Q3 2013 Earnings Call

Company Participants

- Dino Robusto, EVP The Chubb Corporation and President, Personal Lines and Claims
- John Finnegan, Chairman, President, and CEO
- Paul Krump, EVP The Chubb Corporation and President, Commercial and Specialty Lines
- Ricky Spiro, EVP and CFO

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Greg Locraft, Analyst
- Jay Cohen, Analyst
- Jay Gelb, Analyst
- Josh Stirling, Analyst
- Michael Nannizzi, Analyst
- Mike Zaremski, Analyst
- Paul Newsome, Analyst
- Vinay Misquith, Analyst

Presentation

Operator

Good day, everyone. Welcome to the Chubb Corporation Third Quarter 2013 earnings conference call. Today's call is being recorded. Before we begin, Chubb has asked me to make the following statements. In order to help you understand Chubb, its industry, and its results, members of Chubb's management team will include in today's presentation forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. It is possible that actual results might differ from estimates and forecasts that Chubb's management team makes today; additional information regarding factors that could cause such differences appear in Chubb's filings with the securities and exchange commission.

In the prepared remarks and responses to today's questions during today's presentation, Chubb's management may refer to financial measures that are not derived from generally accepted accounting principles, or GAAP. Reconciliations of these non-GAAP financial measures to the most directly comparable GAAP measures and related information are provided in the press release and the financial supplement for the Third

Quarter 2013, which are available on the investor section of Chubb's website at www.Chubb.com.

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

John Finnegan {BIO 1735942 <GO>}

Thank you for joining us. We are extremely pleased with our results for the Third Quarter and first nine months. For the Third Quarter, operating income per share was $2.06, the second best quarterly operating EPS in the history of Chubb. For the first nine months, operating income per share was $5.97 and net income was $6.80; both all-time records for Chubb.

Our combined ratio for the Third Quarter was an excellent 85.7%, reflecting the impact of higher rates, strong underwriting performance in all of our business units. During the quarter, the market tone in the US remained firm in both our standard commercial and Professional Liability lines, where we achieved high single-digit average renewal rate increases and improved retention levels.

In personal lines, we continue to secure renewal change increases averaging in the mid-single digits. Third-quarter operating income per share increased 4% over last year and resulted in an annualized operating ROE of 14.8%. Net income per share for the Third Quarter was $2.10, and annualized ROE for the quarter was 13.9%. GAAP book value per share at September 30, 2013 was $62.04, as the 3% increase since year-end 2012 and a 2% increase since September 30 a year ago.

Our capital position is excellent, and we continue to make good progress on our share repurchase program. Net written premiums for the Third Quarter were up 4%, reflecting growth in all three business units.

In light of our performance in the first nine months of the year and our outlook for the Fourth Quarter, we've increased our guidance for the full-year 2013 operating income per share to a range of $7.90 to $8.00, from its $7.30 to $7.50 range we provided in our July 2013 guidance. Ricky will discuss the increased guidance in greater detail.

And now for more details on our operating performance, we'll start with Paul.

Paul Krump {BIO 5211397 <GO>}

Thanks, John. Chubb Commercial Insurance and Chubb Specialty Insurance both had outstanding performance in the Third Quarter. At CCI, net written premiums were up 4% to $1.3 billion. The combined ratio was 85.2%, compared to 87.2% in the Third Quarter of 2012. The impact of catastrophe losses accounted for 1.4 point, with a combined ratio in the Third Quarter this year, compared to 0.2 points in the corresponding year-ago quarter. Excluding the impact of catastrophes, CCI's Third Quarter combined ratio improved 3.2 points to 83.8% from 87% in the Third Quarter of 2012.

CCI secured renewal rate increases on 90% of our US book during the Third Quarter, and it was the 10th consecutive quarter of rate increases.

CCI's average US renewal rates in the Third Quarter increased 7%, compared to the 8% increase we secured in the Second Quarter of this year, while retention was up 2 points from 83% to 85% over the same two quarters.

While this retention and rate movement quarter to quarter is relatively minor, it reflects directionally the progress we have made with differentiated rate taking and calling over the past few years. As indicated on previous calls, this has been done using a performance ranking system that segments customers based on our assessment of rate adequacy.

The bottom line is that we now have less premium volume in our lowest-performing groups, where rate increases were the highest; and we have more premium buying in our volume in our better-performing groups, where the rate increases were lower.

For example, for the customer segments within CCI in the US with the greatest rate need, the premium volume was 28% lower in the Third Quarter of 2013 versus the Third Quarter of 2012, with this bottom group now comprising less than 20% of the portfolio.

This dynamic occurred because some of the segments graduated to our better-performing groups due to earlier rounds of rate action, while others saw their premium volume decline as a result of our aggressive culling actions.

The obvious result is an improved book from a loss experience standpoint. But one where somewhat lower average rate increases would be expected.

CCI achieved US renewal rate increases in each line of business in the Third Quarter of 2013. The rate increases were led by general liability, which averaged low double-digit increases, followed by workers' compensation, monoline property, package, auto, excess umbrella, marine, and boiler.

In CCI markets outside of the US, average renewal rate increases were in the low single digits in Canada, Europe, and Latin America. Average renewal rates in Asia-Pacific were flat. These rate increases are very consistent with what we've obtained in recent quarters. As noted earlier, CCI's Third Quarter US renewal retention was 85%, a 2 point improvement over the Second Quarter. Continued strong renewal rate increases and retention contributed to CCI's premium growth.

CCI's new-to-loss business ratio in the US was 0.9-to-1, up from 0.7-to-1 in the Second Quarter. This ratio was aided by the improved renewal retention. Renewal exposure change for the Third Quarter was slightly negative.

Turning now to Chubb Specialty Insurance, we were very pleased with CSI's results in the Third Quarter. Net written premiums increased 5% to $670 million; and our combined ratio was 82.3%, an improvement of 9.6 points compared to 91.9% in the year-earlier Third Quarter. In the Professional Liability portion of CSI, net written premiums for the quarter were $594 million, up 5% from the Third Quarter of last year, our largest percentage increase in eight years. Our combined ratio was 87.6%, a 9.4 point improvement over the Third Quarter of 2012 and our best combined ratio in Professional Liability in more than two years.

Average renewal rates for Professional Liability in the US in the Third Quarter increased by 8%, making it the eighth consecutive quarter of rate increases. This 8% average renewal rate increase compares to 9% obtained in the Second Quarter of this year and 8% achieved in the Third Quarter of 2012.

During the past quarter, 85% of our Professional Liability policies in the US renewed with rate increases. We secured renewal rate increases in every Professional Liability line of business. Byline rate changes were led by EPL, private company D&O, and not-for-profit D&O. These three business lines average renewal rate increases in the low double digits and were followed by crime, E&O, public company D&O, and fiduciary.

In markets outside of the US, average renewal rates for Professional Liability in the Third Quarter increased by low single digits, with small variations by territory. Like CCI, these rate increases outside the United States are very consistent with what we've achieved in recent quarters.

Renewal premium retention for Professional Liability in the Third Quarter was 86% in the United States, a 2 point improvement over the Second Quarter and a 5 point improvement over the First Quarter of this year. The new to lost business ratio in the US was 0.8-to-1, up from 0.7-to-1 in the Second Quarter.

With respect to the overall pricing environment for Professional Liability in the US, the dynamic parallels what we've experienced in CCI. As rate increases and the impact of calling poor performers take hold, the quality of our book improves and we want to retain more accounts. Likewise, we have fewer customers that require material rate improvements.

Similar to CCI Professional Liability uses a ranking or tiering system to inform individual account pricing decisions. The average rate increase by performance tier in the Third Quarter was similar to what we have been obtaining in recent quarters. However, because our aggressive underwriting actions have produced a shift in premium volume to the better-performing tears, the resulting overall average rate increase is one point lower.

To further enhance the quality of the portfolio, we are writing a disproportionately large share of new customers in the lines and market segments with the most attractive pricing to projected margins. And the same can be said for CCI's new business writing.

We believe that all of these ongoing aggressive underwriting actions are producing a stronger overall book with better profit potential. Regarding the surety portion of CCI, net written premiums in the Third Quarter were up 4% to $76 million, and the combined ratio was an outstanding 41.3%.

With that, I will turn it over to Dino who will review our personal lines results as well as corporate wide claims. Dino?

Dino Robusto {BIO 15021398 <GO>}

Thanks, Paul. Chubb Personal Insurance had another great quarter. Net written premiums were $1.1 billion, an increase of 4%, the same growth rate as in the Second Quarter. CPI produced a combined ratio of 88.3% including 7 points of catastrophe losses, compared to 82.8% in the corresponding quarter last year, which included an unusually low catastrophe toll of 1.5 points.

On a X-CAT[ph] basis, CPI's combined ratio was 81.3% in the Third Quarter of this year, the same as in the Third Quarter of 2012, reflecting continued strong underwriting performance across all product lines.

Homeowner premiums grew 4% for the quarter, and the combined ratio was 84.3%, compared to 76.2% in the corresponding quarter last year. CAT losses accounted for 11.1 points of the homeowners combined ratio in the Third Quarter of 2013, compared to only 2.4 points in the Third Quarter of 2012. Excluding CAT, the Third Quarter homeowners combined ratio improved to 73.2% in 2013 from 73.8% in the same period a year ago.

Personal auto premiums increased 9%, reflecting strong growth both in the US and outside the US. The combined ratio of 95.8% for personal auto was similar to the 95.3% we had in the Second Quarter but higher than the particularly strong 92% in the Third Quarter a year ago.

In other personal lines, premiums were flat, reflecting growth in personal excess, offset primarily by the loss of a large accident program in Latin America. The combined ratio for other personal improved to 94.9% from 95.5% in the Third Quarter a year ago.

In the Third Quarter of 2013, we experienced continued growth in US policy count for both homeowners and personal auto, which were up 1% and 3%, respectively. Quality retention for homeowners in the US was 90%, which is down less than 1 point from the same period a year ago. That is a strong result, given the multiple price increases we have implemented over the past three years.

US policy retention for personal auto was 89% and has remained consistent over the last six quarters.

Turning now to claims corporate-wide. In the Third Quarter of 2013, the impact of catastrophe losses was $92 million before tax, accounting for three points of the combined ratio and evenly split between CAT losses in the US and outside the US. The Third Quarter a year ago, we had CAT losses of $17 million before tax, accounting for 0.6percentage points of the combined ratio. For the first nine months of 2013, catastrophe losses were $347 million before tax, or 3.9 points of the combined ratio. This compares with $264 million, or 3 points in the first nine months of 2012.

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

Ricky Spiro {BIO 15061279 <GO>}

Thanks, Dino. Looking first at our operating results, we had strong underwriting income of $443 million in the quarter. Property and casualty investment income after tax was down 6% to $280 million due to lower reinvestment rates in both our domestic and international fixed maturity portfolios.

Net income was slightly higher than operating income in the quarter due to net realized investment gains before tax of $18 million, or $0.04 after tax. Net realized investment gains included $0.06 per share of net realized gain from our alternative investments.

For comparison, in the Third Quarter of 2012, net income was the same as operating income, as net unrealized gains from the sales of securities were offset by $0.12 per share of net realized losses from our alternative investments.

Unrealized appreciation before tax at September 30, 2013 was $2 billion, which was unchanged from the amount of the end of the Second Quarter. The total carrying value of our consolidated investment portfolio was $43 billion as of September 30, 2013. The composition of our portfolio remains largely unchanged from the prior quarter, and the average duration of our fixed maturity portfolio is 3.9 years and the average credit rating is AA3.

We continue to have excellent liquidity at the holding company. At September 30, 2013, our holding company portfolio had $1.9 billion of investments, including approximately $660 million of short-term investments.

Book value per share under GAAP at September 30 was $62.04, compared to $60.45 at year-end 2012 and $60.99 a year ago. Adjusted book value per share, which we calculate was available for sale fixed maturities at amortized cost, was $58.52, compared to $53.80 at 2012 year end and $53.96 a year ago.

As for loss reserves, we estimate that we had favorable development in the Third Quarter of 2013, our prior-year reserves by SBU as follows. In CPI, we had about $20 million, CTI had about $100 million, CSI had about $70 million, and reinsurance assumes had an insignificant amount, bringing our total favorable development to about $190 million for the quarter.

This represents a favorable impact on the Third Quarter combined ratio of about 6 points overall, including slightly less than half a point from catastrophes. For comparison, in the Third Quarter of 2012, we had about $145 million of favorable development for the Company overall, including $25 million in CPI, $70 million in CCI, $35 million in CSI, and $15 million in reinsurance assumed. The favorable impact on the combined ratio in the Third Quarter of 2012 was about 5 points overall with no impact from catastrophes.

For the Third Quarter of 2013, our X-CAT accident-year combined ratio was 88.6%, compared to 90.6% in last year's Third Quarter, an improvement of 2 points.

During the Third Quarter, our loss reserves decreased by $79 million, including a decrease of $68 million for the insurance business and a decrease of $11 million for the reinsurance assumed business, which is in runoff. The overall decrease in reserves reflects a decrease of about $60 million related to catastrophes, and the impact of currency translation of loss reserves during the quarter resulted in a decrease in reserves of about $75 million.

Turning to capital management, during the Third Quarter, we repurchased approximately 3.8 million shares at an aggregate cost of $326 million. The average cost of our repurchases in the quarter was $86.17 per share. The end of the Third Quarter, we had $433 million available for share repurchases under our current authorization. And as we said previously, we expect to complete this program by the end of January 2014.

Let me conclude with a few comments on the revised guidance we announced in today's press release.

As John mentioned, based on our nine-month results and our outlook for the Fourth Quarter, we are revising our 2013 full-year operating income-per-share guidance to a range of $7.90 to $8.00 from the previous guidance range of $7.30 to $7.50. This revised guidance is based on operating income per share of $5.97 in the first nine months and an estimated range of $1.93 to $2.03 for the Fourth Quarter. The revised guidance assumes 2percentage points of tax for the Fourth Quarter, which would result in 3.4 points of CATs for the calendar year. This compares to the full-year CAT assumption of 4.6 points included in our previous guidance, the decrease being due to the lower-than-expected CATs in the Third Quarter. The effect on 2013 operating income per share of each point of CATs for the full year is approximately $0.30. The impact on Fourth Quarter operating income per share of each point of Fourth Quarter CAT is approximately $0.08. The revised guidance is also based on an assumption of 259 million average diluted shares outstanding for the full-year, unchanged from our previous guidance.

And now I'll turn it back to John.

John Finnegan {BIO 1735942 <GO>}

Thanks, Ricky. Let me summarize a few of the key highlights of the Third Quarter. We had operating income of $529 million, or $2.06 per share. Our annualized ROE was 13.9% and annualized operating ROE was 14.8%. We produced an X-CAT combined ratio 82.7%, a 3 point improvement over the year-earlier Third Quarter.

Our X-CAT accident year combined ratio was 88.6%, a 2 point improvement over the Third Quarter last year. We continue to secure rate increases in all three business units. CAT book value per share at September 30, 2013 was $62.04, up 2% from a year earlier and up 3% from year-end 2012.

And we returned a total of $440 million to shareholders for share repurchases and dividends. For the first nine months of 2013, operating income totaled $1.6 billion. On a per-share basis, operating income for the first nine months was $5.97 per share, an 18% increase over last year and the highest nine-month operating income per share in Chubb history.

Annualized operating ROE for the first nine months was 14.7% and annualized ROE was 15%. The combined ratio for the first nine months was 86.4%, and the X-CAT combined ratio was 82.5%. And during the first nine months, we returned a total of $1.3 billion to shareholders, including $975 million in share repurchases plus $342 million in dividends.

Our strong performance in the first nine months of the year has enabled us to increase our 2013 operating income per share guidance to a range of $7.90 to $8.00. The midpoint of our revised guidance is $0.55 higher than the midpoint of our prior guidance of $7.30 to $7.50. In summary, we had a great Third Quarter, and we continue to be encouraged by firm rate trends in the market.

Before opening it up to your questions, I want to take a moment to discuss the management-related decisions that we announced today. First, our Board has decided to waive Chubb's mandatory retirement policy that would have required that I retire at the end of 2014 and have asked me to remain as Chairman, President, and CEO until December 31, 2016. I've agreed to do so. I appreciate the Board's high level of satisfaction with Chubb's performance during my tenure, and I remain committed to working with the Board and our strong management team to continue to produce superior results going forward.

Second, with respect to my management team to broaden the experience of the top three members -- namely Paul Krump, Dino Robusto, and Ricky Spiro -- and to further enhance their[ph] ability to contribute to the leadership of the Company in the future, we're making the following changes effective January 1, 2014.

Paul, who is currently President of commercial and specialty lines, will become president of personal lines and claims and will retain responsibility for our accident and health business.

Dino, who is currently President of personal lines and claims, will become President of commercial and specialty lines and will retain responsibility for information technology.

Ricky will remain Chief Financial Officer and will assume responsibility for corporate development.

Paul, Dino, and Ricky have all contributed greatly to Chubb's success, and I'm sure they will contribute even more in these new roles. They are a key part of the strong management team at Chubb, which is one of the reasons I agreed to stay on a Chubb for the coming years. And now we'll be glad to take your questions.

Questions And Answers

Operator

(Operator Instructions) Amit Kumar, Macquarie Capital.

Q - Amit Kumar {BIO 15025799 <GO>}

Congrats on the announcement that you'll be staying 'til 2016. I think the real reason is that you enjoy these conference calls too much with us. So that (inaudible).

But very quickly moving on, the first question is on pricing in CCI. If I understand this correctly, when you talked about the different buckets, all else being equal, as the quality of the book has improved, it is likely that the headline pricing number will directionally move downwards going forward. Is that fair?

A - John Finnegan {BIO 1735942 <GO>}

I think that's fair within reason. I mean the order of magnitude's not going to take it from (inaudible) it's going to take it from 8 to zero or anything like that. But certainly the more -- you get a little bit higher retention because you have a higher-quality book, you have less rate needs. And you're not getting the big increases in the lower-quality book, where you were losing a lot of business and, therefore, you see that we have lower volume in that book. It's not a bad thing -- a higher-quality book, it's obviously a good thing. But you expect some creep down with them[ph].

Q - Amit Kumar {BIO 15025799 <GO>}

Do you have some sense of an early view as to what you might have seen in October?

A - John Finnegan {BIO 1735942 <GO>}

I'll let Paul answer that.

A - Paul Krump {BIO 5211397 <GO>}

Sure. Amit, thanks for the question. I would say that in October the data is not yet conclusive, obviously, because we're only -- we haven't ended the month yet. But we do get preliminary data, and we obviously get a lot of anecdotal input from our field staff. At this point, I would say that most of the lines are quite firm. We have sensed that monoline property is coming under a little bit more of competition in the month of October. That said, I don't want to give you any impression that it is falling off the cliff. It's clearly still running comfortably above lost cost trend, but we did sense a little bit more competition on the monoline property book.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. The only other question, and I will stop, is in terms of lost cost trends, specifically could you just broadly address has there been any change in the lost cause trends in either Professional Liability or in workers comp over the past few months? Thanks.

A - John Finnegan {BIO 1735942 <GO>}

Are you talking longer-term lost cost trends?

Q - Amit Kumar {BIO 15025799 <GO>}

Yes.

A - Paul Krump {BIO 5211397 <GO>}

The answer is -- the short answer, Amit, is no. There's been no change there. You can think broadly of across all of the Professional Liability lines around 4%, 4.5% for lost cost. Workers' compensation obviously varies a bit by state, but we haven't changed any of our lost cost trends over the last couple of months. And, clearly, we take a longer-term view whenever we think about lost cost trends.

A - John Finnegan {BIO 1735942 <GO>}

I would say that while trends vary in frequency, which would make many which are microeconomic or a change that quickly, we have obviously been running actual losses below trends and actual losses below expectation. And some of it has to do with luck. We've talked in the past about large fire losses and non-CAT related weather. Some of it has to do with all of the underwriting and the calling we've done where we have much more -- much better new-business book and a much better book overall.

So trend is one part of cost as you look forward. But you also ought to take into account underwriting strategies and initiatives, too.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Okay, that's -- I'll stop here. Thanks for the answers.

Operator

Mike Zaremski, Credit Suisse.

Q - Mike Zaremski {BIO 20606248 <GO>}

First question is regards to Chubb International operations, which I guess I haven't talked about as much. Any areas of particular focus or rates maybe on adequate or scale hasn't been achieved? And maybe you can also just touch on quickly the competitive environment within accident and health. Thanks.

A - Paul Krump {BIO 5211397 <GO>}

Sure. Why don't I take a stab with that. You know, taking the latter part, accident and health, our -- globally, our two main competitors are AIG and ACE. We've been growing our book of business overseas very nicely. This past quarter, we did lose one large account due to an acquisition down in Latin America that Dino mentioned. But aside from that, it's been growing quite nicely, and that market is growing nicely.

As respects, the rates overseas -- they been very consistent for the last couple of quarters in the commercial space. I think the UK is probably -- and Canada are the more firm marketplaces. Australia came down a little bit in this past quarter. But you have to recognize after the number of catastrophes they had in the past couple of years, we got a lot of cumulative rate increase there.

Our book in Asia and Latin America, frankly, is so different because it's so specialized. I don't think we're a great bellwether to look at those markets in their entirety. But the type of rate increases we've been getting, the low single-digit numbers, are very consistent with what has been running in the last couple of quarters.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay, that's helpful. Lastly, $433 million left under the current repurchase authorization, should we expect a new announcement in January within an 8-K?

A - John Finnegan {BIO 1735942 <GO>}

You know, as always, we expect that our Board will review our future buyback plans in January, so beyond that I really can't comment.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thank you.

Operator

Jay Gelb, Barclays.

Q - Jay Gelb {BIO 21247396 <GO>}

Thanks. Good afternoon. John, shareholders have been well served with you serving as CEO for over the past decade. And my question with today's announcement is why did you agree to extend your tenure?

A - John Finnegan {BIO 1735942 <GO>}

Well I think -- you know, I like the job, and I think I'll be able to contribute in the job, and there was every reason to continue to work at it. So I'm more than happy.

Q - Jay Gelb {BIO 21247396 <GO>}

All right. I mean, I guess what I'm getting at is it's been pretty clear who the potential internal front runners are for the CEO succession addition, and I'm just trying to -- given that there's three individuals who been in place for quite some time, I'm just trying to understand why extend it out another two years as opposed to making that change at the end of 2014?

A - John Finnegan {BIO 1735942 <GO>}

I don't think the executive committee members have been in their job an untoward long period of time. As you remember, John (inaudible) was Chief Operating Officer only three years ago. But I don't think you'd be asking the question if we happen to be -- we didn't happen to be one of the very rare companies that have a mandatory retirement age. I think the Board took a clean-sheet approach and they decided they have the discretion to waive it or not, what was in the best interest of shareholders. And they believe that the continuity of the current leadership team with me as CEO was in the best interest of shareholders. It's not a referendum on the capabilities of the executive committee members.

Q - Jay Gelb {BIO 21247396 <GO>}

Of course not. Okay, thanks for clarifying that. Have there been any changes in Chubb's reinsurance buying strategy?

A - John Finnegan {BIO 1735942 <GO>}

No. Again, it's (inaudible) we don't buy all that much reinsurance. We tend to be more of a gross-line underwriter. Our CAT program and most of our other major property programs don't come up for renewal until April 1, and so no changes to speak of.

Q - Jay Gelb {BIO 21247396 <GO>}

Okay. And then last issue, with Chubb on track this year in terms of share buybacks plus dividends to turn around $1.3 billion in capital, and the Company also on track to generate probably at least $1.7 billion in retained earnings, I'm just wondering why the share buyback phase isn't a little more significant compared to, say, the $2 billion that Chubb was doing back in 2010.

A - John Finnegan {BIO 1735942 <GO>}

Again, you know we -- when we announced our program back in January, we did say that, as a guide, the size of the program was roughly equal to at the time what we thought our projected 2013 operating income less shareholder dividends was going to be. However, the size of the program is not intended to simply adjust automatically based on our quarterly results or our earnings expectations change.

In fact, our expectation for earnings is only one of the factors that we take into consideration when we set the size of the share buyback at the beginning of the year. Other things we think about include our capital position, our valuation for the prevailing insurance market environment, and portfolio investment opportunity cost. And so for example, as you know, the recent rise in interest rates (inaudible) come off a little bit recently have negatively impacted our excess capital position by reducing the size of the unrealized appreciation of our bond portfolio. Although this is partially offset by the positive impact of higher rates on our reserve discount.

So, putting all those pieces together, as a result, we believe that our current program is a sizable program which appropriately balances all these considerations, including the economic opportunities we see in the market with the retention of a strong capital position. And, as I mentioned earlier, we would expect that our Board will review our future buyback plans again in January.

Q - Jay Gelb {BIO 21247396 <GO>}

Great. Thanks again.

Operator

Vinay Misquith, Evercore Partners.

Q - Vinay Misquith {BIO 6989856 <GO>}

The first question is on the competitive environment. Just curious as to what that is on the commercial line side. And curious about whether you think you have achieved adequate rate on your entire book. And so, will you be pushing for rate in excess of lost cost trends next year?

A - Paul Krump {BIO 5211397 <GO>}

As I mentioned -- Vinay, this is Paul. Why don't I talk a little bit about rate adequacy and then touch on the competitive environment a little bit. But as I mentioned earlier, we've been working very hard to improve the overall quality of our book of business and move it closer to being rate-adequate. This has entailed all of that differentiated renewal rate increases, disproportionately non-renewing worst performers, trying to retain more of the better performers, and finally writing the bulk of new business in the segment scenarios where we believe the rates are at or close to being adequate.

You know, however, given the current catastrophe loads, we're not just talking about Third Quarter. You've got to really look at the last five or six years and what's going on out there as it respects to the weather. I would suggest that, given those CAT loads as well as today's low reinvestment yields, it really shouldn't be surprising to anyone that the overall book is still not currently at adequate rate levels to achieve our long-run ROE targets, again, using new-money yields. Even when we achieve our long-run target, Vinay, we touched on this before. You know, we've got that lost cost trend out there so we're going to be pushing very hard.

So we feel good about all the improvements in the overall book of business. We think the market environment has certainly helped us a lot in the last couple of years. We think the market environment continues to be quite good, certainly very good in the Professional Liability line. But we're going to keep driving for rate increases across the board, but we're going to differentiate them and do them on a granular account-by-account basis.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure, fair enough. That's helpful. The second question is on the personal (inaudible) side. You guys had very strong growth this quarter on the personal auto side. Could you help me understand what's happening there, please? Thanks.

A - Dino Robusto {BIO 15021398 <GO>}

Yes, hi -- Dino. Obviously, quite pleased with our progress in growing auto. And, more specifically, really cross-selling to our homeowners customer in the US, which has been a strategy of ours so that now we're getting both growth internationally, which we had been getting for several years, and also domestically. It's really -- it's a function of the continued investment we make in our sophisticated segmented auto-pricing tool that I'd referenced before called Panorama. It's really allowing us to bring a high-quality product and service offering at a competitive-enough price level that's attractive to our targeted niche, which is the high net worth, a very specific niche. Given that today, we only have roughly a third of our Chubb homeowner customers have auto coverage with us, we have a lot more opportunity and so we're going to continue to push that strategy going forward and continue to invest in our sophisticated analytics.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure, that's helpful. Thank you, very much.

Operator

Michael Nannizzi, Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thank you, very much. Just kind of running some quick numbers and please let me know if these are wrong. But it looks like if you don't include development, the ROE is probably somewhere in the 11%-ish range. And then if we adjust for new-money yields, we're probably closer to the high single digits, maybe very low double digits. I'm just wondering like, in terms of now being an opportunity to grow, is it that you see the ability to -- as maybe Paul was mentioning before, to adjust the profitability in the book from here so that on the forward, that ROE starts to gradually improve? Or how should we think about lining those up? And again, let me of my math is wrong because it certainly could be.

A - Ricky Spiro {BIO 15061279 <GO>}

It's Ricky. Let me just put the math in perspective. If you take the X-CAT accident year ROE that we had in the quarter of 88.6, add on top of that a normalized CAT load whatever that is -- and you know what we've generally assumed for CATs as we put out our guidance at the beginning of the year, as an example. You do get to an accident year ROE on the business we're writing today that is high single-digit, low double-digit. And to put that in perspective, we have an ROE target of 10% plus the cost of inflation over time. So, generally, we think of that ROE target as being higher than that number, and that's the reason, as Paul mentioned earlier, that we're still pushing hard on the rate side because we are not at rate adequacy.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it, got it. And then so as far as Professional Liability book is concerned in particular, I think that one is one where you've done a great job getting rate and certainly the profile of the book has improved significantly. But that one in particular you're growing now. And it looks like if all of that development in that segment is in Professional Liability, you're still right at around 100%. So is that -- now, I'm guessing that the good business that you are writing and keeping and then the bad business that you are -- or the less good business, I should say -- that you're taking a lot of rate on and maybe losing some of is going to allow you to bring that number down more rapidly than it's come down so far? Is that fair?

A - John Finnegan {BIO 1735942 <GO>}

Let me talk. This a little nuanced. I mean, the fact is that we did have some positive development assurities[ph] to begin with. So probably running high 90s[ph] accident year combined ratio right now. But you shouldn't compare that to the first two quarters; it's a little bit better, but a lot of that is seasonal and expenses, and there's a point here, point there. But it's not going to prove during the current year because we don't get enough feedback. We established it based on what we think rate will be, what we think loss trends will be. We get very little data on the current accident year. So it's kind of what it is; it's running 98[ph] now.

Now, if I look at it compared to last year, our loss ratio is about 4 points better than the same quarter last year. So that's an improvement. I look at the rates we're getting, and what we see is very manageable -- all of a sudden much more manageable lost cost trends. And I think that we're talking about -- we're hoping that by next year, we'll be in the mid-90s on an accident year basis in Professional Liability. Now, time will tell; if we get the kind of rate increases we're getting this year, we should definitely be there. That's a pretty significant improvement.

And while we'd like to be in the low 90s[ph], this is a line that we try to reserve appropriately for and precisely for, but it is a line. For seven years, we've run pretty substantial favorable development in this line. So one could argue we do end up -- we're a pretty conservative Company.

In terms of growth, I wouldn't get overwhelmed. Growth was 4% in the Third Quarter; it's been 2% year to date. That's hardly a heckuva lot of growth. When you -- what you're talking about is we'll get 8 points of rate. So 8 points of rate and 2 points of growth is not growing a lot. Now, to be fair, we're not getting 8 points of rate worldwide; we're probably getting 6. But it's still a lot more than the 4% growth, even. And so we're not really -- this isn't growing that much. And we've gone through a number of years, it was negative growth.

So the answer is we hope to grow it a little bit more, we think that this business will perform better than maybe we're booking it at. You won't see that on the current accident year. You've seen some improvement in the current versus last accident year, and I think you'll see some fairly significant improvement going forward next year in our accident year combined ratios and Professional Liability.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Great. Thank you, very much.

Operator

Josh Stirling, Sanford Bernstein.

Q - Josh Stirling {BIO 17463087 <GO>}

Thank you for taking the call. And congratulations. Obviously, a good quarter and (inaudible) strong results from a lot of hard work. The question is you were just(inaudible) moreso the -- sort of the transition, I think, from -- it sounds like it has been sort of (inaudible) but particularly notable sort of profit take -- sorry -- rate-taking at the expense of volume over the past couple of years. You are starting to (inaudible) obviously. You're still shrinking units. The new business ratio is coming back up. It sounds like maybe you're going to be a bit more balanced in the rate-taking. Should we think about you guys actually maintaining flat units or actually having a chance to grow more in CCI and CSI next year for 2014?

A - Paul Krump {BIO 5211397 <GO>}

This is Paul, Josh. Why don't I take a stab it at that. First of all, when we talk about the improvement in the new-to-loss ratios, I want to be fair and point out candid here that some of that improvement is definitely coming from the increase in retention. Clearly, as the renewable book is improved and we've done all that calling, we see in need -- a desire to be able to hang onto a lot more business. So that certainly is something that we are mindful of.

That said, I don't want to put too much emphasis on that because in any given month or even a quarter when you start talking about Professional Liability or CCI lines[ph], you could lose a deal or a couple of large deals and that can move your number a little bit. But, clearly, as the markets continue to improve, and they are, there are more opportunities for us to be able to find good business.

When you look at workers' compensation as an example within CCI, half of the new business that we wrote came from accounts that we already had the package and auto and comp on. So we're able to round out as workers' compensation rates move up. The other half, obviously, is coming from the rate increases on the rentals. But, clearly, the market and some lines coming closer to what we think is good pricing, solid pricing, and we'll take advantage of that whenever we can.

Q - Josh Stirling {BIO 17463087 <GO>}

That's helpful. I wonder if we could also just follow up on the point I think John made earlier about pricing isn't going to go from 8% to zero. One of the dynamics I've been interested in is simply just the Fourth Quarter is the first time that customers have started getting rate increases of any material size in the Third Quarter -- the Fourth Quarter of 2011. This will be the third time you'd have to have some sort of rate increase. And I'm wondering how you're communicating around that issue with your underwriters and in conversations with brokers, how you're sort of trying to keep everybody focused on driving pricing while hitting these sort of mid to high single-digit levels that have been down for some time.

A - John Finnegan {BIO 1735942 <GO>}

Let me clarify my comment. I didn't mean rates aren't going from 8% to zero. I don't think they are, but I think (inaudible) in answer to the question as, would we expect to see lower rate increases (inaudible) of the improved quality of our book. And I'd say yes, we would expect directionally to see them. I said, but you know, the quality of the book only is going to bear a certain burden in that area. You're not going to see rates go from 8% to zero just because you have an improved quality of the book. That would take a significant swing in the market.

And I'll turn it over to Paul for the second part of the question.

A - Paul Krump {BIO 5211397 <GO>}

Yes, Josh I spend a lot of time with clients and brokers out there, and clearly this is a topic of gee, now we're going into whatever the third round of rate increases or something. Not to sound glib, but I don't remember that conversation ever happening after seven rounds of rate decreases in the past. So that's the first thing that I'd kind of to toss out there.

But, again, better underwriters are really doing a lot of segmentation of their book of business, and they're looking back at the history of the account. You walk into a client and you -- and an agent, and you explain to them what the history of their customer has been, where their price decreases have been over the years, where the price increases have been, what's actually happened. And then you start talking to people honestly about lost cause trend.

And maybe you'd be in California and talking to people about their workers' comp and pointing out to them that their lost cost trend there is in the high single digits. So they know what's happening in the marketplace. They know what's happening with the weather. They know about low interest rates. So you try to build on the fact that you're being logical and you are trying to be fair in what you're asking for.

I would say overwhelmingly our producers and agents support us, a lot of the clients obviously support us, and -- you know, but you don't win them all.

Q - Josh Stirling {BIO 17463087 <GO>}

Great. Well, thanks for the color, and good luck this season.

A - Paul Krump {BIO 5211397 <GO>}

Thanks.

Operator

Greg Locraft, Morgan Stanley.

Q - Greg Locraft {BIO 4221265 <GO>}

Good evening and congrats on an excellent quarter. Wanted to just ask about the guidance today relative to January. As I look at it, you guys are -- the midpoint of your current range is $1.35 above the midpoint of the January range, maybe 30-something cents is due to catastrophes coming in lower than you thought. So perhaps that's some degree of luck. But really there is a buck[ph] or so where you guys are just beating numbers. And it doesn't seem to be in share count and net investment income, it's just underwriting. And so my question is what -- relative to what you thought the world would be in January, what has broken so demonstrably better in the projection versus today? And then, obviously, what does that mean to 2014? How do we think about 2014 then as well?

A - John Finnegan {BIO 1735942 <GO>}

I think in broad terms, we've got a benefit from (inaudible), you're right. We achieved rate -- we weren't as certain going into the year we get the kind of we got. And that was an improvement, so margin expansion continued. Also though, as we said on a number of calls, we've benefited from some good fortune in the terms of losses being below trend lines, whether it be non-cash related weather; fire losses, especially in -- you see that in homeowners to some degree. You've seen a terrific year in terms of large losses in the property line. We just had a substantial benefit. So some of that is luck.

And also you've seen a lot of development -- development at last year's levels, which you probably wouldn't have -- we definitely didn't anticipate coming into the year. (multiple speakers) 2014, I think you got to make your own judgments. You guys can project out margin expansion, although you only have half of the puzzle. You have this year's rates, half of which will go into 2014. You have to anticipate what 2014 rates will be to come up with a margin expansion idea.

You probably have to believe that there's going to be some reversion to the norm in terms of large losses and good fortune. And you can make your own judgment on where favorable development should be. I assume 2014 will be a good year, but I can't -- other than directionally, I really -- we've had a lot of good things happen this year and don't know if they'll all happen again next year. But the baseline trend, the longer-term trend, is positive, at least in today's market with the rate we're getting.

Q - Greg Locraft {BIO 4221265 <GO>}

Right. The biggest thing, John, I'm trying to get is just the sizing of the non-CAT large losses that you mentioned. Any kind of sense year to date how much better that's been in terms of combined ratio points?

A - John Finnegan {BIO 1735942 <GO>}

No, it hasn't been inconsequential. It depends if you add homeowners and things like that. Probably a point, I'd say. I'm just -- maybe a point.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. And, again, so you have your normal CAT load; you have your point there. And then you start to build it off of that for next year. Okay. That makes sense.

Next would be maybe for Ricky, just on net investment income. It's kind of coming into where you said it was going to be. You know, at what point can we actually see the net investment income decline to begin to abate? Just how does the roll work from what's coming off versus what's going in?

A - Ricky Spiro {BIO 15061279 <GO>}

Yes, it's obviously -- it's a little complicated because there are a lot of other pieces to the puzzle than just the reinvestment yield. You have cash flows, you have buyback; and things impact that. And without giving you specifics, I think as we look out, I think certainly we would expect that over the next year and maybe the next two years, you will see a decline still on investment income, but it will be at a much smaller percentage decline than it was this year. As the portfolio has been rolling over the last few years and the overall book yield has been coming down as it relates to the fact that we been reinvesting for two or three years now at lower rates.

So you will still see a bit of a decline, but it should be a smaller decline than what we've seen this year.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay, very clear. And then last is just -- on the buyback, is there any level at which you wouldn't buy back your stock? I mean, the shares look to be at about 1.5 times book or so, and continued evaluation keeps rising.

A - Ricky Spiro {BIO 15061279 <GO>}

Yes, always a good thing that the evaluation keeps rising. We have no bright lines regarding valuation, and there's no single price or multiple that currently makes us uncomfortable. In our view, the intrinsic value of our shares, which ultimately impacts our share repurchase decisions, is a moving target as macroeconomic industry and certainly Company-specific dynamics continue to evolve. And as good stewards of our balance sheet, we constantly review our alternative investment opportunities and other uses for excess capital. And we understand that at some share price level, it may theoretically make more sense to pursue other capital management options. At this time, however, we remain committed to returning excess capital to our shareholders, and we still perceive attractive economic opportunities in repurchasing our shares at the current stock price. So the answer is we don't see that point where we sit today.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay, so steady as she goes there. But you mentioned other things you can do sort of to my mind as a special dividend. What are some of the other things you could do with excess capital if the valuation went to some insane level?

A - Ricky Spiro {BIO 15061279 <GO>}

Well, obviously, you mentioned that. Clearly, the number-one priority for us and anyone running a business would be to reinvest in the business if we saw significant growth opportunities.

We happen to be in a position today where we think we have enough excess capital to support any growth in the business as well as continue our buyback programs. But should we find ourselves in a period where we see significant growth opportunities, we would certainly be willing to reinvest. Now, bear in mind, we went through the whole rate adequacy discussion earlier, so where we are today, there's certainly (inaudible) maybe some growth opportunities on the margin, we certainly don't see that significant growth opportunity.

And then lastly, one that John has talked about in the past, mergers and acquisitions, that's not something that's high on our priority list. So our priorities would be to invest in the business and then return any excess capital to shareholders.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. Great. Well, congrats again on the awesome results and glad to see the team is intact the next three years at least.

A - John Finnegan {BIO 1735942 <GO>}

Thank you.

Operator

Paul Newsome, Sandler O'Neill.

Q - Paul Newsome {BIO 1541286 <GO>}

One of your competitors mentioned new competition in surety, and I wanted to know if you had seen the same thing. They were complaining about some levels of competition, maybe a couple of crazy competitors. Are you seeing that with your business?

A - Paul Krump {BIO 5211397 <GO>}

You know, people always love to complain about the competition. This is Paul. We certainly know that there are some new entrants into the marketplace in surety. We really -- we really -- we're not into the homebuilders market. We're not into the smaller guys. Our surety book is really a pristine list of contractors at the high end. There's really only a handful of players the specialty surety brokers go to and we're one of them.

So, no, we really -- we know they're out there but we really don't bump into them, and they're not used to stalking horses for the major contractors -- the major contractors don't look to them.

Q - Paul Newsome {BIO 1541286 <GO>}

Terrific. And then I wanted to ask on the new accounting system that the FASB and ISAB has proposed. Do you have any thoughts, and will you be writing a comment letter?

A - John Finnegan {BIO 1735942 <GO>}

Yes and yes. You know, we've obviously followed the project over the years and we've been very actively engaged with it. Like many other companies in our industry, we previously indicated to FASB that we believe the US GAAP accounting and reporting model for P&C companies works well and is understandable for both preparers and users of the financial statements of insurance companies, and we continue to hold that same position. And we are concerned about the possible loss of usability and transparency that may result from this proposed guidance, and we'll continue to share our concerns on this proposal with FASB. Hopefully that addresses your question?

Q - Paul Newsome {BIO 1541286 <GO>}

You bet. Thanks.

A - John Finnegan {BIO 1735942 <GO>}

How about two more questions.

Operator

Jay Cohen, BofA Merrill Lynch.

Q - Jay Cohen {BIO 1498813 <GO>}

Thank you. A couple of questions. John, you have talked about for the nine months that obviously was a bit of luck with non-CAT weather or large fire losses. Did that aid this quarter's results at all, or was this quarter more in line with what you would have thought?

A - John Finnegan {BIO 1735942 <GO>}

I would say in the homeowners business, the GAAP closed a little bit in the Third Quarter so it wasn't unusually low either in non-CAT related weather or fire. It's a little bit better year to date, but property and marine still benefited from low large losses.

Listen, we want to take that if for some of it we've had some good underwriting action , but we can't take credit for all of it.

Q - Jay Cohen {BIO 1498813 <GO>}

No, fair enough. And then the other question was -- on the favorable reserve development, I'm wondering if you could give us a bit more color as far as what lines of business and what accident years that was coming from.

A - John Finnegan {BIO 1735942 <GO>}

Our overall favorable development is pretty easy -- it was brought the favorable across all the accident years this quarter and actually for the nine months too, including the nine months of strong contribution for accident year 2012 driven by much better than expected results in commercial property.

A - Ricky Spiro {BIO 15061279 <GO>}

And Jay, if you want a little more color behind each of the business units in CPI, all three of our lines were favorable in the quarter. In CCI, all four lines contributed some favorable development, and most of the favorable development was in the property, marine, and package area including some favorable CAT development. In CSI, both Professional Liability and surety were favorable, and the favorable development in Professional Liability was driven by D&O and fiduciary. And as I mentioned, in our reinsurance assume business, it was an insignificant amount this quarter.

Q - Jay Cohen {BIO 1498813 <GO>}

Thanks for the color, Ricky.

A - Ricky Spiro {BIO 15061279 <GO>}

Sure.

Operator

Brian Meredith, UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Just one or two quick ones here. First, Paul, just wondering the casualty combined ratio has been kind of ticking up the last couple of quarters and is at kind of highest level it's been in it looks like in a couple of years. Anything going on there?

A - Paul Krump {BIO 5211397 <GO>}

Let me start by pointing out that the year-ago Third Quarter result of 89.2 in casualty was unusually good compared to the surrounding quarters. So we've got tough comps there. And that was good due to the substantial amount of favorable development in the excess umbrella class. We saw some continued favorable development in excess umbrella in this year's Third Quarter, but just not as much.

In addition, in this quarter we did see some largely offsetting adverse development in the other portions of casualty, and that was really driven particularly by the general liability class where we had one claim with some large unexpected development on it. So that's really what's behind all that.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thanks. And just want to go over the personal lines. On homeowners insurance, I'm just curious, are we getting close to where kind of rate adequacy and are -- have we seen any kind of policies (inaudible) growth there or is that kind of been flattish declining? And are we at a position where we might start see that grow again?

A - Ricky Spiro {BIO 15061279 <GO>}

Yes, so as I indicated, our policy enforced growth continues, right? It was up on homeowners -- went up on 3 points. In terms of rate adequacy, we're going to continue to file an average about mid-single-digit increases for homeowners, about low single digits for auto, and obviously these vary granularly by geography. That's really just a function of the fact that we've had a lot of increased weather in catastrophe activity, and as Paul indicated earlier, every year you've got your lost cost trend above 4 points running on homeowners.

So we're going to continue to push that forward. Our retention, as I indicated in our opening comments, holding up really well in auto and even on homeowners really over the course of multiple years of price increases. It's really only moved down less than a point.

So, we think in the face of our rate increases, we're holding our own really effectively and we'll keep pushing it.

Q - Brian Meredith {BIO 3108204 <GO>}

Has the competitive landscape increased at all in that area? Like (inaudible) out there is a bunch of guys.

A - Ricky Spiro {BIO 15061279 <GO>}

There's been a couple of new entrants in the high net worth space over the last few years. And it's clearly generating a little bit more competition. Having said that, I think it's important to realize that the high net worth business is really -- the majority of it is not with a small number of high net worth specialists including us. Rather, it's with a lot of even direct writers more likely simply driven by the fact of their sheer size. So, we focus on delivering our superior product and service really across its broader competitive landscape rather than focusing on any one competitor. And we've been very pleased with our strong performance, notwithstanding really any change in the competitive landscape. So, steady as she goes.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, thank you.

A - John Finnegan {BIO 1735942 <GO>}

Thank you, everyone. Thanks for joining us tonight and have a good evening.

Operator

This concludes today's conference. We do thank you all for your participation.