S&P Capital IQ

CONTENTS

Chubb Limited NYSE:CB

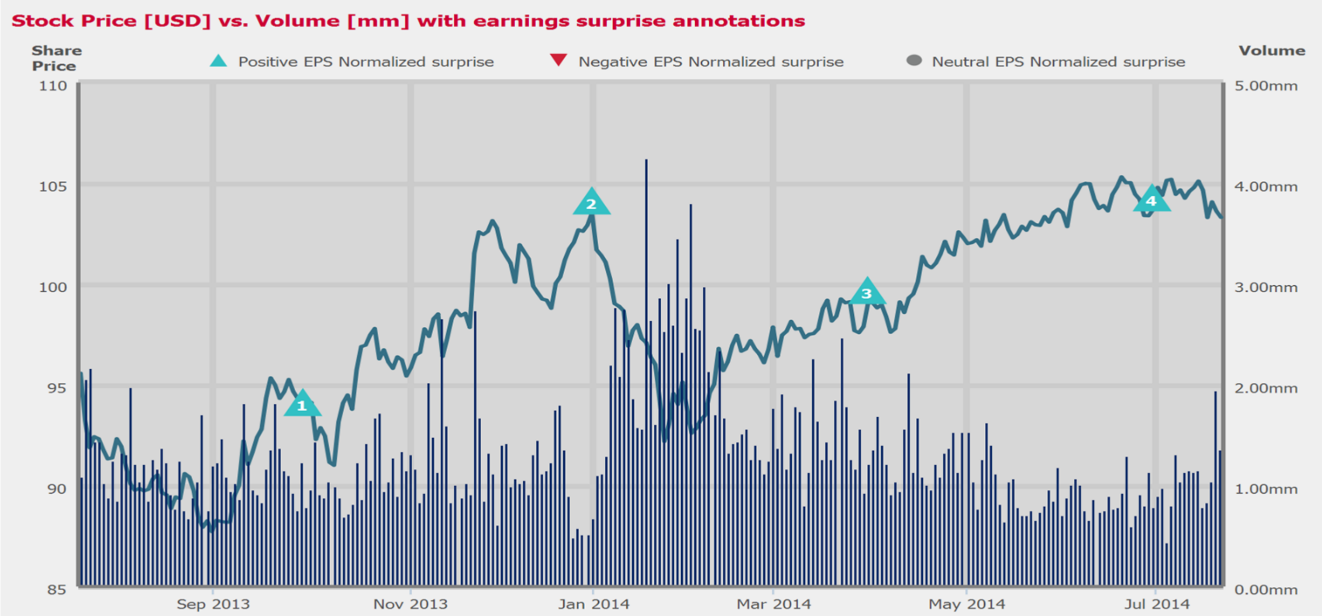
FQ3 2014 Earnings Call Transcripts

Wednesday, October 22, 2014 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2014-			-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.36	2.64	▲11.86	2.24	9.55	9.35
Revenue (mm)	4311.20	4232.00	▼(1.84 %)	3766.98	15759.72	16890.24

Currency: USD
Consensus as of Oct-22-2014 11:56 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2013	2.23	2.49	▲11.66 %
FQ4 2013	2.02	2.39	▲18.32 %
FQ1 2014	2.14	2.27	▲6.07 %
FQ2 2014	2.23	2.42	▲8.52 %

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

Charles Joseph Sebaski
BMO Capital Markets U.S.

Clifford Gallant

Ian Gutterman
Balyasny Asset Management L.P.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Jay H. Gelb
Barclays PLC, Research Division

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

Kai Pan
Morgan Stanley, Research Division

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

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

Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

Good day, and welcome to ACE Limited's Third Quarter 2014 Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

For opening remarks and introductions, I would like to turn the call over to Helen Wilson, Investor Relations. Please go ahead.

Helen Wilson

Thank you, and welcome to the ACE Limited, September 30, 2014, earnings conference call. Our report today will contain forward-looking statements, including statements relating to company performance, pricing and insurance market conditions and acquisitions, including our expected acquisition in Brazil, all of which are subject to risks and uncertainties. Actual results may differ materially. Please refer to our most recent SEC filings as well as our earnings press release and financial supplement, which are available on our website for more information on factors that could affect these matters. This call is being webcast live, and the webcast replay will be available 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 Phil Bancroft, our Chief Financial Officer. Then we'll take your questions. Also with us to assist with your questions are several members of our management team.

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

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

Good morning. As you saw from the numbers, ACE had a record quarter, with growth in earnings driven by growth in both underwriting and investment income. After-tax operating income for the quarter was $891 million or $2.64 per share, up 6% versus last year's third quarter, which itself was a record.

For the 9 months, we have produced $2.5 billion in operating income, up 4% on last year, so again, year-to-date, a record for our company. Our annualized operating return on equity was 12.6% for the quarter, bringing the year-to-date ROE to about 12%, a very good return on shareholder capital while at the same time, we continue to invest for the future.

As you saw in our announcement yesterday, we have received all regulatory approvals needed to close our acquisition of the large corporate P&C business of Itaú Unibanco in Brazil. We now expect to close at the end of the month, well ahead of our original schedule. Our integration teams have been hard at work, and we are ready to hit the ground running in putting our 2 businesses together. We're excited about the addition of this terrific franchise and the joining of our collective forces. I don't expect we will miss a beat.

Underwriting results in the quarter were simply excellent. We produced $586 million of total P&C underwriting income, up 5%. Underwriting income growth resulted from both earned premium growth and an outstanding underwriting margin, which was essentially flat with last year. Our combined ratio was 86.3 and benefited from strong current accident year results, prior year's reserve development and relatively light cat losses. All divisions contributed to the good underwriting results. Our Overseas General business, in particular, delivered another standout quarter, producing over $340 million of underwriting income, up over 19% and an 80% combined ratio.

Growth in earnings was also driven by excellent growth in net investment income, up 8.5% to $566 million, primarily as a result of growth in the invested asset and partnership income. Book value per share growth was flat in the quarter, affected by both foreign exchange and the impact of a rise in interest rates on our corporate bond portfolio.

For the year, per share book value was up 6.5%. Phil will have more to say about our investment portfolio, prior year's reserve development and cat losses.

Turning to revenue. Total P&C net premiums in the quarter grew 2.2%. Growth was impacted by our Agriculture business where premiums were down 5%, as a result of the lower crop commodity prices versus prior year. Excluding Agriculture, Global P&C net premiums grew 4% in the quarter. This compares with growth for the first 9 months of over 7% in constant dollars. We expect stronger growth in the fourth quarter in constant dollar terms than what we experienced in the third.

In North America, P&C net premiums written, excluding Ag were up 2.7%. We had good growth in ACE Westchester and ACE Commercial Risk Services, our middle market and small commercial E&S and specialty businesses where premiums were up 9% and 18%, respectively. We also had good growth in our high net worth personal lines business, ACE Private Risk Services with premiums up 9.5%. Premium growth was constrained this quarter in our large account commercial P&C businesses, ACE USA and ACE Bermuda. Premiums were flat in ACE USA and down 10% in ACE Bermuda, as both businesses exercised continued underwriting discipline in a more competitive market.

As I mentioned earlier, premiums in our Agriculture division were down in line with expectations. Our crop business was a good contributor to earnings in the quarter. The combined ratio reflects our best estimate of the projected underwriting results for the year as of quarter end and fully considers commodity price movements, crop yields and deductibles by state. Our projected results also consider our portfolio protections, including reinsurance in commodity hedges. We are comfortable with our selected combined ratio and believe it accurately reflects our exposure, as we know them to be.

Internationally, net premiums for ACE International were up 11% in constant dollar. Asia had an exceptionally strong quarter with growth of 25%. Latin America also had a decent quarter with growth of 10%. In Europe, net premiums grew 4% in the U.K., while growth on the continent was down 1%. And premiums in our Lloyd's base business were down 6.5%. In our global A&H business, growth accelerated as expected in the quarter with net premiums up over 6% in constant dollars. International grew 10%, led by Asia Pac, which was up 25% and Latin America, where we grew 13%. Premiums for our international personal lines and small business division were up over 20%. For our global Re business, premiums for the quarter declined 22%. The decline was due to the nonrenewal of a large workers' comp treaty. Given the competitive reinsurance market conditions, I'm pleased with the underwriting discipline shown by our reinsurance team. Finally, our international life insurance business, which is focused overwhelmingly in Asia and Latin America, had an excellent quarter with production up over 22%.

Let me say just a few words about the current market environment for commercial insurance. Overall in North America, market conditions, particularly for large account business, were incrementally more competitive. We continue to secure rate in many general casualty and specialty casualty-related classes, but it was harder to come by. Property rates continued to decline at around the same pace we experienced in the second quarter. To put some more detail around that, starting with our large retail, large account business. Risk management rates were up 3.8% and professional lines rates were up about 1.5%, both up essentially the same as prior quarter. General and specialty casualty rates were flat overall with some lines continuing to receive decent rate while others were down. For example, excess casualty rates were up 4%, and medical professional rates were down 4%. For retail property and other short-tail classes, rates declined about 4%, while in the second quarter they declined 5%, so essentially the same. Again, in our large account retail lines, new business was harder to come by in the quarter. We increased our submission and quote activity, while our quote-to-close ratio declined, as we became more selective. To me, that equals underwriting discipline. Renewal retentions were steady on a policy count basis and were up on a premium basis, due to the retention of larger trades and rate increases. For our U.S. wholesale and specialty middle market and small commercial businesses, pricing continued to hold up pretty well. Casualty rates were up over 4%. Property was down about 5.5% and professional lines rates were up about 4%, and that's why we continued to grow these businesses more quickly.

For ACE International, our international retail business, commercial P&C market conditions grew more competitive in the quarter with rates down 4% overall. U.K. and Europe were steady with prior quarters, while Latin America and Asia became more competitive. For International in total, casualty rates were down 3%; property was down 6%; and financial lines rates were down 2%. My colleagues and I can provide further color on market conditions and pricing trends.

While we are realistic about the commercial P&C market becoming more competitive, and our resolute and our discipline to trade premium volume for underwriting profit, I am encouraged by the solid growth opportunities for many of our businesses around the globe, from E&S middle market and small commercial specialty and high net worth in the U.S. to small commercial and personal lines in Asia, Latin America and Europe, to our significant A&H operations globally, and our international life insurance operations in Asia, and of course, our company's significant large account commercial franchise globally. I am confident in our ability to continue to outperform.

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

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

Thank you, Evan. Starting with investments, strong investment income this quarter benefited from an increase in our cash and invested assets, which are up $2.6 billion for the year. Investment income also benefited from an increase in private equity distributions and increased call activity from our corporate bonds.

Our average new money rate for the year is 2.8% versus our current book yield of 3.7%. For the past 12 months, our operating cash flow was $4.5 billion. As I've said on previous calls, our strong cash flow has offset the impact of lower reinvestment rates, and we expect this trend to continue. Our cash flow for the third quarter was again strong at $1.1 billion. There are a number of factors that impact variability in investment income, including the level of interest rates, prepayment speeds on our mortgages, corporate bond call activity, PE distributions and foreign exchange. We currently expect our quarterly investment income run rate to be $550 million.

Net realized and unrealized losses were $396 million after tax. This included losses of $301 million in our investment portfolio, primarily due to increasing yields from our corporate bonds and a $95 million loss from the mark-to-market impact on our variable annuity business. Our investments remain in an unrealized gain position of $1.8 million after tax.

Our net loss reserves were up $93 million and our paid-to-incurred ratio was 88%. We had positive prior period development of $232 million pretax, principally from long-tail lines and from accident years 2009 and prior. This included $63 million of adverse development for legacy environmental liability exposures in our Brandywine runoff operation, which is included in our North American segment. As in the past, we conduct our environmental review in the third quarter and our asbestos review in the fourth. On the other hand, our prior period development also includes the positive impact from the release of a $52 million individual casualty-related claim reserve dating back over a decade in our Overseas General segment.

Pretax catastrophe losses of $86 million include $53 million from Hurricane Odile in Mexico with the remainder coming from a number of U.S. -weather events.

Our global P&C gross premiums written were up 1.7% for the quarter, while our net premiums written increased 4%. Gross written premiums were impacted by the nonrenewal of a few large fronted accounts, with little or no retention in the North American and Overseas General segments. Normalizing for these, the growth of our gross written would be 4.3%. Gross written growth would've been 3.5% for our North American segment and 8.3% for our Overseas General segment. Adjusting for these, our net-to-gross ratio for global P&C would've been consistent with the prior year's quarter.

The expense ratio in the Overseas General segment was 39.2% this quarter versus 38% last year. As we disclosed at the time, last year's ratio included a 2.1 point benefit from a onetime purchase accounting adjustment related to our Mexican acquisitions. The global Re expense ratio is up due in part to the nonrenewal of the worker's composition treaty that Evan mentioned, which had a low acquisition ratio and a change in the mix of our business, which included new structured contracts with higher acquisition costs.

Our operating effective tax rate for the quarter was 16.9% versus 14.9% last year, and our effective tax rate based on net income was 18.3% versus 14.4% last year. Both rates were higher this year because we had more of our earnings that came from higher rate jurisdictions. The net income rate was also affected by the loss from the mark on the variable annuity business, which generated no tax benefit. Last year's lower year-to-date operating tax rate of 12.4% was impacted by favorable adjustments to prior year tax accruals. Our operating tax rate is 14.2% year-to-date. We believe this is a better indication of our run rate, which should range from 13% to 15%.

Total capital returned to shareholders during the quarter was $670 million, including $450 million of share repurchases and $220 million in dividends. Since we made the announcement of our repurchase plan in last year's fourth quarter, we have repurchased a total of $1.1 billion through October 20.

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

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

Question and Answer

Operator

[Operator Instructions] And we'll take our first question from Michael Nannizzi from Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Phil, just one question. You mentioned the reinsurance expense ratio, so taking that casualty business out or that comp business out and thinking about some of the structure transactions you're talking about, I mean, is this where you expect the expense ratio to kind of normalize? Or do you expect to replace equivalent contract on -- to the comp one that didn't renew to get that back down?

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

Number one, we don't expect to replace that contract, but the portfolio composition this quarter is different than the portfolio composition you'll typically see in the first and second quarter, which are the quarters when we write most of the volume. And I think the expense ratio you see in the first 2 quarters is closer to what you would see going forward. It's a mix of business question, and most of the business written in the first and second.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. So should we expect the mix of business to more likely approximate what you have now versus that then, just given what -- I'm just trying to figure out like if this is a way that we should be thinking about...

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

You -- the third and fourth quarter are the lighter quarters for premium volume. You can't really -- and it depends on the composition of the portfolio. We're in a competitive reinsurance environment, and I can't tell you with specificity how much cat we're going to write versus risk property, quota share versus excess of loss and global versus simply domestic treaty business. It will vary depending on where we see the opportunity to make some underwriting profit.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And then taking the other side, thinking about the businesses that seed into the reinsurance market. How are you sort of leveraging what's taking place there? And where should we begin to see sort of examples of that?

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

Well, I don't know that you will see examples of that, and we're major buyers of reinsurance, as you well know. We buy it to protect for both capacity, limits greater than we can manage on our balance sheet, retain on our balance sheet, and we also buy reinsurance for volatility and to help spread volatility. We are good buyers of reinsurance. We're professional at it, just like we are on the front-end underwriting. And so we will take advantage of what the market has to offer.

Operator

And we'll go now to Jay Gelb with Barclays.

Jay H. Gelb

Barclays PLC, Research Division

Evan, for the fourth quarter, where you're anticipating an improvement in top line growth, does that simply reflect that the third quarter had a headwind from the nonrenewal of that worker's compensation reinsurance program? Or are there other factors at play as well?

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

There are other factors and the business is a bit seasonal. Different businesses have a greater weight depending on the quarter that you're in, and we've been growing at around 7% year-to-date on average. The fourth -- the third quarter was a bit lighter and the only thing we were signaling was that we expected modestly stronger growth in the fourth quarter from everything we know.

Jay H. Gelb
Barclays PLC, Research Division

Okay, that's helpful. And then my second question is on the North American Agriculture. We're all aware the commodity prices have come in and your commentary on the call seemed to signal that you'd already taken that into account with the year-to-date accident year pick, and I'm just trying to get a perspective on, for the fourth quarter, should we also anticipate around a 90% calendar year combined? In Agriculture?

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

Correct. We pegged what we think is the run rate for the year. If we thought that run rate was up, we would've -- as we did last year, we would've adjusted our combined ratio, but we think it -- we think as premium earns in, this is the proper pegged combined. And we considered -- we have reasonably good models. You never know with certainty until the crop is actually harvested, but we know by state, our exposures. We know our crop mix by state. We know our deductible levels by state, and we consider all that in addition to commodity price movements, and that's what all goes into the thinking as we said along what we think is the combined ratio that reflects the year's performance, what will be the year's performance. And by the way, we also consider all our protections, reinsurance and commodity hedges.

Jay H. Gelb
Barclays PLC, Research Division

So clearly, that will be a lot better than the fourth quarter year ago results?

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

Well, if we are correct in our estimate and as I sit here today, and we made that estimate a couple of weeks ago, but as I sit here today, I feel just as good about it. It means that the fourth quarter would be materially better than fourth quarter last year.

Operator

And we'll go now to Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

So the first question is on the sort of the margin trends. Thank you for giving the market color in terms of pricing, and just wondered there are a lot of moving parts here. But if you look out to see if the rate environment is what it is right now, and given what the loss costs trends you see in each different line of your business across the globe, shall we expect the core underlying margin to be stable as we have seen in recent quarters? Or there would be some deterioration or where you can see some improvements there?

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

Kai, couple of comments I'll make about that. As I've said in recent calls, depending on the class of business, I think the level of rate increases are either not keeping pace with loss cost or barely keeping pace with loss cost. There are a few that are ahead of loss costs. And that over time, naturally, you look at the kind of combined ratios we're producing. Naturally, over time, I'd expect the combined ratios to rise, that's not -- again, that's just natural. Beyond rate and loss cost, it's really about risk selection and portfolio management. And so product mix, that is another tool that you have to help mitigate margin deterioration. And we practice that rigorously. Does that make sense to you? And then the other comment I'd make is look, we're in the risk business. And there is also, at the same time, there's volatility and losses quarter-to-quarter, and that will bounce around. For instance, this quarter, we had -- we're not -- it's -- we're not out there trying to pound our chest about it. There were greater individual large losses in the short-tail business, particularly in energy and aviation, and that impacted the current accident year a bit. But to me, meaning that it was losses outside our normal peg loss ratio, and so we recognized those losses in the quarter. But that's just normal noise in the insurance business where a current accident year is just not a straight line.

Kai Pan
Morgan Stanley, Research Division

My next question actually related to -- on the capital management side. You purchased $1.1 billion out of the $1.5 billion authorization, so are we on track to finish that program by year end? And also, do you think the board, like will think this as a onetime deal? Or you basically, on going forward, you think about it's more a tool for you, one to sort of manage your share grip, another one being probably more proactive in terms of reducing your shares given that you probably have excess capital position?

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

First of all, we are on track to complete our program, which is to repurchase up to $1.5 billion. I believe we have repeated that continuously. Secondly, when our board meets in November and when we review -- finish reviewing our plans for the year, for the coming year, we look out at opportunities as we view them in the landscape. Then, that's how we think in totality about our required and needs for capital and capital management at that time. And so as part of that, we will consider all capital management tools available, including share repurchase. And if we anticipate that, that will be a tool that we employ for the '15 year, we will alert the investing community to that fact as we did last year in due course.

Operator

And we'll go now to Vinay Misquith with Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

Just wanted to follow-up on the margin question. You've done a good job in the past of business mix change, and also chopping some wood in the underperforming countries, where you've improved your loss in your combined ratio. Curious how much of wood is left to chop in the underperforming countries that will help you to keep improving the combined ratio?

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

I don't know what wood to chop really means, and I don't know about underperforming countries. I don't recall speaking about underperforming countries, and I don't even relate to that. I don't know about underperforming countries.

Vinay Gerard Misquith
Evercore ISI, Research Division

Well, last quarter on the call, I mean, there was some commentary saying that not all countries are performing up to par, so you managed to improve performance in certain countries, and that helped the combined ratios. So I was wondering, I mean, do you have something more there that will help you in the future?

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

Well, Vinay, again, I don't relate to the comment about countries at all. But as far as portfolio management goes, which is line of business, and it's line of business by cohort of insured, by territory, by country, that is a constant work in progress. I mean, it's iterative to constantly gain more insights into where are you making money, where are you not in cohorts of risk, and where can you improve your insights on predicting future loss behavior of individual cohorts of risk, and that's a constant work in progress as well, and that helps to -- that plus market conditions help to define how your mix of business changes over time, and it'll change naturally if you have clear underwriting insight, and you know your minds and you're constantly working to improve that and your distribution capabilities and your product innovation help to keep you relevant within the marketplace, then market conditions will then dictate how successful you'll be at each of those efforts, and that dictates what is really a dynamic kind of movement in the mix of your business over time. And helps to ameliorate what is natural gravity that pulls on combined ratios, as rates go one way and loss costs go another.

Vinay Gerard Misquith
Evercore ISI, Research Division

So that's helpful. And just one follow-up, big 50,000-foot question and you've been through various cycles, how does this feel? Maybe, you think, heightened competition, but does it seem slower than the past? And given that interest rates are now lower, do you see a certain amount of discipline in the market?

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

The market is a chaotic place and everybody wants to always put it in a very neat statement. And I know you want one, and I struggle to give you one. Look, the market is growing more competitive, and there are some ends of the market that are behaving in a more ferocious way, reinsurance is an example. And then there are ends of the market, like middle and small commercial, that are behaving in a far more orderly way. And you have every gradation in between, and it varies very much by country and even within large countries' territory and by line of business. And different competitors have a different capability in different territories and behave differently. And so the marketplace is dynamic that way. What I would say different than the past, it's more global. And so you do see some uniform trends at 50,000 feet that where the world is behaving more in lockstep because there are major underwriting centers that can move their capacity around the globe rather quickly, and that is different than in the past. On the other hand, I do see companies' ability, particularly, large companies with the analytics and the data they have. They're able to do a better job of discipline. But at the same time, there are always a lot of smaller and mid-sized players who are just -- they're gun and run, and they come in and they have a way of disrupting market. And so you got all that going on right now. But the fact is, we're moving into a softer market.

Operator

And we'll take our next question from Jay Cohen from Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Two questions. I'll just give you both, and hopefully, you can comment on them. First, what I'm wondering relative to the Itaú acquisition, what you have found so far? Give us an update on kind of what you found as you began the integration process? And then, secondly, it has been in the press that ACE is interested in forming some sort of internal hedge fund reinsurance operations. I'm not sure if you can comment specifically on that. But maybe, Evan, if you can talk about the concept of reinsurance company linking up with an asset management company and generating more returns from the asset side?

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

Yes, I'll take your second one first. I'm not going to -- as you could appreciate, I'm not going to speculate or comment on what is, kind of rumors and speculations out there. When and if we have something to say we'll say it, we'll be clear about it. As far as a more general sense of, you're calling it hedge fund marrying up and the investment capability, I, maybe see it a little bit differently than that, that I think is just a feature. I went in our shareholder letter this year. I went into some length to try to give some thoughts, at least, as for me, that how I see the marketplace changing and capital in our business. It's been a very traditional buy-and-hold model for reinsurance, where the capital -- where the originators of risk, the -- and underwriters and managers of risk around the world that the primary companies would distribute to buy and hold pools of capital, simply traditional reinsurers. And that -- I think that over time, as it happened in other asset classes, that will evolve and evolve beyond that -- and needs to evolve beyond that because the model constrains how much capacity there is to take on the values of risk that are being created around the world. The values are increasing. I think technology, in all its forms, from the math to the IT, informs us that as these tools evolve, we will be able to evolve how we use and harness the capital around the world. I think what you're seeing right now are glimmers of early steps towards new kinds of buy-and-hold models, potentially, that are using other sources of capital. And if it's a buy and hold and it's private and people are -- and the purpose is long-term gain, not simply annual income, then frankly, the investments, while remaining conservative and appropriate to an insurance company, can evolve. And what it also says is the originators of risk can directly package and provide to the providers of capital, new forms of capital don't need a wholesale market in between to do that necessarily. And so, I just think there's thought around that, there's activity around that, there's talk around that and that's natural. You can't stand in the way of progress, and you can't fight against that, if it has -- if you think it has a sound premise. And that's kind of my view of it. And ACE, as a large company, as an originator of risk around the globe, and as with a good reputation for being able to earn a reasonable return on the risk it takes, will necessarily be at the forefront and in a leadership role, and as these things evolve if they make sense to us. It's our job.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Interesting observations. And then, on the Itaú?

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

John Keogh and I just spent some good time with the Itaú and ACE people in the last 2 weeks on the granular detail related to implementation and integration. And I can tell you that we are as impressed or more impressed with the leadership, with the people, with the culture, with the response of both, the ACE underwriters and team, that is a great team in Brazil, and the Itaú team and the positive feeling among both about how 1 and 1 is going to equal 3 here. Their insights and their capabilities are simply going to make us better.

Operator

And we'll go now to Paul Newsome from Sandler O'Neill.

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

I was hoping you might talk a little bit about the M&A environment. And I think, at least, my experience historically is, we get into softer markets, we see more stuff coming up for sale. And I was wondering if you think that, that is emerging as well and maybe just give us an update of what you think the environment is from a competitive M&A environment?

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

Yes. Look, I think M&A activity will increase, particularly, around companies that will find it more difficult in this environment to continue with the strategy that has served them in the past. And I think there will be more pressure that builds in -- on performance and as pressure builds on performance that generally is a catalyst for greater M&A activity. I think the -- on -- that's on the sell side. I think on the buy side, typically, what happens is, there is inflation in what people will pay for properties because it's just a more competitive environment. Others will see no other way of getting their growth or actually keeping themselves from shrinking or margins deteriorating, and they see this as their only option. So that hunger builds, so I expect to -- I expect you'll see more M&A activity as time goes on. I expect you'll see more of a feeding frenzy for what comes to market. And as we've always said, for ACE, it’s pretty simple. We have a strategy that we are pursuing for organic growth. If an acquisition comes along, that will complement what we're already doing on an organic basis. And if the returns are favorable for our shareholders, we will pull the trigger. If not, we are very happy to sit on the sidelines.

Operator

And we'll go now to Meyer Shields from KBW.

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

Evan, can you talk a little bit about what the marketplace for cyber insurance looks like domestically? Whether it's attractive, how it's growing and all that?

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

Yes. Look, the demand for cyber is, obviously, growing quickly, and that's very good. And it's among small companies to large companies, all sizes. And ACE is an active participant in the cyber insurance market. I think the question right now, particularly, for larger-target-type risks is the kind of pricing. And does the price reflect the actual exposure? And I think in smaller- and medium-sized risks as the market evolves in many classes. I think that looks reasonable -- and I think pricing is looking reasonable. I think on the larger accounts, that's the question. So I think there's an appetite to provide the coverage. Can you get paid for it?

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

Okay, fantastic. And really, quickly, I now have a question for Phil. The policy acquisition costs in -- on life insurance side have been up significantly year-over-year. Can you talk what's driving that please?

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

Yes, it's simply in the prior year or during the course of this year. We saw some expenses that were classified as administrative expenses that we think are now better classified as acquisition expenses. So you'll see a decline in acquisition, I mean, in admin expenses, offset by an increase in the acquisition.

Operator

And we'll take our next question from Cliff Gallant from Nomura.

Clifford Gallant

I -- and I believed in your opening remarks you mentioned growth in professional lines, I think it was 4%. I was wondering if you could talk a little bit more about what you're seeing in that line of business. Also, if you could -- can you update us on what's happening in personal lines, particularly, in your high-net-worth class of business?

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

I'm sorry, Cliff, I didn't say 4% growth in our professional lines. I said two things. I said, I only referred to pricing. And so in the large account, I said we got rate of about 1.4% on average, that goes between E&O and D&O and not for profit. And then in the smaller risk, medium-size risk and wholesale market business, we got 4% rate.

Clifford Gallant

Okay.

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

Okay? And your second part of your question?

Clifford Gallant

It was on in personal lines.

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

High net worth?

Clifford Gallant

Yes.

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

Yes, I think we continue to make good progress in that area. I'm pleased with the progress. It's-- we grew 9.5% in the quarter. That makes about -- that makes the right sense to us. I think there's a good balance between underwriting, marketing and sales, and customer service, and portfolio insight and management, so we can constantly fine-tune our exposure and our view about pricing depending on the line -- the coverage that we're providing. I think our reputation for service and for consistency is excellent. We run surveys among our agents and brokers and among our customers. Our retention rates are very, very high, which speaks to very good. Obviously, if customers aren't happy, they're going to vote with their feet. So I think it speaks to good customer satisfaction, good reputation that way. And we're speaking to our knitting. We're very focused on the high net worth and to some degree, the mass affluent, and we're not kind of straying away from that. We know the risk profile and it's consistent with our vision from the beginning, and that's the brand were building. And remember, it takes years to do anything, really well and create a great franchise in our industry.

Operator

And we'll take our next question from Charles Sebaski from BMO Capital Markets.

Charles Joseph Sebaski
BMO Capital Markets U.S.

I've the first question about the Crop business, and a follow-up on how last year looked, if we look at the fourth quarter and the first quarter this year in true-up. I'm wondering if you guys are doing anything different today regarding hedging of that portfolio, where changes could have a similar outcome or a different outcome with the same kind of events.

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

Well, first of all, we -- in how we manage our selection of -- or peg or combined ratios and our estimating process. That has not changed. That is the same. If anything, we have only improved it. It's more rigorous, we've refined it. We've worked on our models between last year and this year. And we'll work on them again between this year and next year. So that remains the same. We just think we're a little better at it. As far as our protections go, our protections vary from year-to-year. For instance, we bought less quota share reinsurance this year than we did last year. We've been engaged in commodity hedging. And that program was a bit more rigorous this year than last year. So the reinsurance and any other protections we have vary by year.

Charles Joseph Sebaski
BMO Capital Markets U.S.

Okay. And in terms of the Itaú, the acquisition in Brazil. Is that solely going to be in commercial? Or is there a personal lines element to that similar to the Mexican and Latin America businesses you did previously?

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

Sure. No, this acquisition is only focused on -- it's only large commercial. The ACE -- our business in Brazil, we've been there for many, many years. And our business in Brazil is a mix of large commercial, a very large portfolio of accident and health business, personal accident and small commercial, medium-size commercial, and some limited personal lines, more in the high net worth area that we're incubating there. This acquisition will not directly help us pursue those other channels of growth. But what they do, do, it gives us a bigger image in profile in the country. It gives us greater attention of broad distribution in the country. And so, it'll have a halo effect that if we execute right, we'll lend the benefit to those other lines of business.

Operator

And we'll go now to Thomas Mitchell from Miller Tabak.

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

Firstly, I'm wondering, historically, it seems like India has always been a very hard place for financial services companies to do business. And I'm wondering if the new government in India has created fresh or new or different opportunities, and if you are looking at that area to expand?

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

Tom, the new government in India is a welcome statement of change of direction by the electorate in India, the largest democracy in the world. It is a more business-friendly government. Their economic and trade and investment-related policies, the words are the right words and the right language. And Modi has a history, a track record of supporting economic growth and fostering it. I'm hopeful that, that will translate into legislation and action that will really help stimulate further growth, accelerate growth in India, and I think it will. And for the insurance market, it may create greater opportunity. It may lift the ownership cap from 24% to 49%. ACE is not present, as you know, in India. We have -- but we're dynamic. We're constantly probing and looking. And if the environment is more favorable, and we see the right opportunity, and it makes sense to us, then we will take advantage of it and enter the Indian market. It's always on our radar screen, and there you go.

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

That's very helpful. My other question is that I'm not sure if the -- of the timetable on the federal terrorism -- As I understand that we need new congressional action. Is there any new reading on what that looks like going forward?

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

Congressional action for what? I'm sorry, Tom.

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

The TRIA.

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

Yes, we do need congressional action. We need congressional action to renew TRIA. And it's -- when you look at the risk of terrorism today, which is greater than the risk has been, I consider it irresponsible of Congress to keep TRIA as a question mark around the certainty of government backstop of protection. That is bad for the economy. It is bad for business. Business thrives in an environment of greater certainty. Both houses know and both parties know what needs to be done to renew TRIA. The difference between them is not great. And the only thing they can take time for is campaigning, rather than legislating to the benefit of our country is shameful to me.

Operator

[Operator Instructions] And we'll go now to Ian Gutterman with Balyasny Investments.

Ian Gutterman
Balyasny Asset Management L.P.

Evan, my first question is, on the Crop, it looked like there was a footnote and supplement that the hedging helped. If I'm doing my math right, Phil, it looked like about $40 million, is that pretty close? And secondly, am I understanding right that, that went through the combined ratio?

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

Yes, it was $45 million and it's in the combined ratio.

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

Absolutely.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, great. Secondly, Evan, you did comment on the environment. That's surprising a little bit was, that wholesale is holding up better than retail. And I guess, I would've thought the opposite just. We also have a lot of excess capacity in the market, and it's a lot easier to enter wholesale, especially if you're Bermuda or London than to get casualty retail. So A, are you surprised by that? And B, why do you think it's happening and will it persist? Or do you think wholesale is just is lagging and probably will follow retail?

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

Ian, good question. Chaotic market. So here, it depends how you're defining wholesale. When I was talking about the U.S., I was talking about our wholesale E&S and specialty business, which is the Westchester and Commercial Risk Services. And those both grew nicely and thereafter that middle market and small commercial and they have offices around the U.S. and they're dealing with the U.S. wholesalers and their pricing held up better. On the other hand, I said our Lloyd's operation shrank 6.5%, and I said our ACE Bermuda operation, which is large risk wholesale, shrank 10%, and their pricing is more competitive.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. So you're not seeing -- I mean, we have seen you, obviously are aware this has sort of become favor of, maybe not the month, but the favor the last couple of years for the guys who are struggling in reinsurance, try to set up, onshore U.S. wholesale divisions. Those people aren't ruining the market in the mid-to-smaller county, yet then?

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

They haven't gotten quite to it, yet it's hard to work. You got to have underwriters. The business is placed locally. It doesn't just box itself up into one place. So you got to be present in Chicago, and LA, and San Francisco, and Atlanta and Boston and New York. You've got to have underwriters across a broad swath of lines of business, and you've got to really have the relationships. It's flow business and trades move fast. And you got to have the confidence of the brokers. And that just , and that's not instant, by the way, easier form to get excess than primary. Because if you does work on excess, then you do on primary, so a lot of those guys are doing better in the -- with the writing excess and it'll be actually on larger account business than the smaller account business.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. And then my final one, I hate to bring up your favorite topic, but VA reinsurance, just with interest rates back to the lows again. I guess, I was looking at your old disclosure from a few years back and when you gave us a scenarios and it sort of with more cautious scenario, had a 10-year, I think, it was north of 2.5, I want to say 2.6 maybe. And obviously, a much lower S&P than we're at today, so maybe that was offset. But I guess, we're also, I think, about halfway through the annuitization phase. I was wondering if you can just give us any update on what you're seeing from annuitization trends and what is sort of the benefit of a higher market due versus the offset of lower interest rates and you're hoping for a few years ago.

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

Yes, Ian, the annuitization and lapse rates, we study those on the portfolio. And so we look at our actual experience versus our expected. And we're just completing studies and reviewing them in that area for the year. And we're not seeing anything in aggregate that gives us concern that we're not pegging them correctly. So those seem okay to us. Equity markets are ahead of what we expected. Interest rates are lower. And I also don't believe that the 10-year. We're at a volatile moment on interest rates right at the moment. I -- and there's been a sort of a risk off trade. There is -- because there's a complex picture about economic and geopolitical at the moment. I don't believe the 10-year rate is going to remain where it is.

Ian Gutterman
Balyasny Asset Management L.P.

No -- understood. So you're not -- the trend, I think, the primary players, is that lapses have been much lower and actual choice of annuitization has been much lower than expected. Is that reasonably -- reasonable to expect you've seen similar trends?

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

What we have seen is certainly a less utilization from an annuitization standpoint. And lapses may be marginally lower than what we would've expected, but net, net, we don't think that the experience is going to change our view.

Operator

And we'll take our final question of the day from Jay Cohen from Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes, I've got just one more follow-up related to a news item that came out, I think, yesterday, the day before about ACE suggesting it may exclude Ebola coverage from certain GL policies. I have not heard that from others. I'm wondering one, are you the only ones doing it? And secondly, what prompted this action?

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

I can't comment on what others are doing, but I'll comment a little bit about ACE -- I read the press report, we all did. That, in my mind, attempts to sensationalize normal commonsense underwriting. Look, as underwriters, we start with the facts to understand the risk exposures of our clients on a case-by-case basis. These exposures, for example, include the types of activities they are engaged in, the locations where they take place and the kind of safety protocols that they employ. We have many tools to manage in price risk. We can offer full coverage. We can sublimit exposures. We can exclude coverage altogether. And we can vary the price we charge, depending on the exposure we assume. The Ebola endorsement referenced in our U.S. Global Casualty Unit is only one of many tools at our disposal. And we're using it selectively and on a case-by-case basis. It's not being applied in some indiscriminate, unilateral or blanket way to address the Ebola risk. Is that kind of helpful?

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes, now that's helpful. I wasn't -- that made it clearer than what I have been reading about in the press, so that was helpful.

Helen Wilson

Thank you, everyone, for your time and attention this morning.

We look forward to speaking with you, again, at the end of the next quarter. Thank you, and good day.

Operator
And ladies and gentlemen, this does conclude today's conference. And we do thank you for your participation.