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# Q2 2020 Earnings Call

## Company Participants

- Evan G. Greenberg, Chairman and Chief Executive Officer
- John Lupica, Vice Chairman, Chubb Group President, North America Major Accounts & Specialty Insurance
- Karen Beyer, Senior Vice President, Investor Relations
- Paul J. Krump, Executive Vice President, Chubb Group President, North America Commercial and Personal Insurance
- Philip V. Bancroft, Executive Vice President, Chubb Group Chief Financial Officer

## Other Participants

- David Motemaden, Analyst
- Elyse Greenspan, Analyst
- Gregory Peters, Analyst
- Mike Phillips, Analyst
- Paul Newsome, Analyst
- Ryan Tunis, Analyst

## Presentation

### Operator

Good day, and welcome to the Chubb Limited Second Quarter 2020 Earnings Conference Call. Today's call is being recorded. (Operator Instructions).

For opening remarks and introductions, I would like to turn the call over to Karen Beyer, Senior Vice President, Investor Relations. Please go ahead.

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

Thank you and welcome to our June 30, 2020 Second Quarter Earnings Conference Call. Our report today will contain forward-looking statements, including statements relating to company performance and the impact of the COVID-19 pandemic and its economic and other effects, pricing and business mix and economic market conditions, which is 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 for more information on factors that can 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, I'd like to introduce our speakers today. First we have, Evan Greenberg, Chairman and Chief Executive Officer, followed by Phil Bancroft, our Chief Financial Officer. Then we'll take your questions. 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 G. Greenberg {BIO 1444445 <GO>}

Good morning. COVID-19 is an event of historic proportions, impacting societies and the economies globally. This hit businesses and individuals hard and the impact will be with us for some time.

Chubb has and is performing well, while naturally shouldering our burden of responsibility supporting our insured, both businesses and consumers. COVID-19 is a slow rolling global catastrophe, impacting virtually all countries. Unlike other natural catastrophes, it has no geographic or time limits and the event continues as we speak.

Together the health and consequent economic crisis will likely produce the largest loss in insurance history, particularly considering its worldwide scope and how both sides of the balance sheet are ultimately impacted. We pre-announced a few weeks ago an after tax COVID related loss estimate of $1.2 billion which essentially caused us a quarter of earnings. This loss is an estimate of our ultimate loss from the pandemic and economic crisis, based on everything we know and then project. The estimate does not include for the most part, a credit for potentially lower current accident year losses from a decrease in exposures except for a very modest amount.

Looking beyond this quarter's catastrophe losses and the shadow it cast is an important story to tell about our company. Our underlying health and vitality are excellent and we are capitalizing on current industry, commercial P&C conditions.

Our published P&C combined ratio was 112.3% with a total after-tax charge of $1.5 billion, including $353 million of natural catastrophe and civil unrest-related losses.

Separately, we took an after-tax charge of $205 million in unfavorable prior period development with child molestation related claims emerging predominantly from reviver statutes that into effect last year.

On a current accident year basis, excluding cats, the combined ratio was 87.4%, a 0.5% improvement over prior year with current accident year underwriting income up over 18% and constant dollars. The loss ratio was essentially flat with prior, while the expense ratio was down 1.5 points. We benefited from expense saves due to the shutdown as well as our ongoing efficiency efforts while we continued to invest in important areas to improve our competitive profile.

In the quarter, book value benefited from actions taken by the Fed to support the economy during this exigent time, which positively impacted asset values that will pressure future investment income.

Per share book value grew about 5%, while tangible was up over 7%, both are now essentially flat for the year.

Phil will have more to say about investment income, book value, cats and prior period development. Broadly speaking, two themes impacted growth in the quarter. On the one hand, shrinking exposures from the decline in economic activity weighed negatively on growth; and on the other hand, favorable commercial P&C underwriting conditions contributed to growth.

In the quarter, P&C net premiums grew 1.4% in constant dollars. Growth was impacted due to a one-time charge we took to estimate the ultimate impact on premiums that we will incur from exposure adjustments on in-force policies due to a reduction in economic activity.

Excluding the charge, which is a better way of viewing our underlying quarterly growth, we grew 3.9%. This is made up of 9.1% positive growth globally in commercial P&C and 6.3% negative growth in consumer lines which includes A&H travel and personal lines.

In the quarter, we continued to experience favorable underwriting conditions in commercial P&C, which vary by geography and product line. The commercial P&C pricing environment is particularly strong in North America, the UK, the continent of Europe and certain locations in Asia Pacific and it continues to spread further in North America, which includes the US, Canada and Bermuda. Commercial P&C net premiums grew 10%, adjusting for the one-time premium charge I just mentioned. And on the back of strong new business growth and premium retention, with our major accounts and specialty business, growing over 12% and our middle market and small commercial business growing 6.5%.

In our international general insurance operations, commercial P&C net premiums grew over 5.5% in the quarter in constant dollars. Chubb global markets, our London wholesale business grew over 20%, while our commercial P&C business in Continental Europe grew nearly 16%. In those markets where we grew, we continued to achieve improved rate to exposure across most all commercial product lines.

Overall rates increased in North America Commercial P&C by 14%. In major accounts and specialty, rates for property were up 21%. Casualty rates were up over 25.5% and financial lines rates were up over 18.5%. In our middle market business, rates for property were up 18%. Casualty rates were up over 12 excluding workers comp. The comp rates were down 1% and finance lines rates were up 14.5 % in the middle market.

In our international general insurance operations, rates were up 16% in our international retail business and 20% in our London wholesale. Consumer lines growth globally in the quarter was severely impacted, given the pandemic effects on consumer-related activities.

Our North America personal lines business was an exception, as we experienced flight to safety and quality in our high-net-worth segment. Net premiums written in the quarter were up 2% on an adjusted basis and retentions remain very strong at almost 97%.

In our international personal lines business predominantly auto, home and cellphone, premium shrink 12.5%, while our global A&H premiums, US and international, together were down 13.5%.

Our Asia-focused international life insurance business, however, had a good quarter with net written premiums up 30% in constant dollar.

In sum, to provide you a better perspective, though we typically provide limited guidance, we expect Chubb will have on a published basis positive premium revenue growth for the full year. John Keogh, John Lupica, Paul Krump and Juan Luis Ortega can provide further color on the quarter, including current market conditions and pricing trends.

As a company in the globe, as a normal company during extremely abnormal times depending on where you are in the world with the exceptions a substantial portion of our international staff is back in the office on any given day. This includes most of Asia Pacific, where about 50% are back in the office; and in some countries, 100%. Europe where with the exception of Spain and Italy, 25% are back. And while the UK remain closed, we expect about 20% to 25% to return in (technical difficulty) and ready to begin our return to office in the US but took a pause, given the increase in infection rates in many parts of the country.

Among developed countries in the world, the US stands out in its inability to manage the health crisis on a national basis. And this is damaging our economic recovery and our image globally. Where conditions have stabilized in the US like the Northeast, we've begun to bring employees back to the office for meetings, to collaborate, learn and plan. We are ready to return on a broader basis when conditions warrant. The health and well-being of our staff is of paramount concern.

Insurance is an essential service. We never stopped or even paused in providing coverage, paying claims or providing risk engineering and other services to our customers and clients. We are very active on a daily basis with our clients and distribution partners globally, and we have done so with service levels that are virtually the same as we provide normally.

I'm going to say a few words about the business interruption issue that I know is on the minds of many. As you know, the insurance industry is under attack by the trial bar [ph] over business interruption claims. They represent many businesses which purchased BI coverage that does not provide cover for pandemic and these customers are understandably disappointed and upset. Plaintiff attorneys are attempting to torture or reverse engineer insurance contract language to conjure up business interruption coverage that for the most part simply doesn't exist.

Coverage for a pandemic was never contemplated in standard business interruption policies and therefore no premiums were ever charged for that risk. In fact, state insurance regulators who approved the policies have been clear that this risk is not covered and that the industry could not cover the massive open-ended tail risk of a global pandemic because it threatens the industry solvency.

Without the federal government playing a major role to cover the tail risk, pandemics are simply under uninsurable on a broad basis.

Standard BI policies which are an addendum to a fire policy required direct physical loss or damage to the property, for example, if fire or flood damages the property and prevents the business from operating while repairs are being made.

COVID-19 does not cause physical loss or damage to a property, despite the trial bar's efforts to influence some government officials in the wording of their civil, public shutdown orders.

Though it doesn't cover pandemic, standard BI coverage provides good value for the money. We estimate the industry pays out about $0.70 in insurance claims for every business interruption production dollar collected, with most of the remaining amount paid in commissions, premium taxes and other expenses.

For Chubb, in addition to our normal losses this year, we will pay BI claims for policies that specifically covered certain pandemic-related shutdowns, such as those for the entertainment industry. We care deeply about properly supporting and servicing all of our policyholders and I have particular sympathy with the millions of businesses that have suffered terribly during the pandemic-forced economic shutdowns, but it would be wrong, in fact, catastrophic and irresponsible to pay the claims of those who didn't have coverage and in fact didn't pay premiums with a coverage by using funds that had been properly reserved for the legitimate claims of the vast majority of our P&C policy holders who number over a 100 million globally.

To provide some context, in 2019 Chubb paid $24 billion on approximately 4 million property and casualty claims. Again, to pay billions of dollars in uncovered claims by rating the reserves or capital needed, to pay claims on other kinds of policies such as auto and home, commercial insurance exposures, respond to natural catastrophes, such as hurricanes and wildfires would be irresponsible to the vast majority of our policyholders and to our shareholders.

Beyond the business interruption challenges of the current COVID-19 crisis the insurance industry has an important role to play in society and in the economy. And that includes fully participating in the development of a prospective future pandemic business interruption solution to crises arise.

Earlier this month, Chubb released its pandemic business interruption program, designed to mitigate the economic disruption and losses in the event of a future pandemic. Our framework is not the first plan to be introduced, but the public-private partnership framework we develop has important differences from the other leading proposals. By sharing our ideas and approach, we hope to spark and influence a productive debate on a solution that will work for businesses of all sizes, taxpayers, our industry and the economy more broadly.

First and foremost, I believe the industry can and should take pandemic risk, along with the government. This is a peril that can be covered to a greater degree than we do today as long as the tail exposure is covered by the government. It is our job to figure out how to do that.

We can do more than simply play an administrative role where we belittle ourselves and we're less relevant than we can or should be. The framework we announced has attributes that we believe will make for a successful program. It accounts for the different needs of small, medium, and to a modest degree large businesses.

Premium for small business will be affordable and they will be paid quickly. Large companies would pay a fair and risk adjusted price to both the government insurers per pandemic cover in a program built on free market principles. The government gets paid for the use of its balance sheet. It's not a hand out to larger companies.

Our framework has incentives for broad participation by the industry and by committing insurance industry capital and providing opportunity for increased risk sharing over time as direct and secondary markets develop, the pandemic burden shouldered by the government will ultimately be lessened to a degree. This is an important issue for our nation. We look forward to contributing to the dialog as policymakers work to refine the most effective solution.

Before I turn things over to Phil, I want to say a few words about an issue that concerns all of us, and that's the persistent challenges arising from bigotry, racism and the racial injustice in society, particularly for Black people. The events that unfolded across our nation these past few months has focused our attention on what we should do as citizens and as a company. We characterize Chubb's culture as an inclusive meritocracy. We earnestly strive to achieve an environment where all colleagues feel comfortable to perform to their full potential and are recognized for their contributions. It's a never ending work in progress and we can do more.

We developed and recently shared with our employees an action plan to which we will hold ourselves accountable. The plan has a few simple objectives. We do want to enhance our individual and collective understanding of racism in society and strive within Chubb to be anti-racist in our behavior as individuals and as an organization. We want to actively support each other. It starts with more frank dialog between our employees of color, particularly Black colleagues and our White colleagues to create better understanding and awareness about the realities of racism.

We will hold leaders more accountable for curating and leading an environment of inclusion and will eliminate policies and practices that potentially create bias and inhibit our ability to create greater racial mix of our workforce at all levels of the company. This is an enduring process, not a momentary event in time. We believe we have a responsibility to do our part with candor, open minds and a commitment to change.

In closing, our company is very strong. Our balance sheet is in excellent shape, in fact, outstanding shape. And we are operating well around the globe during very difficult times. Our underlying strengths are enduring. And we are capitalizing on favorable market conditions as we simultaneously navigate the extreme headwinds and uncertainty created by COVID-19.

With that, I'll turn the call over to Phil and then I'm going to come back and take your questions.



## Philip V. Bancroft {BIO 4621336 <GO>}

Thank you, Evan. Our financial position at quarter-end is exceptionally strong. COVID-19 is an earnings event for Chubb, while our balance sheet remains in excellent shape. Our balance sheet features a $112 billion AA-rated cash and investment portfolio with a duration of four years, a consistently conservative approach to loss reserving and total capital of $70 billion. We are a balance sheet business operating in an extremely uncertain times and we have maintained a conservative level of capital.

Our operating cash flow for the quarter was $2 billion and our liquidity on a global basis continues to be excellent. In the quarter, we returned $353 million to shareholders in dividends. Adjusted net investment income for the quarter of $857 million pre-tax was below our guidance range, mainly due to foreign exchange, lower rates on our floating rate obligations and an acceleration of prepayments in the mortgage loan portfolio.

We remain consistent and conservative in our investment strategy and do not expect to materially adjust the portfolio's asset allocation. We intend to maintain a high quality bias and conservative duration. Debt easing actions have inflated asset values causing a disconnect with underlying credit conditions so that many classes of debt appear mispriced. We will continue to focus on risk-adjusted returns and not reach for yield.

While there are a number of factors that impact the variability in investment income, we now expect our quarterly run rate to be in the range of 850 million to $860 million.

Turning to book value, per share book and tangible book value were up 4.9% and 7.2% respectively in the quarter. Our core operating loss and dividend payment were more than offset by net realized and unrealized gains for the quarter of $3.1 billion after tax including $2.7 billion in our investment portfolio, $410 million from favorable foreign currency movements, and $110 million mark-to-market gain in our variable annuity reinsurance portfolio. The gain in the investment portfolio is due mainly to the narrowing of credit spreads in our corporate bond portfolio and a decline in interest rates.

At June 30, our investment portfolio was at a net unrealized gain position of $3.4 billion after tax. Our net catastrophe losses for the quarter were $1.8 billion pre-tax or $1.5 billion after-tax as previously announced and are further detailed in our financial supplement. And net loss reserves increased $2.7 billion in constant dollars including the significant catastrophe losses and adverse prior period development.

The paid to incurred ratio was 59%, reflecting the catastrophe losses. We had unfavorable prior period development in the quarter of $75 million pre-tax or $52 million after tax. This included a charge for US child molestation claims of $259 million pre-tax or $205 million after tax as previously announced. The vast majority of these losses were reviver statute related. Excluding this charge, we had favorable prior period development in the quarter of $184 million pre-tax split approximately 79% in long-tail lines principally from accident years 2016 and prior and 21% in short-tail lines.

Our core operating effective tax rate for the quarter of 15.3% was impacted by the high level of catastrophe losses. Through six months, our core operating effective tax rate was 16.5%, slightly higher than our expected 14% to 16% range. We now expect our annual core operating tax rate to be in the range of 15% to 17%.

With that, I'll turn the call back over to Karen.

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

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



## Questions And Answers

### Operator

(Operator Instructions). And we will take our first question from Michael Phillips with Morgan Stanley. Go ahead.

### Q - Mike Phillips {BIO 21023048 <GO>}

Thanks. And thank you, good morning. Good morning everybody. Evan, thanks for those comments especially on the BI stuff. Appreciate that. I guess, can you talk about the impact that COVID and shelter-in-place is having on your acquisition expense ratio? And then longer term, maybe you've made some good strides in your expense rate in general even prior to global, so kind of how we should think about a good run rate going forward from there?

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

Yes. Let's say, the acquisition ratio benefits fundamentally from a mix of business change. You had consumer lines that as I said, had a negative growth to them and they run a higher acquisition costs than commercial P&C does and we're growing underneath, as you could see commercial P&C at a rapid clip. And it has a lower acquisition ratio.

The OpEx ratio did benefit reasonably well in the quarter from COVID-related shutdown and I expect that we'll continue to receive benefit from that as we go forward in future quarters. And so, overall, I think the expense ratio will continue to benefit in future quarters. How much and to what degree, I'm not going to prognosticate or give guidance on.

## Q - Mike Phillips {BIO 21023048 <GO>}

Okay. No, thanks. That's helpful. I guess, second question on COVID and frequency benefits on commercial line, can you talk about what specific lines maybe benefit the most from frequency benefits? And then with some of the reopening as we've seen recently, has there been any change in trends, certainly in the frequency that you've noticed that'll pick on because of the re-openings?

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

Yes, commercial lines, fundamentally, most classes of business in traditional property and casualty benefit to a degree and it varies by line of business from the COVID shut down on one hand. On the other hand, we took a massive charge to recognize the COVID-related claims that will arise. But excluding that, the frequency, when you take those away, the frequency and severity in most traditional lines will benefit and are benefiting at least to this point in time, because commercial activities are down and that would be both in the short-tail lines, as well as in the long-tail lines. But it varies by class, obviously, in professional lines to a lesser degree than, say, in general casualty or in excess casualty.

And as you know, our policy has always been, we recognize bad news early and we're very slow to recognize good news. And so, many of the benefit we might be seeing short term right now, for the most part, from the reduction in economic activity and the shelter in place and the lack of social activity around the world, we're very slow to recognize that and will be, because we are in very uncertain times and we don't know what the future is going to bring.

Secondly, what I would add is that overall in commercial P&C, for the most part, we are achieving rates that are in excess of loss cost trends, and again we're in uncertain times and we're conservative in our approach.

## Q - Mike Phillips {BIO 21023048 <GO>}

Thanks, Evan. I appreciate it.

## Operator

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

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

Hi, thank you. Good morning. My first question on Evan follows up on your response to the last question. You guys are getting a lot of price,14% within your North America commercial book picked up pretty nicely from where you guys were last quarter. Can you just give us a sense of where loss trend is within that business? And just, as we think, and I recognize you gave us some guidance on the premium side and you don't like to give forward guidance, but as we think about price up in the teens and depending upon where you're loss trend is, just trying to get a sense of the potential for margin improvement within that North America commercial book?

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

No, I understand. And, Elyse, I'm not going to give you much satisfaction in that question. We don't give forward guidance on that, as you know. And I'm going to rest on the statement that in most commercial lines areas, we are, not all but most, we are achieving rate in excess of loss cost trend which is reasonable to achieve a proper risk adjusted return in those classes and it is needed.

As far as where the exact frequency and severity of loss is and trend is over the last number of months, it's very difficult to tell and we measure it typically quarterly. But at this point, we measure it monthly. And because of the economic shut down, you really can't see what the actual is though it's lower. We do though price on anticipation of reversion to the mean as the economy opens back up and activity returns to normal. And I think I'm going to leave it at that, Elyse.

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

Okay, that's helpful. And I had a couple of other numbers question related to North America commercial. The last couple of Q2s you guys had some LPTs on the book that do typically lead to higher loss ratios. Was there any LPTs on the book this second quarter?

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

There were. And as you know, we write LPTs virtually most quarters. It's just the amount of it varies by quarter. And this quarter, we did have LPTs as we do in most quarters.

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

Okay.

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

And it was within a reasonable range of what we wrote last year in the second quarter. Last year was a pretty big quarter for LPT. This year, we wrote a number of transactions as well.

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

Okay. Great. And then within North America commercial, your retention went up to 84.5% [ph]. It had been trending in the high 70s. Was there anything specific to the second quarter or just as we think about maybe kind of a change in retention in terms of that book on a go-forward basis?

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

No, it's more of, the difference this quarter I would attribute more to a change of mix of business and what we wrote then, than I would to a major shift in the retention net to gross.

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

Okay. Thank you, Evan. I appreciate the color.

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

You're welcome.

## Operator

And next we'll hear from Ryan Tunis with Autonomous Research. Please go ahead.

## Q - Ryan Tunis {BIO 16502263 <GO>}

Hey guys, good morning. I guess, following up on that last one in North America commercial, there's clearly some cross currency area, the structured transactions, some COVID frequency benefits, but there is about 0.7 points of year-over-year, underlying loss ratio improvement. Evan, is that a fair representation of what you think the relationship is right now between rate and loss trend? Maybe, around that point, 0.7 points in North America commercial or is it higher than that you think moving forward?

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

As I said, Ryan, I'm not going to prognosticate future. We just don't provide guidance that way. I made a couple of comments that I think they're probably important to you. Number one, that we are achieving rate next in aggregate, in excess of loss cost trend. Secondly, we are -- we haven't noticed a major change in trend, but on the other hand, you know you're masked by all of the COVID-related impact. Number three, we have COVID-related benefit from the economic shut down given the period of greater uncertainty we're in, we are very slow and fundamentally haven't recognized good news, while we took what we think is a reserve to ultimate for COVID-related losses.

And so, in this period of time, I think you're -- and it is our policy. We were conservative in our underwriting and we're conservative in our balance sheet management. And in periods of great uncertainty, it puts a point on what is our normal policy to recognize bad news early and if there is favorable news to recognize it in a prudent way late.

## Q - Ryan Tunis {BIO 16502263 <GO>}

Understood. I guess my follow up is can you just talk a little bit about the COVID charge that you took? It's obviously conservative. If you ever have to add to it, what do you think the reason would be? Would it be another outbreak later in the year? Like, give us a sense of why, the degree of conservatism around that loss [ph] selection? Thanks.

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

We didn't do it in a conservative way. We pitched it right up the middle. We modeled what we think and we took from what we know of that others, economists will project from various organizations. We projected what we think the economic patterns are going to look like. We projected what we think from the best we know at the time, what the health situation is and will be and how the two work together. And therefore based on all the information we know today, we modeled both top down and bottom up particularly short-tail losses, longer tail, you have to model more top down and based on what we know of prior events and history and how things work, and so, we used all that based on the picture of economic and health as we can see it going forward from this pandemic event to project a loss to ultimate.

Did we get it precisely right? God knows. And is there risk around it? Of course, there is, because you tell me, whats' the next six or nine months precisely going to look like. No one knows. There is great uncertainty. But we did our best within uncertain times to try to reflect the ultimate loss on our balance sheet, our liabilities.

## Operator

And next we'll hear from Paul Newsome with Piper Sandler Investment. Go ahead.

## Q - Paul Newsome {BIO 1541286 <GO>}

Good morning and I hope you all are well. I was wondering if you could talk about how the business interruption claim issue has evolved not necessarily just in the US but outside the US. It looks like to me at least that the courts are trending in the industry favor so far in the US, but I don't have a great sense of how that's happening outside the US and how that might differ from the US.

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

Yes, Paul, it's very early days. The UK, for example, as you know, when you're following, I'm sure is in a process that is very interesting where the regulator has stepped in and to avoid like we have in the US, just a free for all of lawsuits and a waste of expense and time and money. They've kind of stepped in and are acting to represent the policyholders, all of their arguments, in one place before a panel of judges with the industry presenting its arguments and that one is going to unfolds and it's a very rational process. And by the way, if you haven't followed it, I would tell you, it really is worth doing. It's admirable how they're doing about it.

And that will unfold over a period of time and come to a conclusion if I recollect properly by around year-end.

In other countries such as Australia, et cetera, it's bubbling and you have a number of court cases that are just proceeding to test the veracity of the wordings that are against regulation that is quite different than in the United States. And then where the most activity is, and that will be on the longest, most prolonged period of time to resolve is in the United States.

## Q - Paul Newsome {BIO 1541286 <GO>}

My second question. We've seen a lot of rate increases in the reinsurance business. I was wondering if the changing market environment had changed your view on the fairly narrow approach you take in the reinsurance business overall?

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

Yes. In the main, we're pretty steady about it. We buy reinsurance fundamentally to be able to provide limits of liability beyond what we want to expose our balance sheet to. We buy it for protection of volatility where it makes sense. We measure all reinsurance. So we do it for fundamental business purposes and we buy reinsurance in a manner where we measure the risk reward and the proper risk adjusted pricing as what we're willing to pay for protection.

And so, those fundamental principles lead to a pretty steady approach. At the same time, obviously, when rates are not adequate to earn a reasonable risk-adjusted return, we shrink exposure as a company. When rates are adequate to earn a proper risk-adjusted return and may increase to a point where they justify greater volatility, we will increase our net exposures. And we do that alongside how we purchase reinsurance.

## Q - Paul Newsome {BIO 1541286 <GO>}

I'm sorry. I was thinking more about the actual reinsurance business that you have and whether you might be interested in (inaudible).

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

I'm sorry. I'm sorry. Yes. I got it. Yes. We are more active and in our reinsurance business, it is a greater growth area for Chubb now. We have like our E&S business, particularly in London, where we have been disciplined and shrunk for a number of years, because we were getting paid to take risk. We are getting paid more adequately take risk and in a number of classes, and that is growing by the quarter. And therefore, we are leaning into that.

And our reinsurance business, from what we can tell today, we'll continue to expand as we go forward.

## Q - Paul Newsome {BIO 1541286 <GO>}

Thank you very much.

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

You're welcome.

## Operator

And next we will hear from Greg Peters with Raymond James. Please go ahead.

## Q - Gregory Peters {BIO 3111497 <GO>}

Good morning. Just FYI, Evan, there is a little bit of feedback that we're hearing throughout the call. So I'm not sure what's going on there.

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

Yes. I am hearing it too.

## Q - Gregory Peters {BIO 3111497 <GO>}

Yes. We do so. It's mutual.

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

Can you still hear the answers? And can you still hear well enough though to get the information?

## Q - Gregory Peters {BIO 3111497 <GO>}

Yes, yes. It's coming through. Its just there is -- it's just, there is a little feedback somewhere in the system. So, in your prepared remarks, you offered to have some of the other executives provide some commentary around conditions, pricing, et cetera, in the respective segments of the business, and I was wondering if you could follow through with that offer?

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

Love to. Thank you for asking. I'm going to start with John Lupica on major and specialty. And then I'm going to have Paul Krump do middle market.

## A - John Lupica {BIO 4213297 <GO>}

Sure. Thank you, Evan. And thank you, Greg. Let me give you a little more color on what we're seeing in major and specialty. I'll start really with rate and premium retention. In our major portfolio, we're looking at over 16 points of pure rate increase in Westchester. Our E&S business, we're looking at 18 points of rate increase. And in Bermuda, our high access business, as you know, we're looking at 40 points of rate increase.

And when I break that down, and so, just some segments on the retail side, our primary casualty risk management business is getting some of its best rate in the history of the organization at 8 [ph] points rate and the adjusted premium retention ratio of 97.5% when I take into account one large front to trade [ph].

In our excess casualty book, we are getting 48 points of rate and achieving a 111 points of premium retention. And as Evan noted in our property business, we're getting 21 points of rate with 109 points of pure premium retention.

And in our financial lines again another note in the retail business that Evan had 18 point of rate and 103 points of premium retention. And we're seeing the same in our E&S lines of business. Our property business is getting 18 point of rate with 103 points of premium retention. Casualty book is getting 31 points of rate, with 87 points of premium retention. And our financial lines is getting 17 points of rate. So as you can see pretty healthy rate environment, the premium retention inside of the retail and E&S marketplace.

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

Paul Krump?

## A - Paul J. Krump {BIO 5211397 <GO>}

Yes. Hi, Greg. Good morning. I'll start out with the mono prop [ph] that Evan mentioned getting over 18 points of rate there. Our retention in that line of business is 95%, so just excellent. As respect to package, we're getting 6 points of rate and 97% retention. In our excess umbrella, we're getting over 20 points of pure rate increase and 94% retention.

Auto has got 11 points of rate on it in the last quarter, 99% retention. And our professional lines as Evan mentioned is at 14.5, and there, we're getting 98 points of retention.

As respects terms and conditions as briefly I tell you that obviously a lot of these rate increases were tightening terms and conditions. I'd say, in particular, we're pleased with where deductibles are going and how much they have increased. We've also been able to trim down some of the sub limits for the cat perils of flood and quake, as well on the excess umbrella, we've been working on attachment points and that's been going extremely well also.

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

There you go, Greg, more than you ever asked for.

## Q - Gregory Peters {BIO 3111497 <GO>}

Well, it's never enough. If you take all of those businesses that were just summarized with rather robust rates, what percentage of the total premium are we talking about just to put this in perspective, because not all of your business is getting these type of rate increases?

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

When I add in the international areas that are in a similar hard [ph] market conditions, it's over 50% of our premiums, globally. That means all the business, not just commercial P&C. It means of our total business.

## Q - Gregory Peters {BIO 3111497 <GO>}

Okay. Thank you. And then, obviously, it begs the question when we're hearing about the substantial rate increases, what's the commercial customer response to this because this is far exceeding inflation trends with the rest of their business and a lot of your commercial customers are experiencing pressures because of COVID and the economic slowdown or whatever you want to call it? I have to believe you're getting a lot of customer push back or maybe you could give us some perspective around that.

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

We're not. We're actually -- there is a lot of goodwill between us and customers. Look, why is this occurring? Because loss cost trends, even when they're benign have far exceeded premium rates charged for a prolonged period of time. Rates have gone in one direction while loss costs have continued to rise. And so, industry results overall are severely elevated and many lines of business just were so inadequate in pricing and it varied by company. If you were trying to gain market share at that time, well, it's coming home to roost and it will continue to come home to roost for a period of time. If you were more disciplined and shrunk exposure at that time, then it had less impact on you.

But rates are now moving in a direction where over time they'll achieve adequacy. And there are lines were adequacy is achieved. And there are lines were given loss cost trends and then you have on top of that, things like social inflation that have exacerbated trends means that rates need to continue to move higher.

The other dynamic about all of that is that companies are pulling back and capacity is less available. Chubb is stepping up. We're offering capacity. We're consistent to our customers that we're there. We're not in and out. We've been consistently speaking to our customers that, you know what, this is not going to last, the good times of of rates going down or premiums going down is irrational and it's not going to last and that we will remain consistent. It's the market that will wane and wax. Well, they understand and see that.

And by the way, as we can get more adequately paid and as capacity has shrunk, we've actually stepped up with bigger lines and bigger solutions and more creative solutions to customers. And so we're consistent in that service. And during this shutdown period, there is no company that has been more available to dialog and to be on the front line with customers and respond on a moment's notice globally than has Chubb.

So I would actually say our reputation and our image in all of this and the goodwill with customers has been building. And yes, I understand the notion that insurance pricing is going up, when all of this is going along with COVID, but that trend, which is very rational was occurring before COVID ever began and to deploy the capital, you've got to get paid adequately. And capital, risk capital is precious.

## Q - Gregory Peters {BIO 3111497 <GO>}

Thank you for the answers.

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

You're welcome.

## Operator

And we will take our final question from David Motemaden with Evercore. Please go ahead.

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

Thanks. Good morning. Just a quick numbers question on the current accident year loss ratio ex-cat and North America commercial. Just in the past you've talked about the impact that some of these large structured transactions have had on the loss ratio. I think in 2018-2019, in those second quarters it was around 100 basis points of an elevation in the loss ratio. Just wondering how I should think about that impact this quarter within North America commercial?

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

Yes, it had an impact on it. I can't give you an exact basis point number. It's one of those, so we could probably take it offline with you. But it had -- we wrote LPTs fairly consistent in the neighborhood of what we wrote in aggregate last year. And they have an elevated impact on them [ph].

## A - Philip V. Bancroft {BIO 4621336 <GO>}

Year-on-year revenue [ph] impact was 70 basis points.

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

Thank you, Phil.

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

Great. Thanks, Evan and Phil. That's helpful. And then just a question. So the recent GOP stimulus that includes some liability shields for businesses and health care providers, just wondering how you're thinking about this, how important this is for you and the industry and outside of this going through, just wondering what sort of underwriting actions you're taking to mitigate the future liability claims that you may be getting?

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

I think that this kind of liability Safe Harbor that the Republicans are proposing as part of the bill is so important for our nation. We have -- we right now confront such economic headwinds toggling between trying to manage the health crisis and open up an economy. And the burden on business, all businesses throughout the United States today is extreme.

To add on to them the additional expense and burden of liability exposure when, for those who are practicing the right protocols and protecting their employees and customers and in trying to open up the economy, to ascribe to them, the burden of liability and cause them to be more cautious or foist on them an additional economic expense, and which ultimately benefits frankly one industry and that is the legal profession, the trial bar, I think would be a travesty and a shame.

And I think that is the wisdom to try to remove some of that and create certainty for business in an environment of tremendous uncertainty. And not only do we applaud it, we support it actively as a company, and not for the benefit of the insurance industry, to the benefit of all of our society right now. We need to open up this economy. We need to control this health crisis better than we are, and my God not believe that living at home and working from home is the new normal for America. It doesn't make any sense to me.

With that, thank you very much.



## Operator

And that will conclude today's question-and-answer session. I would now like to turn the call back to Karen Beyer for any additional or closing remarks.

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

Thank you all for your time and attention this morning. We look forward to speaking with you again next quarter. Thanks and have a good day.

## Operator

And this concludes today's conference. Thank you for your participation and you may now disconnect.