S&P Global
Market Intelligence

Chubb Limited NYSE:CB

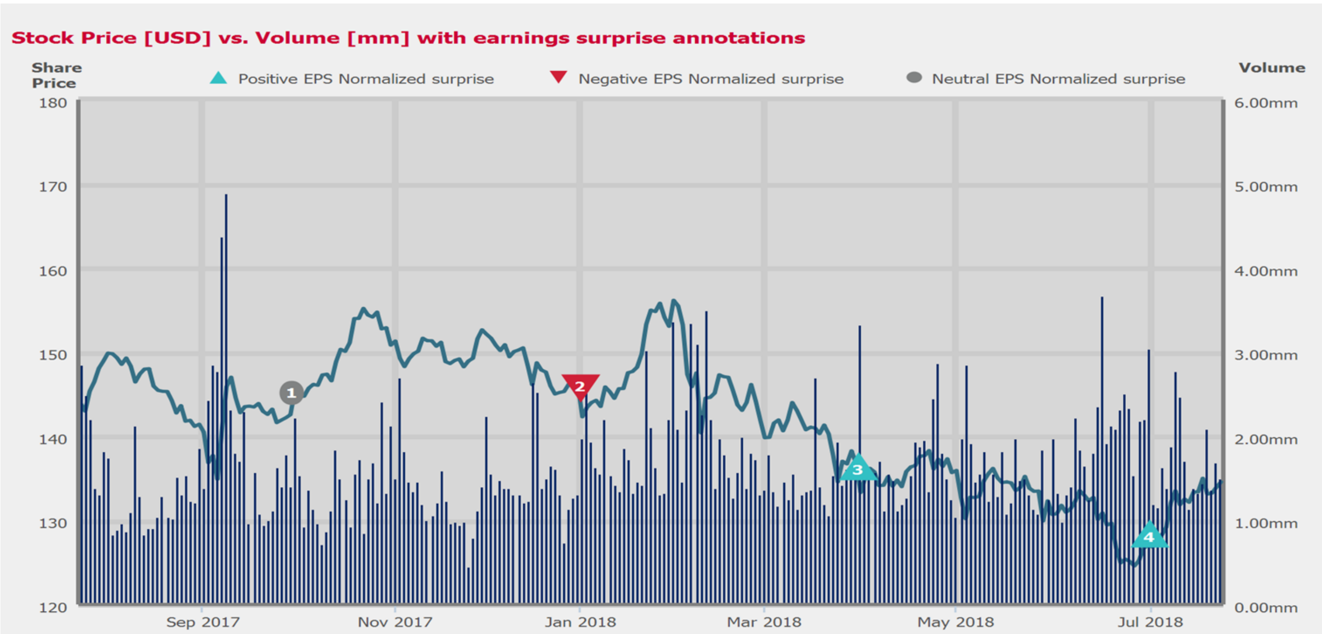
FQ3 2018 Earnings Call Transcripts

Wednesday, October 24, 2018 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2018-			-FQ4 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.36	2.41	▲2.12	2.67	10.09	11.22
Revenue (mm)	7627.57	7546.00	▲(1.07 %)	6837.00	28329.00	29704.38

Currency: USD
Consensus as of Oct-24-2018 10:36 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2017	(0.22)	(0.13)	NM
FQ4 2017	2.30	2.28	▼1 (0.87 %)
FQ1 2018	2.26	2.34	▲2 3.54 %
FQ2 2018	2.62	2.68	▲3 2.29 %

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EXECUTIVES

Evan G. Greenberg
Chairman, President & CEO

Helen M. Wilson
Senior Vice President, Investor Relations

John Joseph Lupica
Vice Chairman and President of North America Major Accounts & Specialty Insurance

John W. Keogh
Executive Vice Chairman & COO

Juan Carlos Andrade
President of the Overseas General Insurance Division & Executive VP of Chubb Group

Paul Gerard O'Connell
Senior VP & Chief Actuary

Paul Joseph Krump
Executive Vice President and President of Personal Lines & Claims

Philip V. Bancroft
Executive VP & CFO

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Presentation

Operator

Good day, and welcome to the Chubb Limited Third Quarter 2018 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.

Helen M. Wilson
Senior Vice President, Investor Relations

Thank you, and welcome to our September 30, 2018, third quarter earnings conference call. Our report today will contain forward-looking statements, including statements relating to company performance and growth, pricing and business mix and economic and market conditions, which is subject to risks and uncertainties. Actual results may differ materially. Please see our most recent SEC filings, earnings release and financial supplement, which are available on our website at investors.chubb.com for more information on factors that could affect these matters. We will also refer today to non-GAAP financial measures, reconciliations of which to the most direct comparable GAAP measures and related details are provided in our earnings press release and financial supplement. Now 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 the management team. Now it's my pleasure to turn the call over to Evan.

Evan G. Greenberg
Chairman, President & CEO

Good morning. As a global insurer, we experienced an active quarter for natural catastrophes around the world, but hardly on the same scale as the industry's record-breaking cat events from the prior year quarter. As you saw from the numbers, Chubb reported core operating income of $2.41 per share. Excluding cats and prior period reserve development, we earned $2.82 per share, which compares to $2.68 prior year on the same basis, up over 5%.

Overall it was a good quarter for the company, highlighted by excellent underwriting results and strong investment income. Premium revenue growth was good in U.S. commercial P&C and particularly strong in our international P&C business, personal and commercial, as we benefited from a number of our growth initiatives. On the other hand, growth in our U.S. Personal Lines business was impacted by the onetime accounting action we described last quarter, which distorts the year-over-year comparison.

P&C underwriting income of $669 million benefited from contributions from current accident year results and positive prior year reserve releases. Our published P&C combined ratio was 90.9%, which included 6 points of cats. On a current accident year basis, excluding cats, the combined ratio was 88.2% versus 88.5% prior year, simply world-class.

For your information, the current accident year combined ratio with an expected level of cats was 92.8% versus 93% prior year.

Net investment income of $883 million was driven by strong positive cash flow and higher reinvestment rates, which are beginning to benefit from an improving interest rate environment. Book and tangible book value per share were up about 0.5% and 1.3%, respectively, and were unfavorably impacted by FX. So we'll have more to say about book value, investment income, cats and prior period development.

Turning to growth in market conditions. For the company overall Global P&C net premium revenue, which excludes agriculture, was 4% for the quarter in constant dollars. Foreign exchange had a negative impact on growth of about 0.5%. Excluding merger related actions, growth was actually 4.5% in constant dollars. Merger-related actions are virtually behind us now.

Commercial P&C pricing for the business we wrote overall was similar to what we saw in the second quarter and in fact, better in many lines. As a general statement, pricing in the U.S. in particular is not keeping pace with lost cost trends in a number of important longer tail classes. All things being equal, this puts pressure on margins and serves as a natural governor on growth. For our company, this pressure is ameliorated to some degree in those lines by our ongoing underwriting portfolio actions and overall by our mix of business, i.e. we're emphasizing growth in other areas.

In North America, rates overall were up about 2.5%, down marginally from last quarter's 3%. The difference was almost entirely a result of mix of business. At the same time, retention of our customers remained strong across all of our North America commercial and personal P&C businesses with the renewal retention as measured by premium over 90%.

Beginning with our major account retail in E&S wholesale division, premiums were up over 3.5%. Excluding merger-related underwriting actions, which are concentrated in this division, net premiums were up about 5.5%. Again, merger related actions are now behind us with only about $20 million left for the fourth quarter.

For Major Accounts, our renewal retention as measured by premium in the quarter was 92.7%. And for the business we wrote in Major, rates overall were up 2%. The rate of increase for several important long-tail lines was higher than prior quarter, including casualty, management liability and risk management, while the rate of increase for property was lower than the last few quarters.

In our North America middle-market and small commercial business, premiums overall were up over 3.5% in the quarter. Excluding Financial Lines, where growth was essentially flat due to underwriting actions, premiums were up nearly 5%. New business was up almost 14%, with a quarter of that coming from growth initiatives. Renewal retention in our middle-market business was 90%.

Middle market P&C rates excluding comp were up 2%, the strongest quarter again in several years and continuing a positive trend, while exposure growth added an additional 1%.

In our U.S. small commercial business, premium revenue continued to accelerate in the quarter with net premiums up 30%. Over 3,700 Chubb agents are now actively using our small business platform and took advantage of our broadening appetite to submit over 34,000 opportunities to us in the quarter. Over time this will become an important business.

In our North America Personal Lines business, net premiums were up 2% in the quarter. Growth was 2.7% and in line with our expectations and the prior quarter's results after adjusting for onetime accounting actions, which we discussed on last quarter's call. Retention remained very strong at 96%. Of note, the Personal Lines loss ratio was up due to elevated lost cost, both non-cat weather and non-weather-related water and fire losses. Pricing was up 2.7% in the quarter, the strongest rate increase quarter for homeowners in a number of years. We are taking and will continue to take underwriting and pricing actions, which over a reasonable period of time will bring our loss ratio back in line.

In our North America agriculture business, yields for the crop year look very good based on what we know today. We cannot yet predict prices, but they appear to be in the range of deductibles. Our crop insurance business is a great franchise where we are the clear leaders. Crop insurance is a part of the agriculture economy, and farmers need this coverage and buy it every year, the same as other businesses buy insurance. Our ability to select and underwrite risk, pay claims and service customers year after year through our nationwide network of offices is simply unrivaled. We have 5,600 agents and 450 employees producing this business.

Turning to our Overseas General Insurance operations. As I mentioned at the opening, we experienced excellent growth this quarter in our international P&C business. Net premiums written for our international retail division were up over 8% in constant dollar, and FX then had a negative impact of 1.8 points. This compares favorably to growth of 6% last quarter and year-to-date growth of 5%, so we are experiencing good momentum.

Asia-Pacific and Latin America contributed growth of 11.5% and 10%, respectively, while the continent was up about 3.5%, and U.K./Ireland was up about 1.5%. Net premiums for our Commercial P&C lines overall in international retail were up over 11% in the quarter, while premiums for middle market and small commercial, another growth initiative we have been discussing, grew 13% in the quarter led by Asia and Latin America, the key focus regions for us, where net premiums were up 19%.

Net premiums for our London market wholesale business were up about 6% in the quarter. International Personal Lines premiums were up over 7.5% in constant dollar, driven by double-digit growth, again in both Latin America and Asia. As for pricing editions outside the U.S., rates in our international retail and London wholesale businesses vary by line and region and by country within region. We have so many classes and so many territories. Overall rate increases were in line with last quarter, up 3% in our retail division and up 4% in our wholesale business.

Our global A&H division in total had a reasonable quarter with premiums up about 4.5% in constant dollar. In our international A&H business, premiums were up 4% led by Asia Pacific with growth of over 8.5%, while premiums in North America grew 6.5%. John Keogh, John Lupica, Paul Krump, Juan Andrade and Ed Clancy can provide further color on the quarter, including current market conditions and pricing trends.

In summary, it was a good quarter for Chubb. Business activity is brisk. We have received over 1 million new business submissions year-to-date in the U.S., a record for our company and up 12% over last year. Our people are optimistic and focused on serving their customers and distribution partners. The compelling nature of our franchise, our broad product lineup, our distinguished service reputation, our expansive distribution capabilities and our geographic presence give us great confidence in our future earning power and our ability to outperform. As our industry-leading combined ratios clearly illustrate, we are trading some growth for underwriting profitability. At the same time, because of our global presence and the expanded capabilities of Chubb today, we have many areas of opportunity to take advantage of without sacrificing underwriting discipline. From our unrivaled large account franchise to our small commercial and middle market businesses globally, our international Personal Lines, global A&H and Asia-based life insurance businesses, all of which are growing more rapidly and are not subject to current commercial P&C pricing conditions, varies by area. With that I'll turn the call over to Phil, and then we'll be back to take your questions.

Philip V. Bancroft
Executive VP & CFO

Thank you, Evan. Our balance sheet and overall financial position remains strong, with total capital of $64 billion. Operating cash flow in the quarter was $1.7 billion. Among the capital-related actions in the quarter, we returned $716 million to shareholders, including $337 million in dividends and $379 million in share repurchases. Year-to-date, through October 23, we have returned $1.8 billion to shareholders, including $1 billion in dividends and $760 million in repurchases. We also paid off $100 million of debt that matured in the quarter.

Adjusted net investment income for the quarter was $883 million compared to $893 million in last year's quarter. Last year included a one-off gain of $44 million.

Given the rising interest rate environment and in anticipation of a steepening yield curve, we have shortened the duration of our fixed income portfolio from 4.2 to 3.9 years. This in effect helps immunize the portfolio against the mark-to-market impact from rising interest rates. In addition, as rates rise, we will reinvest the portfolio at a faster rate. To that point, as you saw in the supplement, our portfolio's reinvestment rate has increased year-to-date from 2.9% at December 31 to 3.5% at September 30. Our current book yield is 3.5% and therefore, the increased yield will eliminate downward pressure on investment income.

To improve the efficiency of our global cash management, we maintain a cash pooling program. Our local legal entities around the world deposit excess cash into this pool or borrow cash from the pool to minimize our global cash balances and to avoid disturbing local investment portfolios.

The cost of borrowing is included in interest expense, and the interest earned on deposits is included in investment income. The use of this program will be reduced during the fourth quarter based on current needs resulting in offsetting declines in both interest income and corresponding interest expense of approximately $10 million to $15 million. As a result, we now expect our quarterly adjusted net investment income run rate to be in the range of $875 million to $885 million, which reflects this reduction in interest. We also have investment activity that's included in other income from our private equity funds where we own greater than 3%. These returns have some variability quarter-to-quarter. This quarter, other income included $21 million pretax related to these investments. We expect our run rate on these investments to be $10 million pretax, again as part of other income.

So putting everything together, you should add to the investment income range the estimated $10 million in other income from private equity returns and the $10 million in lower interest expense for total income to the company from investment-related activities of $895 million to $905 million.

Turning to book value. In the quarter, book and tangible book value per share increased 0.4% and 1.3%, respectively. Both were unfavorably impacted by foreign exchange losses of $425 million after-tax, $252 million of which impact the tangible net assets.

As a result of our shorter duration and the diversified nature of the portfolio, there was no significant change to book value this quarter for mark-to-market changes in the investment portfolio. The mark-to-market on our fixed income portfolio was an unrealized loss of $135 million after-tax offset by other realized gains of $154 million after-tax, principally related to the valuation of the underlying investments in our private equity funds.

For the year, rising interest rates have resulted in realized and unrealized losses of $1.3 billion after-tax. Excluding the mark on investments, book and tangible book value per share increased 3.3% and 6.9%, respectively, reflecting strong underlying results, strong net investment income and positive cash flow.

Our annualized core operating ROE in the quarter was 8.7%. As a reminder, Chubb records a change in the fair value mark on its private equity funds as realized gains, so therefore it is not included in core operating income. Other companies record the impact of the mark as part of their investment income. This quarter we had after-tax gains of $144 million, which would increase our core operating EPS by $0.31 per share and our annualized core operating ROE to 9.8%.

For the year, after-tax gains of $269 million would increase our core operating EPS by $0.57 per share and our annualized core operating ROE to 9.8% compared to the reported ROE of 9.1%.

Net catastrophe losses for the quarter were $450 million pretax or $372 million after-tax as previously announced and as are further detailed in the financial supplement. We had positive prior period development in the quarter of $243 million pretax. This included $65 million of net adverse development related to the homeowners lines, where losses trended higher than expected, and $54 million of adverse development related to our legacy environmental exposure. The remaining favorable development of $362 million comprises 85% long-tail lines, principally from accident years prior to 2014 and 15% short-tail lines.

Net loss reserves increased $269 million in the quarter, adjusting for foreign exchange. The paid-to-incurred ratio was 93% in the quarter. Adjusting for PPD and cat losses, the ratio was 86%. Our core operating effective tax rate for the quarter was 14.1%. As we continue to evaluate the impact of U.S. tax reform, the final amount of the provisional tax benefit recognized might increase or decrease as new regulations are set to be issued in the fourth quarter. We continue to expect our annual effective tax rate to be in the range of 13% to 15%. And with that I'll turn the call back to Helen.

Helen M. Wilson
Senior Vice President, Investor Relations
Thank you. At this point, we would be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] And we will take our first question from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, Evan, on the -- I appreciate all the comments on the pricing view. As we're now in the fourth quarter, we're starting to annualize when we saw some of the rate increases last year. It seems like a pretty stable environment in the third quarter. Do you think the industry -- and I know this is overall, there is a lot of business lines, will be able to continue to push for a stable level of rate as we annualize the losses that we saw last year? And when you were giving the pricing color, another commercial lines insurer did point to potentially looking to higher interest rates as a reason to maybe push for less price. Could you just comment if you're seeing a reliance on interest rates in the pricing decisions of other companies in the market?

Evan G. Greenberg
Chairman, President & CEO

Well, I -- Elyse, I can't look into the minds of others so I'm not sure what they're thinking. But when I'm looking at the fourth quarter right now, I'm not seeing any change really in pricing momentum. The one variable you always have in the fourth quarter is people who really want to puff up their chest about how they grew. They chase volume always, it is just the way it works in the fourth quarter, to try to meet budgets and all that stuff. And so you always see some more desperate noise around getting business in the fourth quarter, but you don't see the same lag in other quarters. Interesting. But I have seen no change to that pattern. But with that said, we see the same pattern of rate movement so far in the fourth quarter that we saw in the third, with more casualty related lines getting rate with the exception of middle market comp; and property, because you're now rate on rate slowing down. And that's kind of the pattern, as we've been seeing it.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then in terms of the homeowners business, you alluded to taking more price and looking to improve the margins there. So is it that you guys expect the level, I guess, of non-cat losses, the fire and water that we saw in the quarter, kind of taking price for that and that might continue? And was that also a driver of the adverse development? Can we just get a little bit more color on what's going on within the homeowners book?

Evan G. Greenberg
Chairman, President & CEO

Sure. Yes, I'm going to turn it over to Paul Krump, but I'm going to make this one general statement, and it will be redundant a little bit to what he says. But we've been -- this is a trend we've been talking about for a while, and it's a trend. It's not simply a one-off, 1 quarter -- 1 or 2 quarters. We have been seeing this movement in loss ratio and talking about it for 2 years now. And with that, let me turn it over to Paul.

Paul Joseph Krump
Executive Vice President and President of Personal Lines & Claims

Thank you, Evan. Thanks, Elyse. I kind of anticipated the question, so I've got a little bit of a fulsome answer here. So the current accident year, ex cat ratio, loss ratio for PRS is up 5.7 points in Q3 2018 versus last year's Q3. So as Evan mentioned, the deterioration driven more by large -- more by larger water non-cat weather and fire losses in the homeowners line. We have experienced an increased frequency of severity throughout the year, which frankly, as you noted, has been seeping in for the last 2 years. We don't think we're alone in the industry here Elyse, in experiencing this elevated loss activity, and we are not dismissing it as simple normal volatility. Recognize we have a portfolio of homeowners, and the amount of rate needed to achieve adequacy varies by region and cohort, from no rate increase required to something more substantial. We are already surgically addressing this issue by ZIP code, age of home, construction, size of property, supporting ancillary lines of business and the type of dwelling our insured owns; variations matter between homes say and versus condo or co-op. And of course, we're doing all of this within the confines of a very highly regulated business. Along with our already taking more rate where needed, we are addressing the issue with underwriting actions, including predicting and preventing losses. We don't believe that simply passing on rate increases will win the day. That said, I've been involved in overseeing this book for a good portion of the last 15 years, so allow me to add my perspective as I hear way too much misinformation about the high net worth market and PRS in particular. First, for us, this is a homeowners issue. And while homeowners is half our book of PRS business, it is not the entire PRS portfolio. The other lines are performing well. Second, we're seasoned insurance professionals and have served the high net worth category for over 30 years. Over those years, environmental and societal changes have caused spikes or elevation in the homeowners loss ratio from time to time, and we have addressed them while growing our book. This is our business. We are very proud to serve our customers, and our world-class claim service is the bedrock of our customer value proposition. As an example, JD Power recently recognized this exceptional service by ranking us 1 of only 2 carriers to earn their prestigious 5 power circles rating for property claim satisfaction. We will continue to enhance our reputation and improve our loss ratio while growing the PRS book. Growth will continue to skew towards those clients who appreciate our broad coverages and first-class services. This past quarter, our new PRS business line was up 7% over Q3 2017. Make no mistake, we're not resting on our laurels and we will continue to blaze new trails and invest more than anyone in the high net worth business. Four quick examples. One, on the product front, we have recently launched coverage for customers with in-home businesses: Cyber coverage; farm and ranch coverage for our clients with the penchant for the outdoors; global coverages; and enhanced travel accident coverages. We are also working on what I'll call slimmed-down offerings for those prospects who desire a little less coverage and service in exchange for a premium saving. Two, on the digital front, we are working to enable the full client experience to be done digitally. Specifically within our customer portal we have recently added e-policy, e-billing, e-signature, personalized risk inspection reports, loss mitigation enrollment as well as mobile apps for items like auto-ID cards and another to monitor and promote safer drivers. We just added biometric log-in to make the process even easier, and we are just getting started. We will continue to expand our digital capabilities. Three, on the predict and prevent front, we are using the thermographic scanners, water detection and shutoff valves, arborists, art experts, our in-house risk engineers and of course our well-known wildfire defense services to assist our clients and mitigate losses, all while making ourselves more relevant to our customers, independent agents and brokers and furnishing the Chubb brand. Fourth, in speaking of our producers, we are supporting them on the sales front by arming them with hundreds of warm leads and aiding them in writing in specific ZIP codes where profitable new business resides. In summary, the past few years of wildfires, floods, hurricanes, hailstorms, tornadoes, mudslides and water damage have intensified losses and made many agents and their clients take serious notice of who is insuring them. This backdrop is causing our homeowners line to experience margin compression, but longer-term this spells opportunity for Chubb as well as our agents and brokers.

Evan G. Greenberg
Chairman, President & CEO

More than you ever wanted to know, Elyse.

Operator

And we will take our next question for Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Evan, I guess my first question is, when you talked about U.S. commercial line pricing, you said things are kind of in line, maybe a little better in casualty than last quarter, but pricing is still below loss trend. I'm just curious, where do we need to get to in order to see some margin stability here? And do you think we can get there?

Evan G. Greenberg
Chairman, President & CEO

Yes. Look, it varies by line of business. So you really -- you can't sort of make a general statement. And this is what I mean. There were some lines, E&S casualty as an example, and I'm going to turn it over to our Chief Actuary in a second to give you more color, but I want to give you a certain perspective. You can listen to commentary that says rate right now equals loss cost trend, so there is no erosion in combined ratio. Well you could be listening to that about certain E&S casualty lines that happened to be running 110 or 120 combined ratio. Now there is a head fake around that statement, right, when you hear it. There are other lines of business where frankly we're getting 1% in those casualty lines, and it is adequate because we are earning a reasonable underwriting profit there and we don't see a lot of lost cost trend, so it really varies around the lot. But to give you a more general picture of all this, let me turn it over to Paul O'Connell.

Paul Gerard O'Connell
Senior VP & Chief Actuary

Thank you, Evan. Brian, the issue on lost cost trend, first of all, our lost cause trend impacts obviously our reserves base as well as our current accident year loss ratios. If we start with the loss reserve base, I'm confident that our current reserves are adequate. As Evan pointed out, we have many different products, classes and territories so the trends do vary, but if we focus a high-level look on long-tail lines, we are seeing a continuation of the broadly favorable trends in the prior accident year development. There are a few exceptions in select product lines, particularly those where we observed elevated frequency in the last few years. On our more recent accident years or recent year loss ratios, the trend is putting pressure on margins in our casualty business. And as Evan pointed out, the combination of rate and exposure isn't keeping pace with lost cause trends in many product lines. So all else equal, there is the potential for compression in our margins. Despite the margin compression, though, most all our lines are producing an underwriting profit, and the compression in margin is also less than what the pure rate and trend math would suggest. Since one has to consider the impact of underwriting actions, particularly our portfolio management process as well as how the favorable prior year trends are flowing through our current year projections. Some high-level views on the U.S. operations for some of the casualty lines are as follows. So for workers comp, rate has been flat to declining. Our lost cost trends are exceeding exposure change. However, the continued favorable development on the prior accident year has tempered the compression that we are seeing on a year-over-year basis that one would expect given the rate activity. On the liability lines, again, a very broad mix of coverages and attachment points. We are seeing neutral to negative impact as lost cause trend is close to or exceeds current rate changes. So there has been some recent activity in rate that does show some promise, and then there are also pockets of our portfolio where we are experiencing rate and exposure in excess of loss trends. In other areas, margin compression is tempered by favorable development and underwriting actions as well.

And then finally on Financial Lines, again, also a very broad mix of products, the recent issues have been concentrated in select D&O product lines and classes, and their loss trend is running higher than rate. So the majority of the portfolio, putting aside the -- certainly the select D&O classes, is generating an underwriting profit and trends in rate have improved. Lost cost trends, while elevated, appear to have plateaued in these challenging classes. John Keogh is going to provide a little bit more color about the Financial Lines.

John W. Keogh
Executive Vice Chairman & COO

Sure. As Paul noted, we have been observing in many classes our D&O business where rates have been -- are keeping pace with lost cost trends. And I guess that would not be a surprise to any of you is that we are finding more and more instances where our underwriters are not finding instances where rates are adequate to the exposure that we're looking at. So this has led to us, as a result, shrinking our business. And in my view it's, I think, a pretty good example of good underwriting, and that is trading growth for adequate pricing. So in fact, if you look at our North American Commercial P&C business, year-to-date, that business has grown 3.6%. However, within that business is our substantial Financial Lines business. That business has actually shrunk 3.5% year-to-date. So if you look at North America Commercial P&C without the Financial Lines business, we're actually up about 5.5%. So again, an instance where we are trading because of inadequate rates to loss cost trends in that business. As respect to the actual loss cost trends in our D&O, we have been talking about this for the better part of the year. And here we are seeing an increased frequency, really starting in 2016, of suits against Boards of Directors. If you look at security class actions, they are running roughly in the last 2 years double historical averages. And there is a lot of drivers behind that. But the three that I would note, that are the biggest drivers that we observed. One would be merger objection cases. This is where in a majority of merger transactions, there is a suit against the boards, whether you are the seller or buyer, it leads to a D&O suit. We have seen that drop a little bit in frequency as Delaware courts have taken a little bit of a tougher stance against these claims, but it's definitely a problem. Emerging plaintiff bars. There's firms out there that didn't exist 10 years ago that are finding this is a great opportunity to make money, and so here we are seeing innovation. I'll call it creative theories of liability in terms of suits being against the boards and management teams. And then lastly, a driver that we're observing, and I'll call event driven litigation against boards. So imagine just traditional general liability and property claims, think of mass tort, a dam bursting and people being hurt, a cyber breach where you get property claims, you get liability claims. Well guess what, more often than not today, you'll also get allegations and claims being brought against management and Boards of Directors. So there is the loss cost trends that we observed.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. Very thorough. And just can I have a follow-up here? Talk a little bit about the agricultural crop business here. I know you said that we'll see how pricing comes out as far as how the profitability of that business does in, I guess, for the year, because yields look like they're pretty good. I guess maybe just talk about that business more from a strategic perspective? How it fits within the whole Chubb franchise? And then if I look at the profitability of that business, it has been quite attractive for the last couple of years. Do you think you are earning excess profits in that business right now? Or is that kind of where the margins' profitability should be?

Evan G. Greenberg
Chairman, President & CEO

I'm going to turn it over in one second to John Lupica, but I'm going to take the last part of that question for a moment. He is going to talk to you about average combined ratios for the last decade. And there is, of course, a range of deviation around that like any line of business, but particularly a line of business that has a catastrophe element to it. And I think that's the way you have to think about it. I don't think there is this question of excess versus inadequate or -- I would disabuse you of that. But let me turn it over to John.

John Joseph Lupica
Vice Chairman and President of North America Major Accounts & Specialty Insurance

Chubb, via our legacy companies, we've been involved in the crop business for well over 30 years now. As you know, we purchased 100% of the Rain and Hail franchise in December of 2010. And the franchise has been and continues to be the leading writer and brand in the crop insurance space. Rain and Hail is part of the ag community, with our 10 regional offices housing our 450 plus ag-only employees around the country. Our multi-peril crop insurance policies are a vital part of the chain of commerce for farmers. As a tried-and-trued revenue protection product, our farmers are able to use these policies as collateral when they are financing machinery, seed and fertilizer for the season. The financial security of the revenue product is just one critical reason for the purchase. Based on market data that we have, 86% of all eligible acres in North America utilize crop insurance due to its proven worth. Again, Rain and Hail is the leading writer with 20% of crop market. We insure over 125,000 farmers, farming 65 million net acres and growing 125 different crops. And our 10 year combined ratio has been an industry-leading 88%. We believe we can outperform the average due to a number of key differentiators in the business that really has fixed-based pricing. That's our brand and longevity in the market. Our service component and technology where we delivered to the agent to help process the business and in claims where the efficient handling and quick payment for the claims are really critical. We have a national footprint that gives us the scale and spread of risk. We have 2,600 agencies represented by 5,600 agents that are appointed, and we train every year on the marketplace. We've talked about our 10 regional leaders who are the best in the business. On the data side, we have modeling capabilities on over 2.1 million farm fields that we have had decades of data. And our leadership, who have spent their careers in this business. Now all of this has led our Rain and Hail to outperform the market. So on a simple answer, we understand the crop business. We get the cat-like volatility it brings and we manage to that, and we absolutely believe it's a core contributor to the Chubb organization. So I hope that helps.

Operator

And we will take our next question from Kai Pan from Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

You gave a very comprehensive answer to Elyse's question on Personal Line. But I do have a follow-up. Evan, you mentioned you wanted to get the core loss ratio back to -- in line. Do you mean that you're going back to the 51% levels back in 2 years ago? And how long will it take you to get there?

Evan G. Greenberg
Chairman, President & CEO

Yes. I'm not giving you a point estimate, but you're in the range. And it will take -- look, it will take a little while. It could take 18 months or thereabouts because you've got -- this is a filed product, you got to help keep filing rate increases. They've got to -- you put them in on renewal, it takes time to earn in and then in the meantime, we are taking other underwriting action regarding coverage that how we offer coverage, who we offer to, where we offer it. We're refining some of that right now based on what we know and our use of reinsurance. So all of that will play, Kai.

Kai Pan
Morgan Stanley, Research Division

Okay. That's great. The other question I have is on the Chubb's EPS growth potential. If you look at the top line premium growth underlying have been, sort of, mid-single digits, 4% to 5%, and your margin is excellent, so probably which also means probably less room for further improvement there. And then on net investment income, you've been growing mid-single digit as well. So your earnings is growing mid-single digits. If you add on top of that you're buying back $1 billion as a part of 1% to 2% of the shares. So EPS is going to grow like mid-single digits, is that right way to think about your growth potential? Another driver could just accelerate that growth?

Evan G. Greenberg
Chairman, President & CEO

Well, your math is pretty good. The thing I'd add to you -- that I'd add to that is, I think with a combination of our own underwriting discipline and the freedom that we have to grow in other areas when there are certain areas under stress, because of our geographic and product reach and the customer segments and distribution, the freedom that gives us. When I add that and I add an interest rate environment that frankly is improving from our perspective and what I think is a yield curve that's going to steepen, I might over a reasonable period of time play a little more about the earning power that will come out of the investment side. That's as far as I'm going to go Kai, because I don't engage in -- I don't give guidance and this is a guidance discussion, and so I'm being friendly and patient.

Operator

And our next question comes from Jay Cohen from Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I guess there's one quick comment I guess related to Kai's question. The other leverage you may have is, you have acknowledged you have excess capital, so at some point deploying that capital in one way or another could also add to growth, I would think. But my question is...

Evan G. Greenberg
Chairman, President & CEO

That's very true, Jay, but it's opportunistic, and I can't predict.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

No, absolutely.

Evan G. Greenberg
Chairman, President & CEO

The only thing I'd tell you is, is you go into a difficult environment, the more difficult the environment gets, I'm thinking from a macroeconomic or financial or political, that's when opportunities rear their head.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

We've seen that historically. So my question was on Overseas General. There was a -- you look at this year, there has just been a notable acceleration in the premium growth. You talked about some of the drivers. I'm wondering if you could drill down a little bit more and talk about what you think going forward will be the key areas of growth for that business?

Evan G. Greenberg
Chairman, President & CEO

Yes, I'm going to do that. But what I'm going to do first is hand it to Juan Andrade who runs that business and let him speak a little about it. And then we'll come back and have a short chat. Great.

Juan Carlos Andrade
President of the Overseas General Insurance Division & Executive VP of Chubb Group

Thanks, Jay. As Evan said in his opening comments, our international business has continued to grow very well in the third quarter and the growth was driven by international retail operation, which grew over 8% in constant dollars. London wholesale operations also grew close to 6%. We're seeing the growth accelerate as we continue to implement our strategies and leverage the power of today's Chubb through our expanded distribution, our product capabilities and our customer segmentation. Diversified platform in terms of geography, our branches within that geography, our product, our distribution continues to be a competitive advantage and a key growth driver for us. We saw growth across all of our major lines of business, with Commercial P&C leading the growth at 11% in constant dollars. As Evan mentioned, our small commercial and middle market businesses grew 13% with Asia and Latin America contributing with growth of 19%. Personal Lines also had very good growth. The investments we have made in technology, product, customer segmentation and traditional bank assurance and digital distribution are paying off. Our strongest growth continues to come from the emerging markets of Asia and Latin America as a result of our focus on customer segmentation, our consumer lines and our expanded agency bank assurance and growing digital capabilities. In the quarter, Asia grew over 11% and Latin America 10% in constant dollars. This is consistent with the double-digit growth we experienced last quarter. Our focus on the emerging middle class with targeted product offerings through a multichannel distribution approach along with our focus on small commercial, midsize companies and offering them a wide product range through technologically advanced front-end systems and accessing them through a wide distribution platform enabled by our significant branch impressions has been the backbone of our growth. Australia and Mexico are 2 examples in these regions of countries that continue to produce excellent results given the product and technology capabilities we have built and deployed and the distribution relationships that we have expanded. We have a well-diversified product and distribution platform, geographic reach and outstanding management teams. In addition, our underwriting discipline has also paid off as we have been able to react fast to changing market conditions, while competitors focus on their internal profitability issues. In addition to Asia and Latin America, we also saw meaningful growth contributions from developed markets of Japan and Europe.

Evan G. Greenberg
Chairman, President & CEO

Do we think it will continue? Well, you see momentum building.

Operator

And we will take a question from Ryan Tunis from Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

I guess just for Evan, your comment was that you're confident you'll be able to continue to outperform. In your view, does outperforming, I'm assuming that's other competitors in the industry, do you think margin stability over the next, I don't know, x amount of years, x amount of quarters is going to be enough to outperform? Or do think that you need margins to expand?

Evan G. Greenberg
Chairman, President & CEO

We're going to need what? Need the margins to expand? Is that what was the question?

Ryan James Tunis
Autonomous Research LLP

Yes. So in other words, when you think about what will make Chubb outperform fundamentally?

Evan G. Greenberg
Chairman, President & CEO

When I think about outperformance, I think -- when I look at the combined ratios of this company and I look at the size and scale of this organization and I look at the breadth of it geographically and the customers we serve and what we do and you add all of that relevance together to add to take the size of what this company is and what we are producing as earnings and the combined ratio because it's an underwriting company in the risk business, I think the company outperforms. I think it is outperforming.

Ryan James Tunis
Autonomous Research LLP

Got it. Just wanted to maybe hear you opine a little bit on catastrophes. I think, year-to-date, we are already through, I think, the level that you thought was a normalized cat load. And it doesn't seem like numerically it has been a normal cat year, but I know that things have been kind of tricky. So how should we -- how are you thinking about this year from a cat standpoint? And why are there more than $1 billion of cats just 3 quarters in?

Evan G. Greenberg
Chairman, President & CEO

I think it's an elevated cat year, for sure. I think the math speaks -- you can't be -- Ryan, it's a global question and a global answer. It's not a U.S.-centric question, though I think people tend to focus on -- in the U.S. on just seeing America and American-related when just look at the globe. There is a much bigger world out there. And on a global basis, cats are elevated. This year is elevated. And is it a new normal? There is deviation around the mean, you just look at it over the last bunch of years. It's obviously better than last year, but it is an elevated year. And you look at the cat losses in Asia, you look at some in Europe, you look at what there has been in the U.S. between -- from wildfires to water and everything in between. And you look at the fourth quarter event, it's -- this is not an average year if you define average as the mean or the median over the last 10 or 15 or 20 years.

Ryan James Tunis
Autonomous Research LLP

Fair enough. Any indication on how to think about, I guess, the Michael loss and how that might fit within our 4Q budget?

Evan G. Greenberg
Chairman, President & CEO

Look, it's early days and we don't have a good handle on this yet. Our very early indication would say $150 million to $250 million pretax net, but you know what, I don't know if it is going to be higher than that or lower than that.

Operator

And our next question comes from Mike Zaremski from Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

I have one for Phil on taxes, first. There has been a few, at least a few multinational financial firms that have signaled that this -- it's called the base-erosion tax, it's the -- BEAT is the acronym. It kicks in through 2020 could cause their tax rates to creep up in the coming years, but there is still kind of uncertainty, which I think you also mentioned as to guidance from the tax authorities. So I Know, Phil, you said 13% to 15% is the right range. But were you speaking to 2018 and more information is needed to determine longer term?

Philip V. Bancroft
Executive VP & CFO

That's exactly right. So certainly the BEAT kicked in this year and it's affecting our tax rate in this year, and it's reflected in our 13% to 15%. But as I said, there is going to be new guidance that's issued around Thanksgiving that will clarify the BEAT provision and -- among other things. And once we get to see that, we'll have a better estimate for '19.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay, great. And Evan, I kind of want to talk about -- you've been one of the leading insurers investing and talking about the need to adopt the digital age. Some of your peers seem to also be increasingly talking about it as well. I don't typically think of CapEx being material for P&C insurers, but I'm curious if it is material these days. And I guess similarly, some insurers have kind of made technology oriented acquisitions that maybe could be put in that digital CapEx bucket as well.

Evan G. Greenberg
Chairman, President & CEO

Yes, what are you asking me? What's the question?

Michael David Zaremski
Crédit Suisse AG, Research Division

So just curious if Chubb's CapEx levels are material, because I know we don't typically talk about that, but it seems like there's more and more investments being made into technology oriented processes, investments. I know you guys have been doing it for years now as well. So just curious if that is going to keep up.

Evan G. Greenberg
Chairman, President & CEO

Yes it's -- it has, and I have tried to be clear about it. I haven't given a number relative to the increase and I'm not doing that, but we -- our CapEx, our investment, both CapEx and non-CapEx related, because some of it comes directly through expense, and activities that you wouldn't classify as CapEx. But CapEx and that expense related to digital has increased over the last number of years. We have been clear we spend about $1 billion a year on technology, a good portion of that is CapEx related and capitalized, that would go towards technology related to software to infrastructure to communications, et cetera and to improve your abilities, all your insights from customer experience and data analytics and everything in between that. And of the $1 billion, roughly 40% of it is towards development that we classify as digital. And that kind of gives you a sense.

Operator

And our next question comes from Yaron Kinar from Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

I guess my first question goes back to the small commercial space. You posted 2 consecutive quarters of very, very strong growth, but -- and I hate to nitpick here, but Evan, I think last quarter you talked about getting this portfolio to a multibillion level within 3 to 5 years. So I think even with this growth level, you still would need more. So are you expecting more acceleration of your organic growth or will this require -- getting to your target, will that require some inorganic opportunities as well?

Evan G. Greenberg
Chairman, President & CEO

Well, first of all, I don't know how you did your math, because I gave you a U.S. number, but I didn't give you a basic premium, and gave you an international number where you even have less of a sense of base premium. And last quarter, we talked about the U.S. alone being at an annualized run rate of $400 million, so I am going to stop right there. I think I've answered the question.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

So maybe I misunderstood, because I do remember the $400 million number in the U.S. alone. I thought the multibillion dollar target was for the U.S. alone, so if I misunderstood, I apologize.

Evan G. Greenberg
Chairman, President & CEO

No, I think it's a -- I think it's global and -- in any event, there you go.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. That's helpful. And...

Evan G. Greenberg
Chairman, President & CEO

I didn't break it down because I just don't give guidance that way. I didn't break it down, and fair enough, I didn't break it down with how much of that would be U.S. and not, but I did leave it vague as to a -- I gave a range around it and left it vague because I'm really trying to express the intent, the kind of size of opportunity and our confidence in executing it. That's really the point, rather than to allow you to make a point estimate. I'm not trying to express it and deliver it in a way that makes it sort of worksheet related.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. That at least clarifies my confusion. And my second question was around the annual A&E reserve update. I guess I was a little surprised to see it as low as $12 million of strengthening this quarter. Could you maybe talk about that?

Evan G. Greenberg

Chairman, President & CEO

There were 2 moving parts in that. One was we did take a charge for environmental. On the other hand, we had a greater recognition because just factually came through of recoverable's against third parties that helped to offset.

Philip V. Bancroft
Executive VP & CFO

Yes, that's right. So we had a $54 million charge, as I said in my commentary, on environmental. And then as Evan says, we had the benefit of an increase in our estimate of reinsurance recoverables relating to long outstanding legacy liabilities.

Operator

And the next question comes from Jay Gelb of Barclays.

Jay H. Gelb
Barclays Bank PLC, Research Division

I was hoping to get your perspective on the Lloyd's marketplace based on the new leadership there and that market's focus on improving its underwriting profitability. What do you envision there and what are the implications for Chubb?

Evan G. Greenberg
Chairman, President & CEO

I know John Neal. I think he's a good man and I wish him -- and he's a good -- I think he is a good executive, and I wish him all the best in his role. And on the other hand, it's the chief executive of a marketplace and the governance over a marketplace. The syndicates make their individual decisions regarding underwriting, and there's only so much that the Lloyd's Corporation can do about that, though it has important strategic handles it can pull in the future. The Lloyd's marketplace is important to the industry, but it has longer-term structural issues in my mind that it ultimately has to address. It's a business model where the business seeks the market and comes to the market. That was a model that worked very well before a globalized world and before a digitized world. And I think the world has changed, and I think the model to survive and remain as robust has got to adapt. Its cost structure is way too high and the way you access the market is to an underwriter is way too inefficient. And those are the more strategic -- the bigger strategic questions, and over time given the way the world has adapted, there is an element of anti-selection that starts creeping into what comes to that marketplace if you fail to adapt. That's my reflection on that and I'll stop right there.

Helen M. Wilson
Senior Vice President, Investor Relations

Thank you. We have time for just one more person to ask a question.

Operator

And we will take our final question from Meyer Shields from Keefe, Bruyette and Woods.

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

Just a very brief question. We saw administrative expenses in corporate come down significantly on a year-over-year basis, and I was wondering whether there is anything unusual in that?

Philip V. Bancroft
Executive VP & CFO

No, there's nothing unusual. We did have some integration-related savings, but there is nothing material -- no material change in that.

Evan G. Greenberg
Chairman, President & CEO

Meyer, there is some variability quarter-to-quarter in that line based on one-off items and that's it.

Helen M. Wilson
Senior Vice President, Investor Relations

Thank you, everyone, 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.

Operator
And this concludes today's conference. Thank you for your participation and you may now disconnect.