S&P Global
Market Intelligence

Chubb Limited NYSE:CB

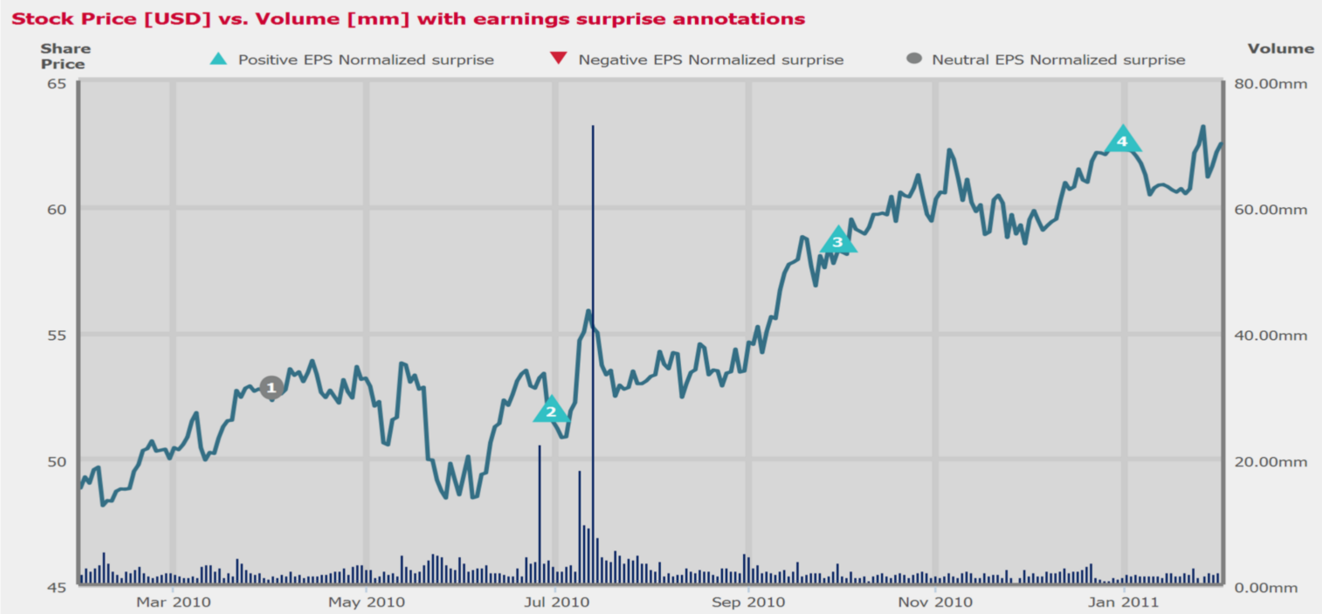
FQ1 2011 Earnings Call Transcripts

Thursday, May 05, 2011 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2011-			-FQ2 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.67	0.79	17.91	1.88	6.18	7.31
Revenue (mm)	3686.73	3446.00	(6.53 %)	3651.70	14594.53	15157.35

Currency: USD
Consensus as of May-05-2011 12:19 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2010	1.70	1.70	0.00 %
FQ2 2010	1.83	2.01	9.84 %
FQ3 2010	1.81	2.01	11.05 %
FQ4 2010	1.83	2.05	12.02 %

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Jay Cohen
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Jay Gelb
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Larry Greenberg
Langen McAlenney

Matt Heimermann

Tom Mitchell

Presentation

Operator

Please stand by. We are about to begin. Good day everyone and welcome to today's Ace Limited First Quarter 2011 conference call. Today's call is being recorded. If you do have a question today please press star, 1 on your telephone keypad. Questions will be addressed after prepared remarks. I would now like to turn the call over to Ms. Helen Wilson, Investor Relations. Please go ahead.

Helen Wilson

Thank you and welcome to the Ace Limited March 31, 2011 first quarter earnings conference call. Our report today will contain forward-looking statements. These include statements relating to company performance and guidance, recent corporate developments and acquisitions, Ace's business mix, economic outlook and insurance market conditions, all of which are subject to risks and uncertainties.

Actual results may differ materially. Please refer to our most recent SEC filings as well as our earnings press release and financial supplement, which are available on our Web site, 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 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 Greenberg

Good morning. It certainly was an eventful quarter in terms of natural catastrophes around the globe and as a result, our earnings were significantly impacted. This of course is the nature of the insurance business and our cat losses were within our expectation of loss for these events given their size and scope.

In spite of the cat losses, we produced positive operating income and growth in the book value. I believe this once again points to the strength of our underwriting, risk management and demonstrates the benefit of our broadly diversified business. In fact, both revenue and growth and current accident year operating income excluding the cats were better than we had anticipated.

Frankly from what we know now we are quite optimistic about the balance of the year. After-tax operating income for the quarter was 268 million or 79 cents per share which includes 440 million in after-tax cat losses or $1.30 per share. Our per-share book value grew 1% and now stands just shy of $70. From a pure underlying perspective, our combined ratio for the first quarter was 105 and this includes 16-1/2 points of cat losses.

As I said a moment ago, both premium revenue and current accident year results excluding cats were better than anticipated. Our current accident year combined ratio excluding the cats was 91.8. Revenue growth in our North American division was down from prior year as I warned last quarter because of a couple of one-time items that Phil will describe. Adjusting for these, our total company P&C premiums were flat.

Last quarter when we released guidance we said that full year growth would range between mid to upper single-digit. We are more confident about our prospects for full year premium growth, which we now believe will be between upper single-digit and low double-digit driven by our recent acquisitions, our personal lines and A&H businesses and commercial P&C in a number of areas such as Asia, Latin America and Retail UK.

And this revised view contemplates no change to market conditions for property and certain other classes, which could occur and further benefit our company. The expense ratio was up a bit over half a point in the quarter compared to the same period last year primarily because of reinstatement premiums and you see that show up substantially in AOG. Phil will provide more detail.

However, the expense ratios should improve significantly beginning with the second quarter and for the full year will be below prior year levels. I want to make a few comments about the market environment as it relates to the impact of recent cat loss activity and then I'll speak about pricing and growth more generally.

Total industry cat losses for the first quarter are likely to exceed 45 billion contributing to total industry cat losses over the last 15 months of circa 75 billion or more. Losses from the Japan earthquake and tsunami alone are estimated to be in the range of 30 billion, though no one knows with any certainty at this time. Keep in mind that earthquake losses are notoriously slow to develop and this one will be no exception.

In my judgment for the industry overall, the cat losses in the first quarter and the last 15 months are more an income event than a balance sheet stress event although a substantial amount of capital will be converted to claims and that puts the overall industry that much closer to a real capital event. Speaking about the market as a whole though is somewhat simplistic and doesn't tell the entire story.

A considerable amount of these losses will be concentrated with relatively few companies and certain important markets such as London, Bermuda and continental reinsurers. For individual companies and certain markets the losses place varying degrees of real stress on the balance sheet. In addition, catastrophe model changes will most certainly have a real impact over time. They place additional pressure on capacity and cost of risk and this should translate into higher rates.

Almost lost in all of the cat noise was the fact that the industry has had numerous and sizeable energy and marine market losses over the past year and these classes additionally will be impacted by some of the cats as well. So with all that, I believe certain classes of property business such as single peril cat expose risks, large account property requiring significant capacity and potentially other classes such as marine and energy will firm; how much and exact timing remain to be seen.

We are already seeing for certain property classes, cat exposed and large accounts in particular, where prices were decreasing 5% to 10%, rates have now gone flat to positive, and in certain cases, though still spotty are increasing double-digit. This varies by market and it's early days but we are seeing more evidence as the weeks roll on. In fact, we just received May 1 data and it is even more encouraging than the observations I just made.

Moreover, market firming typically begins on the reinsurance side, both per risk and risk excess, facultative and treaty. As you know, the property retro market has firmed significantly. This places pressure on property reinsurers, which in turn means the cost of protection for insurers will go up, which in turn puts pressure on insurance rates. Again, this takes time to run its course.

As the markets firm in any individual geography or class and reach a point where we find the risk-reward attractive, I assure you we are well positioned to take advantage. Turning to the market more broadly, in North America our renewal premium retention ratio improved to 90%. We benefited from both positive exposure changes and a modestly better pricing environment.

We experienced more than 2 points of exposure change as a result of payroll and sales increases, a welcomed an encouraging development, while prices for our renewal book were off less than 2%, the slowest rate of decline we have seen in a number of quarters. Overall we are getting both better rate and retention on those lines that are less commodity oriented and these happen to be more large account oriented.

On the other side of the coin on a policy count basis, our renewal persistency was down as we continued active underwriting portfolio management in each of our businesses. Competition remained fierce particularly in the commodity-oriented classes where simply price and terms continue to be the order of the deck.

In terms of growth, excluding the one-time transactions from prior year that I mentioned earlier, net premiums in North America were down 1% in the quarter. We wrote half the new business we wrote last year due to competition but what's very encouraging is that we wrote it at similar pricing to our renewal portfolio. In fact, we secured positive rate at a number of classes for both renewal and new due to our continued and even more aggressive focus on portfolio management.

In our international P&C business net premiums written were up 2%. But they were up about 5 excluding the reinsurance, reinstatement premiums we paid. Retail was up 6 while wholesale was up 2. For our renewal book rates were flat overall ranging from up 3 to down 3, a much tighter range than we have experienced in recent quarters.

In the quarter we saw a double-digit growth in Asia and Latin America as well as reasonable growth in our UK retail business where we are benefiting from our expansion outside of London. Our Ace International A&H business also returned to very good growth in the quarter, 14%, driven by strong double-digit growth in both Asia Pacific and Latin America. And for that matter, our brokerage driven A&H business in Ace USA was up double-digit as well.

You will remember we began to see growth pick up in the third and fourth quarters of 2010 and these divisions and that trend continued into the first quarter. We believe the business is now well-positioned for further growth 2011. Now this contrasts with the combined, which continues to struggle with the economic impact of recession in its target markets and regulatory related issues in our UK and Ireland business.

Turning to our reinsurance business, Global REs premium as measured on an underwriting year basis shrank 11%, roughly in line with what we experienced at January 1 due to competition in both property cat and casualty related business. We consider this simply good cycle management if we want to maintain a reasonable return on capital and a combined ratio under 100%. Premiums for our global personal lines business were up double digit in both our US and international operations.

And finally, premiums in our international life insurance business were also up in the quarter. In April our acquisition of New York Life's Hong Kong operation closed and this completes the transaction we announced last year to acquire both their Korea and Hong Kong Life companies. I should point out that all three of our recent acquisitions - Rain and Hail, Jerneh in Malaysia and New York Life Korea and Hong Kong - are on track and we expect them to do as well or better than we planned for their first full year of operations.

To sum, while obviously the cats cast a shadow over the first quarter as you can see the underlying health and results of our business are very good. We have a lot of good activity going on across our businesses and we are optimistic about our prospects for the balance of the year. With that, I'll turn the call over to Phil and I will come back and take your questions.

Philip Bancroft

Thank you, Evan. Our balance sheet continued to grow stronger during the quarter in spite of the significant level of cat activity. Cash and invested assets grew by almost 1.7 billion to 53.8 billion, our tangible book value per share increased 1% and our operating cash flow was very strong at over $1 billion. Evan mentioned that our underlying business excluding cat losses performed quite well in the quarter and that there are a number of areas where we are seeing stronger revenue and earnings growth.

Accordingly, when we look at the quarter with our originally expected level of cat losses we would have produced an ROE of 12% with an EPS of $1.95 and our tangible book value would have grown by 3.4%. Investment income was 544 million for the quarter, up 8% benefiting from private equity distributions. About 2/3 of the increase relates to income or new cash flow. The remainder relates to these distributions.

The current quarterly investment income rate is about 530-535 million. Current new money rates are 3.5% if we invested in a similar distribution to our existing portfolio. Our net loss reserves were up 2.3% for the quarter while our paid-to-incurred ratio was 86.7. We had favorable prior period development of 93 million pre-tax primarily related to short tail lines. This compares with 96 million last year.

There were items affecting the year-on-year comparisons for the first quarter's written premium. Last year's quarter included a large risk management contract and this year's quarter had significantly more reinstatement premiums paid. Adjusting for these items, written premiums are about flat. Our P&C expense ratio for the quarter is 31.6%.

It's inflated by the payment of reinstatement premiums and the shift in mix to A&H, which has a higher expense ratio. Adjusting for these items, the ratio would be about a point lower. In our 2011 guidance issued in January we said we expected operating income to range between $6.10-6.50 per share. Catastrophe losses included in net estimate were $370 million pre-tax or $300 million after-tax.

Our operating income projections included in guidance, remember, were for current accident year results only and by definition did not include any estimate for prior period development. In light of the level of first quarter catastrophe losses we are adjusting guidance for the year. Operating income is now expected to range between $5.40-5.70 per share for the full year.

This includes 443 million in catastrophe losses for the first quarter plus 250 million after-tax in catastrophe losses for the balance of the year. The guidance also includes 74 million of after-tax positive prior period development reflected in the first quarter as well as an adjustment for the estimated increase to the investment income run rate. With that, I'll turn the call back over to Helen.

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

Question and Answer

Operator

And ladies and gentlemen, if you do have a question at this time please press star, 1 on your telephone keypad. If you're joining us using your speakerphone please make sure your mute function is turned off to allow your signal to reach our equipment. You may withdraw your question at any time by pressing star, 2. Once again that is star, 1 to ask a question. We'll go to Jay Gelb with Barclays.

Jay Gelb
Barclays

Thanks. Jay Gelb from Barclays. Good morning. How are you? On the premium guidance to get to potentially low double-digit growth does that take into account a 0% normalized growth rate in the first quarter or as reported because it just seems like we need to ramp up quite a bit to get there for the year?

Evan Greenberg

It's a full year number and it takes into consideration of the actual published number for the first quarter.

Jay Gelb
Barclays

And the biggest driver of the growth Evan, is it the acquisitions or the improving economic environment?

Evan Greenberg

No. The biggest driver is the acquisitions, yes. And we made them and they are the biggest driver though as I said, there are other quite good things going on between A&H and personal lines and territories such as Asia and Latin America and where we're benefiting from some of the weakness of others in the UK right now in retail.

So that gives us very good encouragement. And you know we're thoughtful when we think about giving you a forward view like that. And so I feel quite comfortable about it.

Jay Gelb
Barclays

Okay. And then the second issue I wanted to touch on was the reinsurance segment. It looks like there was about $1 billion of reinsurance recoverable added in the first quarter related to the catastrophes. In light of that, I just wanted to think about how we should be analyzing the potential for Ace's own reinsurance costs to rise going forward?

Evan Greenberg

You know, first I am going to answer a question you didn't ask, because I know it's going to be asked. We have plenty of head room. We have a lot of protection left on the cats and we don't see piercing our reinsurance protections on any of the events from all we know. So I don't see deterioration in our cat estimates coming. When it comes to our own protections look, I don't think there is anything unusual in Ace's cat losses from a reinsurer of Ace's perspective.

In fact, I think that all the reinsurers who audit our portfolios for quality and see how we manage, the losses that we have generated to reinsurers are well within what they would've expected from Ace - no real surprise. So I think any changes in our program in terms of pricing that we have to pay or attachment points are just going to be as a result of generally driven market changes nothing Ace specific.

Jay Gelb
Barclays

I see. And is that a January 1, 2012 renewal?

Evan Greenberg

No. It's throughout the year. It varies by division and by line. We don't crowd at all into one-time a year.

Jay Gelb
Barclays

All right. Thank you very much.

Operator

We’ll go next to Thomas Mitchell with Miller Tabak.

Tom Mitchell

In looking at the overall outlook for rates is there a level of let’s say catastrophe losses for the remainder of the year that might - starting with the $75 billion over the 15 months if we look to the 24 months period that would indicate I guess - how much more would be enough to give you confidence that rates will be firming down the line from reinsurance levels down to other markets perhaps?

Evan Greenberg

Are you trying to ask me how much more do I think we will have to have in cat losses to move the market broadly?

Tom Mitchell

For the industry, yes I am.

Evan Greenberg

Come on. We can get it out. I don't know with any specificity but I'd have to believe another 50 billion and in that range, 50 plus and I bet you'd see a broader market change where it’d impact lines of business across the board.

And then you'd have to talk about geography. Likely you'd need to see that and those cats occur in the North American marketplace but not necessarily. We are just speculating really on how many angels dance on the head of a pin but go ahead.

Tom Mitchell

The other thing is that historically the old combined business at least in the US used to be pretty economically sensitive. I don't know. I mean it used to be a lot of cab drivers, restaurant owners, people like that. I’m wondering if there’s a sign that you are getting from that market in the US of perhaps a faster economic recovery than is visible in the numbers for GDP and things like that?

Evan Greenberg

No. That's why if you notice I said that combined growth, combined continues to suffer from - its key markets are US, Canada, New Zealand, Australia - but US dominates to a very large degree. And combined continues to - its market segment, as you appropriately said, is modest and lower middle income to middle-middle income though it's not - your image was more of an urban related image of employment, whereas combined is more small town and more rural related.

And there we're just not seeing anything in our numbers that point to faster employment recovery. And in fact, when you listen to others who have life agency forces or A&H agency forces out there, they're experiencing the same thing. So we're actually not seeing it better than the numbers would imagine, the macro numbers.

Tom Mitchell

Thank you very much.

Operator

We'll go next to Matthew Heimermann with JPMorgan.

Matt Heimermann

Hi. Good morning everyone. A couple of questions with respect to…

Evan Greenberg

Did you have a (late night)?

Matt Heimermann

It was kind of late. But it comes with the territory. I guess just with respect to the gross, I'd be curious is there a seasonality to the crop business in particular that we're going to see a disproportionate impact in 2Q, 3Q, 4Q?

Evan Greenberg

You're so smart. Q2 and Q3 are the biggest quarters for revenue.

Matt Heimermann

Okay. Can you give us just what percentage of the total we should think about there? What percentage of annual normally would be those two quarters?

Evan Greenberg

Let say 80% anyway.

Matt Heimermann

Okay. That's fair. And then another competitor in the crop market had noted that one way people were trying to get around some of the commission caps was that actually by retail distribution. I'm just curious whether or not that's something you've witnessed as well and how sustainable that is as kind of competitive response to that?

Philip Bancroft

Maybe there is one guy doing that. We deal with 7000 agents produce this business for us across the country. Remember that by a country mile, Ace and Wells Fargo are the largest in this business and it's across states and across all crops.

And frankly, as we know, the renegotiation that occurs with the government for the licensing for this and the terms and conditions disproportionately it disadvantages the smaller companies and puts more pressure on them. Somebody may around the margins be trying to mitigate that by buying agencies so they can consolidate their margin and I wish them a lot of luck with that plan.

Matt Heimermann

Okay. And then just one more on crop - I think you've got one of the bigger market shares in Missouri. So given some of the more specific flooding that the Army Corps of Engineers is doing there, how material? I think in terms of acreage planted it's I think affecting like less than 3%. But I'd just be curious flooding broadly, whether that's even on the radar screen at this point?

Evan Greenberg

Of course it's on our radar screen. It's 135,000 acres that they have flooded. That's a big piece of real estate. We don't expect any material impact from that to Ace. We've looked at the numbers.

Matt Heimermann

Okay. Much appreciated. Thanks.

Evan Greenberg

I think Brian may want to expand on that.

Brian Dowd

That’s all right.

Evan Greenberg

Okay. He doesn’t.

Operator

We’ll go next to Jay Cohen with Bank of America-Merrill Lynch.

Jay Cohen
Bank of America-Merrill Lynch

Good morning. Thank you. Two questions - the first is Phil you had mentioned that you talked about the investment portfolio and if the portfolio doesn't change you talked about the yields. But are you in fact making any changes to the portfolio at this point?

Philip Bancroft

No. We don't expect any significant strategic change. We'll make tactical changes around the edges but nothing to change where we’ve been. Our allocation of strategy doesn't change.

Jay Cohen
Bank of America-Merrill Lynch

Okay. Second question - obviously there's a lot of talk about pricing but on the claims side can you talk about what you're seeing as far as frequency of claims?</TAG>

Philip Bancroft

Broadly speaking we're not seeing a real change to frequency. You know, we're vigilant about that as the economy improves that frequency will rise particularly casualty-related lines where it's insensitive. Any pressure that we see on inflation-related is more severity-related.

Now on the other side of the coin as you know many in the industry have been experiencing and you know we saw it again in the quarter, a significant number or a larger number of large individual losses - property, energy-related. And we see a number of guys who are experiencing claims from that though I have to tell you for Ace in that regard it's been a relatively quiet quarter.</TAG>

Jay Cohen
Bank of America-Merrill Lynch

And then if I can just quickly follow up, you had mentioned inflation and severity. What's happening there? That's something you have talked about for a while as a concern.</TAG>

Evan Greenberg

You know, we talked about it last quarter and in one quarter you just don't see a change that way though look, we’re vigilant. We haven't changed our trends, the trend factors we use for pricing. We imagine that it reverts ultimately the meanest. You've got economic recovery on one hand, you have the legal environment that has uncertainty around it. Who knows.

You’ve got lot of - you have Congress having passed a lot of regulation that always eventually spawns some claim activity. You’ve got a weaken dollar. You’ve got commodity prices in quite a number of classes with inflation and is that finding its way into wholesale and retail pricing? So we stay quite - and you’ve got a very accommodative Fed for many understandable reasons.

And you’ve got a government deficit that competes for capital therefore. All of this goes into the pot when you think about future inflationary pressures and we do. And so we just remain - we can't guess it with any certainty but we know we'll remain - that's not our job. And so we remain just conservative in the factors we choose to put into our pricing.

Jay Cohen
Bank of America-Merrill Lynch

Got it. Thanks Evan.

Operator

Our last question will come from Brian Meredith with UBS.

Brian Meredith
UBS

Good morning. A couple of quick questions here for you. First Phil, can you tell us what the tax rates will be looking like going forward?

Philip Bancroft

Well, we haven't really made that a part of our guidance but as you'll see, we’ll probably range in the neighborhood of 18-20% on an historical basis. Obviously these quarter was distorted by the cat losses.

Brian Meredith
UBS

Okay. And then if I do the math on the guidance Phil, it looks like actually you exclude the additional cat losses, the reserve releases. You actually bumped up guidance some, is that correct?

Philip Bancroft

That is correct. I mean, what we've really done is reflected two things. We reflected the better performance in the quarter, the operational performance in the quarter, and we've increased our view of investment income. As I said, our run rate has increased to 530-535%.

Evan Greenberg

530 million.

Brian Meredith
UBS

Got you. And then one other quick with respect to your reinsurance program, are there any holes that need to be filled right now to keep protection up for the remainder of the year? Or are you still good with your just current program?

Evan Greenberg

We’re getting so few questions. I want Brian to answer that question because he's just teed up there to talk.

Brian Dowd

I’m teed up to talk. Okay. Our international cat program comes up 7/1. So we're actually in pretty good shape from now to 7/1. So we'll be in the market for our international cat 7/1 and our domestic cat is until 1/1 and it hasn't been touched at all. So we're in pretty good shape for now through the rest of the year.

Brian Meredith
UBS

Great. And then last one for Evan, most of the talk you are saying is rising property rates obviously. From a casualty perspective, given the kind of the current marketplace we're in right now, how long do you think it takes for the casualty markets to turn around here?

Evan Greenberg

You know, I know that people are - I think there are those who feel like they need a hard market right now. And so their need is translating in their own minds to reality and I think that's just ahead of themselves. I think what you're experiencing right now when you see the ups and downs of the pricing you're seeing better stability and retention rate.

You're seeing a rate of decrease in casualty pricing that is ameliorating and you see some classes where you can start getting a little bit of pricing and that all points to me - I mean, if you look at that messy picture and that says to me when you read through it that we're likely bouncing around the bottom right now with some up and down.

And I believe that is where we will be for a period of time. It might get modestly better. Do I believe that the theory that we're just going to come to an orderly place where pricing will modestly rise in an orderly way and kind of sit there where you won't get a real hard market, it won't be soft, it will just get to adequate? I don't believe it happens that way.

In my own mind I see too much that it sounds good, it doesn't happen. So I think you need pain. Yes, these cat events get you closer to a capital event that could more broadly impact. But you need a lot more of that in my mind before it really has a serious impact on casualty. Otherwise, if its going to run its course we are going to bounce around roughly where we are, where it’s soft.

It will be a little more orderly and then it’ll tighten up a little bit as we go along. But a broad change, you need more pain. And I sit with the notion as we plan around here that it's the next couple of years before you've dug that hole deep enough.

Brian Meredith
UBS

Thanks.

Operator

We’ll take a follow up question from Matthew Heimermann.

Matt Heimermann

Hi. Just two clarifying questions - one would be the $80 million premium adjustment in the fourth quarter of last year. That impacted both written and earned correct?

Philip Bancroft

Yes.

Matt Heimermann

Okay. And then the potentially double-digit premium growth, is that whole company, i.e., life plus P&C or P&C only?

Philip Bancroft

That's P&C.

Matt Heimermann

Okay. P&C only. Thank you much.

Operator

We'll go to Larry Greenberg with Langen McAlenney.

Larry Greenberg
Langen McAlenney

Good morning. I think you probably answered this maybe a question ago but I'll ask it anyway. Is there anything that you are seeing in the market now in response to the cats that surprises you?

Evan Greenberg

No, not surprises me but encourages me. And in fact, I am - you know what, we'll give you a little flash as a bonus today on what we've seen for May because we have May 1st right of the press. But I want to caution because you know we're not Pollyanna-ish around here - one Robin doesn't make a spring. But I'm going to ask Brian to comment on what we've seen for May 1 and maybe John to talk a little on what we're seeing in London.

Brian Dowd

Sure. In North America the first quarter property pricings were heading down. In April most April 1st first accounts were quoted prior to the Japanese earthquake and we finished April property prices were down about 1%.

Then we get to our May renewals and we had just over a 100 or so renewals in May and not a single one of those accounts renewed at a rate reduction. About 30% were flat, 50% of the accounts had increases between 5-30% and we lost about 20% of our accounts. Frankly companies cut our existing pricing.

So we're starting to see signs that the pricing pressure is growing and where we're seeing it most is on the global accounts that have a large national catastrophe exposure and you need a whole panel of insurers to fill it out. And then on North America only accounts, it's those accounts that have a wind not a quake base of exposure (unintelligible) is we're starting to definitely see the model changes starting to take effect into the market.

And wind driven accounts, the pricing is moving in North America more than the earthquake. And then lastly, I just got that from REMS this morning and there is definitely a tone change with customers, brokers and other insurers that people are now pretty expecting price increases in property and that wasn't true three weeks ago.

Evan Greenberg

John, you want to?

John Keogh

Yes. I'll just add maybe some color in the international market. It's the same theme that Brian just articulated and Evan has commented on which is we're seeing an improved underwriting environment in the loss affected geographies as well as the loss affected classes of business.

But more specifically if you take it by territory, then Japan hasn't had a lot of renewals since the quake and tsunami. That's in front of us but what we're seeing currently in terms of what's being quoted, our rate increase is anywhere from 25-50% and we're seeing a pretty significant pullback in terms of appetite for new business by the local Japanese companies.

New Zealand, probably not surprising there, we're seeing significant rate increases on our property business, business not affected by loss, 30% rate increases, loss affected business up to 300% rate increases. Australia - that's really in front of us, it's a big 630 renewal book for the Australian market. The few renewals we have seen go through have moved from beginning of the year where the market was offering slight decreases on our property.

We're now seeing slight increases of circa 10% on loss free accounts and larger increases on accounts that have been affected by the floods. In Chile before Japan you were seeing some rate decreases being asked for on top of significant rate increases last year. That's all gone away. In London where we do see US cat exposed business coming into market we've seen a change there from the beginning of the year where rates were going down anywhere from 5-15%.

We're now seeing rate increases on that business of around 10% and probably moving forward we're expecting that to get stronger. As Brian noted, a lot of that really being driven by not so much the quake activity internationally but what's going on in terms of a re-evaluation based on modeling. On the lines of market in general I would note is holding line of rate decreases. We're seeing a lot of our competitors in London walk away on accounts they're offering rate decreases.

In energy property as Evan noted in his commentary, that market has suffered not just from cat but from some very significant large events in the first quarter in terms of loss activity. And there we're seeing the magnitude of rate decreases diminish significantly, probably still not where we think it needs to be but we're seeing rate decreases on onshore that were at 20% at the start of the year now down to single-digit.

And the offshore market has moved from slight decreases to slight increases over the last 30-60 days. And then finally, I would note on the marine market we are seeing some limited reaction to loss activity driven by both cat and large events. Rate reductions that were prevalent at the beginning of the year have disappeared and we're starting to see slight rate decreases on cat exposed marine business.

Evan Greenberg

You know, so he gives you more than you really wanted to get Larry but we’re giving you a fulsome view of it, everyone who is on the phone. So you see the market is beginning to move, some areas more than others and you know it takes time. And this industry can be notoriously slow to react but it's already reacting and that's a good sign.

Larry Greenberg
Langen McAlenney

Okay. And I guess I just go back to my original question of so you would describe this rational and encouraging. You're not surprised that perhaps there is as much momentum in some areas as you would have thought?

Evan Greenberg

I'm not surprised that there is as much as we are seeing?

Larry Greenberg
Langen McAlenney

Yes.

Evan Greenberg

No. There is nothing we're seeing right now that is surprising to us. It's encouraging to us.

Larry Greenberg
Langen McAlenney

Great. I appreciate that. Thanks.

Operator

We’ll hear next from Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital

Hi. Good morning Evan. I guess my first question - Japan. I'm just curious how frankly you got your estimate out so fast and can have confidence in it given it's such a hard event to estimate. We've already seen one of your competitors take up a second bite of the apple up 50%. Is that just the reinsurance coverage that your gross may develop but your net won't?

Evan Greenberg

I would say a couple of things. Number one, we actually took our number down in the estimate we finally gave, not that we put in to the quarter from what we originally published, number one. Number two, I think, we're quite good at tracking.

So therefore we can identify we think with reasonable precision what could be our exposure in any one area of our business to Japan because we have Japan exposure not just from our business in Japan but from our businesses outside of Japan. And I think we are pretty good at tracking that as part of risk management and therefore when it comes to loss I'm estimating.

And finally, what I'd say is reinsurance protections kick in and that does put a ceiling and particularly if you have a lot of head room above that. And that's both on the insurance side and then on the reinsurance side well, we do cat excess and that has defined limits. So I can't speak to others. I can only describe Ace. So I can't contrast to someone else.

Ian Gutterman
Adage Capital

That's fair. What assumptions are you making? The one place I guess that may be is a little bit more of an issue for you guys could be CBI just because you have so much of the international and global Fortune 5 type clients. If that becomes a 10 billion type issue or more for the industry do you have risk of adverse development?

Philip Bancroft

You know Ian, there is always a risk of adverse development. But I think we look through our large accounts. We know where we are frankly comfortable writing CBI and not and we're pretty darn conservative about it and there is a lot of business we don't win as a result of that, on one hand.

And then secondly, I think our estimate - we didn't estimate based on some industry loss estimate number. We look through our portfolio ground up to come to our number. So you can never say with precision and certainty about something like this but we are playing the odds here and I would say the odds are overwhelming that our numbers are pretty good.

Ian Gutterman
Adage Capital

Got it - then different topic. You mentioned earlier if I understood correctly that I think you were talking about the US that your new business was down significantly and you had pricing pressures starting to moderate.

Normally I don't think those two things going hand in hand, right? If there's always pressure on new business pricing should be going the wrong way. So what am I missing?

Philip Bancroft

Yes. It's a combination and I am going to ask Brian to give you some more detail about it. But that's why I said to you when you get to the bottom of a cycle in particular the picture makes sense to me. But there are number of - it looks little messy.

One thing you know is our portfolio management is intense and so therefore within any class of business there are areas where we need to get rate or hold the line on rate and we are able to maintain our renewals on that in many instances. Though as I said on persistency from a policy count point of view, it was down. So we sacrificed to hold it. New business - I'm going to let Brian talk about that with you.

Brian Dowd

Ian, as you think about the new business right now as Evan mentioned, we are sort of bumping along the bottom, right? So most companies like us have been focused on the renewal books and trying to retain that book.

And there is frankly, actually while broker competition remains robust and then after a couple of years of very heavy marketing we are actually seeing a slowdown in new business submission activity. As you know most brokers, most customers, most markets realize they have more or less hit the bottom. So there is actually less activity in the market and we have a very disciplined approach to new business.

It has got to be priced at least the same price adequacy as a renewal book. We wrote about half of what we wrote last year as Evan mentioned and our new business was down on almost every line except for our Ace Private Risk Services, which was only up about 6%. So it gives you a feel for that most lines are at that place where the pricing availability and the number of submissions don't add up to write a lot of new business.

So I think to move new business you’ve still got to be 20-30% off and it just doesn't hit our pricing hurdles.

Ian Gutterman
Adage Capital

Got it. And if I can just sneak one more in - D&O, Evan. Are you seeing - obviously, we hear about pricing pressure in D&O but I am certainly hearing more and more of that expanded terms. I guess I’m wondering how concerned you are about that.

Evan Greenberg

We are seeing it but not - it's more on the margin what we’re seeing expand, yes. We're seeing it but it is on the margin. And to voice or to echo what you've heard from some others, pricing in commercial D&O is a very competitive market right now. And it's disturbing in that you have a lot of small key players who don't understand that this business does have losses and it will come home to roost.

There have been a couple of them who came out strong and they've gotten hammered and now they’ve got their tail between their legs. But there is always someone behind them to come and write that business like in a sense as I say, they don't see the risk. And it's more pricing than we are seeing in terms and conditions at least for the business that we're writing.

Ian Gutterman
Adage Capital

Got it. Okay. Thank you.

Operator

Our next question comes from Jay Cohen.

Jay Cohen
Bank of America-Merrill Lynch

One other follow-up on the crop business - given the notable rise in commodity prices and some of the spring weather, what kind of decisions have you made relative to the sessions that you'll do in that business? Have you ceded a bit more of it?

Evan Greenberg

I'll let Brian answer that question but you know it's steady as she goes.

Brian Dowd

For the most part the commodity prices haven’t driven our decisions on which fund to cede to. Obviously, within US, right, there are only two funds to choose from instead of three. So you definitely have a little bit of a change in your portfolio. But we tend to be very territory mixed like we cede an awful lot of the assigned risk fund in Texas for example.

Texas is only 2% of our premium. We've put over 50% of the business in Texas because it's dry every year into the assigned risk fund, right? We only try to keep the irrigated crop in Texas in the commercial risk funds. So we tend to do an underwriting by farm by farm, acre by acre analysis of who is a good farmer, what their yields have been historically and it's not so commodity-based as it is based on the performance of farmers historically.

Jay Cohen
Bank of America-Merrill Lynch

Got it. Thank you.

Operator

And with no further questions in the queue, I'd like to turn the conference back to Ms. Wilson for any additional or closing remarks.

Helen Wilson

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

Operator
And ladies and gentlemen, that does conclude today's conference. We thank you all for your participation.