

Company Name: Chubb  
 Company Ticker: CB US  
 Date: 2018-04-25  
 Event Description: Q1 2018 Earnings Call

Market Cap: 64,074.31  
 Current PX: 137.55  
 YTD Change(\$): -8.58  
 YTD Change(%): -5.871

Bloomberg Estimates - EPS  
 Current Quarter: 2.617  
 Current Year: 10.473  
 Bloomberg Estimates - Sales  
 Current Quarter: 8282.000  
 Current Year: 33592.000

## Q1 2018 Earnings Call

### Company Participants

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

### Other Participants

- Elyse B. Greenspan
- Jon Paul Newsome
- Kai Pan
- Ryan J. Tunis
- Meyer Shields
- Jay Gelb
- Brian Meredith
- Ian J. Gutterman

## MANAGEMENT DISCUSSION SECTION

### Helen M. Wilson

#### *GAAP and Non-GAAP Financial Measures*

We will also refer today to non-GAAP financial measures

Reconciliations of these non-GAAP financial measures to the most direct comparable GAAP measures and related information are provided in our earnings press release and financial supplement, which are available at [investors.chubb.com](http://investors.chubb.com)

### Evan G. Greenberg

#### *Business Highlights*

##### *Operating Income*

- We reported first quarter operating income of \$2.34 per share, down about 5.5% from prior year
- Our results were impacted by natural catastrophe losses, which were up \$175mm pre-tax over prior
- CATs in the quarter were concentrated in two geographic regions where we're strong
- Montecito, California, an affluent community with the mudslides, and the Northeast with the winter storms

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### ***CATs***

- CATs aside, we had an excellent quarter, highlighted by world-class underwriting performance, strong net investment income results and good premium revenue growth in many of our businesses, particularly in the U.S. and a number of important classes, while at the same time achieving improved rate increases

### ***Core Operating Income***

- Core operating income excluding CATs in prior period reserve development was \$2.63 per share vs. \$2.50 prior year, up over 5%
- Book and tangible book value were up slightly in the quarter since we were impacted by the mark from a rise in interest rates
  - That's actually a good thing, since it speaks to improved future investment income earning power

### ***Annualized Core Operating ROE***

- Our annualized core operating ROE in the quarter was 8.7% or 9.7% with an expected level of CATs
- We reported a P&C combined ratio of 90.1%, which included 5.8 points of CATs
- On a current accident year basis, excluding catastrophes, the P&C combined ratio was 87.6% and an improvement over prior year

### ***Net Investment Income***

- For your information, the current accident year combined ratio with an expected level of CATs, my preferred measure, was 90.7% vs. 91.2% prior year
- Net investment income was \$877mm, up 5% over prior year
- Phil will have more to say about investment income, book value, the catastrophes and prior period development

### ***Market Conditions***

- Turning to market conditions in the quarter, commercial P&C pricing for the business we wrote continued to improve in the U.S. and most territories outside the U.S.
- At the same time, our renewal retention rates overall were good and new business, particularly in the U.S., was up
- In some classes, customer segments and territory, we are seeing a clear direction and momentum in price firming
- In others, it's more chaotic, as some companies, particularly those with experience in a class, moved for needed rate, while others less experienced were simply lacking leadership moved for growth at the expense of rate adequacy, a short-term strategy

### ***P&C Net Premium Revenue Growth***

- Given the variability in rates by customer segment and territory, and to give you greater clarity into current market conditions, I'm going to provide a fair amount of pricing detail by our five major lines of business
- P&C net premium revenue growth for the company was 5.8% for the quarter or 3.5% in constant dollars

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- And given all I know, I fully expect that growth rate to continue to improve, particularly outside the U.S., as the year goes along

### ***U.S***

- In our U.S. major account retail and E&S wholesale division, what we call Major Accounts and Specialty, P&C net written premiums were up 3.5%
- Excluding merger-related actions, net premiums were up 6%
- As I noted last quarter, merger-related actions are now almost all behind us and of the \$150mm we will take this year, \$48mm, or over 30% occurred in Q1

### ***Renewal Retention***

- For major accounts, our renewal retention in the quarter was 95%
- New business in major accounts was up 14%
- Let me give you some examples of both rate and its movement during the quarter in Major and Specialty
- Again, for the business we wrote in major accounts, rates overall were up 1.9% for the quarter, double what we achieved in Q4, and by March, they were up 4%

### ***Rate Growth***

- Property rates were up 13% in the quarter, casualty rates and risk management primary casualty were up 1.5%, while in general and specialty casualty, rates were up over 3%, both the best in some time
- In the quarter, rates for major accounts professional lines overall turned positive, the first time in some time, with primary and first access D&O rates up 2.3%; not what we want, but a move in the right direction

### ***E&S Wholesale***

- In E&S wholesale, rates overall were up 5% for the quarter and improving to 6% in March
- Property rates were up 8% in the quarter
- Casualty was up 4% and financial lines rates were up 2.5%

### ***Middle Market Business***

- Now let's turn to our middle market business where P&C net written premiums were up 3.5% and financial lines premiums were down 0.5%
- Overall renewal retention was 88% and new business growth for our middle market business was up 6%
- Middle market P&C rates overall excluding comp were up 1%, and exposure growth added an additional 1%, the best in a number of quarters
- Property was up 1%, casualty related was up 2% and package was flat

### ***Net Pricing***

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- Comp rates were down about 4.5 points, while comp-related exposure was up about 3
- So net pricing for middle market comp was down about 1.5
- Middle market professional lines rates were up with public D&O up 6% and private, not-for-profit D&O up 1%
- In middle market overall, rates in March were the strongest of the quarter in virtually every line
- In our North America personal lines business, net written premiums were up 6.5% in the quarter
- Rates were up 2.5%, the strongest increase in many quarters
  - Exposure change added an additional 3.5%
- Retention remained very strong at 96.5% and we are achieving a better mix of business in personal lines, with new business and renewals skewing towards true high net worth as opposed to mass affluent

### ***Overseas General Insurance Operations***

- Now, turning to our Overseas General Insurance operations, net written premiums for our international retail P&C were up 8.5% or 2% in constant dollars
- We fully expect growth will meaningfully accelerate from Q2 onward
- Asia-Pacific and Latin America grew 10% and 4%, respectively in the quarter, while the Continent was down 2.5% and UK was up 1.5%, all in constant dollar

### ***International Retail***

- In international retail, rates varied by line and region and by country within region
- Overall, rates were up 1%; while not stellar, the best we've seen in a few years
- Property rates were up 3% and varied between up 12% in Latin America to down 2% in the UK
- Financial lines rates were up 1%, ranging between up 4% in the UK and Asia to flat on the Continent and in Latin America
- Casualty rates were flat and marine was down, though it varied between up 8% in the UK to down 3% in Asia
- Of the major markets in the world overall, the market that remains most disappointing is the UK in both wholesale and retail, with the exception of D&O, which is beginning to firm like it is in the U.S., Australia and a few other markets

### ***Global A&H Business***

- Our global A&H business had a good quarter with net premiums up 8%, driven by our international business, which was up about 12% or almost 6% followed – in constant dollar followed by our combined insurance business in North America, which was up 8%
- Meanwhile in our Asia-focused international life insurance business, net premiums and deposits were up 17% in the quarter
- John Keogh, John Lupica, Paul Krump and Juan Andrade can provide further color on the quarter, including current market conditions and pricing trends

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### ***Distribution Partnership with Singapore-Based Grab***

- In the quarter, we announced a distribution partnership with Singapore-based Grab, the leading on-demand transportation company in Southeast Asia, with operations in 8 countries
- This is another example of Chubb's efforts to advance our distribution capabilities

### ***Strategic Progress***

- In closing, we're off to a very good start to the year
- Our heavier CATs, catastrophe activity impacted our financial results, it's the business we're in and they have not slowed down our operational or strategic progress
  - We achieved better pricing and growth momentum is building in a number of important businesses
- Our people are 100% focused on what we do best; underwriting, marketing, selling and servicing

### ***Conclusion***

Beyond our hallmark as an underwriting company, we are first in the service business and our brand is all about providing exceptional service

In that regard, in case you didn't see it, J.D. Power recently ranked Chubb number two in overall customer satisfaction for homeowners' property claims behind Amica Mutual

National Underwriter in its nationwide Risk Manager Choice Award awarded Chubb top honors as the best commercial insurance provider

Chubb was also ranked number one in commercial claims satisfaction by brokers and risk managers according to Advisen

- We are grateful for the votes of confidence from our customers and distribution partners

## **Philip V. Bancroft**

### ***Financial Highlights***

#### ***Capital and Liquidity***

- Our balance sheet and overall financial position remains strong, with total capital of \$66B
- Our portfolio of cash and high-quality investments totaled \$104B and we have capital generating power
- As I'm sure Evan will tell you, we are retaining capital for risk and flexibility for future opportunities and we are extremely patient
- Overall, liquidity is excellent and even with the negative portfolio mark-to-market in the quarter caused by rising interest rates, we remain in an unrealized gain position

#### ***Group Ratings***

- In 2018 to date, S&P and Fitch have affirmed our group ratings with stable outlooks, and Moody's has affirmed these ratings with a positive outlook

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- Among the capital-related actions in the quarter, we returned \$332mm to shareholders in the form of dividends and paid off \$300mm of debt that matured in March
- We also issued \$2.2B of debt in the European market that was used to redeem the \$1B of floating rate hybrid securities on April 6 and we're going to repay at maturity senior debt, totaling \$1.2B due through 2019

### ***Net Investment Income***

- Net investment income for the quarter was \$877mm, which was just over the top of the expected range due to increased call activity in the company's corporate bond portfolio
- Our expected quarterly investment income run rate is now in the range of \$875mm to \$885mm, with a continuing upward trajectory throughout the year

### ***Operating Cash Flow***

- Operating cash flow in the quarter was \$550mm, which included over \$500mm of catastrophe loss payments
- Operating cash flow together with the proceeds from our \$2.2B debt offering will help support the growth in investment income

### ***Book and Tangible Book Value per Share***

- Book and tangible book value per share remained essentially unchanged from last quarter as core operating income and the positive impact of foreign exchange were offset by the net realized and unrealized losses for the quarter of \$586mm after-tax
- This amount includes an unrealized loss of \$988mm from the investment portfolio due to rising interest rates, partially offset by \$310mm gain from FX and \$60mm mark-to-market gain on our VA portfolio

### ***Pre-Tax Net Catastrophe Loss***

- Pre-tax net catastrophe losses for the quarter were \$380mm, as previously announced, and are further detailed in our financial supplement
- We had positive prior period development in the quarter of \$209mm pre-tax or \$166mm after-tax
  - This included \$106mm pre-tax favorable development related to the 2017 CAT events and \$76mm pre-tax favorable development related to the 2017 crop year loss estimates

### ***Net Loss Reserves***

- Our net loss reserves are in good shape and reflect our conservative reserving philosophy of reacting early to bad news and waiting to reflect good news on long tail lines until we are comfortable that the accident period has sufficiently matured
- Net loss reserves were flat in the quarter and decreased by \$300mm on a constant dollar basis, reflecting the impact of the favorable prior period development and a high level of catastrophe and crop insurance payments in the quarter
- The paid-to-incurred ratio was 103% in the quarter
- Adjusting for these items, the ratio was 91%



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### *Other Operating Expenses*

- Other operating expense improved \$9mm from the prior year, primarily due to higher than expected income from our equity method investments that are included in core operating income
- Adjusted interest expense was \$169mm pre-tax in the quarter
- Factoring in the [ph] new year (00:17:39) debt issued in March and the repayment of the \$1B hybrids in April, we expect our quarterly adjusted interest expense to be approximately \$165mm pre-tax per quarter for the remainder of the year

### *Tax Reform Act*

- The 2017 tax reform act favorably impacted the expected range of our annual tax rate by 3 points
- Our current estimate remains in the range of 13% to 15%
- Our core operating effective tax rate for the quarter was 12%, which was lower than our expected range, primarily due to the level of U.S. catastrophe events in the quarter

## QUESTION AND ANSWER SECTION

**<Q - Elyse B. Greenspan>**: My first question, Evan, I appreciate all the disclosure in terms of the pricing environment. As you think out from here, if we see a combination of higher interest rates and if reinsurance rates start to go down at the upcoming mid-year renewal, do you think, in your mind, can the upward momentum continue in the primary insurance market?

**<A - Evan G. Greenberg>**: I don't see the change in interest rates. Those will all take time to earn in and make any kind of meaningful difference. So imagine the duration of invested asset when you think about rise in interest rates and how it – and the time it takes to cast a meaningful shadow on investment income. So I don't see that.

Secondly, the yield curve and interest rates starts speaking about inflation, so I keep that in mind. So, no, I don't see that. And in reinsurance, I think you're more thinking about CAT related, which is only a fraction of the reinsurance market, that everyone just remains obsessed about. And you've got to note that the balance of reinsurance, particularly in casualty-related, it didn't have a lot of firming to it, but it had some firming to it. And I don't see the mid-year as the big date for casualty-related reinsurance anyway.

**<Q - Elyse B. Greenspan>**: Okay. Thank you. And in your annual letter, you highlighted and spoke about the progress that you guys are making in building out your small commercial initiatives. Can you just provide us an update on where you sit today, where you see that business going? And as you guys think about potential acquisitions and deals that you might do, is this something that you see yourselves potentially building out those efforts via a deal or is the goal just continue to build that business organically?

**<A - Evan G. Greenberg>**: Well, at this time, I just see us continuing to build that business organically. We are an extremely large player in middle market, particularly in the United States, where we're a leader in that business. We're in the top three. And that is, we have all the parts and pieces, and in fact, more than most any other company does. And it is simply in the execution of that, and we're on track as we see growth in that.

And then, our small commercial activities in the U.S., on the back of our strong agency distribution and branch network, the technology we've built and are deploying, and the underwriting insights that particularly we gain out of that middle market book of business we've got and all the product we filed and put in place, that business, even though you win it, \$1,500 a customer, is growing robustly, and I'm confident that that will cast a meaningful shadow over time on the company's results.

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And the same goes internationally. In selected markets throughout Asia and Latin America in particular, though beginning to occur in Europe, we've used the knowledge that we have within the organization, particularly gained through the merger, along with the presence, the strong presence we have around the world, and we are building distribution, and we are building product, and we are actively growing, and I got to tell you, one of the growth areas in international, major growth areas for us, along with A&H and consumer lines, is our middle market and small commercial business internationally. And we've already got a meaningful book and it's growing, and that business is robust.

**<Q - Elyse B. Greenspan>**: Okay. Thank you and one last question. You guys didn't buy back any stock in the quarter. The stock was obviously a bit cheaper than in Q4. Could you just update us on your view on buybacks and why you chose not to repurchase any stock in Q1?

**<A - Evan G. Greenberg>**: You've mentioned sort of acquisitions and you've mentioned capital and buyback, and so why don't I glue all that together for you and kind of give one clear thought that maybe is on people's minds right now. Look, we are patient long-term builders and investors. Money does not burn a hole in our pocket and we retain capital for growth and risk. We've bought back now and again. But as you also noted in the shareholder letter and what we showed investors last fall, look at the return we achieved by deploying our capital intelligently for growth, organically and through acquisition, vs. a look back if we had used it for buybacks. It created far greater value.

And I go a step further. Like many other asset classes, P&C assets are currently pricey, and at current prices don't generally make a lot of sense. Prices paid for recent transactions may make sense to others, but they don't for us. As we've said, any transaction that we do must advance strategy in what we are doing already organically, while creating a good risk-adjusted return to shareholders, and I think our track record over the last 14 years speaks for itself in that regard.

So, again, we'll have capital flexibility, but we're patient and we'll wait for a different period.

**<Q - Jon Paul Newsome>**: I was hoping you could kind of address a big picture ROE question. I would imagine that at some point you'd like to have a very solidly double-digit ROE again. And I was wondering what you think are the – what is sort of the road map to get there over time for Chubb, given its current position and the current market environment.

**<A - Evan G. Greenberg>**: Paul, I think you have to take a kind of picture view of this. First of all, on a normalized basis, we ran about a 9.7% ROE, surplus capital right now, scrubs about three quarters of a point off our ROE. So we're in double-digit on a deployed capital.

Remember, if you – particularly when we did the acquisition, we have more goodwill on our balance sheet, that is income-producing asset, and that'll lower the ROE a little bit, and on a tangible basis, it accelerates, grows much more quickly. So I think you got to keep that in mind.

Number two, we told you before what 100BPS of investment income improvement in the invested asset rate does for the company. It lifts the ROE 100 to 200BPS. So you got to keep that in mind. And I'll stop right there.

**<Q - Jon Paul Newsome>**: No, those are good pieces. I'm not criticizing the current ROE. I just figure there's probably a greater ambition in the future, but thank you.

**<A - Evan G. Greenberg>**: We are ambitious.

**<Q - Kai Pan>**: So, I have a question. My first question is on the margin, underlying margin in North America and personal line. If you see other major segments, have seen improvements y-over-y, North America in personal line deteriorated about 140BPS. What's the reason behind that? Any sort of non-CAT weather behind it?

**<A - Evan G. Greenberg>**: We're going to ask Paul Krump to take a shot at that. He manages that business, reports to it.



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**<A - Paul J. Krump>**: Morning, Kai. Thanks for the question. Yeah, just to level set for the other listeners, the personal lines current accident year loss ratio excluding CATs was 53.3% in Q1. That was up slightly from 52.4% in Q1 of last year. What we experienced here in the past quarter was moderately elevated losses over expected resulting from, number one, random larger fires, but then as you say, Kai, we experienced some elevated non-CAT weather. That's really mainly water coming from burst pipes just from the cold and then a lot of downed trees that type of thing on homes and busted windows and that type of – roofs and that type of thing. So, that's really what's driving it.

**<Q - Kai Pan>**: Could you quantify that impact?

**<A - Paul J. Krump>**: Well, I did. Yeah.

**<Q - Kai Pan>**: Okay. All right. So my second question...

**<A - Evan G. Greenberg>**: Kai, that was the increase in the loss ratio.

**<A - Paul J. Krump>**: Yeah, right there.

**<Q - Kai Pan>**: That's all of that, right? I just wonder is there underlying factors between pricing and the loss ratio.

**<A - Evan G. Greenberg>**: You've got to put fire and water. I mean, there was no pestilence or vermin.

**<Q - Kai Pan>**: All right, got it.

**<A - Evan G. Greenberg>**: [indiscernible] (00:30:12) sometimes it's pretty simple.

**<Q - Kai Pan>**: Sure. Then my second question is on the loss trends and reserves. So, [ph] weather (00:30:19) trends you're seeing in the U.S. casualty lines? And if you look at your Schedule T data, it shows that your accident year loss ratio are all higher than the initial PICC in recent years. What's driving that development?

And also, in 2017, if you look at the accident year loss ratio for the other liability claims made, lines, those are lower than your initial and current PICC for the 2016, like a loss PICC. So, Evan, you talked about it in your annual letter that – you talk a lot about the rising frequency of class action suits. So, why is that 2017 PICC actually improved from the prior year?

**<A - Evan G. Greenberg>**: Mouthful. You've thought about this one and we're really ready for it, Kai. I'm going to ask Paul O'Connell, our Chief Actuary to take a whack at this. Paul?

**<A - Paul O'Connell>**: Okay. Thank you, Kai. First, I'm sure you're aware of the limitations of using Schedule T data for reserve analysis, especially for long-tail lines like other liability. The experiences is aggregated. It's an aggregation of many different product lines with different underlying characteristics, including development pattern. With respect to our recent accident year development, we analyze our reserves at a very granular level, well below the Schedule T product line. When you get down to that low level of detail, it's not surprising to see higher than expected reported losses in select portfolios early in the life of an accident year. As Phil stated in his commentary, for the most part, we react to bad news quickly and are patient and wait to react to good news only when we believe the accident year is sufficiently mature for the results to be credible. So that's what you're seeing in these product lines.

Specifically, with respect to the 2017 accident year for other liability claims made, the improvement in our loss ratio is due to underwriting actions on our part. Our portfolio management has led to a shift in mix among product lines, and within a product line a shift in classes of business. So that's really what's driving it.

**<Q - Kai Pan>**: Okay. Evan, could you comment further on the sort of like the class action litigation suits and what's the loss cost trend there?

**<A - Evan G. Greenberg>**: To maybe give you a little – yeah, we'll comment on that, but maybe to put it in perspective in professional lines for us. And then, if not satisfied, I'll go back and embellish on it. But I'm going to ask John Keogh to maybe comment on that a little bit for you.

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**<A - John W. Keogh>**: Sure. Good morning, Kai. I think the first point I'd make, when you look at other claims made in liability, I think people sometimes go right to D&O as a proxy for that. There's a lot of business that makes up our financial lines book around the globe that's claims made. So, besides the fact that we have a large diversified business around the globe of D&O coverages, whether they're publicly traded, or private, or not-for-profit, that business also includes all sorts of lines of D&O coverages for our various services throughout the world, fidelity coverages, fiduciary and pension trust liability, employment practices liability, and a growing book of cyber-related coverages. And all of that is done in this big market with different at any moment in time loss cost patterns.

So let me just level set from that point of view. And as you can imagine, the way we run our business and the way we manage it is really dozens of very unique portfolios of this business that we have around the globe, where there's very granular underwriting analysis, underwriting results that we track, very distinct loss development, and we also look at the reserve adequacy of all these portfolios in a very unique way.

So, overall, when we look at that book of business around the globe, we feel pretty good that that business is running and performing adequately, and it's a very large and important book of business to us. However, I think to your question and to Evan's comments in his shareholder letter, that's really about some distinct areas of this portfolio, particularly in the D&O lines of business, where we are seeing some pressure, where loss costs in our opinion really are outpacing rates. And specifically, there I'd like to narrow it down to our D&O coverages for publicly traded businesses in North America, publicly traded businesses in the UK, and publicly traded business in Australia.

I'd also add to that when you look at our financial institutions business and the challenges that banks and financial institutions have in terms of the regulatory and compliance environment around the globe, loss cost there are concerns to us.

So I think if anything there, the underwriting actions that we need to take and the loss cost that we're observing and the rates that we need, we're pretty clear-eyed about what we need to do. Is it impacting us? Yeah, it's impacting us in our ability to grow that business. And in fact, if you look at that business in many parts of the portfolios I just mentioned, we're actually having to shrink the business because our – at least our perspective on the rate need that we have to get on that business isn't matching what others are willing to do. So, if anything, it's really been the challenge for us in terms of growing the business.

**<Q - Kai Pan>**: Okay, great.

**<A - Evan G. Greenberg>**: I'm going to add one more thing to that specifically and that is the external environment. The external environment in some jurisdictions, and I'll take the United States, is growing more difficult, a number of merger-related suits, either overpaid or didn't pay enough. Every single one has – or almost all have a suit attached to it and the money is going to lawyers. It's not going to shareholders. In many cases, there's no money involved.

You look at – hashtag me, too, right now, and the growth and related suits from that, litigation funding is a growing trend and not simply for those who can't afford suits but as a class of investment. More law firms creating and chasing opportunity in the litigation space around securities related and spinning new theories. And so many of these, when you look at the size of companies and their balance sheets and you look at the size of transactions, mergers related, et cetera, the dollar values are so great that to get rid of the suits, these are nuisance suits in so many cases, and to get rid of them and rather than have to dwell on them or have them stand in the way of completing transactions, it's viewed by many corporations as nuisance money, and by the way, the legal profession knows that.

And so, they know that there's a tax they can employ and that the rate of tax, if it's not too great, they can have large frequency of it and just control that severity and make a boatload of money. And that is a problem, a growing problem in this country.

**<Q - Ryan J. Tunis>**: I guess I wanted to take it a little bit of a different direction, but I thought the discussion in the annual letter was pretty interesting about the increase and the difficulty with dealing with non-modeled losses from a CAT standpoint. I guess looking at your expected level of CAT disclosure, I was just curious how are you thinking about the whole non-modeled angle with CATs and actually trying to project what you think you're expected level of CATs are? Thanks.

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**<A - Evan G. Greenberg>**: Well, I got to tell you, in your expected level of CATs, it's virtually your modeled level of CATs. I mean, that's what you can project. When we build our loss costs, we look at historic losses. And so when we build our rates, we build them off of our experience, which is – includes CATs, whether they were modeled or non-modeled, whether they are a CAT weather event or a non-CAT weather event because it doesn't rise the PCS's level to be named a CAT. It includes all non-weather and CAT related, so it includes all of your loss cost when you project, so you don't distinguish that way.

So the first thing is, that's how you think about it for rate, which I think is the most fundamental and important thing to think about. But separately, when we tend to – again, just reiterate, when we give you and – or when I think about expected CAT, it's the best I can do. It's what's expected. And so you can only take it out of your aggregation of exposure in areas that are exposed to catastrophes that have models around them and you can project the number. That's about it.

Better than what you can – better than excluding CAT that's for sure where you leave the freaking revenue in the denominator, take the losses out of the numerator and therefore, boy, you look like a hero, when you're just writing a tremendous amount of CAT-exposed business and you use it to subsidize the rest of your book. That's where I take exception, [ph] pretty much (00:41:16)

**<Q - Ryan J. Tunis>**: Yeah, no, understood. So, at least it sounds like in that expected CAT number, you're taking a stab at other perils like wildfire and flood, right? Even if it's difficult to model, you're still thinking about that when you come up with that expected CAT level?

**<A - Evan G. Greenberg>**: Yeah. And look, we're better at managing flood model today than we were a couple of years ago. You can't model though convective storms. So you can't model a tornado when that's going to occur or how it's going to occur, but our expected level of CAT, by the way, for a period does include spring storms for the spring. I just can't tell you where exactly.

**<Q - Ryan J. Tunis>**: Fair enough. And then, shifting gears to actually personal lines. Obviously, we spend a lot of time talking about rate adequacy and commercial, and I guess, CATs there as well, but I guess as bigger picture, do we like the rate adequacy right now in the personal lines business? It's, I guess, just somewhere just below an 80% ex-CAT accident year combined. Is there a view that there's more – is that pricing adequate just given your view of normal catastrophe activity? Thanks.

**<A - Evan G. Greenberg>**: Yeah. Ryan, that's a good question. Look, I would say our personal lines overall, we are – the pricing is adequate to us, and ex-auto and then with Auto. It varies by state and it varies by coverage, the adequacy. And so you've got to stay on top of this. You have to keep driving for rate or you get behind, particularly where you may not have the adequacy you want.

And then, I would say it further breaks down within a state of CAT exposed vs. less CAT exposed, whether you're getting enough load or not, and we're very mindful of all of that when we go for growth because we want – and maintain exposure because we want and expect adequacy.

Loss cost in homeowners is not insignificant. There is an inflation in homeowners and you have to stay on top of that. In addition to rate you get an exposure adjustment with customers and unless you can control those loss costs by helping them with things like water shut off valves when pipes are breaking a lot and help them contain their loss that way, which we're driving to do to teach customers to lower their loss costs. Barring that, you've got to stay on top of it with exposure adjustment in addition to rate to maintain the overall adequacy that we have. So this is a work-intensive business that can get away from you if you don't stay on it.

**<Q - Meyer Shields>**: Thanks. I wanted to dig a little deeper, if I can, on the related topics of excess capital and the M&A environment. So Evan, you've given us some helpful indications of excess capital and wondering whether that – or how that takes into account past and potential future marks from rising interest rates.

And then, looking forward to the M&A environment, when you talk about P&C assets being pricey, how does that factor in the potential upside to acquisitions from rising interest rates?

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<A - Evan G. Greenberg>: How does that – say that last part again?

<Q - Meyer Shields>: How does the pricey-ness consider the upside to potential acquisitions from their own uptick in investment income if interest rates rise?

<A - Evan G. Greenberg>: No. We're – that's allowing the tip of the tail to wag the dog. I don't – they don't, really. Sure, we model it in, but that has a modest impact. That's an easy one for me. We're not going to over-intellectualize and try to rationalize to ourselves around here why it makes sense to pay for an acquisition that's overpriced. Just isn't going to happen.

And by the way, I do notice how the more recent have gone and people are talking like it's okay, prices to book that are above what ACE paid for Chubb. Wow, let's compare the quality of assets. Now, we're at that time in the cycle. We're happy at rest. I'm going to let Phil answer that other.

<A - Philip V. Bancroft>: Meyer, when we think about undeployed capital, we don't consider unrealized gains or losses. If we have unrealized gains and losses, we assume we'll hold the assets and they'll amortize back to par at maturity. And if we have an unrealized gain, we don't count that as something we can spend because it would be requiring us to liquidate our portfolios around the world, and we just wouldn't do that.

So the calculation of undeployed capital that Evan mentioned takes about 70BPS off of the ROE as calculated without unrealized gains and losses.

<Q - Jay Gelb>: At risk of pushing my luck, I wanted to close the loop on the M&A discussion. And given Chubb's success in integrating and acquiring legacy Chubb, which is the largest deal in P&C, can you give us your perspective on whether Chubb is ready for another large acquisition? I mean, I know you mentioned pricing and things like – valuations and things like that. But operationally, is Chubb ready for another large deal?

<A - Evan G. Greenberg>: Chubb is ready, but that hardly – A, it's ready, B, it's hardly my priority to distract the organization from doing what it's doing best, focused on executing and recognizing the potential that resides within all the parts and pieces that we have. And if this organization never does another acquisition, which is how we get up every morning to do business, that's how we imagine, the opportunity in front of our face is simply awesome, and it's just patience and time and execution, and that this organization is 100% focused on it, and that I can see and feel as I move around just the momentum building as people are just getting after it, it's energizing.

<Q - Jay Gelb>: That's very helpful. Separate question. It would be helpful to get your perspective on the Lloyds market, after that, that market had a pretty challenging year in 2017, including the major catastrophe events. What's your perspective on Lloyds and how is Chubb approaching that important marketplace?

<A - Evan G. Greenberg>: Yeah. We've just through rational – because of rational underwriting and given our ability to trap the business locally and not have to wait for it to come to London, we've, over the last number of years, shrunk our presence in the London market. Can't earn an adequate return. To a large degree, a lot of the underwriters at London and in Lloyds, it's like a barroom with a bunch of drunks who want to reform and they just can't put that glass down and push away from the bar. And you hear all the talk and all the chatter, and it's in their hands to get out of their own way and do the most fundamental, underwrite the business to an adequate risk adjusted return and deploy the capital on that basis. And the notion that you have investors and that we can all opine about that will trade 3% money for a 6% return or thereabouts, that's a lousy risk-adjusted return, and ultimately is not a long-term investment thesis, period.

<Q - Brian Meredith>: Two questions here. First, Evan, you talked a lot about professional liability. I'm wondering if we could chat a little about some of the other lines. Where are we right now with respect to rate adequacy, given your large commercial E&S, and maybe your standard commercial? So, pricing that you're getting right now vs. the loss cost inflation trends?

<A - Evan G. Greenberg>: Yeah. I would say, listen, in our middle market – in our businesses, fundamentally, most all of our businesses, we're achieving a rate adequacy. Some have better adequacy than others. We have – our



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businesses are earning an underwriting profit. Some in our judgment ought to be earning a bit better underwriting margin and profit, and we need rate to keep it from eroding. But, overall, look, you see the numbers we're putting up, not in bad shape and reserve adequacy is there.

**<Q - Brian Meredith>**: So what you're implying here is that your rate you're achieving is in line with trend at this point?

**<A - Evan G. Greenberg>**: It is in a lot of classes. It's not in all classes. There's certain classes of casualty, particularly in the larger risk business where rate is not keeping pace, but we've been taking a lot of portfolio and underwriting actions to have to mitigate. And that's where you see any penalties we might pay in growth.

By the way, when you look at an improvement in our loss ratio, keep in – that people note for the quarter. And by the way, it's just a quarter. There's some randomness by quarters. But keep in mind, the amount of business we shed in the last two years, it's like \$1.5B. And when we constantly talk to you about portfolio management and shifting, and when John Keogh just told you about it about professional lines, its portfolio management and risk selection has so much to do with also helping to mitigate the impact of pressure on margin when rate is not adequate in some classes to maintain its level, given loss cost trends.

**<Q - Brian Meredith>**: Okay. Great, great. My second question, I want to focus a little bit on the small commercial business. You've built that a lot there. You've got the small commercial marketplace. Where are you with respect to expanding your distribution in that business, putting more agents on the platform? And is there a day in the future here where we could see Chubb basically competing with – on equal footing with some of the major small commercial carriers out there?

**<A - Evan G. Greenberg>**: Well, I'm going to let Paul Krump talk about the distribution. I'm going to tell you, we can go toe-to-toe right now with the major players on an agent by agent basis in small commercial product offering, pricing, servicing and technology. In many cases, we're ahead on the technology front. It's just a matter of now building that portfolio, but we are toe-to-toe. Paul, you want to talk about [ph] distribution (00:55:21)?

**<A - Paul J. Krump>**: Yeah, happily. So, thanks, Brian. Just to be very specific to you, right now, we've got 3,000 of our agents engaged on the platform. The platform is called Marketplace. So that's our small business platform where agent CSR can go right in there, write a BOP, work on the comp, the auto, and cross-sell against the financial lines, that kind of thing. So, we've got a couple thousand more agents that we're going to engage and activate.

What I'd tell you is very exciting for us right now is that 80% of the business that the CSRs are putting into the Marketplace platform is being handled automatically what's called on the Street on the glass. On the glass means they don't have to pick up the phone and talk to anybody, reach – can come out of the system, so it's very intuitive system. It's very fun for them to use. The agents really like it. And that's where I think we are really going toe-to-toe with people on the technology side. Comp has picked up very, very nicely as well.

So, we are looking at some areas where we think we're underrepresented when it comes to distribution and we're actively engaged in those conversations in those areas and we're open to talking to anybody that wants to bring us good profitable business.

**<A - Evan G. Greenberg>**: Brian, it comes in very small bites. Again, it takes time. We're patient. We don't expect this business to cast a meaningful shadow on revenue for a period of time.

**<Q - Brian Meredith>**: Great. I was just wondering about just the challenges in actually getting that distribution, that's always here in that business. You can have the product, but actually getting onto an agent platform is not always that easy.

**<A - Evan G. Greenberg>**: Well, as you hear, we're making very substantial progress that way.

**<Q - Ian J. Gutterman>**: I'll cut to the chase, I guess. Evan, if I just follow-up on the reserve question from earlier, I think from Kai. Maybe if I ask it in a broader sense. I mean, I assume you guys look at what other people are doing and it seems like across the industry that people are putting up less IBNR. It seems like cases coming in faster across

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essentially most of the liability lines, whether it'd be GL, everything but comp basically, right? Do you agree with those observations? And if so, does that inform you of where we are in the underwriting cycle? That it seems like people are sort of being more aggressive and not willing to take their PICCs higher when they probably know they should and maybe that says something about why we're seeing a pickup in chasing rate.

<A - Evan G. Greenberg>: Look, Ian, I can't speak to specific companies. We do observe and study. We're in the middle right now of looking at all the published numbers. So we haven't finished with our own internal views of some of it. What I will say is this, what's natural. Pricing was more robust a number of years ago in those accident years as they were reserved had greater margin of adequacy in them. As trend and rate roll forward, it's pretty simple. There's either - it'll vary by company. There's either less margin of adequacy or some move to inadequacy. It'll vary by company. And that seems to me to be obvious and we've all been talking about it for a period of time.

So, I love you dearly, but I'm a little puzzled by the question like in the sense like, wow, there's some surprise here, going on for a while.

<Q - Ian J. Gutterman>: Well, it feels like it got worse, I guess, in the last year or two.

<A - Evan G. Greenberg>: Ian, it just feeds on itself.

<Q - Ian J. Gutterman>: Exactly.

<A - Evan G. Greenberg>: So, sure.

<Q - Ian J. Gutterman>: Okay.

<A - Evan G. Greenberg>: It's more stressed at the end of 2017 than it was at the end of 2016, than it was at the end of 2015, period.

<Q - Ian J. Gutterman>: Right. I guess the reason I say is because if you look at most companies' results other than a few outliers, most companies in their CY GAAP results, you wouldn't really be able to tell that, I guess, is kind of the point I'm making.

<A - Evan G. Greenberg>: Well, some that is that self-graded tests.

<Q - Ian J. Gutterman>: Right, exactly. Okay. Exactly.

<A - Evan G. Greenberg>: Yeah. I mean that's human nature and that's always been true in this business.

<Q - Ian J. Gutterman>: Fair enough. Then just one other -

<A - Evan G. Greenberg>: By the lagging nature. And that's just the combination of optimism or ignorance or just plain old short-term cheating.

<Q - Ian J. Gutterman>: Exactly.

<A - Evan G. Greenberg>: So you can collect, check and move along.

<Q - Ian J. Gutterman>: So one other quick one is and I'm sure you'll tell me I'm nitpicking and I probably am, but...

<A - Evan G. Greenberg>: Well, it's your nature.

<Q - Ian J. Gutterman>: ... the small commercial growth of 2%. I assume you're hoping to do better than that. And I don't know if there is anything unusual in there, maybe underwriting actions or something else. Or is that sort of where you are today and [indiscernible] (01:01:39) accelerate that?

<A - Evan G. Greenberg>: No, no, no. There was a quarterly anomaly in that for us.

<Q - Ian J. Gutterman>: Okay. I was just making sure.



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<A - Evan G. Greenberg>: And we took some action. We have some professional lines business that go to that – that are in small commercial. And we had some legacy portfolios that have been moved in there and we took action on that. But if you look at the underlying BOP and comp and the P&C business, that actually grew like in a seriously robust way, like in the hundreds of percent growth.

<Q - Ian J. Gutterman>: Okay, that's what I was hoping to hear. Okay, just checking. Thank you.

<A - Evan G. Greenberg>: Yeah, yeah, yeah.

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