

# Chubb Limited NYSE:CB

## FQ1 2013 Earnings Call Transcripts

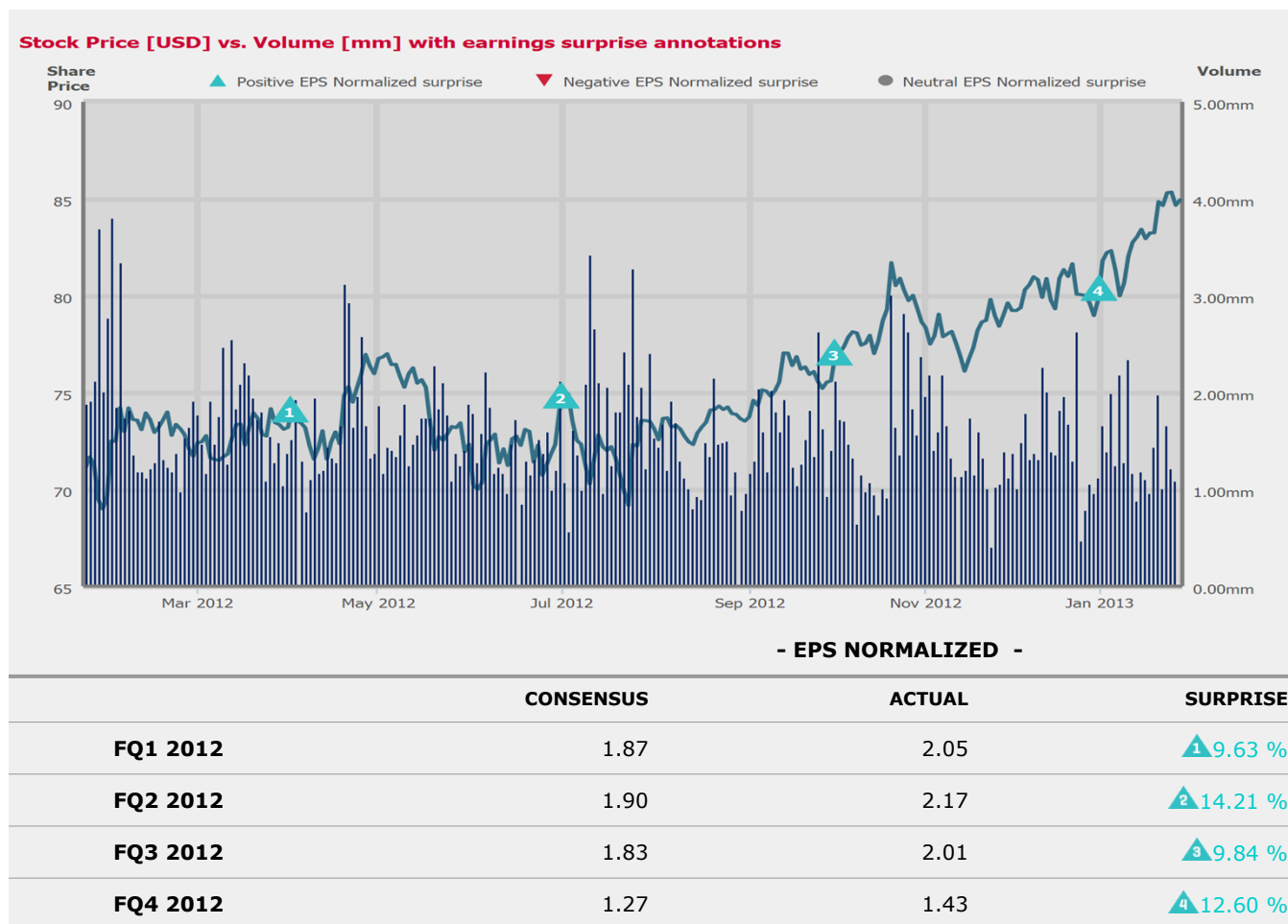
Tuesday, April 23, 2013 12:30 PM GMT

### S&P Capital IQ Estimates

	-FQ1 2013-			-FQ2 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
<b>EPS Normalized</b>	1.93	2.17	▲12.44	1.97	8.01	8.08
<b>Revenue (mm)</b>	3475.67	3296.00	▼(5.17 %)	4139.14	16296.89	17167.85

Currency: USD

Consensus as of Apr-23-2013 12:19 PM GMT



# Call Participants

## EXECUTIVES

**Brian Edward Dowd**  
Executive of Office of The  
Chairman

**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

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

## ANALYSTS

**Brian Robert Meredith**  
UBS Investment Bank, Research  
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**Charles Sebaski**

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Morgan Stanley, Research Division

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**Jay H. Gelb**  
Barclays PLC, Research Division

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**Michael Steven Nannizzi**  
Goldman Sachs Group Inc.,  
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**Michael Zaremski**  
Crédit Suisse AG, Research Division

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

**Vinay Gerard Misquith**  
Evercore ISI, Research Division

# Presentation

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## Operator

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

## Helen Wilson

Thank you, and welcome to the ACE Limited March 31, 2013, First Quarter Earnings Conference Call. Our report today will contain forward-looking statements. These include statements relating to company performance, guidance, premium growth and product pricing and insurance market conditions and acquisitions that have yet to close and be integrated, 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. And now it's my pleasure to turn the call over to Evan.

## Evan G. Greenberg

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

Good morning. As you saw from the numbers, ACE had a very good first quarter and a strong start to the year. The quality and balance of earnings were excellent with solid contributions from both underwriting and investments. Every division had strong revenue growth.

After-tax operating income for the quarter was \$746 million, up 6.5% or \$2.17 per share, and our operating return on equity was 12%. Book value per share grew 1.6% and now stands at \$82.17. Our underwriting results were simply excellent. We produced over \$360 million P&C underwriting income, up 16%, and a P&C combined ratio of 88.2%. This strong calendar year underwriting performance was driven principally by current accident year underwriting income, excluding catastrophes, that was up 37% from prior year and generated a combined ratio of 89.4%. That's almost 2.5 points better than the first quarter last year. Our current accident year results reflect the excellent underlying health of our current business, including overall growth in earned premium and a lower expense ratio, as well as margin improvement in North America as a result of better pricing and mix of business and margin improvement internationally as a result of product and geographic mix.

We produced \$531 million in investment income in the quarter, down less than 2.5%, as we benefited from an increase in partnership income. This is a good result given the historically low interest rate environment in which we operate today and which we'll continue to pressure investment income results for the entire industry for the foreseeable future. As I pointed out in our shareholder letter, this challenging rate environment is a direct consequence of the Fed's quantitative easing efforts to stimulate economic growth and bring down unemployment. While these efforts are well-intentioned, they penalize long-term savers, including insurance companies and encourage greater risk-taking as investors feel pressured and reach for yield, something we will not do. Phil will have more to say about our investment portfolio and results.

Total company net premiums in the quarter grew 6.3% with growth coming primarily from the U.S., Asia-Pacific and Latin America. In North America, with the exception of Agriculture, net premiums were up across the board with retail commercial P&C up 8.5%; wholesale P&C, up over 13.5%; and our high

net worth personal lines business, up 12.5%. Net premiums for our Agriculture business, which we now break out for you as a reporting segment, were down about 5% due to a modest amount of additional proportional reinsurance protection we purchased for the '13 crop year, which means we had to true up back to the fourth quarter. If you recall, crop premium volume is concentrated in the second and third quarters.

Internationally, net premiums for ACE International were up 8% in constant dollars. We had good growth in almost every territory. The U.K. was up 7%, Asia was up 14% and Latin America was up 12%, while the continent of Europe was relatively flat at 2%. By major product area, commercial P&C overseas was up 7%, personal lines were up 21% and A&H was up 6.5%, all in constant dollars. We fully expect international A&H growth to accelerate as the year progresses.

Premiums in our London-based excess and surplus lines business were up 5% with strong gains in energy in particular. Premiums in combined insurance were essentially flat and fundamentals there are improving as predicted, including number of active agents, which were well ahead of last year and resulting in annualized new business sales in our large U.S. core agent book of business that are up nearly 14%. For our Global Re business, premiums for the quarter were up about 6% and net sales for our international Life business grew 26% in Asia and Latin America, again on a constant dollar basis.

I want to say a few words about the current market environment. Our commercial P&C business in the U.S. continued to benefit from an improving price environment with another quarter of rate-on-rate increases. Overall, North America pricing was up 3.5% with retail rates up 3%.

By way of example, retail property rates were up 6% and commercial D&O rates were up 3% and trending higher during the quarter on a month-by-month. For risk management business, rates were up 3.6% and excess casualty rates were up about 4.5%. For our retail business, new business writings grew 27% year-on-year and our premium renewable retention rate, as measured by premium, was over 96% in the quarter with account retention at 86%.

On the U.S. wholesale side of our business, ACE Westchester rates were up over 7% overall with property rates up 7%, professional lines rates up 6.3% and casualty rates up about 9%. The retail commercial P&C rate environment internationally remains competitive but reasonably stable with retail rates up 1% overall. Loss-making accounts are getting rates. Otherwise, when business comes to market, it is competitive. In the U.K. retail market, we're seeing modest firming in the primary casualty area. International wholesale lines were up modest single-digits in the first quarter, but we're seeing signs of greater competition in London wholesale that may not bode well for future growth in that business. My colleagues and I can provide further color on market conditions and pricing trends.

Earlier this month, we completed our acquisition of Mexican surety company, Fianzas Monterrey. And we just received regulatory approval for acquisition of ABA Seguros, Mexico's fourth largest personal lines company, which we now expect will close in very early May. With the addition of ABA and FM, ACE becomes a top 5 P&C insurer in Mexico.

In summary, we are off to a strong start to the year. Our underwriting results were distinguished, and from a top line perspective, we are taking full advantage of the improved commercial P&C pricing environment in the U.S. and our broad product capability and geographic presence internationally.

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

#### **Philip V. Bancroft**

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

Thanks, Evan. Tangible book value grew 2.1% for the quarter and our cash and invested assets grew \$1.3 billion to \$62.2 billion. Operating cash flow for the quarter was \$913 million. Net realized and unrealized gains for the quarter were \$112 million after tax and included \$121 million realized gain from our variable annuity reinsurance portfolio. Investment income for the quarter included \$14 million of higher-than-expected private equity and other distributions. Current new money rates are 2.3% if we invested in a similar distribution to our existing portfolio and our current book yield is 3.7%. We estimate that the

current quarterly investment income run rate is approximately \$515 million, which is subject to variability in portfolio rates, private equity distributions and FX.

Our net loss reserves were down \$60 million in the quarter on a constant dollar basis due to payments related to Sandy and last year's crop losses. Our paid-to-incurred ratio was 107% for the quarter. When we normalize the first quarter ratio for Sandy and crop loss payments, the ratio is 88%.

Cat losses were \$28 million after tax in the quarter and we had positive prior period development of \$62 million after tax. The prior period development was split with 60% coming from short-tail lines and 40% from long tail. The long-tail development related principally to accident years 2007 and prior.

Our underwriting income in the quarter included 2 partially offsetting one-time items, which netted to a positive \$14 million benefit to underwriting. There was a pretax benefit of \$29 million relating to a settlement of a workers' compensation class-action lawsuit in which ACE was a plaintiff and a \$15 million expense adjustment going the other way. Our unusually low tax rate in the quarter was impacted by favorable adjustments to prior year tax accruals. Our tax rate also fluctuates based on where our earnings emerge.

During the quarter, we issued \$950 million of 10- and 30-year senior debt at an average cost of 3.4%. The proceeds will be used to redeem debt maturities in 2014 and 2015. During the quarter, we also repurchased \$150 million of our shares.

As you will see on our supplement, we plan to show North America in 2 segments: P&C and Agriculture. Our 10-Q presentation will be changed to reflect the new segments. Our press release issued last night included our updated guidance for 2013 to account for the positive first quarter prior period reserve development, lower-than-expected cap losses and also better-than-expected x cat current accident year results. Our range is \$7.10 to \$7.50 in after-tax operating income per share for the year. This includes cat losses of \$330 million after tax for the second through fourth quarters. Guidance is for the balance of the year and is for the current accident year only.

Before I turn it over to Helen, I'd like to address the subject of annual earnings guidance. Over the years, we provided 2 components to our guidance, operating earnings per share and an estimate for catastrophe losses. More recently, we've also provided you with an investment income run rate. After giving considerable thought to this subject, including a number of discussions with analysts and shareholders, we've decided that we will stop providing explicit operating EPS and catastrophe loss guidance after 2013. We believe that our disclosures are sufficiently detailed and clear. We will, however, continue to provide an investment income run rate that has sustained low interest rate environment in which we have strong positive cash flows, offset by an investment portfolio that is rolling into lower new money rates. We will continue to evaluate our disclosures as we go forward. Of course, we will remain open and accessible to you if you have questions or need clarifications.

With that, I'll turn it over to Helen.

### **Helen Wilson**

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

## Question and Answer

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### Operator

[Operator Instructions] And we'll take our first question from Michael Nannizzi of Goldman Sachs.

### Michael Steven Nannizzi

*Goldman Sachs Group Inc., Research Division*

Yes. I just had one question here, Evan, on the relationship between retention and rate gains. I mean, if I look at you guys over the last few quarters and some U.S. peers, it looks like retention is for you much higher. The rate gains coming through seemed to be a bit lower. I'm just trying to understand, is there a relationship there that we should understand? Or is there something else that's somewhat obscuring that comparison? And just one follow-up.

### Evan G. Greenberg

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

Well, I think you're making -- you're drawing 2 facts together that aren't directly linked. There is not -- whatever we're achieving in the rate gains is not driving our net retention increases or not -- our mix of business will drive it, number one. And secondly, in North America in the quarter, the gross is not up as much as the net is, and that drives it a little bit. There is a large transaction that will get reflected in the second quarter, wasn't reflected in the first quarter, it's a timing question. That drives a little bit of that. But overall, I don't see the rate changing and net retention, except on the margin, are linked together.

### Michael Steven Nannizzi

*Goldman Sachs Group Inc., Research Division*

I should have been a little bit clearer. You mentioned account retention was 89% and retention in North America was 96%. Is that net retention? Or are you talking about accounts?

### Evan G. Greenberg

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

No, that's retention of business. That's retention of business, and that is directly related. Sure. More business, number one, in -- you see growth in new business. And retention, more business is priced at a place that will earn a reasonable return to us, and we're retaining it. And the market is more disciplined in competing for it.

### Michael Steven Nannizzi

*Goldman Sachs Group Inc., Research Division*

Got it. And then just one follow-up. As far as if we were to look at old-fashioned primary agent-placed business or the more broker-involved primary access markets, is there a difference in terms of whether the competitiveness or the rate that you're able to take on in either of those markets, specifically about North American P&C?

### Evan G. Greenberg

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

You mean is there a difference between the broker market and the agent market?

### Michael Steven Nannizzi

*Goldman Sachs Group Inc., Research Division*

Just in terms of is there a differential in terms of your ability to extract rate gains. Obviously, the markets are very different. That's what my question, I guess.

### Evan G. Greenberg

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

Yes. It really -- I think it's by size of account, type of account and type of coverage that's being purchased where you're going to see more variability than it is necessarily related to the distribution.

**Operator**

And we'll take our next question from Mike Zaremski of Credit Suisse.

**Michael Zaremski**

*Crédit Suisse AG, Research Division*

First, in regards to margins. So if I strip out the one-time expense ratio benefit, I'm seeing accident year x cat loss ratio and expense ratio improvement of over 100 basis points year-over-year on a combined basis. So I'm curious if there's any one-time items, such as maybe benign noncat weather, which we should take into consideration when thinking about a run rate.

**Evan G. Greenberg**

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

No. It's 200 points basis points better. And when you take out the one-time items and you strip out cats and prior periods, so the current accident year on that 200 basis point improvement was the mix of business that we had in the quarter that earned its way in. And it was our growth in earned premium on both. And that mix is product line and geography-related.

**Michael Zaremski**

*Crédit Suisse AG, Research Division*

Okay. Got it. And then lastly, Evan, I appreciate the comments in the annual report addressing your thoughts on the tradeoff between acquisitions versus share repurchases. You point out the IRR on acquisitions has been 17% versus 11% versus buying back shares, so clearly the math has been superior using M&A. So that said, it's my understanding that ACE has been operating with a material level of excess capital for quite a while now. So if I'm thinking about this correctly, wouldn't it have been better if ACE had been employing a dual M&A and repurchase strategy over the recent years?

**Evan G. Greenberg**

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

I don't think so. When I look at our ROE over the period of time, frankly, our ROE was excellent. There is no such thing as just-in-time capital management, as we say. And opportunity, you can't -- it's opportunistic by its nature, opportunity. And so it comes at times in a lumpy way. And so part of strategy is being ready for what you don't know, then bad.

**Michael Zaremski**

*Crédit Suisse AG, Research Division*

Okay. That's fair. And would you be able to give us an update what you think the -- if there is an ROE drag up from excess capital currently?

**Evan G. Greenberg**

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

Sure. On an ROE drag, I don't have an exact number in my head. The last time, we were about 1.7 points on the ROE. Right now, I think we're bouncing around 1.5 points.

**Philip V. Bancroft**

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

1.5 points is what I would say, Evan.

**Operator**

And we'll take our next question from Jay Gelb of Barclays.



**Jay H. Gelb***Barclays PLC, Research Division*

I just wanted to touch base first on the share buybacks, the \$154 million in the quarter. It was the first time ACE has bought back stock in meaningful size since 2011. My sense is related to management compensation, but just wanted to clarify that and also get a sense of what we should expect on that going forward.

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

Yes, Jay. It is related to dilution that we say we buy back. We don't buy it back -- we don't match the periods exactly of when we experience dilution and when we buy back. We thought from an intrinsic value point of view, it's a good time to buy back stock and that's why we did it. As we go forward, we will periodically come into the market and buy back shares when we think it's attractive. But we don't have a set plan and a set amount that we're going to do on any quarterly basis.

**Jay H. Gelb***Barclays PLC, Research Division*

Understood. Okay. And then on the underlying combined ratio, based on going back in my model, it looks like this is the best overall underlying combined ratio for ACE in 4 years. My sense is, as you've touched on previously, business mix shift is having an effect on that. Can you discuss that in a bit more detail?

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

Yes. And then I might ask one of my colleagues to also pitch in. We've talked to you a long time about portfolio management. And as we have really worked on it for quite a long time and we think in advance of others, we were really taking action, and you'll know before the market turned, we were shedding business because we had pretty good insight into within any given line of business, the cohorts that were producing reasonable returns and those that weren't, just more granular portfolio management. That just continues to improve. It's an iterative process, continues to improve. And in a pricing environment like this, it has positioned us well because we can distinguish that which is better cohorts, better-priced from that which is more marginal even at the same or higher rates. And so our selection becomes better, more insightful, and the business we're writing is therefore producing a better margin within. And that's where we're getting the growth, more of our growth is coming from the higher-margin business.

**Jay H. Gelb***Barclays PLC, Research Division*

All right. Was there anything to add on that? Or can I...

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

I'll ask John Lupica. He's out at RIMS, and so it's very early for him. But I'll see if he wants to embellish on that.

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

And just to support the comments that Evan had made, it certainly is showing itself in North America. When I say it, it's the portfolio management strategy -- margin strategy over the last several years. We really have focused on ensuring that we grow our high-margin business. We deemphasized our lower-margin business. And we look at our new business selectively in terms of where we're able to get it. That, in addition to differential on the rate between our high-performing business and our lower-performing business, really has helped us on not only mix, but on the earned basis as the growth has come in the right spot. So it really has been our targeted strategy over the last year, and it's really shown itself in a better current accident year number this year.



**Evan G. Greenberg**

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

John Keogh, you want to add anything?

**John W. Keogh**

*Chairman*

No, I -- that same approach, we've been taking internationally as well and implementing portfolio management in our markets abroad. And I think if you look at the current accident results for our international business, the improvement year-over-year, there, too, we're identifying the portfolios, whether it's in Asia or in Europe or in Latin America that have performed best, emphasizing those opportunities and growing those businesses in a rate that is showing through now in terms of our earned premium on those better foreign businesses. At the same time, I've been talking to you guys for, gosh, quarter-after-quarter for the past few years about the wholesale business in London and how certain lines of that business just wasn't meeting our underwriting thresholds and have been shedding that business. And as that business runs off, you've seen improvement in our current accident years on our wholesale business as well.

**Jay H. Gelb**

*Barclays PLC, Research Division*

Excellent. And then just the last one on North American Agricultural. First, thanks for breaking that out. The premium volume for 2013 versus 2012, I know it's early to determine how that will shake out. But any initial thoughts?

**Evan G. Greenberg**

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

Yes. It is early. It'll be lower. It'll be lower by a couple of hundred million bucks. It's both a combination of commodity price-driven because that's what goes into the base of determining premium performer per crop. And we bought -- around if we brought a modest amount of quota share reinsurance, and that will impact the net premium as well.

**Jay H. Gelb**

*Barclays PLC, Research Division*

So a few hundred million dollars less on...

**Evan G. Greenberg**

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

With very little impact to our projected earnings.

**Jay H. Gelb**

*Barclays PLC, Research Division*

So a few hundred million dollars less on gross and net or more of an impact on net since there's more...

**Evan G. Greenberg**

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

More of an impact on net. And the number I'm speaking about is net.

**Operator**

And we'll take our next question from Greg Locraft of Morgan Stanley.

**Gregory Locraft**

*Morgan Stanley, Research Division*

Just wanted to ask or get color on the international pricing environment. One of the things I'm wrestling with is just why it's lagging North America so much. And your data is similar to what we're seeing market-wide.

**Evan G. Greenberg**

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

It's very curious to me to a degree. I haven't seen a global market behave this way before, but every period is different. In the U.S., with investment income pressure and combined ratios rising, there's more -- the insurers respond to ROE pressure and lower ROEs with greater underwriting discipline. And the structure of the market is such that the larger players who have greater insight are one at a time, they know that they've got 2 sources of income and they are practicing greater underwriting. They've determined to practice greater underwriting discipline to address that. Internationally, there is a tremendous amount of surplus capital. The reinsurance market, by the way, is not following the insurance market. The reinsurance market is more competitive in my judgment. There is a tremendous amount of capital internationally and more capital that enters, whether it's in London or it is in the emerging markets as they grow wealth, more local companies are being formed that compete. And you're not seeing the same reaction to a lower interest rate environment of greater underwriting discipline. And it's as simple as that, and they're maintaining and more market share-driven.

**Gregory Locraft**

*Morgan Stanley, Research Division*

Okay. Is it actually -- is the ROE internationally just higher as a starting point and therefore, in a way, the U.S. has to come up more? Or is it, maybe as you're alluding to, that the competitive landscape internationally, competitors are willing to except a lower ROE?

**Evan G. Greenberg**

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

I think, look, there's always a great distribution around the mean. And if you couldn't outperform the mean, I could tell you I wouldn't have interest in being in this business. But when I look at it from the point of view of just that, it varies by territory. But I wouldn't -- you look at the U.K., you look at the continent, I would hardly be proud of overall market ROEs in those markets. When I look at Latin America and Asia, those are tough territories. You've got to really know what you're doing. And when you look at market returns in those territories, ROEs on underwriting results are not that much better. And in some markets, they're worse. And investment income can vary portfolio rates by territory.

**Gregory Locraft**

*Morgan Stanley, Research Division*

Right. Okay. Last for me is just I think that taking away the guidance, speaking into next year, I think it's going to make all our lives a lot easier just given the nature of how you all have done it. Maybe it's a good time then to just revisit kind of how you think about ROE. I mean, right now, rates are low. You're doing low double-digits. If rates were to go up, well, I guess, how do you think about the ROE goal? And then what's the sensitivity of that to rates improving from here? And I'm talking about interest rates, not pricing.

**Evan G. Greenberg**

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

Yes, understood. We have not changed our objective and target, which is a 15% ROE over cycle. That is exactly where we are. Whether it is pricing or interest rate cycle, our governor is always to earn on the underwriting side, a combined ratio in lines of business of over under 100%. And depending on the product and the territory, we set goals that are substantially below that. And then the investment income, we're not going to take undue risk. And it is mostly going to be in our invested asset, in fixed income portfolio with repeatable income. And when you add all that up, the ROE will be what it will be. And we think ACE will continue to produce a superior ROE to the industry. And our goal is to achieve that 15%, and we think in more normal times, we will. You might have seen in the shareholder letter, every base

-- every 100 basis points of investment income is 2.5 points of ROE for us, and as things stand at the moment. And so if interest rates were up another, you get it. If they were up 100 or 200 basis points, we're behind -- we're ahead of that 15% number.

**Operator**

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

**Vinay Gerard Misquith**

*Evercore ISI, Research Division*

The first question is on the gap between large commercial and small commercial. Would you say that, that's starting to narrow now?

**Evan G. Greenberg**

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

The gap in what? I'm sorry, in pricing?

**Vinay Gerard Misquith**

*Evercore ISI, Research Division*

Pricing. Yes, pricing.

**Evan G. Greenberg**

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

Well, I'm not sure that you're seeing it the same as we're seeing it. I think you have to think more of a byline of business basis. So the greatest rate increases through '12 and then when you look at '13 first quarter, the greatest rate increases come in workers' comp and in guaranteed cost workers' comp, which is a line of business that we're not really engaged in to any great degree. And that casts a big shadow over the smaller and medium-sized business. The second area that was getting substantial rate was property, and then commercial auto, particularly in that medium-sized, smaller account arena. Property is beginning -- got some rate at the beginning of the quarter. It's beginning to flatten out, which given the rate-on-rate that you've seen for a while on property is not irrational to me. So that's maybe more of how I see it than simply a large accounts, small account construction. Makes sense to you?

**Vinay Gerard Misquith**

*Evercore ISI, Research Division*

Yes. Just because the large surveys out there show that small commercial pricing seems to be stronger than large commercials, I'm just trying to square that.

**Evan G. Greenberg**

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

Right. And you have to -- and I'm trying to give you the reasons to look behind that and understand what's driving it. And I think that's the -- at least in my judgment, those are more the markers to look at.

**Vinay Gerard Misquith**

*Evercore ISI, Research Division*

Okay. That's fair. The second question is on the Insurance - North American side. Your net premiums are up 9%, that's great. The gross premiums were roughly flat. Just curious why that's happening. And if you're seeing price improvement, how are you changing your reinsurance purchases to grow the net premiums?

**Evan G. Greenberg**

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

Yes. Reinsurance purchases on the margin, the change in reinsurance purchase, the net grows faster than the gross for 2 reasons. One, as I mentioned, there was a quite a large transaction that it's a timing

question that will get booked in the second quarter, it wasn't booked in the first quarter. That has an impact, a substantial impact on the difference between gross and net. And the balance is really in mix of business, where we grew businesses that just had a higher net retention to them than the year before. And they are attractive classes to us. Our reinsurance purchases changed on the margin.

**Vinay Gerard Misquith**

*Evercore ISI, Research Division*

Okay. That's helpful. And then one last thing, if I may, just on the agri insurance. You said you bought some more pro rata reinsurance, but you said the impact on the bottom line would be negligible. So would that be because you had better pricing and terms and conditions?

**Evan G. Greenberg**

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

The protection that we purchased, the additional protection from a balance of exposure and terms, we consider to be a favorable buy for ACE. And that's why we executed the transaction.

**Operator**

And we'll take our next question from Brian Meredith of UBS.

**Brian Robert Meredith**

*UBS Investment Bank, Research Division*

A couple of questions here for you, Evan. One, could you talk a little bit about loss trend and what's happening with the loss trend and how much is that contributing to the improvement in the underlying combines, particularly North America?

**Evan G. Greenberg**

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

Yes. I'm going to ask Sean to talk about loss trend. But more mix of business and growth in earned premium contributed to the increase in underwriting income. And to margin, more of the mix to lines of business, and within lines, cohorts that had a better combined profile than it is that we actually cohort-by-cohort lowered our pegs materially at all.

**Brian Robert Meredith**

*UBS Investment Bank, Research Division*

Are those lines shorter-tail lines?

**Evan G. Greenberg**

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

No, short and long, both. Want to hear about overall losses? Sean?

**Sean Ringsted**

*Chief Digital Officer of Chubb Group, Chief Risk Officer of Chubb Group and EVP of Chubb Group*

Well, Brian, Evan said it well, so I'd just add a couple of quick comments and color on that. I mean, as far as Q1 goes, it's obviously early in the year. But as we look across various portfolios frequency, we see most of the -- well, all the lines there pretty much within our expectations that we set during the planning process, so we don't see anything unusual there. Obviously, we've got some noise bouncing around. But the overall theme is nothing unusual there. And the second, in our planning process, we do remain vigilant on the loss trend. So while inflation has been relatively benign and loss trend has been relatively benign, we remain relatively conservative right now. Our peg is particularly for the higher excess casualty line.

**Brian Robert Meredith**

*UBS Investment Bank, Research Division*

Okay. And then Evan, just quickly here, in the North American P&C business, given where your combined ratios are right now, you've got, what, 3.5% rate, I think, you said in North America. Do you think the returns in allocated capital in that business are acceptable right now given the current interest rate environment? And is that why we're not seeing any more kind of acceleration in the rate activity there?

**Evan G. Greenberg**

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

Well, acceptable. The current accident year is hardly running a 15% ROE. That's where I'd like to see us somewhere between that. Maybe a little less than that would be rational given interest rates. But I think that the ROE is still a little under pressure, but the combined ratio -- but that's because of investment income. And I think the combined ratios on the business are pretty good. And that's why if you add it, as I say, if you look at the illustration of what 100 basis points does on the investment side, that adds 2.5 points to your ROE. So you just take that with the combines we're running right now and you're approximately 15%, which is, I think, a good number. I think that the rate environment right now is -- with that in mind, I do see property kind of flattening out because of where pricing is right now. I do see casualty kind of bumping along at this level of increase. It's nothing overly exciting. It's hardly a hard market, but it's a rational response to the pressure that insurers are feeling. And I don't think it's going to be enough if the industry in aggregate at these levels of increase of rate to ameliorate the impact of investment income declines. So I think you're in a place for the industry overall where ROE may improve a little bit, but it's hardly double-digits.

**Operator**

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

**Jon Paul Newsome**

*Sandler O'Neill + Partners, L.P.*

One quick one, and then a follow-up. The increased use of proportional reinsurance on the Agriculture business, does that have an impact on the underwriting results as well as the premium line?

**Evan G. Greenberg**

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

No. It did not.

**Jon Paul Newsome**

*Sandler O'Neill + Partners, L.P.*

So the decline in underwriting was a real decline. There wasn't any...

**Evan G. Greenberg**

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

No. The decline in underwriting -- sorry, Paul. Last year, in the first quarter, you'll recall the '11 crop year was a bumper crop year. And so the true-up of profit and loss from the '11 year in the first quarter produced that very good income last year. This year, the true-up in the first quarter from the '12 crop year is the result you see. You're not getting benefit of -- you're not seeing like winter wheat or corn or soybeans from this year yet, that's all in front of you.

**Jon Paul Newsome**

*Sandler O'Neill + Partners, L.P.*

Right. And then sort of a bigger-picture question, there's been a lot of talk this last quarter or so about the reinsurance business being heavily impacted by the capital markets. And it didn't seem to impact your business anymore. But do you have any sort of general thoughts as to -- if that's going to impact your business in the future?

**Evan G. Greenberg**

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

Look, we're of the market, too, but we're highly rated. We don't write an outsized cat book, as you know. We are highly rated. We have years of reputation and experience in the business and with clients and cedents [ph]. And so I see a direct impact in terms of crowding us out of line size as minor. I see more capital coming into the market impacts the rate environment. And whether that means that we'll find business, more business unacceptably priced or not in the future, we'll see as we go forward in the year. Right now, I see it more on the margin.

### **Operator**

And we turn next to Jay Cohen of Bank of America Merrill Lynch.

### **Jay Adam Cohen**

*BofA Merrill Lynch, Research Division*

Just a couple of questions. The first is you issued some debt in the quarter. It looks like interest expense went down versus the fourth quarter. I'm wondering what's behind that.

### **Philip V. Bancroft**

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

Well, first, the debt was issued in the last 2 weeks of March, right, so we had very little debt expense relating to that in the quarter. We also had a reduction in some of the collateral that we hold and pay interest on with respect to our funded deductible programs so that dropped the interest a little bit. And then we had a deposit insurance contract that had an adjustment to interest and lowered interest expense a bit. So net-net, it was down a little bit.

### **Jay Adam Cohen**

*BofA Merrill Lynch, Research Division*

Should we look at the sort of fourth quarter as more of a normal run rate x the new debt you issued?

### **Philip V. Bancroft**

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

I would say the fourth quarter plus the new debt that was issued, offset, of course, by the investment income on the proceeds for the debt that we've retained to repay the debt, redeem the debt when it comes due in '14 and '15.

### **Jay Adam Cohen**

*BofA Merrill Lynch, Research Division*

Exactly. Okay. The second question, it's very helpful that you broke out the Agriculture-related business. I'm just looking at some of the numbers that you showed for last year. And just from a modeling standpoint, can you give us any sort of sense what administrative and acquisition expense looked like? Because the numbers on the administrative side were negative last year. In the acquisition side, they kind of go all over the place. Any sort of rough guidance you can give?

### **Philip V. Bancroft**

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

I'm going to let Brian talk about it. But good luck figuring that out precisely because you have a couple of things going. You have a government reimbursement of expense and the timing of that, and then a lot of the profit and loss true-ups in formula. At the end of the day, whether it's government or agents or any of that stuff, it comes through that line. And Brian, do you want to...

### **Brian Edward Dowd**

*Executive of Office of The Chairman*

Yes. I mean, the only thing I would say is the negative expense ratio isn't normal, right? It was a function of the year, crop year and calendar years coming together with the big profit from the '11 year. So don't



think of a normal run rate as a negative expense rate, a normal run rate is a modest positive expense cost, both administrative and acquisition.

**Jay Adam Cohen**

*BofA Merrill Lynch, Research Division*

Got it. I guess, as time goes on, we'll see a more hopefully normal run rate, assuming the weather doesn't get too crazy.

**Brian Edward Dowd**

*Executive of Office of The Chairman*

Yes.

**Evan G. Greenberg**

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

You got it. But remember, abnormal could actually be a very good thing for us, too, so it depends on which quarter and what we're looking at.

**Operator**

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

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

I was wondering if you have any thoughts regarding the balance sheet and strong dollar economics or a bear market for bonds and whether it effects your business, how you write it, whether you'd be buying any hedges to protect from that, realizing capital gains and whatnot.

**Philip V. Bancroft**

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

We wouldn't expect to do that. We've said for a long time that we take our risk on the liability side and we've got a conservative investment portfolio. We don't expect to take any significant additional risk. We would -- on the margin, tactical changes that we make to the portfolio. But we don't see any significant changes to our investment profile.

**Evan G. Greenberg**

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

Let me just add this to what you just asked, and that is that it's a buy and hold portfolio mostly. So any accretion that comes in the beginning from a realized gain -- an unrealized gain or the other way, an unrealized loss, will amortize its way over a couple of years. So it's an accounting versus an economic, and we don't hedge that.

**Joshua David Shanker**

*Deutsche Bank AG, Research Division*

And in terms of currency, does a strong dollar change your view of the ROE of written [ph] in non-U.S. domiciles?

**Philip V. Bancroft**

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

No, assets and liabilities are matched.

**Operator**

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

**Thomas Spikes Mitchell**

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

Just 2 short questions. The first is does the incident that took place in Boston last week drive any change in the dynamics of underwriting the kinds of risks that are associated with events like that?

**Evan G. Greenberg**

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

No, it does not. We measure terrorism-related risk, man-made events no differently than natural events. We are thoughtful about aggregations. We're thoughtful about pricing and the kinds of exposures. This is a risk that is real, and what an unfortunate event. And it just reminds us all that, that risk doesn't go away. And we've been underwriting it to the last -- since 2001 consistently, and with that in mind that there is a real risk. And so we again manage accumulations, pricing type of risk with that in mind. And with the -- it reminds us again, while this was a terribly unfortunate event, the destruction to property and the magnitude of the event overall was relatively modest compared to what you could imagine and particularly in settings of great concentration of values. And it reminds you again of the importance of TRIA, the government backstop, that comes up for renewal next year because that tail that the government provides a cover for that tail that allows insurers to more widely offer and underwrite terrorism-related exposures.

**Thomas Spikes Mitchell**

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

Okay. That's a good answer. I was also wondering about -- shifting to other government pictures that there at least has been a proposal put on the table in Congress to reduce the amount of reinsurance available from the federal crop insurance program. And I'm wondering if that were to take place, whether it would be more of an opportunity or make the business less attractive for you.

**Evan G. Greenberg**

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

Well, Tom, from what I've looked at, the government, the budget for the most part, has been talking about -- that was put on the table -- and by the way, isn't really different than the proposal the administration put on the table last year, which didn't gain any traction in Congress. But it really -- the 2 broad elements were that the farmers themselves, the buyers of insurance, crop insurance, pay a greater share themselves. Right now, it's subsidized by the government, 60%. And then the other part of the proposal, as it relates to insurance, was to cut back the amount insurers are reimbursed for administrative expense. Those are the 2 main -- those are really the 2 main elements in the administration's proposal that again didn't gain a lot of traction with either party in Congress.

**Operator**

And we'll take our next question from Charles Sebaski of BMO Capital Markets.

**Charles Sebaski**

Had a question about the growth and strategy perspective. I was wondering if you've seen any regions or countries that you think at this time are particularly attractive from a growth and regulatory perspective for next moves for you guys.

**Evan G. Greenberg**

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

Well, you see the growth -- well, I don't want to get too specific. You see that our growth in Asia and Latin America, in particular, those regions, that's where we see the most attractive environments from both an economic and an underwriting point of view across a broad swath of product and a broad range of customer. You see that we grew double-digits in Asia and double-digit in Latin America. And that's both in nonlife and in life. I would say, at this time, the world is a dynamic place. Those are the most attractive regions of the world for us. And we just concluded 2 acquisitions that we pretty much -- we haven't closed on the second one, it will take a couple of weeks. But 2 in Mexico that really significantly increase our exposure both in Latin America and Mexico, in particular. And we view that as a quite attractive country

today. And what we see the government's actions in Mexico to improve economic growth and regulation will have -- should have a great benefit to the insurance marketplace in that country. And ACE has now positioned itself, I think, quite well to take advantage of that.

**Charles Sebaski**

With that leadership position that you're going to have in personal lines business in Mexico, is there any intent or thought about expanding the personal lines business outside of that country?

**Evan G. Greenberg**

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

It already is. We already have presence in a number of countries in Latin America in personal lines. And that is a focus of ours, though you have to be -- that's a glib statement, you have to be very careful. It's country-by-country and its kind of personal lines varies by country.

**Charles Sebaski**

Any U.S. personal lines interest?

**Evan G. Greenberg**

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

We are already in the U.S. personal lines business in the high net worth market, which our profile as a company, fits that segment of the market, and that's where we will remain.

**Operator**

And we'll take our next question from Ian Gutterman of Adage Capital.

**Ian Gutterman**

*Adage Capital Management, L.P.*

I had a couple of follow-ups. But first, just on the life insurance business, it seems that the results were a little weaker than -- well, at least weaker than they have been. They sort of seemed to be trending down over the last year. Can you just give us a little update? Is that the VA runoff? Is there FX? Or is there some pressure on the ongoing businesses?

**Evan G. Greenberg**

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

Yes. Ian, there were 2 items this quarter that don't really bode towards trend. Last year, we had some one-time items in the life insurance business internationally that was a benefit that didn't repeat this year. And secondly, combined is in 2 places. Combined had very good earnings, but combined is in 2 places. It's in ACE International, or AOG, it's in ACE Overseas General, for the international part of combined. And the U.S. part of combined, which is on life company paper, is in the Life segment. While the international portion grew in income, the U.S. portion went down in income. It's not a run rate question or any of that, some of the prior period development last year was in the U.S. combined. Those 2 together is most of it. The underlying trend that does continue quarter-on-quarter is a decrease in the VA exposure as that runs off. That was a modest amount of the income difference this quarter.

**Ian Gutterman**

*Adage Capital Management, L.P.*

Got it. Perfect. And then just to follow up on Paul's question on alternative cat capacity, I was actually thinking about it from the other side, which is as a buyer of reinsurance, it would seem to the extent as being cheaper than traditional paper. Is that an attractive option to you? Or are you a little wary of essentially the collateral versus traditional paper?

**Evan G. Greenberg**

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

Well, you've got to be careful about it. First of all, is it on an indemnity basis? Or is it on a parametric basis? And so -- are you getting the same protection? When it's collateralized, that's not a bad thing because you're holding the money, you're not chasing it. But the biggest issue, it does have a place and has a place, particularly for a company like ACE, against traditional reinsurance. Traditional reinsurance though gives you reinstatements. And generally, capital market solutions do not provide you a reinstatement. So there are differences. And so it's one shot and you're done. And where that fits within your program, it has an important place, but it doesn't simply replace traditional reinsurance.

**Ian Gutterman**

*Adage Capital Management, L.P.*

Got it. And then just last my one, I think it was Tom's question about TRIA. I think before last week, it seemed like that was facing long odds of renewal. Do you have any change of expectation? Or is it too early to tell?

**Evan G. Greenberg**

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

I didn't subscribe -- I haven't subscribed to that it has long odds of renewal. It's hard to imagine that based on a standard of rationality that things get done in Washington. However, I think from any rational point of view, TRIA is really a no-brainer to renew. It provides a backstop of certainty that allows businesses to continue on. It's not a benefit to the insurance industry, it's a benefit to business overall. Because if there wasn't TRIA, you wouldn't see much terrorism insurance sold.

**Ian Gutterman**

*Adage Capital Management, L.P.*

That was going to be my follow-up is to what extent we might see disruption a year from now if this things ends up being like flood insurance, where it always gets extended after it should get done?

**Evan G. Greenberg**

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

Well, what you'd see -- look, and I hate to forecast, but the rational response would be you only take risk to the extent you're comfortable with the net exposure on your balance sheet or the limited amount of reinsurance you can buy in the traditional reinsurance market. And that will be based on what they're comfortable just simply holding on their balance sheet. And that tail grows very quickly when you think of concentrations of economic exposure in a geographic area.

**Helen Wilson**

That's all the time we have this morning. So thank you, everyone, for joining us, and we look to speaking with you again at the end of next quarter. Thank you, and good day.

**Operator**

And this does conclude today's presentation. Thank you for joining, and have a nice day.

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