S&P Capital IQ

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Chubb Limited NYSE:CB

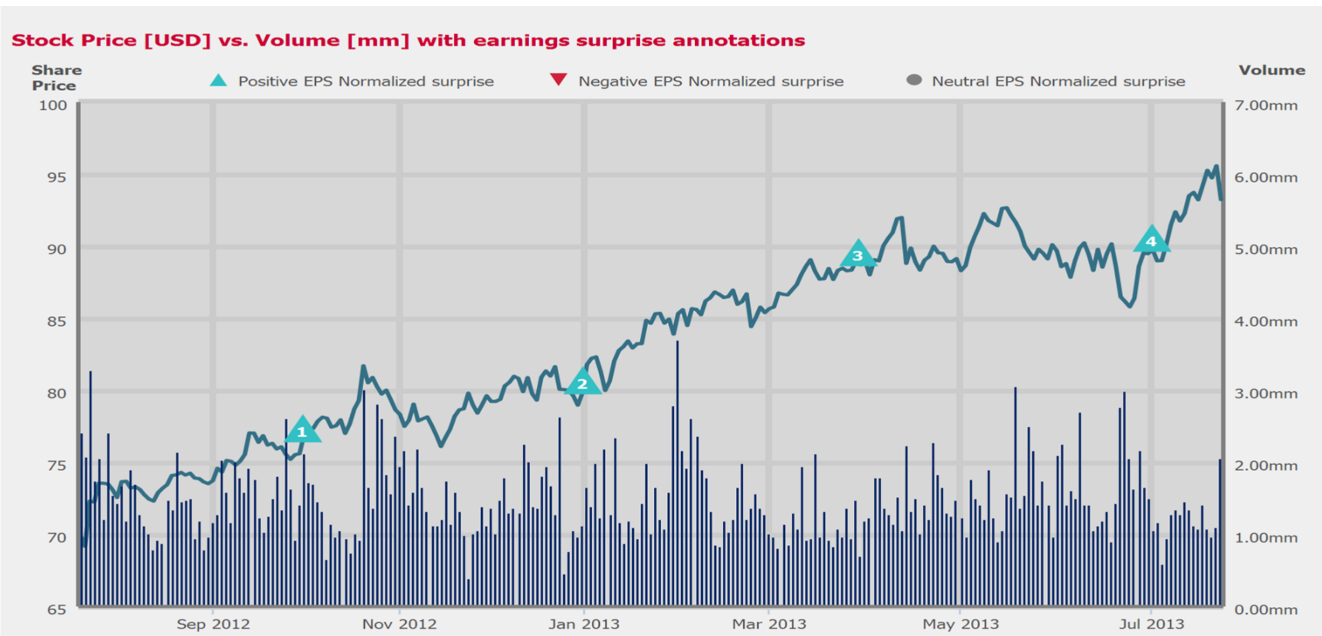
FQ3 2013 Earnings Call Transcripts

Wednesday, October 23, 2013 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2013-			-FQ4 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.23	2.49	▲11.66	1.95	8.82	8.31
Revenue (mm)	4429.95	4141.00	▼(6.52 %)	3350.00	14755.00	16205.32

Currency: USD
Consensus as of Oct-23-2013 1:29 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2012	1.83	2.01	▲9.84 %
FQ4 2012	1.27	1.43	▲12.60 %
FQ1 2013	1.93	2.17	▲12.44 %
FQ2 2013	1.95	2.29	▲17.44 %

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Presentation

Operator

Good day, and welcome to the ACE Limited Third Quarter 2013 Earnings Conference Call. Today's call is being recorded. [Operator Instructions] For opening remarks and introductions, I would like to turn the call over to Helen Wilson, Investor Relations. Please go ahead.

Helen Wilson

Thank you, and welcome to the ACE Limited September 30, 2013, Third Quarter Earnings Conference Call. Our report today will contain forward-looking statements. These include statements relating to company and investment performance, guidance, pricing and insurance market conditions, all of which are subject to risks and uncertainties. Actual results may differ materially. Please refer to our most recent SEC filings as well as our earnings press release and financial supplement, which are available on our website for more information on factors that could affect these matters.

This call is being webcast live, and a webcast replay will be available for 1 month. All remarks made during the call are current at the time of the call and will not be updated to reflect subsequent material developments.

Now I'd like to introduce our speakers. First, we have Evan Greenberg, Chairman and Chief Executive Officer; followed by Phil Bancroft, our Chief Financial Officer. Then we'll take your questions. Also with us to assist with your questions are several members of our management team.

Now it's my pleasure to turn the call over to Evan.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Good morning. As you saw from the numbers, ACE had another record quarter. Our earnings were driven by exceptional underwriting results and very strong premium revenue growth globally in our P&C and A&H lines of business.

We delivered strong returns for shareholders. After-tax operating income for the quarter was $857 million, up nearly 25% or $2.49 per share, both records for the company. Our operating return on equity was 13% for the quarter, while per share book value increased about 3.5%.

Our underwriting results in the quarter were simply excellent. We produced $558 million of total P&C underwriting income, up 67%, and our P&C combined ratio was 86.5%. We benefited, of course, from a quarter with relatively light cats versus what we planned. The losses were modestly higher than last year.

It's interesting to observe that if you back out the income, we earned, because cat losses were lower than planned, our after-tax operating income was $2.21 per share. We aren't relying upon low cats to produce low results. Our business is broad based, healthy.

Said another way, our current accident year underwriting was a substantial contributor to our overall results in the quarter. Current accident year underwriting income, excluding cats, was up about 180% over prior year with a combined ratio of 89.8%. This was over 6.5 points better than the third quarter last year, which was impacted significantly by drought losses in our crop insurance business.

The current accident year results also reflect the growth globally in our P&C and A&H businesses as well as continued margin improvement in North America as a result of better pricing and mix of business and margin improvement internationally as a result of product and geographic mix.

Turning to premium growth. Global P&C net premiums in the quarter grew 9%. Global P&C is a term we are introducing for ACE that includes North American P&C, excluding agriculture, Overseas General and Global Reinsurance. Crop insurance is a distinct business, where revenue is much more affected by such things as commodity prices and how we share premium and loss with the government. And this can be volatile from period to period and have nothing to do with the underlying health of the business.

In the quarter, foreign exchange was a factor and impacted Global P&C net premiums by 1.7 points. On a constant dollar basis, Global P&C net premiums grew over 10.5% with growth coming broadly from all regions of the world: North America, Asia, Latin America and Europe.

In North America, retail, commercial and specialty P&C net premiums were up over 9%, while our wholesale specialty business was up nearly 15.5%. Net premiums for our agricultural business were down, in line with our expectations.

Internationally, retail commercial P&C premiums were up 10% in constant dollars. We saw growth in every territory with Latin America leading the way, up 20%. Asia PAC was up 8%, and Japan was up 11%, while both the U.K. and the continent were up 4%.

In our global A&H business, net premiums were up close to 5% in the quarter in constant dollar. We had strong results in our international business, which was up 10%, led by Asia and Latin America with growth of 14% and 11%.

Our global personal lines business continued its strong growth momentum in the quarter, particularly internationally where net premiums were up 90%. Again, these results reflect the contribution from our acquisitions in Mexico, without which we had growth of about 22%, quite strong.

International life insurance revenues were up over 15% on a constant dollar basis with growth coming mainly from our operations in Asia.

And lastly, net premiums in our Global Re business were down 2% after adjusting for a onetime large transaction from the prior year. The reinsurance market has an abundance of capacity, as we have discussed on prior calls. As with all of our businesses, underwriting discipline is more important than market share.

I want to say a few words about the current market environment. Our commercial P&C business in the U.S. continued to benefit from a better pricing environment with another quarter of rate-on-rate increases.

Overall, North American commercial P&C pricing was up about 3.5%. While the rate of increase for property-related pricing is flattening out, casualty-related pricing remained favorable this quarter.

And let me add some color around retail versus wholesale. In our U.S. retail business, property- and casualty-related pricing were each up 3.4%. We saw good results in risk management-related lines, where pricing was up 6%. Professional lines E&O, D&O were up 4.3%. General casualty and specialty were up about 4.8%, while medical professional-related risk pricing was down 4%.

Excluding one large risk management transaction we wrote last year, new business grew 6% year-on-year in U.S. retail. Our renewal retention rate, as measured by premium, was 94%, which is quite strong.

On the U.S. wholesale side of our business, rates were up 3.6% overall with property up less than 1% and casualty-related lines up 6.5%.

Internationally, the retail commercial P&C rate environment remains competitive but reasonably stable with rate growth essentially flat in the quarter overall. Rates internationally varied by class and by territory but were mostly up or down 1% to 3%. My colleagues and I can provide further color on market conditions and pricing trends.

In summary, again, we had all-time record earnings. We are firing on all cylinders and continuing to achieve strong, broad-based growth despite the economic and geopolitical headwinds we are confronting in all regions of the world. We have a clear strategy and a strong ability to execute, though rest assured we are impatient with ourselves and striving for constant improvement.

With that, I'll turn the call over to Phil, and then we'll be back to take your questions.

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

Thank you, Evan. As Evan mentioned, we had an excellent quarter with record operating results. Cash flow was strong at $928 million. Cash and invested assets grew by $740 million to $61 billion.

Tangible book value per share grew 3.9%, and total capital now stands at over $34 billion. Net realized and unrealized gains were $55 million pretax, which included a $47 million gain from the investment portfolio and a $43 million gain from our variable annuity reinsurance portfolio, partially offset by $30 million of foreign exchange losses.

Investment income was $522 million and was in line with our expectation. Our current book yield is 3.6%. Current new money rates are 2.9% if we invested in a similar distribution to our existing portfolio. We estimate the current quarterly investment income run rate will be approximately $525 million with some marginal variability up or down.

Our net loss reserves were up $500 million. We had positive prior period development of $210 million pretax principally from long-tail lines and from accident years 2008 and prior. This included $60 million of adverse development for legacy environmental liability exposures from our runoff Brandywine operation.

We changed our review process. We now conduct our environmental review in the third quarter and our asbestos review in the fourth quarter rather than both at the same time.

After-tax cat losses were $70 million, comprising $24 million from development relating to second quarter events, primarily the European and Calgary floods, and $46 million of third quarter cat losses from a range of worldwide weather events.

The combined ratio in our North American agriculture segment was 92.3%. We have increased the full year loss ratio this quarter for our crop insurance business by approximately 2 points, and that revised view is reflected in the third quarter's combined ratio. While yields per acre are projected to be at or above historical averages, commodity prices, mainly for corn, have dropped substantially, and that's creating additional loss exposure. We expect a combined ratio consistent with the historical average of just below 90% for the fourth quarter of 2013.

The company updated its July guidance for full year 2013 to account for a positive prior period reserve development, lower-than-planned catastrophe losses and better current accident year results, excluding catastrophe losses, in the third quarter. The range is $8.65 to $8.90 per share in after-tax operating income for the year. This includes estimated catastrophe losses of $95 million after tax for the fourth quarter of the year. Guidance for the balance of the year is for the current accident year only.

And now, I'll turn the call back over to Helen.

Helen Wilson

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

Operator

[Operator Instructions] We'll go first to Amit Kumar of Macquarie Capital.

Amit Kumar
Macquarie Research

Congrats on another strong quarter. Just 2 quick questions. First of all, going back to the comment on pricing on the international side, I think you said rates are sort of up or down in the 1% to 3% range. Could you just sort of expand on that comment? I recall you mentioned that even in the past quarter. Is it more for loss cost issue? Or is it the competitive players?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

It's -- the 1% to 3% is a -- is really competitive environment. Frankly, there are plenty of lines and plenty of territories that we think could use more rate. And if rates were higher in some of those areas, we'd write more business. So we're discriminating between rate -- between class of business and territory. And as we do portfolio management between cohorts within that where we find rate adequacy, we'll write the business. But other than that, we're walking away from plenty of business. And by the way, that 1% to 3% is the rate that we observe on our book of business. We're walking away from business where there is just substantially more rate differential than that. And if you want, for just a moment, let me ask John Keogh to add a little color around that.

Amit Kumar
Macquarie Research

Yes.

John W. Keogh
Chairman

Sure. I mean, what I'd maybe give you is a sense of how that would look around the world because, obviously, different markets are behaving differently at any point in time. And I think I said last quarter the one place outside of North America where we are seeing some rate improvement is the U.K. market. And I think there, I think with the low interest rate environment, you are seeing some discipline, particularly in casualty lines to push rates up. On the continent, it's pretty stable. It has been for a number of quarters in terms of the rate environment there. Where we're seeing the most pressure and the most competition would be Latin America and Asia in general, particularly in property in Asia. But I would note that as property rates are soft in Asia, that's after several quarters of significant rate increases following the catastrophes that took place out there the last couple of years. So there, you've seen prices start to come off after some quarters of rate increases.

Amit Kumar
Macquarie Research

Got it. That's helpful. The only other question I have is sort of a broader discussion on the acquisition pipeline. If you thought of -- Evan, this is for you. In terms of the pool of acquisition opportunities that you feel would meet your return targets, I guess, within the -- in 1 to 3 years, what region would be more likely more attractive going forward from here?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

It really isn't a region specific. It's -- it really is a target specific, a company specific where you're looking at that. I don't notice a trend by region or by country.

Amit Kumar
Macquarie Research

Okay. Because the reason I was asking is I think someone recently mentioned the Scandinavian countries, and I don't know if you had a view on that or not.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Well, the -- we have a business in Scandinavia that is doing quite well. The Scandinavian market is a -- overall is a reasonably closed market. It's -- it has -- it's not overly big, and it is kind of off by itself. And it has a few large competitors who do quite well in the marketplace. It's not an overly dynamic market. And so it's not like you're going to find a lot of opportunity roaming around in Scandinavia.

Amit Kumar
Macquarie Research

Got it. Okay.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

But -- I mean, it's not like you're going hunting in Scandinavia.

Amit Kumar
Macquarie Research

Yes, I've never gone hunting there. I never [indiscernible].

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

It's very company specific. It's very company specific.

Operator

We'll go next to Mike Zaremski of Crédit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

I guess another question on pricing. Property pricing levels sound like they continued to moderate. Should we expect the same from casualty lines given that investment yields are up from their lows? And if I look at industry-wide casualty-related loss ratios, they don't look too bad. And maybe we can also get some commentary on the reinsurance rate outlook.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Yes. The -- your comment on interest rate, before Congress -- all the congressional antics shutting down the government, may have been more applicable. But as you know, a lot of the improvement in interest rate given back the last 2 months. And interest rate levels, when you got a 10-year treasury bouncing around the 2.5% mark, I think you can hardly call that robust. So our reinvestment rates, about 2.9% on our distribution versus portfolio rate of 3.5%, and that's pretty -- I say that about ACE because that's pretty reflective of the industry. So hardly our interest rate supporting right now income statement substantially. The casualty rate environment -- casualty rates, in my judgment, in many classes, are still not adequate to produce a decent ROE on the business. When you look at combined ratios and you translate it to an ROE, they're not decent enough. And at the same time, trying to project loss cost trends and believe that the past, the recent past, is an indication of the future, for ACE we don't believe that's a prudent way to view the business. So all that together says to me if you're a responsible underwriter, you're going to continue pressing for rate because on an overall basis, portfolio needs it. Now that's not every class. That's not very every cohort within a class. And the better your underwriting insight and ability to portfolio-underwrite, the more advantage you can take of the current rate environment as rates are rising. So in short, I don't expect casualty rates to follow property at this moment. I don't see it in the trades I observe. And secondly, even with that said, as you can see, ACE is growing well within many lines, and I think that's because we can find more opportunity within the current environment.

Michael Zaremski
Crédit Suisse AG, Research Division

Got it. Lastly, for Phil, quick numbers question. The cat load guidance for the rest of the year, $95 million, is that a full quarter fourth quarter? Or is that reflective of experience through this time in October?

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

It's the fourth quarter, it's the full fourth quarter.

Operator

We'll go next to Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just, I guess, in North America, Evan, what are the competitive dynamics or, I mean, the strategy you're employing that has led to the recent run of growth? I mean, is one particular class of business much more attractive than it has been in the past? Or is it more of a broad-based experience?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

It's very broad based. It is among -- we write -- the way we think about things, we write almost 200 lines of business. We subclass our business and respect each individually and really focus on it. And we're seeing growth across a broad array of casualty and physical lines-related business. And at the same time, we're -- it's years and years of practicing it. We are -- our marketing sales strategies, and I distinguish the 2, are so focused on different cohorts of the business population, from very large accounts, we call risk management, to upper middle market to the middle market to the lower end of middle market to micro, and whether it is ACE USA, whether it is what we call commercial risk, a separate division of the company to focus on the middle and lower middle market, whether it is the Westchester that focuses on middle or upper middle, you take portfolio management and the insight that we continue to work on to gain on each line of business, you focus that line of business on different customer cohorts, both by size, as I was just explaining, and, within that, the occupancies or the classes we like, and then you spread that on a sales strategy across geography, because you've got to dig deep within each geographic zone, and that's the -- we know our minds, and we have a clarity about it. And we think we're generally right, and that's what's some -- that's what's producing that.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. I guess -- and follow-up on that, I mean, it was sort of been near double-digit growth in North America P&C here for the better part of the year. And I think including this quarter, although I'm not sure you said that explicitly, but rate in excess of loss trend. The underlying loss ratio looks like it's about flat. I don't know if there's some noise in there on a -- from a comparability perspective, but, obviously, margins are great as a starting point. But when should that rate in excess of loss trend, combined with premium growth, start to roll through?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Okay. So last year, we had about 0.5 point worth of benefit in loss ratio that didn't repeat this year. On a normalized basis, it's probably about 0.5 point better, number one. Number two, you've heard my comment about loss trend, that sure, maybe on an observable basis, if you're looking at the past, you could say rate is exceeding loss cost trend. But that's not how we think about it. We look at more historical loss cost. And casualty, the decisions you make stick with you for a very long time. And we're not optimists, and we're unwilling to believe that a more benign loss cost trend of recent past is what we'll endure forever into the future. Sure, as you book your loss ratio, you might say the first 2 or 3 years of the paid pattern is going to be at the current trend. But after that, if you're prudent at all, you're going to revert to the mean in the loss cost trend you're picking.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And then the last quick one...

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

And in the future -- if in the future, your -- that proves to be conservative, then that will show up in your reserves and in your reserves studies. And that becomes prior period.

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

Understood.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Who cares whether it was current or prior? Just run your company conservatively.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Great. Last one. Do you hedge commodity prices? You mentioned the commodity price change since probably February. On the crop side, is that a disclosure that ACE hedges?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

That's a good question. Modestly. We hedge very modestly. Remember, we take a longer-dated commodity risk exposure, in essence, from March, because that's when the dance begins, until the end of October is kind of the commodity price exposure for us because that's when the government ultimately prices for loss, takes in on -- an October average. So we do a little hedging, but modestly. We do buy reinsurance, as you know.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Right. So you'll be able to push some of that loss on to the reinsurers then?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Well, you say loss. Let's be careful about that statement. We historically run the book -- it's historically run below a 90 combined. What we're saying is because of commodity prices and what we see, we're raising it to a 92 combined. That's not a loss, that's an 8-point underwriting gain. I mean, that's still a very, very good result, but a more conservative result and a little less than the -- than it has historically run in the average. So we're not foisting a loss onto reinsurers.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Understood. Lesser than normal, I understand.

Operator

We'll go next to Jay Gelb of Barclays.

Jay H. Gelb
Barclays PLC, Research Division

Evan, the 12% to 13% return on equity profile that ACE is generating currently, how would you put that in perspective relative to where we are in the cycle?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Well, our objective is to achieve a 15% over the cycle. We're running 12% and change for the quarter -- for the year and around 12.5%. Interest rate, I think we've said before that something like every 100 basis points of interest rates has a 2-point impact on ROE. So we're below what we would say is our objective over a cycle. Interest rates won't remain where they are forever. And our portfolio mix of business and our geographic spread and how we see our strategy to continue to build competitive advantage, I am a firm believer in the 15% over a cycle.

Jay H. Gelb
Barclays PLC, Research Division

And your acquisition strategy will help drive it there?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Well, the acquisition strategy is simply to complement what we're doing organically. And while we have our eyes open for opportunity and we're vigilant and we're constantly looking, what we can believe and what we look at, fundamentally, is what we can deliver organically because that's what's in our hands with both what we've built and what we've integrated into the company through acquisition. Acquisition is a part but not all. But remember, we showed a number, I think, last year. And don't hold me to it exactly, but that -- roughly, if you looked back on the last 7 years, 75% of the value we created or more came organically. The balance came through acquisition.

Jay H. Gelb
Barclays PLC, Research Division

On a separate topic, there's a move by FASB to meaningfully change the financial accounting standards for property, casualty and life insurers, and it seems that, that could cause a meaningful dislocation. So I was wondering if ACE could provide their view on that issue.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Well, we're in -- we're -- and I'm going to ask Phil to embellish on this, but we're in the -- we're very active in discussion with FASB. It's -- for me, accounting should truly mirror economic reality, and any improvement to what we have today ought to create better clarity and help to make things, the financials, more insightful for investors and investors to make decisions because it mirrors an economic reality. It's so interesting to me that the number we use and that our investors use and that we all find meaningful is operating income because it's non-GAAP measure, though it best mirrors what we think is the true picture. That says something about accounting. And when I look at the changes that FASB is suggesting right now, I get the theoretical. But that is divorced from practical reality and what investors really use to judge and what management really uses to judge one company to another or the health of a company. And the insurance accounting, as it stands today, has been around a long time, and it's been tested through all kinds of environments and it's reasonable. And I don't know what kind of problem we're trying to chase here by making changes. And the notion of it, well, is driven by convergence with IASB. Well, IASB has no insurance accounting standard right now. So I would suggest to them that they adopt what has been tried and tested, and that is U.S. insurance accounting. And finally, what I'd say is the notion of fair-valuing all, and that, that somehow is the best indicator of value, particularly for a buy-and-hold company and also the notion of introducing more volatility, because you're going to try to predict long-term cash flows on businesses that are currently not stable, in my mind, is imprudent. And I don't know whose benefit you're ultimately serving except a bunch of academics. Phil, do you want to add anything to that?

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

I don't know if I can add anything to that. I would say, though, that we're working act -- I'm working actively with my peers in other companies to meet with both the SEC and the FASB to express that view that Evan just talked about. And we're also working to have our investors understand the issues so that they can voice their opinion as well. So we all felt very strongly about it here.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

And you can tell, I do feel a little passionate about it.

Operator

We'll go next to Greg Locraft of Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

I wanted to just maybe one last time as we talk about guidance at ACE, and I'm certainly not going to miss it. But can you sort of educate us, how are you going to talk about guidance going forward? Are you going to give none? Are you going to give some, but not the overall EPS? What are you going to do when the fourth quarter is reported?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Boy, I don't want this to turn into a headline across Bloomberg, but I know it will. We're just going to end up trading one hell for another. We're not -- we intend that we are not going to provide guidance, period, that you will do your work you know enough and we will report. At this moment in time, where we are is we will not provide guidance, period. As we have said, we might give elements like our investment income run rate and those things that might be helpful but, I mean, that's where we are.

Operator

We'll go next to Vinay Misquith of Evercore Partners.

Vinay Gerard Misquith
Evercore ISI, Research Division

The first question is on the crop insurance business. Just curious what were the sessions to the federal government at this quarter. And looking at the premiums for the year, that's about $1.4 billion. If crop prices stay at these levels, what do you estimate you're going to have sort of the next years in premium, do you think it's going to be lower?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Yes, the premium -- yes, if the -- to answer it simply, the premium would be lower. But the premium, I think, is the -- frankly, for all the businesses that we engage in, I think the premium is the least effective means of determining the health of the business when it comes to crop insurance. Because you're -- it doesn't really -- it's not indicative of ultimate profit and loss of the business and even quantum, necessarily, of profit, the way it works. Your premium moves around from period to period, not just based on commodity prices, but how you share risk, something called the SSAP, which we're really not going to get into today. But that is the area that governs the calculation between the government and the insurer of how you share premium because of loss experience. And last year, ironically, premium goes up in the third quarter substantially because we're going to have more loss. On the other side of the coin, we're going to see a better premium growth versus last year at this time in the fourth quarter because of the same anomalies around a drought environment. It just is not indicative period to period. So yes, to answer your question, if commodity prices stay where they are, you'll price off of that in March. It doesn't -- it -- and premiums will be lower. But when we think about underwriting profit, they really don't line up exactly.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. That is helpful, though. Okay, so I thought -- well, because in simple math I thought is that you target, say, maybe a steady below 90 combined ratios, so say that you target an 89 combined. And so if the top line is down 5%, I would think that the bottom line will also be down 5%, but maybe I'm being too simplistic about it.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

You're being too linear in how you think about that. And understand, it's over -- that 89 is over a period of time. You can be worse 1 year, better another year. And also remember, if you start commodity price, when you price a contract at a lower-than-historic average, you actually have reduced exposure to yourself to some degree. You have less exposure to falling commodity price. Now you still have the exposure, but less so. You start at $5 corn versus $4 corn, well, your exposure just changed, too. So all that has to go into how you think about this.

Vinay Gerard Misquith
Evercore ISI, Research Division

Sure, fair enough. The second question was on growth. You've grown a lot in North America, and probably Europe was hurt by a slow economy. So do you expect growth to reaccelerate in Europe and maybe to slow down a bit in North America as pricing slows down here?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Well, Vinay, first of all, exposure growth -- we had exposure growth in the quarter which comes from economic activity of a couple of points. I do expect that Europe will slowly pick up. I don't think we're going to feel Europe much different next year than this year. The difference between 0.5 point down economically and 0.5 up isn't much. And then what I'd tell you is the U.S. economy, if it grew through the second quarter, was projected to grow for the year roughly 1.8%. Remember, that sequester scrubbed about 1 point or more off of that. And so next year, you ought to see the U.S. economy, on an absolute sort of apples-to-apples basis, grow closer to the 2.5%, somewhere between 2.5% to 3%, depending on what our colleagues in Washington do, whether they help it, hurt it or at least do us a favor and be neutral. And so I don't expect that much of a difference. I do think that the pricing environment is ameliorating, is moderating. Property is flattening out. You're not getting -- casualty, you're getting rate-on-rate, but the rate is not accelerating, it's leveled out. And so you do have to take that into consideration when you look forward into growth rate. We've had good growth, and I expect that we'll continue to have reasonable.

Operator

We'll go next to Thomas Mitchell of Miller Tabak.

Thomas Spikes Mitchell
Miller Tabak + Co., LLC, Research Division

I have a -- my first question is sort of a big picture which is that for many, many years, casualty lines underwriters were able to plug in interest rate factors, yields on the cash received and not pay it out for a number of years that were 2x or 3x or even more what they are now. In the process of underwriting and sort of looking out with the potential that interest rates may move up by another 1.5 or 2 points or more over the next 2 or 3 years, how would you anticipate, if you would, changing your own underwriting approach to take that into account? And then secondly, how would you anticipate the rest of the industry responding to that kind of change?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

I'll answer your question very simply. It's not a long answer. We don't cash flow underwrite here, so we don't consider interest rates and the investment income we make. We consider only to make an underwriting profit, flat and simple. So there's really nothing more for me to say about that. And how the balance of the industry will react, good underwriters will do the same. Mediocre underwriters will think differently, and they will double down on risk. Oh, you can project the loss cost, and at the same time, you can project interest rates?

Thomas Spikes Mitchell
Miller Tabak + Co., LLC, Research Division

Very good answer, I like that. Now the second thing I had in mind, and if this gets too complicated, you can put me off-line. But your retention in the third quarter in the crop line was about 55% this year. It was about 80% last year. Is that something that you decide or is it in that complicated formula?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

It's in that complicated formula. It strictly has to do with how we share loss with the government. And just very simply, when you're going to have a loss year as you do, the -- you're in the sharing how it is between government and private sector, it flows through the premium line. So we got additional premium because we were paying additional loss.

Operator

We'll go next to Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here. First, you gave us what the acquisition in Mexico did for the global personal lines business. Wonder if you can give us what was the benefit in the overseas segment, not only from a premium perspective, but how they're looking from a profitably standpoint? Do they add to the profitability to the company this quarter?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Yes. Overseas Gen, on a constant dollar basis, grew 17%. Excluding the acquisitions, it grew 7%. They did contribute to the growth. The underwriting, these aren't huge businesses. They're good-sized businesses, and we made an underwriting profit in both companies, and that's reflected in there. It's not huge part of it, but everybody contributes. These acquisitions are on target or ahead, very early days, but on target or ahead. We are really pleased with what we see and how it's working. And there is more value than we originally imagined, and my colleagues are more confident and more enthusiastic about it today than we were at the time we actually made the acquisitions.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then my second question is combined insurance in the U.S.. Can you kindly give us an update of what's going on there? And also, with respect to combined insurance, what do you think the kind of challenges and opportunities that the Affordable Care Act actually brings to that business?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Yes, sure. So let me dissect this a little bit for you. Combined was down in the quarter, and I'm going to take North America, because I think that's the main action of combined and that's the size and scale of combined, most of the business is there. It was at down about 3.4%. Last year, we had a one-time benefit of about $12 million. You take that out, and I'm going to talk a little more about that. The core of combined was up 1% in the quarter. That's the agency business of combined. Our agent count in North America, I'm feeling -- I am feeling good about combined. I'm not feeling good about it's published. I'm feeling good about what I see is the underlying health. It really is building, and I'm going to explain it like this. The agent count is up 40% in North America to about 25 agents. The annualized new premium, somebody buys a policy, they pay their premium over time in the year. You don't -- they don't pay it all at once on these customers. The annualized new premium is up 40% over prior year. It does take time to show in the booked premium because the quantum of that new premium has to grow to a size that it overcomes the normal lapse rate you would see on the renewal book that is large. But overall, you're now seeing the core growing at 1%. The one-time benefit we had last year of $12 million, what we also have this year is they have a modest small book of university health insurance business, and that business we're getting -- is coming off the books. It made really no profit. It's competitive and the Affordable Care

Act hardly made it interesting. And so we're just shedding that and that is having noise on combined revenue growth, plus the U.K. that's shrinking, as we've talked about, has that impact. But I see the power of combined building, and I am confident that that is going to -- that is going to just -- that is going to show itself, and I feel good about the fundamentals of it. The product we're selling, finally, to answer that, it really doesn't run up against the Affordable Care Act. It's more about loss of time insurance for people who work for employers who don't have lost time benefits for employees and that's the core of what combined sells.

Operator

We'll go next to Meyer Shields of Keefe, Bruyette & Woods.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Evan, can you talk a little bit about how you balance your property reinsurance by, thinking specifically, considerations of opportunistic pricing versus longer-term relationships?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Well, we're a very large reinsurance buyer. Counterparty credit quality is the very first consideration and that somebody is there to pay, particularly as you look and you're talking property and you're thinking probably less on a risk basis and more on a CAT basis. The further you go out on that tail, well, the bigger that event is for the industry, so I'd tell you, counterparty credit, very [indiscernible] to us. We do recognize long-term relationship. At the same time, we hardly take one for the team. We have to be equipped to compete in the marketplace. And so our cost of goods sold has to be competitive for us to be able to compete on the front end. And we balance that with relationship, and we expect that reinsurers who play it smart, we're there for the long haul. We're good underwriters. I would suppose that reinsurers, and I'm in the reinsurance business, what's more important to me than price is the seed and stability to underwrite. And the better the underwriter, usually, the sharper they are in reinsurance negotiation. On the other hand, the more likely they are to produce a book of business that is sound to the reinsurer. And ACE has a reputation as a good underwriter and as consistent and long-term and willing to do the right thing when pricing -- and in both pricing and exposure management. And I expect reinsurers to recognize that. And that, I'd build into any of our thought about long-term relationships.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And if we can switch gears really quickly. You talked about how some of the longer-term interest rate increases faded, and that's obviously true. As Berchard sort of assumes a bigger role in primary specialty insurance domestically, and as they focus on equity returns instead of fixed income, do you expect that to actually meaningfully affect the overall market over the next 3 to 5 years?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

You know what? I don't expect one carrier to what is already a dynamic and large marketplace to have a disproportionate impact on the business. And it takes a long time to build an insurance company that could compete on a national basis, that can write lead primary layers, that can manage all kinds of size of customer and different cohorts of customer needs, both domestically and internationally, in a broad way. It's -- your best day is the day you opened. And after that, it's a -- it is a grind it out, day in and day out. And anybody entering this business, whoever you are, I wish you luck.

Operator

We'll go next to Jay Cohen of Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Evan, Willis just announced their new platform in London, Willis 360, and of course, Aeon has its own platform. Can you talk about the impact that these ventures could have on the business and maybe your participation in some of these ventures?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

I don't know the final details of the Willis program, and so I can't comment on that specifically. But I'll make a couple of general comments. One, the -- if it involves ceding underwriting control and underwriting decision-making on a risk-by-risk basis to somebody else and you're ceding your faith, and I know how that ends, it only ends one way. It's just a matter of time. And we've seen that story plenty of times. It's just new bottle, old wine, so that's the case. Number two, I assume that it may have an impact -- somebody has to put their phone on mute, it have an impact on smaller following line players, squeeze them. Number three, I haven't noticed that there's this capacity in the marketplace. And so while I hear it's going to serve client's interests, I really wonder what that means. Number four, well, if it's an easier way of doing business, and it, therefore, is more efficient, then does the broker make more money from this? That's what I got to say.

Operator

We'll go next to Ian Gutterman of BAM.

Ian Gutterman
Balyasny Asset Management L.P.

I guess, to start out, a follow-up on the crop. Can you tell us just -- in the elevated lost share issue you're assuming now, what crop price is that assuming. Is that spot or are you assuming maybe we drift down to $4.25 to be conservative? I'm just curious, sort of, if price keeps going lower in the last few days here, if Q4 could get a little worse.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Ian, I am not going to give you a -- I don't want to give you a specific point estimate number, but I'm going to answer this way to you. The way you decide the commodity price for adjusting loss, the government comes back to you with a number, and they use the October average for corn and for soybean. So it's the October average, which, as of 2 days ago, I don't watch it, was $4.41 for corn. But I don't watch it.

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

Change to the fourth quarter.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Okay, does that...

Ian Gutterman
Balyasny Asset Management L.P.

That makes sense, sure.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Are you waiting for me to say something else? I think I answered your question.

Ian Gutterman
Balyasny Asset Management L.P.

I'm sorry. Well, I -- let me try to clarify a little bit. Are you see -- at $4.41, it's right on the margin of whether we get claims or not, right? So if it moves a little bit either way...

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Buddy, whoa, whoa, whoa, don't say that. What was the yield versus historic yield? What's the deductible that each farmer picked? I mean, you got a whole lot of stuff that goes in here. You can't guess that because I can't.

Ian Gutterman
Balyasny Asset Management L.P.

It's like as I'm saying -- I guess, I mean saying for an average farmer, if they had a normal yield and a 20% or 25% deductible, then they're right on the cusp, right? So you may end up having 0 claims or you may end up having a lot of claims.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

You'll make your own decision. That's right. Now it varies by crop, by state, and it's going to -- so you're putting a rule of thumb national average, but that's not how ultimate profit and loss gets calculated, right? It varies by farmer, it is -- and then it aggregates by state. One state might produce a worse than average or even a loss, while another state produces a bumper, and how does that play into the profit and loss and the sharing with the government, you now get into all that.

Ian Gutterman
Balyasny Asset Management L.P.

No, fair enough. Okay, I'll move on. Overseas, General, the reserve releases in Overseas General...

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Buddy, I can't figure it out right now so -- with precision, so you can't.

Ian Gutterman
Balyasny Asset Management L.P.

I understand. I thought I'd try. The Overseas General reserve releases are usually elevated Q3, which as I recall is an Annual Review. I'm just kind of curious any specific lines that drove the high releases versus the first few quarters, or is that just sort of normal review process?

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

It was normal review process. As you can imagine, it's casualty more than short-tail lines. And it's fundamentally for years '08 and prior.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. Okay, and then my last one is...

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Phil is going to -- he's just going to say we'll have all the details in the 10-Q that will come out shortly.

Ian Gutterman
Balyasny Asset Management L.P.

Got it, I'll be patient. And then my last one, I think it was -- maybe it was Brian's question when you said you were more excited about Mexico now than when you entered into the transaction. I was hoping you could expand upon why.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Well, it's the franchise. It's 2 or 3 things. The quality of the people, we've spent a lot of time with them, and we have a lot of confidence in that we know them better and they're good operators, number one. Number two, the quality of the franchise is deeper with greater possibility than when we even first imagined. Number three, with that -- the power of our strategies to take what is large distribution that each one had been driving on a monoline basis. And given the power of what we bring to the table, being able to drive through that distribution on a multiline basis and cross-selling, the opportunity we see there is just more significant, and we're more optimistic. And the beauty is that optimism is flowing to us from the ground. The ACE people in Latin America, the ACE people in Mexico, our new ACE colleagues are all very clear believers and have clear focus on it. The way we're seeing execution go right now and integration go and the cultural compatibility and the back-and-forth understanding, that is gratifying to us and giving us more confidence in that. So when I add it all up, it just -- and then our ability, I'd add one more thing. Our ability to help them do what they've done well, but do it better. In flat-out automobile underwriting in Mexico, we're already seeing impact and benefit to that. The power -- we see glimpses of the power of that. So I add all that together, and that's what gives me the confidence and what's behind the statement I've made.

Operator

We'll go next to Paul Newsome of Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

I apologize if you already got this, but I did notice the cash flow look like it fell at least year-over-year and I apologize I had to jump off the call but -- quickly, but could you address that at all?

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

Yes, our cash flow for the quarter was $928 million as I said in my opening remarks, which is a very strong cash flow number. When you compare it to last year, the number was about $1.6 billion, but it was just a timing issue because of the crop losses last year, the payment to -- the payment of the premium -- the remittance of the premium delayed to the fourth quarter, so there's just that one anomaly. Let me make this clear. Last year's third quarter was higher, because we didn't pay the government last year until the fourth order. This year, we paid it in the third quarter so it -- this is a much more normal -- it's a much more normal quarter.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

And thank you very much for the comment on the accounting. I think it's a bit of a train wreck, so I appreciate at least one management team taking a stand on what I think is an important issue.

Evan G. Greenberg
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

You got it, bud.

Helen Wilson

All right. Thank you, everyone, for your time and attention this morning. We look forward to speaking with you again at the end of next quarter. Thank you, and good day.

Operator

That does conclude today's conference. We thank you for your participation.