Q4 2013 Earnings Call

Company Participants

- Dino Robusto, EVP and President
- John Finnegan, Chairman, CEO, President and Chairman of Exec. Committee
- Paul Krump, EVP and President
- Ricky Spiro, CFO and EVP

Other Participants

- Amit Kumar, Analyst
- Greg Locraft, Analyst
- Ian Gutterman, Analyst
- Jay Cohen, Analyst
- Jay Gelb, Analyst
- John Thomas, Analyst
- Josh Stirling, Analyst
- Meyer Shields, Analyst
- Mike Nannizzi, Analyst
- Mike Zaremski, Analyst
- Vinay Misquith, Analyst

Presentation

Operator

Good day, everyone. Welcome to the Chubb Corporation Fourth Quarter 2013 earnings conference call. Today's conference is being recorded. Before we begin Chubb has asked me to make a few following statements.

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

Reconciliation 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 2013 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. Chubb had an excellent Fourth Quarter and a year of record operating earnings per share of $8.03 and record net income per share of $9.04. These strong results reflect our successful segmentation strategy and related underwriting execution, which have enabled us to both improve the overall quality of our book and achieve margin expansion. And earned rate increases continue to exceed our long-term loss cost trends in all three business units.

Our combined ratio for the quarter was 85.5 compared to 111.2 in the Fourth Quarter of 2012. The impact of catastrophe losses in the 2013 Fourth Quarter were 2.1 points compared to 29.7 points in the Fourth Quarter a year ago due to Storm Sandy. On an ex CAT basis our combined ratio was 83.4% compared to 81.5% in the Fourth Quarter of 2012.

Fourth-quarter operating income per share for 2013 was $2.07 and net income per share was $2.24 while the impact of catastrophes at both operating and net incomes was $0.17 per share.

Premiums worldwide for the quarter were up 4%. In the US the market remained firm during the quarter; rates were up 6% for commercial and 8% for professional liability.

Renewal change for personal lines was up 6%. For our business outside the US, which accounted for about a quarter of our total net written premiums, we secured commercial and professional liability rate increases in the low single digits.

GAAP book value per share at year end was $64.83, up 7% compared to year end 2012 and up 4% from September 30. Our capital position remains strong as evidenced by the new $1.5 billion share repurchase program we announced today.

As you saw in our press release we have provided 2014 operating income per share guidance of $7.10 to $7.40. This assumes 5 points of catastrophe losses which is 1 point higher than the assumed 4 points of catastrophe losses in our initial operating income per share guidance of 2013 to take into account anticipated higher than usual catastrophe losses in the First Quarter of 2014.

Ricky will have more to say about guidance as well as our capital management activities. As in the past, Paul will provide detail today on CCI and CSI while Dino will discuss CPI and claims. In light of the new responsibilities that we announced in October, beginning with our next conference call, Dino will be reporting on CCI and CSI while Paul will be reporting on CPI and claims.

And I will turn it over to Paul.

Paul Krump {BIO 5211397 <GO>}

Thanks, John. Chubb Commercial Insurance and Chubb Specialty Insurance had outstanding performance in the Fourth Quarter, capping off a terrific year for both. Starting with CCI, Fourth Quarter net written premiums were up 4% to $1.3 billion.

Growth for CCI was 3%, excluding the impact of currency and the effect Storm Sandy reinsurance reinstatement premiums had on the Fourth Quarter of 2012. CCI's Fourth Quarter combined ratio was 89% in 2013 compared to 118.7% in 2012.

The impact of catastrophe losses accounted for 0.6 points of the combined ratio compared to 36.8 points in the year ago Fourth Quarter. Excluding the impact of catastrophes, CCI's Fourth Quarter combined ratio was 88.4% in 2013 versus 81.9% in 2012 with a difference largely attributable to a greater amount of favorable reserve development in the year ago quarter.

CCI's average renewal rate in the US increased 6% in the Fourth Quarter. This compares to 7% in the Third Quarter of 2013 and 8% in the Fourth Quarter of 2012. This was the 11th consecutive quarter in which CCI secured rate increases in the US.

CCI achieved rate increases in every line of business. It was led by general liability and commercial automobile followed by property, package, umbrella excess, and workers compensation.

Furthermore, we secured renewal rate increases on 80% of the portfolio while having decreases in only 10%.

Over the past few years, we have been working hard to improve the quality of our book of business. This has entailed our driving differentiated rate increases, aggressively culling the poorest performing segments, disproportionately retaining the best performers and writing the bulk of new business in lines where we believe we are the most rate adequate.

This combination of pricing and underwriting actions has resulted in less premium volume in our lowest performing groups where the rate need is the highest and more premium volume in our best performing groups where the rate need is lower. Mathematically, that results in a better performing overall book of business that has less rate need to achieve adequacy and that is exactly what we have achieved.

In short, the slight decline in rate increases that we have experienced in the last two quarters is consistent with how we have chosen to execute our pricing and retention strategy at the individual account level versus any significant change in the competitive landscape.

As our book approaches rate adequacy, we would expect the size of rate increases to decline. That said, during the Fourth Quarter, we did see signs in the US of increased competition in certain lines, most notably, large commercial property programs. Because of the increased property competition in the Fourth Quarter in the US, we chose to walk away from more renewals and to trim our participation on larger property programs.

Although these actions nudged our property retention a bit lower, we maintained our disciplined approach to pricing each risk and still secured property renewal rate increases consistent with the renewal rate increases we were able to achieve for our overall CCI book.

As I noted earlier, CCI as a whole achieved average US renewal rate increases of 6% which is a couple of points above our long-term loss trend. Rate increases above the loss cost trend should lead to margin expansion, especially on a book where aggressive action has improved its quality. Therefore, we are pleased with the renewal rate increases we have achieved and we are not surprised that they have slowed a bit.

CCI's Fourth Quarter US renewal retention was 83% compared to 85% in the Third Quarter and 83% in the corresponding year-earlier quarter.

In CCI markets outside of the US, average renewal rates were in the low single digits. The amount of the increases varied slightly by region, but they were very consistent with what CCI experienced throughout 2013.

CCI's new to loss business ratio in the US was 0.7 to 1 compared to 0.9 to 1 in the Third Quarter of 2013 and 0.7 to 1 in the year ago Fourth Quarter.

For the full year, CCI's net written premiums increased 2% to $5.3 billion. The combined ratio was 86.5% in 2013 versus 99% in 2012. The impact of catastrophes accounted for 2.1 points in 2013 compared to 11.4 points in 2012.

Excluding the impact of CATs, CCI's combined ratio for the year improved 3.2 points to 84.4% and 2013 from 87.6% in 2012, reflecting earned rate increases underwriting discipline and some good fortune.

Moving to Chubb Specialty Insurance. Net written premiums increased 2% in the Fourth Quarter to $705 million. The CSI combined ratio improved 6.6 points to an outstanding

81.9% from 88.5% in the Fourth Quarter of 2012. For the professional liability portion of CSI, net written premiums were up 2% to $627 million. This increase is largely attributable to our decision not to renew our professional liability reinsurance treaty. The combined ratio for professional liability improved to 85.9% from 93.7% in the year ago quarter.

We are very pleased that the average renewal rate increase for professional lines in the US was 8% in the Fourth Quarter of 2013. For perspective, this is the same as the increase we obtained in the Third Quarter and compares to 9% in the year ago Fourth Quarter. The Fourth Quarter of 2013 was the ninth consecutive quarter of professional liability renewal rate increases in the US and the sixth consecutive quarter that professional liability rate increases ranged from 8% to 9%.

Each of our professional liability lines of business in the United States achieved renewal rate increases in the Fourth Quarter. Increases were led by EPL, private company D&O and not-for-profit D&O followed by crime, E&O, fiduciary and public D&O. As in CCI, we continue to differentiate our rate and retention actions based on the performance of each line of business and each policy.

We secured rate increases on more than 80% of renewed policies across all professional liability lines of business while fewer than 10% had decreases. As with CCI, rate increases were highest for our least adequately priced tranche of policies and lowest for our most adequately priced tranche. This customized approach to pricing, we believe, enhances the overall quality of the portfolio.

In markets outside the US, average renewal rate increases for professional liability in the Fourth Quarter were consistent with the Third Quarter, rising by low single digits. Renewal retention for professional liability in the US and the Fourth Quarter was 84%, down 2 points from the Third Quarter, but up 3 points from the Fourth Quarter of 2012.

Retention was the highest for our best performing policies and lowest for our worst performing, again improving the overall quality of our book of business. The new to lost business ratio for professional liability in the Fourth Quarter was 0.8 to 1. Unchanged from the Third Quarter as the slight decline in retention was offset by more new business growth.

Turning to the surety portion of our CSI book. Net written premiums the Fourth Quarter were up 4% to $78 million and the combined ratio was 53.9%. For the full year 2013, CSI net written increased 3% to $2.6 billion and the combined ratio was an outstanding 84.3% compared to 91.3% in 2012. Professional liability premiums increased 2% to $2.3 billion and the combined ratio was 89.3% versus 96.7% in 2012. Surety premiums for the year increased 6% to $314 million and the combined ratio was a superb 47.2% versus 51.4% in 2012.

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

Dino Robusto {BIO 15021398 <GO>}

Thanks, Paul, and good evening everyone. Chubb Personal Insurance net written premiums increased 6% in the Fourth Quarter to $1.1 billion. CPI premiums were up 3% excluding Storm Sandy reinsurance reinstatement premiums.

CPI produced a combined ratio of 83.5% compared to 117.9% in the corresponding quarter last year. The impact of catastrophes for the quarter was 5.3percentage points in 2013 whereas in the Fourth Quarter of 2012 the impact of CATs was 40.1 points, mostly from Storm Sandy.

CPI's ex-CAT combined ratio for the quarter was 78.2% in 2013, similar to our results of 77.8% in the Fourth Quarter a year ago. Homeowners premiums were up 6% for the quarter. They were up 2% excluding Storm Sandy reinsurance reinstatement premiums. The homeowners combined ratio was 75.8% compared to 131.3% in the corresponding quarter of 2012.

The impact of CATs accounted for 8.5 points of the homeowners combined ratio in the Fourth Quarter of 2013 compared to 62 points in the Fourth Quarter of 2012. Excluding the impact of catastrophes, the homeowners combined ratio improved 2 points to 67.3% from 69.3% in the corresponding quarter of 2012.

Also encouraging is that homeowners policy retention remains steady in the United States with the Fourth Quarter at 90% even as we continue to achieve strong annual price increases in the quarter. Homeowners new business premiums in the US were up 8% over the Fourth Quarter of 2012.

Personal auto premiums for the Fourth Quarter of 2013 increased 2% and the combined ratio was 93.9% compared to 97.1% in the Fourth Quarter of 2012. Personal auto policy retention in the US was 89% consistent with the last six quarters. Personal auto and new business premiums in the US were up 6% over the Fourth Quarter of 2012.

In other personal lines, premiums were up 9%, reflecting strong growth in our accident business and the combined ratio was 96.8%.

Turning now to full year results, CPI's net written premiums in 2013 increased 5% to $4.3 billion. CPI produced a combined ratio of 87% including a 7.2 point impact of catastrophes compared to a combined ratio of 94.4% including 13.7 points of catastrophes in 2012. Excluding the impact of catastrophes, CPI's combined ratio for the full year improved to 79.8% in 2013 from 80.7% in 2012.

For all of 2013, homeowners premiums were up 4%. The homeowners combined ratio was 82.3% including an 11.5 point impact from catastrophes compared to a combined ratio of 94.2% in 2012 including a 21 point impact from catastrophes. Excluding the impact of catastrophes, the homeowners combined ratio for the full year improved 2.4 points to 70.8% in 2013 from 73.2% in 2012.

Personal auto premiums increased 6% in 2013 to $731 million and the combined ratio was 94.8% compared to 93.4% in 2012.

Other personal lines premiums for the full year rose 6% to $929 million and the combined ratio was 94.8%.

Turning now to claims for Chubb overall, the impact of catastrophes in the Fourth Quarter of 2013 was 2.1 percentage points of the combined ratio or $65 million before tax, including $20 million from CAT events earlier in 2013, partially offset by $6 million of favorable development from CAT events prior to 2013.

The impact of catastrophes for all of 2013 was 3.4 points of the combined ratio or $412 million before tax, reflecting $24 million of favorable reserve development from CAT events that occurred in prior years.

A word on customer satisfaction. I am very pleased to report that our US personal line customer survey feedback on closed claims indicate a 97% highly satisfied rating for homeowners and 96% for personal auto for both the Fourth Quarter and the full year. Highly satisfied is the highest possible rating on the survey.

Before I turn it over to Ricky let me make a few observations on the severe winter weather in the United States since the new year began. To date, that weather has resulted in two declare catastrophes related to the freezing and winter storms that occurred in 19 states between January 3 and January 8. Both CATs entailed freezing ice, snow, and wind with the majority of our losses related to water damage from frozen burst pipes.

As indicated in our press release, our preliminary estimate at this time for the combined effect of these two catastrophes are in the range of $150 million to $200 million before tax. As we all know, the severe winter weather did not end on January 8. Unusually cold temperatures have played large sections of the country since then, resulting in additional losses.

Since these conditions have not been classified as a catastrophe, we expect our non-CAT weather-related losses in January 2014 to also be above average whereas we enjoyed below average non-CAT weather-related losses in the First Quarter of 2013.

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

Ricky Spiro {BIO 15061279 <GO>}

Thanks, Dino. Looking first at our Fourth Quarter operating results, we had strong underwriting income of $430 million in the quarter. For the full year underwriting income was $1.7 billion. Property and casualty investment income after-tax was down 4% to $284 million due once again to lower investment rates in both our domestic and international fixed maturity portfolios.

As a reminder, unlike some of our competitors, we do not include our share of the change in the net equity of our alternative investment in property and casualty investment income. We include it in net realized investment gains and losses.

Net income was higher than operating income in the quarter due to net realized investment gains before tax of $67 million or $0.17 per share after-tax of which $0.09 per share came from our alternative investments. For comparison, in the Fourth Quarter of 2012 we had net realized investment gains before tax of $90 million or $0.22 per share after-tax including $0.07 per share from alternative investments.

Unrealized appreciation before tax at December 31st, 2013, was $1.9 billion. For comparison at year end 2012, unrealized appreciation before tax was $3.1 billion. The decline in unrealized appreciation in 2013 largely reflects the increase in interest rates that occurred during the year.

The total carrying value of our consolidated investment portfolio was $42.6 billion as of December 31, 2013. The composition remains largely unchanged from the prior quarter; the average duration of our fixed maturity portfolio is 3.9 years; and the average credit rating is AA3.

We continue to have excellent liquidity at the holding company. At December 31, 2013, our holding company portfolio had $2 billion of investments including approximately $865 million of short-term investments.

Book value per share under GAAP at December 31, 2013, was $64.83 compared to $60.45 at year end 2012, an increase of 7%. Adjusted book value per share which we calculate was available for sale fixed maturities at amortized cost was $61.86 compared to $53.80 at 2012 year end, an increase of 15%.

As for loss reserves we estimate that we had favorable development in the Fourth Quarter of 2013 on prior year reserves by SBU as follows: in CPI we had about $25 million, CCI had about $35 million, CSI had about $55 million and reinsurance assumed had none bringing our total favorable development to about $115 million for the quarter. this represents a favorable impact on the Fourth Quarter combined ratio of about 4 points overall.

For comparison in the Fourth Quarter of 2012 we had about $205 million of favorable development for the Company overall, including $40 million in CPI, $105 million in CCI, $50 million in CSI and $10 million in reinsurance assumed. The favorable impact on the combined ratio in the Fourth Quarter of 2012 was about 7 points overall.

For the Fourth Quarter of 2013 our ex-CAT accident year combined ratio was 87% compared to 88.4% in last year's Fourth Quarter, an improvement of 1.4 points. Favorable development for the full year 2013 totaled about $710 million and had a favorable impact on the combined ratio of approximately 6 points compared to $615 million in 2012 and a favorable impact on the combined ratio of 5 points. For the full year 2013, our ex-CAT accident year combined ratio was 88.4% compared to 90.6% in 2012, an improvement of 2.2 points.

During the Fourth Quarter of 2013, our loss reserves decreased by $275 million including a decrease of $256 million for the insurance business and a decrease of $19 million for the reinsurance assume business which is in runoff.

The impact of catastrophes decreased reserves by about $140 million and the impact of currency translation on loss reserves during the quarter was insignificant.

Turning now to capital management, during the Fourth Quarter we repurchased approximately 3.5 million shares at an aggregate cost of $325 million. The average cost of our repurchases in the quarter was $93.72 per share. For the full year of 2013, we repurchased 14.9 million shares at an aggregate cost of $1.3 billion at an average cost of $87.33 per share.

As of December 31, 2013, there was approximately $107 million remaining under our January 2013 repurchase program which we completed this month.

As we announced today, our Board of Directors has authorized a new $1.5 billion share repurchase program. We intend to complete this new program by the end of January 2015, subject to market conditions and other factors.

As you saw in our press release, our guidance for 2014 operating income per share is a range of $7.10 to $7.40. I would like to make a few comments regarding the assumptions behind our guidance starting with our CAT assumption.

Our preliminary estimate of losses from the two catastrophes in early January is $150 million to $200 million before tax with $0.39 to $0.52 per share after-tax. This alone would translate into roughly 6 points on a First Quarter combined ratio. Given that we have two months left in the quarter, it is reasonable to assume that there may be additional losses from catastrophes in the quarter.

In light of these higher than normal First Quarter catastrophe losses, our 2014 full year earnings guidance includes an annual catastrophe load of 5 points which is 1 point higher than the annual catastrophe assumption included in our initial earnings guidance last year. For those who would like to make a higher or lower CAT assumption the impact of each percentage point of catastrophe losses on 2014 operating income per share is approximately $0.33.

Our calendar year 2014 guidance also contemplates an increase in non-CAT weather-related losses compared to the lower than average non-CAT weather-related losses we experienced in both the First Quarter a year ago and in all of 2013. As Dino noted, we continue to incur additional losses from the winter freeze conditions which followed the two January catastrophes. These conditions have not been classified as catastrophes and we expect that they will result in higher than normal January non-CAT weather-related losses.

Our 2014 guidance of $7.10 to $7.40 also assumes that for the full year, net written premium growth will be 2% to 4%. We assume a continuation of current exchange rates resulting in no currency impact. We will have a combined ratio of 89% to 90%, which includes the catastrophe clause assumption of 5 points. Property and casualty investment income after-tax will decline 4% to 6% and, finally, our guidance assumes that we will have 245 million average diluted shares outstanding and that we will complete the new $1.5 billion share repurchase program on a pro rata monthly basis by the end of January 2015.

At the midpoint of our guidance range, we have projected 2014 operating income per share at $7.25. This is $0.78 below actual 2013 operating income per share of $8.03. The difference between our 5-point CAT assumption for 2014 versus actual CAT losses of 3.4 points in 2013 accounts for roughly $0.50 of the $0.78 differential.

And now I will turn it back to John.

John Finnegan {BIO 1735942 <GO>}

Thanks, Ricky. Chubb had an excellent Fourth Quarter, posting the second-highest operating income per share in our history. We generated annualized GAAP and operating ROE in the quarter of 14.4% and enjoyed very strong book value growth of 4% from the prior quarter.

These excellent Fourth Quarter results topped off a terrific year in which we achieved record operating and net income per share driven largely by an 82.7% ex-CAT combined ratio 3 points better than 2012.

We continue to actively manage our capital in 2013 by returning $1.8 billion to our shareholders through a combination of share repurchases and dividends. Our continued commitment to capital management is demonstrated by the new $1.5 billion share repurchase program we announced today.

Renewal rates improved in all three SBUs with an average US rate increases for the full year of 7% for standard commercial lines and 8% for professional liability. We also achieved average US renewal increases of 6% for personal lines.

A slight decline in renewal rate increases experienced in the Fourth Quarter and our overall commercial businesses largely reflects the growing rate adequacy in our book and Fourth Quarter rate increases continue to exceed our longer term loss cost trends.

As Dino and Ricky discussed earlier, 2014 is off to a difficult start because of the severe weather we expressed in January. This has resulted in our increasing our count assumption for the year with a corresponding reduction in our earnings guidance.

Nonetheless, the $7.10 to $7.40 range of operating earnings per share provided in our guidance for 2014 would, if achieved, represent the second-highest annual operating earnings per share in Chubb history.

With that, we will be glad to take your questions.

Questions And Answers

Operator

(Operator Instructions) Amit Kumar, Macquarie.

Q - Amit Kumar {BIO 15025799 <GO>}

Good afternoon. My first question relates to the discussion on increased competition on, I guess large commercial accounts. Can you remind us firstly what the percentage of large accounts is as of CCI and was it a handful of competitors or is this a more sort of pervasive development?

A - Paul Krump {BIO 5211397 <GO>}

Let me first of all tell you what we mean by large when we are talking about accounts, and by that we are talking about premiums basically in excess of $1 million for standard commercial lines. That portion of our portfolio is about 6% to 7%. Now that 6% to 7% includes for CCI property. It includes casualty, workers comp, umbrella excess, et cetera.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. And the second piece on the competition.

A - Paul Krump {BIO 5211397 <GO>}

Yes, I would tell you that we have seen, again, the competition has just picked up a bit. Again, we want to emphasize to you that our property rates are still in line with our overall book and we only saw retention come down just a tad.

So I don't want to overplay that factor. There are a handful of programs, quite frankly, that we had participated on in the past where we just thought the rates came down too much and we either just walked away from them or we cut our participation on them.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. That's helpful. The only other question I have is on the reserve related in CCI, I understand that number fluctuates and I think Q3 was $100 million or so, but if I look at the trend line should we be making something regarding the $35 million reserve releases? Are we sort of getting to the point where in our redundancy they are sort of running out or am I oversimplifying this quarter's number?

A - Ricky Spiro {BIO 15061279 <GO>}

Why don't I attempt to give you some color on that? Compared to the earlier quarters in 2013, part of the reason why CCI's favorable development slowed down in the Fourth Quarter was due to a larger adverse impact from A&E losses that we incurred in the Fourth Quarter. Every year we do a detailed study on A&E, and we made an adjustment in the Fourth Quarter mainly on the environmental side.

Another important component is the small or favorable impact we experience in the short tail commercial property classes in the quarter. As we discussed in the past, CCI's benefited from some remarkably good property results over the past several periods really beginning with the Fourth Quarter of 2012. And some of that good fortune had been in the form of very strong favorable prior year development and in the Fourth Quarter we still had some favorable commercial property reserve development, but not to the same magnitude.

And then the final comment I would make, I should point out that if you look at the full year of 2013, CCI actually had almost $100 million more in favorable development in total than in the prior year. So still it is a pretty good story.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. That is very helpful. I will stop here. Thanks.

Operator

Mike Zaremski, Credit Suisse.

Q - Mike Zaremski {BIO 20606248 <GO>}

On that net premium written guidance of plus 2 to 4, so if you guys I think grew about 3% in 2013 in a fairly hard market, why should we expect the same or why do you guys expect roughly the same in a market where pricing seems to be trending down a little bit and apparently retention levels are trending downwards a little bit as well? Maybe there is a reinsurance component there to we should be thinking about. Thanks.

A - Paul Krump {BIO 5211397 <GO>}

First of all I would tell you that I would not make the assumption that retention is trending down just speaking, again sticking with CCI for a minute because they did have retention come down a little bit the Fourth Quarter. But for perspective over the last 10 quarters, CCI has traded in a retention range of 83 to 85. When it comes down or goes up in any quarter, it is really because we've probably won or retained or lost a couple of larger accounts. We commented on that specifically last quarter. In the Third Quarter we retained a couple more. We said then not to read into that as a trend.

But that said, I would suggest to you that as the book becomes more rate adequate, we will enjoy incrementally, over time, some improvement in the retention in the book of business.

Likewise, I would suggest that we are finding better priced business over time as well. Now we are being very careful to make certain that we use the same underwriting discipline and looking to write it in market segments that we think are the most adequate and where we have real advantages around things like loss control and form and subject matter expertise. But we are seeing some opportunities in the marketplace and we are actively going after them.

A - Dino Robusto {BIO 15021398 <GO>}

Yes, similarly, on personal lines where our retention was consistent in the Fourth Quarter as it was in the Third Quarter and it was also consistent both for homeowners and for auto and our pricing momentum has continued. It is our third year and we continue to file mid-single-digit price increases. So. Steady as she goes, in personal lines.

A - Paul Krump {BIO 5211397 <GO>}

And flipping back to the professional liability, I think you can see that in that book of business the rate increases have been incredibly steady. For the last six quarters they have been in that 8 to 9 range. I think that we are very active in that market. We have got a great team and they are looking for new business.

Surety component, frankly, that is a lumpy business. You will see that move around quarter to quarter, depending on construction projects, but --

Q - Mike Zaremski {BIO 20606248 <GO>}

Got it. Lastly great color on January's weather losses. I guess, is there a way for us to size up what the impact of non-CAT weather could be in January? Could it be half of the -- half of what you showed in terms of the $150 million to $200 million? Could it be $100 million or we are thinking smaller numbers?

A - Dino Robusto {BIO 15021398 <GO>}

Yes, it is too early. It is too early to really be able to tell. We do know as we have indicated right, non-CAT weather related losses in the First Quarter of 2013 was a couple of points below the five-year average. So you know, that was a low and, obviously, this is some pretty severe weather so we are going to see some additional ones. It is probably fair to assume it is going to be above it, but at this point it is a little too early to tell. And clearly, the cold weather continues.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thank you.

Operator

Jay Gelb, Barclays.

Q - Jay Gelb {BIO 21247396 <GO>}

I was wondering, first, what the benefit of -- on Chubb's topline and bottomline would be in 2014 from falling reinsurance rates?

A - Ricky Spiro {BIO 15061279 <GO>}

I don't think we can give you a specific number. Obviously we read all of the same articles and stories that you guys do about what has happened to the January 1 renewables. As you know we don't renew our major CAT treaties until April 1, so I think it would be premature for us to speculate as to what that would lead to.

Obviously declining reinsurance rates would be a good thing at the end of the day in terms of the overall cost of our program. But it is a little too early for us to comment.

Q - Jay Gelb {BIO 21247396 <GO>}

In the Fourth Quarter the casualty line in CCI combined ratio went up to 103%. What was that due to?

A - Paul Krump {BIO 5211397 <GO>}

I think the biggest driver here compared to the earlier quarters was the fact that we increased the current accident year loss ratio and casualty in the Fourth Quarter. That was primarily to recognize one very large unusual loss event in accident year 2013 that affected the general liability class.

We also experienced a lesser amount of favorable prior year reserve development in the Fourth Quarter as continued favorable development in the excess class was mostly offset by adverse development in the other casualty reserves, mainly related to our legacy asbestos and environmental exposures.

Q - Jay Gelb {BIO 21247396 <GO>}

So that environmental hit was in the casualty line?

A - Paul Krump {BIO 5211397 <GO>}

Yes, Correct.

Q - Jay Gelb {BIO 21247396 <GO>}

How much was that?

A - Ricky Spiro {BIO 15061279 <GO>}

Environmental for the Fourth Quarter. Somewhere between $45 million, $50 million.

A - Dino Robusto {BIO 15021398 <GO>}

$40 million of environmental losses were incurred in the Fourth Quarter.

Q - Jay Gelb {BIO 21247396 <GO>}

So that impacted the PYD number and obviously the current year underwriting results?

A - Dino Robusto {BIO 15021398 <GO>}

With adverse development.

Q - Jay Gelb {BIO 21247396 <GO>}

Yes. So all right so it resulted in less reserve releases because of that (multiple speakers). Then, Ricky, what level of interest rates would be needed for investment income to be unchanged as opposed to being down 4% to 6%?

A - Ricky Spiro {BIO 15061279 <GO>}

That is a hard one. I don't know if I can give you a number. I will tell you that, obviously, as the portfolio has been rolling over for the last couple of years and as it continues to roll over, if interest rates stay in the general range where they are now, I will continue to see a decline in investment income over the next couple of years that decline should decrease. But as to what interest rate we would need to get to flat, I am not sure I can answer that. It obviously depends a lot on maturities and all the other things that go into calculating investment income.

A - John Finnegan {BIO 1735942 <GO>}

It will depend on, Jay, when. I mean if you are talking immediately if you have 100 basis point improvement and interest rates roll over $5 billion or so of assets next year, let's take a full year basis. Obviously it only happens on a half year basis, but that's $50 million. $50 million is probably about 4% of our investment income. So that will give you an idea.

If you have got 100 basis points in your whole portfolio, it will be a lot bigger than that, but that takes a long time. But -- and you don't get 100 basis points in a day, of course, so it tends to move in. Over a couple of years if you have got 50 to 100 basis points you would see a huge difference.

Q - Jay Gelb {BIO 21247396 <GO>}

Right, okay. The last one for Paul. You mentioned that, in many areas, increasingly adequate rates. What's to prevent the level of competition dramatically increasing as other competitors target that business?

A - Paul Krump {BIO 5211397 <GO>}

Well, I think as we have said many times there's a couple of -- I could make the case that catastrophes in general are moving up the low interest rate environment that you just talked about. Yes, there's a lot of capital and the market, but I haven't seen yet where the industry's returns are that spectacular.

So I guess that would be something, but all I can tell you is what we have seen so far.

Q - Jay Gelb {BIO 21247396 <GO>}

Okay, thank you.

Operator

Josh Stirling, Sanford Bernstein.

Q - Josh Stirling {BIO 17463087 <GO>}

Good evening. I was wondering if we could talk a little bit more about the large account business where you are giving us some useful market color. I'm wondering if you'd give is some more sort of flavor, what a typical program looks like as you are walking away from? I guess first off is it syndicated and are you participating in the upper layers, are you the lead? And sort of more at the product level and as the -- what is driving the changes? Is it new competition coming in or new approaches from other players in this market? Or is it basically just that the margin people are a bit more price competitive and that is leading you guys to decide that the price reductions --? I'm sorry I will just ask what are the price reductions on a typical account that you are seeing that you are walking away from?

A - Paul Krump {BIO 5211397 <GO>}

Just so I can put this into some perspective, okay. We are really talking about large monoline property that's experienced that in the Fourth Quarter. So you guys are always interested in color, so I didn't want to dodge that. We did see some of that.

But we are not a large property writer per se. We do participate occasionally. You will see us on some real estate investment trusts, you will see us on some larger institutional type property risks, universities, hospitals, et cetera.

Yes, those are or have been syndicated oftentimes, but that is a small portion of our book. So when I said we saw a tad bit more competition and a bit of retention drop, it was just that. We are talking just small incremental amounts.

And yes, there's been a new player or two that has entered that market. They've brought in some additional capacity. I think that we have seen prices go down on a magnitude of anywhere from, say, 5% to 15% on the deals.

Now, again, I said we were getting property rate increases on our average book that are in line with what we have got for the 6% for the overall quarter. So it is pretty hard for our underwriters to justify taking an account even if it is that good in giving up that type of the rate decrease. If that gives you some additional color.

Q - Josh Stirling {BIO 17463087 <GO>}

That's helpful. One other question and I don't know if this is related or not. But one thing I noticed was you seem to be shrinking the actual topline in your multiperil product line over the past quarter or two. And I had always assumed that was a midmarket package where I would have thought there was -- I mean I know you're getting pricing here, but I would have thought the market would be allowing you to keep that more flat and I am wondering what the -- whether the market is actually getting more competitive there too or is that -- was this just maybe a function of your re-underwriting or something?

A - Paul Krump {BIO 5211397 <GO>}

I would not say that we have seen the same uptick, if you will, in competition in multiple peril as we saw in the large property portion of the book. I think you hit on it. It has been our disciplined approach. We certainly -- we have been doing very well in multiple peril and we are looking to grow that line faster.

So (technical difficulty) keep pushing on our underwriters to find more opportunities.

Q - Josh Stirling {BIO 17463087 <GO>}

That's great. I will queue up, but one last thing. Your -- any -- how would you characterize this as different from 10 years ago when we started seeing price through slowing momentum in maybe 2004 or 2005? Thanks so much.

A - Paul Krump {BIO 5211397 <GO>}

Okay, I guess I will try to take a stab at that. I think what you saw was the trajectories were very different 10 years ago. I think that post-9/11 the type of increases that we were seeing, they were accelerating and they decelerated.

This is a much different marketplace. People have very good metrics and our competitors are trying to be very rational. I don't think reinsurance is driving it to the same degree that it had in the past. People's primary carriers, our primary competitors have very strong balance sheets. I think they have got a lot better at analytics as we do today and people are trying to find niches where they have competitive advantages and compete there.

A - Ricky Spiro {BIO 15061279 <GO>}

And I would also add, don't forget we are in a much different investment income and interest rate environment today as well so that also comes into play.

Operator

Greg Locraft, Morgan Stanley.

Q - Greg Locraft {BIO 4221265 <GO>}

Good evening. Congratulations on the great year. I wanted to isolate on the combined ratio guidance for 2014. As I look at it you just did an 86% on the year. Your starting guidance back then back a year ago was 89% to 91% so call it a 90%. So you beat by 4 points. It wasn't CATs, it was largely better underwriting elsewhere.

If I look at the 2014 as compared to really where you came in out of 2013, we are losing 1 point, 1.5 point on CATs. I would assume I don't know if these level of reserve releases can continue, but maybe we are losing a little there.

But what I'm trying to understand is, is there maybe a point of non-CAT creep that we are seeing? I am having a hard time getting to the midpoint of your starting combined ratio guidance. If you could help with the drivers that would be appreciated.

A - Dino Robusto {BIO 15021398 <GO>}

Sure. Why don't I try to give you a little color to answer that question? So, if you look at our guidance at the midpoint if you do it on an ex-CAT combined ratio basis, it would be at 84.5% which is about a little less than 2 points higher than our 2013 ex-CAT combined ratio. So just put CAT to the side just on an ex-CAT basis. And as we have said in the past and we have determined our guidance, our calendar year guidance based on a mix of scenarios, both with respect to performance by the end of individual business units and as it relates to current accident year results, potential prior year development. So that, therefore, the almost 2 point deterioration in our ex-CAT combined ratio in 2014 can be the result of higher ex-CAT losses, lower prior period development as you point out or a combination of the two.

And as we discussed earlier, our 2013 results have benefited from ex-CAT weather-related large commercial property and homeowner fire losses, which have been well below our average levels over the past five years. So therefore, any reversion to historical averages would result in some deterioration or ex-CAT combined ratio.

To this point as I highlighted and Dino did as well in our early remarks, our 2014 guidance assumes higher ex-CAT combined ratios due to the extreme cold weather that we have experienced so far in January. In addition, it is very difficult to predict favorable developments and since this is a function of loss trends, but we have said in the past that we expected favorable developments to decline from what we viewed to be unsustainably high levels.

I will leave it to you to make your own assumptions regarding favorable development going forward. Hopefully, this gives you a little more color on our thought process. So it is a combination of the two.

Q - Greg Locraft {BIO 4221265 <GO>}

Great. That makes perfect sense. I guess, more directly then, do you expect the rate of -- do you expect -- well, I guess my base case is that pricing is running in excess of loss trend. Is that true across the business lines?

And if it is true, why wouldn't you see continued margin expansion? I fully appreciate that PBD and the ex-CAT losses may come in a little higher year over year, but why would we all of a sudden hit that wall on margin expansion so quickly in 2014?

A - John Finnegan {BIO 1735942 <GO>}

Let me address that. Margin expansion is not -- does not equate exactly to different movements in active year results. I mean so let's take aside prior period development. And you say margin -- you start because it is easy sort of to model margin expansion is rate versus long-term cost trends. We probably ran this year at 2 to 2.5 points of margin expansion. Now if I listen to the tone of the questions on the call, seems to suggest to me that most of you don't believe we will grunt at the same levels next year. The industry won't run there. So make your own assumption. I think we will still be very positive next year, but whether it will be 2, 2.5 points is for you to judge.

Then against that you have other things. I mean you have the short-term loss trends. The reason we did so well this year was just not margin expansion, that was 2 points. It was a lot of, A, underwriting, and B, good fortune. So for example in homeowners non-CAT related weather. We ran 4.3% for the year. The five-year average is 5.8%. That was 1.5 points. Ex-CAT fire loss ratio, 6.6% to 9.7%.

These are good things. Commercial property large losses, significantly lower than prior periods. So these were all very positive things. So when you apply the margin expansion analysis you can't apply you have to apply to the right base period. You can't apply to a base period that is not necessarily in line with normal trends.

What we do is we apply the mark so we take the yin and yang. We take the margin expansion of the positive and then look at, well, what will happen to these actual losses as we go forward.

Now we don't really know that except we were informed a little by the January events. But we can make assumptions. We find it is prudent to assume that you are not going to run 3 points under the ex-CAT fire loss every year or 2 points under the non-CAT weather-related loss. And then when you see January's cold freeze come in, you are really feeling like maybe you ought to be a little bit more conservative, a little bit more prudent.

Well, that wipes out a lot. If you have 2 points of margin expansion, it doesn't take much of this stuff to offset it. Now we are not saying the accident year won't be better, we have a lot of scenarios and most of them I think the accident year -- perhaps it will be better. Who knows. But it won't be as good as margin expansion. It could go either way. A lot depends on how these January storms turn out. How the non-CAT related weather during the rest of the year, the fire losses, but we think we have to assume that they are going to revert more to the norm. I mean you would not allow someone to come over to budget that assumes extraordinary good performance based on luck for a long period of time.

So we start there and then of course you have prior period development and I don't know what it will run. I mean I -- Ricky said we have been saying for a long time we can't sustain it. I let him say it this time because I have been seeing it for eight years and I have been wrong.

But having said that I just don't know. I mean if you were drawing in sort of a curve you might say that that 6 to 7 points might not be the middle of the curve every year going forward. It might be something different. So those are the trends you have.

You are right. You have -- you have likely margin expansion. As to whether that translates into better accident year results depends on a lot of good fortune and as to whether that translates into better reported results depends on how prior period development comes out.

Q - Greg Locraft {BIO 4221265 <GO>}

Great, yes. Lot of moving parts in there. Thanks for all of the color.

Operator

Mike Nannizzi, Goldman Sachs.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Ricky, could you talk about the years that drove the favorable development in specialty and CCI in particular?

A - Ricky Spiro {BIO 15061279 <GO>}

Sure. (multiple speakers)

A - Dino Robusto {BIO 15021398 <GO>}

Let's do the two. The overall favorable development at the Company. Basically there's no great story here. You know that most of it came for 2007 through 2010, but on a significant portion maybe 20% came from accident year 2012 and that's that longtail line. So that is due primarily to very favorable experience we enjoyed in the commercial property classes this year which we have talked about. Accident years 2004 to 2012 were all favorable. Professional --

Q - Mike Nannizzi {BIO 15198493 <GO>}

So there's 12 -- sorry.

A - John Finnegan {BIO 1735942 <GO>}

Well, '12 was very favorable.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Was that Sandy? Was that like the reversal of Sandy potential?

A - John Finnegan {BIO 1735942 <GO>}

Oh, no, no, no, no, no, no. It was just the stuff I was just talking about how we had low large losses in commercial property this year. A lot of that didn't go to the accident year, a lot of that went to prior period too. And so we had very good prior year period on 2012, especially in commercial property. In professional liability, it came from accident year 2010 and prior.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Got it. What would have to happen for you to really pursue more growth? I mean is it when your profitability gets to a certain line, I get it you have got the prior year and the non-CAT weather and lots of -- in CATs and lots of moving parts, but is there a point at which you say, look, we have got a good baseline here? Let's go ahead and grow now because we are not going to be able to rely on these movements to grow earnings or to improve performance. So we -- so and now we have got to grow.

Is there a point where you say that or is it -- I am sure it is more complicated than that, but I would love to get your thoughts.

A - Dino Robusto {BIO 15021398 <GO>}

No, no, no. It means -- sure. We do it implicit -- what happens is what Paul was talking about, that we are achieving greater rate adequacy by line. Now the degree of rate adequacy drives what our pricing requirements are in the marketplace. Except you are more rate adequate. You obviously are willing to take a different price in classes where you are not rate adequate.

So you will effectively -- we will be pricing the product more for growth than for sheer profitability as we -- after we have achieved rate adequacy and you see that more and more aligned. So you will effectively see that in our pricing of our product as we go forward.

We won't turn on, though, a switch and say, we are now a growth company. We will do it through the pricing of our product based on an economic analysis of that product.

Q - Mike Nannizzi {BIO 15198493 <GO>}

So last year you were 89% and 91%. You came obviously came below that, initially you were kind of looking at 89% to 90%. What would keep you from growing more than 6 -- because it looks like I mean if you are getting 5% rate or 6% rate or 8% rate, you are growing top line less than rate. So just for attention doesn't seem like you are growing exposures that much although the business seems like it's pretty adequate from a profitability perspective.

A - John Finnegan {BIO 1735942 <GO>}

Yes, you would say at the current levels we are writing we might be running an accident year at 4 points to CAT. You might be saying we are renting out of 10% to 12%, so I mean we are -- we are getting probably not overall fully priced adequate because, really, for a pricing perspective you would have to load that with a little bit higher CATs for volatility.

But, overall, book is reasonably good. And individual lines, some of them are very good. So that reflect -- and we reflect in our pricing our economic perspective on all of those products. And as you get a little bit more price competitive, you obviously hope to grow the business some.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Great. Thank you.

Operator

Vinay Misquith, Evercore.

Q - Vinay Misquith {BIO 6989856 <GO>}

The first question is on the retentions and the new business you saw that fall off sequentially. Just wanted to clarify whether that is purely related to the large commercial property that you saw or was it also because your pricing was maybe a tad higher than peers?

A - Paul Krump {BIO 5211397 <GO>}

I think that just so I am making certain that I am following this, this is Paul, again, if you are talking about the retention in CCI was up in the third and down just a little bit in the fourth and that was just really due to a couple of larger accounts that we either retained or, in the Third Quarter -- we lost a couple extra in the Fourth Quarter. The retention over all for professional liability has been very, very steady.

So, but it has been up. If you are looking at it from Fourth Quarter to Fourth Quarter, then it is up in professional liability and it is spot on for CCI when you look at Fourth Quarter to Fourth Quarter. So, again, I am just not certain I am following. Are you talking sequential quarters or are you talking --?

Q - Vinay Misquith {BIO 6989856 <GO>}

Yes. Sequential quarters. I think Third Quarter versus Fourth Quarter, I guess there was a slight deterioration.

A - Paul Krump {BIO 5211397 <GO>}

That's pretty much it. There are some people out in our field that say that the Fourth Quarter tends to come down a little bit just because there is a little bit of the year end push for some new business when competition goes up a little bit. I have been around for 30 plus years. I don't know if I completely buy into that theory. But it's one thought. But you do see a little bit of movement between quarter to quarter.

Q - Vinay Misquith {BIO 6989856 <GO>}

That's helpful. Second question is I also wanted to clarify the non-CAT weather that you guys are budgeting a more normal year this year versus last year, that's 2014 versus 2013. Do you have a number for how much you are increasing your non-CAT weather losses meant for this year versus last year?

A - Paul Krump {BIO 5211397 <GO>}

No, we can't give you a specific number. As I mentioned in answer to one of the earlier questions, we do a whole bunch of scenarios when we come up with our guidance so I can't give you one specific number.

Q - Vinay Misquith {BIO 6989856 <GO>}

All right. Thank you.

Operator

Meyer Shields, KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Good evening. Two quick questions on the personal auto side. First when we look sequentially, the net written premiums growth seems to have slowed pretty quickly. And second on an ex-CAT basis, it looks like we had more than 400 basis points of higher ex-CAT loss ratio movement year over year. I was wondering if you could talk about that a little.

A - Dino Robusto {BIO 15021398 <GO>}

Yes, sure. I will talk about the auto growth first. First of all it continued to be strong in the United States as well as actually in most countries we write auto outside the US. But currency translation really deteriorated meaningfully such that the overall positive growth outside US on local currency actually ended up being negative when expressed in US dollars.

We also had a little less local currency growth in Brazil in reaction to some rate taking efforts to improve the profitability of certain of our customer segments. But in general, we remain very pleased with our continued progress in growing auto as evidenced by the full year growth rate which is 6%.

And on the profitability on the ex-CAT, it is really -- it is a combination of a few factors, the expense ratio is up over about 1 point which is due primarily to higher cost in our Brazilian operation which I've mentioned before where we continue to invest in our capabilities with a little less favorable development and a little higher current accident year loss ratio, but nothing on the loss side that really raised any major concerns.

Indeed the full-year result is actually in line with full year result of 2011 at about 93.2 so we remain very pleased with our auto performance. And we continue to drive our strategy which as I have mentioned before is a cross-sell strategy to our home on our customers in most of the jurisdictions around the world. And so, you will get a little bit of fluctuation quarter to quarter, but in general very pleased with the results.

Q - Meyer Shields {BIO 4281064 <GO>}

In your target segments, are you seeing any ramp-up in competitiveness -- again I am talking personal auto -- domestically?

A - Dino Robusto {BIO 15021398 <GO>}

You know, there's only a few players in the high net worth auto market. There's been -- there's maybe a little bit more competition, but the reality is we have a very specific niche. It is just a cross-sell strategy. You know, we have invested in technology and analytics in our auto and our Panorama auto pricing tool which I have talked to you about before and it is allowing as to bring a top end product, top end service at relatively competitive price. We have managed to cross-sell about 30% of our homeowners. That is the good news.

The good news? It is only 30% which means we have got a lot more. So in general, we see it as a positive opportunity and not really experiencing or getting into the competition that you sometimes see and talk about in auto with the large monoline auto players and that is not really our game.

Q - Meyer Shields {BIO 4281064 <GO>}

Perfect. Thank you, very much.

Operator

Jay Cohen, Bank of America Merrill Lynch.

Q - Jay Cohen {BIO 1498813 <GO>}

I am wondering if someone could talk about the potential repercussions of this Halliburton case in the Supreme Court which is challenging Basic versus Ferguson. Have you seen anything for your professional liability business?

A - Dino Robusto {BIO 15021398 <GO>}

We clearly -- we recognize that it has the potential to change securities class action landscape and securities class actions has historically been the main driver of our most severe public D&O losses. But at this point there's a number of potential outcomes in the case and it's we are not going to be able to predict that we are not going to predict what we think is most likely.

Obviously we will continue to watch the case closely. And when it is decided we will evaluate the decision and its potential impact on the public D&O, but there's several potential outcomes. It is early and let's -- we will all watch it.

Q - Jay Cohen {BIO 1498813 <GO>}

We will wait and see them now and thanks.

Operator

John Thomas, William Blair.

Q - John Thomas {BIO 19259993 <GO>}

I would like to know what you are seeing in the workers comp market. It has been one of the biggest growers for you over the past three years.

A - Paul Krump {BIO 5211397 <GO>}

I would tell you we have been really very pleased by workers compensation. Much like Dino just talked about, auto being a cross-sell to the homeowners, the -- virtually all of our workers comp is a cross-sell to a package or an overall account situation. And if you look at our combined ratios, they just really distinguish themselves versus the competition.

So, we have been pleased to find opportunities to grow that line.

Quite frankly, in the past there have been a number of competitors that underpriced that line severely as they have been re-profiling their book and getting more rate increases. Those customers have been coming to us because we handle the other lines of insurance and asking if we would be interested in their workers compensation because we know these clients and we were interested in quoting their workers comp before. We are certainly interested in quoting it now.

So we are happy to take advantage of those opportunities when they come our way.

Q - John Thomas {BIO 19259993 <GO>}

All right, thanks. Then on your net written premium to equity leverage ratio, it is at 0.8 now. Do you have any plans to increase that in the future possibly given that rate increases are declining and growth may not be there. Would you consider increasing the leverage to get ROE higher?

A - Ricky Spiro {BIO 15061279 <GO>}

I don't think we have any particular plan to move that dramatically. We talked about on like the growth side earlier our thought there. We do share buybacks. We pay dividends and we use that as a way to return capital to shareholders. I am not sure there's anything else I would point to.

Q - John Thomas {BIO 19259993 <GO>}

All right. Thanks.

A - Paul Krump {BIO 5211397 <GO>}

Jessica, I think we'll take one more question.

Operator

Ian Gutterman, BAM.

Q - Ian Gutterman {BIO 3106649 <GO>}

First can you give any more color on those two January CATs. I know you said pipe damage and such. It seems like an awfully high number for that. Is this --? Do you have any industry loss numbers or maybe do you feel that you had an outsize loss because maybe there was a couple of really high-end homes that had severe damage? Or just any kind of way of helping us think about it?

A - Dino Robusto {BIO 15021398 <GO>}

I think it is a large amount essentially because the two severe winter weather catastrophes really impacted a large geographic area. 19 states, as I mentioned. In particular the second declared CAT, which had the much larger impact to us, you know if you recall began its track across the midsection of the country, then it moved South and it moved East. It went to states as far south as Mississippi and Georgia, as far north as New York. And at CCF they said if you look at some of those -- the windchill factors and the temperatures in some places down to minus 60 and wind gusts of 45 miles an hour.

So most of it is frozen burst pipes. You have some water infiltration, other leaks, some damage from snow loads. I think -- just given the timing of our earnings release, I think we are one of the first that sort of commented, but I think just based on the large geography that this -- that these two CATs blanketed, I think it is safe to assume when all company personnel and commercial losses are tallied up, these catastrophes are going to represent a substantial industry event.

Q - Ian Gutterman {BIO 3106649 <GO>}

Got it. That's helpful. If I can move to professional lines real quick. The accident year looks like, if I am guessing right, coming up to about a 95 which is a big improvement. Anything unusual in that or is that pricing rolling through and we should expect the mid-90s going forward?

A - John Finnegan {BIO 1735942 <GO>}

Well, let's say that first of all the reported number was about 7 points higher, a little bit of favorable development, but in the Fourth Quarter we ran 96% as an accident year versus 102%. So we are very pleased with the 6-point improvement. Now -- and for the year we are at 98% versus 103%, so a 5-point improvement.

Now the unusual part in the Fourth Quarter is professional liability has seasonally low expense ratio in the Fourth Quarter. Always does.

So you are looking at 2 or 3 points versus the average for the year. So I would say you ought to be looking at as a baseline case for 2013 the 98% for the year. The 98% to the 96% have the same loss ratio. It is just a different expense ratio.

So, one, we are tremendously happy with the progress from our rate increases from our underwriting discipline. The actions we have taken had great movement, 6 to 7 points. That is a big movement, but of course precipitated by an awfully bad starting point. I think that it was one of our focuses for the year and we have done a good job in that area. Paul and the crew did an excellent job. I think we are running 98% now which is a lot better than 103% last year. And if we continue to get the kind of rate increases we are looking at now, and maintain our discipline, I would expect and improvement again to the mid-90s next year. I don't think you'll see the same size of improvement because we are not coming off a fatter base[ph]. But I think it looks good for professional liability as we go into this year as long as the market holds up.

Q - Ian Gutterman {BIO 3106649 <GO>}

And the change in the reinsurance treaty, can you give us a sense how much that impacts premiums? And I assume that is obviously going to impact your -- the improvement in the combined ratio as well?

A - Paul Krump {BIO 5211397 <GO>}

Yes, I think it is going to help us a little bit here. It was really in the FI space where there was a specific treaty there and as John mentioned, we have done a tremendous amount of work over the last three or four years cleaning up that book of business. So as we analyze how losses were flowing through and what we have done to the book of business, we just decided we didn't need that treaty anymore.

A - John Finnegan {BIO 1735942 <GO>}

It had a 2 point or so impact on premium growth in this quarter for professional liability, not for the Corporation as a whole. (multiple speakers)

A - Paul Krump {BIO 5211397 <GO>}

Just for professional.

As to what it does to combined ratio, well, I guess we will only know after we see what losses are and whether we should have kept the reinsurance or not. Hopefully, we think we will improve it a little, but we are not talking I mean that's not going to be a huge factor. It again depends where losses would have come up so you never know until after the fact.

Q - Ian Gutterman {BIO 3106649 <GO>}

Understood. Thank you, very much. Good night.

A - John Finnegan {BIO 1735942 <GO>}

Thank you. Thanks for joining us and have a good night.

Operator

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