Company Name: Ace Ltd.
Company Ticker: ACE US
Date: 2015-07-22
Event Description: Q2 2015 Earnings Call

Market Cap: 34,811.49
Current PX: 106.59
YTD Change($): -8.29
YTD Change(%): -7.216

Bloomberg Estimates - EPS
Current Quarter: 2.320
Current Year: 9.183
Bloomberg Estimates - Sales
Current Quarter: 5612.400
Current Year: 20685.833

Q2 2015 Earnings Call

Company Participants

- Evan G. Greenberg
- Philip V. Bancroft
- John W. Keogh
- Sean Ringsted

Other Participants

- Michael Nannizzi
- Ryan J. Tunis
- Charles J. Sebaski
- Sarah E. DeWitt
- Kai Pan
- Brian Robert Meredith
- Jay H. Gelb
- Meyer Shields
- Larry Greenberg
- Ian J. Gutterman
- Jay Arman Cohen

MANAGEMENT DISCUSSION SECTION

Evan G. Greenberg

Business Highlights

EPS and After-Tax Operating Income

- ACE produced excellent second quarter results with EPS essentially flat with prior year
- Earnings and revenue growth were strong in spite of foreign exchange and market conditions that are growing more competitive
- After-tax operating income for the quarter was $788mm or $2.40 per share
- Our annualized operating return on equity was 11.4%, a good return on shareholder capital

Underwriting Results

- Underwriting results in the quarter were excellent
- We produced $478mm of total P&C underwriting income, flat with prior year and up 5.5% on a constant dollar basis
- The P&C combined ratio was 87.7%, and the P&C current accident year combined ratio, excluding cat losses was 88.4% vs. 88.7% prior year

- Cat losses were up relative to prior by $44mm pre-tax, as a result of increased cat activity around the world, and positive prior-period reserve development was up modestly as well
- All divisions produced outstanding CY and current accident year results in the quarter

Revenue and Earnings

- This was Q1 that included the contributions of the Fireman's Fund U.S. high-net-worth business which contributed to both revenue and earnings, including $15mm non-recurring benefit to operating income
- On the other hand, foreign exchange negatively impacted operating income by $29mm
- We produced $562mm investment income, up 3% in constant dollars
  - This is a very good result given the interest rate environment and speaks to our strong cash flow

Book Value per Share Growth

- Book value per share growth was flat in the quarter, affected by the impact of a rise in interest rates on our corporate bond portfolio
- Frankly, if sustainable, I view this as a positive
- The mark-to-market hit is simply a question of timing since we are essentially a buy-and-hold bond investor, while higher rates mean greater investment income over time
- Phil will have more to say about the impact of Fireman's Fund on revenue and earnings, our investment portfolio, prior year's reserve development and cat losses

Chubb

- The big news in the quarter, obviously, was our announced agreement to acquire Chubb
- And I must tell you, I am even more excited and convinced of the potential opportunity and the fit in terms of talent and complementary capabilities
- The senior leadership of both companies met for two-and-a-half days last week for integration planning purposes and the chemistry, the optimism, the energy, and the earnestness to succeed couldn't have been better
- I'm awfully impressed by the Chubb leadership my colleagues and I met
  - They are peers

Integration Planning

- We are moving quickly
- We have initiated the process for teams to be engaged on integration planning that covers all businesses and functional areas of both companies
- We are planning to file an S-4 by the end of the month
- And following that, we'll each set the date for shareholders' votes, which should occur somewhere between the end of September and the end of October
- We're preparing to file for regulatory approvals

- And as we said, we expect the transaction to close in Q1 2016

Revenue Growth

- Turning to revenue growth
- Global P&C net premiums, excluding agriculture, grew about 6.5% in the quarter or over 13% on a constant dollar basis
- The assumption of the unearned premium from the in-force Fireman's Fund portfolio contributed about 6.5% to this growth, and it is nonrecurring
- Once again, we expect global P&C premium revenue growth on a published basis for the balance of the year, will be mid-single-digit in spite of foreign exchange

North America

- In North America, net premiums for P&C excluding crop and the nonrecurring premiums from the Fireman's Fund transaction grew 6% in constant dollars
- In both our large commercial business, ACE USA and in ACE Westchester E&S, net premiums declined about 4%
  - There were some one-time items in 2014 that distorted second quarter growth
- And as such, we expect premium growth in our U.S. commercial business to improve for the balance of the year
- We grew over 20% in ACE Commercial Risk Services which serves small to mid-market clients

International Operations

- Turning to our international operations, P&C net premiums in ACE International were up over 11% in constant dollars
- Latin America and Asia had strong growth with net premiums up 25% and 14%, respectively, while premiums in Europe were down 1%
- In our London-based E&S business, premiums were down 16% as we [ph] shed (7:23) business in an increasingly competitive London wholesale market

A&H Insurance Business

- In our A&H insurance business, net premiums were up over 4% globally in constant currency
- A&H premiums internationally were up about 5%, led by Asia with growth of 17%
- Premiums for combined insurance were up about 3.5% with our North American business up nearly 6%
- Net premiums for personal lines globally excluding the non-recurring premium from Fireman's Fund were up 46%
- Our Asia-focused international life insurance business had a good quarter with net premiums up 7.5% in constant currency
- And finally, in our Global Re business, net premiums declined 6% due to market conditions

Commercial P&C Insurance Market Conditions

- I want to now say a few more words about current commercial P&C insurance market conditions
- The underwriting environment continued to soften in the quarter for our commercial P&C business globally
- As I've been saying, the underlying pattern we have seen over the last few quarters is that large account business is more competitive than mid-sized
- Wholesale is more competitive than retail, and property more so than casualty related

U.S. Commercial P&C Business

- Taking our U.S. commercial P&C business by its components and starting with our large and upper middle market retail business, ACE USA general and specialty casualty related pricing was up 2% in the quarter and varied by line
- For example, large account risk management-related casualty pricing was up less than 1%
- Excess casualty was up about 2.5%, foreign casualty pricing was up 0.5% and management and professional liability pricing was flat
- Property-related pricing was down 10%, a steeper decline from prior quarter

New Business Activity

- New business activity slowed as expected and renewal retention levels are good
- Both reflect market conditions and our underwriting discipline
    - We will not chase underpriced business
- For our U.S. retail business, the renewal retention rate as measured by premium was 89%

U.S. E&S Business

- Turning to our U.S. E&S business, casualty rates were up less than 1% in the quarter; professional lines was up 2%; while property was down about 10%
- Internationally, commercial P&C insurance market conditions also grew more competitive
- Again, for the business we wrote, casualty rates were down 2%; property was down 7%; and financial lines were down 4%
- Rates in both Asia and Latin America, overall, were down 7% led by property, while rates on the Continent and the UK were down 2%
- In our London market E&S business, rates were down 8% in the quarter

Commercial P&C Business

- For our commercial P&C business, we are ameliorating the impact of pricing on our combined ratio through a combination of mix shift, targeting classes with better margin, portfolio management that informs underwriting actions, including tighter individual risk selection and pricing actions in more stressed areas, as well as better marketing and new product innovation

- As you know, personal lines, small commercial, and A&H are about 40% of ACE's business
- And for these lines, rates were flat to up mid-single-digit, depending on portfolio and territory
- John Keogh, John Lupica and Juan Andrade can provide further color on market conditions and pricing trends

Summary

In summary, we produced good results this quarter despite the strong dollar

As you can see, given our breadth of product, customer segment, distribution and territory, we continue to capitalize on areas that represent attractive opportunities to grow profitably

Philip V. Bancroft

Financial Highlights

Book Value Growth

- Book value per share grew 0.5% through the quarter and 1.4% for the year
- Book value growth for the quarter was adversely impacted by rising interest rates, which resulted in realized and unrealized losses in our investment portfolio of $602mm after-tax
  - These losses were partially offset by favorable foreign currency movements of $103mm after-tax and realized gains of $102mm after-tax related to our variable annuity reinsurance business
- Tangible book value per share declined 1.5% for the quarter and increased 0.3% for the year

Fireman's Fund Acquisition

- In addition to net realized and unrealized losses and favorable FX for the quarter, tangible book value per share was negatively impacted by goodwill and intangibles related to the Fireman's Fund acquisition
- Excluding the impact of the acquisition, tangible book value per share increased 0.5% for the quarter and 2.3% for the year
  - We had strong operating cash flow of $816mm that benefited net investment income
- Investment income of $562mm, which was impacted negatively by $11mm of foreign exchange vs. prior year, was better than expected due to higher private equity distributions and call activity in our corporate bond portfolio

Cash Flow

- Our strong cash flow will continue to benefit our estimated quarterly investment income run rate of $550mm even with current new money rates of 2.9% vs. our current book yield of 3.6%
- The estimated investment income run rate is subject to variability and portfolio rates, call activity, private equity distributions and foreign exchange
- Our net loss reserves were up about $100mm for the quarter after adjusting for foreign exchange and the Fireman's Fund acquisition

- The pay-to-incurred ratio was 94%

Cat Losses

- In the quarter, we had net positive prior-period development of $153mm pre-tax
- Approximately half from long-tail lines principally from 2010 and prior years, the remainder was from short-tail lines
- Cat losses were $106mm after-tax in the quarter, primarily from a number of U.S. weather events, hailstorms in Australia and floods in Chile
- North American P&C net premiums written included $252mm from the transfer of the Fireman's Fund's business in-force at the time of the transaction

DAC

- Underwriting income included $50mm from Fireman's Fund that will be nonrecurring in 2016
- This amount is the result of eliminating the deferred acquisition cost, or DAC, associated with the Fireman's Fund's business at the time of the close as part of purchase accounting
- Future amortization of the DAC is also eliminated
- The North American current accident year combined ration excluding cats and the non-recurring underwriting benefit from Fireman's Fund was 87.9% compared with 87.3% last year

Fireman's Fund

- The non-recurring underwriting benefit from Fireman's Fund was partially offset by purchase accounting intangible amortization included in other income of $29mm
- This produced a nonrecurring net operating income benefit from the in-force business, as Evan noted, of $15mm
- Total capital returned to shareholders during the quarter was $610mm, including $390mm of share repurchases and $220mm in dividends
- The company has discontinued its share repurchase program in connection with the announced planned acquisition of Chubb

QUESTION AND ANSWER SECTION

<Q - Michael Nannizzi>: Evan, I just have one question. You mentioned you guys just came back from meeting with Chubb management for a couple days. As far as Chubb as business, I mean, obviously, the expense ratio there is higher, certainly, a different brand presence in personal lines. How do you balance maintaining that brand with talking about expense synergies and looking to optimize on that front? Thanks.

<A - Evan G. Greenberg>: Yeah, Michael, good question. Expense synergies aren't about in some blind way simply trying to get every dollar of efficiency in a sterile view out of it. Chubb, as ACE does, each have virtues to their model and their franchise as to how they operate. The core of Chubb is an agency franchise and a smaller customer segment, more work-intensive, very local. The service model, very high-quality local service in both underwriting and in claims. We've very mindful of all of that.

And so, when you look at it, and when you take that, you can't also say, well, service is simply a mindless word for a shield against inefficiency. There's a tremendous duplication of expenses between the two companies in functions where you don't need two of everything. And that varies by geography, that varies by function, that varies by business. And we didn't use just some arbitrary rule of thumb when we came to our target number of $650mm. It's a conservative thoughtful estimate. We went function by function, geography by geography. We've done many acquisitions before.

And I don't mind telling you that we actually came up with an even higher number. But being mindful that we're going to balance culture, we're going to balance service and quality and what the franchise is about with a competitive profile of the combined companies that necessarily will operate efficiently. All of that together mixes to how we've arrived at what we think is a thoughtful target.

<Q - Michael Nannizzi>: Great. Thanks. And then, Phil, I guess one follow-up on – just a numbers question. Looking at the expense ratio in North America was a little bit lower in the quarter and then looks as if there was some noise in ag. Was there anything unusual in the quarter? And I'm guessing, I wonder if some of the Fireman's Fund adjustments went through as a contract expense potentially? Maybe some color on that. Thanks.

<A - Philip V. Bancroft>: With respect to agriculture, I think, Evan said a few quarters ago that we'd expect the combined ratio of about 91%, and we're close to that. We have changed a little bit of timing of the recognition of our premium as it relates to – of the premium recognition as it relates to the government program. And we've made some additional investments in our non-MPCI P&C agriculture business. So, I would say, nothing significant.

<Q - Michael Nannizzi>: Okay. Great. And then do you have an underlying ex-Fireman's Fund adjustment, like just so we can kind of square that away for the quarter?

<A - Evan G. Greenberg>: When you say under, do you mean – what do you...

<Q - Michael Nannizzi>: Extra $49mm – yeah. So, yeah the $49mm, obviously, you have the goodwill in there as well. But just to make sure, it seemed like about 130BPS, is that how we should...

<A - Evan G. Greenberg>: We gave you an 87.9% ex-cat current accident year combined ratio vs. last year of 87.2%...

<A - Philip V. Bancroft>: Right.

<A - Evan G. Greenberg>: …with North America P&C does that – and so that's eliminating that onetime...

<Q - Michael Nannizzi>: Oh that is. Okay.

<A - Evan G. Greenberg>: Does that help you with that?

<Q - Michael Nannizzi>: That's the answer I needed. Thank you.

<Q - Ryan J. Tunis>: Hey. Sorry about that. So, I just wanted to ask on the Chubb international business. I think there's three or four bill of premium there. And I was just hoping maybe for some detail on how ACE thinks they may be able to leverage its own international business and maybe improve the profitability there, because I think it's been somewhat of an under earner in the past relative at least to their broader personal lines.

<A - Evan G. Greenberg>: Yeah. As I'm sure you know, a minority percentage of that business is personal lines actually, and it's more commercial lines and specialty, some large account, but quite middle-market-oriented. And Chubb has an old network and has been at it for a long time.

There will be a lot of efficiency we will gain between the two operations because they are a duplication. Our plan is to integrate Chubb's international business into ACE's. So, we will have only one statutory entity in the geographies and the vast, vast majority of those will be ACE entities. Canada is an exception. We will integrate ACE into Chubb up in Canada.

There are many good people in Chubb's international operation, and so along with that business, there is a marginal cost. You got to be able to service that business, and you've got to be able to underwrite it, you got insight into distribution of it, and there are a lot of good people who are going to bring a lot of value to ACE's international operation along with that business. As I said, it's marginal cost and we will, at the same time, eliminate duplication of cost and function across geographies.

In particular, what we see and we can see it by specific geographies is there is real opportunity internationally given what they have built in middle-market in particular in certain territories to take advantage of that and add meaningfully to product, add meaningfully to the leverage of some of that talent to help in some other tangential territories that are around the countries where that talent resides now. I hope that helps you with it.

<Q - Ryan J. Tunis>: Yeah. That's helpful, Evan. Thanks. And then I guess my follow up is just on U.S. personal lines and just trying to understand, obviously ACE and Chubb have different products and how do we think about with the two entities coming together, are we going to see just Chubb's product or is there a place for both products? And then a broader question I guess is, what's been the reaction so far from independent agents in personal lines given two of the biggest high-net-worth providers announced the combination?

<A - Evan G. Greenberg>: I think around the – you can't see my colleagues shaking their heads around the room. We're puzzled by the question, by the comment with all due respect of different product, they're substantially the same product. We're both covering the needs of a high-net-worth customer. Each of us may have a slightly different risk appetite, depending on cohort of customer. ACE may have been focused a little more on international. Chubb has capabilities and product that is very old and very deep. And so, frankly, we actually see the product integration as very complementary and quite comfortable.

For agents and brokers, they want to know that we're going to behave in a similar way. They want to know that we're going to covet Chubb's claims capability and service, which is simply renowned. And I can guarantee you we're going to do that, and they'll be leading those efforts.

And so, frankly, we think for agents, it brings them a superior ultimate offering. Agents want to know that we're going to maintain compensation structures and that, by the way, that we're going to keep the agency, the independent agency system as a centerpiece of distribution here to the customers. And we're being loud and clear that that is without a doubt. And so, I think in this case, it's good news for agents and for brokers and for customers.

<Q - Ryan J. Tunis>: Okay. Thanks.

<A - Evan G. Greenberg>: And by the way, the two of us, on one hand, may appear significant in that business. On the other hand, it depends on how you define the business. The cohort of high-net-worth personal lines potential customers in our own estimation is north of $40B. And it resides on the books of so many traditional personal lines carriers around the United States. And our objective is to identify those customers and make them aware of our offerings and give them product that's more appropriate to their needs for many of them than what they have today.

<Q - Ryan J. Tunis>: Okay. And from the product standpoint, just wanted to confirm, broadly speaking, there's not a big difference in price point of what ACE was offering in Chubb. I guess that's more of what I was getting at.

<A - Evan G. Greenberg>: You know, Ryan, that really varies. That varies by state, by company that is writing, by vintage of policyholder. And as you know, there's tier pricing that is employed that allows you to more finely risk rate the business. And I think that's where a lot of that noise that you might see from the outside arises. But clear-eyed and thoughtful underwriters in portfolio management know how to rationalize that, and it's not as chaotic as you might imagine from the outside at all.

<Q - Charles J. Sebaski>: I had a question on the growth strategy with you and Chubb. And I guess on the product line, I was wondering if you could give, not on the personal, but on the small commercial middle-market, which products you really see as being the best positioned for you to be able to introduce to the Chubb distribution? Where do you think the strength – you guys obviously have a very broad product offering on the commercial side, where do you see the most natural early fits for the growth plan going forward?

<A - Evan G. Greenberg>: Charles, we're – on one hand, some of it is a little premature. I'm going to give you a general feel. Some of it is a little premature. And we also have plenty of competitors who listen to the phone calls. We're hardly going to hand a roadmap to everybody. But you can imagine, Chubb does a great job in traditional middle market products and some specialty products and towards industry verticals that they are such a deep knowledge of and are great at.

On the other hand, imagine the products that ACE sells, everything from environmental liability to farm and ranch to product recall to construction. And we could go on and on with a lot of product that will enhance the offerings to those verticals and also might help to expand into a few others as we go along. That's middle market, and that is distinct from small commercial, which we have each been – have sort of nascent efforts towards that we will endeavor to pursue in a far more meaningful way. And I think that'll present substantial opportunity.

At the same time, I don't mind telling you, while we have product synergies that we imagined around the world, whether it is cross-selling, which we're not Pollyannaish about cross-selling, whether it is new product or new customer cohort, we also imagined revenue dis-synergy in the early years where we have overlap and duplication, where some agents may or brokers may think overconcentration in an area, in a line of business, in a customer, et cetera. And any of our projections also recognize those. There's puts and calls in the early two or three years between dis-synergies and synergies. Revenue synergies we imagine will appear in a real way by year three and year four, meaningful; year five, substantial.

<Q - Charles J. Sebaski>: Do you guys need to put on more people for the middle market product offering into that independent agency channel. I mean...

<A - Evan G. Greenberg>: No.

<Q - Charles J. Sebaski>: ...given Chubb's underwriters have theirs – it doesn't. You say there is no more people needed to service that model.

<A - Evan G. Greenberg>: Not really. Not from what we – no.

<Q - Sarah E. DeWitt>: I wanted to follow-up on the Chubb acquisition on the double-digit earnings accretion. So what is the net assumption for net revenue synergies? And where do you think there could be upside? Could you buy less reinsurance? Could you put in some internal quota shares to reduce the tax rate or reinvest the big portfolio?

<A - Evan G. Greenberg>: Sarah, we're not going into that detail of specifics of the sources of earnings accretion and how much is coming from revenue and how much is coming from expense. And we're certainly not going into details about reinsurance. That is actually a competitive secret that we're not going into.

<Q - Sarah E. DeWitt>: Okay. Fair enough. And then I'd be interested in getting your broader thoughts on industry consolidation. What inning do you think we're in, in this consolidation wave? And do you think you'll see more large primary insurers respond to your Chubb acquisition with big deals?

<A - Evan G. Greenberg>: Well, I've got a pretty full plate and I'm pretty absorbed in all the things around ACE and around Chubb. I don't know what my competitors are imagining or doing at the moment. I don't know what inning we're in. I can't really opine on that. I imagine there will be more acquisition.

I've been reading lately that there'll be more large acquisitions because of the ACE and Chubb. When I think about it, I'm not sure that's right. I can't speak with any certainty. But first of all, most of my or many of my competitors are very thoughtful and they're good operators and they're good stewards. They attempt to be good stewards of shareholder money and they have a good sense of strategy for their companies.

Anybody who thinks that way, first of all, is going to look at an acquisition not from the point of view of size. They're going to look at the intrinsic value due to the characteristics of that to be acquired hold and whether it is truly value-creating in a transformative way. Otherwise you don't do something large.

ACE-Chubb is a very unique opportunity and we took advantage of that opportunity. And I believe my Chubb colleagues, who are aware of the insights behind it, feel the same way about that opportunity. And so when others are thinking about transformative, well, they've got to imagine it's not simply about size. What does it bring to you? And there are too many obvious combinations when you think that way.

<Q - Kai Pan>: First question, Evan, you commented on the pricing details. Thank you so much for the details. But the pricing looks more competitive especially on large accounts, property and wholesale. Some of your industry peers opined that the market now is more disciplined in terms of better data analytics and the still low interest rate environment. So just wondering what's your take on that and do you believe [ph] the competitiveness (38:05) of the pricing will get any worse from here? And what's that do with your underwriting margin going forward?

<A - Evan G. Greenberg>: Kai, first of all, yes, I think that pricing is going to become more competitive from here. And I think, ultimately – listen, that gets reflected in margins, and there's no two ways about that. I described to you and have many times the levers we have to pull in ameliorating that margin impact. 40% of our business is probably not subject to cycle, not nearly the same way, and we have a lot of portfolio management and underwriting discipline in site and product mix and territory mix. It allows us to ameliorate. But you don't eliminate it. And it will have an impact on margins in due course ongoing here.

Number two, I think the question about cycle management and data and all of that, I think you can't paint it with a broad brush. And I think those who do, they're overly simplistic in either how they think or certainly in how they describe. Certain areas of the business where you have broad distribution reach to get the customer where you have more homogenous pools of risk, lower severity-related, higher frequency-related, I think that is where there is a bit more discipline at least at this time. So, you'd say, more smaller commercial, more middle-market commercial. I think that is less subject, though, hardly immune on one hand.

I think as you get up to upper-middle market, larger risk, I think you'll have a lot of players with a lot less data. People are buying much bigger limits. So you have a lot piling on to the same risk who just have capital and an underwriter and a dog and are chasing some volume. And there I don't see that same sort of, well, the insights of analytics will ameliorate a market cycle.

<Q - Kai Pan>: Thank you so much.

<A - Evan G. Greenberg>: Everybody wants to put everything into one neat sentence and how the market works on a bumper sticker. You know what, it's a lot bigger, it's a lot far-ranging and it's a lot more dynamic and open and free-market-oriented and messy, therefore, than you can fit in 10 easy-to-say words.

<Q - Kai Pan>: That's great. Second question is switching to Banco Itaú's P&C business. Just wondering whether the progress of the integration over there is related to in particular the economy in Brazil as well as any potential claims from the Petrobras investigation.

<A - Evan G. Greenberg>: In a word, it's going very well, Itaú. And I'm going to let John Keogh embellish on that.

<A - John W. Keogh>: Sure. Yes, I'll pick up first the integration piece of it. It's currently on plan and on trajectory to bring the two organizations together by end of the year. We've received regulatory approval to do that.

As respect to economy and Petrobras, you all read the same thing and understand that that investigation is widespread and growing. We are obviously keeping a very close eye on it as it develops and mindful of the implication of it. But having said that, as we look at the current state of all we know, there is nothing we see in terms of claims to our business in Brazil right now that is significant or material.

Certainly the economy is in bad shape. Nothing we're imagining in the near term that suggests it will get better. And the implications for that right now in terms of the competitive market in Brazil is it's possible. It's one of the more difficult markets right now that we're operating in. And we've got good operators on the ground that understand that. They've been through a market like this before, been through an economy like this before in Brazil and we continue to perform well there.

What we can tell you is that the Itaú-ACE franchise is a very powerful franchise in the commercial P&C business in Brazil with deep relationships. And they've done a very good job of maintaining the portfolio, and at the same time they're very good underwriters. And boy, they do know how to use reinsurance. There is a very hungry market down there. And yet our operation, because of relationships has a lot of influence and controls a lot of customer on access. So in many cases the road to your share of that business comes through us.

<Q - Kai Pan>: Thank you. So lastly just a quick number question. On the Fireman's Fund that you mentioned about like $15mm non-recurring. Of the component of that, the $49mm benefit is non-recurring, but the $29mm amortization, would that be recurring?

<A - Philip V. Bancroft>: Both components recur but the net of the two is very small for the remainder of the year.

<Q - Kai Pan>: But is that $29mm going to – like going forward lasting for several years or not?

<A - Philip V. Bancroft>: No, it would just be for the remainder of this year.

<Q - Kai Pan>: Okay. Great. Well, thank you so much.

<A - Evan G. Greenberg>: But you've heard him, Kai, that net $15mm we had diminishes significantly as you go through the rest of the year.

<A - Philip V. Bancroft>: Right.

<Q - Brian Robert Meredith>: A couple questions here for you. First, Evan, we've talked about pricing. I wondered if you can give us an update on kind of what's happening with loss trend right now maybe domestically in the U.S. and internationally, commercial, personal.

<A - Evan G. Greenberg>: Yes. I'll ask Sean to opine a little bit on it. But it isn't any different than we saw last quarter…

<Q - Brian Robert Meredith>: Okay.

<A - Evan G. Greenberg>: …or the quarter before. It's quite steady. And loss cost is running higher than pricing.

<A - Sean Ringsted>: That's right. We're not seeing any material changes in claims frequency in the quarter or YTD, Brian.

<Q - Brian Robert Meredith>: Okay.

<A - Sean Ringsted>: Trend's generally in line with our expectations for the current accident year. On workers' comp, as a reminder, that's risk management ground up, loss frequency is slightly lower. And our casualty and professional [ph] lines, as (45:46) we mentioned before, we see frequency changes up and down but that's in line with the portfolio management and underwriting actions that Evan mentioned, not being systemic or broad-based that we're seeing there.

<Q - Brian Robert Meredith>: Great. Great. Thanks. And then the second question here, Evan, as a combined company Chubb-ACE is going to generate a ton of cash flow. And as I look at Chubb and ACE's capital management strategies, they're kind of different strategies. I'm just wondering once you guys have reached your kind of desired leverage with respect to debt-to-cap, do you see kind of the ACE strategy kind of evolving any more closer to kind of what the Chubb strategy was or do you think it will be roughly similar?

<A - Evan G. Greenberg>: Well, I think it will evolve. I don't see it as sort of the Chubb strategy which was fundamentally to return all the capital you generate and maybe not have the same level of investment for growth that ACE has had and our appetite to invest for thoughtful growth will not go away. We keep faith that we have a franchise to build and we'll continue to build and we'll continue to invest in that. And that's organic fundamentally. Remember, two-thirds of ACE's growth came organically prior to Chubb and one-third through acquisition.

We'll maintain, as Chubb, some level of prudence of capital for flexibility, for opportunity, and for risk. And beyond that, I think as you said, you're going to generate a substantial amount of cash flow, and we had already been returning capital to shareholders excess of what we thought we required for the things I just enumerated. And we will continue on that track. And I think the numbers will just be larger because the total is going to be significantly larger.

<Q - Brian Robert Meredith>: That's very helpful.

<A - Evan G. Greenberg>: What did you want to say, Phil?

<A - Philip V. Bancroft>: I was just going to say I think as we thought about it, it would be a smaller percentage. It might be a larger number in terms of the total quantum but a smaller number relative to total organization, right?

<A - Evan G. Greenberg>: To total capital?

<A - Philip V. Bancroft>: To total capital.

<A - Evan G. Greenberg>: Yes. Sure. Sure. Did that help you, Brian?

<Q - Brian Robert Meredith>: Yeah. I think that's helpful. So, when you say smaller number, you mean vs. what Chubb was doing historically?

<A - Evan G. Greenberg>: Not dollar number. He was saying percentage of the balance sheet. That's all.

<Q - Jay H. Gelb>: I had two unrelated questions. The first was with regard to the Global Property & Casualty growth profile for the rest of 2015. I believe the term you used was revenue growth. Is that consistent with earned premium growth?

<A - Evan G. Greenberg>: Written premium growth.

<Q - Jay H. Gelb>: Written? Okay. Thank you. And then the second question, Evan, is with ACE buying Chubb and the combined company assuming the Chubb brand in the marketplace, does that also mean that from a corporate perspective, the Chubb name will be adopted including things like the stock symbol?

<A - Evan G. Greenberg>: Including things like what?

<A - Philip V. Bancroft>: Stock symbol.

<A - Evan G. Greenberg>: Oh, the stock symbol? Yes, sir.

<Q - Jay H. Gelb>: Okay. So, the combined company going forward will be Chubb Corp?

<A - Evan G. Greenberg>: Well, we haven't said Corp, but it'll be Chubb. It'll be Chubb something. It might be Chubb Limited at the parent. We have ACE Group Holdings as intermediate holding company. It may be Chubb Group Holdings. We haven't really come to that part exactly. But you get how I'm kind of thinking about it. But the symbol will be Chubb.

<Q - Jay H. Gelb>: That's helpful.

<A - Evan G. Greenberg>: And it will start at the top and we will be unequivocal.

<Q - Meyer Shields>: A couple of small ball questions. One, is there any guidance on the ramp-up of Fireman's Fund related DAC amortization?

<A - Philip V. Bancroft>: When you say ramp-up, do you mean – so we've said that the DAC amortization that did not occur in Q1 was about the $50mm. And that was offset to some extent by the amortization of the intangible that gets established at that point. And what I said just a little bit earlier was as you go into the out quarters of this year, those two numbers are also almost equivalent and will have very little bottom line impact of the two.

<Q - Meyer Shields>: Right. But we should be reverting in [ph] a few million (50:59) changes?

<A - Philip V. Bancroft>: Yes.

<Q - Meyer Shields>: We get $50mm in a year.

<A - Philip V. Bancroft>: It'll be more than $50mm a year. It was $50mm in Q1. There will be some amounts in each of the subsequent quarters almost directly offset by the amortization of the intangible in those later quarters. As the new business emerges, we'll be establishing DAC on that and it will reestablish itself just like a normal line of business.

<Q - Meyer Shields>: Right. Okay. Perfect. Just wanted to make sure I was following it right. And also there was a bit of a y-over-y increase in DAC in Overseas General and Reinsurance, and I was wondering if you could talk about what's going on?

<A - Philip V. Bancroft>: How about we take that one offline with you?

<A - Evan G. Greenberg>: Are you talking about the DAC amortization in those two?

<Q - Meyer Shields>: Yes. The policy acquisition cost ratio.

<A - Philip V. Bancroft>: Okay. I'll take that offline.

<Q - Larry Greenberg>: Sorry to beat a dead horse on the Fireman's Fund. I just want to be sure I understand. So, on the underwriting side of it, the full impact was the DAC. That would have flowed in the expense ratio and that would have been the only ratio other than the combined, obviously, that would have been impacted. Am I thinking about that right?

<A - Philip V. Bancroft>: Yes. It would be a reduction. We didn't have the DAC amortization. So...

<Q - Larry Greenberg>: Right.

<A - Philip V. Bancroft>: ...it would have been a reduction to acquisition costs. And at the same time, it's an increase to other income for the amortization of the intangible.

<A - Evan G. Greenberg>: But, Larry, you said something that actually we should correct that. That's not the full underwriting impact of the Fireman's Fund in the quarter. That's the one-time. There was a modest amount of ongoing and we haven't disclosed that amount. We don't do that.

<Q - Larry Greenberg>: Right, right, right, right. Got that. Thank you. And then, Evan, I mean, just a general question on the deal. Obviously, there is going to be a lot of accounting noise related to the transaction. And from our standpoint, it's going to be challenging to really track the true economic returns that you'll be generating. And I've always viewed you as being very focused on tangible book value and growing tangible book value. And you've been very clear on how much you believe in this transaction and the merit of the transaction, and I think we could probably put together your willingness to accept the tangible book value dilution in the deal. But I guess my question is just how difficult was it for you to get over the dilution hurdle? Just maybe if you could share some thoughts on that.

<A - Evan G. Greenberg>: Yes. Actually that's a really good question because frankly you hit at maybe the nut of it for me. I had looked at this before over the years and the tangible book value dilution stopped me in my tracks each time. I was unwilling to accept it. In June I had a lot of time on my hands idle sitting because I broke my leg and a lot of time to sit and think when I usually am pretty active guy. And actually I spent a lot of time thinking about that. And what I realized, I came to was in my own mind, everybody has to use their own judgment. In my own judgment I was thinking incorrectly about this. But actually, it wasn't the question of the dilution. It was the question really of how long does it take you to get back to where you were and how much faster therefore, will tangible book value grow and will the value creation take place from there.

And by the way, that then will tie me back into book value and ROE, which I want to speak about for a minute. And what I came to in my own mind was that if the dilution – if you could come back to where you actually are right now, in three years, then that's a period of time of enough certainty to me to get beyond 3, you're a little more aspirational, you're less certain, that all else being equal, that is all the assumptions are reasonably conservative and I believe in them of how you get back to that number. Then given the value creation that goes on for many years to come and all that you're getting from it, that was a price I'm willing to pay.

And the way I think about that is how you come back to book value. Book value grows not tangible, but book grows immediately mid single-digit. And while ROE is basically flat, it's basis points dilutive out of the gate, it's basis points accretive after three years. But that's a head fake to me because the book value now has substantially more goodwill in it. And that goodwill is of a very high quality because it's an income-producing asset, and it's a great income-producing asset. It's Chubb. And the quality of it, the certainty of it, the ability to grow it, that is what's meaningful. And so, I take that income-producing asset and I think of that as levered over the tangible book value. And you start growing mid-teens tangible book out of the gate. And so, that's how I thought in total and it all linked back to me about that tangible book dilution of why you would do that.

I hear people talk about ROE and that it's not ROE-accretive. Well, that's because you have to think a little differently. You've levered up your book value with an income-producing asset, that goodwill. But say, your ROE is necessarily maybe not accretive. But your book value grows more quickly. So, when you think of the formula of price to book, which is really about ROE against book value, book value grows more quickly where ROE is less accretive. And you come to the same place in a price to book multiple. So, if that helps you, that's the total of how I thought about it.

<Q - Ian J. Gutterman>: I wanted to address and Larry just stole my thunder a little bit, but I wanted to address sort of the two objections I hear from people who are less optimistic about this deal from investors and analysts and why don't we just continue the tangible book theme because that's one that comes up a lot.

I agree with most of what you said. I guess I would add even further. I don't understand why tangible book value is a good way to look at your company. And I guess the reason I say that is because you could have paid $80 for Chubb and you still would have had intangibles, goodwill of a few billion dollars. And in that case I think no one will say that is bad will, if you will, right?

And so, why should we assume any dollar paid above book value for Chubb is bad, right? Isn't the real way to look at that is reported book value because if you overpaid, you will have a low ROE and reported book value going forward. If you underpaid, you'd have a higher ROE and reported book value going forward.

So, why is tangible book value even a relevant metric for you, guys? You're not banks who regulates your capital. I think reported book is a better metric.

<A - Evan G. Greenberg>: You know what, pick your poison. I think they're both good metrics. I agree with you that you're just coming around, I think what you're saying to me is the same thing, that goodwill is an income-producing asset and it's a very high quality. And I think that really gets to be the question. Is it of low quality, would ultimately be impaired? And it's all that it represents and I agree with that. I also agree that when you're looking at the economics of these you got to look through a bit the accounting and the intangible amortization to see the true wealth, economic wealth creation that is taking place.

On the other side of the coin as an operator, I will say that tangible is your most constraining factor. Everything comes off of tangible, and all leverage, your most constraining is tangible. And we are a balance sheet business and you can only pay claims out of tangible capital.

And by the way, regulatory and rating agency is about tangible capital. That's your ticket to operate and to grow, and flexibility. And so, you can't ignore tangible. But I recognize how you're thinking which is simply from a financial perspective, an investor perspective, rather than an operating perspective, you got to think both.

<Q - Ian J. Gutterman>: Got it. Got it.

<A - Evan G. Greenberg>: So, I don't disagree with you, but I think you need to be balanced here, Ian. And also, I think where people are coming from about the tangible, if you can say I'm growing at mid-teens, it's telling you that goodwill, which is so much bigger on the balance sheet, it is a levered asset that is income producing. And that's what you have to square the circle against those who then talk about ROE. Then again, as I said, vs. a book value that grows more quickly.

<Q - Ian J. Gutterman>: Agreed. And then, the other one I've heard a bunch is very few people seem to want to give credit for future revenue synergy just because historically for most companies is that that tends not to materialize as much as cost synergies. But the way I hear you talk about it, and even in the slides and the release suggesting that the revenue synergies could be in the same ballpark as the cost synergies by year five. Can you maybe just talk a little bit more about how confident you are in achieving that year five number and what the risks are because I think people are kind of being a little too dismissive of that?

<A - Evan G. Greenberg>: Yeah. Listen. I understand the cynicism around it. And frankly, when I look at these things, often I'm very cynical about them. The notion of, well, we'll just cross-sell a lot, frankly, I think is generally wishful thinking. It doesn't happen the same way.

When we talk about introducing more product, to begin with, by the way, it's not simply that we're going to cross-sell to the existing customer who bought three. They're now going to buy four. Now, I don't see it that way. I see that here is a substantial distribution with the brand name that we will have access to. And those agents and brokers that we don't have big relationship with, they have those cohorts of risk on their books now. They have those customers now. And as Chubb is able to introduce more product, we will write more business from those agents that I feel confident about.

Number two, I do think there is a certain amount of cross-sell. And I think it's because the products are offered more in either a menu or a package and I think we can broaden that up. I think they're buying. It's not a nice to have. They're buying it now from someone else, and Chubb will be able to offer that.

Number three, I think the markets we're going to drop down into in customer segment or go up to and broaden our product offering in the middle market – upper middle market in U.S.A., I think is extremely real. I think the problem is, when you talk about this, you're not going to do it out of the box year one when you're integrating. And you're setting things up. I think you have to be willing to give it an amount of time.

The first three years is really about the expense synergies we're going to recognize. But I can tell you, as we all sat down last week, even, to talk about what the future could look like, where our minds were, our Chubb colleagues, their minds were in the same place. And they recognize the same opportunities and we're both sober operators. We're all about execution, recognizing that strategy is only 10%. The rest is about executing. And we all pride ourselves on execution. We're all pretty conservative.

And so, are we all wrong? I don't think so. I don't think so at all. So, I actually do think one plus one together is going to equal much more than the two separately. And by the way, without being dismissive, disrespectful, anything, I believe that Chubb, a great company, has underinvested in the last number of years. And that growth, a portion of that growth comes from sort of correcting for that.

<Q - Ian J. Gutterman>: Got it. So bottom line, you...

<A - Evan G. Greenberg>: Look, this will be a religious discussion, Ian.

<Q - Ian J. Gutterman>: Yeah.

<A - Evan G. Greenberg>: It's a faith until you see it.

<Q - Ian J. Gutterman>: Exactly [indiscernible] (1:06:51). Right, right. But then you don't view that as a stretch goal if I ask you in 2020, did you get several billion of incremental premium? That's not a stretch goal, that's something you think is right away achievable?

<A - Evan G. Greenberg>: I do. We didn't put stretch goals in this. We pitched it up. We pitched it up the middle.

<Q - Jay Arman Cohen>: Yeah. Most of my questions were answered. Just one maybe for Phil. Phil, can you give us some range of premium contribution from Fireman's Fund to the next several quarters just for modeling purposes?

<A - Philip V. Bancroft>: What I could tell you is that in the quarter, so the non-recurring – I mean the recurring business in the quarter was a premium level in the neighborhood of $120mm.

<A - Evan G. Greenberg>: Jay?

<Q - Jay Arman Cohen>: Very helpful.

<A - Evan G. Greenberg>: Jay?

<Q - Jay Arman Cohen>: Yes..

<A - Evan G. Greenberg>: That's going to spur questions from people of, wow, something happened. Where is the Fireman's Fund volume? We're not going to go into this except what we're going to say is, as part of this transaction, we purchased reinsurance, quota share reinsurance. And so, that will square the circle for those who will say the recurring volume appears low to us. Nothing happened. There is not some problem for any of that. Okay?

<Q - Jay Arman Cohen>: Got it.

<A - Evan G. Greenberg>: But we're not going to go into detail, of course, about the reinsurance.

<Q - Jay Arman Cohen>: No, fair enough. This is helpful though. I appreciate that.