

## Q4 2020 Earnings Call

### Company Participants

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

### Other Participants

- Brian Meredith, Analyst
- David Motemaden, Analyst
- Elyse Greenspan, Analyst
- Meyer Shields, Analyst
- Michael Phillips, Analyst
- Tracy Benguigui, Analyst

### Presentation

#### Operator

Good day and welcome to the Chubb Limited Fourth Quarter Yearend 2020 Earnings Call. Today's conference is being recorded. (Operator Instructions) And now for opening remarks and introductions, I would like to turn the call over to Ms. Karen Beyer, Senior Vice President of Investor Relations. Please go ahead.

#### **Karen Beyer** {BIO 6404488 <GO>}

Thank you. Welcome everyone to our December 31, 2020 fourth quarter and yearend earnings conference call. Our report today will contain forward-looking statements, including statements relating to company performance, pricing and business mix and economic and market condition, which are subject to risks and uncertainties. And actual results may differ materially. Please see our recent SEC filings, earnings release and financial supplement, which are available on our website at [investors.chubb.com](https://investors.chubb.com) for more information on factors that could affect these matters.

We will also refer today to non-GAAP financial measures, reconciliations of which to the most direct comparable GAAP measures and related details are provided in our earnings press release and financial supplement. Now it's my pleasure to introduce our speakers. First, we have Evan Greenberg, Chairman and Chief Executive Officer, followed by Phil Bancroft, our Chief Financial Officer. And then, we'll take your question. Also with us to assist with your questions are several members of our management team. And now, it's my pleasure to turn the call over to Evan.

## Evan Greenberg {BIO 1444445 <GO>}

Good morning. As you saw from the numbers, we had a very strong finish to the year with excellent financial results headlined by rapid premium revenue growth and underwriting margin improvement across our commercial lines portfolio in both the US and internationally. A trend, we are confident will continue. We produced very good earnings and our balance sheet is in excellent shape.

Our fourth quarter results were in context of the historic and unprecedented time we live in nationally and globally. We continue to face the health, economic, political and social impact of the COVID-19 pandemic globally, which might now be more accurately viewed as an endemic and which despite the efficacy of vaccines and therapeutics will likely be with us for years to come.

Before I go further with the quarter, I want to make a few comments about recent events in our country. We all witnessed the shocking display of demagoguery and insurrection by a group of our own citizens in our nation's capital in early January. We witnessed a scene in our Capitol building never before viewed in our country's 200-year history, including a totally unacceptable display of symbols of hate, bigotry, violence and anti-Semitism in the halls of Congress.

The incident has left our country shaken and our international image tarnished. Some members of Congress attempting to subvert the will of the people and stand in the way of what is largely a ceremonial affirmation of the Electoral College vote was also unacceptable. At the end of the day, the facts are the facts. All of the independent institutions we charge with overseeing our election process including the Department of Justice, the new federal cyber watchdog agency, state and federal courts and state election officials investigated opined and confirmed there was no widespread election fraud. Just because you don't like the political outcome doesn't give you the right to make up your own facts or attempt to subvert our democracy in the rule of law.

This isn't going away and is a wake up call to all of us who care about and love our country. Now returning to our fourth quarter results. We recorded core operating income of \$3.18 per share, up nearly 40% from prior year and net income of \$2.4 billion or \$5.34 per share, up over a 100%, and which by the way, was a record.

We produced strong premium revenue growth in the quarter with global P&C net premiums written, which exclude agriculture up 6%. Our P&C combined ratio of 87.6% along with very good net earned premium growth produce P&C underwriting income of \$969 million, up 82% while our current accident year underwriting results excluding cats were even better supported by continued underwriting margin improvement and excellent revenue growth in our commercial P&C businesses globally. As we continue to capitalize on more favorable underwriting conditions.

The current accident year combined ratio, excluding cats was 86.4% compared to 90% prior year. The 3.6 point percentage points of improvement, included 2.8 points of loss ratio related improvement, which was broad based. And let me give you a better sense

FINAL

Bloomberg Transcript

FINAL

of this. Agriculture improved 27 points and then excluding agriculture, the global P&C commercial lines loss ratio improved about 1.5 percentage points, virtually all as a result of earned rate exceeding loss cost trend. The loss ratio for global P&C consumer lines which is global A&H and global personal lines improved 1.2 percentage points. The vast majority of which was indirect COVID benefit related. Phil will discuss the expense ratio improvement in the quarter.

To very briefly recap the year that we had an entire quarter of earnings lost to our effort to reserve COVID to ultimate and a very active year for natural catastrophes, we produced \$3.3 billion of core operating earnings. The full year published P&C combined ratio was 96.1% compared to 90.6% in '19.

The full year P&C current accident year combined ratio, excluding cats was 86.7% compared to 89.2%, which speaks to our underlying health. And our full year premium revenue growth is about 5.5% in constant dollar with commercial lines growth of 9.3%. I mentioned in the beginning, a strong balance sheet. The strength of our loss reserves, which is the most important part of the balance sheet improved throughout the year. Consistent with our practices, we continue to recognize bad news early and any potential good news late. On the one hand, there had been no changes to our P&C COVID-19 incurred loss charge, which we consider adequate to absorb COVID losses that may emerge.

The vast majority of the charge remains IBNR. On the other hand, we have recognized only a modest degree the reduction in losses mostly frequency due to the economic shutdowns. Beyond COVID related, we have also purposely strengthened reserves. Increasing the strength of our reserves is the prudent thing to do given the uncertainty in the environment.

Book and tangible book value per share were up 7.7% and 12.2% respectively for the year. So we'll have more to say about investment income, book value, cats and prior period development. Turning to growth and the rate environment. As I said, global P&C premium revenue in the quarter, which excludes agriculture grew 6% comprising 11.3% growth in commercial P&C and 3.9% decline in consumer lines. The consumer lines result included negative growth in global A&H and international personal lines and positive growth in North America personal lines. In the quarter, we continue to experience a strong and continuously improving commercial P&C pricing environment globally.

In fact, the level of rate and rate of increase was the strongest since this part of the underwriting cycle began approximately three years ago. I expect the favorable underwriting conditions to continue. In North America commercial P&C, net premiums grew 10% and that actually includes a reduction in growth of three points, due to reduced exposures from the decline in economic activity.

New business was up nearly 12% and renewal retention remains strong at over 95% on a premium basis. In our North America major accounts and specialty business. Net premiums written grew over 11.5% while our middle market and small commercial business grew nearly 8%. Overall rates increased in North America commercial P&C by

FINAL

16.5% with a loss cost trend of approximately 5%. Though it varies up or down depending upon line of business.

Let me give you a better sense of the rate movement. In major accounts, risk management related primary casualty, up 7% while general casualty rates were up over 36% and varied by category of casualty. Property rates were up over 30% and financial lines rates were up over 26%. In our E&S wholesale business, the Westchester, property rates were up over 23%. Casualty rates were up nearly 29% and financial lines rates were up over 26%.

In our middle market business, rates for property were up over 15%. Casualty rates were up nearly 12% excluding workers' comp with workers' comp rates up about 0.5%. And financial lines rates were up over 20%. In our international general insurance operations, commercial P&C net written premiums grew 14% in the quarter. Our international retail commercial business grew 9% and our London wholesale business grew over 32%. Retail commercial P&C growth varied by region with net written premiums up 17.5% in the UK, about 16.5% from the continent and over 16% in Asia Pacific while Latin America shrank 14% as a combination of insurance market and economic conditions way on Latin America.

Internationally, like in the US, in those markets where we grew, we continue to achieve improved rate to exposure across our commercial portfolio. In Overseas Gen rates were up 18.5% overall with a loss cost trend of 3%. Rates were up 17% in international retail and 26% in London wholesale. Consumer lines growth globally in the quarter continues to be impacted by the pandemic's effects on consumer-related activities. Our international personal lines business and our global A&H business together shrank 8%.

We expect growth to return and to begin to return in these businesses as the year goes along. Our North America high net worth personal lines business, what we call Personal Risk Services, however remains an exception with net premiums up 2.5% in the quarter. We continue to experience flight to safety and quality in our high-net-worth segment. New business was up 6.5% and retention remained strong at about 92.3. While we continue to achieve rate increases of 4.5%.

Our Global Re-business grew its net premiums written about 14.5%. And lastly, in our Asia-focused international life insurance business. Net written premiums were up 25% in the quarter. In sum, we are in a continuing hard or firming market for commercial P&C in most all parts of the world. The rate environment in my judgment is a rational and necessary response to years of underpricing of risk and a more uncertain risk environment today.

Given our years of data and analytics capabilities and underwriting knowhow, we know what rate we need in order to achieve an adequate risk adjusted rate of return from underwriting. And that is the objective. Some lines are there while others have a way to go. Virtually, all of our commercial P&C lines of business throughout the year, have been achieving rates that exceed loss cost, and so margins continue to improve.

Looking forward, we are off to a very good start to the year in the first quarter, both growth and the level of rate increase we are achieving look a lot like the fourth quarter.

Based on everything we see, the current commercial market condition has lags. My colleagues and I are confident in our ability to grow our business and continue to expand margins. And as I said, I expect as the year progresses, our sizable consumer business will return to growth.

By almost any measure, our company performed admirably and distinguished itself during the past year and I applaud and I'm so grateful to our more than 31,000 Chubb colleagues around the globe, whose resilience, determination and dedication have produced distinguishing results for our clients and shareholders in spite of work from home conditions.

I also want to recognize our global management team, who lead and reinforce our culture and discipline are well ahead of our performance every single day. In closing, our company finished the year with a strong performance and momentum that continues. We are leaning into the current favorable underwriting conditions and capitalizing whatever we can get paid adequately to assume risk and volatility.

We are in fact growing exposure. Our people are energized and we have all of the capabilities in place to grow our company profitably and increase shareholder value. With that, I'll turn the call over to Phil. And then we're going to come back and take your questions.

## **Philip Bancroft** {BIO 4621336 <GO>}

Thank you, Evan. We completed an eventful year with solid financial results and continued to build on our balance sheet strength, including substantial capital of almost \$75 billion, supported by extraordinary Fed actions our double rated portfolio of cash and invested assets grew almost \$10 billion for the year and now exceeds \$120 billion. Our excellent underlying -- underwriting and investment performance produced very strong operating cash flow of \$2.5 billion for the quarter and a record \$9.8 billion for the year.

Among the capital related actions in the quarter, we returned \$542 million to shareholders, including \$352 million in dividends and \$190 million in share repurchases. For the year, we returned \$1.9 billion to shareholders or 58% of earnings including \$1.4 billion in dividends and \$516 million in share repurchases. Adjusted pre-tax net investment income for the quarter was \$924 million and \$3.6 billion for the year.

Investment income in the quarter was higher than our estimated range and benefited from increased corporate bond call activities and greater private equity distribution. While there were a number of factors that impact the variability and investment income, we now expect quarterly run rate to be in the range of \$890 million to \$900 million. Separately, our policy has always been to record the change in the fair value mark on our private equity funds outside of core operating income, as realized gains and losses. Instead of net investment income as other companies do.

The gain from the fair value mark if included in investment income would have increased adjusted net investment income by \$485 million for the quarter and \$714 million for the

FINAL

year. Our annualized core operating ROE and core operating return on tangible equity were 10.7% and 17.1% respectively for the quarter. If we had included in the fair value mark on our private equity portfolio and our core operating income, core operating ROE would have been higher by 3.5 percentage points for the quarter.

During the past few quarters, since S&P Global Ratings published their ratings update on Chubb, management has had discussions with S&P regarding Chubb's track record of strong and diverse underwriting results and operating performance. This has resulted in the company updating its capital management policy to calibrate its estimate of capital adequacy from S&P's AAA level to S&P's AA level. We believe this is sufficient to maintain our AA rating.

Our capital management policy remains consistent with whole surplus capital for both risk and opportunity. Our undeployed capital on a run rate basis dilutes our core operating ROE by around 200 basis points. We are also announcing today that our Board has increased the authorization to repurchase shares by 1 billion. Our total repurchase program now allows for up to 2.5 billion between January 1 and December 31 of 2021. Book and tangible book value increased 5.4% and 8% respectively for the quarter and 7.4% and 11.9% respectively for the year. Book and tangible book value were favorably impacted by after-tax net realized and unrealized gains of 2 billion for the quarter and 2.5 billion for the year.

The gains were principally in our investment portfolio. Primarily from the narrowing of credit spreads in our corporate bond portfolio, a decline in interest rates and the fair value mark on private equities. At December 31, our investment portfolio was in an unrealized gain position of \$4.7 billion after tax. Our net catastrophe losses for the quarter were \$314 million pretax or \$271 million after tax. The P&C catastrophe losses of \$296 million were primarily from a series of severe weather related events globally. There were no changes to the previously reported estimates of our P&C COVID incurred loss charge from June 30. We had favorable prior period development in the quarter of \$206 million pretax or \$189 million after tax. This included \$94 million pretax adverse development from our legacy runoff exposures, principally related to asbestos. The remaining favorable development of \$300 million is split 70% from long tail lines, principally from accident years 2015 and prior and 30% from short tail lines. For the year, our net loss reserves increased \$4.3 billion in constant dollars and our paid to incurred ratio was 80%.

The P&C expense ratio was 28% in the quarter with a 70 basis point improvement over the prior year. About half of the improvement is from the health-related shutdown and the balance is principally from operating efficiencies. Our core operating effective tax rate was 15.2% for the quarter and 15.8% for the year. For 2021, we expect our annual core operating effective tax rate to be in the range of 15% to 17%.

I'll turn the call back to Karen.

**Karen Beyer** {BIO 6404488 <GO>}

Thank you. At this point, we're happy to take your questions.

Bloomberg Transcript

## Questions And Answers

### Operator

(Operator Instructions)

And we will take our first question from Michael Phillips with Morgan Stanley. Please go ahead.

**Q - Michael Phillips** {BIO 21023048 <GO>}

Thank you and good morning. Good morning, thanks for the time. Can you talk about your ability in times like this with rate so much higher than loan loss trend. Can you talk about your ability -- programs you have in place, I guess to keep your business sticky and your retentions high?

**A - Evan Greenberg** {BIO 1444445 <GO>}

I'm having a very hard time hearing you. Can you get closer to your microphone or something.

**Q - Michael Phillips** {BIO 21023048 <GO>}

Sorry, is it better, Evan?

**A - Evan Greenberg** {BIO 1444445 <GO>}

Yes. That's better. Please go ahead.

**Q - Michael Phillips** {BIO 21023048 <GO>}

Okay. In times like this with rate so much higher than loss trend that you look at. Can you just talk about programs you have in place to keep your business sticky and keep your retentions high?

**A - Evan Greenberg** {BIO 1444445 <GO>}

Keeping retentions high?

**Q - Michael Phillips** {BIO 21023048 <GO>}

Yes sir.

**A - Evan Greenberg** {BIO 1444445 <GO>}

The program -- I'm sorry. Are you saying, the programs we have in place to keep our retentions high.

**Q - Michael Phillips** {BIO 21023048 <GO>}

Yes. That's correct. Keep your business sticky and not moving elsewhere.

FINAL

## **A - Evan Greenberg** {BIO 1444445 <GO>}

Yeah. We -- it's very basic blocking and tackling every single day. This is a customer and client-focused company. And frankly, our communication begins early and is continuous with all of our clients and customers. The -- we endeavor not to surprise. We explain very clearly to our customers and clients.

The reason for need for rate increase, how we're running today. The kind of transparency we give you. We give them a lot of transparency around the loss cost environment, around our return hurdles, around our appetite for risk. The consistency of the company has by itself distinguished itself and we've stood out and given and therefore garnered a lot more credibility and confidence from our clients. Chubb has been consistent in its approach about underwriting and its need for rate throughout the years, particularly when we were shrinking. And note when we couldn't achieve what we required to earn an adequate return.

And at the same time, given the rate environment changing, our appetite consistent, we continue to promote and on the same basis, our appetite for the amount of risk we will take, the classes of business that we will serve, where we will serve them. All of that is a well-understood story about us. And finally, what I'd say is, we don't serve them in one line of business or two lines of business. We serve to them broadly across virtually all of their needs and the secret we do it on a local basis, it isn't simply that we operate from two or three hubs, we're where they do business. And where they need to work with us and see us every single day.

There is no magic sauce about this. It's a day-to-day, year in and year out effort of a consistent approach to how we do business. And right now, it serves us quite well.

## **Q - Michael Phillips** {BIO 21023048 <GO>}

Okay, thanks, Evan. I guess on the COVID losses and almost a year out now and that the early stages, you were one. And then there were number that said that this is going to be the worst event ever. Some are still saying that, but there is many that had put the industry losses at a lot lower than what they initially said. I guess, where do you stand on that and do you think there's any upside to bringing your current numbers that you put up last year down (inaudible)

## **A - Evan Greenberg** {BIO 1444445 <GO>}

I'm right where you left me standing. I think the loss to the industry. We had pegged that loss somewhere in the -- the underwriting loss somewhere in that \$70 billion -- \$80 billion range, and I think, it's ultimately going to play out there. Right now, it's at around \$35 billion to \$40 billion and that number is going to continue to climb. And so far, you've really focused on BI that you've seen. And BI, I don't think it's run its course. But beyond that, there are a lot more casualty to come. From D&O to employment practices liability et cetera and credit-related, and then the other side of the balance sheet as well over time.

So far, we have had a recession that been relatively credit loss proof brought to you by central banks around the world and government policies. That's not going to last forever,



and there is -- there, just look at how the banks have handled reserves. There is more to come.

**Q - Michael Phillips** {BIO 21023048 <GO>}

Okay, great, thanks, Evan.

**A - Evan Greenberg** {BIO 1444445 <GO>}

You get it.

## Operator

(Operator Instructions) We will now take our next question from David Motemaden with Evercore ISI. Please go ahead.

**Q - David Motemaden** {BIO 18818634 <GO>}

Hey, good morning. I had a question just on the international consumer lines. And I guess, pretty encouraging commentary that you expect that to come back as the year progresses. Evan. I guess one thing that I'm realizing is it feels like the mix shift away from those consumer lines has had -- it has been somewhat of a headwind to the loss ratios and to margins overall, over the course of 2020. So I guess, I'm just wondering maybe if you could size that and then help us think about the positive margin benefit that may have as the mix shifts moves a little bit back towards that as we get through the course of 2021?

**A - Evan Greenberg** {BIO 1444445 <GO>}

Yes, I -- I'm not sure, you're thinking about that completely right. The consumer lines depends on line of business within consumer. Are we talking about accident and health, are we talking about automobile. But it -- in general, runs a lower loss ratio but it runs a higher expense ratio. We're producing the current accident year in the 80s and the consumer lines business runs aggregate in that kind of range.

So it's a shift in loss ratio, expense ratio predominantly. Now that varies, which I'm not going to get into with you and then you're going down the rabbit hole. It varies by region of the world and international versus domestic. But you really spoke about the International in that regard. So look, it -- as it comes back, it lifts growth and it lifts earnings. And it's less of a margin story.

**Q - David Motemaden** {BIO 18818634 <GO>}

Got it. That's helpful. That helps, thanks for clarifying that.

**A - Evan Greenberg** {BIO 1444445 <GO>}

And we were not comparing that to -- I'm comparing that to current accident year ex-cat.

FINAL

Bloomberg Transcript

**Q - David Motemaden** {BIO 18818634 <GO>}

Right, okay.

**A - Evan Greenberg** {BIO 1444445 <GO>}

On a published basis. (multiple speakers) On a published basis, it will have some benefit. I'm not prepared to go into the detail on that.

**Q - David Motemaden** {BIO 18818634 <GO>}

Okay. Okay. That's fair. And then I guess just a question on North America commercial. So we're obviously seeing continued positive rate trend there 16.5 points in the fourth quarter. I guess my question is, if I look at the current accident year loss ratio ex-cat about 120 basis points improvement year-over-year. That compares to an average rate, I think that you guys have said over the last five quarters, it's been well above 10%. I think closer to 13%. So it sounds like it's -- I would say maybe 8 points above trend roughly. I guess, I'm wondering, what are the moving pieces here on thinking maybe mix shifts that would explain why we're not seeing more of the rate above trend come through in the loss ratio?

**A - Evan Greenberg** {BIO 1444445 <GO>}

If you listened to me in the commentary, I spoke about reserves. I also broke down this quarter's loss ratio margin improvement. And as you heard, it was a greater percentage of improvement for commercial P&C than there was for consumer lines within global P&C. And so you are seeing margin improvement. On the other hand, we are striving and will achieve an adequate risk adjusted return, which says that we're pegging ourselves to achieve a result like that. We raised the bar and in a market like this, where we're growing exposure and there is more loss cost uncertainty, as we look forward, COVID and non-COVID related. We are properly building reserve margin. And at the same time, through growth and margin improvement and not a small amount, and our current accident year combined ratio that is world-class. We are delivering tremendous earnings. At the same time, we're building balance sheet strength, absolutely the right thing to do. And I hope that answers your question. Then finally, don't be overly simplistic about it than you want. You got an average loss cost trend. That varies by category of business and line of business.

And we are also growing and in areas that is to some degree changing our mix right now. Something else I -- that's proprietary. I'm not going to go into. So that does have an impact as well to some degree.

**Q - David Motemaden** {BIO 18818634 <GO>}

Got it. Okay, great, that's helpful, thanks for the color there. Evan.

**A - Evan Greenberg** {BIO 1444445 <GO>}

You're welcome.

## Operator

We will take our next question from Elyse Greenspan with Wells Fargo. Please go ahead.

**A - Evan Greenberg** {BIO 1444445 <GO>}

Good morning, Elyse.

**Q - Elyse Greenspan** {BIO 17263315 <GO>}

Hi, thanks. Hi thanks, Evan. Good morning. My first question, on prior calls, you've also mentioned the fact that we could see reinsurance rate increases. So January 1, we heard about a good amount of casualty reinsurance rate increases. So have you -- do you see that or do you expect to see that cope with some of the pricing momentum that you've been talking about throughout the commercial line space?

**A - Evan Greenberg** {BIO 1444445 <GO>}

No, not. Not really Elyse. The reinsurance market in January, which was firm to a lesser degree than we anticipated. And it was a bit surprising to us both in casualty and short-tail lines less of an impact.

**Q - Elyse Greenspan** {BIO 17263315 <GO>}

Would you expect -- when you think about your retention, obviously that's moved by a lot of different reinsurance programs. But maybe if you were just thinking about North America commercial, would you expect any significant change in your gross to net retentions in 2021?

**A - Evan Greenberg** {BIO 1444445 <GO>}

No. Not significant change targeted in specific areas, we already have changed our retentions but it is on the margin, we're quite consistent. Remember, we buy reinsurance both for capacity purposes, where the amount of exposure we take is beyond what we want to retain on the balance sheet. And we buy a certain amount for volatility protection. And you know that's pretty steady in how we manage, but there are targeted areas. Again, something I won't go into in any detail.

**Q - Elyse Greenspan** {BIO 17263315 <GO>}

Okay. And then one last for me, on the market. You gave a lot of good double-digit price increases in some instances right well into the double digits across many lines. And then you also said that there is some lines that have a way to go -- ways to go I believe. So which lines and I'm assuming that some lines where loss cost is perhaps well above that 5% aggregate. But when you think about your commercial book, what lines do you still think need a good amount of rate increase?

**A - Evan Greenberg** {BIO 1444445 <GO>}

Right. And remember it's to -- we translate combined ratio hurdles from what we consider to be an appropriate risk adjusted rate of return we should be earning in any line of

business. And there are lines of business around the world that have a ways to go in achieving that. And there are lines that are approaching it or have, are there. So it varies. I'm not going to go into what's what. That's -- that as you can imagine is clearly proprietary. I'm not going to give a roadmap to the market.

**Q - Elyse Greenspan** {BIO 17263315 <GO>}

Okay, thanks Evan. And (multiple speakers) color.

**A - Evan Greenberg** {BIO 1444445 <GO>}

Sorry, Elyse. Nice try.

**Q - Elyse Greenspan** {BIO 17263315 <GO>}

Thank you.

**A - Evan Greenberg** {BIO 1444445 <GO>}

You're welcome.

**Operator**

We will take our next question from Brian Meredith with UBS. Please go ahead.

**Q - Brian Meredith** {BIO 3108204 <GO>}

Yes, thanks. Before I ask my question. Just, I know we've got you for another quarter, Phil, but I just want to congratulate you on your retirement. I'm just surprised, Evan has actually let you go. But here's my questions. The first one. Evan. Could you talk a little bit about the A&H business right now. And, what I want to understand is how coincident is growth in that business with economic growth? And perhaps may be you can kind of outline for us, where is the growth more important globally, just start seeing that growth come back in that line of business?

**A - Evan Greenberg** {BIO 1444445 <GO>}

Yeah, I'm going to give it to you in two very -- the simplest ways. And it's more complicated than us, but I think, we'll help you conceptualize it. Credit and travel. So it's not -- so it's not simply economic, it's --

**Q - Brian Meredith** {BIO 3108204 <GO>}

Okay.

**A - Evan Greenberg** {BIO 1444445 <GO>}

It's the shutdown and travel. And imagine, let's take it for a couple of hands, you would think of travel as simply, okay, retail travel insurance that you sell through travel agents et cetera or airlines. It's actually a small part of it. Employers, an employer purchased insurance, where it's really, it's purchased not for employees sitting in the office. It's

FINAL

purchased because they have employees traveling all the time -- travel accident insurance, as an example. With travel down and then on top of it economic -- the economic headwinds. That impacts overall A&H. A major part of A&H around the globe, whether it's in the United States, Europe, Asia or Latin America.

Credit-related, we have a huge direct marketing book of business and it is principally Asia and Latin America. And with people taking less credit on one hand. And secondly, not just tied to credit but marketing to their customer bases, the middle income customer for supplemental insurances A&H, modest homeowners and householders related. I think on the credit side as well. Mortgages. With economic activity down that business slows down substantially. We are seeing signs of it and it is beginning to pick back up, but it has a ways to go in Asia, in particular, and believe it or not, in parts of Latin America, like Chile and to some degree in a place -- in places like Brazil.

So this does start to -- and we're seeing it in the first quarter begin a bit in different areas to pick up. And then, of course, as you go further into the year beginning with second quarter, you start getting a year-on-year comparison.

**Q - Brian Meredith** {BIO 3108204 <GO>}

Great, thank you. That -- it's really helpful (multiple speakers)

**A - Evan Greenberg** {BIO 1444445 <GO>}

The overall health of the business, by the way, the overall health of the business, very strong. And this is not like a lost forever thing. The clients remain in place. The distribution, not only remains in place. But our people have spent a lot of time putting a lot of new distribution channels in place, new partnerships across the board. And we are very optimistic that as time goes on, and I just can't pick the time. You're trying to pick the timing of the health crisis right now. And when does it -- when are we able to around the world resume travel, economies open up, people leave their homes and get back to work. That's a -- good luck predicting that. You can't. But what we know is it will over time heal itself and if it does that, very vital part of our franchise.

It is an excellent franchise in place and we'll get a lot more joy for the effort we got today.

**Q - Brian Meredith** {BIO 3108204 <GO>}

Great, thanks. Second question. I missed (inaudible) Phil mentioned the 200 basis points of drag from your excess capital position right now. I'm just curious, do you think you'll be able to use that excess capital organically over the next couple of years or do you think, you'll need to do some inorganic stuff in order to utilize that excess capital or do you anticipate utilizing it?

**A - Evan Greenberg** {BIO 1444445 <GO>}

I anticipate over the next number of years. Next few years, you know I'm a pretty patient guy. And I expect over the next medium term to put that capital to work either organically or inorganically.

Bloomberg Transcript

**Q - Brian Meredith** {BIO 3108204 <GO>}

Got you. Is the market conditions good enough to (multiple speakers)

**A - Evan Greenberg** {BIO 1444445 <GO>}

Chubb remains a growth company. And that's how we see ourselves. And it is predominantly to begin with the most fundamental shareholder wealth creation indicator tangible book value. And by tangible book and book over any medium term period of time, we will continue to grow this company. And our share of the global insurance market and we view it globally is almost a rounding error. And so there is a lot of scope to grow for this company and it is both organic and inorganic. And the inorganic things we will do are things that will complement what we are already doing organically, and will produce what we think are superior or very favorable return to shareholders.

So we will use the capital wisely. And to the degree, we build surplus capital in excess of what we require, we will return that to shareholders.

**Q - Brian Meredith** {BIO 3108204 <GO>}

All right, thank you.

**A - Evan Greenberg** {BIO 1444445 <GO>}

You notice, we're returning another 1 billion.

**Q - Brian Meredith** {BIO 3108204 <GO>}

Definitely. Thanks.

**A - Evan Greenberg** {BIO 1444445 <GO>}

We just announced right, going from 1.5 billion to 2.5 billion. I know, we live in worlds of trillions but I got to say, it's not an amount to leave that, right.

**Operator**

We will take our next question from Tracy Benguigui with Barclays. Please go ahead.

**Q - Tracy Benguigui** {BIO 21808177 <GO>}

Good morning. Maybe just piggybacking off the inorganic growth discussion, can you comment if Chubb had exercised its option to purchase an additional 7.1% stake in Huatai, which would make Chubb a majority owner. I mean, it seems certain conditions had to be met that the intent previously expressed. What to do so by year-end 2021. And if so, how are we seeing the majority ownership milestone change your strategic priorities in China and impact more broadly?

**A - Evan Greenberg** {BIO 1444445 <GO>}

Could you repeat, and what is the essence of your question?

FINAL

**Q - Tracy Benguigui** {BIO 21808177 <GO>}

On the inorganic growth. Yes, on the topic of inorganic growth, I recognized (multiple speakers). Yes.

**A - Evan Greenberg** {BIO 1444445 <GO>}

Huatai Insurance -- what, yes. Huatai Insurance.

**Q - Tracy Benguigui** {BIO 21808177 <GO>}

Right. Have you exercised that 7.1% offset (multiple speakers)?

**A - Evan Greenberg** {BIO 1444445 <GO>}

No, we have not exercised it. No. We have not exercised the 7.1. When we do. When it occurs, we will announce it to the market, of course, we will. And you will know when and if we achieve the majority control, which we anticipate -- we expect to do.

**Q - Tracy Benguigui** {BIO 21808177 <GO>}

Okay. All right. So I'll just move on from there. Maybe just to cyber. Congrats to Mike Kessler on his new cyber leadership role. With a new set of eyes, is Chubb refreshing its view of cyber risk or is there a secular trends like 2020 ransomware that is prompting you to revisit Limit and impose self-insured retention. And if you wanted, just add anything more broadly on terms and conditions.

**A - Evan Greenberg** {BIO 1444445 <GO>}

Yeah. Mike, who is an outstanding executive and he has been with us a long time. He wasn't appointed based on market conditions or what we see as the general underwriting environment. Mike was appointed because he is a great executive. It's a -- it's an important line of business to us. It has -- it's complex -- it's a very complex line of business. And Mike brings the skills and the capabilities to manage on a global basis a business like that. Great opportunity for him and a great opportunity for Chubb. Beyond that cyber itself is in a state of change and the product is evolving and will evolve.

It's a lot beyond pricing. Pricing is the easy part. But it's -- that the loss environment, which I've been speaking about for numerous quarters consistently is changing. And so, I'll just remind everyone. Frequency of loss has been increasing as the world has digitized and we gave it a huge shove during COVID and work remotely conditions, the world is more cyber and digitally integrated and that raises both exposure in terms of frequency of loss but it also raises and continues to raise the catastrophe nature of the product, because of the interconnectedness of everyone globally.

I have said for a number of quarters that the next pandemic, the exposure that looks like a virus is cyber related because it has no geographic or time bound to it. We've seen a number of events over the recent years that give a glimmer of that. So it is complicated and the product has to evolve to recognize that kind of exposure, both on the frequency side and the severity side. And we have a fabulous team of cyber experts, who have

been doing this for quite a while. You got at the same time be humble and know what you don't know. And not over imagine, there is a lot of basis risk in it, even the cyber -- all the cyber experts are constantly surprised with new Day Zero events and techniques that emerge. And so, I can on that wrap it up by saying, I can think of no one better to help lead along with our cyber experts than Mike Kessler. Thank you for the question, Tracy.

**Q - Tracy Benguigui** {BIO 21808177 <GO>}

Okay.

**Operator**

We will take our next question from Meyer Shields with KBW. Please go ahead.

**Q - Meyer Shields** {BIO 4281064 <GO>}

Great, thanks, good morning. Evan. I'm going to assume in this question that if the industry was putting up underwriting results like Chubb would be experiencing great increases to the degree that we are. So hoping if you could talk a little bit about maybe on the technology side. The proprietary differences that allow underperformance -- sorry, underwriting outperformance relative to peers and in addition maybe over the next couple of years to spend that?

**A - Evan Greenberg** {BIO 1444445 <GO>}

Be careful of one thing, Meyer. Everybody has a different mix of business, a different book of business. Chubb, we have a balance between middle market and small in the United States and around the globe and large account and specialty risk E&S. We're a very large E&S player. We're very large maybe the global leader in major account business. And then we're a top tier middle market company. All of that goes in, and I was pretty clear that the level of rate increase we're getting varies by the market area, and then beyond that, it varies by product area, and I gave you some sense of that. We have years and years of data and it's not just data, it's been turned into information. And it has taken us a long time to do that. And to do it properly. And so the management information flow here is so well connected between the reserving process and the rate making process in a granular real time way and updated based on loss and loss cost trends and actual in virtually real time without a lot of lag. And it is something that all of us at all levels have great transparency and availability to access and that links back with then how we look at what business are we quoting, what business are we binding and at what terms and conditions.

It doesn't mean that it's all perfect and we don't make mistakes. And given loss cost and real world about the loss environment that we don't get surprised on the margin, because things change swiftly here or there, of course, but we react quickly. And finally, what I'd say to you is, it's no different than this conversation that goes on about, well, how come you haven't produced more margin, when we're producing outstanding margin and margin improvement, is that, look at our reserving policy. It's that we recognize bad news most immediately and we recognize good news over time. The commercial P&C business, particularly the casualty areas are not for optimists. And I've said this many times. And by the way, the notion of prior period reserve development.



Well, that's a strength, and that's part of being prudent and recognizing slowly when you're conservative and cautious about a loss cost environment. So it's the data, it's the technology, it's the knowledge of the people, and it's the management policies and practices consistently that make the difference.

**Q - Meyer Shields** {BIO 4281064 <GO>}

Okay, that's very helpful. Thank you (multiple speakers).

**A - Evan Greenberg** {BIO 1444445 <GO>}

-- long turn we're not trying to make some short-term killing in our business. And that's not what it's about. And by the way, we run the company first for our customers and we run it to deliver them a product at the right price, not take advantage of them in any way.

**Q - Meyer Shields** {BIO 4281064 <GO>}

No, that's clear. Thank you. Second question. Looking back, after 9/11, I guess the industry basically reassessed its expectation of terrorist domestically. Are some underwriters thinking differently about political risk in the United States? Is that a real world issue from a underwriting standpoint?

**A - Evan Greenberg** {BIO 1444445 <GO>}

Well, there isn't really a political risk insurance market in the United States. The United States given rule of law, and given credit ratings, there has not been true political risk losses in the United States. And true political risk exposure from what we classically deliver as a product outside the United States in political risk. And God, help us. I don't expect that to change. Now, you could ask the question on the investment side of the portfolio and do we see political risk? I think, we see more credit related risk than we do at this time political risk.

**Q - Meyer Shields** {BIO 4281064 <GO>}

Okay, understood. Thank you very much.

**Operator**

That concludes today's question-and-answer session. Ms. Beyer, at this time, I will turn the conference back to you for any additional or closing remarks.

**A - Karen Beyer** {BIO 6404488 <GO>}

Thanks everyone for dialing in this morning. We look forward to speaking to you -- with you again next quarter. Thanks and have a good day.

**Operator**

This concludes today's call. Thank you for your participation, you may now disconnect.

FINAL

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

Bloomberg Transcript