look back in 2013, we actually had lower ex-currency premium growth of 3%. But average renewal rates were actually higher than they were in 2014. So hopefully, that gives you some idea of what we are thinking.

Q - Amit Kumar {BIO 15025799 <GO>}

That is helpful. The only other question I had was on the discussion on the combined ratio guidance. Can you -- the ex-cat guidance is 85 to 86. Can you talk about how you are thinking about the underlying accident year going forward? Does that still improved based on how earned rates come in exceeding loss cost trends? Or does it sort of flatline? Can you just expand on that? Thanks.

A - John Finnegan {BIO 1735942 <GO>}

Well I think -- it is John. Amit, a variety of things could happen. Obviously, it depends on some degree where rates do go. But when you look at the 2015 accident year, let's start with what most of the analysts talk about as margin expansion, meaning earned rate versus long-term loss cost trends. Remember that the 2015 accident year is based on earned rate which means it is 50% driven by rate increases in the year 2014 and 50% rate increases in the year 2015. In the year 2014, our rate increases exceeded loss cost trends and even our shorter-term loss cost. So we go in with some headwinds appointed to from 2014 for 50% of 2015 accident year. Tailwinds -- not a headwind. Tailwinds. No wonder why I can't fly a plane.

Now, as we move in toward 2015, right now our earned rate is still a little bit in excess of our loss cost trends in the Fourth Quarter. But our written rate is about neutral to loss cost trends. I don't know where rate is going. But I expect as we run a variety of scenarios, there is more biased in the scenario to rates increases but not being as high as they currently are. So there could be some pressure on margins related to the 50% of accident year performance related to 2015. But then you have got to combine that with the 2014 tailwind. And it is hard to call whether you're going to have overall for the 2015 accident year contraction on margin expansion.

And the second thing is that, we have talked about this ad nauseum in the past is that margin expansion analysis, even if correct, doesn't necessarily correlate into year-over-year movement in combined ratios. The other big factor is how do actual losses compared to loss cost trends. And as we saw this year, our actual losses, especially in the property lines. But I would say homeowners were significantly higher than what was experienced in recent years. And we would hope to see some reversion to the mean in that line of business.

There is no guarantee that you can't be higher than the mean two years in a row. So we are conservative when we look at that. But, again, where hoping for somewhat of a reversion to the mean actual losses in some of the lines we had unfavorable experience in this year, which are largely related to a luck factors such as fire and non-cat water.

A - Ricky Spiro {BIO 15061279 <GO>}

And if I can add one thing apart from the loss ratio side, as I mentioned in my remarks, on the expense ratio side, given the higher pension costs that we expect to incur in 2015, the expense ratio also will be higher than what we experienced in 2014.

A - John Finnegan {BIO 1735942 <GO>}

And finally, when you are looking at our guidance, you ask specifically about accident year. But if you look at our guidance for combined ratio, that obviously is a calendar year number. The big missing factor is development and development is a major contributor results. It was five points this year. Don't know if you can run that forever so we have a variety of scenarios about development. But you would have to take that into account when you formulate your own projections.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks for the color and good luck with the future.

Operator

Jay Gelb, Barclays.

Q - Jay Gelb {BIO 21247396 <GO>}

First, I had a question on the casualty combined ratio in 4Q. That was running a little high and I was hoping you could discuss that.

A - Dino Robusto {BIO 15021398 <GO>}

Sure. Hi, Jay. It is Dino. Yes. The casualty combined ratio was the 99.8 in the Fourth Quarter. And you compare it to the Third Quarter of 2014, which was 95.3, that was 102.9 in the Fourth Quarter of 2013. The primary reason for the deterioration relative to the Third Quarter of 2014's impact of asbestos and environmental claims, which was heavier in the Fourth Quarter, although partially offset by more favorable development in excess liability. One other thing to point out, if you look at the full year, 2014, our casualty combined ratio was 92.5; is a five-point improvement over 2013. So we remain pleased with the progress of the improvement in this line of business.

Q - Jay Gelb {BIO 21247396 <GO>}

Okay, Dino. So there is a Q4 impact of asbestos and environmental in Q4. What was the dollar amount of that?

A - Dino Robusto {BIO 15021398 <GO>}

$60 million. About 15 points to our casualty combined ratio in the Fourth Quarter compared to only $24 million or six points in the Third Quarter of 2014.

Q - Jay Gelb {BIO 21247396 <GO>}

Okay. That's notable. Then my second and unrelated question is on the high net worth personal lines business of which Chubb has a major presence. ACE announced its buying the Fireman's Fund high net worth business. I would be interested in your thoughts in terms of what that means for the competitive dynamic for a pretty important market for Chubb.

A - Paul Krump {BIO 5211397 <GO>}

Jay, this is Paul. Obviously, we don't know for certain how or if this will impact us. But over the decades, I think you well know there has been several firms which have entered the high net worth space to compete against us. Obviously, some of those players have exited over the years as well. We kind of look at it this way. We are the pioneers in this market. We developed it in the beginning. We have successfully competed in it now for nearly three decades. And we have every intention of doing so going forward.

Q - Jay Gelb {BIO 21247396 <GO>}

Okay. So no real shift anticipated as a result of that acquisition?

A - Paul Krump {BIO 5211397 <GO>}

We have our strategies and we will compete against the new entity. Or the combined entity.

Q - Jay Gelb {BIO 21247396 <GO>}

Appreciate it. Thank you.

Operator

Vinay Misquith, Evercore ISI.

Q - Vinay Misquith {BIO 6989856 <GO>}

The first question is on loss trend. I believe you mentioned in your comments that -- you said written rate was in line with loss trend. So just curious as to what you are assuming for loss trend.

A - John Finnegan {BIO 1735942 <GO>}

Let's talk about that for a second and I will reiterate something I said last quarter. When we talk about loss trend, we use 4%. But let me define that for you. Our loss trend is largely macroeconomic factors such as, in workers' comp, it is healthcare inflation. Loss cost trends are used by different firms in different ways. What it doesn't take into account is the impact of proactive underwriting initiatives. So the kind of culling of the book we have been talking about doing over the past two years reduces our loss cost in the short term. When you take into account the underwriting initiatives we have underway, we would expect our short-term loss cost trends to be about a point or two lower than long-term loss cost trend. So when we budget and look at profitability, we do this granularly by line. But we probably look at our short-term loss cost trends at two to three points rather than the four-point long-term loss cost trend. But when I say we are about even in the Fourth Quarter, I was comparing written to long term. We are still a point or so above what we envision to be the short-term loss cost trends.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. Right. But -- so if I understand this correctly, that is purely because you have taken some underwriting actions, correct?

A - John Finnegan {BIO 1735942 <GO>}

Exactly. And I am sure all other firms do to, yes.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay. That's helpful. The second question, I am looking at the accident year combined ex-cat for this quarter that was about 88.5% for the Company as a whole. Last year, it was about 87.2%. So it went up year over year. Just curious as to why it grows year over year.

A - John Finnegan {BIO 1735942 <GO>}

What numbers are you using? You are looking at the Fourth Quarter ex-cat accident year?

Q - Vinay Misquith {BIO 6989856 <GO>}

Yes. Correct.

A - John Finnegan {BIO 1735942 <GO>}

88.8%?

Q - Vinay Misquith {BIO 6989856 <GO>}

88 -- yes. I mean, my math says about 88.5% this year, versus about 87.2%. So it went up by around 130 basis points year over year.

A - John Finnegan {BIO 1735942 <GO>}

Year over year? Well yes. Well it was all due to CPI. Last year we had an unusually good quarter. This year we had a decent quarter. There was about an eight-point deterioration in homeowners. And that was basically it was all attributable to somewhat higher than normal non-cat and fire losses in the Fourth Quarter this year and extremely low fire losses in non-cat weather in the Fourth Quarter of last year. The rest of the units, CCI and CSI, were pretty much flat.

Q - Vinay Misquith {BIO 6989856 <GO>}

Thank you.

Operator

Josh Stirling, Sanford Bernstein.

Q - Josh Stirling {BIO 17463087 <GO>}

I wondered if I could follow on with a question on your personal lines business. I think I noticed you guys started advertising on television recently. And I was kind of surprised to see that. I mean, you are an agency company. You have got a long-standing brand. And I am wondering how this kind of fits with your positioning of the personal lines business, how you are looking to be competitive as that business presumably gets more competitive. And can we read in this into you guys thinking that like somehow if you have been measuring the brand value or consumer awareness and we have been seeing it slipping? Or is this sort of just something you guys felt like it would be nice to do?

A - Paul Krump {BIO 5211397 <GO>}

Josh, this is Paul. I will take a stab at it. First of all, thanks for noticing the ad. No regrets is the theme of the ad and it pretty much tags onto what we have had in the past about, expect the unexpected and insurance doesn't matter until it matters and that kind of a thing. It is not just a personal lines ad. It is a Chubb corporate ad. So we have people in their from a business. We have a couple of personal lines customers. It is really just trying to make certain that our name is out there in the marketplace.

We do see, though, that there were some customers that, during the economic downturn, whether they be commercial or personal, that decided to save some money by going to less expensive insurance. And now that the economy is improving, we want to make certain that they know we are still out here. And they don't have any regrets when they come to us. So that is really what it is all about. We are getting great feedback, though, from our agents and a number of customers have called up and said that it is a nice use of a little bit of humor. So we are excited about it.

A - John Finnegan {BIO 1735942 <GO>}

You don't have to worry about any line item on our financial statement from an increase in the advertising budget.

Q - Josh Stirling {BIO 17463087 <GO>}

Okay. But I always think of you guys as a humorous company.

A - Paul Krump {BIO 5211397 <GO>}

Well at least we are not -- you know, insurance isn't boring.

Q - Josh Stirling {BIO 17463087 <GO>}

Yes. Have we heard that lately? So listen, I wonder if I could ask just another question. We spend a lot of time talking about your guys' segments. But I was just sort of looking at your numbers and it made me realize that the international business, I mean, it looks like it hasn't -- I mean, I know FX makes this more complicated and harder to do with the way you present your numbers. But it doesn't look like it has had that much growth. But it also seems to have lower margins than your franchise in the United States. And I'm kind of wondering what you think your priorities are for those businesses. And do you have opportunities to accelerate the growth rates or, alternatively, to drive some greater profitability so they could put look more like the United States?

A - John Finnegan {BIO 1735942 <GO>}

Let me say it -- when we look at that, we discuss this as an item; it is always discussed certainly at the Board level, overseas business and growth. It is very hard, you mentioned one thing. You have exchange in here. So it is very hard to look at. I think -- overseas it used to be 25% or 26%. We peaked maybe at 23% or so today. But exchange is a big driver in that.

Then the other driver of relative growth is rates. And rates in the US over the last three years have been significantly higher than rates overseas. Overseas, the growth has been hurt overseas by rates directly. And also because the lack of increase in rates has made new opportunities less attractive. We still look at overseas as an area which should grow somewhat better than the US -- constant exchange and similar rate increases. But we have also suffered over the last years from an economic downturn in Europe, from Brazil turning down. So there a lot of things have happened in the last few years in the overseas economies in general to exchange rates. And in the insurance industry, just rate increases have not been as attractive as they have been in the US.

Q - Josh Stirling {BIO 17463087 <GO>}

Okay. Thank you.

Operator

Michael Nannizzi, Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Ricky, would it be possible to know what you were booking that comp business at on accident year base. I know it was 80 combined on a calendar year basis. But I was just curious, if we could understand kind of where you are booking that business. Thanks.

A - Ricky Spiro {BIO 15061279 <GO>}

Yes. That is not a number that we normally would give out. So sorry about that.

A - John Finnegan {BIO 1735942 <GO>}

And probably not one we have here right now, either.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. I mean, is it fair to say -- because obviously your growing a lot. It seems like there is either some bundling, some big accounts that you are bringing into the fold. So I am just curious. Is it possible directionally just understand kind of whether or not that is meeting your hurdle rates of return on an accident year basis? Can we ask you, can I ask you that way?

A - Ricky Spiro {BIO 15061279 <GO>}

Absolutely it is.

A - John Finnegan {BIO 1735942 <GO>}

Absolutely. And again, the growth was great in the quarter. I think Dino pointed out in his remarks. We are happy with seven -- what did we have? Seven or eight points for the year (multiple speakers). Eight last year so I mean it is not -- we were flat in the third and we were very good in the fourth. A lot of that is just timing. It is a 16% growth business.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Right. Then, I guess just looking at commercial overall and taking into consideration some of the non-cat weather, I felt like that was more in CPI during 2014. Looks like the underlying loss ratio didn't really change all that much. But you got rate throughout the year in CCI. And it seemed like comp was probably a bigger part of that growth and maybe got more rate than the rest of the book. Just trying to square that. Should we see that -- was it the non-cat losses that may be masked some of that margin expansion, or should we see some of that start to trickle through next year?

A - John Finnegan {BIO 1735942 <GO>}

You know, I don't -- we pointed out in the Second Quarter we had some very high large losses in the Second Quarter. They were not non-cat weather, necessarily. So -- but, for the full year, our property murine kind of ran in line with our five-year average so I don't think that was an issue. I would say this, first of all, when you look at CCI, we basically went from, what, five, four, three. And two were rate increases over the course of the year. So really, we didn't -- we really didn't exceed long-term loss cost trends by any significant amount, if at all, over the course of the year. Then, secondly, we have these anomalies in actual versus loss trends. For a point we are talking about 2013 was a very good year. So if you look at the analysis 2013/2014 an accident year basis, just on margin expansion, maybe you should have been a point better off, a point gets lost and around 2013 was a good starting base. So nothing really there to say.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. Then, just lastly, on the other personal lines business. So that seems to be running -- it has been running consistently in that sort of mid-90s range. Is that -- and it has been growing more than the others. So how are you thinking about that? Is it low-hanging fruit from a bundling perspective? Does it provide retention benefits that more than offset the fact that profitability is less than some of the other lines of business that you are not growing as fast? Or is it the accident business that is not anywhere near bundling of the other personal lines business? Just trying to get some context of there? Thanks.

A - Paul Krump {BIO 5211397 <GO>}

No problem, Mike. It is Paul again. Just shy about 70% of our other personal business is made up of accident. And accident has been what is helping the growth -- fuel the growth in the other personal category there. It gets a little bit lumpy, you are right, when you look at basically running in the high single digits for the year. The absence or presence of a large accident program is pretty much what we will drive and make some of the swings there. But we hired some people a couple of years back and we are doing very well in the accident space. Obviously, we are doing very well also in the personal excess liability space. We have been writing a lot more umbrellas on individuals as well as on groups. The yacht business is slowly coming out of the doldrums from the economic downturn. And that is what is really going on in that category.

A - John Finnegan {BIO 1735942 <GO>}

I would say that accident obviously being the lion's share of the category, it is a growth business so right now the combines are not exactly what we want it to be which is quite often the case when you have a growth business. If your overall performance in that category is 95 and accident health is 70% you could conclude that accident health is not running significantly below that. We hope over the shorter term that we actually see a substantial improvement in accident health. But we are not unhappy. We are getting good growth and with growth comes a little bit higher expenses and you are not earning it through the income as fast. So over time, hopefully. And not too far -- not too much time, I don't think, we'll improve. Paul won't be answering questions [ph] anymore.

A - Paul Krump {BIO 5211397 <GO>}

(multiple speakers).

Q - Michael Nannizzi {BIO 15198493 <GO>}

Nice. All right. Well thank you very much. That's perfect. Thank you.

Operator

Kai Pan, Morgan Stanley.

Q - Kai Pan {BIO 18669701 <GO>}

First question is, if you look back in 2013 and 2014, your operating results pretty strong. You had record earnings. But ROE stayed roughly around between anywhere 11% to 13%.

Going forward and the combined ratio potentially could deteriorate because the pricing is no longer rising as fast as in the past two years and investment income [ph] continue to -- under pressure. And all you can do to actually return this great return 100% of earnings to shareholders. Is there anything that you can do to improve that ROE, or that is what we are looking at for the next few years?

A - Ricky Spiro {BIO 15061279 <GO>}

Well obviously, we are doing a number of things. One, you have heard on the business side on this call and others some of the underwriting actions we have been taking to try to continue to improve the profitability of some of the books of business where maybe they are not performing at the level where we want. On the investment income side, I can tell you unequivocally we are not going to change our investment strategy. We are not going to reach for yield in this environment. We do not see the opportunities. So the way we are going to try to continue to grow the earnings line, as well as potentially ROE, is continue to do what we have been doing.

We will continue to be active in managing our capital. And there really are not a whole lot of silver bullets out there. In the environment where we are today where interest rates are, we think the ROEs that we are generating are actually quite attractive. And our target ROE of 10%, plus inflation, over time, has not changed. It is still what we are pushing in our pricing and in our rate discussions. And so the reality is, the only way you could get better than that with investment income where it is, you have got to get a better loss ratio. So we continue to push on that.

A - John Finnegan {BIO 1735942 <GO>}

We are talking 12.5% to 14.5% over the last two years, return on equity in a 1% or 2% interest rate environment. I mean, that is a reasonably good return on equity when your investment income goes down 5% and 6% a year. And we are also carrying around, we think, strong excess capital position. So I think those are pretty good returns. That's all. It is hard -- we gave you guidance for next year and so you know what we expect in earnings so you can come up with some sort of assessment of where ROE will be. But in this environment, this interest rate environment, this investment income environment, you are not going to be running 16%, 17%. And 18% return on equity.

Q - Kai Pan {BIO 18669701 <GO>}

That's great. My second question is a little bit different. Google recently announced that getting into the auto insurance business. I just wondered do you see yourself as participants in any sort of online marketplace for your personal products.

A - Paul Krump {BIO 5211397 <GO>}

This is Paul, Kai. This approach is really focused on providing a price comparison driven distribution option for potential customers. I think it is really too early to know based on our experience if these types of distribution platforms actually work or not. I think I would direct you to look what is happening in the UK in the last couple of years. There has been a couple of those platforms operating there. And what I can tell you is they have had little to no impact on our automobile writings in the United Kingdom.

Q - Kai Pan {BIO 18669701 <GO>}

That's great. Lastly, very quickly, is, do you have any early indication from the winter storm this week?

A - John Finnegan {BIO 1735942 <GO>}

Juno?

Q - Kai Pan {BIO 18669701 <GO>}

Yes.

A - Unidentified Speaker

As of now, we have an insignificant number of claims reported and our initial investigations have not revealed any very large claims. But I want to just put out a little word of caution there. It isn't unusual with a Juno type snowstorm to have customers report claims to us over a period of weeks. A water stain will appear in a closet they hadn't opened up for a few weeks, or they will get to their secondary home and inspect it and see that there has been some damage there. So we are really encouraged by the paucity of claim activity that we have had to date. But we are going to have to continue to monitor this. It is just too early to tell.

Q - Kai Pan {BIO 18669701 <GO>}

Great. Well thanks so much for all the answers.

Operator

Josh Shanker, Deutsche Bank.

Q - Josh Shanker {BIO 5292022 <GO>}

Ricky, I would like to know how you think about forecasting investment yield decline or investment to the extent of which the last three months of interest rates have come into that, what percentage the portfolio comes up for reinvestment during the year? It looks like your forecast accelerated -- or I should say accelerated in terms of decline from where it was a year ago. What are the ingredients that make that happen?

A - Ricky Spiro {BIO 15061279 <GO>}

Well you touched on a lot of them. So obviously, the way we do the forecasting is we take a look at the maturity profile of our portfolio in the upcoming year. We have to make obviously some assumptions and related to what our cash flows are going to look like. We have our buyback and other things that impact all that. And we buy securities over time which can impact on the maturities and when they actually occur. And we start by looking at that and we have an estimate and a projection, if you will, of what we think our cash flows are going to look like with the maturities. We have an estimate of what we think reinvestment rates are going to look like. And we project out over time.

Obviously, as I mentioned, we also, this time around, given what has happened in the currency market, also needed to take a look at what we are seeing both in the US and outside the US to make some guesstimate about what we think the impact of currency will be. So that is how we do it. We look at our actual maturities and project out. It is sort of a moving target because things change over time. But we have a pretty good idea of what we think the maturity schedule is going to look like and, as you know, we actually publish a maturity schedule in our 10-K every year where we highlight the next few years of what we expected maturities are. So you could get a pretty good feel from that.

A - John Finnegan {BIO 1735942 <GO>}

Interest rates have deteriorated in recent months and the dollar has gotten stronger. So the outlook has deteriorated from real-world factors. Whether that is permanent (inaudible).

Q - Josh Shanker {BIO 5292022 <GO>}

Is it reasonable to look at what has happened to the 10 years in the last six months and say the degree of the move is similar to the new money yield change at Chubb?

A - Ricky Spiro {BIO 15061279 <GO>}

I don't have the comparison of what the new money yields were at year-end last year. I can tell you what our current new money rates are and maybe you can get a sense from that. But basically, where we are reinvesting today. And obviously, I said this before, it depends on asset class. But they are all actually pretty -- they are lumped pretty close together these days. So outside the US, I would say our current reinvestment rates are about 2.25%. Our reinvestment rates in tax exempt in the US is probably around 2.4% or thereabouts. And our reinvestment rate for our taxable securities in the US is probably around 2.5%.

I will go one step further. So given that, I can try to at least give you some idea of when we think about the maturity schedule and what is maturing over the next, call it, few years, on the US tax exempt side, we are probably -- those reinvestment rates will probably be 175 to 200 basis points below our maturing book yields on average over the next few years. For our domestic taxable fixed income maturities, it is probably 75 to 125 basis points. And there is some variability in this because, obviously, depending on when you bought a security, if you bought something five years ago, it may have had a higher coupon at the financial crisis than this period [ph]. And now it is going to be maturing. Then, outside the US it is about 25 to 75 basis points.

Q - Josh Shanker {BIO 5292022 <GO>}

That's great color, Ricky. Thank you very much.

Operator

Jay Cohen, Bank of America Merrill Lynch.

Q - Jay Cohen {BIO 1498813 <GO>}

I was hoping to get a bit more color on the continued favorable development in professional lines. I am wondering if you can talk about what accident year is this coming from. Is it driven more by the frequency of claims or the severity of claims that you are seeing?

A - John Finnegan {BIO 1735942 <GO>}

Well let me say that, your first question, professional liability reserves, the favorable development came from accident year 2010 and prior. 2011 and 2013, roughly flat. 2012 slightly adverse. Obviously, the later years, you don't have as much development in. Overall, reserve position really was all accident years, were favorable except pre-2004, they aggregated that period because of A&E charge. But everything was favorable. So overall, only [ph] it has stood up pretty good.

Q - Jay Cohen {BIO 1498813 <GO>}

And what are the claims trends you are seeing in professional lines that is allowing the ongoing significant favorable development?

A - John Finnegan {BIO 1735942 <GO>}

I think, when you talk about development, you are talking about, largely claims that you -- especially if you're going back what three or four or five years, you know about. So you are talking about severity. I mean, not talking much about frequency. In terms of frequency in current periods, they look fine. But when you talk about development, you are talking about how -- largely about the severity on claims you know about. Now, obviously, there could be some you don't. But for the most part, that is not the contributing factor. It is loss experience on claims that you have and you know about.

A - Paul Krump {BIO 5211397 <GO>}

Maybe I can throw a little bit of color in here. The claim trends, as John was saying, the patterns vary considerably depending on the line of business, the types of claims. For example, EPL claims, historically, have tended to have a shorter lifespan than, say, public D&O claims. But with the economic downturn, we saw some lengthening in the duration of those EPL claims. While the notable segment of public D&O claims, those really involving the merger and acquisition activity, tended to resolve faster than the other types of D&O claims.

A - John Finnegan {BIO 1735942 <GO>}

So it is favorable loss experience largely related to severity on prior accident year.

Q - Jay Cohen {BIO 1498813 <GO>}

Got it. Thank you.

Operator

Meyer Shields, Keefe, Bruyette & Woods.

Q - Meyer Shields {BIO 4281064 <GO>}

Looking at your guidance, it looks like whether at the upper or lower end of the range, your operating income expectations for next year are down about -- or for this year, are down about 3% than your original forecast for 2014. And the share repurchase program was down about 13%. I was hoping you could talk to the difference there.

A - John Finnegan {BIO 1735942 <GO>}

Yes. I mean, I think last year we decided to round up the number four little bit bigger share repurchase program and we identified that at the time. This year, we came in closer to the formula, which we were about -- but we're $50 million above, I think, operating income less dividends, Ricky, aren't we?

A - Ricky Spiro {BIO 15061279 <GO>}

Yes. At the midpoint, depending on the assumptions about the year.

A - John Finnegan {BIO 1735942 <GO>}

We are -- I mean, last year we felt we were a little bit higher than that formula would have given you.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. So the valuation of the stock, was it something that is affecting this decision?

A - John Finnegan {BIO 1735942 <GO>}

I would say this about valuation of stock. It is certainly not stopping us from doing buybacks. But in past, we have occasionally upped the amount of the buyback above this sort of framework when we thought it was opportune based on valuation. That has been an occasional thing. At today's evaluation, we don't think that is any good reason to do that. But we still like the value and we are willing to buy back $1.3 billion of shares.

A - Ricky Spiro {BIO 15061279 <GO>}

And just one more point, from an excess capital position, we continue to believe that we are in a very strong excess capital position based on both our internal assessment as well as external. So the difference in the size of the buybacks year over year has nothing to do with that as well.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. I appreciate your clarifying that. And this may be rounding also. But if 4% is sort of like the long-term median cat provision, you have got reinsurance that is, I don't know, much, much cheaper now that it had been, wouldn't it make sense to buy reinsurance differently to suppress the cat provision?

A - John Finnegan {BIO 1735942 <GO>}

To suppress cat exposure?

Q - Meyer Shields {BIO 4281064 <GO>}

Your net cat exposure, yes.

A - John Finnegan {BIO 1735942 <GO>}

You mean to buy more reinsurance?

Q - Meyer Shields {BIO 4281064 <GO>}

Yes.

A - John Finnegan {BIO 1735942 <GO>}

Well just because it's cheaper, doesn't necessarily make it economic. I mean, it is cheaper than it was. But we think we have balanced it pretty well. When we buy cat exposure, when we buy cat reinsurance, that has a few factors in it. One is sort of our balance sheet position and what we are willing to subject it to. The second is economics. It is still not cheap and, no, I don't think you will see us going out and adding all sorts of layers of cat reinsurance.

A - Ricky Spiro {BIO 15061279 <GO>}

But we are, obviously, looking at the opportunities in the market. And on an opportunistic basis, we think we are -- if we could take advantage of the opportunities in the market, either to promote our growth or manage our volatility, we will certainly think about that. But as I said, I think on the last quarter call, we are not going to change our long-standing strategy of focusing on underwriting and pricing of each risk just because reinsurance may be a little bit cheaper.

A - John Finnegan {BIO 1735942 <GO>}

We have been able to -- we have found some opportunities in deals in the commercial market, especially. I will let Dino talk to that a second.

A - Dino Robusto {BIO 15021398 <GO>}

Yes. Clearly, with the broadening appetite and capacity and some of the lower pricing that you are referring to, you're going to get individual situations where we are able to get now to get an account that required larger limits of insurance than we would be comfortable with. So today's facultative reinsurance dynamics helps us support those larger limits while we still effectively manage our overall net exposure. Now, on -- occasionally, we have also used fac reinsurance where maybe one of our insureds has moved to an area and expanded an area where they have -- there is too much catastrophe exposure there for us and we could use some of the facultative reinsurance to cover us there. In this way we get to be able to keep that account. So on individual account levels, we clearly taking advantage of the facultative reinsurance marketplace. But as Ricky and John point out, we don't see it as any influencing any wholesale change in our underwriting strategy.

Operator

Ian Gutterman, Balyasny.

Q - Ian Gutterman {BIO 18249218 <GO>}

First, guys, for the record, I just want to say I think insurance is exciting. I don't know what everyone else was talking about.

A - John Finnegan {BIO 1735942 <GO>}

Hear, hear.

Q - Ian Gutterman {BIO 18249218 <GO>}

A few numbers question and then one question on the surety business. First, Ricky, on the pension, can you just give us a sense of how much, in dollars, the cost has gone up?

A - Ricky Spiro {BIO 15061279 <GO>}

Yes. I will give you a range because it is sort of a -- it could be a moving target. It sort of in the $30 million to $40 million range, a few tenths of a point or so on the expense ratio.

Q - Ian Gutterman {BIO 18249218 <GO>}

Great. Then, on FX, overall, international is about a quarter of your premiums, it looks like. Is it similar by segments, or are some segments much higher or lower than that? Out of the three main segments.

A - Unidentified Speaker

I can help you out with that. It is about the same in total for each of the segments. CCI, right around 25%-75% split; 25% overseas. Same within the professional lines. Personal is a little bit heavier in the US. That said, when you look at the other personal we've talked about, the accident piece here, that business is dominated outside the United States. It is about 70% outside the United States and 30% in the US.

Q - Ian Gutterman {BIO 18249218 <GO>}

Got it. Great. Then on the A&E -- did I cut you off?

A - Ricky Spiro {BIO 15061279 <GO>}

Yes. I'm just going to add one more thing. So the 75%/25% split is not a premium basis. If you actually look at, say, for example, investment income, it is actually a smaller percentage of our after-tax investment income because, obviously, in the US we have the tax exempt securities, which have a higher coupon as well as a tax benefit. So why [ph] it is 25% of premiums outside the US, it is closer to 15% of our investment income.

Q - Ian Gutterman {BIO 18249218 <GO>}

Got it. Makes sense. Then, the A&E, I thought I heard earlier that with a $60 million impact. I looking at the PDF you put on the website and it shows incurred losses for 2014 of $25 million versus $51 million in 2013. So can you explain the difference there?

A - John Finnegan {BIO 1735942 <GO>}

(multiple speakers) That's just asbestos.

Q - Ian Gutterman {BIO 18249218 <GO>}

Oh, okay. That is just asbestos, not the environmental as well. (multiple speakers).

A - Ricky Spiro {BIO 15061279 <GO>}

Yes.

A - John Finnegan {BIO 1735942 <GO>}

Right.

Q - Ian Gutterman {BIO 18249218 <GO>}

Okay. Then just on the surety business, do you have -- do much business in the energy sector? And if so, can you sort of describe what kind of exposures and what your outlook is for them?

A - John Finnegan {BIO 1735942 <GO>}

We do do business in the energy sector and we have very long-term, long tenured customers. Very, very -- manage their business very effectively, our underwriting very carefully done with them. So we are pretty comfortable with our exposure. And we think, with the improving economy that we are seeing, that should help us out going forward.

Q - Ian Gutterman {BIO 18249218 <GO>}

Okay is there any sort of -- is it a lot of -- it is sort of general just well construction, or is it like offshore drillers, or I'm just trying to get a sense of what types of activities, I guess?

A - John Finnegan {BIO 1735942 <GO>}

It is just a little bit all over. There's a little mining, construction, et cetera. It is a wide cross-section.

Q - Ian Gutterman {BIO 18249218 <GO>}

Got it. Okay. Thank you. So much.

Operator

And that does conclude our question and answer session for today. I will now turn the call back over to our speakers for any additional or closing remarks.

A - John Finnegan {BIO 1735942 <GO>}

Thank you for joining us and have a good evening.

Operator

Thank you for your participation. This does conclude today's call.