S&P Global
Market Intelligence

Chubb Limited NYSE:CB

FQ4 2018 Earnings Call Transcripts

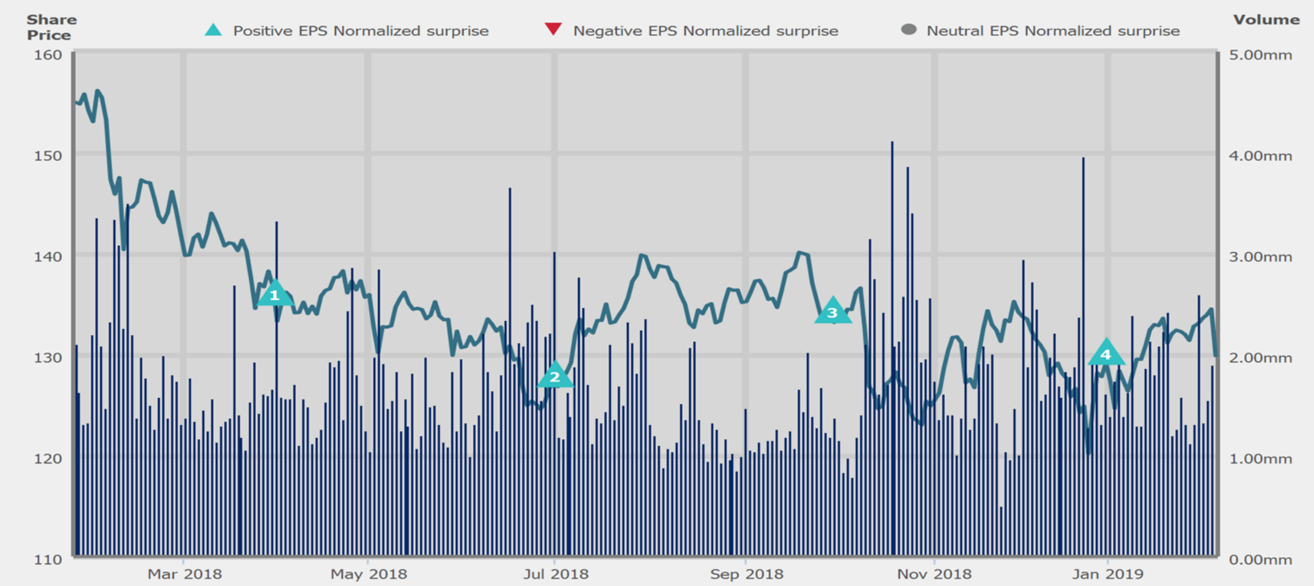
Wednesday, February 06, 2019 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	2.00	2.02	1.00	2.72	9.42	9.44
Revenue (mm)	6798.43	6393.00	(5.96 %)	6817.50	28351.34	26771.00

Currency: USD
Consensus as of Feb-06-2019 10:47 AM GMT

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



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	2.26	2.34	1 3.54 %
FQ2 2018	2.62	2.68	2 2.29 %
FQ3 2018	2.36	2.41	3 2.12 %
FQ4 2018	2.00	2.02	4 1.00 %

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EXECUTIVES

Evan G. Greenberg
Chairman & CEO

Karen L. Beyer
Senior Vice President of Investor Relations

Paul Joseph Krump
EVP, Chubb Group and President of N.A. Commercial & Personal Insurance

Philip V. Bancroft
EVP & CFO

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

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Wells Fargo Securities, LLC, Research Division

Jay H. Gelb
Barclays Bank PLC, Research Division

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

Kai Pan
Morgan Stanley, Research Division

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Ryan James Tunis
Autonomous Research LLP

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Chubb Limited Fourth Quarter Year-End 2018 Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

For opening remarks and introductions, I would like to turn the conference over to your host, Karen Beyer, Investor Relations. Please go ahead.

Karen L. Beyer
Senior Vice President of Investor Relations

Thank you, and welcome to our December 31, 2018 Fourth Quarter and Year-End Earnings Conference Call.

Our report today will contain forward-looking statements, including statements relating to company's performance and growth, pricing and business mix and economic market conditions, which are subject to risks and uncertainties, and actual results may differ materially. Please see our recent SEC filings, earnings release and financial supplement, which are available on our website at investors.chubb.com for more information on factors that could affect these matters.

We will also refer to non-GAAP financial measures, reconciliations of which, to the most direct comparable GAAP measures and related details, are provided in our earnings press release and financial supplement.

Now it's my pleasure to introduce our speakers this morning. First, we have Evan Greenberg, Chairman and Chief Executive Officer; followed by Phil Bancroft, our Chief Financial Officer. We will then take your questions. Also with us today to assist with your questions are several members of our management team.

And now I will turn the call over to Evan.

Evan G. Greenberg
Chairman & CEO

Good morning. As you saw from the numbers, we reported core operating income in the fourth quarter of $2.02 per share. The quarter was marked by greater volatility from elevated natural catastrophes around the world from a variety of perils and from increased property-loss activity in the U.S.

On the other hand, we had strong premium revenue growth, enjoyed improved Commercial P&C pricing globally and produced record net investment income.

Core operating income was $935 million and included $506 million of after-tax cat losses, compared with $1.5 billion of income last year, which included a tax benefit of $450 million and cats of $331 million. Simply to give you a sense of underlying strength, excluding cats and the tax benefit, core operating income per share in the quarter was up 6.5% over prior.

Our published P&C combined ratio was 93.1% and included 8.5 points of cats on the combined. On the current accident year basis, excluding cats, the combined was 88.3% versus 86.4% prior year. The accident year was impacted in the quarter by elevated large loss activity in our U.S. commercial property portfolio and both are Major Account and E&S businesses as well as in our middle-market division, and this added about 1.4 points to our combined ratio. From what we can see, this is simply volatility or variability in a short period result, not a trend.

We also continued to experience elevated losses in our U.S. homeowners' book, which we have discussed in some detail with you. We are on track with the pricing, product and underwriting strategies that we outlined on last quarter's call. Given the state-by-state regulatory nature of this business, we'll take some time to show through in the results on a run-rate basis.

On the plus side of short-tail activity, our combined ratio in the quarter included a strong contribution from our crop insurance business as well as positive pretax prior period reserve development, which benefited by a $130 million from a onetime reinsurance settlement in our legacy A&E runoff liabilities.

Premium revenue growth in the quarter was 5.8% in constant dollars, and FX then had a negative impact of 1.6 points, bringing the published growth to over 4%. The pricing environment overall improved over the third quarter in a number of our businesses, and this momentum continued into January, with much better tone and actual rate movement compared to the fourth quarter prior year. In fact, in terms of price movement globally, this was the best and most broad-based quarter of the year and the best in several years. We're also seeing more dislocation in certain markets and that means opportunity.

For the full year, our growth was 4.4%. Geoeconomic environment notwithstanding, I expect we will, at a minimum, maintain that range in constant dollars and with some natural variability quarter-to-quarter, there is a great deal of optimism and positive energy across the company.

Net investment income in the quarter was $903 million, was up about 3.5% and contributed to net investment income for the year of $3.6 billion, both were records. Our results are being driven by strong positive cash flow and higher reinvestment rates that now exceed our current book yield and are beginning to benefit from an improving-interest rate environment.

Core operating income for the year was $4.4 billion or $9.44 per share, up 18% on a per share basis from '17. Earnings were split between P&C underwriting income of $2.6 billion and adjusted pretax investment income of $3.6 billion. For your information, pretax cat losses for the year were $1.6 billion, about $700 million more than we planned for when calculating our expected cat amount. Our earnings led to a core operating ROE of 8.7% for the year or 9.8% on an expected cat basis.

For the year, the P&C combined ratio was 90.6%, compared to 94.7% prior. And on a current accident year basis, excluding cats, the combined ratio for the year was 88%, versus 87.6% prior year.

Book value per share was down about 0.5%, and tangible book per share was flat, unfavorably impacted by the mark-to-market effect of rising interest rates and foreign exchange. Adjusting for the mark, book intangible per share were up 2.7% and 5.8%, respectively. Phil will have more to say about investment income, book value cats and prior period development.

Turning to growth and market conditions. Commercial P&C pricing and underwriting for the business we wrote in the quarter was as good or better than what we saw in the third quarter and overall for the year and materially better than this time last year. The industry, and Chubb, is no exception, is experiencing margin pressure in numerous classes and an improving rate environment, particularly in the U.S. and the London wholesale market is important. I hope it continues to improve and spread because rate is needed in other markets.

I mentioned at the opening that we began to see some signs of dislocation on the margin in the market as some carriers curb their appetite for certain lines of business by reduced line sizes or exiting from markets altogether, and that's another market -- marker of affirming our market correction.

In North America, the positive pricing trend in the third quarter continued, in fact, improved in several areas, particularly in our Major Accounts retail and E&S wholesale divisions. Overall rates in North America were up about 2.5%, the same as last quarter, while renewal price change, which includes exposure, was up 4%.

Retention of our customers remains strong across all of our North America, commercial and personal P&C businesses, with renewal retention is measured by premium of nearly 92%.

In Major Accounts and Specialty, which doesn't include agriculture, premiums were up 5%. Rates for Major Accounts were up over 3%, with risk management at rates up less than 1%, while excess casualty rates were up 10%, property was up 12% and public D&O was up 8.5%. In our Westchester specialty business, rates were up 4.5%.

In our North American middle market and small commercial business, premiums overall were up over 4.5% in the quarter, our best growth in many quarters. New business was up almost 14%, with the meaningful percentage of that coming from growth initiatives. Renewal retention in our middle-market business was 90%. Middle-market pricing, which includes rate and exposure change, was up 2.5%.

In our U.S. small commercial business, premium revenue continued its positive growth momentum, with net premiums up almost 30%.

In our North America Personal Lines business, net premiums in the quarter declined 2.5%. In the quarter, we added California to our existing homeowners' quota share treaty, effective 10/01, and this impacted growth by 4.2 points. Excluding premiums paid to reinsurers, premiums were up 2.3%. Retention remained very strong at about 96%. Homeowners' pricing was up 7.5% in the quarter, which included, again, both rate and exposure change.

Our North American Agriculture business had a very good year, highlighted by a full year combined ratio of 75.5%, which is about flat with prior of 74%. Our crop insurance business is a great franchise, and we are the clear leaders.

Turning to our Overseas General Insurance operations, a $10 billion business. As I mentioned, we experienced excellent growth this quarter in our international P&C division. Net premiums written for our international retail division were up 8% in constant dollars, and FX then had a negative impact of 4.5 points. This compares favorably to year-to-date constant dollar growth of about 6%. Growth was broad-based.

Asia-Pacific and Latin America grew 10% and 8.5%, respectively, while the continent was up over 5%, and U.K./Ireland was up 4%. We benefited from our growth initiatives and improved price environment in certain markets, particularly London and Australia. Net premiums for our Commercial P&C lines overall, international retail were up 8.5% in the quarter, with strong growth, in particular, coming from our middle market and small commercial initiatives.

Net premiums for our London market wholesale business were up 12% in the quarter in constant dollars. This business is growing again on the back of improved pricing after several years of shrinking. It's an excellent example of how Chubb is nimble and can quickly take advantage of changing and dynamic market conditions.

As for pricing conditions outside the U.S, rates in our international retail and London wholesale business vary by line and by country. Overall rates in our retail were up 4%, the best in some time, though concentrated in a few countries and lines of business. For example, property was up 5%, and professional lines were up 7%.

Rates in our London wholesale business were up 10%. International Personal Lines, premiums were up 8.5% in constant dollar, driven, again, by Asia and Latin America, with growth of 19.5% and 9.5%, respectively.

And finally, our Asia life insurance business had an excellent year, with premium revenue of $2.4 billion and earnings of over $100 million. John Keogh, John Lupica, Paul Krump, Juan Andrade and Ed Clancy can provide further color on the quarter, including current market conditions and pricing trends.

In summary, Chubb performed quite well, despite a quarter of greater short-tail volatility. We have a good momentum, and it's continuing to build in terms of executing on our growth initiatives and taking advantage of an improving pricing and underwriting environment in the U.S., London and a few important territories. Our organization is optimistic about the year ahead, and we are off to a good start.

With that, I'll turn it over to Phil, and then we're going to come back and take your questions.

Philip V. Bancroft
EVP & CFO

Thank you, Evan. We completed the year with a strong balance sheet and an excellent overall financial position, with total capital of over $63 billion. Even with significant catastrophe loss payments, our operating cash flow was quite strong at $1.6 billion for the quarter and $5.5 billion for the year.

During the quarter, we returned $654 million to shareholders, including $336 million in dividends and $318 million in share repurchases. For the year, we returned over $2.3 billion to shareholders, equaling 54% of our earnings, including over $1.3 billion in dividends and over $1 billion in share repurchases. Also during the year, we issued $2.2 billion of debt in the European markets, paid off $1 billion of debt that matured throughout the year and redeemed $1 billion of hybrid securities, which, together, reduced our annual interest expense run rate by approximately $47 million.

Net realized and unrealized losses for the quarter were $958 million after-tax, which included $383 million of losses in the investment portfolio, reflecting the widening of credit spreads on corporate fixed income securities late in the quarter, partially offset by declining interest rates. Since December 31, the mark-to-market gain on the portfolio is in excess of $900 million. We also had unrealized losses of $205 million related to the annual review of our retirement benefit plans and mark-to-market loss of $263 million on our variable annuity portfolio, principally driven by a decline in the equity markets and a $95 million loss from FX. Since December 31, the mark on the VA portfolio is a gain of $65 million.

Since the Chubb acquisition, we have reduced our dilution on tangible book value per share from 29% to 9%, an improvement of 20 percentage points. Since December 31, the dilution improved to 6%, based on market movements in the portfolio.

If we had included the fair value mark on our private equity portfolio in our operating income as others do, core operating ROE for the year would have been 9.5%, compared to the reported 8.7%. Our adjusted net investment income for the quarter was above our expected range, due principally to higher private equity distributions and higher reinvestment rates. While there are a number of factors that impact the variability in investment income, including interest rates and private equity distributions, we now expect our quarterly adjusted net investment income to be in the range of $880 million to $890 million.

We had favorable prior period development in the quarter of $253 million pretax or $202 million after tax. This includes pretax favorable prior period development from our legacy runoff exposures of $22 million, comprising adverse development of $108 million, principally related to asbestos, offset by a favorable reinsurance settlement of $130 million. The remaining favorable development of $231 million was split approximately 60% from long-tail lines, principally exiting years 2013 and prior and 40% from short-tail lines.

On a constant dollar basis, net loss reserves decreased $661 million for the year, reflecting the impact of catastrophe loss payments and the impact of favorable prior period development. On a reported basis, the paid-to-incurred ratio was 102% for the year. After adjusting for the items noted above, the paid-to-incurred ratio was 93%. Our core operating effective tax rate for the quarter was 17.1%, driven in part by catastrophe losses, which were incurred in lower tax jurisdictions as previously disclosed. Our full year operating effective tax rate was 14.4%, in line with our range of 13% to 15%. For 2019, we expect our annual core operating effective tax rate to be in the range of 14% to 16%. There has been a report that the tax deductibility of our intercompany debt will be affected by the provisions of the tax law that impact hybrid debt. That is not true.

I'll now turn the call back over to Karen.

Karen L. Beyer
Senior Vice President of Investor Relations
Thank you. And at this point, we are happy to take the questions.

Question and Answer

Operator

[Operator Instructions] We'll hear first from Kai Pan from Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

Evan, you mentioned that the large property loss in commercial line, you consider it one run -- one-off. Can you give a little bit more details, what gave you confidence that it's a one-off rather than a trend?

Evan G. Greenberg
Chairman & CEO

Well, what gives me confidence? It's -- there is just a variability. There was a variability of frequency in North America, larger losses in a very short period of time. I mean, it just a deviation and it wasn't a huge number of losses, but it has an impact. And there's nothing we see in the underwriting that leads us to believe -- there's nothing we see in data that leads us to believe it's a trend. It's just -- you can have quarter-to-quarter volatility, and we had more volatility. So that's what I can tell you. And beyond that, we've been -- short-tail lines needs rate, and we have been achieving rate all year, actually began in '17 and that continues into the first quarter and that too has an ameliorating impact. And in fact, we're achieving rate that achieves or exceeds trend. So that's all beneficial.

Kai Pan
Morgan Stanley, Research Division

Okay. Great. My second question on the catastrophe losses. You mentioned that without catastrophe, your ROE would have been 9.8% for the year versus 8.7%. So my calculation points should probably imply a 4 points of normal cat load. I just want to make sure my math is right? And also given the elevated losses last few years, do you think that that's still a good run rate going forward? Are you taking any actions in terms of reinsurance coverage? Potentially it could mitigate the cat exposure.

Evan G. Greenberg
Chairman & CEO

Well, we're constantly managing our portfolio and its dynamic in terms of how we protect. And so I'm not going to give any forward looking on that, but that's something that we constantly are engaged in, Kai. And as far as what to expect, look, we work on a longer-range period than just a couple of years and looking on -- and looking at what's the expected cat. So the last 2 years have been elevated. People have short memories, I'll remind you that the 4 or 5 years prior to that had far lower cats. And yet, we don't adjust the numbers of expected down to that, you're using a longer-term average, 10, 15 years. The most recent years become a part of that average, and so they reflect that experience for both modeled and the way you project nonmodeled loss and put a factor on that as well. And so that's what informs how we look at cat loss over a longer period, and so it has more stability to the expected number. It's just editorialized one step further to imagine that, well, the last 2 years, now climate change has arrived and, boy, this is the new normal. Well, what would you have said about the 4 or 5 years prior to that? I think it's simplistic thinking to imagine on that way -- on that basis. I think longer-term averages have a bit more stability to them. It's sort of like the same as looking at a quarterly result variability in short tail versus looking at the annual current accident year number, which is a far more credible number.

Operator

We'll hear next from Mike Zaremski from Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

A follow-up to the question on the cat load. Given there was a merger that took place, do you know -- can you tell us what your 10- to 15-year average has been? Because the math that some of us have done here points to the 10- to 15-year average being 30% or so above what your expectation was in 2018 in terms of the cat load.

Evan G. Greenberg
Chairman & CEO

Well, I don't know what your math is, I can't comment on that. I only know how we do our own math, and to imagine modeled and nonmodeled loss. So what I can't do is on this call engage, and here is my math versus your math. But you're free to call us and tell us about your math. And while some of this we disclosed, some we don't, we'll discuss it with you.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. All right, great. I'll follow up with Phil on that. And so my next question is regarding relationship of Commercial P&C pricing versus loss trends and I -- we always appreciate your insights.

Evan G. Greenberg
Chairman & CEO

By the way, I'm confident in my math.

Philip V. Bancroft
EVP & CFO

Okay, then 1.5.

Evan G. Greenberg
Chairman & CEO

I just thought I'd put that out to you, but go ahead.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. That's fair. So yes, regarding pricing versus loss trend on the commercial side, we're always trying to parse whether you feel the clearly improving rate environment is lead on largely due to just the industry reacting to higher loss trends? Or do you feel that Chubb could potentially see some margin improvement if the commercial rates' environment, kind of hovers around the current levels?

Evan G. Greenberg
Chairman & CEO

No, I don't see an improvement.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay, that's a simple answer. And maybe one quick follow-up to that. Some -- is -- a number of...

Evan G. Greenberg
Chairman & CEO

[indiscernible] questions.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay, that's fair. If I can slip one more in, a lot of management teams, including yourself, have talked about a more legal -- active legal bar, and some teams have also talked about the rise of third-party capital backing lawsuits. Some people call it litigation finance or funding. Do you think that's having -- that asset class is having an impact on the insurance industry's loss trends?

Evan G. Greenberg
Chairman & CEO

On the margin, I think only on the margin.

Operator

[Operator Instructions] We'll hear next from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is going back to where Kai was asking about the higher noncat property losses in commercial lines. I know you've made the comment that it seemed just due to the variability to be a one-off quarter. Did you see noncat property elevated in any of the other quarters of '18? And then, could you also give us a sense -- I know it's only 1 month and we're just into February, do you have a sense that the level of losses reverted back to normal in January?

Evan G. Greenberg
Chairman & CEO

Well, January is only -- yes, the answer on January is yes, but, Jesus, it's 1 month and hardly a credible period. And to answer your other question, it was basically fourth quarter. We saw a little bit in late third quarter occur and then it was fourth quarter. And January sure, but that's a fool's game. And by the way, Elyse, you really -- when you're looking at something like property and let's keep in perspective, we write what in North America, about $4 billion...

Philip V. Bancroft
EVP & CFO

$2.8 billion.

Evan G. Greenberg
Chairman & CEO

Sorry?

Philip V. Bancroft
EVP & CFO

$2.8 billion.

Evan G. Greenberg
Chairman & CEO

About $2.4 billion of property business. So a very large portfolio we have a lot of experience with. The variability quarter-to-quarter is not that unusual, obviously. It's a short period of time. It's not that credible. The annual period is far more credible. But anyway, I think I've answered your questions and please don't take 1 month of January better as well. It was -- it's a month.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

I get that. That was helpful. And then in terms of homeowners, you guys -- you pointed to in your prepared remarks, it takes time for -- with the states to get the rates into the system. Would you expect to start to see the margin improve in the first quarter? Or is that something that we should start to think about seeing more of the underlying margin improvement coming later in 2019?

Evan G. Greenberg

Chairman & CEO

We were pretty clear when we talked about it in the third quarter to you that it would be something in the latter part of '19, we should begin to see it come through on a run-rate basis, all things being equal.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my last numbers question, you guys bought more reinsurance timely for -- in California this year at the start of the quarter. Can you give us a sense of your gross losses for the California fires? And then how did the gross loss in 2018 compare to the gross losses that you guys saw from the fires in '17?

Evan G. Greenberg
Chairman & CEO

Yes. We're -- we didn't, and it was really a miscommunication in here. We didn't publish a cat page. But we're going to give you a cat page and put one out to you, so you can see by cat how it breaks down. And we're giving you the net. The gross number is not applicable really to an investor's view of the company and that is what is impacts our balance sheet and financial statement. And so we will give you what you need for that.

Operator

We'll hear next from Paul Newsom from Sandler O'Neill.

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

I was hoping if you could maybe add on the high net worth environment, where we still seem to have certain lines probably, you seem to have still a large number of new entrants into that market. And I'm just interested if there's been any really change in the competitive environment, seeing how it does feel like there is a lot of folks that are announcing new efforts.

Evan G. Greenberg
Chairman & CEO

Yes. I'll ask Paul Krump to comment on that. From my point of view, we don't see a change of any consequence in the competitive environment over the last year, it's pretty stable that way. You are getting -- you get new entrants who come in and they're particularly in the mass affluent category, not the true high net worth. They don't have the coverages and the services and the capabilities to really manage that market. And when they come in, they got one thing to offer in a segment of the market that is, I would say, in some ways, it's the price-sensitive end of the market. And in there, where coverage matters, where service matters less, they have one way in and that's to underprice the business. And -- but we've seen that for a while and it's been on the -- it's on the margin. But Paul, do you want to add...

Paul Joseph Krump
EVP, Chubb Group and President of N.A. Commercial & Personal Insurance

Evan, I agree with everything you just said. Just to try to put some more color around it. Our retention in the homeowners and TRA space is 96%, it's actually even better on the high net worth, the real wealthy homes, what we call premier and signatures. So we do lose a couple of customers through death, and we're trying to figure out how to stop that but can't. So I can't -- maybe on 2 hands, I could count the number of accounts that we've lost to any new entrants in the last 12 months. They are definitely going after the low end of the market. And if you look at their writings, I think you'd be shocked at how little traction they're getting in the market. It really is a service game, and agents and brokers are very conscious about it. It's not just the one-off fire loss they're worried about. They worry about what happens when the big cat rolls in and there are hundreds, if not thousands, of claims to handle.

Evan G. Greenberg
Chairman & CEO

And I would say this, we don't -- we are not arrogant about it, we're not at rest about it. It's like everything else in the world. Service has to constantly improve. Your standards of service must constantly improve. Coverages have to constantly improve. You got to be able to offer more choice to customer, some who want to buy a full boat of coverage and some who want to buy something a little lighter. And you've got to be able to do this in a digital world with the customer service and experience represents that. And the same thing with marketing and sales. And we're continuing to iterate and to crank up our capabilities in all of those areas, because we think there is and remains a large opportunity in this marketplace.

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

And second, I wanted to ask about the accident and health business. We haven't talked about that in quite some time. At one point it was a huge focus for the old Chubb to have it, I think as much as, 25% of the revenue coming from...

Evan G. Greenberg
Chairman & CEO

I think you mean ACE.

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

Pardon me, you're right. And I was curious that, that -- is it still an idea to have -- or a goal to have that, kind of, high percentage as the -- in each business, in the combined -- the new combined entity?

Evan G. Greenberg
Chairman & CEO

Yes. When you look at, which I know you did, the -- our Investor Dinner deck and you look at growth lines and I believe from memory, 31% on that pie chart that would grow high single to double digit, you saw the accident and health business as one of those areas of business. And in Asia and Latin America and in North America, in particular, the growth rate is improving in that business and will continue to improve in '19. And a lot of the distribution that we have -- deals that we have made over the last year, including what we just announced as Banco de Chile, will directly benefit that accident and health business. And so it is a growth area for the company, and our objective is to increase, because if it's growing at high single to double digit, it will increase -- continue to increase as a percentage of our total business because it's a specialty and a capability of ours that's deep in our DNA. And by the way, whether it is in the combined in the U.S., where we reinvented and are growing our work-site benefits business, it's now $150 million premium from nothing that's growing at serious double digit to serving the lower-middle income with -- through Grab, which is the largest -- which is the Uber of Southeast Asia or DBS' customers or Banamex's customers or Banco de Chile or many other sponsors that we have on a direct marketing and digital basis, it's the full boat.

Operator

Moving next to Yaron Kinar from Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Two questions on North America commercial. So the first, I just want to confirm that the 1.4% impact from adverse property claims experience or loss experience, that's consolidated, right?

Evan G. Greenberg
Chairman & CEO

Consolidated? No, we focus on total P&C.

Yaron Joseph Kinar

Goldman Sachs Group Inc., Research Division

Total P&C, sorry. Okay.

Evan G. Greenberg
Chairman & CEO

Yes, sorry, sorry, sorry. Yes, so total P&C, yes, like yes, we get -- we booked the number.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

So if my math is correct, it would suggest that the accident year loss ratio, excluding the elevated property losses, has actually improved year-over-year, and if that is correct, can you maybe talk about what's led to that improvement? Is it earned rates? Is it something else that's driving that?

Evan G. Greenberg
Chairman & CEO

Are you saying the accident year loss ratio in the total business?

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

No, on North America commercial, excluding the property deterioration.

Evan G. Greenberg
Chairman & CEO

Excluding the property deterioration. And are you looking at the combined ratio or the loss ratio?

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

No, the accident year loss ratio for North America commercial.

Evan G. Greenberg
Chairman & CEO

Yes. We'll take that off-line with you and go through that with you. I'm not sure I'm completely relating to that number the way you're saying it, and it would be very modest. And it would likely mix related, but before I jump to that, we'll take that off-line with you. And go right through that with you.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. I appreciate that. And then my second question on North America commercial. Evan, in your comments, you talked about the rate increases. Sounds to me like you may be actually leading the rate increases here, maybe a little bit above industry here. And if that is the case, would you expect that to impact the growth -- the top line growth over the next few quarters as maybe the industry tries to catch up?

Evan G. Greenberg
Chairman & CEO

Well, a couple of things. One, the industry -- you saw -- I would glue it together this way. You saw the fourth quarter growth rate. And in January, our growth relative to our own plans was good. And we were on or over or exceeded our plan in the first -- in the month of January. You don't know our plan and we don't disclose it. And we got better rate in January or the same rate, it varied by line that we -- in -- particularly in North America and in our wholesale business that we saw in the fourth quarter. Now -- and our renewal retention is good, so that implies to me the industry environment is improving as well. And you have a couple of things going on, you have -- not just driving for rate, but you have companies reacting to the loss environment and to the pressure by reducing limits in areas or competitors, depends on the area, withdrawing from a line of business. That starts to -- that plays with the supply-demand part of the dynamic of the market, okay? So you're only thinking just in terms of rate, and that's why I was trying to signal that there is more than that going on. But you see our retention rate, you see our business, and yet we're pressing for rate adequacy. And anyway, I think that's the best way I can explain it to you.

Operator

Jay Gelb from Barclays.

Jay H. Gelb
Barclays Bank PLC, Research Division

Based on the commentary that Chubb is off to a good start in 2019, and if I look back over the past 3 years, there's a remarkably stable underlying accident year combined ratio. Given that pricing is improving, should we expect that trend on the accident year combined to be the same in 2019, the same or better as 2018?

Evan G. Greenberg
Chairman & CEO

Well, I wouldn't look for an improvement. And what I have said is that remarkably stable, remarkably stable rate on some of the business, particularly in short tail is achieving or exceeding trend, which it needs to do, which is beneficial. In long-tail lines, it varies. There are many classes where rate is not keeping pace with lost cost trend. We constantly are exercising portfolio management, use of reinsurance and mix -- and so, therefore, mix the business to balance it. But this is a risk business. And I wouldn't imagine and I don't imagine that you just pick a combined ratio and that's a static number. It has variability around it, and so I would say what you see is what you get within a reasonable range of deviation, that's all.

Jay H. Gelb
Barclays Bank PLC, Research Division

Right, of course. Okay. And then separately, given the strong operating cash flow for full year 2018, I believe you've said around $5.5 billion, what would you quantify as Chubb's excess capital position as of year-end?

Philip V. Bancroft
EVP & CFO

What we've said is that the impact of the excess capital, like on a full year basis, will strip about 0.5 off of our -- or 0.5 point I should say, of our ROE. So you can do the math, you get it.

Operator

We'll hear next from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick questions for you. Just first one, Phil, I'm just curious, tax rate guidance, it looks like it's actually up a little bit on a year-over-year basis. Is there anything to that? Is it just mix of business, something else going on geographically?

Philip V. Bancroft
EVP & CFO

Yes, there's 2 things. One is, in the past 2 years we've had some compensated-related deductions and we don't expect them...

Evan G. Greenberg

Chairman & CEO

Compensation-related deductions.

Philip V. Bancroft
EVP & CFO

Compensation-related deductions that we don't expect to recur, and we're going to have lower tax-exempt income. We have sold about $4.4 billion of our municipal bond portfolio. And as we look at the after-tax yields, we would expect that, that some of that will continue. Remember that, that doesn't take away from our income because our after-tax yield is going to be higher based on the judgment to sell the munis.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you, makes sense. And then I noticed that administrative expenses on a year-over-year basis were actually down this quarter. Was that FX driven? Was there anything else going on?

Philip V. Bancroft
EVP & CFO

It's principally just timing as we looked at it. There is nothing specific that I would point to. It's just going to be variable and it's a timing issue.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you, great. And just lastly, Evan, just on this whole commercial property thing. If I take a look at your North American commercial, I mean your underlying combined ratio for the year was pretty much flat to down modestly. Is that the way we should kind of think about kind of how the business is kind of performing? You'll have some ups and downs every quarter, I assume?

Evan G. Greenberg
Chairman & CEO

Well, yes. You should think about it that and you can see it if you look in past years, there is a variability. It's a little more in this quarter than it is in the recent quarters, but you'll have some variability by the nature of the business, it's a risk business, and so that can just happen. And I -- of course, we're underwriters, and we -- when we see a spike in something, we take a pretty close look. We want to know what an early -- what that's telling us, and is it a -- is there something that has changed in our business or is it just a natural variability that you can see. And -- but we more judge than on a longer period. And an annual period of time, it is a more stable measure, obviously, than one 3-month period. And so again, when we look at this, we judged it from everything we can see as just a deviation around the mean and the annual was a more stable period. And -- but look, we -- I expect and it doesn't surprise me, given the nature of the business, it's a risk business, that you see some variability.

Brian Robert Meredith
UBS Investment Bank, Research Division

Right, yes. I just wanted to make sure because if you stripped out that...

Evan G. Greenberg
Chairman & CEO

If it's casually, I gotta tell you, I have a whole different view.

Brian Robert Meredith
UBS Investment Bank, Research Division

Right, which makes sense.

Evan G. Greenberg

Chairman & CEO

Unless, of course, it was just some one-off large loss of some kind. But if I saw a frequency of casualty, that's a whole different story.

Brian Robert Meredith
UBS Investment Bank, Research Division

That makes sense. Because if you strip out that large loss, all of a sudden, your underlying combined ratio in North America looks way down on a year-over-year basis. And I just wanted to make sure that's not the, kind of, right way to model off of?

Evan G. Greenberg
Chairman & CEO

Yes, I don't think that's the right way. And we will take it off-line and do some work with you about this.

Operator

We'll hear next from Meyer Shields from KBW.

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

I just wanted to follow up on Brian's question. We saw particularly lower admin expenses year-over-year in North America commercial and personal. Is that also just randomness? Or is there some connection to the elevated losses?

Evan G. Greenberg
Chairman & CEO

No. No connection to the elevated losses. It is a randomness quarter-to-quarter.

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

Okay, perfect. And Evan, I was hoping if you could take us to the thought process of buying more quota share protection in California homeowners over excess?

Evan G. Greenberg
Chairman & CEO

Well, we -- it benefited the company. Look, we wanted to reduce our exposure and balance our exposure in California, where we have a lot of concentration in both cat and noncat, modeled and nonmodeled cat. We did -- the quota share was initially purchased for the New England states and the Northeast, where we had an -- we have an unusual amount of concentration. We weren't simply trying to balance cat, but the exposures of nonmodeled cat as well, like just frequency of winter losses that you had in the Northeast and the impact it could have on the total book when we put all these books together. So it was really looking for to spread the risk of the ground up concentration, not simply a single-event concentration or the losses produced because of the concentration from a single event. And that was the reason for purchasing the Northeast quota share, and it made sense to us to extend that then to California as well. And we gave the reinsurers a better balance, they weren't concentrated in just 1 territory.

Operator

Larry Greenberg from Janney Montgomery Scott.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

My question also is on the underlying in commercial North America. And you've probably given me enough to answer it, but I'm going to still ask it.

Evan G. Greenberg
Chairman & CEO

Then why are you asking me, Larry?

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Because I'm not sure if I know the answer. But let me just ask it this way, the underlying loss ratio deteriorated by about 60 bps for the year. And over the course of the year, you've called out some things, you actually called out some things last year as well. But would you say the 60 bps is fairly representative of the price versus loss trends in the business?

Evan G. Greenberg
Chairman & CEO

Perfect. Perfect.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Okay, okay.

Evan G. Greenberg
Chairman & CEO

There is gravity a bit, yes.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Okay. And then the expense ratio improved more this year than, at least, I was thinking and I would say maybe you guys had indicated coming out of last year. And is that just, kind of, operating leverage in the business or are there any other explanations to discuss there?

Evan G. Greenberg
Chairman & CEO

Larry, there is -- I'm going to give you 3 answers. Number one, we had the run-off, if you will, of all the projects we have put in place since the merger and those had some run-off final benefits that emerged in the year. We have a constant expense control in here. And yes, there is one-off items that benefit the expense ratio during the year, but every year we have one-off items. They vary by quarter and that, sort of, thing, but there always seems to be a number of them, it's just the nature of the business. So all -- but the first 2 I gave you were the -- are really the enduring drivers of it. We -- the expense ratio is part of strategy.

Operator

And at this time, we do have one -- we have time for one final question, and that final question will come from Ryan Tunis from Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

Just a couple for Evan. I guess, first of all, thinking about casualty lines in North America commercial, how do you feel about loss trend today versus maybe a year ago? Do you feel like there's more pressure, has the pressure alleviated some?

Evan G. Greenberg
Chairman & CEO

Yes, it's about stable. We haven't seen -- over the last year, we haven't seen a change in loss trend from the year before.

Ryan James Tunis
Autonomous Research LLP

Is it still mostly limited to the management liability lines? Or have you seen that creep at all into excess casualty or...

Evan G. Greenberg
Chairman & CEO

No, not creep. But Ryan, I -- the way you're asking it, I want to make sure we have clarity here. You're asking about change in loss trend, and I'm responding to change in loss trend, but -- and that's stable. But there is a loss trend to every line of casualty. I mean, I could tell you that middle market, our comp business, the frequency is stable, so is the loss -- the severity trend, but it has a trend of, calling our book of over 5 points -- 5%, so it's real. Excess casualty, excess casualty has a loss trend to it, whether it's Major Account or it's middle market, all casualty does. And so loss costs go up every year.

Ryan James Tunis
Autonomous Research LLP

Got it. And then my follow-up was from the Personal Lines...

Evan G. Greenberg
Chairman & CEO

But the trend is stable.

Ryan James Tunis
Autonomous Research LLP

The trend is stable, got you. And on the Personal Lines, I appreciate it's going to take some time for your rate increases to earn-in, but would you say your loss activity has peaked or is that still getting worse at this point and you're still, kind of, trying to pin that down on the noncat side?

Evan G. Greenberg
Chairman & CEO

No. I would say, and we were just looking at it yesterday, Phil, so much, looking month-by-month actuals versus expected. The frequency and severity, average severities by cause of loss, we believe they have stabilized -- we're seeing it stabilized. We're not still trying to get a handle on it. It has stabilized, we see it, and it is a clear trend we have seen for a period of time. And so we know the target we're shooting at.

Operator

And at this time, I would like to turn the conference back over to your host, Karen Beyer. Please go ahead, ma'am.

Karen L. Beyer
Senior Vice President of Investor Relations

Thank you all for your time and attention this morning. We look forward to speaking with you again next quarter. Thank you, and have a good day.

Operator
That does conclude today's teleconference. We thank you all for your participation.