S&P Capital IQ

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Chubb Limited NYSE:CB

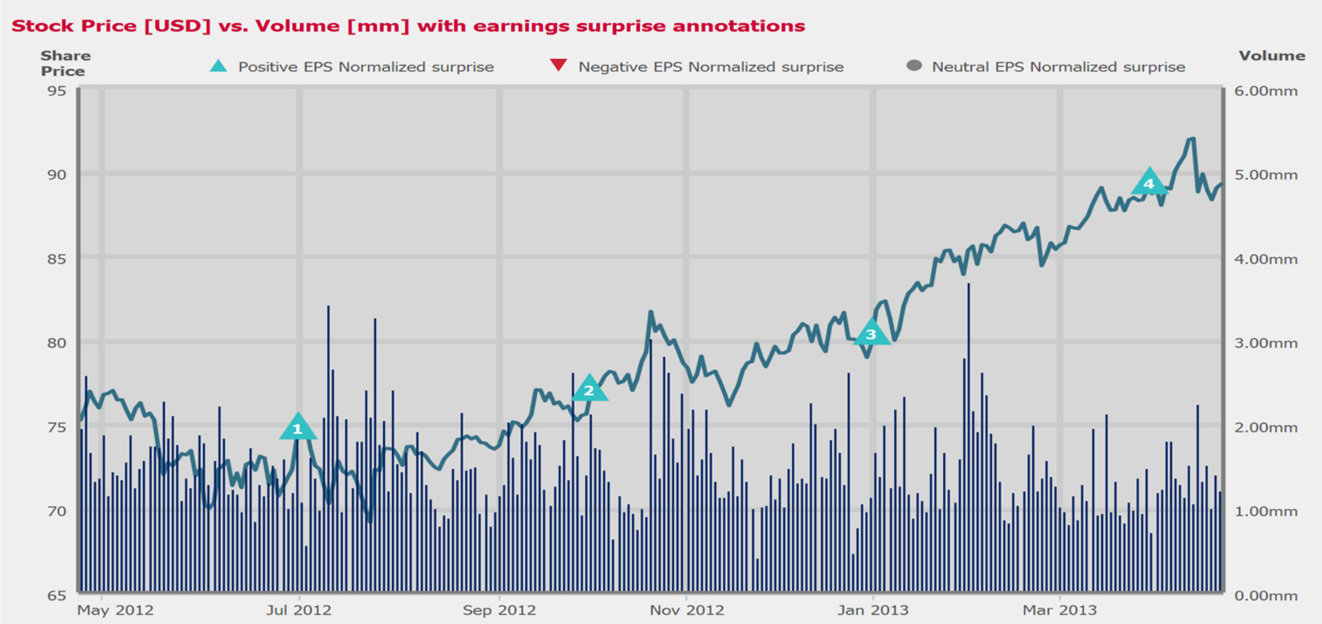
FQ2 2013 Earnings Call Transcripts

Wednesday, July 24, 2013 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2013-			-FQ3 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.95	2.29	▲17.44	2.01	8.24	8.18
Revenue (mm)	4252.25	3904.00	▼(8.19 %)	4640.19	16070.00	17473.31

Currency: USD
Consensus as of Jul-24-2013 1:29 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2012	1.90	2.17	▲1 14.21 %
FQ3 2012	1.83	2.01	▲2 9.84 %
FQ4 2012	1.27	1.43	▲3 12.60 %
FQ1 2013	1.93	2.17	▲4 12.44 %

Call Participants

EXECUTIVES

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

Helen Wilson

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Presentation

Operator

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

Helen Wilson

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

This call is being webcast live, and a webcast replay will be available for 1 month. 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, everyone. ACE produced record quarterly earnings that were driven by excellent underwriting and investment results. P&C premium revenue growth was particularly strong, and all divisions of the company contributed to the good financial performance.

After-tax operating income for the quarter was $790 million, up 6.3% or $2.29 per share, both records for the company.

Our operating return on equity was 12.3%. And in the first 6 months of the year, we've produced over $1.5 billion in after-tax operating income with an ROE that is north of 12%.

Book value in the quarter declined 2.3% due to rise in interest rates, which reduced the unrealized gains in our investment portfolio. Given we are fundamentally buy-and-hold fixed-income investors, this is, in essence, an accelerated recognition of a loss that would have amortized in overtime anyway, as our bonds mature.

The flip side, of course, is that our reinvestment rate has improved by about 60 basis points for a portfolio of similar distribution, and this will benefit our income over years to come.

Tangible book value was additionally impacted by our 2 Mexican acquisitions which closed during the quarter. We are excited about our prospects in Mexico, and our teams are actively engaged in bringing our vision to reality. Soon, we'll have more to say about our book and tangible book value and the impact of rates on our investment portfolio.

Our underwriting results in the quarter were, again, simply excellent. We produced $434 million of P&C underwriting income, up nearly 16%, with a combined ratio of 87.9%.

The end of the quarter was active in terms of natural catastrophes, with the tornadoes in the U.S. and the floods in Europe and Canada.

Total pre- and after-tax CAT losses this quarter were $81 million and $66 million, respectively. Though following the end of the quarter, we've had preliminary indications of additional losses that could add about $10 million pre-tax of development on these CATs, and this will show up in our third quarter results.

Positive prior-period reserve development was up modestly from last year, and again, Phil will provide more details on these items.

Similar to the first quarter, current accident year underwriting was a substantial contributor to our overall calendar year underwriting results. Current accident year underwriting income, excluding catastrophes, was up 21% over prior year, with a combined ratio of 89.2%. This was a 1 point -- 2 points better than the second quarter last year.

In fact, on a current accident year ex-CAT basis, operating income was $2.17 per share versus $2.01 per share last year.

The current accident year results reflect the excellent underlying health of our current business, including global growth in earned premium, with continued margin improvement in North America as a result of better pricing and mix of business; and margin improvement, internationally, as a result of product and geographic mix.

P&C net premiums in the quarter grew over 8.5% on a constant dollar basis with the foreign exchange negatively impacting that number by 1.5 points on a published basis.

Growth came broadly from all regions of the world, but with particularly strong results from North America, Asia and Latin America.

In North America, retail commercial and specialty P&C net premiums were up nearly 12%, while our wholesale specialty business was up over 6%. Net premiums for our agriculture business were down, in line with our expectations, due primarily to an increase in the amount of crop reinsurance we purchased.

We estimate full year crop insurance net premiums to be down about $315 million from prior year, and again, in line with our expectations.

Internationally, commercial P&C premiums in ACE International, our retail business, were up 9%. We saw a growth in commercial P&C in every territory, except the continent of Europe, which was flat.

Latin America lead with net premium growth of 25%, followed by the U.K. at 10%, and Asia at 6%.

Premiums in our London-based excess and surplus lines business were down 4%, where competition has increased steadily in the last few quarters, particularly in property and professional lines-related businesses.

In our Global A&H business, net premiums were up over 6% in the quarter in constant dollars, reflecting improved growth, as we predicted.

Growth was driven by our ACE International business, which was up 11%, led by Latin America, Asia and Europe.

Strong growth in our global personal lines business continued in the quarter. In the U.S., premiums in ACE Private Risk Services, our high net-worth personal lines business were up over 10%. Whereas internationally, personal lines premiums were up 70%, reflecting the contributions from our acquisitions in Mexico. Excluding these, we had growth of over 20%.

International life insurance revenue was up 29% on a constant dollar basis, with the strong growth coming mainly from our operations in Asia. And finally, our global Re business was down about 5%. As you know, the reinsurance market is quite competitive, with an abundance of capacity, particularly in CAT, and CAT pricing is down about 5% internationally and 10% to 15% in the U.S. We expect these trends to continue for the foreseeable future.

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

Overall, North American pricing was up about 4%, while the rate of increase for property-related pricing is moderating. Casualty-related pricing, in fact, accelerated modestly in the quarter, with many lines experiencing their strongest level of rate increase yet.

In ACE U.S.A., our retail business, property rates were up 4%, while casualty-related pricing was up over 4.5%.

New business writings grew 5% year-on-year, and that's after growing new business 44% in the second quarter last year.

Exposure growth added just over 3% to our premium growth rate due to increased economic activity. And our renewal retention rate, as measured by premium, was a very good 90% in the quarter.

On the U.S. wholesale side of our business, rates were up over 4.5% overall, with property rates up about 3% and casualty-related lines up over 7.5%.

Internationally, the retail commercial P&C rate environment remains competitive but stable, with rate growth flat in the quarter overall.

Competition constraints our growth as we strive to maintain portfolio pricing. Rates, internationally, varied by class and by territory, but were mostly up or down 1% to 2%.

My colleagues and I can provide further color on market conditions and pricing trends.

As I said earlier, in the quarter, we completed our acquisition of ABA Seguros, Mexico's fourth largest personal lines company. And as we announced on last quarter's call, we also completed Mexican surety company, Fianzas Monterrey. Both acquisitions are on track, and as I already noted, are beginning to contribute to premium growth.

For example, in the quarter, about half of ACE International's 18% net premium growth came from these acquisitions.

In summary, we had a great quarter and a strong 6-months performance. We fired on all cylinders. And as things stand now, we expect a continued strong result through the balance of the year.

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

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

Thank you, Evan. As Evan mentioned, we had an excellent quarter with record operating results. Cash flow was strong at $895 million.

Based on our strong sustained financial performance, S&P and Amvest recently affirmed all of our core ratings and changed their outlook on ACE to positive.

Fitch upgraded us from AA- to AA.

Investment income was $534 million for the quarter, higher than our expected run rate, primarily due to higher-than-expected private equity distributions.

Net realized and unrealized losses were $1.4 billion pre-tax and $1.1 billion after tax for the quarter, resulting primarily from the effect of higher yields on our fixed income portfolio.

As the Feds signaled a potential end in sight to the quantitative easing program, high-yield, high-grade bonds that benefited from the program were the most significantly impacted by the shift in rates.

Our blended market yield rose 60 basis points during the quarter, and our portfolio movements were in line with market conditions.

We remain in an unrealized gain position of $1.3 billion after-tax.

Future net investment income will be positively impacted as new cash flow and portfolio turnover will be invested at these higher rates.

Current new money rates are 2.9% if we invested in a similar distribution to our existing portfolio. And our current book yield is 3.7%.

We estimate that the current quarterly investment income run rate will be approximately $525 million, which is subject to variability in portfolio rates, private equity distributions and FX.

Our book value per share and our tangible book value per share declined 2.3% and 4.9%, respectively.

Tangible book value was also affected by the impact of goodwill and intangibles arising from our Mexican acquisitions.

Tangible book value per share would have declined 2.7%, excluding these transactions.

The net impact of the mark-to-market change for the variable annuity reinsurance book was a realized gain of $35 million. This comprised a gross realized gain of about $200 million, primarily related to rising interest rates and increasing equity values offset by hedge losses, falling credit spreads and rising equity market volatilities, all of which reduced the gain by approximately $135 million.

An additional $30 million of the gain was reduced by the timing effect, which we described on our disclosures as the increase in fair value liability when the VA book continues to run off as we collect premiums and get closer to annuitization claims.

The VA result was in line with our expectations and with our published sensitivities.

During the quarter, we had positive prior-period development of $128 million pre-tax and $109 million after-tax, with about 1/3 coming from long-tail and 2/3 from short-tail lines.

Our net loss reserves are up $350 million for the quarter, and our pay-to-incurred ratio was 83%.

Our CAT losses were $81 million pre-tax for the quarter, approximately half related to the Canadian floods, and the remainder related principally to severe weather events in the U.S. and the European floods.

Our effective tax rate fluctuates based on where our earnings emerge. In this quarter, the effective tax rate is low relative to other quarters, primarily because a greater percentage of our income was produced in lower tax jurisdictions.

In addition, we had a one-off adjustment to prior-year tax accruals that lowered the rate by 1.5 points.

The company is issuing updated guidance for full year 2013 to account for the first half positive prior-period reserve development; lower-than-planned catastrophe losses realized in the first half; better first-half current accident year results, excluding catastrophe losses; and higher net investment income in the second quarter and expected for the second-half of the year.

The range is $7.65 to $8.05 per share in after-tax operating income for the year.

This includes estimated catastrophe losses of $260 million after-tax for the second-half of the year. Guidance for the balance of the year is for the current accident year only.

I'll turn the call back to Helen.

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

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

My first question relates to pricing. That color was very helpful. Over the past few days, investor focus has been on the sustainability of pricing improvement in the U.S. commercial lines. Evan, what would be very helpful, as your view, on the pricing momentum going forward from here?

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

I don't hold a crystal ball that can predict the future. I can tell you that July pricing was similar to the second quarter pricing on that we've seen the same strong trend we have been seeing in casualty to flood-based continued in July. I mean, that is encouraging to us. Beyond that, I simply can't produce -- can't predict the market, but I'm very comfortable about ACE's ability to perform and outperform in any market.

Amit Kumar
Macquarie Research

And any sort of distinction between retail and wholesale going forward?

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

There is some distinction. Do you want more specific granularity around that?

Amit Kumar
Macquarie Research

Yes, that will help.

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

Okay, then I'm going to turn it over to John Lupica, who maybe will give you -- because I said it's broad-based. So we pick 5 or 6 lines, 7 lines and give you a sense in both the retail and the wholesale so you'll see a little distinction. Casualty pricing in the wholesale side is on -- is a little stronger than on the retail side.

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

Sure. Thanks, Evan. Amit, I'll give you just a little deeper dive into the rate that we're seeing, also a little bit of a growth that we're seeing in both the U.S. retail and the E&S market. I'd like to remind you, this our 27th month in North America that we've been able to get rate. Our ninth quarter and our fifth quarter are rate-on-rate. So it's been a healthy drive for rate in North America and then it's been the best that I've seen in this cycle. When I look at North America in a larger manager [ph] business, that quarter, we grew the business 16%, with the rate that was up 5.8%. And on a year-to-date basis, we were able to get 4.5 points of rate. In our professional lines businesses, in aggregate, we saw 3 points of growth, 5.7 points of rate in the quarter, and about 5 points of rate for the full year. When looking at our medical business and other specialty business, we saw the growth of 12%. Our quarter was up 3%, the year was up 1.5%. In the general casualty market, the excess casualty, we saw a growth of 13%. The rate of 6.3% in the quarter and the full year rate of 5.3%. Environmental and other casualty specialty line was up 12%, and growth rate was up 4%. On a full year basis, it was up 2.9%. In our property market, where, again, the rate has been terrifically healthy in the past and in current, we've seen a property retail rate growth of 26%. The quarter was 3.3% of rate. In the year, we've seen 3.7% of rate. In our E&S businesses, in our E&S property, we saw growth of 10%. Our rate in the quarter was 3.3%, and our year-to-date rate was 4.7%. And in our general casualty portfolio, we saw a growth of 3% in the quarter, with the rate of 8 -- and a year-to-date rate of 8.5%. And I'd like to echo what Evan had noted about July, we are seeing generally the same trends in our retail casualty market and property market in terms of rate. Risk management, early days, but we've seen it up 6.5%, excess of 5% and the property market, up 3%. But again, it's only as early days and early trade in July.

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

So trying to give you a better sense of both growth and also sort of the broadness of rate, and that you can see the rate in the second quarter is better than the year-to-date rate.

Amit Kumar
Macquarie Research

That's actually quite helpful. The only other quick question I have is on capital deployment. You talked about the recent acquisitions. In the past, we've spent some time talking about, I guess, the 1.5% drag on ROE. How should we think about the pipeline, I guess, of potential candidates versus the rate commentary which you have mentioned? Does that change in any way? Or is that completely independent somewhat of the strong pricing you're seeing?

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

It's -- the pipeline of potential opportunities from an acquisition point of view are completely independent of anything to do with pricing, number one. Number two, remember, generally, the analyst community, and I mean this in a positive way, you have a very -- you have no visibility on what could be potential out there. There's over 50,000 insurance companies in the world. And it's a big world, and there is a vast amount of opportunity. If it meets -- if it meets our strategy, advances what we're doing organically and align with our territory and it meets our financial hurdles and return to investors, then we'll pull the trigger. And it's all opportunistic. And beyond that, I won't really comment except that we're vigilant and we're paying attention and we're are constantly looking.

Operator

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

Michael Zaremski
Crédit Suisse AG, Research Division

My first question is regards to ACE's dividend philosophies. So Evan, you've said in the past ACE is a growth company. The dividend was raised 4% this past May, which, I guess, according to consensus, earnings estimates implies a declining payout ratio. So should we be thinking it was raised by 4% because free cash flow growth would be subdued in the near term? Or maybe we just simply shouldn't be thinking in terms of managing to a higher payout ratio over time? And then I have a follow-up.

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

Go ahead, Phil.

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

I was just going to say if you look at the history of our dividend, we've increased it about 46% since January of '12, so a pretty substantial increase. And we think that those increases have enhanced returns to the shareholders in a sustained period of low interest rates and it's enabled us to keep considerable capital flexibility. So...

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

And no, it signals nothing about cash flow. In fact, as you could see, our cash flow is quite strong. We're very liquid, and the payout ratio will bounce around a little bit. But it'll average in the similar range over a period of time.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay, got it. It's helpful. And a numbers question that may be for Phil. I noticed the expense ratio in North America and insurance, excluding agriculture, declined by over 150 basis points versus 2Q '12 levels. Is there a lower expense run rate dynamic taking place that we should be aware of?

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

I don't think -- no, I wouldn't count on the lower -- if there was a couple of one-off adjustments to accruals. And I wouldn't expect that to be part of [indiscernible].

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

Yes. If I could add just a little more detail, it really is a -- it's a growth in our net-earned premium outpacing our expense dollars. So it really is historical in our premium growth. There's nothing material in the detail.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay, so more it sounds like the operating leverage.

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

Since that you're growing lower than premium...

Michael Zaremski
Crédit Suisse AG, Research Division

Operating leverage...

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

And then it bounces around a little bit by mix of business because some business attracts a higher commission line than others. And so when you grow your very large account business, you're generally going to pay a lower commission than when you're growing your flow business. And that, with the acquisition where we show it, bounce around quarter-to-quarter will look like. Underlying operating expense ratio is very comfortably under control.

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

Got the mix of the 2?

Michael Zaremski
Crédit Suisse AG, Research Division

Got it.

Operator

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

Jay H. Gelb
Barclays PLC, Research Division

I want to touch base first on the underlying combined ratio in North America P&C and Overseas General. We've continued to see year-over-year improvement in the first half, and results were pretty consistent between first quarter and second quarter of this year. So I'm just trying to get a read on whether you feel we're at the right baseline now, and whether you feel that result can continue to improve in those 2 major segments as earned pricing continues to come through.

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

Well, Jay, we'll see how the future will -- I'm not going to predict the future, because short-tail business can have -- it'll have some variability around the mean to it. I don't know what you mean by have we hit or we hit a place where we're just comfortable. We're constantly striving to grow the business and do with it pricing that we think achieves an adequate rate of return. And as you know, we're willing to make that trade off in any line of business where it doesn't meet our hurdle rates, or what we think is a reasonable rate of return given this environment. And that's what the combined ratios represent. And where we see opportunity to write business at what we think is decent enough pricing to earn a reasonable underwriting margin, we're going to keep doing that. And the mix will change a little bit quarter-to-quarter, and that can change the accident year combined ratio a bit. But the more you get rate and if inflation stays subdued and you keep growing the business this way, then you audit, that only benefits margin.

Jay H. Gelb
Barclays PLC, Research Division

That makes sense, okay. And then for Phil, with the run rate of investment income of $525 million, we saw that favorable uptick in investment yield on the portfolio. I'm wondering if we kind of roll this forward, should we expect investment income growth in the coming years, as opposed to seeing a slight drag on that metric as a result of low rates?

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

Well, as you can see, our book yield still is above our market yield. So as the portfolio turns over into the whole yielding market rates, if market rates were to stay where they are, we think investment income would stay flat on that basis. Because new money would offset the decline in investment income that would result as the portfolio moves into the lower rate. I was just going to say, we are predicting or at least internally, that interest rates will rise. But that's -- that will be seen.

Jay H. Gelb
Barclays PLC, Research Division

Is this also taking into account growth in the portfolio?

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

Yes, that's what I mean. Growth in the portfolio with our new cash flow, right? Well, it tends to offset almost directly the degradation in investment income because the portfolio rolls into a lower-yielding rate environment.

Jay H. Gelb
Barclays PLC, Research Division

Okay. And then one last numbers question. You give us the impact on the net per agriculture for the year. Where would that be on a gross basis?

Philip V. Bancroft

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

It'll be about flat.

Jay H. Gelb
Barclays PLC, Research Division

So around $1.1 billion?

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

Gross? No, no, much -- gross is much too far.

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

[indiscernible] $2.5 billion, $2.6 billion gross.

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

Yes, gross is probably $2.5 billion.

Operator

And we'll take our next question from Thomas Mitchell with Miller Tabak.

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

I was wondering if in the United States, in particular, North America, more generally, that what the outlook is for growth and exposures. It looks like your premium growth exceeds your average pricing increases so that either exposures are growing in the market or you're taking market share or maybe a little bit of both. But I'm just wondering what outlook looks like to you, let's say, today versus 6 months ago.

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

Well, exposure growth, and that's a good way to think about it. The -- we got exposure growth 2 ways. As I said in the commentary, 3 points of the growth came from exposure growth on our in-force portfolio, and that's economic activity-related. So that speaks to a firming economy that's got -- that is reasonably broad-based. The balance came from us growing share in classes of business, where we think the pricing allows us to produce a reasonable underwriting profit. And that's informed by our portfolio management that, as you know, is quite granular, quite mature, and that we just focus relentlessly on in here. It's our decades-long effort. And to just get more and more insightful about -- in a more granular way about particular pockets of business that behave differently than other cohorts where we see an opportunity. And it's there that we grow exposure. So when we like the pricing to exposure, we will grow exposure. Now we have the capital and the balance sheet to do it. And we know our minds, and we will not hesitate.

Operator

And we'll go next to Greg Locraft with Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

I just wanted to ask about the acquisitions and the impact in the quarter. Was any of the increase in guidance related to the acquisitions? In other words, are they accretive day one and coming through more than we had thought before?

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

No, not coming through more than we thought. And they're not really particularly contributing towards these revised guidance estimate. And remember, the revised guidance, we did not increase our estimate for the balance of the year, current accident year. We revised our guidance based on the year-to-date results, our current accident year, CAT, investment income, prior-period development, and then we rolled forward the investment income. Other than that, for the balance of the year, we did not increase.

Gregory Locraft
Morgan Stanley, Research Division

Okay, good. So no impact to the deals in the guidance. Great. And then, can you remind us about how impactful these deals will be maybe in the out years? I thought you talked a bit about them in previous quarters as the accretion dilution and when they'll help.

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

I did a little bit. And so this is what -- I'll make a couple of comments about them. First, I do refer you to our annual report shareholder letter that speaks to how the acquisitions we have made over the last 5 or 7 years have performed in aggregate and how they looked versus other means of capital deployment on a return basis. And so a return analyst to that, to begin with. Number two, these acquisitions over a reasonable period of time, on an ROE basis, and when I say reasonable, looking out 3 years, will meet or exceed our hurdle rate, our ROE hurdle rate, and that's pretty good. In the early period, you have -- you always have purchase accounting that weighs on ROE. And on an ROI basis, with the underlying health of it, they are extremely accretive and doing quite well. They're -- it's early days on Mexico, but everything we see, it's on track. And if anything, it's going to perform better than we expected, at this moment, from what we can tell.

Gregory Locraft
Morgan Stanley, Research Division

Okay. And then can you just remind us, where does the amortization from the deals come through in the reported P&L? And how much is that now, or how much was that in the quarter?

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

It's included in other income. And the amount in the quarter at about $20 million.

Gregory Locraft
Morgan Stanley, Research Division

$20 million, okay.

Operator

And we'll go next to Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So I just wanted follow-up, Evan, if I could, on -- you provided some growth metrics in the different businesses. Would it be possible to kind of notionally size out wholesale, retail, personal lines in North America? Just -- I mean, obviously, personal lines has been growing a bunch. I'm just trying to get an idea of what the business footprint kind of looks like today.

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

Yes, we don't typically -- we don't disclose it on a quarterly basis. I believe that we put on the website -- we put -- we published at the end of last year when we did investor dinners, we published a piece that we put out. And it breaks down the revenue on an annual basis by division within, I think, North America. I think we have that, and you can get that. I don't have that in my head, but U.S. retail is the largest. Then after that, you have wholesale business. And then after that, you have Private Risk Services.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. Okay, that helps. And then in thinking about...

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

You can go get it. You can go get the breakdown. And it hasn't changed much between what we showed at year-end and what we run now.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it, great. In thinking about retail, is that an area where we should assume that you have taken down the whole risk? Where -- it's maybe in the wholesale business, that's where you would write more syndicated programs? Or is that breakdown not exactly right?

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

Yes -- no, Mike, you're not thinking of it right. Syndicated, I think of syndicated, to me, is more of a London where there's a line slip. There's a slip that goes around and everybody takes a share, that's a syndicated. In this case though, of taking down whole risk in the small and middle market commercial business, one carrier will generally take down the whole risk. In a large account in the upper middle market business, and this varies by line of business, and so it's hard to paint a broad brush. But in the upper middle market and large account, it's usually a layered approach. And so one -- you'll participate in certain layers. But the guy who takes the primary, puts out the paper, controls the claims and the engineering and the global servicing, that's where the real action is to me. That's where your real franchise versus just capital in a box. And ACE is a lead player in that regard. They come to us, not simply for the capacity, but for all those services. And then there may be others behind us who will participate in layers, and that's the capital in a box.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I see. And are you seeing any -- I mean, is there in terms of those, and pardon my nomenclature, I guess, syndicated is definitely more of a London term. But in terms of retail or wholesale, are you seeing divergence in some of those transit that you talked about? Or whether it's in the layers in which, I assume, you don't participate so much? Or in the primary replacements on a wholesale side, are you seeing whether it's from new entrants or new capital kind of spilling out and over into these areas? Are you seeing any divergence on that basis or not really?

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

No, not really. Where I see divergence, it's not in -- the trends are the same in wholesale and retail. The wholesale side of the business naturally is the more -- that's the E&S business. You'll write -- E&S also, we write plenty of it on the retail side also. And that's where it'll be the more difficult to place or tougher classes, and so therefore, you might see us. As we said, we saw over 7.5% growth in casualty rate on the E&S side, whereas it was more modest on the retail side. Same trends. And that reflects the nature of the risk and its need for rate. But we're not seeing -- we're seeing the same trend, and we're not seeing stupid competition that is somehow breaking that trend in either.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And then just last one, quickly, can you elaborate a bit on your comments on the reinsurance markets? I mean, you talked a little bit about additional competition there in new capital. I mean, is there anything that you think could happen over the next 12 months or so that would cause you to consider really pursuing growth on the reinsurance side? Or is that just kind of out of the picture for now?

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

Sure. Look, I -- there's more capital chasing, to some degree, less business on the reinsurance side, and it always comes back in any market economy and with any industry. It's that old supply-demand thing, and that's what you got going on. And so you see particularly with a lot of visibility to investors is the CAT Re side. Though remember, over the overall reinsurance market, it's a small thing that casts a big shadow. And there, you see alternate capital coming in capital markets, in addition to traditional players. And so -- and you don't see exposures growing that much, and so you got that pond with more drinking out of it on the CAT. But in the broader reinsurance market of casualty, property, marine, the primary players have retained more business on one hand. There is plenty of capital in reinsurance because the results have been good, so their balance sheets have grown, and reinsurers are hungry. And there, as many will profess, underlying discipline, but they chase market share. And for many of them, their standards are not the same as ours. And for many, it's all they do for a living, and so they feel compelled. And they -- that sets the table, and reinsurance is softening. How much will it soften? Will low interest rates maintain and put a floor under discipline? Remains to be seen. But the way I look at it is kind of the market you got is the market you should expect to have. And so we'll continue to play it as we do. If we like the trade, we'll ride it. If not, you've seen, well, our track record is. We will shrink businesses, and have no problem doing that. And we are so well spread in so many lines in so many geographies, I'm not concerned about that for a moment.

Operator

And we'll take our next question from Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Evan, when you were running through your prepared remarks on growth, you gave a lot of percentages. I'm wondering if we can pin down the premium volume from the acquisitions and the Overseas segment?

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

No, you cannot.

Joshua David Shanker
Deutsche Bank AG, Research Division

No, we cannot. Okay. And then can we give a little...

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

Because they become part of the company. And we don't just start, well, Malaysia is this big or Thailand is this big on organic. And then we make an acquisition, we don't start distinguishing those in that regard.

Joshua David Shanker
Deutsche Bank AG, Research Division

No, no, that wasn't my -- I just wanted to get an organic number for Overseas General.

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

Sure. I gave you an ACE International growth number, which was 18% in the quarter. And half of it was from the acquisitions. So 9% organic in ACE International and 9% from the acquisitions. And AOG is made up of ACE International. ACE Global Markets and the Overseas business of combined insurance.

Joshua David Shanker
Deutsche Bank AG, Research Division

I'll see what I can do to tease that out. And can we get some disclosure on the $38 million of other? I mean, Phil said there was $20 million of negative amortization expenses associated with acquisitions. What else is in there this quarter?

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

Josh, I read your note, and I think you have the sign wrong. That's actually a $38 million expense.

Joshua David Shanker
Deutsche Bank AG, Research Division

That's an expense, okay.

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

Other expense, right. And it relates primarily to the amortization.

Operator

And we'll take our next question from Paul Newsome with Sandler O'Neill.

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

I'd like your perspective on the linkages between the insurance markets. There's a lot of talk about the market impact of Berchard getting into the U.S. market, of the soft reinsurance markets. And historically, these segments have moved first in the cycle, it drove change in the overall market. And I guess, the SG&A travelers [ph] was talking about, auto, which is a little bit different. But, I guess, my question is, do you think it's still the case that some of these markets just ordinarily lead the other markets? Do you think the linkages have strengthened or weakened from past cycles? Because I think your perspective might be quite unique and that you write a lot of these businesses as you do it globally. So you may aim to be at a better position than others to kind of see how one market will affect another.

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

In past cycles before this one, typically, the reinsurance market that led to primary. This time around, in this cycle, the primary market led. And in fact, the reinsurance market stayed stable and hardly followed. And so I don't see that same linkage that way. And I don't believe that the reinsurance market is a leading indicator of where the primary market is going to go. Number one, one of the reasons is the size of balance sheet on the primary side on the large players. And they're much better data over the years in the last cycle. And because of math and computer power, and technology has changed it that way, and given their insight, they're making different kinds of decisions about how to hold retentions, how to think about exposure. And they retain much more, many do than they did in the past. And that's what creates some of that delinkage between the 2. And so I don't expect that somehow -- I'm not spooked that somehow the reinsurance market portends the insurance market. I just -- I don't see that in front of me.

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

What about the excess in surplus market? That also tend to be kind of a leading indicator of the overall market, at least historically.

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

Well, I don't think that's right either. Usually, the E&S market expands or contracts with market cycles. As in a softer part of a cycle, the E&S market shrinks, because the traditional insurers on the retail side, they expand their appetite. They tend to write business that they have no business writing. Because all of a sudden, they think, "Man, that price looks good relative to what I normally write. I'll write a lot to habitational business." And they don't realize that, that business, that they're writing it at a loss. And when they then get disciplined, because as the losses roll in, then they shrink their appetite and the E&S market expands. And so the E&S markets usually follows along that way. It doesn't lead it.

Operator

And we'll take our next question from Vinay Misquith with Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

The first question is on the international growth. And I believe you mentioned that there was about 9% organic growth. I've been hearing some rumblings about some sort of growth slowdown internationally. So could you help us understand, are you seeing that? Or are you not seeing that in your business?

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

Well, I'm confused, Vinay. Help me with the question a little more, because [indiscernible] we just published 9% growth organically and 18% without it. So do you mean the economic slowdown?

Vinay Gerard Misquith
Evercore ISI, Research Division

Yes, yes. I mean, we've seen or we've heard about sort of a slowdown in growth in the emerging markets. Have you really seen it in your numbers just yet? Because it doesn't seem that you've seen that. Then do you think that's going to negatively impact you in the future?

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

Well, I can't really predict the future. But first of all, you do see a slowdown in major emerging markets right now: China, Brazil, as 2 in particular. And When China slows down, that lead generally most natural resource-based countries will slow down. And China, where an awful lot of assemblage for export takes place, those that are doing component manufacturing so throughout Southeast Asia, et cetera, they will slow down. And as China's own consumption, if it slows down, then that will impact many other countries in Asia, and to some degree, in Latin America. Where we see economic slowdown, it's obviously slowed down dramatically in Brazil, as an example. And our business has slowed down in that country. But we've got Mexico, Columbia, Chile, the Indian countries have been doing quite well. When I look at Asia-Pacific, China, which we don't consolidate, as you know, because we own a minority position in Southeast Asia, I don't see that in our business and I don't see the economic slowdown. I was just in Indonesia and Malaysia, and those countries are doing quite well. Will they moderate, do I believe? Will they ameliorate in terms of growth? Yes. But particularly because, as I say, China casts such a big shadow. But I think it'll still be relative to the developed world. It'll still be robust, relatively robust growth. And at any one time, these markets are volatile. And at any one time, any 1 country or 2 countries can slow down, and that can have some impacts on us. But on the overall, I don't see it yet. I don't see it in front of me at this moment.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, that's helpful. And then 2 quick numbers questions for Phil, maybe. The first one is the amortization of intangibles. Phil, I think you mentioned it was $20 million. What number do you see for the next sort of

1 year? And does that sort of slow down after 12 months? Because most of the amortization happens in the first 12 months.

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

Yes, 12 to 18 months. And what we're going to do is put a schedule in the 10-K or 10-Q that'll lay out our expectation for the rest of the year.

Vinay Gerard Misquith
Evercore ISI, Research Division

Super, that will be great. And just -- the next question is on the normalized tax rate. Do you have any number for that normalized?

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

Prospectively, you mean? I would say, if you looked at current accident year X CATS, I would use a number in the neighborhood of 15%.

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple of questions. First, on the investment income, it seemed that the good performance in the first half largely related to private equity gains, yet you upped your expectations for the second half. Did that increase represent continued positive outlook for private equity, or was it the higher interest rates we're seeing?

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

It's principally the prior. I mean, the positive interest rates. As we said, the portfolio market rate was up 60 basis points in the quarter. And we see that having a positive impact for the next 2 quarters at least.

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

And Jay, the other thing you have is mortgage. Things like mortgage redemptions have slowed down. So to a degree, portfolio turnover has slowed down a little bit. And that's been -- that benefits it.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's helpful. Second question was on the favorable reserve development. I'm wondering if you could give us a bit more color as far as what classes you're seeing that development in, and what accident years it's coming from.

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

For the long-tail, it's predominantly overwhelmingly '07 and prior. And for the short-tail, it's more recent years. And Sean, do you have any more color you want to add?

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

Yes, sure. As Phil said, it's 2/3 short-tail, 1/3 long-tail. Jay, on the short-tail nothing unusual there. It's just claims coming in better than expectations. And on the long-tail side, we've reviewed North America and Tempest this quarter. And as Evan said, it's predominantly '07 and prior. We did have some -- you'll see this in the Q, we did have some favorable release on more recent years, but this is attributable to our -- the short-tail exposure on multiclaims, industrial accident, and our worker's comp book. But the theme is '07 prior and better than expectations.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Is it fair to assume, Sean, that the claims environment on the long-tail side remains fairly unchanged? Are you seeing any, on the margin, any changes in that, in the claims environment?

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

We're not seeing what I call any systemic changes in the claim frequency or severity. We do see some frequency changes in our longer-tail lines. But I'd call this portfolio-specific and really driven by business mix as we take -- Evan mentioned the portfolio management. And as we take underwriting actions to come in and out of lines and moderate our exposures, we need the deductibles in SIRs and so on. So I would call these changes portfolio-specific, reflective of our ability to execute on portfolio management and also monitor. So now we've got to feed back loop, and we're now starting to see these changes in frequencies come through. So I think that's the important aspect of this portfolio-specific. You see it in the U.S. and non-U.S., but nothing systemic. And these portfolio changes are really in line with our expectations as we execute on underwriting.

Operator

And we'll go next to Meyer Shields with KBW.

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

I just want to continue on that last thought about changes in the reserve environment. Are there any indicators -- I'm trying to get a sense, are there any leading indicators that would suggest that the current environment isn't changing, but it might 2 or 3 years from now?

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

Wow, Meyer, that's the holy grail. Look, no, there's no indicators. It maintains -- it's relatively benign. I remind you that CPI is not the indicator of insurance-related inflation. Medical inflation, while it's down, still runs around 4%. You have legal inflation that continues. And by the way, on the short-tail side, you have more inflation around construction materials, and you get some hourly rate and all of that, particularly as housing starts, et cetera, pick up. So you always have an underlying trend, and you got to know that. But it's been pretty steady. We choose not to change long-term inflation factors for casualty. And if it turns out to be better, it shows up ultimately in our earnings in prior period, but we run our business conservatively. And anyone who's has been in the casualty business for any reasonable length of time, it's not a business for optimists, and you understand that the good news comes early and the bad news comes late, and so we continue to play it conservatively that way because you don't know 2 or 3 years out. And if economic activity picks up, well, that's what will drive inflation. We know it's been holding inflation down. It's demand side, not supply side.

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

No, that's very helpful. I appreciate it. And I guess I have to look for the holy grail. On an unrelated topic...

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

When you find it. Send it on in here, we are interested in that.

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

Okay. Looking at Court of Appeals. Are you seeing any increased submission activity of reflecting sort of the discussion about the major brokers looking to consolidate their placement among fewer carriers? Is that a relevant factor at all?

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

That's been a slow-moving trend for a bunch of years now, that's not new. And when you talk to the major suppliers, as I know you do, they'll talk to you about the thousands. The inefficiency is they see it in their own system and thousands of carriers that they deal with, there are many hundreds. And how -- that's not the most efficient for both client or for themselves, it's how they do business. And for many reasons, that occurs and -- but it all comes down to human and their desire to, over time, rationalize and consolidate that. And you see it show up in different activities and actions on the parts of brokers over time. And that's been going on, and my sense is that will continue to a degree. There's nothing -- it's not event-related, and it's not startling, and I haven't seen anything new. I always see a lot of old wine, new bottles constantly coming out. But that's true kind of any business.

Operator

We'll go to Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two quick questions here. First, Phil, corporate admin expenses looked elevated in the quarter. Was there any kind of onetime items related to the closed acquisitions that don't repeat themselves?

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

It really wasn't related to acquisitions, but we did have some accrual changes related to some work we were doing around the stock compensation area. But nothing that I would take as a ongoing trend.

Brian Robert Meredith
UBS Investment Bank, Research Division

And then second, I mean, I wonder if you can talk about any kind of notable changes in terms and conditions. I've heard a little bit about an increased in multiyear deals all of a sudden coming back into the market. What are you seeing, anything that would be at all alarming?

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

No, I'm not. The only place I'm really seeing multiyear deals of any size has been in CAT Re. [indiscernible] it always occurs. Other than that, no, I'm not seeing.

Helen Wilson

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

Operator
Thank you. This does conclude today's conference. We appreciate your participation.