S&P Global
Market Intelligence

Chubb Limited NYSE:CB

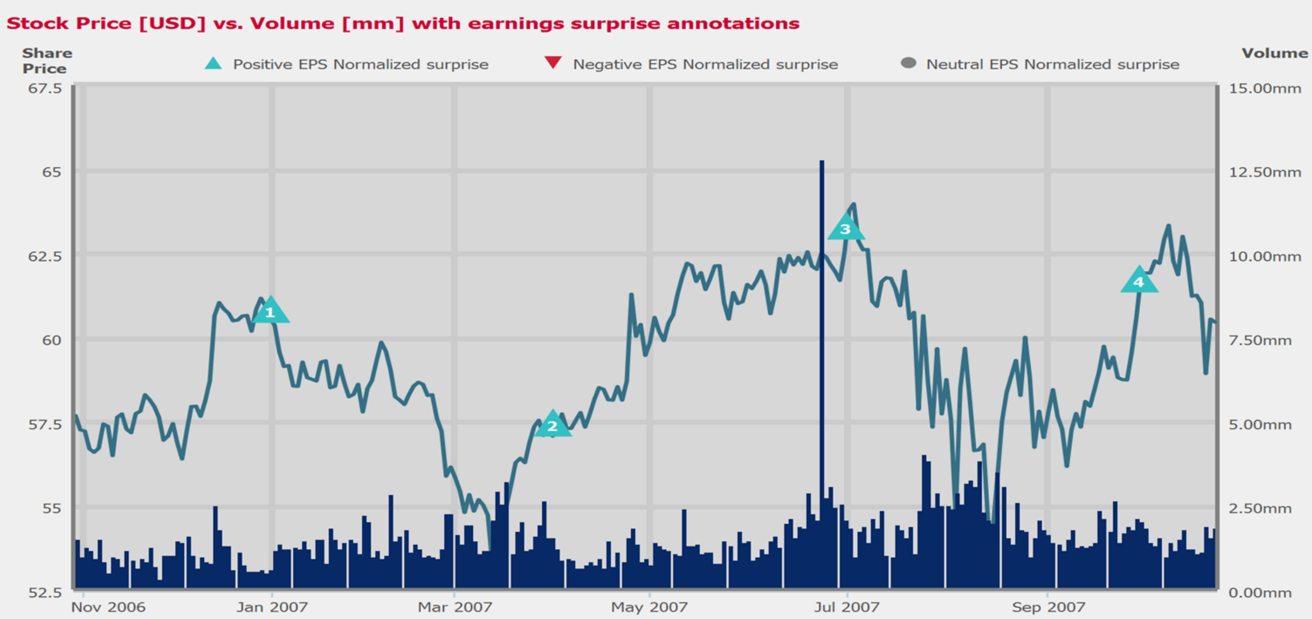
FQ4 2007 Earnings Call Transcripts

Wednesday, February 06, 2008 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2007-			-FQ1 2008-	-FY 2007-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.90	2.05	▲7.89	1.86	7.91	8.07
Revenue	-	-	▲0.21	-	-	-
Revenue (mm)	2821.18	2827.00	-	3147.20	11968.40	11979.00

Currency: USD
Consensus as of Feb-06-2008 12:18 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2006	1.74	1.92	▲10.34 %
FQ1 2007	1.75	1.98	▲13.14 %
FQ2 2007	1.84	1.98	▲7.61 %
FQ3 2007	1.82	2.06	▲13.19 %

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Dan Johnson
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Ian Gutterman
Adage Capital

Jay Cohen
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Josh Shanker
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Presentation

Operator

Welcome to ACE Limited's fourth quarter year end 2007 earning conference call. [Operator Instructions] For opening remarks and introductions I would like to turn the call over to Ms. Helen Wilson, Director of Investor Relations

Helen Wilson

Welcome to the ACE Limited December 31, 2007 Year End Earnings Conference Call. Our report today will contain forward looking statements. Such statement relating to our financial outlook and guidance is a strategy and practices both prospects and use of capital, pricing and market conditions, exposures and losses and reserves, 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, more information on factors that could affect the forward looking statements.

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.

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

Evan Greenberg

Good morning. As you can see from the numbers we had a very strong fourth quarter which contributed to an excellent year. After tax operating income for the quarter was $693 million up [inaudible] percent. While net income was down due to realized losses from market volatility book value was up because unrealized more than offset realized. Our underwriting results benefited from a reasonably low level of cash and positive prior period developments mostly short tail related and this was somewhat offset by an increase in current accident year loss ratio to reflect current market conditions.

For the full year we produced after tax operating income and net income of $2.7 billion and $2.6 billion respectively, both were record setting. Our combined ratio for the year was 87.9% and that is included in expense ratio that was down over prior year in spite of flat revenue growth. I think this reflects a reasonable level of expense discipline. Per share book value grew 16% and ROE for the year was almost 18%.

Our '07 income was a reflection of the strength, the diversity and the balance in our organization. All divisions of the company performed well and contributed to our growth in operating income and ROE. Underwriting income made up 46% of net operating income, net investment income represented the balance and was up 20%. Our invested assets increased 14% during the year to more than $42 billion which speaks to future earning power. Our balance sheet is in very good shape with a year end capital position closing in on $20 billion.

As you know, we made two acquisition relation announcements in December, Combined Insurance Company of America and the Atlantic Companies. We believe these represent an effective use of capital and both acquisitions are intended to advance our longer term strategy. Since the announcements we are making excellent progress with both. Combined in these teams are fully engaged together putting in place detailed action plans to enhance growth and achieve the efficiencies we envision after the transaction closes.

We are building momentum now so we can hit the ground running right after closing. Our people, including me are even more impressed today with the combined management team and employees we have met than when we first announced the transaction. We are impressed by their professionalism, discipline and their focus on improvement and winning. We are making similar progress with the Atlantic acquisition which as it happens closed yesterday.

This will provide us with underwriting claims and service related capabilities we do not currently possess along with a relatively modest size book of business to begin building a high valued personal alliance business in the United States.

I'd like to talk a little bit out the current business climate and its impact on ACE. The financial markets crisis which was triggered by sub-prime in the third quarter as we all know continues to dominate the landscape and is spreading to other forms of credit and beyond our borders. This is contributing to a significant slowdown in the US economy and possibly recession and again this will have implications globally.

At the same time there is the specter of inflation and efforts to stimulate the economy may well increase the risk of inflation. Inflation and recession can have an impact on property and casualty results, both revenue and claims. Finally the financial and economic conditions are deteriorating in the face of a soft and softening global property and casualty market. In a soft market underwriters tend to minimize or rationalize away risk.

I say all of this to make the point that as a company we recognize these conditions and are vigilant to ensure all levels of our underwriting organization with the support of claims and actuarial, focus on and manage risk with a clear recognition of the environment.

On the asset side of the balance sheet our conservative investment posture has served us well, as you know we have substantially avoided the fallout from the sub-prime mortgage crisis. We provided a considerable disclosure on this subject last month. I've asked Tim Boroughs our Chief Investment Officer to be available to answer questions you may have regarding our portfolio and strategy.

Ending the year with a positive mark to market position was no accident, as a P&C company we take substantial risk on the liability side of the balance sheet and in that regard we will always manage the asset side conservatively. We have managed our portfolio though even more conservatively since, as we have said for the past four years, we are not getting paid to take either duration or credit quality exposure. We have kept our powder drive for a time we believe we will have the opportunity to take increased risk at attractive returns. In that regard we are entering a period of greater opportunity. It will likely last for some time to come.

On the liability side of the balance sheet the sub-prime crisis may be a sizeable casualty even for the Commercial P&C industry, particularly for those who have a significant financial institution exposure. While we are underwriters of financial institution business it is not a significant part of our portfolio. In fact, we are a relatively modest participant in this segment. Given the attention this subject is receiving we have provided additional detail this quarter in our supplement that puts some context and color around our portfolio exposure.

Let me highlight first a few of the facts and refer you to the supplement for a bit more detail. We estimate the size of the US exposed financial institutions market for D&O and E&O to be around $3 billion to $4 billion in premium terms. ACE writes writes $143 million of net premium. Our average net limit is about $7.7 million for D&O and $3.2 million for E&O. All of the businesses claims made and defense is with the limits.

We will certainly have sub-prime related losses and our full year '07 loss ratios reflect that based on the facts at hand. It is early days and this is an evolving story, much of it yet to be told. The facts will unfold over time but as you can see our exposure is again relatively modest and I do not expect this to be a major event for ACE. You may have some additional questions about sub-prime given the attention the subject is receiving and we will try and answer some of them.

I mentioned earlier the soft market, prices continue to decline around the world and the rate of decline is accelerating in some classes and staying relatively flat in others. Overall the market continues to be more competitive. For instance, in US insurance property rates were off about 15% for the quarter while for the full year they were off about 7%. General casualty was off about 8% for the quarter and that varies by class and 7% for the year.

For professional lines D&O is off in the quarter 10% to 15% and 10% to 12% for the year and E&O was off about 13% for the quarter and 9% for the year. Given these conditions we are again focused on holding our renewals and writing far less new business and our premium numbers reflect that. Revenue growth in the quarter was essentially flat to modestly down. P&C Insurance net premiums written essentially remain flat with retail lines growing 3% and excess and surplus lines shrinking about 15%. Reinsurance net written premiums declined 31%.

We found the reinsurance market to be more competitive than some of the public commentary we've been hearing that would lead one to believe. As I have said many times ACE is a global company and it's a big world. We continue to see opportunities to expand our P&C business in the short and longer term. In many places, as we adapt our business to take advantage of the macro economic trends and the risks that accompany them all around the world.

With Considerable balance sheet power we also have the ability to growth organically and opportunistically through acquisitions. Our Personal Accident or A&H business continues to do well and grew 18% during '07. We continue to see good long term opportunity to grow our A&H franchise particularly in the developing markets of Asia/Pacific and Latin America among other territories. Our Life Insurance business continued to make very good progress performing well above plan. Together A&H and Life with the addition of Combined Insurance will represent almost 23% of the company's net earned premiums.

Lastly, as a reminder we issued 2008 guidance in December, to date there is nothing I see that changes our view of the year. We are confident in our projections. With that I'll turn the call over to Phil and then come back to take your questions.

Phil Bancroft

Good morning. We completed the year in which we continued to significantly strengthen our balance sheet. For the year our tangible book value per share increased 21% and our operating cash flow was $4.7 billion. Our reinsurance leverage dropped from 102% to 86% and our net loss reserves increased approximately $1.8 billion to $23 billion and our debt to total capitalization remained low at 11.4%.

Since our mid-December disclosure the characteristics of our Mortgage and ABS portfolios have not changed materially, our holdings are summarized in the schedule provided on page 20 of the financial supplement. As we have previously mentioned we do not invest in CDO's or COO's, our exposure to sub-prime mortgages remains minimal. We do not expect any significant loss from these holdings.

With regard to our $1.8 billion municipal bond portfolio financial guarantee companies insure approximately $850 million. These investments are made on the underlying credit of the issuer and any decline in value because of a downgrade of bond insurers would be minimal. For example, without AAA insurance guarantees the average of this portfolio would fall from AA plus to AA, which would result in a nominal decline in value. We would expect a similar market impact from the loss of AAA insurance guarantees on our $250 million in other investments raped by guarantors.

The credit outlook of our overall portfolio remains high at AA and our duration is three point five years. We have arranged the initial phase of financing for the combined acquisition; we have a blend of commitments to borrow $450 million in a five year private transaction with a bank syndicate at a fixed rate of approximately 4.15%. This borrowing is contingent on closing. We expect to issue an additional $300 million in public debt prior to the close. On a pro-forma basis our debt to capitalization ratio would have increased to 14.7% if the planned financing for the combined transaction was in place in December 31st.

I have a few points on our fourth quarter earnings; net realized and unrealized gains before tax were $16 million for the quarter comprising unrealized gains of $139 million offset by realized losses of $123 million. Our unrealized gains arose principally from our investment portfolio while the realized losses included $73 million from our investment and insured guarantee and $105 million relating to the GMIB liabilities of our Life reinsurance business.

For AGO our loss represents our 24% share of AGO's recently reported $300 million negative mark to market loss on derivatives for the fourth quarter. Our relationship with AGO is limited to our equity investment recorded at $392 million at December 31st. We conduct no financial guarantee business directly or with AGO and retain no other financial guarantee exposures. During the quarter AGO issued $350 million of equity securities to support their growth in this business. The issuance has diluted our ownership from approximately 28% down to 24%.

We are pleased that they are one of the few companies in their peer group that have minimal exposure to sub-prime mortgage risk and that their ratings have been reaffirmed. They have emerged as one of the strongest of the financial guarantors.

With respect to GMIB's our loss resulted from an increase in the fair value liabilities relating to our reinsurance of guarantees for variable annuities. This is primarily the result of the adverse financial market changes in the fourth quarter including negative equity returns a reduction in long term interest rates and an increase in implied volatility for both equities and interest rates. These results are in line with our expectations given these market conditions.

To be clear this is purely a mark to market adjustment required because the transactions are deemed to be derivatives for accounting purposes. It does not indicate negative cash flows on our reinsurance treating. While the reported results for the business can be volatile our returns on equity exceed 30% based on experience to date which has been consistent with our pricing assumptions. This meets our risk adjusted return requirements.

Reported P&C administrative expenses increased 5.4% for the quarter. Adjusted for foreign exchange and adjusting for certain one time items in last years fourth quarter our P&C administrative expenses will be down approximately 3%.

With that I'll turn the call back to Helen.

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

Question and Answer

Operator

[Operator Instructions] We'll go first to Susan Spivak, Wachovia Securities.

Susan Spivak
Wachovia Securities

Evan, given some of your comments on the reinsurance market should we expect to see you taking advantage perhaps of the lower prices and just buying more coverage on your insurance portfolio?

Evan Greenberg

As a general statement we constantly evaluate each book of business gross underwriting characteristics, its net underwriting characteristics buy reinsurance primarily for capacity purposes and then we also judge at the same time whether the reinsurance market's view of the risk is different than our view of the risk and in that sense at times we will see that the reinsurance market judges the risk differently than us. Maybe more favorably and in that case we will take advantage of it, other than that I'm not going to give any specifics.

Operator

Well go next to Jay Gelb, Lehman Brothers

Jay Gelb
Lehman Brothers

Thanks very much for the increased disclosure on the sub-prime related or the financial institutions related D&O and E&O. I guess one of the things I'm trying to get my arms around is I think your increased disclosure has addressed the severity issue which looks contained, can you talk about the potential for frequency, especially with some of the lower attachment point lines you've disclosed?

Evan Greenberg

What I have said is that overall I've given information to show and you said it, relatively what kind of exposure could this be for ACE and that while we'll have losses, of course, we are of the market and we participate. I don't expect it to be a major event for ACE. Past that, it's very early days and we are not going to give any more exposure related data. We gave enough for you to understand why we don't see this as a major event, but not to calculate a claim number.

We can't do it with any precision and we know much more than you do right now and we are hardly going to put the market in a position to begin playing claims man.

Jay Gelb
Lehman Brothers

I understand that, my sense is there's been a lot of numbers thrown around by some industry participants in terms of how big of an issue this could be. Can you give us a sense perhaps of gross exposed limits as a way to look at it or how many claims you have received so far perhaps?

Evan Greenberg

No, I'm not going to do that. What I'll tell you on claims side of this, because I think a number of you have questions. We don't give out claims numbers on something like this, the number of notices or activities within our expectations given our profile or place in the market. It's very early days and there is not a lot of activity. It's a long way from a notice to a legitimate claim. Each is very fact specific. Of the total notice D&O claims we have had to date over two thirds of the exposed limits are side 'A' and it's excess, with a very high attachment point.

Of the remaining D&O which is 'ABC' again a high average attachment and an average limit in the single digit millions and again its only notices and it's very early. On the E&O side again a small number of primary notices, very small, with very modest average limits and a small number of excess E&O with high attachments and again single digit million average limit. That's as far as I'm going to go in disclosing data.

Jay Gelb
Lehman Brothers

If you pull back big picture is there any other type of D&O or E&O event you can think that parallels this historically in terms of how we may think about it, whether its mutual fund market timing, S&L's, IPO related stuff, investment banks, is there anything?

Evan Greenberg

You said them all. They are all what you would look at but each one is so specific and so different that this one will have it's own size and shape to it and it's own emergence pattern and each one is distinct from the other because it is so fact specific.

Jay Gelb
Lehman Brothers

Separately, does ACE intend to update its guidance after the close of the combined transaction?

Evan Greenberg

Yes we do.

Operator

We'll go next to Thomas Mitchell, Miller Tabak.

Thomas Mitchell
Miller Tabak

First a general kind of issue, which is those of us who remember old recessions also remember that the frequency of worker injury seems to increase during recessions in the United States. Separately the kinds of injuries that usually get claimed for, such as cumulative trauma and so forth tend to get more expensive and have some sensitivity to inflation increasing. We believe, we are not going to as you necessarily believe it but just take it as a hypothesis, we believe we are going to have a fairly standard, not terribly severe, not terribly mile recession. We think we are already in it. The question is, how do you expect your workers comp business to respond to a normal type of recession or medium type recession?

Evan Greenberg

A normal type, that's very interesting. We are not going to agree with everything you just said it is unclear that frequency necessarily increases during a recession. It is true that generally malingering worsens but that again depends on class, can you collect more on unemployement or more on workers comp insurance. That again is claim specific, clearly, and I said it in my opening remarks whether it is workers comp or it is other classes, there are recession impacts that you have to be vigilant about and we are doing just that.

Operator

We'll go next to Josh Smith, TIAA-CREF.

Josh Smith
TIAA-CREF

I understand you are not going to give out the claim counts but can you clarify claims made, does that mean you have to receive the notice within the calendar year period?

Evan Greenberg

During the policy period.

Josh Smith
TIAA-CREF

During the policy period, are these typically annual policies?

Evan Greenberg

Yes they are.

Josh Smith
TIAA-CREF

If you got a notice in ’08 for something in that happened in ’07 it’s not valid, is that correct?

Evan Greenberg

It’s during the policy period, so if your policy runs from ’07 to ’08, during the policy period you must notice us of an incident that could result in a claim.

Josh Smith
TIAA-CREF

I guess the point on claims made is being that an occurrence is you have a better handle for what the ultimate exposure.

Evan Greenberg

These don’t have a tail on it, have the tail to past.

Josh Smith
TIAA-CREF

I have a follow up question on the Life, the large mark. If you add up the mark you took last quarter and this quarter that’s basically equal to the earning you had in the business for ’07. Can you talk about what type of market decline would have to occur for those marks to turn into real losses? It’s a concern of mine on the Life insurers being exposed on the VA riders and you’re reinsuring them.

Evan Greenberg

Understood and I’m going to let Phil answer that question but you understand that the mark to turn into it would have to remain as a realized for the duration of the contract.

Phil Bancroft

That’s the point, the claims won’t be paid for some time and so what would have to happen is that the decline would have to stay in place until those claims begin to pay. What we’ll do, and I understand the question about the sensitivity, what we are planning to do on our 10-K is to give some more information about sensitivity so you’ll be able to see what various market changes, how that would impact the mark and how that would impact our operating income.

Operator

We’ll go next to Matthew Heimermann, JP Morgan.

Matthew Heimermann
JP Morgan

Not to beat the FI to death but what I would be interested in has more with respect to time frame. How long after whatever happens in financial markets do you think it’s going to take for the industry to really get a handle on what the loss is?

Evan Greenberg

My sense of this is it's going to play out over the next two to three years, in reserves in the loss fully developing and payments will occur over even a longer period of time. I think '08, '09 and depending on the contentious nature on whether it goes to court between even the insured's and their grieved parties and then the insurers get into it. Those play out over a long time, think of laddering, and maybe give you a good sense. Look at Enron that continues to play out.

Matthew Heimermann
JP Morgan

The other question on SICA is one of the questions that I have with respect to the strategic benefit of that acquisition is how important the distribution is to some of the Asia/Pacific opportunities given differences in distribution over there.

Evan Greenberg

It's very important to Latin America; we believe its going to be quite important in Asia. We agreed to buy the combined with the notion that the franchise is really bringing us two things. Number one, it's expertise within the product set which we have, but then the way it leverages and applies that to building and managing distribution that is focused solely on that product set. Particularly where you have modest or middle class and it is growing rapidly it is a form of distribution that traditionally is very powerful in those markets.

We are thoughtful about it and so we are going market by market with them and Latin America is moves up and it did from the beginning and continues to very large for us. In that regard, everything we've seen working with them since the acquisition just reaffirms it to us today. Asia is up there as well and that's what we are working on right now with them, where and how and when.

Operator

We'll go next to David Small, Bear Stearns

David Small
Bear Stearns

On the combined and the A&H business post close, hat percentage of your premiums with be A&H?

Evan Greenberg

Post close, Life and A&H will be 23% and I'm going to guess A&H is going to be around 20% because I believe Life is about 3%.

David Small
Bear Stearns

Could you give us a little more detail about Personal Line strategy with the recent acquisitions?

Evan Greenberg

Not much more than I said, Atlantic was selling the traditional high valued based products, Auto and Homeowners predominately. In a modest way because as you recognize they had a lot of problems in their Commercial lines business that distracted them, took them down, made it difficult for them ever to pursue this in a bigger way but they certainly have the systems and they have all of the technical expertise in the core areas.

On the other side of the coin they don't sell a lot of what my colleagues Brian Dowd would classify as toys. They didn't insure the toys. Whether its fine arts, or yachts, etcetera and ACE does that, we do that now and so we have those capabilities they don't have and we have the balance sheet that can create a lot of credibility with producers and with insured's in this area and we have the global capability and global reach to protect that class of insured wherever they are.

The combination of the two we think is going to be quite powerful. We are just keeping our heads down and we are going to quietly go about our business building a franchise there, it will take time but we are very confident in our ability to do that. Stay tuned maybe it will go beyond the border of the US.

David Small
Bear Stearns

One quick numbers question, are the benefits ratio on the Life side was a little bit elevated this quarter, could you give us any color on that?

Phil Bancroft

It relates to the GMIB's so the change in the market conditions affected both operating income and it caused the mark that you saw.

Operator

We go next to Brian Meredith - UBS.

Brian Meredith
UBS

First question, you mentioned that you've got the new bank deal in place $450 million in financing, I noticed that when you came out with your accretion projections you are assuming a 6% pre-tax cost of the debt. Does this basically mean that that probably a little bit overly conservative the 6% in accretion?

Phil Bancroft

At the time we didn't anticipate doing a bank deal and that was probably 80 basis points cheaper than we would have assumed for a five year public deal. The remaining piece, the $300 million will be public and probably a longer tenor and so the combination of the two is going to be somewhat lower than we originally projected.

Brian Meredith
UBS

Second, Evan can you talk about what lines or what areas did you are reducing exposures right now. I understand that premium earns is going to be down in '08 but obviously with rates down you'd expect it to be down even on a flat basis. Are there any areas you are actually reducing exposures where you are concerned and if you can include in that the financial D&O area, are you actively reducing exposure there as well?

Evan Greenberg

I can't help but tell you that in the room my colleague John Keogh is making the wings of an airplane. We talk about reducing exposures. I must say aviation is one of them.

John Keogh

We've reduced in a number of casualty areas we are reducing exposure right now. Our workers comp business and risk transfer comp we told you earlier in the year we were doing that in '07 and that's been continuing. In the E&S casualty areas we've reduced our exposure significantly because just the pricing and terms are crazy to us. Our contract surity business we've been reducing in that area. To give you a few there are places where we are reducing our property exposures and our marine exposures, not just rates but the exposures themselves significantly because the pricing is just not meeting the standards.

Evan Greenberg

Then you see on the reinsurance side whether it in the CAT business or it is in the US casualty or even the risk property in the US side we are reducing exposures.

Brian Meredith

UBS

What about D&O financial institutions given we won't know for a couple of years how this all plays out or are you basically saying we may as well step away from the next year or so as this plays out?

Evan Greenberg

Here's what's happened, we need more price, need more rate. If we are paying to take the risk, we are in the business of taking risk, we are not shying away from it and we are not changing that playbook and as long as we are paid to take it and the terms make sense then we will do that. In the FI world that means rate and that has to be recognized and so far it is ticking up a little bit but the market is very slow to react and us and another, I know a major player, have been attempting to push the market in that regard and others have come in to sort of fill the breach because the market has been slow to take it up. We've been pulling back a little but we get paid for it we'll take it.

Operator

We'll go next to William Wilt, Morgan Stanley.

William Wilt
Morgan Stanley

A follow up on the last question, if you non-renew financial institutions D&O or claims made policy are you obligated to sell as a tail cover, how does that work in the claims made market?

Evan Greenberg

That really varies so it depends on the class and the attachment point and whether you were primary or access and what class it was and whether you were admitted or non-admitted it really varies. In many instances yes.

William Wilt
Morgan Stanley

On retention ratios, I'm forgetting what you've disclosed or talked about in the past. Any color you can add, observations on your retention ratios and whatever level of details you want. I guess I'm thinking of other large commercial competitors I think offer retention ratios mid low 80's characterizes historically high although gradually beginning to go down. Any color you could add there would be great.

Evan Greenberg

First of all I'm just going to give a few statistics on the USA. I can do other areas but I think that will illustrate it to you. Our new business writings in the quarter were down about 42% from the prior year and our new business for the year was down 20% from the prior year. I think that not only gives you a sense of magnitude but it also tells you the trend that we are pursuing. Our renewal retentions have been pretty high and it has been in the 80's range, 80 and above. It varies by line of business.

Our submission activity that was up about 8.5% in the quarter because we continue to make end roads into distribution but it was up 12.5% year to date so submission growth is really reducing. We quoted half of what we saw but we bound 10% fewer number of quotes in the quarter than we did last year. On the full year we bound about 5% less than we did last year. Again it's showing that the trend towards more selective but the retention ratios are fairly, they are up in those 80's and that's where it needs to be.

You've got to remember its not hold renewals at all cost. Renewals have got to meet your threshold and our renewals are someone else's new business, people are hungry.

Operator

Well go next to Paul Newsome, Sandler O'Neill.

Paul Newsome
Sandler O'Neill

Two separate different questions, one I was hoping you could talk a little bit more about the characteristic of whether or not we should expect your company to become increasingly international and if that's a reflection of long term strategy or just what's going on with pricing today. Separately I'd like to beat the D&O thing just one more time and ask, you and others have mentioned that most of the claims seems to be side 'A' only and I'm curious as to why that may be if that was the only one that was sold to claim centers and banks and if that's a change in the market recently. I'm kind of curious about that comment or is it just someone did sell a bunch of side 'B' and nobody wants to fess up to it?

Evan Greenberg

They do that at their parallel, I hope they don't lie to you. Keep in mind the answer is really more the financial institutions and the large ones can buy side 'A', they can't buy 'B' and 'C', not available to them. They buy it because that's what they can buy and that's what's protects their individual directors and therefore they'll serve on the board of those FI's. I think that's more of the answer from everything we know.

Someone is not telling the truth…

Paul Newsome
Sandler O'Neill

Sorry to be skeptical but you know how it is.

Evan Greenberg

I get it, I fully get it and remain skeptical, I think that's healthy. On your first question, more international It's a little curious to me, half of our business is outside the United States and as you know we are on the ground and present in most all countries and all major regions of the world and we are continuing to expand that and expand our depth within those markets and our breadth within each of them and each of the regions as rapidly as we can in context of market conditions.

The US and international are not mutually exclusive; we can grow both just as rapidly without robbing the other. It really is a matter of market, right now in our international because of market conditions in some places, because of the size of the opportunities, because of foreign exchange, because of the size our A&H business there in those opportunities it is growing more quickly than North America.

Market conditions could change and that could flip around for a while. It's going to bang around but the balance of international and US in my own experience and I reach back to a prior life where it was as international a company as you could find in this business and would always be jittery the line but it would always bounce around that 50% mark. Sometimes international bigger, sometimes domestic bigger.

Operator

We'll go next to Jay Cohen, Merrill Lynch.

Jay Cohen
Merrill Lynch

Two relatively quick questions, the first is on the foreign side premium growth specifically, how much of a role did currency play in that growth rate?

Phil Bancroft

Two and a half points.

Jay Cohen
Merrill Lynch

Still pretty good even without that. Second question, on the reinsurance side, how big a player are you in the casualty clash business?

Evan Greenberg

We're not a player in the casualty clash business, how about that. We can buyers but there will be a public hanging on there if we are sellers.

Operator

We'll go next to Ian Gutterman - Adage Capital.

Ian Gutterman
Adage Capital

I had one question for Phil, prior period development the last couple quarters looks like its been mostly out of the international segment, I'm curious what's driving that and why wouldn't it be similar in North America?

Phil Bancroft

The prior period development in this period was almost all short tail lines, we had about 90% of short tail lines so its really just the expiry of the exposure period and we take the reserves as we see fit so there's nothing unusual about that. The remaining 10%, $8 million, $9 million was long tail but it related to the 2003 year.

Ian Gutterman
Adage Capital

Is there a reason this short tail US lines aren't seeing that release. It seemed like the US was kind of flat in most of the releases.

Evan Greenberg

It varies by quarter and this quarter it just didn't happen.

Operator

We'll go next to Josh Shanker, Citi.

Josh Shanker
Citi

I was curious, given that AGO was so nimble in side stepping a lot of the mire that others stepped right into I'm wondering if you thought that increased investment in AGO makes sense for ACE and if you could review what kind of return characteristics you are looking for, for where to deploy money if the right opportunity came up.

Evan Greenberg

No, we have not considered an increase our exposure in AGO our investment. It's really not part of our playbook. I think AGO management has done a credible job of running that business but that is not a business that is really part of ACE's long term strategy. For a variety of reasons which I have gone into in the past. No, we will not be increasing our exposure.

Josh Shanker
Citi

Regarding in general a question about return characteristics where you would deploy capital.

Evan Greenberg

What do you mean specifically?

Josh Shanker
Citi

What are you looking for in terms of ROE to take on a new venture or does it need to be immediately accretive?

Evan Greenberg

As we've said, we've answered this question a number of times. First of all it's what's the risk adjustment depending on the risk we want a higher return than others. We say on average a 15%, that's an average risk. I know a great little average risk. On average we want a minimum of 15%. The higher the risk the greater the volatility and the more uncertainty the more we want to get paid for that business. That's why you saw on the GMIB business which I consider to be kind of a CAT business.

We want very significant ROE's for that business in more than ROE's we want absolute cash earnings also. ROE can be a head fake as well if you are not careful. I think that kind of answers it, are we patient about return periods in terms of dilution and accretion, it depends on the business and how strategic it is but we're not going to kid ourselves and we are disciplined buyers. We would expect it to be accretive within a reasonably short period of time.

Operator

We go next to Dan Johnson, Citadel.

Dan Johnson
Citadel

The follow up question I have would be related to the timing of the combined transaction.

Evan Greenberg

We said second quarter that was our original announcement and we are sticking to second quarter. Our own objective right now is to try to close this at the end of or the very beginning of the second quarter. We are aiming for very end of March, very beginning of April. It all depends on regulatory approvals, I'm confident we'll meet our original projection which is second quarter; I'm hoping to do it earlier.

Dan Johnson
Citadel

Just a thought on the expense ratio breaking out the detail between expense ratio 'X', 'A&H in the supplement, made good progress in the year, any those on what drove that, mix shift or it looks like you took out over a point on the expense ratio in '07.

Evan Greenberg

First thing remember is settlement expenses in '06, they were one time where we were generous and paid the government a bunch of money on the settlement. That was one part of it and then look we just flat out were pretty aggressive on expense management, we know that's just one of the fundamentals a P&C company and you've got to manage acquisition expense and your operating expenses very tightly, do more for less and that's what we work at.

What gives it inflationary pressure on the other side, the ratio, is the mix of A&H in there and then also the mix of certain territories internationally Asia and Latin America tend to run higher expense ratios you are operating in a bunch of smaller territories that aggregate up and number two they are more agency oriented kinds of territories. You do have those things that also put pressure on the other side.

Dan Johnson
Citadel

On the Atlantic deal that you just closed can you remind us again on how big that book of business is as it sits today?

Evan Greenberg

$150 million.

Dan Johnson
Citadel

In net written premium?

Evan Greenberg

Yes sir.

Operator

[Operator Instructions] We'll take a follow up from David Small, Bear Stearns.

David Small
Bear Stearns

Just one quick follow up on the D&O disclosure, was it E&O are you including for this year in liability?

Evan Greenberg

No.

David Small
Bear Stearns

Could you give us any color on your exposure to that fiduciary liability line?

Evan Greenberg

We'll get you a number but it's very small. Our total fiduciary premium is less than $20 million.

Operator

We'll go next to Thomas Mitchell, Miller Tabak

Thomas Mitchell
Miller Tabak

I just noticed that in your reserve rollovers at least over the past couple of years you've usually increased the reserves in the ongoing business by $400 million to $500 million a quarter. This quarter its about $260 million which doesn't look shabby but I'm wondering going forward should we be looking for a lower level of additions to reserves or was this an unusual quarter?

Phil Bancroft

You did see that we had the positive prior period's development so that tended to offset it but I don't think we see anything or have any plans to change our trends.

Operator

It appears there are no further questions at this time; I'd like to turn the call over to Ms. Wilson for any closing or additional remarks.

Helen Wilson

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

Operator
This concludes today's conference, thank you for your participation.