

# Chubb Limited NYSE:CB

## FQ1 2014 Earnings Call Transcripts

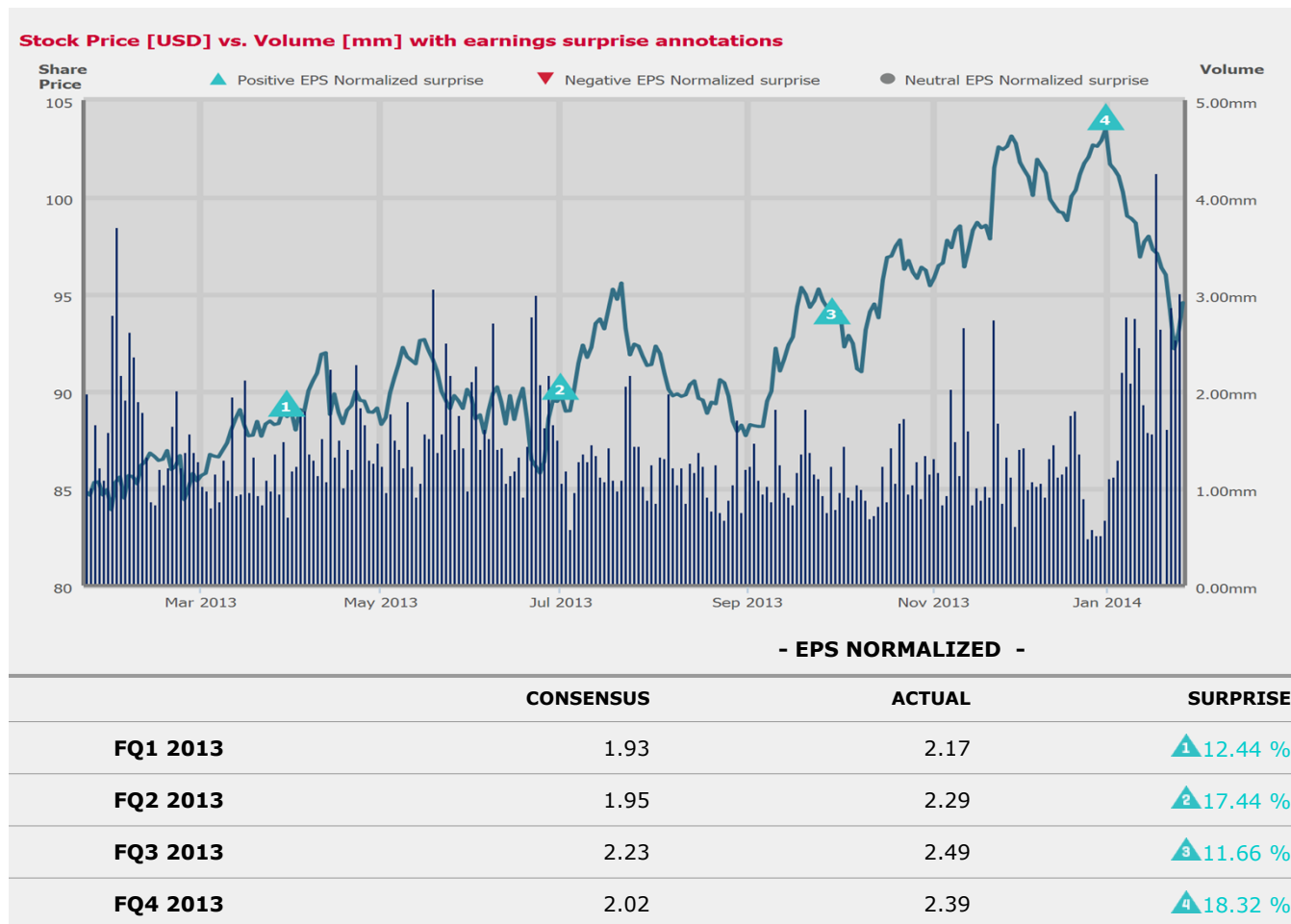
Wednesday, April 30, 2014 12:30 PM GMT

### S&P Capital IQ Estimates

	-FQ1 2014-			-FQ2 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	2.14	2.27	▲6.07	2.20	8.79	9.16
<b>Revenue (mm)</b>	3410.40	3691.00	▲8.23	3754.52	14713.94	15937.96

Currency: USD

Consensus as of Apr-30-2014 1:04 PM GMT



## Call Participants

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### EXECUTIVES

**Evan G. Greenberg**

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

**Helen Wilson**

**John J. Lupica**

*Vice Chairman and President of  
North America Major Accounts &  
Specialty Insurance*

**John W. Keogh**

*Chairman*

**Philip V. Bancroft**

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

### ANALYSTS

**Vinay Gerard Misquith**

*Evercore ISI, Research Division*

**Arash Soleimani**

*Keefe, Bruyette, & Woods, Inc.,  
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**Ian Gutterman**

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**Jay H. Gelb**

*Barclays PLC, Research Division*

**Mark Alan Dwelle**

*RBC Capital Markets, LLC,  
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**Michael Steven Nannizzi**

*Goldman Sachs Group Inc.,  
Research Division*

**Thomas Spikes Mitchell**

*Miller Tabak + Co., LLC, Research  
Division*

# Presentation

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## Operator

Good day, and welcome to the ACE Limited First Quarter 2014 Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

For opening remarks and introductions, I would like to turn the call over to Helen Wilson, Investor Relations. Please go ahead, ma'am.

## Helen Wilson

Thank you. And welcome to the ACE Limited March 31, 2014, Earnings Conference Call. Our report today will contain forward-looking statements. These include statements related to company and investment performance, pricing and insurance market conditions, all of which are subject to risks and uncertainties. Actual results may differ materially.

Please refer to our most recent SEC filings, as well as our earnings press release and financial supplement, which are available on our website, for more information on factors that could affect these matters.

This call is being webcast live, and the webcast replay will be available for 1 month. All remarks made during the call are current at the time of the call and will not be updated to reflect subsequent material developments.

Now I'd like to introduce our speakers. First, we have Evan Greenberg, Chairman and Chief Executive Officer, followed by Phil Bancroft, our Chief Financial Officer. Then we'll take your questions. Also with us to assist with your questions are several members of our management team.

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

## Evan G. Greenberg

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

Good morning. As you saw from the numbers, ACE had a very good start to the year. Growth in operating income was driven by strong underwriting and investment income. We produced double-digit premium revenue growth, and every division contributed to the good results.

After-tax operating income for the quarter was \$777 million, up 4% to \$2.27 per share, generating an operating return on equity of 11.2%. Book value per share grew almost 2.5% and now stands at about \$87.

This was another quarter with excellent underwriting results. We produced \$390 million of P&C underwriting income, up 7%, with a calendar year combined ratio of 88.8%. The growth in underwriting was driven wholly by current accident year underwriting income, which was up 17% before tax, as a result of double-digit growth in earnings premium and 0.5 point improvement in underwriting margin. Margin improvement in North America was the result of better pricing, earning its way in and mix of business, and internationally as a result of better products and geographic mix.

Catastrophe losses were up modestly over prior year to \$53 million pretax, while net prior period reserve development was essentially flat with first quarter last year, reflecting favorable development in our global P&C businesses, offset somewhat by negative development from crop insurance as we closed out claims from last season. The adjustment to crop reserves means the '13 crop year ultimate moved to a 97% combined, up from the projected 95% we reported in the fourth quarter.

We produced \$553 million in investment income in the quarter, up over 4%. This is a very good result given the persistently low interest rate environment in which we operate. Phil will have more to say about our investment portfolio and results.

As you saw earlier this week, we completed the acquisition of a majority stake in Siam Commercial Samaggi Insurance, a general insurer in Thailand. Samaggi is a good strategic fit and complementary to our business in Thailand and enhances our overall presence in Southeast Asia. We will launch a tender offer for the balance of Samaggi in the second quarter.

Total P&C net premiums in the quarter grew 12% as reported and nearly 14% on a constant dollar basis. Excluding agriculture, which is -- as I stated before, is the way I prefer to view the results, we grew over 11.5% in constant dollars, with strong contributions from North America, Asia and Latin America.

In North America, P&C net premiums written were up across the board, with retail commercial up over 10%, wholesale commercial up about 11.5% and personal lines up 9%.

Internationally, net premiums for ACE International were up 15% in constant dollars. Latin America led the way with a growth of 62%, benefiting from the contributions of our acquisitions in Mexico. Excluding these, Latin America was up about 7.5%. Net premiums were up 13% in Asia Pac and 5% in Japan.

In Europe, premium growth was essentially flat, with the continent up 1% and the U.K. down 2%. Premiums in our London market base, London wholesale market-based E&S surplus lines business were up 2% in constant dollar, with strong gains in trade credit, property and professional lines, offset by declines in aviation and marine.

In our global A&H business, net premiums were up 3.5% in constant -- up 3.5% in constant dollars. Our international business had growth of 7%, led by Asia Pacific up 17%, Japan up 11% and Latin America up 9%. North America A&H also had a good growth quarter, with net premiums up 15%.

Combined insurance net premiums were down about 4% in the quarter. We had an accounting adjustment that benefited combined premiums last year in the first quarter, and adjusting for that, combined premiums declined 2%. On the other hand, new sales at combined were up 16%, a positive trend that continues. And so for the balance of the year, we project net premiums at combined to grow.

Premiums for our global personal lines and small business division were up 45% in constant dollars or 13% excluding the contribution of ABA Seguros. For our Global Re business, premiums for the quarter were up 10.5% in constant dollars, more than would naturally be expected given current reinsurance market conditions. We benefited in the quarter from a few new structured reinsurance transactions written in the U.S. operation.

Finally, international life insurance net premiums written were up almost 14% in Asia and Latin America.

I want to say a few words about the current market environment. In the U.S., the insurance market, as distinguished from reinsurance, is stable, though the velocity of price increases is slowing. Rates continue to rise in casualty-related lines, while they are flat and declining in short tail-related.

Our E&S and middle-market specialty businesses are continuing to secure the highest level of rate increases. For our larger account retail business, pricing for casualty-related primary or lead [indiscernible] excess business remains stable, and we continue to achieve positive rates. This is the business that requires more than capital and an underwriter to compete, and it is a significant amount of our business. As a general statement, competition is greatest when it's simply excess layer capacity placement.

The reinsurance end of our business, which is an important but small percentage of our company, about 3% or 4%, is where the market is most competitive from a pricing point of view.

With all that said, let me be a little more specific. For commercial P&C in North America, beginning first with our larger account retail business, ACE USA, professional lines rates were up 4%. Large account risk management business rates were up 3.6%. General casualty pricing was up 1.7%. Excess casualty rates were up just over 3%, while property rates were down 2.5%. Our ACE USA new business writings were flat year-on-year. And our renewal retention rate as measured by premium is 98% in the quarter, with account retention at 85%, both quite healthy.

For our U.S. E&S and wholesale business, professional lines rates were up 4.4%. Casualty was up over 5%, and inland marine was up almost 7%. Property rates were down about 3%. New business overall, on the strength of very strong submission activity, was up 11.5% in our E&S business.

The commercial P&C rate environment internationally remains reasonably stable, with retail rates essentially flat overall, with variability of pricing both up and down, depending on territory and line of business.

By territory, Latin America rates were up 1%, Asia Pac was down 2%, and the U.K. and continent rates were flat. My colleagues and I can provide further color on market conditions and pricing trends later in the call.

As the year progresses, we imagine the market to become more competitive depending on the line of business and territory. We are an underwriting organization with good internal discipline that's been built for long-term sustainable growth. Due to our excellent diversification by product, geography and distribution, there are many territories and lines of business where we operate today that will experience good premium revenue growth. Overall, I believe we will continue to outperform.

In summary, we are off to a good start to the year. Our underwriting and investment income results were excellent. And from what we can see, I expect a good year.

With all that, I'll turn the call over to Phil.

**Philip V. Bancroft**

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

Thank you, Evan. We had an excellent quarter. Tangible book value per share grew 3% for the quarter, and operating cash flow was a very strong \$1.25 billion. Cash and invested assets grew \$1.4 billion to \$63 billion. Investment income of \$553 million was quite strong. We expect our strong cash flow to offset the impact of a lower reinvestment rate of 2.8% versus our current book yield of 3.7%.

There are a number of factors that impact the variability in investment income, including the level of interest rates, prepayment speeds on our mortgages, call activity on our corporate bond portfolio, private equity distributions and foreign exchange. Therefore, we currently expect our quarterly investment income run rate to be \$540 million.

Net realized and unrealized gains for the quarter were \$462 million pretax. This includes \$56 million of gains from investment partnerships that we account for under the equity method. It is worth noting that some of our peers include these types of gains in investment income and operating EPS and ROE. We do not.

Our net loss reserves were down \$105 million in the quarter, primarily due to payments related to last year's crop losses. This is a seasonal impact. Excluding those payments, net loss reserves would have increased \$179 million.

Our paid-to-incurred ratio was 106% for the quarter. When we normalize the ratio for last year's crop loss payments, the ratio is 93%.

Cat losses were \$43 million after tax from worldwide weather events, and we had positive prior period development of \$63 million after tax. \$92 million of after-tax favorable P&C prior period development excluding crop was offset by unfavorable crop prior period development of \$29 million. The P&C prior period development was primarily from long-tail lines and related principally to accident years 2008 and prior.

The expense ratio in our North American P&C segment was 21.5% compared with 20.1% last year. As we reported, last year included a favorable \$29 million legal settlement that benefited the prior year's ratio by 2.2 points. Adjusting for this, North American P&C was actually down 8/10.

Net premiums in our North American agriculture segment were up as a result of the crop insurance premium sharing formulas with the U.S. government, relating to loss development from 2013. In essence, the formulas require insurers to retain more premium as crop losses increase.

In addition, changes to our third-party proportional reinsurance in both years also contributed to the growth. Excluding these items, net premiums increased \$4 million or 3.2%.

Global A&H earnings for the quarter were ahead of plan but down about 6% on a constant dollar basis from prior year, primarily due to positive prior year reserve development reported in the first quarter last year that didn't repeat. Excluding year-on-year prior period development and other onetime items, A&H operating income grew in line with premiums.

Total capital returned to shareholders during the quarter was \$550 million, including \$330 million of share repurchases and \$220 million in dividends. Since we made the announcement of our repurchase plan in last year's fourth quarter, we have repurchased a total of \$436 million through April 28 of a program to repurchase up to \$1.5 billion. Earlier this month, A.M. Best upgraded their financial strength rating to A++ superior for ACE's core North American property and casualty insurance and reinsurance companies.

I'll turn the call back to Helen.

**Helen Wilson**

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

## Question and Answer

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### Operator

[Operator Instructions] We'll take our first question from Jay Gelb with Barclays Capital.

### Jay H. Gelb

*Barclays PLC, Research Division*

What drove the crop reserve strengthening in first quarter? That would be helpful. And then what your outlook is for 2014 in that business.

### Evan G. Greenberg

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

Yes, Jay, the -- what drove it? The -- we had late traveling, late reporting than normal typical years' claim reporting from farmers typically in November. By November, early December, you've had almost all the claims. This year, they came in a little later. We had claims reported later in December, into late December. And then adjusting them takes a little longer. And the reason they were late, and why adjusting takes a little longer, this year, crop losses were a matter of not simply yields but commodity price changes, the price particularly of corn. And so in adjusting for that, you've got to apply that change to deductibles once you know yields, et cetera. And so the whole development -- ultimate development pattern in settlement of claims moved a little later by, let's call it, 4 to 6 weeks or even longer than that. We've had another year, when we look back in the records, there was another year like this where it was slower. And again, it was when there was a commodity price caused change, causing losses in how the farmers then reported and how long it takes for the guys in the field to ultimately adjust with them. And so if we have another year like this where there is -- it is commodity price-related, we will be better informed about that as we think of our ultimate development. But that's about as clear an answer as I can give about it. And when we look at this year, if you -- we see an average year. We're booked to an average. What is it, Phil, 88.9%?

### Philip V. Bancroft

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

88.9%.

### Evan G. Greenberg

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

Is the current accident year. Some of you who have -- what we can see in your reports have calculated kind of a 92.2%. You ought to look at how we did the math. And the math -- we don't think the math is done right. But anyway, it's booked at 88.9%, which reflects that we had [indiscernible] average [ph] year.

### Jay H. Gelb

*Barclays PLC, Research Division*

That's helpful. And then just more broadly, Evan, I'm not sure if you're at RIMS now in Denver or if you had -- I'm sure you have executives there. What's the tone coming out of the conference this week?

### Evan G. Greenberg

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

I'm in New York enjoying this lovely weather. The tone coming out of there, I'll ask John Keogh and John Lupica to make a brief comment on it. From what I can tell, the tone is stability.

### John W. Keogh

*Chairman*

I think that's right. This is John Keogh. I -- John Lupica and I just got back last evening after a couple of days out of with a whole bunch of clients and brokers. And I think that's pretty accurate in terms of



general tone. I think the expectation for the rest of the year from the clients and brokers we've talked to is more the same of what you saw first quarter, generally stable pricing with moderate to slight rate increases across casualty lines and property stable to slightly down.

**Evan G. Greenberg**

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

John Lupica?

**John J. Lupica**

*Vice Chairman and President of North America Major Accounts & Specialty Insurance*

Yes, I would absolutely agree with that. No real dislocation in the market, very stable, very consistent with the expectation that casualty will be balanced. Professional lines will be balanced, certainly, in the primarily layers. Capacity layers may get a little more competitive than the expectation that property, certainly cat pricing will get challenged.

**Operator**

We'll take our next question from Michael Nannizzi with Goldman Sachs.

**Michael Steven Nannizzi**

*Goldman Sachs Group Inc., Research Division*

So just one question I had. On the North America P&C, it looks like their loss ratio improved quite a bit year-over-year. Just trying to get an understanding of what drove that. Is it mix? I mean, it seems like pricing has been moderating. So is it partially lower loss costs or were there some one-timers in there that sort of clouded that comparison?

**Evan G. Greenberg**

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

So it is not one-timers. It's a combination of mix and price. And you notice when you see loss ratio down in some lines, they -- there are also lines that will have a higher expense ratio to them. So the yield overall combined ratio, while it's down on a current accident year more modestly than you're seeing it on simply a loss ratio basis, so that's mix and price.

**Michael Steven Nannizzi**

*Goldman Sachs Group Inc., Research Division*

Mix and price, okay. And then just on the comp, like I guess, we've had a few folks report already this quarter. I haven't seen the adjustments in the first quarter for others. So I'm just trying to understand, is it maybe the geographic profile of your book or some other complexity that has caused this sort of reporting to impact your book specifically?

**Evan G. Greenberg**

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

No, no, it's -- we are -- we're actually -- we and Wells are the 2 that are really spread geographically on a national basis. We have very good diversification by territory and crop that way. No there were certain -- particularly Iowa corn, very, very stressed this year. On the other hand, you take a place like Minnesota or the Dakotas were excellent yields. So it really varies by state. Iowa was tough. We write a lot of business in Iowa. But the late reporting by farmers, they -- their first priority is to get their crop out of the ground. I mean, you got to know that. And it isn't like submitting the claim to the insurance company. So, they're going to get their crop out of the ground. They're going to get it to a place where you're then able to measure yield as a derivative of them pulling their crops. And then the ability to -- they -- so they report a little late sometimes. And then the ability to apply the commodity price change in addition to yield and then figure out your profit/loss sharing with the government by state, because you got to have all crops in there, takes time. And we've just noticed, when there's a price difference driving loss, a commodity



price difference, it tends to create a greater lag in the ultimate development. That's all, nothing any more complex than that.

**Michael Steven Nannizzi**

*Goldman Sachs Group Inc., Research Division*

I see. And I guess there's -- from an anticipation standpoint, I guess you can't know what that is before you get those farmers' reports or you don't really have an indication of what that -- what those potential yields might be.

**Evan G. Greenberg**

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

You again -- you got to make your best guess. Look, what are we talking about? We're talking about the difference between a 95% and a 97%. So of course, you make your best guess at it. We have brought it up to a combined that we thought reflected the ultimate of 90% to 95%. So you try to do that, but you don't have it all. And so you have -- you can have 1 or 2 points or a couple of points of variability around that. It's -- you're looking at a cat, and so in this case, it was \$30 million.

**Operator**

We'll go ahead to our next question with Arash Soleimani with KBW.

**Arash Soleimani**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Just had a couple of quick ones. Just wanted to get your thoughts on expectations for the June 1 Florida renewal.

**Evan G. Greenberg**

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

In terms of?

**Philip V. Bancroft**

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

Cat.

**Arash Soleimani**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Just pricing.

**Evan G. Greenberg**

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

Pricing will -- I'm not going to prognosticate the pricing except I know it's not going up. It's going down.

**Arash Soleimani**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Right, right. And I guess one question I'm trying to get at is you see the pricing obviously declining. There are some expectations for double digit. I guess one question is how much further do you think it could go down and still at all be somewhat attractive to the traditional players?

**Evan G. Greenberg**

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

Well, I'm not going to speak for the appetite of traditional players except my own company. And there, I'm not going to make a general statement. It really depends on the individual risk. It depends on what layers you're talking about. Are you talking about the dollar-swapping layers? Are you talking about more middle range where the return periods are shorter? Or are you really talking detail where there's a minimum price

you want to be able to take the risk and rates online are generally low anyway to begin with? So it really varies. And -- but I'm not going to -- past that, I'm not going to go there.

**Arash Soleimani**

*Keefe, Bruyette, & Woods, Inc., Research Division*

Okay, that's fair. And then and I know you don't give specific guidance, but I just wanted to get some thoughts on just continuing appetite for buybacks versus M&A.

**Evan G. Greenberg**

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

Our appetite has not changed whatsoever.

**Operator**

We'll go ahead to our next question with Vinay Misquith.

**Vinay Gerard Misquith**

*Evercore ISI, Research Division*

So growth in the North American segment was really strong. If you could give us some color into what the source of that growth is and how is the competitive landscape and how are you winning the business.

**Evan G. Greenberg**

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

Yes. I'm going to just start a little bit, then ask John Lupica to talk about it. But the growth was very broad-based. Our retail, commercial, P&C business at the large account end did very well. Risk management had a -- our risk management business had an excellent quarter, as an example. Our professional lines book had a good quarter. Our E&S business in the Westchester had very strong growth, and that was -- it was off the back of both casualty, inland marine and professional lines. Professional lines in particular had a very good quarter in the E&S space. Our small commercial and our personal lines business both had decent growth in the quarter. Our small commercial business was up double-digit, and our personal lines business was up high single-digit. So we were very pleased. It was broad-based. John?

**John J. Lupica**

*Vice Chairman and President of North America Major Accounts & Specialty Insurance*

Yes. And I'll just add onto that with the same theme. The growth really has come across the board. It was broad-based, and it's from years of working strategy and a healthy U.S. market, I'll remind you. Our portfolio management has given us some insight and clarity into our books. A lot of the focus on our high-margin products and really addressed the low-margin products through underwriting actions, like price returns or conditions. As Evan noted, we have made some key investments in businesses like our Private Risk Services, small commercial, our E&S through product, our primary casualty, our global network. All of those businesses are driving in -- driving our growth and moving the needle for us. And more importantly, we're delivering our company in a really focused and coordinated way. So as Evan noted, we've seen U.S. retail up 10%, our E&S business up 13%, our small commercial business where we've had a lot of investment over the years, up 13%. Even Bermuda, our wholesale business on the island, is growing nicely. And again, it was the result of another quarter rate increases, 1.8%. Exposures are up almost 2 points, rate account and premium retentions, as Evan had noted, and our ability to change renewal positions here and there. So all in all, it was a good quarter for North America. So I hope that helps.

**Vinay Gerard Misquith**

*Evercore ISI, Research Division*

Yes, that's helpful. Just as a follow-up to that. The retentions, let's say amount you keep net, stayed flat year-over-year. That was increasing last year. So curious as to why that stayed flat this year because I would have thought reinsurance pricing has gone down. You might keep more net. So if you could help me in that, that would be great.

**Evan G. Greenberg**

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

Vinay, if reinsurance pricing went down, why would I hold more net [ph] ?

**Vinay Gerard Misquith**

*Evercore ISI, Research Division*

From the business mix change, too, I thought.

**Evan G. Greenberg**

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

No. Look, the retention, when you look at them in aggregate, is an amalgamation of each individual line of business decision and the mix between lines. But the point is our reinsurance buying strategy is quite consistent, quite stable, and our net retention reflects that stability. We're not...

**Vinay Gerard Misquith**

*Evercore ISI, Research Division*

Sure, that's helpful.

**Evan G. Greenberg**

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

We're not fundamentally opportunistic reinsurance buyers.

**Vinay Gerard Misquith**

*Evercore ISI, Research Division*

Sure, fair enough.

**Evan G. Greenberg**

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

We measure. First and foremost, we underwrite to the gross, so we look to make money through our net and our reinsurers. And then two, we buy for volatility protection and to protect a limit above our appetite for net retention based on our own risk management. So that's the fundamental first reason that we buy.

**Vinay Gerard Misquith**

*Evercore ISI, Research Division*

Sure, that's helpful. And just one last thing for Phil, just the numbers question. What's your normalized tax rate for the rest of the year, Phil?

**Philip V. Bancroft**

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

So this quarter was a little bit lower than we would have expected because of where our prior period -- primarily because our prior period development and where it occurred. If you look at the prior period development, there was very little tax on that, and that tends to drive the tax rate down overall. I believe that the range that we should be looking at is 13% to 15%.

**Operator**

[Operator Instructions] We'll take our next question from Mark Dwelle with RBC Capital Markets.

**Mark Alan Dwelle**

*RBC Capital Markets, LLC, Research Division*

A small question. In the life segment, the policy acquisition cost ratio was up fairly substantially? I know that's not a real significant item usually, but I was wondering if there was any changes in product or mix

there that might allow for it? And then while we're on the topic, maybe just a short strategic update on the life segment. We haven't heard much about it lately, not a lot of growth nor acquisitions in a while.

**Philip V. Bancroft**

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

So on the numbers question, you'll notice that admin expenses went down and acquisition expenses went up, and it's because we made a reclass. There were some marketing-related admin costs that we felt were more appropriately classified in acquisition costs, so we just made the move. Nothing substantial, no bottom line effect. Just we think a better classification.

**Evan G. Greenberg**

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

On the strategic update, our life business is predominantly -- it's made up of -- the life segment, as you know, is made up of 3 parts. One is the life re, which we have not been taking new business since '07, and that has been running off. That's the fundamental invariable [ph]. Annuity business, you have international life, and you have combined North America business, which is on the life company paper. So the international life, which is I believe what you're referring to, that business is doing quite well. It is predominantly Asia-based, though we have a book in Latin America, which is more term insurance-related. It's not traditional whole life and savings and protection-related products. That is Asia. And there, we've got over 35,000 agents now. And our agency force is growing at a rate of around 10% to -- between 10% and 15% a year right now at the moment. The business is in Vietnam. That is doing very well. In Thailand, it is doing well. Indonesia, having an excellent quarter and an excellent last year. Hong Kong, since we made that acquisition, it is generating very good growth, best growth it's seen in years and good margins and good income. And Korea, which we also purchased, which is getting on track. Korea is a more difficult territory. We've been working hard at it, and we're seeing good signs of growth, and we're getting better -- our arms around expense control and growing the agency force. And margins, we can see beginning to improve. Overall, Asia is what's powered that growth. We're very pleased with it. The operation in China, we got out of the bank-related business, which took down revenues, but the right thing to do. It really doesn't generate any money, and we are focused on building agency there. And that is on track and doing well. And so we've said that our life insurance business which -- doesn't generate a loss now. It's generating a very modest profit, breakeven to modest profit is -- because we're growing it organically, is expected to, over the next couple of years, have strong GAAP earnings emerge, and we see that on track.

**Operator**

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

**Thomas Spikes Mitchell**

*Miller Tabak + Co., LLC, Research Division*

I was wondering, the very large placement I guess, of the cat fund by the reinsurers for the Florida catastrophe insurance program, is this -- do you think that this sort of thing is more likely to stay in the United States because of the investor pool here? Or are we likely to see that migrate to other large jurisdictions?

**Evan G. Greenberg**

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

So are you saying the investor pool for the cat bond market in Florida?

**Thomas Spikes Mitchell**

*Miller Tabak + Co., LLC, Research Division*

Well, not just in Florida, but you -- we assume U.S. investors are more comfortable than foreign investors. I might be wrong with that.

**Evan G. Greenberg**

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

I don't think I'm really in a position to answer that question definitively. But I think long-term investors with large pools of capital that have a certain liquidity profile, I think, on a global basis, are more -- are going to be more attracted to this class, on the other side of the coin, as part of their portfolio diversification, even a small percentage. However, I'll note that the class itself overall is a small investment class. It's not a -- a tack-on market relative to any other investment class, it's a fraction. It's tiny.

## Operator

We'll take our next question from Ian Gutterman with Balyasny Asset Management.

### Ian Gutterman

*Balyasny Asset Management L.P.*

I was -- I found your commentary in your annual letter very interesting. I was hoping you can elaborate on a couple of points on your view of the markets. The first, you talked about commercial P&C. We are in the beginning of a transition market to -- which means a return to a more competitive cycle. I was hoping you could elaborate on that. Did that -- that read to me as you think we're cutting down reasonably close to the typical cycle we're used to experiencing. Is that what you were trying to say? And if so, how do -- or do you think there's a -- what do you think the potential of that as some others have espoused that we sort of learned from our mistakes and we have better technology and the cycle is "dead"?

### Evan G. Greenberg

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

Well, I think I -- what I said there -- I think a more nuanced approach to that. I don't think it's black or white. I don't think there is no such thing as cycle at all. And I don't think that we're going to have the kind of swings we saw in the past, in the '90s. Let's say, I don't think we're going to see those kinds of peaks and troughs. I think it will be more moderated is my bet. The exact size and shape, I have no idea. No one knows with any real certainty. And by the way, I think it's going to vary. It varies by type of business and class of business. Some businesses, you have a lot of homogeneity. You have millions of individual units of exposure, they're more homogeneous. It's more frequency-, not severity-related, lots of -- lends itself to lots of rich data and prediction. And by the way, I think you'll have less cyclical movement in those businesses. You have so much of our business where it's very difficult to predict trends. It's very difficult to -- you don't have the same homogeneity. Very difficult to just predict exposure and exact pricing differential. And you got some guys with a lot of data, and you've got lots of guys who have no data who are competing. And then you have capital movements in and out of the business that fuel and drive the appetite. On the other side, you could say, "Well, you know what? There's greater use of actuary, Sarbanes, et cetera, that helping you [ph] and SEC to help ameliorate some of the bad behavior that can occur." So when add it altogether, I said exactly what I mean, and I'm reinforcing it this quarter saying it. And that is I see the market becoming a bit more competitive. I think that trend will continue. We're seeing the rate -- the pace of rate increases moderate in casualty. We're seeing property decrease. I think that trend will continue. I think you have human nature, seeing companies who have been outperforming in certain classes and areas of lines of business and guys scratching for growth. And they're saying, "I want a piece of that, too," and it becomes a self-fulfilling prophecy. So I don't think cycles are -- have come and gone. And by the way, if you manage it right, I think there is where your great -- there is where some of your greatest wealth creation ultimately takes place. You're a disciplined insightful underwriter, and you're willing to trade share. Then ultimately, over a period of time, you will generate superior shareholder returns in growth and book value. I past that, I can't prognosticate the exact shape and size.

### Ian Gutterman

*Balyasny Asset Management L.P.*

No, that's very -- a very thorough answer. Then my only thought on that piece would be, does that suggest -- the human nature part suggest that it's going to be hard to sort of execute this -- what was that Greenspan term? The soft landing or where we manage to stop price decreases just as we hit loss

trend? Or do we likely, in at least the more competitive lines, bottom out with pricing going below loss trend over the next year or 2?

**Evan G. Greenberg**

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

You know, Ian, I think the beauty of our business, which is really then becomes your job to separate the cats and dogs, and that is forget the mean. It's the distribution around the mean. Who knows when they'll walk away and when to grow based on insight into price into trend exceeding pricing -- and even then, you can still play it if you have good margin, but knows when the margin has reached the point that the risk reward is no longer worth it? Who understands that and has the ability to execute on it? That's the question, not the mean. And that becomes your job.

**Ian Gutterman**

*Balyasny Asset Management L.P.*

Agreed, agreed. That's the hard part. Then on to the reinsurance comments you made...

**Evan G. Greenberg**

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

I think our job is hard, too.

**Ian Gutterman**

*Balyasny Asset Management L.P.*

The reinsurance comments you made about how the business model needs to change where cat is, if I can paraphrase, subsidize other lines, I guess, a, how is ACE responding to that, and b, sort of how do you see that actually playing out? Because it would seem, on one hand, that makes logical sense, but on the other hand, if you're pressured in cat maybe, you say -- not saying ACE but other less rational competitors may say, "Well, I'm not making money in cat. Why don't I go try to steal some growth in other areas?" And maybe it actually gets worse in the noncat areas.

**Evan G. Greenberg**

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

I think that's probable -- I don't know with any certainty, but I believe what I wrote is exactly that, that I believe that it'll be a painful -- it's a painful adjustment in between and that ultimately, if cat isn't going to subsidize the balance, then you're going to have to get the pricing right. But in between that, you're going to have a -- you will have what we're already beginning to see: a messier, more competitive market as people are driving for share and for growth, and they're doing it by sacrificing margins. And how are we going to play it? Very simple. We will shrink the business if it cannot earn an underwriting profit, period.

**Operator**

That concludes today's question-and-answer session. At this time, I would like to turn the conference back to Helen for any additional or closing remarks.

**Helen Wilson**

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

**Evan G. Greenberg**

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

It happens when you're at the end.

**Operator**

That concludes today's conference. We thank you for your participation.

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