S&P Capital IQ

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Chubb Limited NYSE:CB

FQ4 2012 Earnings Call Transcripts

Wednesday, January 30, 2013 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2012-			-FQ1 2013-	-FY 2012-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.27	1.43	▲12.60	1.86	7.50	7.65
Revenue (mm)	3475.18	3140.00	▼(9.64 %)	3502.95	14809.93	14096.00

Currency: USD
Consensus as of Jan-30-2013 1:28 PM GMT

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	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2011	1.79	1.94	▲8.38 %
FQ1 2012	1.87	2.05	▲9.63 %
FQ2 2012	1.90	2.17	▲14.21 %
FQ3 2012	1.83	2.01	▲9.84 %

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Presentation

Operator

Good day, and welcome to the ACE Limited Fourth Quarter Year End 2012 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, ma'am.

Helen Wilson

Thank you, and welcome to the ACE Limited December 31, 2012 Fourth Quarter and Year End Earnings Conference Call. Our report today will contain forward-looking statements. These include statements relating to company performance, guidance, premium growth and product mix, pricing and insurance market condition and acquisitions that have yet to close, 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 supplements, which are available on our website for information on factors that could affect these matters.

This call is being webcast live, and the 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 will 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. ACE had a strong fourth quarter, which contributed to a very good year for the company. After-tax operating income for the year was $2.6 billion. It was up 13% from 2011, and per share book value grew 12% to almost $81. We finished the year with a very strong balance sheet, with total capital at $32.6 billion at December 31, and shareholder equity of $27.5 billion, both up over $3 billion for the year.

I'm going to return to the full year in a moment, but let's first talk about the quarter. Even with the impact of Superstorm Sandy, the underlying strength and vitality of our business was evident in the quarter, as we produced good earnings, good premium revenue growth and an increase in book value per share.

After-tax operating income was $492 million or $1.43 per share. Combined ratio for the quarter was 105.5%, which included $400 million in after-tax catastrophe losses, essentially all from Sandy and the reserve charge for Brandywine.

The x cat [excluding catastrophe] accident year combined ratio was 91.4%, about 0.5 point improvement over prior year. And if you exclude crop insurance, which broke even in the quarter as expected, the x cat current accident year combined ratio was a 2-point improvement over prior year.

Net premiums in the quarter on a constant-dollar basis grew only 1%. Excluding crop, net premiums grew over 7%, with growth once again coming predominantly from the U.S., Asia and Latin America. For example, net premiums in the quarter in our retail insurance business in the U.S. and internationally grew 9% and 11%, respectively, while on the wholesale E&S side, North America was up 7.5% while ACE Global Markets in London was essentially flat.

Book value per share grew about 2%, and our operating ROE for the quarter was 8%, not bad, all considered. As I said, we took a reserve charge related to A&E and other run-off business of $140 million pretax, which netted against our positive prior period reserve development.

In the quarter, we also had a reduction to our tax liability reserve, which reduced a positive impact to operating income of $120 million. Phil will provide more details on these items.

Returning to our full year performance, which I think is more meaningful than 1 quarter's results, net operating income for the year included strong contributions from both underwriting and investment income. For the year, we produced $1.2 billion in underwriting income, an increase of 11% over prior year and a very strong underwriting performance.

Combined ratio was 93.9%, down almost 1 point from prior year, and yet, this included the worst drought conditions in the U.S. in 25 years and Superstorm Sandy.

Our x cat current accident year combined ratio was 92.7%. The excellent underlying underwriting performance of the company reflects an improved price environment in the U.S.; our large and growing business around the globe, in Asia, Latin America and Europe; our unique and balanced product spread between commercial P&C, specialty P&C, A&H, personal lines and life; and finally, a continuing focus on improved portfolio management and data analytics that complement a strong underwriting culture.

For the year, all of these dynamics contributed to a constant-dollar premium growth rate of 6%. We took advantage of growth opportunities globally where we found them. We also produced $2.2 billion of investment income for the year, down less than 3% from prior year. While clearly under pressure, considering the interest rate environment in which we operate, this a good result, reflecting thoughtful portfolio construction that is balanced between yield and risk.

Finally, our operating ROE for the year was 11%, a very good return on capital in my judgment given the events of the year. And at the same time, we continued deploying capital accretively to acquisitions that improve our capabilities and growth prospects for the future.

I'll come back to that subject in a moment.

Concerning premium growth, our commercial and specialty P&C business globally grew 6% in constant dollars during the year, with net premiums up 9% in U.S. commercial and double digit in Asia and Latin America, while Europe was up modest single digit and crop was down 15%. Our A&H insurance business grew over 3.5% globally in constant dollars. And I fully expect that growth to continue to pick up throughout '13.

Internationally, A&H was up over 8%, led by double-digit results in Asia and Latin America, while the combined was down 2% but flat in the fourth quarter as projected. And I expect this business will return to publish growth towards the latter part of '13. Overall, A&H earnings were up over 10% for the year. Personal lines globally was up almost 15% in constant dollars, with gross premiums now approaching $2 billion, including our recent acquisitions in Mexico and Indonesia.

Our international life insurance business was up 14% and passed a major milestone in '12 by contributing positively, though modestly, to earnings for the first time. And finally, our global re [reinsurance] division again produced exceptional results with a combined ratio of 77.5%, reflecting superior underwriting discipline and risk selection even with the impact of Sandy.

Let me say a few words about the current market environment. Our commercial P&C business in the U.S. continued to benefit in the quarter from an improving price environment where we are now achieving rate-on-rate increases for the second quarter in a row, and I firmly expect this to continue. Overall, North American pricing was up almost 4% in the quarter, with retail up 3.6% and wholesale up 6.4%. Price increases were more broad based than past quarters, with more lines of business achieving positive rate.

Some examples include property up 6%, D&O [ph] up 7%, casualty risk management up almost 4.5%, our strongest quarter in a number of years, and excess casualty up over 5% in U.S. retail and almost 8% in our Bermuda high excess book.

As I said last quarter, we expect the pattern of price increases in the U.S., which were being driven by the larger and more sophisticated underwriters, to continue in a reasonably orderly fashion for the foreseeable future.

More stressed casualty-related lines, which are still well underpriced overall, will continue to receive larger levels of price increases, while less severely stressed lines should continue to move up more modestly. Property pricing will likely flatten out as the year progresses, that's natural. As with any large market, we still have areas of business where prices continue to be under pressure as companies chase market share using inadequate rates.

Internationally, pricing was about the same as the third quarter, with rates flat in retail and up single-digit in selected wholesale lines such as property, financial lines and energy. International markets are competitive as many companies chase share without regard to adequate returns.

Our premium renewal retention rate for the quarter in the U.S. Retail business was over 97%, that's on a premium basis, with account retention at 83.5%. New business writings in U.S. Retail were up 10% in the quarter and 44% for the year. We are taking advantage of the opportunity from an improved market.

Both our retention rates and new business activity are benefiting from our sustained emphasis on portfolio management and data analytics, which are continuously improving our decision-making insights into risk selection and ultimately, our underwriting profitability.

From what I see today, I am more bullish about the pricing environment in the U.S. than I have been for some time. In fact, property aside, the level of rate increases we received in the fourth quarter, which has continued into the first quarter, is the best we have seen in a number of years. My colleagues and I can provide further color on market conditions and pricing.

Finally, during the year, we committed or deployed $1.25 billion in capital to acquisitions in growth regions of the world that enhance our growth and diversification strategies. Our 2 Mexican acquisitions are on track to close between the first and second quarters. In fact, I recently returned from a trip to Mexico, and I can say that we are more excited about the quality and potential of these 2 fine companies today than at the time we announced our intent to acquire. Their income generation potential is likely even greater than we had first imagined.

In summary, ACE had an excellent '12. Our operating income, book value and premium revenue growth and ROE are all top tier.

Today, we are more diversified, more capable insurer in a small class of truly global insurers, with a clear strategy, the people, the balance sheet, the product, expertise and geography to execute. I am frankly more optimistic today about our prospects for growth in revenue and underwriting income as we enter '13 than I have been at this point in time in a number of years, all things being equal, and remember, we're in the risk business. With that, I'll turn the call over to Phil.

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

Thank you, Evan. Our balance sheet continued to grow stronger in the fourth quarter, and we finished the year with a strong capital position. Tangible book value grew by 2.7% for the quarter and 15.5% for the year. Our cash and invested assets grew $4.6 billion or 8% this year to over $60 billion.

Excluding unrealized gains, the growth was $3.7 billion. Operating cash flow for the quarter was $1 billion and was $4 billion for the year. Net realized and unrealized gains for the quarter were $200 million and included $170 million realized gain from our variable annuity reinsurance portfolio.

Investment income for the quarter was $567 million, which included $42 million of higher-than-expected private equity and other distributions, as well as the income benefit of an insurance contract classified as a deposit. Current new money rates are 2.3% if we invested in a similar distribution to our existing portfolio. And our current book yield is 3.7%.

We estimate that the current quarterly investment income run rate is approximately $520 million, which is subject to variability in portfolio rates, private equity distributions and FX. Our net loss reserves were up $780 million or 3.1% for the year. Our paid-to-incurred ratio was 119% for the fourth quarter. When we normalize the fourth quarter ratio for crop loss payments and cat loss activity, the ratio is 86%.

Cat losses were $400 million after tax in the quarter and included $390 million related to Sandy. This comprised losses of $290 million from commercial insurance lines and $100 million from personal lines. Approximately $300 million of the loss was from our insurance business, and $90 million was from our reinsurance business.

Evan mentioned the reserve strengthening during the quarter related to A&E and other runoff totaled $140 million pretax or $90 million after tax. This included $91 million for asbestos, $27 million for environmental and $22 million for other pre-'99 legacy runoff liabilities.

This was offset by favorable development of $177 million on other lines of business, resulting in net positive prior period reserve development of $37 million. About 60% of the positive development was from short-tail lines, with 40% coming from long-tail lines, primarily from accident years 2007 and prior. Our crop insurance results for the fourth quarter included no net profit or loss, in line with our guidance last quarter.

Crop net written premiums for the quarter were down $200 million versus last year, principally due to an increase in our premium sessions to the U.S. government as a result of the government's crop insurance profit and loss calculation formula. Our unusually low tax rate for the quarter was favorably impacted predominantly by $120 million benefit resulting from the resolution of various prior year tax matters with the IRS.

In December, we issued updated 2012 guidance in connection with our release on preliminary Sandy estimates. Our actual results were better than indicated, principally due to an improvement in investment income, our current accident year underwriting result and the net difference between the A&E charge and the tax benefit we realized.

Our press release issued last night included our guidance for 2013. Our range is $6.60 to $7 in after-tax operating income per share for the 2013 accident year. This includes cat losses of $395 million after tax. The guidance is for the current accident year only and includes no assumption for prior period development.

While we're not going to give a full worksheet on our guidance, given cats and an investment income run rate, I'll talk about some themes in the 2013 guidance compared to our 2012 guidance and our 2012 actual results. First, we expect substantially higher underwriting income. We expect lower investment income as we have already told you, and a higher year current accident year tax rate due to higher underwriting in the U.S.

Obviously, compared to actual 2012, we don't expect a tax settlement.

And finally, a couple of smaller items. While we expect our recent acquisitions to be accretive in the first year, in 2013, we only have a partial year depending on when they close, and we have higher purchase accounting intangible amortization. Also, we expect a negative FX impact relative to the 2012 guidance. And I'll turn it back to Helen.

Helen Wilson
Thank you. And now, we'll take your questions.

Question and Answer

Operator

[Operator Instructions] And we'll take our first question from Jay Gelb with Barclays.

Jay H. Gelb
Barclays PLC, Research Division

Evan, on the -- with the rate increases lapping each other now, getting P&C rate increases on top of fire [ph] rate increases, to what extent do you think underlying underwriting margins could improve?

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

Yes, Jay. I think they can improve is the short answer, but let me expand on it a little. First of all, we have a very good current accident year combined ratio, as you know. Take away crop, I think it's its own market, it's a separate business. When you're looking at commercial retail, wholesale business, you're better off without that. We have a very good current accident year x crop relative to most of the industry. Pricing and underwriting selection has contributed to date to a modest expansion in margin. And the trend is increasing towards margin -- further margin expansion, and I think that will happen. As important, or more important, pricing has contributed to our ability to write a substantial amount of new business across a broad set of products at relatively higher rates than our renewals, at a 109-plus percent adequacy versus renewals. And so I do see some margin expansion, but I also see how it is contributing to growth. And from what we see, looking at the first quarter right now, pricing is as good. It's very early days, but in January, pricing was as good or better than we saw even in December, which was the best month of the quarter. And that's contributing to us writing substantial amount of new business. I think growth rates going forward are going to look pretty good, too.

Jay H. Gelb
Barclays PLC, Research Division

Then I just have a couple of quick follow-ups for Phil. You said that the investment income run rate is around $520 million. That will be down pretty meaningfully from $567 million in the fourth quarter, so I just -- I didn't know if that included some onetime investment gains or an FX benefit? What's the difference?

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

Yes, as we said in our press release, we had additional private equity distributions in excess of what we would've expected. And we also had a onetime benefit from a contract, an insurance contract, that is considered a deposit. So the development on that contract was included in investment income. So as we said in the press release, we had about $42 million of income beyond what we would've expected, which gave us a run rate last quarter of about 5.25.

Jay H. Gelb
Barclays PLC, Research Division

Okay. So the investment income decline in 2013, probably could be more than being down 3% in 2012, right?

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

Yes. Well, yes. What I've said is, I think our investment income for the year was $2,180,000,000. And I think if you multiply that $520 million out as a run rate, you come down about $100 million pretax.

Jay H. Gelb

Barclays PLC, Research Division

Right, okay. And then, on the tax rate, Phil, I mean, in the past, you've sort of looked at the 18% range as a baseline, given what happened...

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

Right. It was lower in this quarter obviously because of the $121 million. But also, if you even back out the $121 million, as you know, it's lower than that run rate. And it's principally because of where the prior period development and the cat losses fell.

Jay H. Gelb
Barclays PLC, Research Division

So for 2013, what should we plug in, initially?

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

Well, we haven't -- we really haven't given you a worksheet on that, but it has been running in the 16%, 17% range.

Jay H. Gelb
Barclays PLC, Research Division

And in your commentary, you said it could be higher. So I'm just thinking, is that 16%, 17% the right starting point?

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

Just to be specific, I was talking about higher than we had actual in 2012.

Jay H. Gelb
Barclays PLC, Research Division

Okay. So we'll start with 16% or 17%.

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

Okay, I would -- that's okay.

Operator

And next, we'll move to Mike Zaremski with Crédit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

So if I think about the 2013 versus 2012 guidance and if we strip out reserve changes, the 2013 guidance doesn't seem to imply any earnings growth on a year-over-year basis. And Phil, I know you mentioned a bunch of a negative items: higher tax rate, higher amortization expense, negative FX impact. So if we add up all those items, how much impact do you expect them to have in 2013 versus the old guidance?

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

Well, I've given you -- we've given you our guidance that has a midpoint of 6.8, right? So, I mean, that's the implied -- that's our implied estimate.

Michael Zaremski

Crédit Suisse AG, Research Division

Okay. And so -- but you're not able to kind of quantify all those kind of items that you mentioned in how they -- do those have a 5%, 6%, 7% impact versus -- I know last year's guidance was 6.85 the midpoint, I believe. So I'm kind of thinking, if we're bullish on -- we're clearly bullish on rate increases in the U.S., the Europe is a question mark, we could talk about. I'm just -- so you're expecting higher underwriting margins. I'm just trying to figure out what I'm missing in terms of why the midpoint isn't going higher.

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

Okay. So -- this is Evan. First of all, yes, we have -- I'm going to say a few things about it. We have -- we don't give a worksheet, so we're giving you a thematic color around it. We only give guidance on a per share basis, and we're not going down that rabbit hole, that's going to give you more than we gave you on investment income or talking about tax rate or any of that. What we've also done though, is we've talked a bit about how we see pricing and revenue and margin, and we've told you that we expect underwriting income to grow substantially. And that's going to happen predominantly growth and some margin. And so -- then the rest is an offsetting. But then let me add a little more color to the guidance because frankly, at the end of the day, it's your results that count. And we've produced pretty good results. The guidance is created -- so I'll give you a little more window into it for -- because you're not the only one who's imagining this question. Guidance is created in December as part of our budget process that we go through. Most of the data, particularly around pricing and that, is third quarter and maybe a very early fourth quarter base. But it's really fundamentally third quarter base data. From what I know now, we're biasing towards the upper end of the guidance range. That's what I see, pricing is better, growth looks good and the acquisitions may produce -- it'll be modest, may produce a modestly better results. And so when I add all that up, I think we bias towards the upper end of it. Now we're in the -- it's early days, it's early in the year, and we'll see how the actual turns out. But I am more bullish than I have been in some time.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay, that's helpful. And as a final follow-up, as we all know, crop is a unique business line. From what I've been kind of seeing, I guess drought conditions last winter have persisted and the soil conditions are somewhat poor in the U.S. currently. So does that kind of change your expectations or positioning for the 2013 crop year?

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

I will tell you this. In our guidance, we use a normal -- we use what we consider to be a normal crop year. We did it -- we've talked in the past about how we think about our selected when we look forward in a year, which is based on a 10-year average. It would include, therefore, '12's poor year, and in that average, we did the same thing. And if you say soil conditions, I want to remind you of something, that up until mid June last year, it looked like based on soil conditions and moisture and temperature, it looked like we were going to have the best crop year in many, many years. So if any one has figured out a way of predicting future growing conditions, I'm all ears and listening, and by the way, you're in the wrong business.

Operator

And next, we'll move on to Mike Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

One question I had is just internally, how much opportunity do you have for capital deployment, whether it's in international, on the personal line side? And is there some information you can share with us in terms of what you expect to see from that sort of organic growth in terms of investing internally? And just one follow-up.

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

We don't give growth guidance. We do see -- I think we have been delivering. We told you that '12, you take away crop and so you really look at the intrinsic business globally. Beyond that -- and we grew over 7%, so we're deploying capital in growth organically. And I expect that, that kind of trend of growth rate, from what I see right now and how the year is starting, it's starting that stronger, stronger. And so we see a lot of opportunity, which we have talked about quite a bit, in the U.S., in Asia and Latin America and in more secondary parts of the world to continue to grow our business. And that -- and we have the capital, and more importantly, we have the capability and the people and the presence to manage that capital, we think, in a profitable growth way.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it, great. And then, what sort of loss trend are you assuming? You said that you're seeing rate kind of 4-ish percent now in terms of the impact that, that rate will have on margins as you look out. What are you assuming on the loss side? And what sort of trends are you seeing there that get you comfortable that, that 4% or wherever that ends up will translate to further margin expansion?

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

I'm going to ask Sean Ringsted, our Chief Actuary, and I can guarantee you, the smartest guy in the room we are all sitting in, to answer that question.

Sean Ringsted
Chief Digital Officer of Chubb Group, Chief Risk Officer of Chubb Group and EVP of Chubb Group

Mike, it's Sean. It really depends on the type of class that you're looking at when you're writing international primary through to the U.S. excess. So we'll -- while you might want to think about an average loss trend for the more risky, higher volatile type casualty layers, we could be using loss trends of anywhere up to 9%, 10%, 11%. So you really want to think about it in a -- by class. Obviously, where we've seen the margin expansion, to Evan's comments earlier, have been predominantly sort of on the primary casualty type class is where you've got that lower loss trend.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So when you say that you're seeing -- so if you look at a granular level, Sean, if -- are you seeing rate on a written basis or an earned basis in excess of loss trend more often than not, or...

Sean Ringsted
Chief Digital Officer of Chubb Group, Chief Risk Officer of Chubb Group and EVP of Chubb Group

That's right, on a written basis.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

On a written basis, okay. And you're saying you're seeing that more often than not at the granular level at this point?

Sean Ringsted
Chief Digital Officer of Chubb Group, Chief Risk Officer of Chubb Group and EVP of Chubb Group

Well, I took your comment on the more often than not to be we're seeing it more often on the written basis than on the earned basis. So until you see the acceleration, that will obviously grow into the -- in an unearned basis.

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

To say it in one sentence, as I said before, we are seeing what has come through so far is a modest expansion to margin from rate. I add in underwriting selection, and that improves margin expansion and the substantial dividend of being able to write a lot more new business and at better pricing. We see pricing accelerating. It's -- the rate of increases is increasing and has been. And so we're seeing better pricing now. And that should bode, all things being equal, that should bode well for future margins.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

And one last one. I know you spent a lot of time in this release talking about crop. I mean, at some point, would you consider breaking out crop? I know we talked about this all the time. But last year being obviously a big divergence between that and your non-crop business, I just would love if you'd take that into consideration at some point.

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

We are. We're thinking about that. We're mulling that over as to whether it's just not better to break crop out completely. And we're thinking about that.

Operator

And next, we'll move on to Greg Locraft with Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

Just wanted to, again, pursue the guidance discussion. I think you mentioned you feel better at the upper end. So I'll take sort of the upper half of the guidance and call it 6.90, just because that's the upper -- midpoint of the upper half of the guidance. If I look at the 5-year reserve development, it's usually -- historically, you've added $1 or more to earnings, so we're up high 7s or 8. But still, the starting point is the lowest ROE of the corporation in -- since before you got there. So I'm sort of wondering, and I think we all are, is what's breaking so hard to the negative that's causing the base case to be so conservative. I just can't -- I view, I guess, '12 as kind of a trough year in ROE based on what occurred in the year. And I can't see how this year is going to be worse.

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

Okay. So look, here is what you're -- I mean, let's just -- I don't think it's that complicated. But let me add a little color. First of all, when you say ROE, frankly, from our work and with all due respect, I think, we have probably the best insight into our numbers. We'd see the current accident year ROE closer to 10%, in the mid-9.5% plus range, to begin with. And I'd start with that, number one. Number two, revenue growth and pricing and mix of business globally will contribute to substantially more underwriting income. And so when you think of trough year, we see real growth in our business that way. Offsetting that, you do have a decline in investment income because you have a decline in interest rates on a portfolio basis that comes in. You can hardly call '12 trough year for that for the industry, let alone, ACE. ACE is not -- I don't single ACE out on that. And then, as Phil said to you there is, fundamentally, there is a tax rate benefit on the current accident year rate. There is a tax benefit -- there's a rate differential between '12 and '13 that we imagine. And that's what's -- that's offsetting. Both of those things are offsetting. There's a little bit -- not really FX, there's a little bit from, and on a second order of magnitude, from purchase accounting. So other income becomes a little more negative because of purchase accounting on the acquisitions. That was all imagined when we did the acquisitions and said they'll be accretive to begin with. So that's really how we get there. Now you say ROE. We have published a double-digit ROE for quite some time. And based on what I know now, if things develop as they are currently, and no one knows with certainty, I believe we will continue that record of double-digit ROE in 2013.

Gregory Locraft
Morgan Stanley, Research Division

Okay, that's very clear. And on the amortization side, have you given an exact figure there like you do with cats in terms of just what it's -- what you're anticipating the year to be?

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

We haven't done that, but what we have said is that you would expect in the early 12 to 18 months of an acquisition, the amortization will be much higher. So we have said in the acquisitions that while they're certainly accretive initially, they become more accretive as that amortization occurs and goes away.

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

And the much higher is relative to those acquisitions.

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

Yes.

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

And that's a second order of magnitude, going back again, really investment income and taxes.

Gregory Locraft
Morgan Stanley, Research Division

Okay. And then finally is just on the capital structure, debt to cap is as low as it's ever been or as low as it's been in a long time. Any -- will you be financing the deals with debt? How do you think about that given that obviously it's a drag on the investment income side, so interest rates are very, very low?

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

I'm going to let Phil answer that.

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

I wouldn't expect that we would add any additional capital to finance acquisitions. We have been thinking about prefunding some of our debt, and so we'll consider that. But I wouldn't expect us to increase our leverage at the present time.

Operator

And we'll move on to Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I'm going to try and avoid mentioning the word guidance, too many questions. But I do want to talk about the idea of investment income going down and underwriting income going up. And does that mean that given that your outlook so far is sort of where it was a year ago, that those 2 items are in equilibrium? And then the question would be when do you see that the pace of underwriting gain starts offsetting the pace of investment income decline?

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

Josh, I think based on the way we just answered the question before, we did not see investment income decline -- or underwriting income growth offset by simply investment income decline. I think we just went through the worst...

Joshua David Shanker
Deutsche Bank AG, Research Division

I understand there are taxes involved or taxes are part of the basis pricing in there, I would assume, as well.

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

We talked about -- we just talked about tax and other items, so I think we've answered that question.

Joshua David Shanker
Deutsche Bank AG, Research Division

Well, then more of something into 2014, is there an inflection point where all these items, where you see underwriting becoming more a dominant source of income versus these offsets that you would expect, given the trends right now? Because you've written given that's happened a year before premium is earned. Would you expect 1 year from today to have a substantially different situation given that maybe taxes and investment income are more predictable than underwriting results are per se?

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

Josh, we gave guidance for '13. We're not giving any guidance or any indications about '14. We'll see how it plays out.

Operator

And next, we'll move on to Meyer Shields with Stifel, Nicolaus.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Evan, you talked about how the improving rate environment is going to provide opportunities for new business. How should we think about that impacting the ratio of net to gross written premiums?

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

Not much change in net to gross. I think you ought to imagine that -- look, it's steady, we can't get -- we do the best as we can estimating in our budgets from what net to gross will do. But it bounces around within a point or 2, generally from year-to-year. And when we -- it's a big organization and when you add it all up though, any one line that has a higher net to gross, you might be writing a lot more of that, relative when you throw it in to the pot with everything else, it bounces around within a point or 2.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay. And I think this is probably a question for Phil. If we look -- if we calculate the corporate administrative expenses, it was up pretty significantly from the year-to-date run rate. Was there anything unique in the fourth quarter for that?

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

If I look at overall P&C expense ratio and we adjust it for crop, it would actually be down about 1.3 points. You're talking about just the corporate expense, I'm sorry?

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Yes, I'm just looking on the corporate side.

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

We just had some share compensation increases that are just a timing issue. We wouldn't expect that to be recurring.

Operator

And we'll move on to Matthew Heimermann with JPMorgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

First question, just can you talk a little bit about the Life segment at this point? And in particular, there's been a business shift ongoing obviously on a new business basis since '07, but I'm just -- and you've rolled in some acquisitions the last couple of years. I'd just be curious how we should think about that part of your business progressing over the next couple of years? And in particular, just curious how that kind of change in mix kind of affects the differences in margin structures, things like that, as well as growth rates?

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

So what we saw in this quarter, for example, is that the overall Life operating income was down about $5 billion. That was affected by a decline in the Life reinsurance book, that's partially because of the runoff and partially because of a smaller reserve strengthening in the Life runoff book. Excluding the runoff, our income is up $5 million. I think Evan mentioned that was a breakthrough to contribution. So we would expect that as the runoff slows and the international Life grows, that we would see an improvement.

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

Let me add to that. The Life -- there's 3 pieces in there, in that division. There's combined North America, there is -- where margins are steady, and it's about growth. And that business, I think on a published basis in the latter part of '13, begins to show growth. And that ought to, then as you go forward when you're thinking out the next few years, that will contribute to growth in that division.

Number two, the life insurance business, which is the international life business, Asia predominantly and Latin America. That produced modest income this year, in '12. It was running negative up until then. So we're now -- it's now starting to contribute, it takes years to build it. And I think in '13, it's going to produce modest income. I think in '14 and on is when it should begin to produce more steady growth in income. So those are 2 positives. Offsetting that, we will have for -- and it will happen for a period of time, number of years, the Life re will run off. And as the Life re runs off, year-by-year, it will produce less income than it produced. So when I look out over the next couple of years, and thank you for not asking it on a quarter basis, when I look out for the next couple of years, I see a pattern of the combined in North America growing in income, I see the Life insurance growing in income, and I see the Life re declining in income, which frankly for the company over a longer term, that's a good thing.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Is it -- and are we starting to hit -- I guess, based on the way you laid that out, I mean, it's probably -- I mean are we hitting an inflection point where the combined, if it starts growing, and the international piece are starting to offset the runoff piece, or is that's a transitioning that's happening over the next...

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

That's a transitioning that's happening, and I wouldn't look for that right away. I -- the way I think of it, because Life is such a long-term business, I think of it in my own mind, '13, '14, I'm seeing those more as inflection point, and then it begins to emerge in a more substantial way. Because I expect life insurance earnings to actually accelerate over time. When I look at 5 years of this, I see an acceleration in Life that begins to occur in life insurance. Okay?

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Yes, that's very helpful. And then Phil, just on the A&E increase, does any of that count towards the excess of loss agreement with Century? And I was curious if there's any impact on the surplus requirement of that arrangement, too?

Brian Edward Dowd
Executive of Office of The Chairman

Sure. Actually, this is Brian Dowd. For sure, anytime we increase reserves and change the structure, it has an impact to the XOL. No change to the capital, we're at the capital requirement for the runoff operations, so no change to capital. The current XOL usage, I think it will be estimated around $421 million after the charge and the gains with the exhaustion of the NICO contract.

Operator

And Paul Newsome with Sandler O'Neill will have our next question.

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

I wanted to ask what I think may end up being an accounting question. These acquisitions you're making, you're seeing the amortizations sort of hit first and I hear that. But I'm curious as to what exactly the amortization is, it's not goodwill? Is it DAT [ph] that we're talking about that sort of comes in earlier than the revenues? So I'm just curious. And is it a little bit different given the components of the acquisitions that you've made recently versus stuff that we've seen in the past?

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

Yes, it depends on the nature of the acquisition. But for the P&C acquisitions that we've done, it's generally intangibles that we're required to establish that relate to aspects of the business, the in-force business that get amortized over a relatively short period of time. So that's in contrast to some of the other businesses, like the combined that had much longer tail amortization on the longer term intangibles.

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

Paul, the accounting is prescriptive. That's all -- I mean you don't really have a choice of it. So some intangibles are goodwill. And they don't get amortized, that's what it is. And then the balance of them, you must amortize them as prescribed.

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

And the bulk of them get amortized pretty quickly, so that's why we say, the first 12 to 18 months have more amortization built in than the subsequent periods.

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

What would be an example of that -- of those intangible assets? Customer list or stuff like that?

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

On our premium customer list, those type of...

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

Customer list sales force, they attribute a value to all those assets. You got a sales force? They attribute a value to that. And you got to amortize it over a period of time, they'll tell you it's got a shelf life.

Operator

And we'll move on to the Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Two questions. The first is you talked about in the fourth quarter having the investment income benefit by about $42 million because of the issues that you cited. Is there a similar number for the year? Were there other issues during the year that inflated or deflated the investment income relative to what you might expect normally?

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

No, there really haven't been. If you look at the PE distributions, for example, the private equity distributions in the fourth quarter, they were substantially more than the combination of the first 3 quarters. So we had been expecting, call it, $7 million a quarter for the first 3 quarters, and that's about what we had. And then, in the fourth quarter, we had $29 million. It was just an acceleration that we didn't anticipate.

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

Jay, we estimate reasonably conservatively about PE distributions. You can't -- they're lumpy, you can't guess them with any certainty. So we don't try to game it, we just come up with what we think conservatively, as you can imagine, and then past that, it is what it is. In this environment right now, as equity markets have risen, there's more -- and with the specter of tax rates going up, there was an acceleration, there was more activity.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it, that's helpful. And then the second question, on this call last year, you guys talked about the drag on your ROE that excess capital, in your view, is having. And I'm wondering if you could update us on your thinking on that number?

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

It's roughly -- it's in the same range, it's about 1.7 points on the ROE.

Operator

And we'll move on to Thomas Mitchell with Miller and Tabak.

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

My first question really is asking you to sort of put on the sort of the same hat that we wear, not with respect to ACE in particular. But if you're thinking about investing in a business, a property and casualty insurance business, the question I have is would you pay more for a business that has more underwriting income and less investment income on average as a multiple of, say, book or of earnings? And would you pay more for a business that has increased franchise growth as opposed to increased nonorganic growth? And just as a concept in how you would look at evaluation, if you were evaluating a potential acquisition, say?

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

Yes. No problem. Here's how I would look at it. I would look at it and say, now, let's see, you're bringing me a company that produces a double-digit ROE and has compounded its wealth growth to shareholders at 12%. So I'm going to look at its track record first. And when I look at that, and then I say, now tell me what the company is trading at. And the company is trading at just over book value and producing that kind of ROE and that kind of book value growth, and -- you got my attention immediately. Then what I look at is I look at -- now tell me about how the earnings, how does that company make its money? And what's the growth potential of that company? Is it a franchise or was it just a flash in the pan? Do I think it has an enduring quality? And do I believe over a reasonable period of time that it has a growth trajectory to it, and that it continues to? I don't look at, by the way, acquisitions on a quarter basis or a half year basis or even a 1-year basis. I look at them over a period of time because it's permanent. And then -- and so I would look at that franchise growth value. And then I'd look at its quality of earnings as well, I'd say, wow, does the company -- the company has 2 sources of income if it's an insurance company, and that's all we buy. So I'd be looking at does it have good underwriting income generation and a margin on its basic business. Does it know its basic business, and can I trust it knows how to navigate its market? And so a good combined ratio is very important to me, and then I look at the balance between investment income and underwriting income. And well, I'll use ACE as an example, I look at the balance between underwriting income and investment income and I look at that combined ratio, and I say, it's pretty darn good. Then I look at its current franchise and what is the capability within that franchise, where are the opportunities. And so that's how I think about its future growth potential then. And finally, I look at its people. So when I add all of that up, I don't know, that's how I think about an acquisition. And if I was in your shoes, that smells pretty good about ACE.

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

That's a very good answer. Now my second question is less up in the air, but one of the things, and I'm not going to -- it really doesn't have much to do with guidance as it has to do with trends. Especially in the U.S., it strikes me that between risk selection and rate, there may or may not be some exposure growth going on. And I was wondering if you could give us an idea of how you see exposure growth developing in the U.S. and North America, generally?

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

There is exposure growth going on, you got it. And we've always said it, and you actually hit the most important point in, frankly, how we manage the company. We think less about premium growth and to manage a P&C company, you're thinking about exposure growth and price to exposure and accumulations of exposure, so that you have the right balance on your balance sheet that you're exposing. We are growing exposure. We're growing exposure, and that reflects itself in the new business we're writing. It also reflects in the clients that we have, who are expanding their business, and as their business grows, we get premium because we've got a price increase, and we've got a price increase against the current exposure and their projected exposure that grows. But new business, our new business is up 44% for the year in North America. That, right there, is exposure growth. And that is offset by exposure reduction, which is on your renewal ratio. And then the 2 together, minus price, is the revenue growth you got, and that's a pretty good proxy for exposure. So exposure is growing, just what you want from an underwriting company when they see pricing is going to produce a positive underwriting margin.

Operator

And we'll move on to Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just a couple of quick questions here for you. First one, Evan, with pricing that we're seeing in the U.S., any firming in terms and conditions as well there?

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

I'm going to let John Lupica answer that question.

John J. Lupica
Vice Chairman and President of North America Major Accounts & Specialty Insurance

Yes, thank you, Evan. No real dramatic change in terms and conditions. It's been modest and on the fringes. We are seeing a little bit of higher deductible in rate, in coastal and wind-exposed areas as a result of the superstorm. Early days, the end of the quarter and the beginning of the year are thinly traded for the property market. And time will tell as we get into the meat of the property trading arena, which is around late first quarter, middle of second quarter.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then, Evan, second question is, given the current interest rate environment, looking at the North American casualty business, what's an appropriate return on capital for that business?

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

Yes, it's the right question, it's what can you earn right now. And the way I think about it is this, and we've said this many times, but it's a good time to think about it again. For us, our natural governor is on an underwriting profit, okay? If you can't earn an underwriting profit in the basic business for all the reasons we could talk about, but that's our redline, then you have to walk away. So it's -- then we say to ourselves, "What kind of return is that producing?" We actually aren't saying, you've got to get this ROE at this moment in time. We say, over the cycle we intend to earn 15%, and we've been pretty good at doing that. But at a moment like this, if you put -- if you take the current interest rates and you take an underwriting profit and you say in the casualty lines, you're running in the 95% or the 96% range, all in, maybe a little lower but bouncing around that, just picking a number, you're going to produce a single-digit ROE at the current interest rates. But you're producing a positive underwriting return, and that's the way we think about it. That's how you then blend with all lines of business to this sort of 9.5-plus percent ROE for current accident year only. And we generally -- because we think it's the right way to run, we're prudent and conservative of how we think about reserving. And which generally, at least to date, has resulted in future years, the current accident year has produced more margin, which you then add to your 9.5, and that's how you get at that double-digit and that is adequate to us.

Operator

And we'll move on to the Vinay Misquith with Evercore Partners.

Vinay Gerard Misquith
Evercore ISI, Research Division

2 quick questions. The first one for Phil. Phil, on the amortization of intangibles, could you help us understand [Audio Gap] so what the impact is on this year that's on '13, and what the impact will be on '14?

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

So we're not going to talk about the specific results from the acquisitions. But what I can tell you is, as Evan said, as I said earlier, the acquisitions are accretive in the first year. But first of all, because the acquisitions are occurring during the year, we're not going to have a full year worth of income, and we're going to have that result that I talked about where we're going to have high amortization in that first 12 to 18 months. So you're not going to see as high accretion in the first year as we are in subsequent periods. But we haven't disclosed separately what the accretion is going to be for any of the acquisitions.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. I mean just putting some numbers around this year versus next year would be helpful, just because we know how much of a drag that will have. The...

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

Vinay, it's up a second order of magnitude.

Vinay Gerard Misquith
Evercore ISI, Research Division

Right. Fair enough, fair enough. The second question is for Evan. You mentioned double-digit ROE, 10.5% ROE, so is that x AOCI or are you talking about all-in book?

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

It's x AOCI.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Okay, all right, that's fair. And the last question, if I may. On the crop insurance, last year was negatively impacted by around $0.57 per share. Evan, I think you mentioned that you averaged all years including last year. So would it be fair to assume that you've not taken back the entire $0.57 per share for this year's guidance?

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

Go ahead, Brian.

Brian Edward Dowd
Executive of Office of The Chairman

I would say, Vinay, we would -- our loss ratio, because it's a 1 year added to the 10, modestly went up. So if you just did a complete year-over-year, it would be modestly lower than the run rate from the prior year. But only it's really at a 1 average quarter in.

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

Yes, it's modest.

Sean Ringsted
Chief Digital Officer of Chubb Group, Chief Risk Officer of Chubb Group and EVP of Chubb Group

It's a modest change. Change down, obviously.

Operator

And we'll move on to Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

I have a couple of follow-ups. The first, if I can offer a comment on guidance, which is I kind of wonder if guidance has outlived its usefulness for you guys. It seems every year at this time, it causes confusion or at least more years than not, it does.

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

I love you, Ian. Everyone here is cheering, because we've said that to ourselves, too, it's, "My God, why are we doing guidance?"

Ian Gutterman
Adage Capital Management, L.P.

I'm happy to have a further conversation offline if you want to get into it. But I just offer that as advice. It just -- I can pick it 10 different ways, too. But it seems the theme of the call today should have been your optimism on the operating environment, and instead, all the questions are about guidance and the stock reaction, which is frustrating. So my quick questions, I know we're getting late, is just can you clarify, I guess, when you were talking about the Life business earlier, can you give us a sense of how much of the operating income percentage-wise is Life reinsurance, even ballpark, just so we can try to model that a little bit better?

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

I don't have that in my head.

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

Ian, we'll take it offline, I'll get it for you.

Ian Gutterman
Adage Capital Management, L.P.

Okay, perfect. And then the other one, Phil, the crop adjustment, the crop being down year-over-year due to the adjusted sessions to the government, was that in relation to the main planting season? Or was that just for the winter wheat sessions being different?

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

Yes, it really doesn't have anything to do with the winter wheat. It really is adjusting to the gain-loss formulas with the government. So in years where you make money or lose money on a state-by-state basis, you change the session to the premium to the government. So it's entirely related to the 2012 accident year crop result.

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

It's a retrospective adjustment.

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

It doesn't impact earnings. It's just how the loss-gain mechanism relates to the premium.

Ian Gutterman
Adage Capital Management, L.P.

Got it, great. And then my last one real quick is given all the questions about the amortization, is it possible you can put a little schedule on the K? I know a lot of other companies when they do acquisitions will put like a 3- or 5-year look forward on amortization schedule.

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

It's in there already.

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

It's in there. We won't look forward, but the actual results are included.

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

Yes, you get that, right.

Operator

And we'll take our final question today from Larry Greenberg with Langen McAlenney.

Lawrence David Greenberg
Langen McAlenney

Just to represent the sell-side on the guidance issue, I would concur with Ian's thought on that. My question is on international property casualty. You mentioned it continues to lag North America in terms of pricing, and you mentioned that there are still some players chasing business. Can you just give us some thoughts on your outlook for that? I mean, is there any hope that, that might turn the corner and follow the path of the U.S. a bit?

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

The only place I see that is really in the U.K. right now. The continent is languishing relatively flat, and I'm going to let -- and I don't see it in Latin America or in Asia. I'm going to let John talk about it, maybe to give you a little more color on U.K.

John W. Keogh
Chairman

Larry, it's John Keogh. Just to pick up on what Evan said, yes, the U.K., we did start to see in the back half of last year some price improvement on casualty. We haven't seen some stabilization in property. But for the second half of last year in the U.K, I think similar to what we're seeing here in the U.S. where the market is recognizing an interest rate environment there, and the lack of it [ph] over the last few years, that there are markets, particularly the bigger more sophisticated markets, that are recognizing that in their pricing and personal [ph] rate increases. So we're starting to see some pickup [ph] there. Otherwise, the pricing for international markets around the globe, I would characterize throughout 2012 certainly in the fourth quarter and January this year has been relatively stable. And when you look at our region in our products, rates have been up or down 2 points consistently over the last 4 quarters, the exception being property. Last year, in property internationally on the back of the cats in Asia and Japan, we certainly saw rate increases on our property business and our retail property. And we continue to get those rate increases first and second quarter. And then again, third and fourth quarter, we got rate on rate. So property, I would say, is the exception in terms of the rate environment, internationally. But in terms of the catalyst or something I'd see in the year ahead or anything we're planning, maybe more importantly in our plans for international, we don't see a market change in the rate environment in the international markets for the year ahead.

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
And that will conclude today's call. We thank you for your participation.