Q3 2015 Earnings Call

Company Participants

- Evan G. Greenberg
- Philip V. Bancroft
- Juan C. Andrade
- Joseph F. Wayland

Other Participants

- Cliff H. Gallant
- Michael Nannizzi
- Ryan J. Tunis
- Josh Clayton Stirling
- Jay H. Gelb
- Sarah E. DeWitt
- Vinay Misquith
- Jay A. Cohen
- Ian J. Gutterman
- Brian R. Meredith

MANAGEMENT DISCUSSION SECTION

Evan G. Greenberg

Q3 Business Review

As you saw from the numbers, ACE had a great quarter with:

- Record earnings
- Record underwriting results
- And good revenue growth in constant dollars

After-Tax Operating Income

- After-tax operating income of $897mm or $2.74 per share was driven by P&C underwriting income of almost $600mm
- Foreign exchange continued to cast a shadow in the quarter, impacting our premium revenue income and book value
  - Book value declined 1.5% due to FX and financial market volatility in both equity and fixed income markets
- Our annualized operating return on equity was about 13%, an excellent return on shareholder capital
- YTD, we've produced over $2.4B or $7.38 per share in operating income, which is essentially flat with prior year in spite of about $85mm in foreign exchange headwinds

- Strong underwriting gains and 6.5% premium revenue growth in constant dollars contributed to these results

Total P&C Underwriting Income Growth Drivers

- Returning to the quarter, underwriting results were again simply excellent
- Total P&C underwriting income growth was driven by:
  - Strong underlying current accident year results
  - Positive prior-period reserve development
  - And relatively low catastrophe losses
- The P&C combined ratio was 85.9% and the P&C current accident year combined ratio, excluding cat, was 89.2% vs. 89.8% prior year, so an improvement
- All P&C divisions produced outstanding CY and current accident year results in the quarter

Business Conversion

- We were about two months into the conversion of the Fireman's Fund business to ACE paper
- We're on track and, in fact, ahead of plan
- As of today, both business retention and financial performance are ahead of our original projections
- The retention rate as measured by premium is 87%
- The business we are not converting is in line with our expectations because it either does not meet our business profile or in our judgment is underpriced
  - If you would like more color during the Q&A, Juan Andrade is prepared to answer your questions

Investment Income

- We produced $549mm in investment income, down about 3% on a reported basis and 1% in constant dollars, very good result given the interest rate and equity market environment and adverse FX movement
- We continue to benefit from strong operating cash flow

Global P&C Net Premiums

- Turning to revenue growth, global P&C net premiums, which exclude agriculture, grew nearly 8% in the quarter in constant dollars
- Foreign exchange negatively impacted global P&C by 7.5 points, nearly equal to our underlying growth
- In North America, net premiums for P&C, excluding crop, grew 11%
- In our large commercial business, ACE USA, net premiums grew just over 2%

Wholesale E&S Businesses

- In our two wholesale E&S businesses, ACE Bermuda and ACE Westchester, net premiums grew about 4.5% and 2.5% respectively
- We grew 11.5% in ACE Commercial Risk Services, which serves small to mid-market clients for specialty products

U.S. Personal Lines Business

- Premiums in our U.S. personal lines business were up 86%, driven by the addition of the Fireman's Fund business
  - Excluding Fireman's Fund, our high net worth personal lines business grew 14%, our highest growth rate of the year, as we are also benefiting from increased submission activity and new business from over 300 Fireman's Fund agents newly licensed with ACE

Agriculture Business

- Premiums in our agriculture business declined 3.5% as expected due to lower commodity prices and fund selection
- The crop business is in good shape and from what we see today, it appears it will be an average crop year in terms of profit and loss

International Operations

- Turning to our international operations, P&C net premiums in ACE International were up 9% in constant dollars, driven by Latin America with strong growth of 22%
- Premiums in Asia Pacific were up 8% while premiums in Europe were down 1%
- In our London-based E&S business, premiums were down 12% as we continue to shed business in the London wholesale market

A&H Insurance Business

- In our A&H insurance business, net premiums were up about 6% globally in constant currency
- A&H premiums internationally were up about 5.5% lead by Asia with growth of 15%
  - Premiums for combined insurance were up about 5%
- Net premiums written for international personal lines were up 18% on a constant dollar basis
- In our Asia-focused international life insurance business, premiums were up almost 9% in constant currency
- And finally, in our Global Re business, net premiums declined 9.5% due to market conditions

Current Commercial P&C Market Conditions

- I want to now say a few words about current commercial P&C market conditions
- The underwriting environment continued to grow more competitive in the quarter for our commercial P&C business globally
- With some exceptions, price declines accelerated modestly that would vary by class of business and geography

- All of the themes we've been saying in previous quarters remain true
  - Large account business, particularly shared and layered, 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

- For our U.S. commercial P&C business, general and specialty casualty-related pricing was flat in the quarter
- Management professional liability pricing is down 0.5%, and property-related pricing was down 9%
- New business writings in North America were down year-on-year, as one would expect, but it varies by class, depending on the rate and terms we can secure
  - So in fact, new business was up in certain targeted classes, including specialty small commercial, personal lines, professional lines, and A&H
- Renewal retention levels are holding up well

U.S. Retail Business

- For our U.S. retail business, the renewal retention rate as measured by premium was 96%
- Internationally, commercial P&C insurance market conditions also grew incrementally more competitive
- Again, for the business we wrote:
  - Casualty rates were down 3%
  - Property was down 7%
  - And financial lines rates were down 1%

Pricing Actions

- Generally speaking, pricing is not keeping pace with loss-cost trends, though it varies by line and geography
- We continue to execute strategies to ameliorate to the extent possible 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
  - John Keogh, John Lupica, and Juan Andrade can provide further color on market conditions and pricing trends

Merger Update

- While the main event to talk about today and quarters to come, I'm sure, is our merger with Chubb, I want to fill you in on where we stand
- We're on track with obtaining all necessary regulatory approvals in order to close hopefully early in Q1 2016 as we had announced
- We received necessary U.S. anti-trust clearance, as you all saw, and we expect to announce an overwhelmingly positive response from both company's shareholders following tomorrow's extraordinary general meetings that will be held by each company

  - Although the voting continues, based on the 80% of ACE shareholders who have cast their votes today, to-date, approval of all Chubb-related proposals is running in the very high 90s
- We are making very good progress in our integration planning process
- Things are moving very well with executives on both sides working in teams that represent all lines of business and support areas around the world, addressing:
  - Leadership
  - Organizational structure
  - Roles and responsibilities
  - And resource requirements
- We are also establishing teams to work on future growth initiatives
- Chemistry between both sides is excellent
- Communication is good, and we are building a detailed roadmap for integration that will allow us to hit the ground running when we close
- We are learning more about each other, and I think the admiration for each other's people, business and culture has only grown stronger
- By way of a few examples, ACE people, starting with me, have a greater and growing appreciation for Chubb's renowned global claims and risk engineering capabilities, its U.S. branch and agency distribution system and its training capabilities
- Chubb people have a greater appreciation for ACE's product breadth, global operations, risk appetite and insights and speed at which we move
- Senior leadership is also working separately as a team to help facilitate cultural integration

Recognition

- Lastly, I will tell you that the reception we received from the agent and broker community as well as from our customers has been very supportive, very positive
- For example, members of our senior management team, from both ACE and from Chubb, including me, were in attendance two weeks ago at The Council of Insurance Agents & Brokers, or CIAB, meeting in Colorado Springs
- There was an energy and optimism in the room among our teams that signaled to our important distribution partners how excited we all are about our two companies coming together
  - They all recognize the complementary nature of our companies
- Frankly, the more we know and the more we learn about each other, the more bullish we are on the value-creation opportunities we can create for our customers, our business partners, our employees, and our shareholders

Philip V. Bancroft

Q3 Financial Results

Investment Income

- In the quarter, investment income of $549mm benefited from our strong cash flow, private equity distributions, and call activity from our corporate bonds
- YTD, cash flow has essentially offset the impact of FX on our cash and invested assets which are down $140mm on a reported basis and up $1.2B in constant dollars
- Our average new money rate is 2.9%, vs. our current book yield of 3.6%

Operating Cash Flow

- For the past 12 months, our operating cash flow was $4B
- As I said on previous calls, our strong cash flow has offset the impact of lower reinvestment rates, and we expect this trend to continue
- Our cash flow for Q3 was $808mm
- There are a number of factors that impact the variability in investment income including the level of interest rates, prepayment speeds on our mortgages, corporate bond call activity, private equity distributions, and foreign exchange
- We currently expect our quarterly investment income runway to be $540mm
- Net realized and unrealized losses were $1.16B after-tax
    - This included losses of $309mm in our investment portfolio primarily due to widening of credit spreads on our corporate bonds, $313mm loss from the mark-to-market impact on our variable annuity reinsurance business, and $548mm impact on book value from foreign exchange
- FX impacted tangible book by $345mm
- Our investments remain in an unrealized gain position of $1.3B after-tax
- Since September 30, we have recovered a substantial portion of these marks, almost $450mm including a positive mark on the investment portfolio of $200mm

Net Loss Reserves

- Our net loss reserves were up $212mm adjusted for foreign exchange, and our pay-to-incurred ratio was 94%
- We had positive prior period development of $210mm pre-tax with about one quarter from short-tail lines and three quarters from long-tail lines from accident years 2010 and prior
    - This included $76mm of adverse development for legacy environmental liability exposures in our Brandywine run-off operation, which is included in our North American segment
- As a reminder, we conduct our environmental review in Q3 and our asbestos review in Q4
- Our prior period development also included the positive impact from the release of $79mm from an individual legacy liability case reserve and our Overseas General and Global Re segments
- Pre-tax catastrophe losses of $72mm came from a number of worldwide investments and events, including $22mm from the explosion in Tianjin, $5mm from a Chile earthquake, and the balance from other events including U.S. flooding and Asian typhoons

Fireman's Fund Business

- In the quarter, the Fireman's Fund business made a one-time contribution of 0.75 point to the improvement in the combined ratio due to the underwriting gain from the portfolio assumption
- However, note the Fireman's Fund contributed only $20mm to operating income with underwriting gains substantially offset by purchase accounting

FX Impact

- On the other hand, foreign exchange negatively impacted operating income by $36mm
- As you can see on page 4 of the supplement, our A&H constant dollar operating income was down $6mm compared to last year's quarter
- We had positive reserve development of $8mm in last year's quarter and negative development of $5mm this quarter
- Excluding development, earnings growth was 6.1%
  - This business continues to perform very well

Life Operating Income

- Also on page 4 of the supplement, you will see Life operating income is down $8mm
- This is principally due to the runoff of the VA reinsurance book
- We are finalizing our plans for our $5.3B debt issuance in connection with the Chubb acquisition
- We'll make an announcement in the near future

QUESTION AND ANSWER SECTION

<Q - Cliff H. Gallant>: Two questions. The first one was – and thank you, Phil for that – the $22mm loss number for the Tianjin loss. I was curious, when we see events like that in the news, from an insurance claim perspective, how should we think about losses like that? How does it differ from an event that we might see in the U.S.?

And then my second question that I just will really just sort of follow up, you volunteered Juan Andrade to speak about the conversion rates of the high net worth business at Fireman's. I would love to hear more detail about it. How is the approach different between – how Fireman's is running and you guys are? And are there any lessons that are – will be applicable as you integrate another high net worth business?

<A - Evan G. Greenberg>: Yeah. So, your first question, I don't know how to answer your first question, because I don't know what you're asking really. So, can you be more specific or rephrase it? I mean, it's a manmade natural – it's a manmade disaster that occurred in an urban center. The only difference I'd say really between that loss occurring in China than anywhere else has to do with the regulatory environment and how you enforced the accumulation of toxic chemicals or other combustibles in an area like that. And so, the risk management generally an infrastructure of a more developing country vs. a developed country. But other than that, if that's what you're getting at, there is an answer. But other than that, I'm not sure I understand the nature of the question.

<Q - Cliff H. Gallant>: No. That is a good answer. I appreciate that.

<A - Evan G. Greenberg>: Again on personal lines before we dive into it, what would you like to know?

<Q - Cliff H. Gallant>: Well, what is the conversion rate of the business of Fireman's today? What challenges have you had? Had there been any surprises? And again, are there lessons applicable to the Chubb filing when you look at the Chubb book?

<A - Evan G. Greenberg>: Yeah. Before Juan gets into that with you, I want to make sure you understand something about the Chubb book vs. the Fireman's Fund. In the Fireman's Fund, it's a conversion. We are literally having to convert the customer from the policy they had with Fireman's Fund, the statutory paper to ACE paper. We did not buy the insurance company, we bought the renewal rights to the business. When you put Chubb and ACE together, there is going to be no conversion.

<Q - Cliff H. Gallant>: Right.

<A - Evan G. Greenberg>: The customers will remain on the paper they were on. With that, let me turn it over to Juan. Go ahead.

<A - Juan C. Andrade>: Thank you, Evan. Cliff, what I would say really to start is a couple of things. I would reinforce the fact that our premium retention is running at roughly around 87% which is really better than the expectations we had when we did this deal.

Secondly, and as Evan mentioned, when we look at the total return aspect of the underwriting income from this business is also running better than what we expected. I think in the six or so months as we closed this deal back on April 1, we have been able to successfully integrate over 500 new colleagues from the Fireman's Fund. We're very pleased with the talent and the skill that they have brought. We've created two new centers. One in O'Fallon, Missouri and one in Bethlehem, Pennsylvania that have really deepened our ability to provide even better claim service, even better operational servicing capabilities to our customers.

In addition to that, we've also onboarded about 357 new Fireman's Fund agents that were not appointed with ACE prior to all of this. Those agents were associated with roughly over 400 store fronts and that has generated some of the very positive momentum we're seeing in the quarter from a new business standpoint as well.

So, all of that, so far so good. We have received tremendous support from our distribution, both the fund distribution as well as the ACE distribution and all of this. And it's frankly one of the reasons why we're seeing the retention rates where they are.

Regarding the business that we're not retaining, as Evan pointed out, I think there's really a couple of specific reasons for that. One of those is really some of that business does not fit our target-client strategy, meaning, that it's truly not a high-net worth business so we are doing some selective re-underwriting there.

I would say the second category is business that we don't believe is adequately priced for the exposure, particularly in some cap-prone areas. And therefore you see some of the business that we're not retaining which again, all of that has been built into our models and really has been contemplated into our financials.

<Q - Michael Nannizzi>: Just on the North America P&C business, the expense rate – it looks like you had about 210BPS of improvement y-over-y, about two-thirds of that was expenses and acquisition in particular. Second quarter in a row that that's been down y-over-y. Is there something changing there, reinsurance or some other attribute that's driving that acquisition ratio down or is that not something that we should think should continue?

<A - Evan G. Greenberg>: Well, it's going to continue. It's going to continue for a period of time. We have a mix of business change and we do have selectively in that mix of business more reinsurance. And the biggest impact to all of that has to do with the Fireman's Fund business that we picked up.

<Q - Michael Nannizzi>: Got it. Okay. And so, that's – and then on the other third being the underlying loss ratio. Is it fair to assume that that's weather or lack of weather or is that potentially some mix shift as well?

<A - Evan G. Greenberg>: Well, you see current accident year, ex-cat. So, you understand how it looks without cat losses within it. We told you that there was some improvement due to the Fireman's Fund, and when you adjust for that, you can see how the loss ratios – very stable year to year.

<Q - Michael Nannizzi>: Okay. So, on apples-to-apples, if you were to control for those shifts then pretty stable, that's...

<A - Evan G. Greenberg>: Yeah. Sure.

<Q - Michael Nannizzi>: Okay. And then, I also saw ACE recently purchased...

<A - Evan G. Greenberg>: And as you know, let me just say one thing. As you know, it's up a little bit and that's a combination, on one hand, you got price and trend. And on the other hand, you got mix changes. And I do expect over time, all things equal, you expect the loss ratios to rise a bit.

<Q - Michael Nannizzi>: Got it. Great. And then, last, CoverHound, the company mentioned that it had taken a stake or they have released that ACE had taken a stake in that company. Can you talk about – I mean, and I think – if I remember at the release you mentioned some business through Fireman's Fund that was being placed. Can you talk about like strategically what benefit that provides and is there also some opportunity with the new Chubb book to leverage that relationship as well? Thanks.

<A - Evan G. Greenberg>: Yeah. No. I'm not going to talk much about it. The only thing I'm going to tell you is I think in your mind, you linked Novato, California with San Francisco, California and linked Fireman's Fund and CoverHound because we didn't put any linkage. There is no linkage between Fireman's Fund and CoverHound. And we're not doing any personal lines business with CoverHound and we have – we really have no plans to.

We like CoverHound. We like what we see in terms of their technology and their development and their algorithms to match customer to the right insurer. And they're very thoughtful people. And stay tuned as to what more over time we may do with CoverHound.

<Q - Ryan J. Tunis>: I guess my first question is just on the Life segment. Obviously, we've had this headwind from the VA runoff, I guess, the last couple of years. But it sounds like international life insurance growth still remains pretty strong. I'm just wondering if there's any visibility on where you might – on when you might see that cross over where growth from either U.S. A&H or international life might be enough to kind of offset that headwind?

<A - Evan G. Greenberg>: Yeah. That's a really – that's a good question, and we look at that all the time. The international life business was in a loss-making position because it was greenfield and we were continuing to invest to grow it, to build it because building agency distribution is costly. So, we kept plowing into it.

And it crossed over last year this year into a positive earnings position. Its earnings over the next year, two and three will accelerate significantly and will overcome that number. Our projections are over the next five years, so it has to happen year by year, but that it will be a meaningful – international life will become a meaningful contributor to ACE's earnings.

<Q - Ryan J. Tunis>: And I guess, just to try, by meaningful, $100mm more than that, or...

<A - Evan G. Greenberg>: To be meaningful in ACE, it has to have 100 – it has to be in the 100 – you have to have hundreds of millions to be meaningful to ACE.

<Q - Ryan J. Tunis>: Okay. Understood. And then I guess my second one was, I guess just on professional lines and combining the two companies and whether it's right or not, I think we think about Chubb as writing more primary layer of professional lines business, ACE writing a little bit more excess in large case. And I guess, how do you think about the opportunity, longer-term integrating those two businesses? And is that the type of process that could cause near-term disruption because of any customer overlap?

<A - Evan G. Greenberg>: No. Not that much. Very little, as we look at it. I think you got it partially right. I think we look at it this way. Chubb is so strong in middle market and small customer professional lines business. And there, of course, it's not a shared and layered business, you're writing it ground up. In the shared and layered, the large account business, ACE is a very meaningful primary writer as well as an excess writer, as well as an individual DIC writer, which is major Side A coverage.

Chubb as well writes in the large account space. We don't see an overlap by the way when we – to the degree we are able to look at our concentrations of customer. We don't see an overlap that gives us concern, and we don't see an overlap of significance.

<Q - Ryan J. Tunis>: Okay. That's helpful.

<A - Evan G. Greenberg>: The franchise balance between the two, one is more large account brokerage-oriented and one is more agency and middle market-oriented though they're both in each other's space that way. And it's just going to enhance it.

<Q - Josh Clayton Stirling>: So, Evan, I was hoping I could start with a big picture question on strategy if you don't mind. I know you take a long-term view of the business, and I'm wondering if you can walk us long-term how you're thinking about growth.

I mean, if we look back the past decade, you've organically added a lot of products. You've done bolt-on acquisitions, entered new markets, and you took advantage more recently of a hardening market to accelerate the top line. But now that the market is softening and you've got Chubb to digest, I'm wondering how we should think about growth as we look out to next 5 or 10 years?

And in looking at the portfolio today, given all you built, what do you think long-term run rate for growth would be, so either the number you're shooting for internally or what we should think of as a sustainable target? Thank you.

<A - Evan G. Greenberg>: Yeah. I'm not putting out a long-term growth target, but I'm going to give you a picture. And I appreciate the horizon you're taking of 5, 10 years, and I'll deal just within the five-year period right now. We're already putting together teams to focus on what we see as meaningful growth opportunities, target opportunities. Chubb has approximately 4,500 agents in the United States who it has a deeper relationship with. Chubb has industry verticals in the middle market with deep product capability based on insights they have into those customer cohorts that they've done a lot of study and a lot of work on, very thoughtful.

Our ability to add, and we can see it, middle market oriented specialty products to the Chubb core portfolio to enhance industry verticals and grow them, to enhance general market customer, those customers in many instances in the products were contemplating together are already buying those products. And in many cases, those agents are already selling those products. It is not doing it for Chubb or that agent is not selling it to that customer, someone else is. And we see a whole lineup of that on one hand.

Number two, the small commercial space is an area – a very big marketplace, and it's an area that ACE hasn't been endeavoring along in a specialty way. Chubb has been contemplating, and Chubb brings traditional product capability that ACE doesn't have. ACE brings specialty product capability and some technology that Chubb doesn't have. And Chubb brings distribution that is awesome to be able to move into that space. We see a very large opportunity that way.

When – and two other things on the U.S. when we think about it. In the upper middle market area, ACE doesn't have a good traditional product offering in commercial auto, in risk transfer comp. Chubb brings us capability in that area that will enhance our presence. Now you have to be mindful of underwriting cycle and sometimes it'll be a greater opportunity than others, and it is one of the death valleys, there are a few of them, of the insurance industry. So you have to be very careful. I make those comments so you understand we're well-informed about all that, we're underwriters. But that is a real opportunity for us to begin towing into.

In the personal lines area, stay tuned. That's $41B, as we can tell, marketplace, and we'll have between us somewhere around $5B of that. There are a lot of customers out there who are not buying high-net worth product, though they have the need of the coverages and the services that are provided. It's a long-term to grow that and get them out of the traditional writers that they are with into something, into a product that more meets their needs and they're not really price conscious, they just don't focus on it. But to stay tuned it's also about, Masterpiece has been a leader in the industry – in that industry. It really set the course and it may be time in a reasonable period of time to reveal Masterpiece 2.0 and that's on our radar screen.

When you get internationally, ACE has endeavored along both in brokerage and agency distribution as you know. We've grown both large commercial and we have grown middle market commercial business on the continent, in the UK, modestly in those and in Latin America and Asia.

Chubb colleagues that we will be adding bring us a lot more capability to add resource and industry verticals and product to our distribution and to our own and to bring enhanced distribution and to enhance our presence in that market. And we see it in a meaningful way, and there are three or four or five countries right now on our radar screen that we're building plans to move into.

So, I think the growth will start to show. It takes time to put in place. I think it will – and we'll find a way without gaming it in any way to reveal – to show you the progress. It won't be right away. But I think over the medium term, you look out a couple of years, you're going to see meaningful additional revenue streams that the two of us as one company will be able to get that the two of us independently would never get. And over five years, I think it's going to be very meaningful revenue that we'll throw off. We're underwriters. We're looking for margin. It'll throw off meaningful margin.

<Q - Josh Clayton Stirling>: Yeah. That's great. That's great, Evan. Thanks for serving so comprehensive. If I could switch gears just briefly, sort of the other side of the coin, integration and sort of operating risk management. Sometimes good deals sort of flounder from lack of attention and details once you close, and I'm sure [ph] it wasn't (38:38) for you guys...

<A - Evan G. Greenberg>: My [indiscernible] (38:40) laughing because...

<Q - Josh Clayton Stirling>: But ultimately, I'm wondering as you think about the history of the industry, you think about other deals that went sideways. What are the big risks for integration and leveraging the franchise that you guys are aware of and that you're sort of managing around to try to avoid them?

<A - Evan G. Greenberg>: I can't point to with specificity to what I – knowing what the failures are. I don't know them intimately of others. I can give you my own sense of it though, and that is that somehow you make a large acquisition and when it closes, it's like victory. I did it. We're done.

Frankly, from the day we announced or I should say the day after we announced [indiscernible] (39:31), we dove right into what it's going to take to integrate. We're deep into integration planning. You really – it is about detail. It's about understanding and causing all your colleagues to understand and everyone to conceptualize and then bring it down to a fundamental day-to-day action plan that you can execute. What are your expectations as to the true resource required? What does the organizational structure look like? And who are the right people for it? And what is the right cost for that kind of a business or that kind of a service organization? And it has been and is a drains-up exercise that we are going through. You want to get it done reasonably quickly. You can't linger on it or you're internally focused too much. And then you got to get on from the day you close with the implementation of it and you can't lose your appetite or your passion for the detail of it. And we're looking at the detail all the time and everyone is as we plan it, and we know we've got short time until we have to begin executing. And that execution takes time.

When you run the cycle, it takes you two years to get other than mop-up done, and you have to be relentless. You can't lose your focus, you can't get bored with it, you got to know it has to happen, and it takes leadership to lead people. It's a long march and you got to lead them from the beginning until the very end. And you got to be intimate with it. And at the same time, you've got to, in parallel, create for your organization the vision of why you're doing it. Because you're doing it for the greater good, you're doing it for the efficiency, you're doing it to be competitive, you're doing it so you can invest and you got to lead to it and show it. Because in parallel you got to move on growth opportunities and show the positive.

At the same time, you're working on what is a difficult process of integration. And it takes a wide bench of managers. And the managers are the team that has to lead it and that team is inclusive. It's not a we and they. Very quickly, it is not ACE and Chubb. It is just Chubb and it is all of us. And it's getting people's mental mind around that that you are – that that's who you're dealing with. We are all colleagues; let's just get it done together. That's the whole deal, man.

<Q - Jay H. Gelb>: I want to follow-up on that comment, Evan, on the high net worth market, I just want to clarify, are you sizing the high net worth personal lines market at around $40B, of which the commodities Chubb would have $5B currently?

<A - Evan G. Greenberg>: Go ahead, Juan.

<A - Juan C. Andrade>: Yeah. So, Jay thanks for that. So, the...

<A - Evan G. Greenberg>: You may correct me.

<A - Juan C. Andrade>: The U.S. personal lines market is roughly about $250B. I think the last estimate that was out there from Conning and a few others estimates high net worth to be roughly in the $80B range. What we're referring to in the $40B range is really our sweet spot in our target clients on what we'd like to go after. And so when we think about our true client strategy of being high net worth – ultra high net worth customers, that's really how we're sizing that market.

<Q - Jay H. Gelb>: Okay. Why would the target market be half the total?

<A - Juan C. Andrade>: Well, these are...

<A - Evan G. Greenberg>: Isn't that big enough for you? $40B is pretty big.

<A - Juan C. Andrade>: You like chasing on that?

<A - Evan G. Greenberg>: How about when we get close to that target, we'll start arguing about the other $40B?

<A - Juan C. Andrade>: These are approximate numbers. And the way that some of the firms out there, the consulting firms, et cetera, and the research firms identify high net worth is not exactly the way we do it. So, for instance, Conning and a lot of the folks out there will define anything over $1mm in value. Our homes typically are over $2B and $3B in value and higher. So we do identify a subset of that high net worth market. That's really what we're looking at.

<Q - Jay H. Gelb>: All right. That's helpful. Then, I guess, more for...

<A - Evan G. Greenberg>: Don't worry Phil, you meet our target customers.

<Q - Jay H. Gelb>: Oh, that's – actually, I am an ACE homeowners customer. I don't think I'm [indiscernible] (44:23).

<A - Evan G. Greenberg>: Thank you very much.

<Q - Jay H. Gelb>: I might not be your target market though. With regard to the share buyback story…

<A - Evan G. Greenberg>: Buddy, you're always are. Go ahead.

<Q - Jay H. Gelb>: With regard to the share buyback, can you kind of clarify what the plan is for 2016 after the merger closes, and then what you're thinking about in terms of share buybacks as a percentage of annual earnings going forward?

<A - Evan G. Greenberg>: Yeah. What we've said is that for 2016, we expect no buybacks. And when it gets to 2017, we'll let you know, right? We'll see how the capital develops, and we'll make that position as we go into 2017.

<Q - Jay H. Gelb>: Historically, ACE standalone...

<A - Evan G. Greenberg>: Buybacks are not the first thing on our mind.

<Q - Jay H. Gelb>: Okay. I mean, historically, ACE has repurchased around the equivalent of half of annual operating earnings, and Chubb was higher. Is that half level a potential starting point?

<A - Evan G. Greenberg>: What are you calling historic?

<Q - Jay H. Gelb>: 2014?

<A - Evan G. Greenberg>: I'm thinking the last 12 years, buddy. And I don't know that you've come to that number.

<Q - Jay H. Gelb>: All right. And then the last one, if I can try on this one. So, the ACE's effective tax rate is in the low teens. Chubb's is in the mid-20s% including the benefit for Chubb of a big municipal bond portfolio. Putting those two things together in year one after the transaction, is it then reasonable to expect that the new ACE-Chubb would have a higher tax rate than ACE on a standalone basis?

<A - Evan G. Greenberg>: Yeah. That's the way we plan it, right? We've said that we don't expect to see – we don't expect – well, we haven't built into our plans any changes to the reinsurance. As you know, our view has been this deal stands up without that, and so that's the way we're going forward.

<Q - Jay H. Gelb>: That's what I thought, too. Thank you.

<A - Evan G. Greenberg>: No material on reinsurance.

<Q - Sarah E. DeWitt>: Just a follow-up on the tax question. I would think there would be a substantial opportunity to put in some internal quota share reinsurance and incremental savings on the tax side as well. Could you just elaborate on why that wouldn't be the case?

<A - Evan G. Greenberg>: No. We're not going any further with that line of thinking. But if you want to elaborate on why you think there is that opportunity, we're listening.

<Q - Sarah E. DeWitt>: Okay. Yeah. I think it's a – I wouldn't – it could be like you'd leave any money on the people, I think that would be a meaningful additional revenue stream in addition to the strategic sense of the deal. Okay, then just moving on...

<A - Evan G. Greenberg>: Well, I think you're – Sarah, I think you're not thinking of it the right way. Not the way we think about it. We don't do internal reinsurance for tax planning purposes and we never have. We do it for capital management purposes and we do it around how we manage our risk exposures and where we pool capital and, therefore, pool risk so that we can manage volatility and we can manage our capital exposures that are spread around the world to be able to take the risks we take locally. So if you think that way about it and you put your head around that, I think that then that leads you to a whole another line of thinking. And I think you then understand why we're not going to expand on that on the call.

<Q - Sarah E. DeWitt>: Okay. Fair enough. And then just the unfavorable development in the A&H business, could you just elaborate on what drove that and how we should be thinking about the run rate life earnings going forward?

<A - Evan G. Greenberg>: Well, I think the A&H – we had a positive prior-period development last year. And so we can't – we just can't project reserve development. This year $6mm, it was noise and there's nothing systemic. And it was in a portfolio where we just saw that it's quite profitable portfolio, but the loss ratio was running a little bit higher in there than we had estimated and so we adjusted forward and just raised it.

<Q - Vinay Misquith>: The first question is on the soft issues with integration. I'm sure you're doing a lot with the details. But just a big question on the cultural integration. Evan, it would be helpful to hear from you, to your own experiences and what's being done on a firm-wide basis to integrate two very different cultures.

<A - Evan G. Greenberg>: I have to tell you, the more we get in and look and the more we work together, the more in my mind and I think in the mind of my colleagues and I believe in the mind of our Chubb colleagues, those who've been working together, the cultural differences, there are far more cultural similarities than cultural differences. And I think the differences have to do a lot with simply speed and have to do within – in some areas, what we consider, what management responsibilities or supervisory level responsibilities, how broad are your responsibilities.

I don't think – I think what's so similar is our striving to execute with excellence, our striving – we both put a lot of pride on technical excellence, whether it is in underwriting, or in claims, or in product, or actuarial, or in accounting. I think you find that – and that's one of the things we're seeing. Each one comes to the table and has sniffed the other one out as to how are you about, how detailed are you, and how deeply do you think about it? And I think we find that the similarities are gratifying. When we listen to each other's objectives and what you concentrate on and focus on to execute your plans, what's important to you, speak in very similar ways. When we think about opportunities, we see it in a similar way.

Chubb is an older company and has some of the attributes that we admire of an older company that is more mature in some ways in its processes and capabilities. I shout out claims to some degree, but more training and development and some areas like that. ACE has invested more in technology, I don't mind saying that. As an example, we're both deep into data analytics.

Culture requires – now to answer your question directly, it requires leadership and management to be extremely visible in the behaviors and exhibiting the behaviors that they expect of everyone else. It's not just what you say; it's how you do it. People watch your actions, and then they listen to the exact words you use, not your description of culture, but how you live the culture. That is true of the senior most leadership and how we all display it. That then is emulated by the leaders at the next level. And on down and it cascades. And that we are all vigilant to reinforce that is important.

Yes, at the same time, we have groups working on what I'll call them more mechanical ends of it of language that we use in common so that we know what each other is saying of being clear of here are some of the behaviors that we all admire and should accelerate, what our brand identity is together. And so we give ourselves a name of, a meaning behind the name of Chubb. Those are all things that we're paying attention to, and that will happen here.

But finally culture is also built on shared experiences in my experience, and that is the more people work together and have shared experience together, that's what builds a common team spirit between yourselves. That's how you take from what starts out as a little more sterile to absolute familiarity and where people really are one because they've gone through it together. And you can't short circuit that. You can try to help it to happen and create those experiences. That'll happen over time, and you pay attention and you be patient about that part.

<Q - Vinay Misquith>: Okay. That's helpful. The second question is on the small commercial initiative. My thoughts or my views about small commercial is that it's more of a low touch business vs. maybe the middle market to the higher end which is more high touch and that small commercial is driven by technology. So, could you help me understand how long do you think you would take to build up your technology and what sort of investment do you think it would entail for you to be a meaningful player in small commercial?

<A - Evan G. Greenberg>: Stay tuned Vinay. We're not going any further with the roadmap.

<Q - Jay A. Cohen>: A lot of my questions have been asked. One other question. Phil, I think you've talked about a run rate of $540mm for investment income. I believe last quarter it was $550mm, although the new money rate is still the same at 2.9%. So, what – it's not a big number, but what changed in the interim?

<A - Philip V. Bancroft>: We have to make estimates of calls and private equity distributions. And in our view, the portfolio is turning over to the new money rate even with the additional cash flow.

<A - Evan G. Greenberg>: FX, too.

<A - Philip V. Bancroft>: Yeah, we have FX as well, but we had it this quarter.

<A - Evan G. Greenberg>: Yeah.

<Q - Jay A. Cohen>: Okay. It makes sense.

<A - Evan G. Greenberg>: The dollar has strengthened more too, Jay.

<Q - Ian J. Gutterman>: Evan, first I just wanted to clarify. I believe you said that you hope to close the deal on early first quarter. And if I recall, last call you just had first quarter. Was I not listening closely enough last quarter or was that a change?

<A - Evan G. Greenberg>: This – Ian, it's like Kremlin watchers. There's no change, okay?

<Q - Ian J. Gutterman>: Okay.

<A - Evan G. Greenberg>: We have no change of sentiment. We're not worried about it. It's, yes, first quarter.

<Q - Ian J. Gutterman>: Got it. Okay. Just you obviously gone through some approvals already, so I don't know if that [ph] sped (56:50) things up. Okay. So, I also wanted to ask on the personal lines just to understand a little bit better. The difference between how you go to market with Chubb and the Fireman's deal. So if I understood the way you were saying it, under Fireman's essentially, that name doesn't exist anymore, right? So, you're just going to market, everything's – when they renew, it becomes ACE and if you're going to have two separate papers in the market going forward, it's obviously, I mean, I just know when I have shopped before, right, you get four or five names like I had shown to you. It's not like you got 20, like a standard to market personal auto.

So, how in the agents' mind, are they going to have two, are they going to have a representative from ACE and a representative from Chubb that they are going to deal with? How do you not confuse the agents? I guess what I'm trying to get at if they're going to have two separate [ph] plans (57:45)...

<A - Evan G. Greenberg>: It's really – Ian, it's really simple. They're going to have one Chubb person call on them. I'm going to ask you a question about your homeowner's insurance? Now here's your test buddy.

<Q - Ian J. Gutterman>: Okay.

<A - Evan G. Greenberg>: You have an insurance company that you bought it from. Do you know the statutory company name on the paper, the actual statutory company name? So, for instance, you buy from Chubb – you could be buying, you're buying federal paper most of the time.

<Q - Ian J. Gutterman>: Right.

<A - Evan G. Greenberg>: Do you know it's federal? Or do you buy Chubb?

<Q - Ian J. Gutterman>: I understood. Okay. Okay, so, you're not going to have two separate...

<A - Evan G. Greenberg>: So, in this case, there's going to be under the Chubb brand umbrella multiple statutory entities.

<Q - Ian J. Gutterman>: Okay.

<A - Evan G. Greenberg>: And so if [ph] you're the other (58:28) statutory – if you bought from Chubb, you are going to still have Chubb. And there's going to be one Chubb representative calling on your agent who is servicing you. I hope you're going to be one of our clients.

<Q - Ian J. Gutterman>: I already [ph] am. So… (58:41).

<A - Evan G. Greenberg>: And so, the underlying paper won't change. It may still say ACE America as an example.

<Q - Ian J. Gutterman>: Okay.

<A - Evan G. Greenberg>: ….or say federal, that's the only thing we're saying. You have to distinguish the statutory. That's it.

<Q - Ian J. Gutterman>: I understood. Okay. I want to make sure you won't go into market with how Chubb was going to.

<A - Evan G. Greenberg>: No, no, no. We haven't [ph] launched it online (59:01).

<Q - Ian J. Gutterman>: [indiscernible] (59:02) at ACE. Got it. Got it. Okay. That's why I was worried about. Okay. Got it.

<A - Evan G. Greenberg>: Well, you got your [ph] head (59:07) too where there's been an emotional and an intellectual test here that you are concerned about us right now.

<Q - Ian J. Gutterman>: I do. I am a Chubb client. So I just want to make sure you're not going to take away my [indiscernible] (59:20) back up for me.

<A - Evan G. Greenberg>: Your file is on one Juan's desk today.

<Q - Ian J. Gutterman>: And then just lastly, you mentioned the asbestos usual analysis in Q4. Just given – any changes you're seeing in the environment? We've seen, I think, from others, charge continue to tickup a little bit. It sounds like there's a little bit of increase – sort of the typical increase in defense costs, maybe, [ph] I don't know (59:46) worse, maybe we're getting more real mesos as people are living longer. Anything – any color you can provide on it – is this sort of business as usual? Or does it feel like things have gotten a little worse?

<A - Evan G. Greenberg>: I think business is usual in what remains just a hostile environment. The liabilities are long dated and they're in runoff. But we don't see any – we don't see change to the environment. The legal environment has been hostile for years. And that remains. The mortality tables and mesos living longer has been baked into the thinking in that environment. You're right, that is something we've been living with as a dynamic. The plaintiffs going to more peripheral industries and defendants, whether it's pump manufacturers or those who make flooring has been going for a number of years.

So what you end up with in development is really case-specific as the cases ultimately develop and settle, which is claims work much more than it's actuarial work.

<Q - Brian R. Meredith>: Yes. Thank you. So, Evan, just a quick question here. Last quarter, I think you mentioned that even with the FX, you expected to see mid-single-digit revenue growth in the P&C business. Through year-end, it does look like that's achievable. What's changed?

<A - Evan G. Greenberg>: FX.

<Q - Brian R. Meredith>: The FX is just worse and you...

<A - Evan G. Greenberg>: Yeah. FX is worse and that's primarily. Asia and Latin America economically are a little slower and you see some softness there. But that impacted us in Q3 on the margin – a bit marginally. It was more FX, it was worse than – we took another leg down. The dollar took another leg up.

<Q - Brian R. Meredith>: Got it.

<A - Evan G. Greenberg>: …and you saw that. And that was not in our forecast. That was not in what we had forecasted. We did not anticipate that. That is how we would have.

<Q - Brian R. Meredith>: Okay, great. And then, next question, what other regulatory approvals do you still need to close the Chubb transaction, the major ones?

<A - Evan G. Greenberg>: Sure. We need insurance department approvals.

<Q - Brian R. Meredith>: Okay. [indiscernible] (1:02:42) okay.

<A - Joseph F. Wayland>: State and countries...

<A - Evan G. Greenberg>: Six or seven – Joe is – go ahead.

<A - Joseph F. Wayland>: Yeah. We need approvals from six or seven state insurance departments and we need approvals from about the same number of foreign regulators as well.

<Q - Brian R. Meredith>: Okay. And then last question to Evan. So, ACE is known as a very efficient operator out there as one of the insurance company. I'm just curious, when you look at Chubb, what disciplines or what area do you think you could make them more efficient? Are there areas that you've kind of identified? Not so much merger synergies, but more what Chubb does?

<A - Evan G. Greenberg>: I don't know enough yet. I can tell you one thing that what I – they are thoughtful underwriters, thoughtful leaders that way in how they think about their domain and their business and we've seen that. And they've been very – they're thoughtful in how they manage claims and a lot of expertise. I doubt we're going to lend a lot of benefit to their fundamental underwriting thinking. I think there'll be colleagues and it will be on the margin that will each find it. I think some of our rigors and process around enterprise risk management and how we think about it, and how we think about concentrations of exposure and how we think about using our own capital and industry capital to manage that. I think that putting the two together, we will gain from that.

I think we'll both gain from the insights over time. It's not like throw the switch into the data and analytics of the two of us in that regard. I think that ACE – Chubb has deep distribution knowledge and experience in agencies that will help us, help ACE. On the other side of the coin, ACE has very broad distribution capabilities and experiences in other channels of distribution, including direct response. And we have technology in those areas that I think will over time we will mix and match for each other and help improve our overall distribution management.