S&P Capital IQ

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Chubb Limited NYSE:CB

FQ4 2009 Earnings Call Transcripts

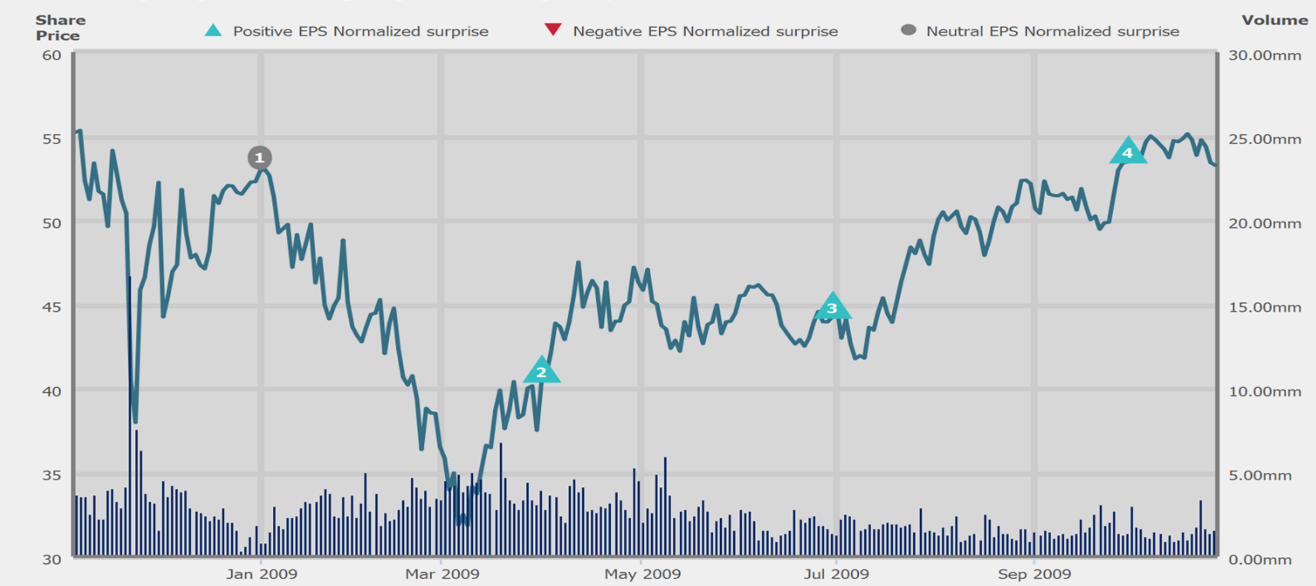
Wednesday, February 03, 2010 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2009-			-FQ1 2010-	-FY 2009-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.94	2.01	▲3.61	1.93	8.09	8.17
Revenue (mm)	3051.00	3305.00	▲8.33	3515.74	13045.00	13299.00

Currency: USD
Consensus as of Feb-03-2010 10:31 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2008	1.87	1.87	❶0.00 %
FQ1 2009	1.96	1.99	▲1.02 %
FQ2 2009	1.94	2.09	▲7.73 %
FQ3 2009	1.96	2.07	▲5.61 %

Call Participants

EXECUTIVES

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Helen Wilson

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Pioneer Investments

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Miller Tabak

Thomas Spikes Mitchell

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Crédit Suisse AG, Research Division

Presentation

Operator

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

Helen Wilson

Thank you, and welcome to the ACE Limited December 31, 2009, Fourth Quarter and Year End Earnings Conference Call. Our report today will contain forward-looking statements. These include statements relating to our financial outlook and guidance, business strategy and practices, competition, growth prospects, investments and use of capital, general economic and insurance industry condition, pricing and exposures, losses and reserves, all of which are subject to risks and uncertainties. Actual results may differ materially. Please refer to our most recent SEC 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 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 development.

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

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

Good morning. As you saw from the numbers, we had a very strong fourth quarter, which contributed to an excellent year. After-tax operating income in the quarter was $2.01 per share bringing full year operating income to $8.17 or $2.8 billion, an all-time high for the company. Given the difficult economic and financial conditions we faced in 2009, this were simply excellent results and with all divisions of the company making a meaningful contribution.

Book value grew $930 million in the quarter, bringing full-year growth to 36% and tangible was up 47% for the year. This was a standout performance that restored last year's book value erosion and set a new high for the company. In fact, for the last five years, we have grown book value and tangible book at a compound annual rate of 15% and 17%, respectively. Our P&C combined ratio for the year was 88.3% and the '09 accident year combined so excluding prior period development was 93.2. These are both excellent results that speak to the broad global balance of our operations and the quality and strength of our fundamental business.

Our balance sheet including our loss reserves position is very strong. Our total capital increased 29% to $23 billion in the year. Our net loss reserves grew 4%, now stand to $24 billion. I might add that our loss reserves are reviewed not only by our own actuaries, each portfolio is reviewed by outside actuaries and our external auditors. Our P&C reserves are in very good shape in each of our divisions, North America, International and Global Re. Our ROE for the year was 16.2%, an efficient and excellent return on capital and I believe borrowing unforeseen circumstances, our ROEs will remain superior.

On a related note, some shareholders judge at a given moment in time, the best way to increase earnings per share and book value per share is by buying back stock. We understand the argument and recognize the validity of that option, but it's not applicable to all companies at all times. We believe for ACE a more strategic way to increase EPS in book value per share is by growing the company not shrinking it, which is essentially what share buybacks do.

We are a global diversified company with a long-term strategic plan. There is plenty of opportunity around the world to grow our company overtime. Even if you cannot see the opportunity at the moment, it doesn't mean it doesn't or won't exist. On the other side of the coin, we believe it is prudent to also hold capital for risks. We are after all in the Risk business. For example, where we'll be today if we encountered a major risk event that needed to raise capital during the market upheaval of last year. Just in time, capital management sounds great in concept but it ignores reality. For both good times and bad, we have a long-term patient view for managing our capital. We truly thoughtful and methodical when thinking about this issue and take seriously our responsibility to be good stewards of our shareholders money. And I might add that our track record is measured by ROE and book value is good, as well as our track record for acquisition. The Combined our most recent two years on is right on target financially compared to where we said it would be, and so we'll add a little more detail to that.

As part of our stewardship responsibility, rest assured, if we build up what we consider to be surplus capital, it cannot be put to work productively over a reasonable period, we will consider tactics to return that capital to our shareholders including share repurchases. And we, management and the Board of Directors, mean it.

Turning to market conditions, given the current reasonable health of the industry's balance sheet and cash flow, and industry cycle at least 'till now typically turn on the balance sheet and cash, we're in a soft market to state the obvious. From an underwriting risk reward perspective, prices are inadequate in many classes and industry profitability is under pressure. Our management team has lived through soft markets and seen what happens when companies are not willing to make sacrifices in terms of market share and value. At ACE, we won't knowingly forfeit future profitability for short-term benefits. We've made it clear, we'd rather write less business than kid ourselves about price or reserve adequacy, and I believe that our actions over the last couple of years have proven just that.

On the other hand, the profile of who we are and what we have to offer including the size and strength of our balance sheet, our local presence globally and broad product capability and technical underwriting prowess continue to attract business to our company. Because of our increased product and geographic presence, we see so much more opportunity. Even if we don't ultimately write the business because it does not meet our standards, our submission counts were significantly higher during '09 and the number of accounts we wrote also increased substantially as a result of our increased presence, particularly in specialty middle market. Our new business premium writings, however, were down as a result of underwriting discipline. For example, for the quarter, submissions for our principal North America commercial retail insurance lines were up 12.5% while our new business premium writings were up just over 6%. Similarly in our International business, submissions were up 12% while new business premium writings dropped 11%.

Our total P&C net written premiums were up about 9% in the quarter, an excellent result that was helped in part by foreign exchange. In constant dollar, we were up 4% and for the year in constant dollar, P&C premiums grew 3%, with global retail up 8% and global whole sale down 5%. Our renewal pricing for our commercial P&C portfolio was up about 1% in the quarter with some classes up single to double digit and others down modestly, modest single-digit. Our renewal retention rates are moving up and stood at 88% for our U.S. Retail business. We are emphasizing renewal retention and conserving where possible the risks we know. Terms and conditions are holding and are relatively steady for the business we wrote although there are increased requests for terms and conditions we find unacceptable.

Revenue growth for our Retail P&C Insurance business followed a few broad themes in the quarter. First, our increased local and global presence allowed us to take advantage of the weakness of other companies that damaged the confidence of their clients and producers who are turning to ACE as an attractive alternative. We continue to experience this flight to capability and balance sheet, especially in those lines of insurance or risk players where more than price matters. We also gained business in lines and areas in which we have been making investments in our underwriting talent, servicing capability and where there was a reasonable underwriting margin.

Second, we benefit in the quarter from growth in those harder market lines of business that have and are experiencing losses, and where prices have risen. These include areas such as financial institution, professional liability, offshore and onshore energy and aviation. Lastly, we benefited in North America in the quarter from a couple of large transactions, where our balance sheet and technical ability made us an attractive choice. Both Brian Dowd and John Keogh can provide more color on growth and pricing if you want.

Turning to Reinsurance, Global refinished an outstanding year with another strong quarterly performance. As I've explained on previous calls, after several years of shrinking due to market conditions, Global re-experienced good growth in the fourth quarter and benefited particularly from business written in the first half of the year when pricing was better. Global Re's fourth quarter and full-year net premiums were up 14% over prior year. For the year, growth came from both long tail and short tail lines. For Reinsurance market conditions January 1, we're in general more competitive with reduced demand on the part of buyers and more suppliers, reinsurers had stronger balance sheet, partially due to the recovery of the financial markets and lack of major cats in 2009. As such, property cat pricing was off mid-single digit but still at sufficiently attractive levels, particularly for U.S. peak exposure.

Pricing in non-cat areas or lines of business continued to decrease moderately, creating greater pressure on already stressed margins. As it stands, we wrote modestly less Reinsurance business January 1 this year than last. Concerning our Global Accident and Health business, we experienced the best growth in the year in the fourth quarter, with premiums up about 8% compared to prior. Adjusting for foreign exchange, premiums were flat in the quarter, but up 11% for the year in constant dollar. The underlying long-term trends of a growing middle-class, particularly in Latin America and Asia, where we have substantial presence and capability continued to favor this business. Economically, these regions are also recovering the fastest and this will benefit our business. Our A&H business is solid and in good shape. The transient effects of recession diminish as we progress through '10 and I expect growth to pick up.

In addition, while our results may not show this, last year we gained ground in securing more distribution particularly in retail travel, corporate customers who buy accident insurance to cover employees and more sponsors for direct-response marketing. We also used this time to tactically shift our strategy to put increased focus on Corporate and Travel segments without neglecting our direct-response distribution. And I believe ultimately, these result in a better balanced portfolio.

In summary, I believe ACE's results for the quarter and the full year were excellent and clearly distinguishing as demonstrated by our strong operating performance, book value growth and ROEs. All while continuing to invest in our product and geographic presence globally in spite of economic and financial conditions, I don't know many companies that can say this. Despite the soft market conditions, we have plenty of opportunity in front of us, although it will take place over time. 2010 will mark the 25th anniversary of our company and I'm confident in ACE's ability to continue producing superior results this year and beyond. With that, I'll turn the call over to Phil and then we'll conduct take your questions.

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

Thanks, Evan. In 2009, our balance sheet continue to grow stronger. Shareholders equity increased by more than $5 billion for the year. Our operating cash flow for the year was $3.3 billion and our cash and invested assets grew by 16% to over $47 billion.

Our investment portfolio is in an overall unrealized gain position of more than $650 million. Our portfolio continues to be predominantly invested in publicly traded investment grade fixed income securities, as well diversified across geographies, sectors and issuers. The average credit rating remains AA, with over half invested in AAA securities. The duration of the portfolio is relatively short at approximately 3.7 years.

Investment income was $2 billion for the year. Income on new cash flow was offset by falling reinvestment rates and our investment income was about flat with last year adjusted for foreign exchange. The average yield on our invested asset is 4.5% with new money rates between 4% and 4.25% assuming we invest funds in a similar distribution to our existing portfolio. Net loss reserves increased about $930 million for the year and our paid to incurred ratio was 93.6%.

Adjusted for the impact of our positive prior period development, the ratio was 86.8%. Underwriting cash flow exceeded $2 billion for the year.

Financial flexibility at the holding company level remains strong, given our operating company's dividend capacity and low levels of debt refinancing needs over the next five years. Our debt to total capital leverage ratio of 14.2% continues to be conservative relative to our current rating level, and our Reinsurance recoverable leverage is down to 69%. Evan mentioned the strength of our A&H business. It's worth noting that our acquisition of Combined has produced a cumulative $0.53 of EPS accretion and 100 basis points of ROE accretion, which are both in line with our original estimates.

Our ownership in AGO dropped from 21% at the beginning of 2009 to about 3% currently. The change resulted from dilution caused by AGO share issuance and from our share divestitures during the quarter. We will continue to account for our remaining investment of approximately $125 million by recording any change in market value in unrealized gains and losses.

Before you ask, I'll mention that the increase in goodwill is predominantly related to foreign currency movements on our goodwill that we're experiencing for the first time because we felt it was preferable to allocate goodwill to the legal entity level rather than keeping at aggregate at the reporting unit level. We issued our 2010 guidance in our press release dated January 5. The guidance range for operating earnings per share of $6.25 to $6.75 for 2010 compares to our actual 2009 current accident year earnings per share of $6.10, which has been adjusted to reflect the 2009 original plan cat losses. Since this is an accident year number, the $6.10 by definition includes no prior period reserve development. I'll turn the call back to Helen.

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

Question and Answer

Operator

[Operator Instructions] Our first question today will come from Vinay Misquith of Crédit Suisse.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Evan, I understand that you prefer to grow the business rather than buying back stock. However, this is putting a downward pressure on the company's ROE, which is not that significant right now. But what ROE threshold would you look at before you decide that you would like to buy back stock if you find no other acquisition opportunities?

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

Vinay, it won't simply rely on ROE. I'm not going to give a point estimate here. But it's a combination of how much surplus capital do we think we have. What we see is opportunity in the time horizon for that. And then obviously, the current returns and the impact that is having. And we measure it regularly and we think about this, we have a framework for that. And though, we're patient and we're more patient than those who just want to see that instant gratification for the moment. And that instant gratification for the moment. And that's where I think the tension is between those who raised their voice in the investing community and us. But there is no -- I'm not going to put out there an ROE target. But we're using -- I think we approached this with common sense.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Could you give us some clarity on the acquisition opportunities out there? Do you see more opportunities now that the market is down or is it the same as before?

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

First of all, I see more opportunity now and on the horizon. And I see it in different shapes and sizes and I see it globally in different regions of the world, in different countries. And I'll leave it at that and it follows the themes of our organic growth strategy and it's what will enhance that strategy. And we're not measuring this simply in months. We're measuring it over a reasonable time horizon, a medium-term time horizon. But I do see more and I see more on the horizon.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Just one clarification on that, would you target ROE on acquisition still be 15%?

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

Our target ROE is that acquisition to be accretive.

Operator

Our next question will come from Thomas Mitchell, Miller Tabak.

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

And Vinay, yes, I'm not dropping below 15%. That's the number.

Thomas Mitchell

Miller Tabak

It's a sort of a two-part question about the favorable development of loss reserves. The first is overall for 2009, is there a way to sort of allocate the positive development between shorter tail and longer tail lines? And then the second one is just -- is it reasonable for us to think along the lines that as long as inflation, in general stays subdued, you are likely to end up with some positive reserve development over the period 2010?

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

First of all, we give you every quarter for the -- we give you the split when you ask between short tail and long tail. Sometimes we even tell you when you don't ask. This quarter, it was predominantly short tail, overwhelmingly short tail. I think it was 90% or so, Phil has an exact number if you would like that. On your second question, look, it's unknowable, the future on reserve development. What I can tell you is our reserves are in very shape. They're strong. It's unknowable how they'll develop for the future, but I can tell you that they continue intermediate as we look at them, they're continuing to develop well. And what's clear is if what we see today continues and again that's unknowable, we would expect positive reserve development in the future.

Operator

Jay Gelb with Barclays Capital is next.

Jay H. Gelb
Barclays PLC, Research Division

Evan, the new Obama administration budget included some proposals for limitation on crop insurance and affiliate reinsurance transactions. Can you give some color on those in terms of how if passed, as it is in the current form, what that would mean for ACE?

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

Yes, first let me take the legislation. The legislation, the tax legislation, as proposed as we've read it, if that was to pass, it would have little to no impact on ACE. With that said, so this is just not about ACE, we think that legislation represents bad policy, bad tax policy and it is discriminatory. It is protectionist. It violates treaties and as it is proposed. And so we will oppose it. So no impact on us will oppose it. Look, they are going to negotiate the SRA.

Jay H. Gelb
Barclays PLC, Research Division

What does SRA mean?

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

The SRA is in essence the license the government grants a company to be able to engage in Underwriting businesses. They negotiate that every so many years and Brian Dowd got his PhD on this and he can add more color. But let me just say this broadly. The Crop business on a gross basis is over $1 billion. On a net basis, it's a couple of hundred million dollars. It runs roughly a high 80s combined ratio, historically is what its run over the last number of years. So you can figure out what the earnings is. Any renegotiation is not going to eliminate the profit, but it could narrow it. But as you can see we're a broad diversified company and it's not just going to have -- it's not going to be a big event for our company. The other thing I'd add is, the larger players generally because it's usually an expense pressure in the renegotiation and the larger players have an advantage over the smaller companies that do this business, and we are one of the larger players.

Jay H. Gelb
Barclays PLC, Research Division

Separately maybe for Phil, what's your anticipated effective tax rate on operating income in 2010?

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

We haven't given that guidance but I think if you look at our range, it ranges between 18% and 20%, something in that neighborhood.

Jay H. Gelb
Barclays PLC, Research Division

It's a lot lower in 4Q?

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

It depends on what happens. So if we have a prior period positive development in low tax jurisdictions that affects it if we have CAPS [Convertible Adjustable Preferred Stock] in low tax jurisdictions. We don't give the deductions so that affects it. It just depends on where the earnings emerge.

Operator

And next is Brian Meredith with UBS --

Brian Robert Meredith
UBS Investment Bank, Research Division

First for Phil, if I take a look at your CMBS portfolio here, the disclosure you put in your supplement. It looks like the delinquency rate on your CMBS portfolio went to 4% in the third quarter to 9% in the fourth quarter. LTV has dropped. Additionally, the price decline that you needed to actually affect the principal I think it was 30% to 10%. So can you talk a little bit about what happened with that CMBS portfolio in the fourth quarter? Can you expect that they continue to deteriorate like this? Could you give us comfort that there's no real issues there?

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

We have seen some good deterioration, there's no question about that. And you can see that we've had additional downgrades to the BB and below category. But we really don't focus on the rating as much as we do our own analytics and our own view of the cash flows of the underlying structures, right? So our own view is that while our structures in that category that have been downgraded are trading in about 76% at par. We actually believe they are going to recover substantially and be into the 90s when we look at our ultimate realizations. I'll remind you though that we are marking to market, right? So those securities are market to 76% level and what I would say is we'd expect that to recover substantially.

Brian Robert Meredith
UBS Investment Bank, Research Division

What about the increase in delinquency rates? Where should we start getting concerned about the portfolio? You had 9% right now, what does it says?

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

9% is the delinquency rate, so that isn't foreclosure.

Brian Robert Meredith
UBS Investment Bank, Research Division

But that's going to dictate your cash flow model and losses as you're booking, right?

Evan G. Greenberg

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

So our view is at this point as I mentioned, we believe there's going to be substantial recovery and maybe I'll let Tim talk about for a minute, his view on the delinquency.

Timothy Alan Boroughs
Chief Investment Officer, EVP, Chief Investment Officer of Chubb Group and EVP of Chubb Group

Brian, it's Tim Boroughs. On the CMBS, actually the LTV remained unchanged on a quarter and if we're just focusing on CMBS rather than non-agency, these securities are super senior that predominantly rated AAA. And there are still broadly over 23,000 loans and so forth. I think the key to focus on there is the fact that 73% of that portfolio was originated before '06. So when we say that the current annual delinquency rate is 9%, maybe we should have clarified that, that's the market. We're not seeing that in our portfolio and what would have to happen to our portfolio is that thing cumulatively will have to rise to over 40% and real estate values will have to fall 10% from current levels for us to have any principal impairment. But that's why these ratings have really held up there. So we feel that this portfolio is in good shape. When we run this analysis, by the way, we have assumed in terms of further price depreciation that real estate values have come down generally by 40% already. So that's where you're seeing some movement there.

Brian Robert Meredith
UBS Investment Bank, Research Division

On the whole share buyback and capital management, you did say reasonable period of time. I'm curious what you believe the reasonable period of time is? And secondly, when you look at the share buyback here, how much does valuation of your stock cannot play [ph] into it. I mean for instance, if for some reason you saw that big-ticket Property business in Eastern Europe had an incredible return on it, would you allocate capital for the line of business right then? Similarly, if your stock is at a significant discount to book value and a very low key multiple and it creates a fairly attractive return. Why would you allocate capital to it as well, think of it from that perspective?

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

Two things. One, reasonable period, we're measuring not over a -- it's a little like pornography, you know it when you see it. We're measuring it over -- I'm looking over a year, two-year time horizon to see if you don't see any opportunity within that period, then it starts to become more academic to you. And then when you get it to price to book, yes, we're mindful of that but remember and this is what I said to begin with, fundamentally, Brian, a share buyback is shrinking the company. It is not growing the company. It's increasing EPS by shrinking it. Our job, first of all, is to grow the company. And by the way, what shareholder does it benefit. It benefits the guy who's trading out of your stock. Now you can say -- look, are you going to use the capital well? Well, we have a good track record for doing that and if we don't think we can, then we will return it to shareholders. And I hear the last one it's almost we're going to beat it to death [ph] Look, you bought the Combined Insurance accretive. It's done what you say, you do it. But you bought it at a certain price in 2007. Wouldn't you bought it cheaper if you've waited? Yes, okay. But it did everything we said it would do, number one. But let's imagine I did share buybacks in 2007 and share prices then versus now, is that accretive? I don't think so. So that's what we come from and yes, there is a price I agree with you. But that certain return on an EPS is simplistic because it's not a return for the company, it's a return on EPS at that moment. And we all get that in the math. Could there be a price? Of course, and as part of the total mix and it's not just about price and what we think is transient price. We're not contrary about this and we're not emotional. I think we're thoughtful about the subject. And at the end of the day, why we don't get so angst about our share price in the short-term and we don't. Is that we know that results are ultimately what drives share price. And we're very confident about that, and we're confident in the results we're producing and in the quality and distinction of the franchise we're building. We're believes on that. And we believe that ultimately drive share price. And if our share price is going to stay low for a period of time because of what we think is this emotional view on buybacks and that's what's going to do it fundamentally, well then our share price won't rise in a smooth way. They don't just rise in a lumpy way when somebody wakes up and discovers, wow, this is a great company selling cheap.

Brian Robert Meredith
UBS Investment Bank, Research Division

The other thing to keep in mind is the EPS is accretive, you're also accretive to book value per share?

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

We get the per share versus the company. And we're respectful of that.

Operator

Your next question will come from Matthew Heimermann with JPMorgan.

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

Just on the strategic front, am I missing anything on my list if I put your strategic priorities as domestically high-net-worth Homeowners business internationally kind of let's call it country-specific or regional P&C, and then also Accident, Health and Foreign Life in emerging market countries?

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

Well, I would add a couple. I would say large account, specialty middle market and E&S business in the United States. I would say middle market and personal and traditional middle market, personal lines in the emerging market countries. I'd say specialty personal lines overseas. I'm not splitting with hairs you but I...

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

The other question I have then is Political Risk business which has been a topic of conference calls in the past. Can you talk a little bit about what you're seeing in terms of recovery rates and the market today on projects that maybe have been stressed? And how that contrasts with historical recoveries?

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

When you say recovery, it's like subrogation?

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

Correct, and I'm thinking more structured credit rather than traditional...

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

I think you're talking trade credit more than political risk because those are long-term in terms of claim settlement and ultimate work out. On trade credit, we are seeing recoveries in it's still early days. But the recoveries as we see them and as we project them, so far are in line with what we estimate which is based on our historic experience.

Operator

Jay Cohen with Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I guess a question on the guidance. As you said, sort of apples-to-apples if you look at 2009, you're about 6 10 and I'm wondering how do you get to the high end of your guidance. What has to happen given one would suspect investment income won't be up all that much, given that New Money yields are below the portfolio yields. And I guess the other assumption you have to make is that the accident year combined ratio, probably not going to get better probably somewhat worse. How did you get from 6 10 to 6 75 at the high end of your guidance?

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

You're not going to love my answer because I'm not going to get very specific about it, because we don't do parts and pieces guidance. But Jay, it does break down in terms of growth of business. What areas of our business overall experienced the growth and earn and the loss ratios on that business that we earned through, number one. So it's a mix of business question. And then number two, within the line of business, it has to do with our projection, windows on rate movements because we don't just pick a point estimate to ourselves, we also have a sense of what we think could be the range on that. And then we have to mix through that, what we think is the persistency therefore, if we maintain discipline and new business and that gets back to mix of business. So it's a combination of that, it has predominantly to do with underwriting. It has a little bit to do with investment income because there is a range around that too in terms of reinvestment rate and new money rates and all that kind of stuff.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Is it fair to say to get to the high end of the range, you might need a little bit of help on premium rates and a little bit of help on investment yields being higher than what you are now?

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

It's not an unrealistic like pollyannaish optimistic. But we think it is a realistic, but it is the more optimistic end of the range on just like the low end of the guidance is the pessimistic end of the range, the more conservative. We try to do it within the way that frankly, what we give you is a result of our own work for ourselves where we say -- we don't do this for the Street. We do this for ourselves and then we crafted and put it out to the Street. But this is our own work and where we think it falls within ranges of reasonableness.

Operator

Next is Terry Shu, Pioneer Investments.

Terry Shu
Pioneer Investments

If I can again go back to Jay's question on earnings guidance, what would you say Evan would be the potential downside risk if you were to be below the low end of your guidance. Should one worry at all about claims trends, loss trends, is that the risk that the industry faces that loss trends won't remain quite as benign as it has been?

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

Terry, we gave a range for our earnings for 2010. We gave you what we think is the reasonable pessimistic to the reasonable optimistic. So that is our reason. And anything below that, we're not going there because that's something we can't reasonably foresee and I'm not going idly to speculate. I don't think that on your second part about claims trends. I doubt 2010 will show us much in terms of inflation beyond what we have already contemplated or expected. That would be very surprising to us.

Terry Shu
Pioneer Investments

'Right, I would tend to agree. I just wonder like if we look out, is that something one should worry about? And is it a correct view that in the last couple of years, the industry has been held by generally benign claims trends?

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

That's correct. The industry has benefited from generally benign claims trends. And as I have said repeatedly all year, I do think that claims inflation, particularly socially and politically generated and driven by legal, is a threat for the industry in the future. And so, we are vigilant about that, and that is something that we really do focus on.

Terry Shu
Pioneer Investments

One other question, you've talked about building your franchise. When one looks at the property casualty industry, cynically one would say it's very hard to have a franchise because it's so competitive and most products are commodity products. So maybe you can elaborate a bit more on that. Would you say that you're building a franchise and for instance, you've talked about large account onshore U.S., is it because of your tail, your expertise or maybe just generally talk about what you mean by franchise?

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

I think you used a word that is right. And frankly, you've given me the opening I've been waiting for to -- because I want John Keogh, I want Brian Dowd to speak a little bit of what they've seen in the quarter and how we've grown. But you used the word that I think is the right word when I read some of the reports that are written, and you used the word cynical. And I think it is a cynical, simplistic and incorrect view to think that it is simply a commodity that you can't take, you don't distinguish one to the other and that it is only about price. And without going into great detail about that myself, I think the point is, I think history, just looking back on history of our industry, that the history itself flies in the face of that comment. And that, in fact, you do build distinctive capabilities in terms of your underwriting expertise, your knowledge in terms of your culture and your ability to be disciplined, in your insight into risk-taking, in your breadth of product and the ability to serve the customer, in the service you can provide your customers, on a global and on a local basis and the number of companies who can do this across geographies, across a broad spread of products, market by market, large account to middle market to small is very, very few. And to think that, that is indistinctive in franchise, I think is really people just missing it. And with that, I'd like to ask Brian Dowd to first talk about North America for a couple of minutes.

Brian Edward Dowd
Executive of Office of The Chairman

I'll take and talk about North America and in particular some of the opportunities we saw on the fourth quarter. I look at the fourth quarter as our profitable growth opportunities present themselves in a number of ways, frankly mainly as a result of the investments we've made in our underwriting and our product capability. In the quarter, we saw improved submission flow, increased retention ratio and an adequate rate environment in targeted classes. In particular, we had strong success in Professional Risks, Construction, ACE Global Underwriting, ACE Financial Solution and ACE Private Risk. First, in our Professional Risk division. Our submission activity was up 23% as both our distribution partners and customers recognized the strength of the ACE brand and our product diversity and the ability to respond and handle complex claims. Rates in professional risk did, in fact, flattened in the fourth quarter. However, rates in the financial institutions market portion rose about 8%. In 2009, we invested in our private company and in our not-for-profit segment. And we increased our local presence nationally. In fact, we added over 50 underwriters in this area as we saw opportunity as our customers frankly did respond to the opportunities, our competition. We are gaining transaction. We are gaining momentum in this market. Additionally, our focus on customer service led to premium renewal retention ratio of about 90%. In the Construction Practice, even in this economic environment, we have the ability to profitably grow this segment. ACE's financial stability, customers need a multiyear commitment and our ability to seamlessly package our products from builders risk to construction wrap-up to access to environmental, along with our loss prevention and claims services had differentiated us. Submission activity was up modestly at 5%. However, our bound [ph] improved as customers made ACE their number one choice. Our new business relative rate adequacy in construction was very strong at a 115%, reflecting new business price better than renewal on this line. In our ACE Global Underwriting division, which underwrites services at our large complex global companies, we also had a strong quarter. There are only handful of companies with the infrastructure to successfully handle these types of accounts. While submission activity was basically flat, our new business grew at 11% and our new business rate adequacy was 105%. No question, we were a beneficiary of right to quality balance sheet and strong service capabilities. Another area where we remain committed is our ACE Financial Solutions team where we have an underwriting legal and claim service teams. In the fourth quarter, we completed a number of loss portfolio transfers where we're virtually the only company with the expertise to structure and execute on these transactions. Finally, our Private Risk Services division's net revenue premium growth in the fourth quarter was 42%. Submission activity was up 108%. This growth is reflection of our successful nationwide capability expansion. As of year-end, we had ACE Private Services Platinum Portfolio of products in 45 states, which represent states that are 99% of the high net worth clientele. Our hit ratio on the new business improved to 22% in the fourth quarter, reflecting steady improvement from the 12% in the first quarter as we built our brand in the space, and we appointed new agents and brokers and that they became more familiar with our capabilities. To give you an idea what's going on in North America...

John W. Keogh
ACE Overseas General

I guess I'd frame it by saying that internationally over the last several years that we've been quietly with that acquisition organically, opening up businesses in geographic territories we haven't been before and that in product capability in place as we've been for a long time to increase our capabilities around the globe. And I think that's what we're seeing and what we saw on fourth quarter speak to that. We saw increased interests really across the board in the quarter as our retail P&C submissions were up 20% around the world compared to prior year. This range from submissions, up 40% from marine, up 20% from financial lines to up 4% for our tech lines business. As Evan said, though despite more opportunities, our new business premium writes were actually down 11% in the quarter, and I think that speaks to our underwriting discipline. Though we saw more opportunities, we just didn't see as much as we'd like. I'll try to do briefly and maybe take you around the world of AOG and put some color around all of that. Now I'll start in the U.K. Here in London, we saw a significant increase in our financial line submissions. We actually saw a 200% increase in submission furlough in the quarter. And this translated in terms of net written premium to an increase of 35% in our financial lines business. Marine, on the other hand, while showing moderate submission increases, actually declined by 16% in terms of net written premium. On the continent, we saw a much more competitive market in the fourth quarter of 2009. Submissions were up in the quarter in casualty, tech lines and environmental by 22%, 14% and 37%, respectively. However, net written premium was down in the casualty and environmental and up 4% for tech lines. Financial lines, on the other hand, continued to benefit from a client-focused, very much on balance sheet strength of the carrier, and there we produced strong double-digit growth in our financial lines business in Europe. For Latin America, submissions increased 5% over prior year with financial lines and marine driving most of that activity. In particular by country, Mexico, our submissions were up 50% while submissions in Brazil were up 18%. Now despite the increased submissions, financial lines is the only product where we saw a net premium increase during the quarter, up some 50%. In Asia, our submissions were up over 25% across virtually every product area, really as a direct result of our efforts over the last several years to broaden our distribution and product range. Financial lines, property and casualty enjoyed net written premium increases in Asia. Now turning to ACE global markets, we actually shrank our book further in the quarter as rates in many lines in the London wholesale market did not meet our standards. On the other hand, we did see some very much needed rate improvement in product risk and aviation. And as a result, we're able to grow those lines in the quarter. As to pricing, and Evan mentioned this earlier, our international commercial P&C portfolio was up some 3% in the quarter. Within ACE Overseas General LIBOR, pricing is markedly different in our retail operations compared to our wholesale operations. For the most part, pricing in our retail business was basically flat with the exception of financial lines. There, our rates were up some 4%. In global markets, our wholesale business where rates were up 11% for the quarter as our aviation, marine and our political risk business obtained the rate improvements during the quarter. I think with that, I'll stop in terms of covering for the world outside of North America, and hope that would help.

Terry Shu
Pioneer Investments

And Evan, I guess it's fair to say a year or two, it's hard to distinguish one company from another in terms of underwriting because everyone's done well but you had better top line growth. So we'll have to see as it unfolds whether you -- when we get into a soft market, whether ACE not only has better top line as well as better returns. Is that a fair comment?

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

Thank you, Terry.

Operator

Our next question will come from Larry Greenberg, Langen McAlenney.

Lawrence David Greenberg
Langen McAlenney

Just wondering if you could give us a little bit of color on the life underwriting line at a pretty substantial improvement quarterly over the course of the year. Is that primarily a function of the stock market recovery? And then secondly, I think I heard Brian say that you guys did some loss portfolio transactions. Were those the large one-off transactions that you referenced earlier in the call and in the press release?

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

Taking the first one, the second one first, the answer is yes. You're taking the Life division -- couple of things, it really is made up of three pieces in there. There's our International Life business and it is in the International Life Insurance business. And as I've said before, we're continuing to invest to grow that business organically, and it is on track to begin making a positive contribution to earnings in 2012. That business, because it's on track, it's producing a smaller loss. So its income position has improved quarter-on-quarter, year-on-year. The second piece that's in there is the U.S. combined business. In the U.S. combined, that portion of combined North America, it's Canada and the United States, has made a good contribution to earnings. And thirdly, is the Life Re business and there, you correctly point out part of it, which is stock market recovery and the other one is interest rate movement and volatility, the vols. And so, it's those three in particular that have the impact, the net income.

Lawrence David Greenberg
Langen McAlenney

I guess what I'm wondering is looking at the trend over the year, the degree to which the stock market recovery helped the overall result and whether the fourth quarter is north of what you might consider a normalized underwriting performance...

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

No, not at all. The operating income, we did not unlock in the quarter. And so, we haven't unlocked at pretty much all year. And so, we've just stayed on in the operating income. With the protocol, we have disclosed to you, and we continue to disclose in our Ks and Qs of how we handle that. The operating income is not impacted by the changes in the equity market or the interest rates. That's the net income.

Lawrence David Greenberg
Langen McAlenney

Okay, I guess I was thinking more about reserves on some of the living benefit than death benefit guarantees.

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

I'm to say I didn't, and what I can tell you is this, our reserves are in good shape there, very good shape.

Operator

And next is Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital

I guess my first question is you mentioned that the retention I think was the U.S. retail book was 88% and implying that was a good thing. And I guess I'm wondering at this point the cycle given where pricing is and given where competition is, why wouldn't I feel better for retention was maybe in the low 80s and the high 80s?

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

And in the Wholesale business, you'd find the retentions down in the 50s. It varies by the area of the business. But right now, there was a lot more movement last year. And in the beginning of the year, there was a lot of shopping, more shopping of the business particularly our portfolio I think because we announced our rate discipline. And that has come down to a degree. It's not as much as it was. And we're not mindlessly defending our renewal book, but it is the business we know. And I gave you the rate movement on the renewable books, so you can square the circle with that. Clearly, you take flat rate 1% and you take what you consider to be lost cost trends depending on the line of business, an accident year deteriorates as you project that going forward or policy year does. And we're very mindful of that on each portfolio, and we're watching it closely. In some, the retention rate is lower, in some the retention rate is higher. Our risk management business for instance in the quarter, the retention rate was more like 90%. But then, we have some other business where the retention rate's in the 70s because we're mindful of price and what we think is the ultimate accident year or policy year development on that business.

Ian Gutterman
Adage Capital

And then, I also want to tackle the capital a little bit from a different angle I guess. You mostly convinced me on growth versus repurchase, so I'm basically okay on that. I guess I think maybe what people are missing is that there's a lot of M&A targets out there that are hopefully as cheap as your stock possibly. So it seems to me the only sort of risk in the strategy is if you wait too long to find a target and then, you pass on the opportunity, buy the stock cheap and you pay up for a deal. But in the current environment, I think that's necessary to risk other than the size of a deal you can do. And I guess that's my question is. I would hope at the stock price, you'd have an incredibly high bar for issuing equity for a deal. So I guess one, is that the case? And two, does that limit the size of what you can do to something within, say, 10% of your balance sheet, so you can do with mostly cash and debt?

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

Ian, your thoughts are -- when we think about acquisition and we think about anything of size, I don't want to leave the wrong impression that we are just so focused that we have to do a deal. We don't feel like we have to do a deal at all. We feel good about who we are. We feel good about our prospective opportunities organically over time, and we get that, and less payback for our effort in the short term than in the long term but still payback given market conditions. But we're mindful also that there are and will be M&A activity. And so, I want to keep it in that perspective for everybody, number one. Number two, we clearly get and I'll reiterate this, we're not going to do something that doesn't meet a few criteria. Number one, it needs to further along our strategy of who we are and who we want to be and needs to make our company better. So it has to really meet that hurdle. And number two, it has to make financial sense for our shareholders, and that means for the company. And we're just not going to break discipline about that. So we get that about smaller, we get that about cash, we get that about -- with your comment about smaller versus bigger, and we get about cash and debt versus our shares and the dilution accretion, we get all that.

Ian Gutterman
Adage Capital

And how is that...

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

And we're just not going to do something that's going to be that -- at the end of the day, when you take the total mix of those because there is no point estimate around this, when you take the total mix of those, it's got to come out right.

Ian Gutterman
Adage Capital

And how much are you willing to -- you've done obviously a great job the past decade now, delevering the company since the last major deal. How much are you willing to push the debt to cap for deal in the short term? I assume that it's not going to get to where it used to be but can we back to, say, 25%? Is that unreasonable for the rate deal?

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

Ian, we won't do anything that jeopardizes our rating. We are very low to do anything that just pushes this company to the red line and restricts any flexibility. We're in the risk business, we know that. And we know unknowns are just around the corner, we get all that. And obviously, I say obviously, the only way we would do it -- you're going to be more aggressive versus less aggressive depending on how strategic and transformational, it potentially is. That's all.

Ian Gutterman
Adage Capital

And then, my last tone on the topic is...

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

No, you can even, those are sale opportunities.

Ian Gutterman
Adage Capital

I guess my last tone on the topic is, if there were a P&C deal, and just given where the P where a lot of your competitors profitability is or maybe where it versus we're reporting it. How do you think about the short-term versus mid-, long-term where you might be able to get a deal that looks cheap on the surface but if that company is peaking to 97 today but they really should be at 102, and then you're buying them at 102 combined for a few years and maybe that's a 5% ROE in the short term to be a 15 in the long term once you can re-underwrite the book over a couple of years, are you willing to take that sort of one- or two-year hit where the accretion maybe isn't there but the long-term accretion is very powerful?

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

First of all, I would hope that if anything was running in 97 but it was published 97 but really run in 102, we're good enough to figure that out.

Ian Gutterman
Adage Capital

No, I know you're going to have to figure out. You're not saying that, right?

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

I know you are. So number one, I'm just trying to address. Number one, I hope we figure that out. And as far as accretion dilution, because accretion dilution can come from a number of things, that's one way, we would consider dilution really only over a short period of time.

Ian Gutterman
Adage Capital

Okay, so seems to me...

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

We're not going to -- otherwise, it just grows more and more speculative and -- that's how much you hear now and that's how we've been up until now.

Ian Gutterman
Adage Capital

I was hoping that was the answer. Just seems the one challenge but some of the things that I think might be available and interesting are the price is probably right, the financing is probably right but the returns on that property in the short term even they might have the franchises maybe aren't so good just given where the cycle is and have you manage that.

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

I know, and with all due respect, I mean that's one of the reasons I put this in my commentary. I think you guys have a limited view of potential opportunity. It's very U.S.-centric. And within the U.S., I don't know how broad the box you're working with this.

Operator

Dan Johnson with Citadel is next.

Dan Johnson
Citadel Investment Group

Can you just touch on two things? One there is the large transaction and I apologize if you talked about that earlier and I missed it. If you could give us a little color as to why you on that. And frankly, if this is a year ago when you would told me that you'd actually generate a reasonable amount of accident year x cas stability in both your North America business and the overseas business, I would have thought that was sort of a bit on the optimistic side to say the least and yet that's exactly what you did. Can you talk a little bit about what sort of what's going on underneath the numbers to allow accident year x cas stability when obviously the market's not really giving out price increases that are adequately covering loss costs in some areas?

Brian Edward Dowd
Executive of Office of The Chairman

I'll talk first about loss portfolio trend products right now. We're sort of at a unique period in history. You think about seriously when loss portfolio opportunities are available, it's usually interest rate-driven. And this unique period of time is a little bit different. A lot these deals right now are driven by the high cost of LOCs, right. And so, you've got a number of customers who have self-insured retention liabilities built of over a number of years on the books and historically, there are LOC costs that was very, very low. So now, the average charge on getting rid of an LOC at 400 to 500 basis points on a portfolio really drive the dynamics of now why you can come to a bid-ask price spread that makes sense to the customer and for us. And loss portfolio transfers for us right now are probably at the best return than they've ever been at because of that dynamic. And frankly, there's only one or two companies left that customers trust with that type of a long-tail liability transfer from their books to your books. And we're about the only company left with the dedicated team who works on this full time. And we have a base of very large customers to mind to figure out what the great opportunities are for doing those. We're at a unique time or we're really well positioned for that type of product.

Dan Johnson
Citadel Investment Group

Is this something that, just given the case and here was just, say, a unique with this one new customer, you feel like you're in decent discussions with others that potentially do the same.

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

Dan, this is a business of [ph], number one. Number two, I think you missed it, it wasn't one deal, it was a couple. The only thing you can't predict, this don't happen in a steady way, you can't predict it but we don't think of it as one-off because we have a business that has been doing this. We have a small team that has been doing this for a number of years and we think we've -- there again. I mean anybody and say, I'll go write these things but you really can't. There is our hurdle to doing them right and doing them well, and we have built a franchise in that area that is recognized and there's a unique capability, with anyone else with it but very few.

Dan Johnson
Citadel Investment Group

These were existing customers that you transferred over or did you take these customers from someone else who was doing it on a...

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

We didn't take this from someone. These deals from someone else would've done them. But these are a combination of customers who do business with us today in other areas. And...

Dan Johnson
Citadel Investment Group

And then, on the accident year numbers?

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

On the accident year numbers, it's a number of things. First of all, there's a mix of business question. A&H for instance is steady, high network grew and it has a good characteristics to it. We were getting price in the first couple of quarters of the year. Some of the areas that were growing, they have developed from the past as they bridged forward and developed, they have developed better than we had originally pegged them and that happens to then spill over and feed to your current accident year picks. There were some stress classes that we grew in where you got a lot of rate and we think it's actually a very good time. If you structure it right for writing that business, in example, could be the financial institution professional liability area. They're areas where it's not simply about price, and there has been a flight to our capability and to the balance sheet. Construction is one of those areas right now. Large projects, casualty-driven, low property losses this year versus last year. You didn't have the same level of large loss. So there's a variety of reasons and obviously, when we see it come out, when you mix it all together and it comes out relatively flat, you go back, and we're very careful to do that. We go back line by line, division by division, territory by territory and make sure we build it up again for the ground up and make sure that, yes, that makes sense to us, that it's right and it is right.

Operator

And next is Thomas Mitchell with Miller Tabak.

Thomas Spikes Mitchell

I apologize for not understanding why in a business that over the last 60, 100, 200 years, it seems to me it's always been driven by capital being destroyed due to either financial or natural catastrophes, which creates the opportunity to actually do underwriting business that extremely high returns on capital. I realized that, that maybe a small part of the business today, but it just seems to me -- I don't understand why you would be in any part of that sector, of the property casualty industry and think about using capital for anything else except having it available when nobody else has it. Is there something wrong with the way I'm seeing this?

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

Tom, with all due respect, I'm not sure what you're asking me. What's the question that I can answer for you?

Thomas Spikes Mitchell

The question is, wouldn't you always want to have as much capital as possible available for the possibility of another Andrew or another meltdown in the financial markets like we had a year and a half to a year ago? That's my question. Why even consider having a potlatch of capital? I guess that's my question.

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

If I understand your question, it's since you're in the risk business and you can't predict all the risk and you always have the tail exposure, why wouldn't you always hold as much capital as you could for that?

Thomas Spikes Mitchell

Yes.

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

Okay, I would say this. I think there's a limit to that. There's a limit to that because we do measure the risk. We do now -- and we take into consideration, by the way, in measurement the basis risk because we know measurements are just measurements, they're tools, they're not absolutes. And we do measure the amount of risk we take on relative to our capital. And within that, the rating agency requirements, regulatory requirements and then, our own requirements on top of that potentially where you're going to maintain a prudent level and, by the way, we never want to put the company at risk to bankruptcy. We want to be the last man standing. That's how we kind of run. It might be long way but we'd like to be last, that's it. I think that's how we approach and do believe that you should hold capital for good and for bad, not necessarily though unlimited, period. But there is a point where you don't see opportunity and you've held enough for risk and you could reach for a moment, and we understand that and we're thoughtful. And so, I appreciate what you're saying. We're trying to be good stewards with that thought in mind as well as other concerns among shareholders.

Operator

And we'll take our final question from Jay Cohen, Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And maybe just an accounting question, on the loss portfolio transfers, did those transactions distort the earned premium line or inflate that line at all?

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

They did, and they also booked at about a 100% loss ratio, right, 100% combined. So they have very little impact on the bottom line but they do inflate both premium and claims.

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

And I might say we try to book them conservatively, just prudent.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Looking forward, some of those written premiums, since they're only being earned, would you take an average of written premium over the past four or five quarters that will get distorted a little bit going forward?

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

That's absolutely correct.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Did you quantify the amount of the loss portfolio transfers?

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

No.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That will be helpful just given this issue of distorting the written premium going forward.

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

Noted. We'll take that under advice. I'm not trying to be flipped. I hear you.

Helen Wilson

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

Operator
And that does conclude our conference call. Thank you for your participation.