S&P Capital IQ

CONTENTS

Chubb Limited NYSE:CB

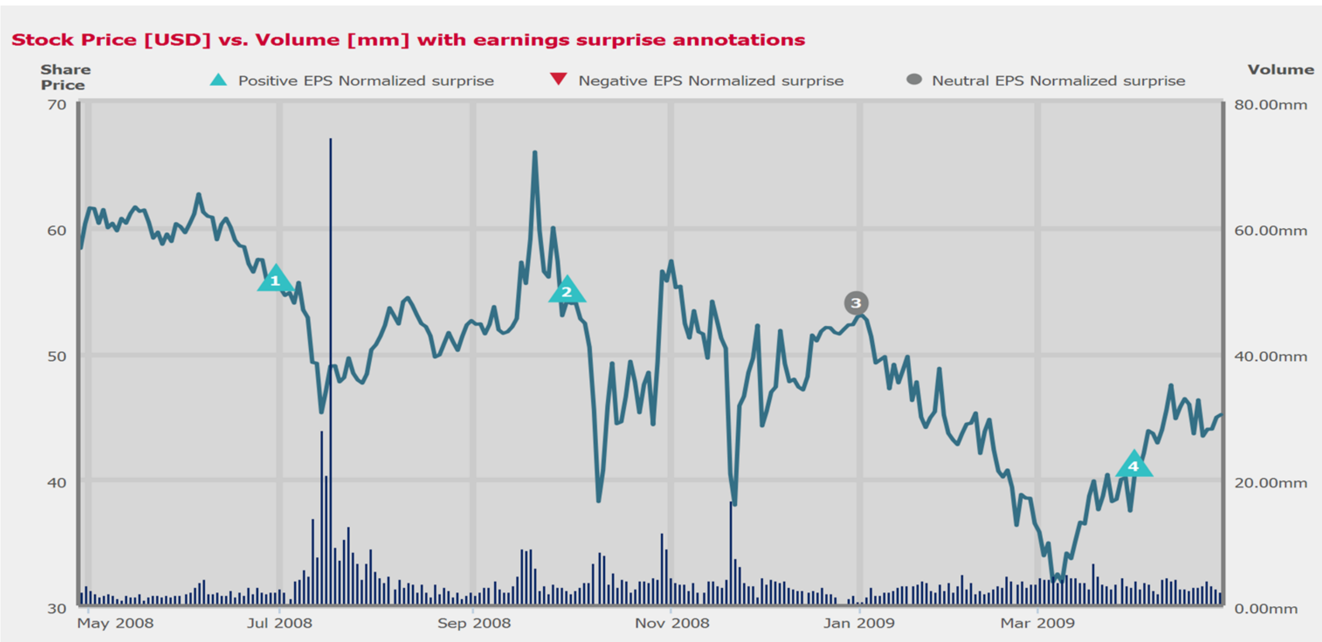
FQ2 2009 Earnings Call Transcripts

Monday, July 27, 2009 9:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2009-			-FQ3 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.94	2.09	▲7.73	1.74	7.52	7.79
Revenue (mm)	3596.81	3415.00	▼(5.05 %)	3386.36	13433.68	14090.74

Currency: USD
Consensus as of Jul-27-2009 4:29 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2008	1.90	2.18	▲1 14.74 %
FQ3 2008	1.40	1.51	▲2 5.59 %
FQ4 2008	1.87	1.87	●3 0.00 %
FQ1 2009	1.96	1.99	▲4 1.02 %

Call Participants

EXECUTIVES

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

Helen Wilson

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

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Ian Gutterman
Adage Capital

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Jay H. Gelb
Barclays PLC, Research Division

Mark Lane
William Blair & Company L.L.C., Research Division

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

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Presentation

Operator

Good day, everyone and welcome to ACE Limited Second Quarter 2009 Earnings Conference Call. [Operator Instructions] For opening remarks and introductions, I would like to turn the call over to Helen Wilson, Investor Relations.

Helen Wilson

Thank you and welcome to the ACE Limited June 30, 2009 Second Quarter Earnings Conference Call. Our report today will contain forward-looking statements. This include statements relating to our financial outlook and guidance, business strategy and practices, competition, growth prospects, investment and use of capital, general economic and insurance industry conditions, pricing and exposures, losses and reserves, all of which are subject to risks and uncertainties. Actual results may differ materially. Please refer to our most recent SEC filing 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 will be available for replay for one 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 Philip Bancroft, our Chief Financial Officer, and then we'll take your questions. Also with us to assist with your questions are several members of our management team. And now, it's my pleasure to turn the call over to Evan.

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

Good afternoon. As you can see from the numbers we just released, ACE had a very good second quarter, which contributed to a strong first six months. After tax operating income in the quarter was 706 million or 2.09 per share and ROE was 18%. All divisions of the company made a reasonable contribution to earnings in the quarter.

Book value grew 12%, benefiting significantly from the tightening of credit spreads as treasury yields rose and the yields on corporate securities fell. Book value is now up 14% year-to-date.

Our P&C [property and casualty] combined ratio for the quarter was 87.7%, current accident year results were good and we also benefited from approximately 158 million in positive prior period development, about 100 million was casualty and the balance were short-tail related. CAT losses were 24 million after tax compared to 49 million after tax in the second quarter of last year.

Net investment income was down over prior year and essentially flat with last quarter. As we mentioned on our last call, during the fourth and first quarters, given the extreme level of uncertainties and instability in the financial markets, we played more defense and built-up a substantial cash position. During the second quarter, we deployed much of that cash. And at the same time, modestly rebalanced our portfolio away from equities in towards classes of fixed income where we judge more favorable risk-reward profile.

Our P&C net worth and premiums were down 5% on a reported basis. Foreign exchange, again, had a significant impact on year-over-year growth, about six points. Excluding foreign exchange, P&C net written premiums were up about 1.5% from prior year. Premium growth was also impacted by both recession and the general pricing environment. On that point, as we said last quarter, pricing in general was better for reinsurance-related risks than insurance. It was better for risk coming to the retail market than the wholesale market.

Overall pricing for our business was modestly better in the second quarter than in the first. However, renewal retention rates were down from what we historically experienced, due to both to our resolve to maintain discipline, a trade-off we accept and recession-related reductions in exposure, consumer, business and employee-related, impacting both P&C and A&H [accident and health]. In those areas of our business, generally, casualty related where more than price matters, where there is a customer, or a producer, flight to quality or capability. We are experiencing very good growth, particularly in the U.S. The same can be said about certain distress classes where rates are increasing more rapidly. Where it is simply about price, our premier volume is flat or down.

While it is somewhat simplistic and the marketplace is messy, I characterize the competition into three categories that broadly define the competitive landscape; first, troubled companies. Some maintaining better underwriting discipline and therefore losing business. And others, trying to hold market share, what seems to be almost any price. Second category is large national and global companies that are exhibiting reasonable discipline. Although here again, there's a spectrum and their appetite varies by company and market. And the third category is a handful of smaller, newer companies, driving for growth and continuing to cut price in order to obtain it. This is particularly visible in E&S [excess and surplus] and specialty casualty-related classes, excess property placements and certain marine classes.

So with all of that as context, let me comment first on the Reinsurance business. Global Re [Global Reinsurance] experienced excellent growth in the second quarter, with net premiums up 22% over prior year. Similar to last quarter, growth was due to a combination of firming prices, particularly short tail, better signings on treaties given our rating and companies purchasing additional reinsurance for capital relief.

Our U.S. and Bermuda portfolios performed particularly well. CAT pricing was up slightly more in the second quarter than in the first, with U.S. pricing up about 15% to 20% and international up five to 10. Pricing in Florida specifically increased on average by about 15% and we expanded our capacity over last year in light of the attractive return.

Reinsurance property risk pricing was up about five points. U.S. and international casualty-related reinsurance pricing for business we wrote was flat to 5% on average, with greater improvement in D&O [Directors & Officers] and E&O [Errors & Omissions] related lines.

Now turning to the insurance side, market continues to firm, though not in all classes. Rates are moving up in some classes, flat in others and are continuing to go down in others although at a continued, slower pace. This is a general statement with many exceptions but the overall trend that started several quarters ago slowly continues for perspective and for our portfolio.

In the second quarter of last year, overall new and renewal rates were down an average of 10%. In the third quarter, the decline had slowed to an average of seven. In the fourth quarter, rates were down an average of two, with some lines showing increases. In the first quarter of this year, our overall portfolio rate was up an average of one and in the second quarter, our rates were up an average of 4%.

In nearly every class, our average pricing for the business we wrote was modestly better in the second quarter than the first. For the market in general, retail in most classes was less competitive than wholesale and again, in lines and layers where clients seek the service expertise, balance sheet and presence of a company like ACE, prices are generally firmer. It's also true in certain troubled classes, such as financial institutions-related professional lines and most recently in aviation. On a constant dollar basis, our global retail P&C business at ACE U.S.A. and ACE International grew 3%, while our London and U.S. wholesale business shrank by 11. Now, let me give you a little more color on that.

In North America, net written premiums were flat. Retail was flat with casualty growing and short tail shrinking. Overall rates in U.S. retail were up about 5.5% in the quarter. Our renewal retention rate on a premium basis was also up from the same quarter last year, although on a policy basis, our retention rate was down modestly from prior and that's the impact, again, of recession and competition.

In U.S. retail, we were able to secure our prices more often on Casualty business than short-tail lines and that's flight to capability and safety element. For example, our Professional Lines business grew 28% in the U.S. retail, excess casualty and construction both grew 27% and our Environmental business was up 9%. On the other hand, our risk management premiums, that is self insured, comp and general liability, were down 9%, due to the recession's impact on exposure and competition at the smaller end of the business from guaranteed cost writers in one or two overly aggressive markets taken a few accounts.

In addition for lines where it's really about price only, premium growth was down. For example, our U.S. large account property was off 18% and our Marine business was off 24%. For U.S. wholesale business, our premiums, excluding crop, were down 15%. However, rates for the business we wrote were up nine, with casualty of four and property of 13, but our retention rate was down. Competition continued unabated in E&S casualty and professional lines. We have now shrunk our Westchester E&S casualty portfolio by around two-thirds relative to its high point in 2005.

For our international P&C business, excluding A&H, retail premiums in constant dollars were actually up 10%, driven by classes where, again, more than price matters, such as financial lines, where we grow over 60% and casualty which grew 14%. Rates overall in international P&C were up about 2% in the quarter and all lines and regions were in a pretty tight range. Prices varying from about up four in professional lines but down four in marine.

Market tone is slowly improving and price is firming. In Australia, for example, where June 30 is an important renewal date, gross premiums were up 10% and rates were up in a broad range from 1% in property to 11% for financial lines.

For international wholesale, premiums in constant dollars were down eight as we strove to attain price in a continuing, competitive London subscription market environment. Rates for our business were up 9% driven by property, energy, marine and professional lines. Much of the smaller company capacity is centered in London and Bermuda and there continues to be a feeding frenzy for the business brought to these wholesale markets, since it's the only way, many of these small companies can access the market.

Recession is definitely impacting our revenue and it's a lagging impact with the second quarter worst than the first. Client exposures are down and many buyers simply have less ability to pay and are seeking more affordable alternative, such as higher deductibles and less limit. And of course, some clients are willing to place their business with lower rated, cheaper capacity and a quest to save premium dollars. The exposure reduction impacts growth and that's specially evident in workers comp, marine, general liability, environmental and A&H. For our P&C business in total globally, we roughly estimate recession has had a three to four point impact on our premium revenue growth.

With that, I want to make a few comments about our A&H business. Around the globe, consumers are suffering and their tightening their belt. Consumer credit is shrinking, fewer people are traveling and employers are cutting back on employee benefits including accident insurance. In constant dollar terms, our global A&H business was essentially flat in the second quarter. Foreign exchange had a significant and negative impact on our reported growth rates in the quarter, about 12% impact.

To break this down further, our ACE International A&H business overall grew 1% in constant dollars, with Asia growing 10% and Latin America growing 3%. The other portion of A&H is the combined, which is also feeling the impact of the recession and their overall premiums in constant dollars were down four.

Overall, our A&H business growth was impacted by both lower new business writings, as well as renewal persistency, which was down modestly. We estimate recession has had at least the six to 10 point impact on our growth rate. You'll notice, our A&H earnings, while good, were down from prior year. Foreign exchange and a few one-time claims and non-claims-related items make up about two-thirds and the impact from reduced persistency and slower new business growth make up the balance. However, all is not bleak and we are hardly standing still.

In addition to managing our expenses and investment spending carefully, we are also repositioning our products and marketing programs to have greater appeal to individuals and companies in recessionary times. We are also implementing better analytical capabilities that enhance our direct marketing effectiveness thus enabling us to spend less to win more.

While the travel category is currently under pressure, we see exceptional medium and long-term opportunity globally and are making investments now to expand our presence and capability in more markets. This is already paying off as we are winning substantial new distribution market share. The impact of recession on our A&H business, while real, is transitory and over time, as economic growth begins to recover, our business should benefit.

Finally, in closing, let me make a few general observations about the overall macroenvironment. We remained basically cautious and concerned about the global financial and economic environment. In my judgment, there is much uncertainty given all of the challenges in front of us; recession, the balance between the risk of deflation and inflation, financial industry, balance sheet woes, government deficits, government assault on business, protectionism and in our sector, inadequate insurance market pricing, which is all reflected in volatile investor sentiment.

Financial markets remained uncertain and I expect these conditions will be with us for some time. Yes, with all of that, I am optimistic with what I see on the horizon for ACE and I like our prospects and I like our fundamentals. We are focused on the right things at this unique place in point in time, a prudently managed investment and underwriting portfolio and a strong balance sheet. We have a great spread of businesses, geographies and product capabilities, strong underwriting culture and a company of highly-talented, optimistic and motivated people.

We are making significant investments to expand our capabilities in areas such as our back office operations in the U.S. and U.K., our multinational client underwriting and servicing capability, our technology, our A&H business, our enterprise risk management abilities and our high-value personal lines business to name a few. Over the cycle, we will continue to invest in our future. 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. Good morning. Our cash and invested assets grew by 2.7 billion, our reinsurance leverage dropped to about 81% and our tangible book value grew by 16% on a per-share basis. Net realized and unrealized gains before tax from our investment portfolio were approximately 1.2 billion, 1 billion after tax.

New guidance was issued by the FASB last quarter related to both mark-to-market accounting and other than temporary impairments or OTTI. We adopted the guidance this quarter and have had no significant impact on our book value. The effect was to re-classify 267 million of prior periods OTT (sic) [OTTI] charges from retained earnings to unrealized losses within our equity section.

For the unrealized losses remaining in our fixed-income portfolio, we believe our strong liquidity and continuing positive operating cash flow, support our view that we can hold our highly-rated investments until they recover their value as they approach maturity. Our investment portfolio continues to be predominantly invested in publicly-traded, investment-grade, fixed-income securities as well diversified across geographies, sectors and issuers. The average credit rating is AA with over one half invested in AAA securities. The duration of the portfolio is approximately 3.8 years.

As we show on Page 17 of the financial supplement, on June 30, the market yield of the portfolio was 5.6%. This yield is the weighted average yield to maturity of our fixed income portfolio based on the market prices of our holdings as of that date. This is effectively our new money rate if we continue to invest our portfolio in a similar distribution. Our book or cost yield was 4.7% and represents our investment income over the weighted average cost of our invested assets

As Evan said, during the quarter, we redeployed cash we had accumulated. This cash was invested primarily in high-grade, fixed-income securities. With a strong recovery in global equity markets, we also liquidated the majority of our publicly-traded equity holdings and invested the proceeds in higher-yielding corporate bonds. This allocation to corporate bonds is well diversified and targeted to the upper tier of the high-yield sector, with an average rating of BB+. These shifts in asset allocation will or else being equal increased book yield and investment income.

Based on the mix of our portfolio as of June 30, our quarterly run rate for investment income is approximately 525 million. Our realized gains also included about 100 million related to the decrease in the fair value of our GMIB [guaranteed minimum income benefit] liabilities net of the impact of hedges. The second quarter gain was primarily due to the increase in long-term treasury rates.

During the quarter, AGO issued shares diluting our ownership from 21% to 14%. This dilution required us to discontinue using the equity methodic of accounting and to mark our investment to market. The change caused a book value reduction of about 200 million, 65 million was recorded as a realized loss and 135 million was recorded as an unrealized loss.

Operating cash flow for the quarter was 760 million and was adversely impacted by the return of about 160 million in collateral relating to the derivatives we use to hedge our variable annuity business. As the markets improved, the value of the hedges declined requiring us to return the collateral we had received from counterparties.

Net loss reserves increased about 620 million for the quarter. In addition, in June, we issued 500 million of senior debt with a coupon of 5.9% in a transaction seven times oversubscribed. The proceeds have and will be used to refinance debt maturing over the next six months.

Financial flexibility at the holding company level remained strong given our operating companies, dividend capacity and low levels of debt refinancing needs over the next five years. Our debt-to-total capital leverage ratio of 17% continues to be conservative relative to our current rating level. This leverage will be further reduced as we use the proceeds from our recent debt offering to repay other outstanding debt when it matures later this year.

For the full year 2009, we now expect our operating income per share to range between $7.25 and $8. Catastrophe losses included in our estimate are 275 million pretax and 215 million after tax for the remainder of the year. I'll turn the call back over to Helen.

Helen Wilson
Thank you, Phil. And now we'd like to take your questions.

Question and Answer

Operator

[Operator Instructions] We'll move to Jay Gelb with Barclays Capital.

Jay H. Gelb
Barclays PLC, Research Division

Evan, can you talk about the pace of improvement in pricing? Up 4%, that's probably on the high end of what we've heard. First, does that include just rate or is that rate in exposure? And why do you think it's in the mid-single digits given where we are in the cycle?

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

First of all, it's rate, pure rate. As exposure increased premium more then that would come through in the premium. This is just a pure rate side. The balance of the question, why do I think we're getting 4%, or...

Jay H. Gelb
Barclays PLC, Research Division

Yes. If I may rephrase, to what extent do you think that, that accelerating trend can continue?

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

I'm not sure. Right now, it's kind of a chaotic market. We measure it month by month. April and May were probably a little better than the end of June, early July but there's always that feeding frenzy generally around the important renewal dates. I do see particularly in the casualty related in the tougher classes and specialty classes where it's not that E&S wholesale but it's in the retail area. I continue to see our underwriters getting pretty good rate but retention is a little lower than it was on a policy basis more than on a premium basis. It varies by region of the world where I think how is it going to continue going forward. The U.S. right now, I think the market will continue to firm for us but slowly. In the U.K., same thing. Australia seems to have accelerated a little more rapidly. The continent of Europe is firming more slowly but it also got softer more slowly, it's a more orderly and slower to react market. Beyond that, I can't read the tea leaves right now.

Jay H. Gelb
Barclays PLC, Research Division

My next question comes has to do with the growth in professional lines. How does ACE strive to avoid the tail of losses in those line as whether you would take on new business or move lower down on programs, particularly for the financial sector?

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

You hardly cover prior acts when you write professional lines business. And when we're stepping into financial institution related, the attention of the insurance you buy today is to cover your exposures going forward, and we're not picking up the past.

Operator

We'll move next to Mark Lane with William Blair & Company.

Mark Lane
William Blair & Company L.L.C., Research Division

The first question is regarding accident year loss ratios, x CATs second quarter versus first quarter, in international, they seem to be kind of stable but in the U.S., they seem to be up a little bit versus the first quarter, the same in reinsurance. Any insights you can provide there in terms of just second quarter results versus the first quarter?

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

For the reinsurance, it's really a mix issue in the sense that we have more Casualty business with higher loss ratios in the same quarter last year. When you look at the U.S., there's some large risk management contracts that are affecting this, there was one outgoing, a return premium, in the second quarter of '08 and in this quarter, we have a large inbound. They're both written at about 100% combined and so that's distorting the...

Mark Lane
William Blair & Company L.L.C., Research Division

I'm sorry, I'm comparing it versus the first quarter this year.

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

I think it's very tough in our business to compare sequentially, quarter-to-quarter. It would be easier -- the more relevant to us is the comparison year-on-year in the business, because of the seasonality how our business mix changes a bit from quarter-to-quarter of what we write, Mark. What is inflating the second quarter in North America is more to do with a few large accounts written that are more of a risk management nature and they generally have the higher loss ratio attached to them. That's simply the noise when we strip it wet.

Mark Lane
William Blair & Company L.L.C., Research Division

A broader question, just about loss cost trends, are you seeing any changes, either positive or negative, in terms of loss cost trends relative to the economic environment?

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

No. Not really There's a little noise here and there on individual portfolios, but in the totality and in the major books as we study them, we don't see much, we don't really notice any change in loss cost trends.

Operator

We'll move next to Matthew Heimermann with JPMorgan.

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

First, with respect to the A&H business, Evan, I thought in your comments you mentioned unusual loss in the quarter, or a 1.5 loss in the quarter, did I hear you right? And if so, what was that?

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

You did. What you heard me say is that A&H earnings in the quarter were less than in the quarter last year. You'll notice that in the supplement as you study it but I'm helping you to read ahead on the test. So what I was really flagging is why is that? And about two-thirds of it, we had some one-time good guys last year in the second quarter, and we had some one-time bad guys in the quarter this year that were related to losses. One example is the Air France crash, for instance. And so that's about two-thirds of it, so I'm just helping you to think about a better sense of the normal earnings of that. And then the balance is related more to recession because that's a new business growth and retention of business, renewal ratio.

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

And then if we kind of strip out the noise...

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

That was further earnings.

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

Yes. And then was there any -- on an underlying basis with respect to some of the guarantees you're giving, was there an underlying improvement in that business? Because with the market improving, I would think that the necessary incremental reserves were probably down relative to premium?

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

Matt, I think you're thinking of the VA Life business not the A&H business. So I was referring really to the A&H and the VA, we didn't unlock any assumptions and the operating income was on the same assumptions as we used in the past. So there were improvements on that. From current market, we didn't reflect those in the operating income and then the net income obviously has the fair value impact which was -- at $100 million to our...

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

That was going to be my second question, because if I -- based on the disclosures, and listen, I'm not going to pick -- I'm happy it's positive given the last couple of quarters. But based on the disclosures in your Q, I would have thought it was even more positive particularly given the equity market movement. So I'm just guessing, was there some change in long-term volatility that we missed? And I'm thinking of the numbers net of the hedging that are provided?

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

But I would say is that we have this lock-in concept and while the experience is within a certain corridor, we're not going to change the underlying assumptions. So while we did benefit on the realized gain side, most of that was interest rates as I said. The improvement in the S&P is almost -- it was very substantially offset by the loss on the hedges, because that's what we have before they move against it. So it's about exactly what we'd expect to see in light of what we didn't unlock. If we would've received benefit in the operating side, we just didn't recognize the current environment because we didn't unlock and change any of that.

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

The other thing was normally I think about your business from a reserve standpoint. A lot of your casualty reserves, I believe, are second half annual reviews. I just want to make sure there was no acceleration of any of the reviews in the quarter?

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

No acceleration and look, we review a good portion of Global Re's [Global Reinsurance] casualties in the first quarter. Of our North American business, there's a substantial portion that's reviewed in the first half, Global Re, I meant the first half. And then there's the international and the balance of North America and some Global Re in the second half. There was no change, no accelerations.

Operator

And next, we'll move to Vinay Misquith with Credit Suisse.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Evan, you mentioned that pricing was up 4% this quarter and that's great. Just curious, how that would impact the margin especially since loss cost trend -- I recall last time you said loss cost trends, you're forecasting them to be 6% for Normal business and I believe high-single digits for the E&S business.

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

Yes. Look, it varies by line but it does one of two things -- one of three things. Depending on the class of business, it either kept that 4%, either help bring loss ratio down, helped it to remain stable and the same, or it helped to arrest the pace of which loss ratio is rising. So it obviously has a benefit but as a general statement, it varies by line of business, Vinay.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Second question was on the GMDB [guaranteed minimum death benefits] expected payouts in the future. The disclosure on Page 12, actually, gives out how much we expect to payout was -- how much you expect to receive over the next 12 months and the next payout has remained relatively stable this quarter versus last quarter. So just curious, I mean the markets have recovered significantly, I'm curious why the net payouts for you guys would have actually gone up a little bit this quarter versus what you expected last quarter?

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

Just relate to the number of claims, right? Because obviously, there's been an improvement and a difference between the guaranteed value and the account value. So the only other variable we would have is the number of actual claims in the quarter.

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

Mortality.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

So you expect more claims in the near term because of deaths.

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

Yes. Portfolios mature. Remember we wrote these portfolios in prior years and as they mature, mortality matures along with it.

Operator

And we'll move next to David Small [ph] with JPMorgan.

Analyst

You made some changes to the claims organization. And I was trying to understand what was happening there. Is that driven by the types of business you're putting on the book right now, or is there something else going on?

Evan G. Greenberg

Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

I'm looking at Frank Lattal because we haven't made any material changes to our claims organization. And if you read an announcement on appointments, or some recent appointment of an executive, help us with it.

Analyst

The press release out about a week ago, it said you created a new role to support major risk claims service?

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

Yes, the U.K. You're talking about a position that was filled in the U.K. We added a claims advocate who is -- the position is designed to help large insureds and navigate through our claim operation throughout the ACE European group and to help advocate between the insurer themselves and the claim operation if they have large claim or large issues. It's customer service design for customer service and to make the transition seamless between the presentation of a claim and getting it adjudicated by the organization.

Analyst

And one second question on the guidance, there's no favorable development on that number, right?

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

That's correct.

Operator

We'll move next to Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

One, just following-up on Dave's question there, when you said there's no favorable development, you mean for the remainder of the year?

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

That's correct. We obviously would have whatever favorable development we had in the first six months and the first six months. And then we don't assume any additional for the rest of the year.

Brian Robert Meredith
UBS Investment Bank, Research Division

First, admin expenses in North America, up about 13% year-over-year, 12%, 13%. Anything unusual going on there?

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

No. We made quite a few investments in North America. We have our Private Risk Services business that we have been building out and it's going quite well. We're not highlighting it yet, it's sort of like that thing we're still polishing in the basement, we'll march to that. And we've been building out our field organization in our underwriting presence in a number of lines. Our D&O and E&O, our environmental, our construction and in a few areas, we have been improving those capabilities, and so that's why you see the expense up a little bit there. I think the overall expense ratios are looking pretty good on P&C only.

Brian Robert Meredith
UBS Investment Bank, Research Division

The other income line on your income statement, what goes to that? There's a bunch of other income this income where it's been actually a loss in prior quarters.

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

Yes. Other income is made up of a -- it's couple of things. I mentioned that we had the AGO loss. That was just 67 million that went there. And then we had -- we also had from time to time purchase a credit of full protection against counterparties and we had the value of the swap went down because credit spreads came in.

Brian Robert Meredith
UBS Investment Bank, Research Division

On the A&H business, Evan, can you give us kind of a perspective or a general breakdown of where that business is geographically, so as we kind of look at the global economy and we see certain areas improving and certain areas not improving, we get a sense of kind of how it might impact your business.

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

Yes, it's pretty well spread. When I take ACE International, remember, on an annual basis, about half of the business is ACE International and about half is combined. And so roughly, don't hold me to the number exactly, about 1.6 billion each. On the combined, about 1.1 billion, 1.2 billion is the U.S., the balance is International. On ACE International, obviously, it's all international and that breaks down -- not exactly, but about a third Europe, about a third Asia, about a third Latin America.

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

First, just on the guidance, the catastrophe losses that you gave out, was that just for the second half of the year, or was that for the full year?

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

That was just the remaining part of the year, second half.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Next one, also a clarification. When you talked about price changes, I think you said new and renewal, is that a fair characterization, or was that just Renewal business?

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

No. new and renewal. Well, the way we look at it is like this, that's the renewal pricing because that's what you can judge exactly and then we look at the relativity between New and Renewal business to see if our New business is getting on a life basis and it's not an exact science, it's getting the same pricing levels. And our relativities, they are the closest they have been yet, they're almost 100%. They're in the high-90s to 100. So that means that the New business is as adequate as the Renewal business. If that helps you.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And then lastly, obviously, there's been a lot of talk about political risk insurance. It doesn't appear based on the numbers over the past year and half that it's having a big impact on your business at all. And I'm wondering if you could just give us an update of what you are seeing there from a claim standpoint?

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

I'll break it down for you, I think, Jay you want political risk and trade credit, right?

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes, that's fine. That's good.

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

For political risk, our loss experience, touch wood, it's quite quiet and we have not seen -- we've seen very, very low level of development and the development we have is comfortably within our PEGs as we seen it today. Our Trade Credit business, that business by its nature runs a higher frequency of loss than political risk does. And its frequency and severity are well within what we contemplate within our PEG loss ratios, so that's running just fine. And then we have a third book called structured trade credit where it's for, really, larger multinational-type clients where we insure above a self-insured retention, where they have their own credit organizations and credit analysis capabilities. And on that business, we're seeing a little higher frequency of loss but again, on frequency and severity, nothing troubling and within our expectations.

Operator

[Operator Instructions] We'll move next to Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital

On the investment portfolio, can you just tell me a little bit, you talked something about the selling the equities and investments in cash and putting them in high yield. I'm just trying to reconcile a little bit, it looks like you sold about 500 million of equities and I guess you deploy cash, too but the below investment grade looks to have gone up close to 2 billion or so...

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

So here is how I would break it down, I'd say we sold about 1.8 billion of -- we reduce our cash position by 1.8 billion and we sold about 800 million of equities then we redeploy them. So 600 went into corporates, about 250 went into agencies, 400 went into treasuries and about 350 in the high-grade mortgages, so that's 1.6 billion and then the remaining -- approximately the remaining in billion went in the high yield.

Ian Gutterman
Adage Capital

I guess it looked like to me that the BIG went up more than that, is that just partially downgrade as well as price movement? Would I assume part of that would have been downgrades into investment grade and also price recovery as well?

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

Yes, absolutely. Price recovery is a big part of the change here. So that was just what we put into the portfolio then we have significant price changes.

Ian Gutterman

Adage Capital

I guess my main question about that is given the below investment grade bucket and it looks like the BBB bucket are bigger than they've been in a while, what capital concerns could we have if we see more fallen angels and the BIG bucket becomes bigger just because of the BBBs continue to get downgraded and so forth?

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

We're very comfortable with our capital position, I wouldn't expect that to be an issue. The change in the capital requirements as you move one rating level just aren't that significant.

Ian Gutterman
Adage Capital

Just to clarify on the guidance, I guess, I'm doing very quick math here but essentially, from where you were earlier in the year, you have lost a little on the top end and kept the bottom end the same, but the prior year period alone, which wasn't in the guidance, is more than $0.50 of upside, looks like 60+ of upside. So what was sort of $0.60+ negative that is counteracting that?

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

It's a combination of the investment income, foreign exchange, grade of premium growth, grade of rate increase, so a number of other areas were little less than the anticipated and that's offset by the prior period that was not anticipated.

Ian Gutterman
Adage Capital

Is there a way to help us quantify on the earnings impact of FX? I mean, obviously, you touched up on certain areas or on premium levels...

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

We actually gave it to you. We gave it to you right in the release and in the supplement and I believe it was about $40 million in the quarter on operations.

Operator

That does conclude our question-and-answer session at this point. I'll turn the call back over to our speakers for any final or additional comments.

Helen Wilson

Thank you, everyone for joining us this evening and we'll speak to you again at the end of next quarter. Thank you and good day.

Operator
This does conclude our conference call. We thank you, everyone for your participation.