S&P Capital IQ

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Chubb Limited NYSE:CB

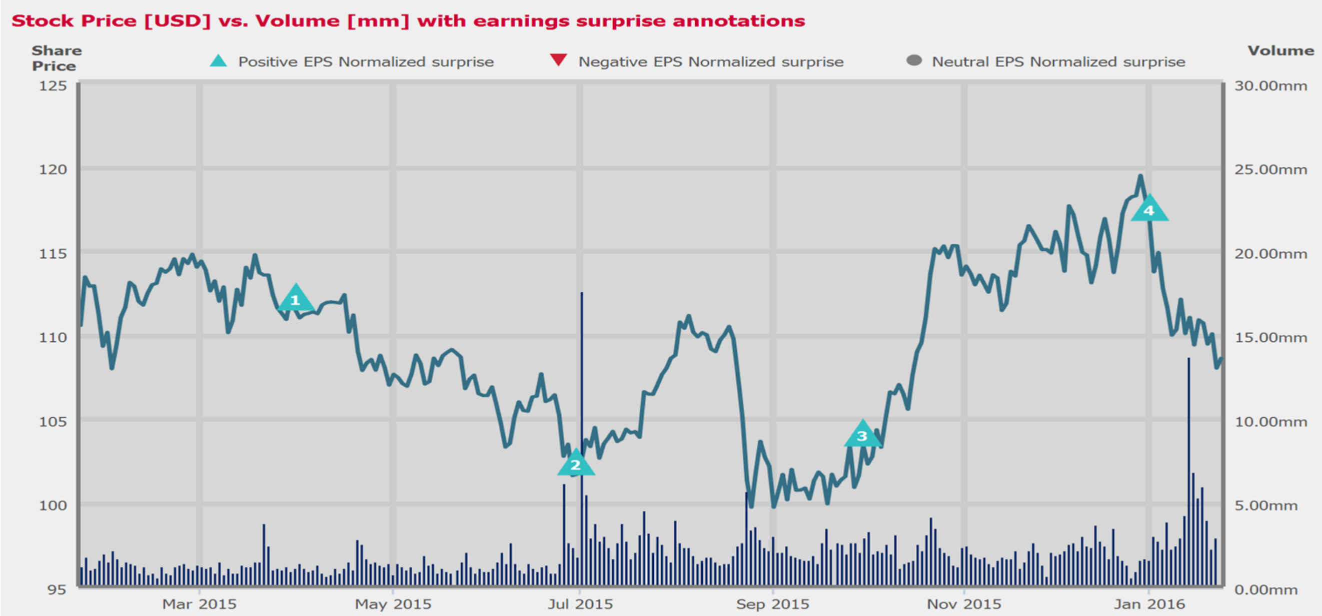
FQ1 2016 Earnings Call Transcripts

Thursday, May 05, 2016 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2016-			-FQ2 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.17	2.26	▲4.15	2.48	9.87	10.37
Revenue (mm)	6381.25	5479.00	▼(14.14 %)	7597.50	28020.33	28733.87

Currency: USD
Consensus as of May-05-2016 12:31 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ1 2015	2.21	2.25	▲1.81 %
FQ2 2015	2.28	2.40	▲5.26 %
FQ3 2015	2.37	2.74	▲15.61 %
FQ4 2015	2.26	2.38	▲5.31 %

Call Participants

EXECUTIVES

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

Helen Wilson

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Presentation

Operator

Good day, and welcome to the Chubb Limited First Quarter 2016 Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

And now for opening remarks and introductions, I'd like to turn the conference over to Helen Wilson, Investor Relations. Please go ahead.

Helen Wilson

Thank you, and welcome to our March 31, 2016, first quarter earnings conference call. Our report today will contain forward-looking statements, including statements relating to company and investment portfolio performance; pricing and business mix; economic and insurance market conditions, including foreign exchange; and completion and integration of acquisitions, including our acquisition of the Chubb Corporation, and potential synergies, savings and commercial and investment benefits we may realize. All of these statements 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.

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

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

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

Good morning. This is our first quarterly earnings report for the combined company, the new Chubb. As you know, we closed the merger of the Chubb Corporation during the quarter, the largest P&C insurance transaction ever done.

Our earnings for the quarter were very good, while our premium revenue results were somewhat impacted by market conditions, foreign exchange and the merger. And I will explain.

On a reported basis, after-tax operating income for the quarter was over $1 billion or $2.26 per share compared to $2.25 per share prior year. Since we closed on January 14, our reported results are missing 2 weeks of legacy Chubb earnings. For comparison purposes, when adjusted for that 2-week stub period, operating income was, in fact, $2.29 per share as compared to $2.25 last year. Quite good.

When discussing our underwriting results and premium growth and to give you greater visibility into the underlying health of the company, it's more insightful for you and relevant if we compare the new Chubb, excluding purchase accounting and onetime merger-related items that distort underwriting, to the '15 year first quarter as if we were one company since January 1, 2015. As an operator, this is the way I look at our results. Therefore, on a pro forma apples-to-apples basis, the new Chubb produced simply excellent underwriting results, highlighted by a calendar year P&C combined ratio of 88.9% and $720 million of P&C underwriting income. That was up 23% from prior year first quarter.

The P&C current accident year combined ratio excluding catastrophe losses was 88.8%. Pretax cat losses of $258 million in the quarter were lower than pro forma prior year by $57 million. Positive prior-period reserve development of $247 million pretax was up $55 million versus prior year. Both Global P&C, which excludes Agriculture, and our Agriculture business, produced excellent calendar year and accident year underwriting results.

Net investment income for the full quarter was $812 million, again, on a pro forma basis. This is a good result given the continued impact of foreign exchange and low interest rates, and it was right in line with our expectations.

Book value per share was up 10% in the quarter and stands at $98.85, while per-share tangible book value declined as expected, reflecting the dilution from the acquisition. If the acquisition had closed December 31, so again, on a pro forma basis, tangible book grew 4%.

Our annualized operating ROE for the quarter was 10.2%. Phil will have more to say about the investment portfolio, tangible book value as well as prior-period reserve development and cat.

Turning to revenue growth for the quarter. On a pro forma basis, Global P&C net premiums written, which excludes Agriculture, were down 1% in constant dollars or $65 million. Foreign exchange impacted premium revenue results in the quarter by about 4 points. Renewal retention rates were very good, so the impact to growth was mostly new business related. As expected, market conditions have grown more competitive around the globe, and that impacted us. I will speak about that later.

With the acquisition closing mid-January, there were also many merger-related activities in the fourth quarter and January/February, with employees focused on executing integration and learning the new organization. However, we are moving past this and will continue to do so. We had improved new business growth in March and then April. Momentum is building, and to the extent premium revenue was impacted by the integration, we are expecting improved growth.

Let me give you some more detail of our pro forma premium revenue results by major division, beginning with North America. For all of North America, including our Commercial P&C business, Agriculture and Personal Lines, net premiums written were down about 1.8% in the quarter.

Let me break that down. In our retail Commercial P&C business that serves the middle market and small commercial enterprises, net premiums were down 2%. The renewal retention rate, as measured by premium, was a solid 87%. Renewal pricing was flat in the quarter, and both exposure growth and rates were essentially flat.

General and specialty casualty-related pricing was down 1%. Financial lines pricing was up about 2%, and property-related pricing was down 1%. New business writings were down 4% year-on-year.

In our businesses serving large corporate customers and specialty E&S markets, what we collectively call Major Accounts & Specialty, net premiums were down 5%. For our retail broker-distributed Major Accounts business, the renewal retention rate, as measured by premium, was a very strong 91.5%. Pricing for the business we wrote overall was down 1%. General and specialty casualty-related pricing was down about 0.5%. Financial lines pricing was down 2%, and property-related pricing was down about 4.5%.

New business writings were down 32% year-on-year, impacted by market conditions plus merger-related focus, particularly, again, in January and February. New business activity in this division has, in fact, improved in March and April.

Our North America Personal Lines business had a reasonably good quarter, with net premiums up 7.5% in constant dollars. Excluding the impact of Fireman's Fund, growth was over 3%, rates were up 1%, and the exposure change was a positive 3.7%.

Net premiums for our Agriculture business were down 27% for the quarter, primarily due to the premium gain/loss sharing formulas with the U.S. government for the '15 crop year, which, by the way, was an excellent underwriting year. In fact, as we begin this year's growing season and as far as we can tell, we have gained market share, and the number of farms we will be insuring may very well be at an all-time high.

Turning to our international business. Results were pretty good and, in fact, better than we planned. Net premiums written for our global retail P&C business were up in the quarter nearly 4% in constant dollars. Growth varied depending on territory and product. Asia-Pacific was up 6%. Latin America was up 4%, and Europe was up 2%. From a product perspective, Commercial P&C net premiums grew just over 1%, which was a bit slower than expected. A&H grew 3%, and Personal Lines grew a strong 12%.

In our London market-based E&S, excess and surplus lines business, premiums were down 12% due totally to market conditions. Just as an FYI, as contemplated by us when we initially planned the merger, in '16 and '17, we plan to shed or shrink net written premiums in certain portfolios simply because we cannot earn adequate underwriting returns or because we want to reduce net cat-related exposures. These actions will benefit both the returns and the risk-reward profile of the company. We will update you periodically as to the impact this has on our net written premium growth rates. This will be in addition to the business-as-usual underwriting actions we take as market conditions warrant.

Concerning market conditions, we are seeing a really great response from agents, brokers and customers all over the world and in all regions of the U.S. about the new Chubb. On the one hand, for agents, the combination of our commitment to the independent agency system, the service levels and attention they are experiencing and the new products and capabilities we are and plan to bring to them are creating a lot of excitement and good will. For brokers and large account clients, the size and quality of our balance sheet, our enhanced global capabilities, both service and product related, our consistency and focus in contrast to the problems they are experiencing with others are all attracting more opportunity, and our pipeline is building.

I might add, the continuity of the employees our agents and brokers are working with at the local, regional and home office levels is both confidence building and much valued by both our agents and brokers. This includes our outstanding claims and loss control organization, which hasn't missed a beat in terms of responsiveness.

The pricing environment continues to grow incrementally more competitive, particularly in shorter-tail lines. And again, it really varied depending on the territory, line of business and size of risk.

As noted in prior quarters, large account business, particularly shared and layered, is more competitive than midsize. Wholesale is more competitive than retail, and property is certainly more competitive than casualty-related. Though casualty pricing in the main is not keeping pace with loss cost trends. None of this is a surprise.

During the quarter, for our large middle market commercial business, pricing was marginally better than we had anticipated, and for Major Accounts, about in line with expectations.

John Keogh, John Lupica, Juan Andrade and Paul Krump can provide further color on the quarter and current market conditions and pricing trends.

On another subject, namely integration-related savings and the onetime costs associated with realizing them. As we continue to do our work, we are providing an update to our initial disclosures regarding value creation and efficiencies. In terms of integration-related savings, we are now projecting to exceed our original target of $650 million, or $610 million at current foreign exchange rates, and expect an annualized run rate of approximately $750 million by year-end '18. Total onetime costs related to the merger are expected to be $811 million and consist of onetime expenses of $525 million directly attributable to achieving the $750 million savings and other onetime expenses of $286 million related to the merger, such as transaction costs, branding and employee retention costs.

In addition, as a result of the merger, by the fourth quarter, we are also now projecting an improvement to our annualized investment income run rate of $100 million to $120 million in what we would otherwise earn as we improve investment portfolio management. Phil will have more to say, including the timing by year for achieving integration-related savings and the related costs as well as the timing for achieving the improved investment income run rate and how you should think about that.

We are on track with all of our integration plans, including organization structure, process, people, technology and growth initiatives, which are at a very early stage. Integration is going as expected, including cultural integration, which is going well. As we've said from the beginning, you don't just wave a wand and put 2 strong cultures together. It takes some time. It's a process that you pay attention to, that you care about and that you lead.

While there are some differences between our 2 cultures, they are not profound. We are far more alike than different. As we focus on day-to-day business activities, we are breeding familiarity and knitting ourselves together at every level of the company. All employees, starting with leadership, are invested and paying attention.

Our organization is stable, and in fact, it is doing well. Our people are more and more engaged and focused on serving clients, writing business and overall value creation. Again, client retention is excellent, and customer and distribution partner reception in the marketplace has been outstanding.

In sum, we're off to a really good start, and the value creation that will come from our company is greater than we imagined when we announced the acquisition.

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

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

Thank you, Evan. This is our first quarter as the new Chubb, and we're starting out in an exceptionally strong financial position. We have a very strong balance sheet to support our business activities around the globe, with total capital exceeding $59 billion. Our loss reserves are conservative and in great shape. We have a $99 billion portfolio of cash and investments that's highly rated and liquid, and we're generating substantial positive cash flow.

Adjusted net investment income was $767 million in the quarter. This was within our expectations when factoring in the 14 days of investment income prior to the close of the acquisition on January 14, which amounts to approximately $45 million.

As Evan noted, we've analyzed the investment portfolio and believe that through more active management, we can raise the run rate of investment income higher than it otherwise would have been by approximately $100 million to $120 million annually without taking any significant additional risk. We plan to maintain a high level of quality with our AA rating and keep duration at approximately 4 years.

This increase in investment income, together with future operating cash flow, will help to offset the natural impact of reinvestment at lower new money rates. Our current book yield on the portfolio is 3.4%, and new money rates are 2.5%.

Before the improvements in investment portfolio management, we would have expected quarterly investment income to be in the range of $790 million to $810 million. Now with the improvements, we expect quarterly investment income to be in the range of $820 million to $840 million for the balance of the year. As a reminder, the estimated investment income run rate is subject to variability in portfolio rates, call activity, private equity distributions and foreign exchange.

Net realized and unrealized gains for the quarter were $952 million pretax and include an $846 million gain from the investment portfolio, primarily from the decline in interest rates; a $244 million mark-to-market loss on our VA portfolio, also primarily from the decline in interest rates; and a $350 million gain from FX. Before you ask, hedge fund investments represent less than 1/2 of 1% of our portfolio. They have never been a significant part of our strategy.

Operating income -- operating cash flow for the quarter was a little over $1 billion and $1.3 billion when adjusted for the 14-day stub period and onetime merger-related costs. Tangible book value per share was down 25.5%, reflecting the expected dilution of 29% at the acquisition close, offset by our strong earnings and the net realized and unrealized gains I just mentioned.

Net loss reserves increased $21.4 billion for the quarter largely due to the Chubb acquisition. On a pro forma basis, loss reserves increased $125 million, adjusting for foreign exchange. The paid-to-incurred ratio was 97%. Adjusting for cat losses and prior-period development, the ratio was 92%.

Cat losses for the quarter were $258 million pretax, primarily from U.S. weather events. Prior-period reserve development was positive $247 million pretax and comprised $135 million from long-tail lines, principally from 2010 and prior, and $112 million from short-tail lines. The positive short-tail development includes $41 million relating to Agriculture for the settlement of the 2015 crop year.

Our Life segment earnings were negatively impacted by $9 million after-tax of unfavorable claim reserve development in our U.S. combined insurance operations and the run-off of our VA reinsurance book.

Our press release includes a table showing our expectations for the amount and timing of the recognition of integration savings and onetime integration expenses over the 2016, '17 and '18 years. We also include the annualized run rate for savings we will achieve by the end of each year. For 2016, we expect the expenses to be weighted more heavily to the first half of the year and the savings to be weighted to the second half.

Our tax rate on operating income from the quarter is 16.5%, which is in the range of the expected annual effective tax rate of 16% to 18%. Quarterly tax rates will vary based on where our income emerges. For example, the first quarter tax rate is at the low end of the range due to the timing of the integration savings, which, again, are weighted to the second half of the year, and front-end purchase accounting amortization.

The additional color embedded in our annual effective tax rate estimate is the impact of our higher debt leverage. As part of the transaction, we have an intercompany loan that benefits our tax expense by $19 million in the quarter. We are comfortable that the loan will not be affected by the recent Treasury guidelines. The combination of our internal and external financing of the Chubb acquisition favorably impacts the annual effective tax rate by approximately 2 points, which is contemplated in the range that I noted.

Lastly, I'll point out that we have added some disclosures this quarter, as highlighted in our 8-K filing last week. We now show our North America Personal Lines business as a separate segment, and we're providing premium information for the regions of our Overseas General Insurance segment. We plan to provide a global line of business written premium chart in the second quarter. We have also provided pro forma underwriting information for 2016 and '15 that shows '16 without purchase accounting adjustments related to the Chubb transaction and includes the 14 days of January before the acquisition closing for comparative purposes.

As a reminder, when estimating our net written premium growth for the second quarter, last year's quarter included $252 million of onetime benefit from Fireman's Fund that will not repeat. Therefore, when Evan referenced improved net written premium growth that we expect in the second quarter, that growth is over a 2015 base that does not include the onetime Fireman's Fund benefit.

I'll turn the call back to Helen.

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

Question and Answer

Operator

[Operator Instructions] And we will go first to Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First question is on the expected merger synergy about -- raised to $750 million. And also, the pace of the realization seems faster than originally anticipated. So could you give more detail about why it's bigger now? And what's the difference from what you've previously anticipated as well as the pace of it?

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

Well, first of all, the pace of it, you already have. We gave you a chart that shows you, by year, the annualized and the realized of the expenses. I don't think anybody gives you that. And so you have that clarity already. The $750 million, the increase, it doesn't come from one place. It comes from, actually, many places as we've simply done more ground-up detail work. It comes from operations all over the world. And it's more focused in support operations and backroom than it is in any front-room activities.

Kai Pan
Morgan Stanley, Research Division

Okay. Outside these merger synergy and increased investment income, are there other areas, you think, there are potential opportunities for the combined entity?

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

No. We will update you periodically if anything materially emerges beyond that. I think the real ultimate benefits, which take time and which are really the vision of it, is revenue-related growth synergies, and those are at a very, very early stage. But we're already beginning to see benefits there in terms of the increased product capabilities we bring to customers and distribution.

Kai Pan
Morgan Stanley, Research Division

Then to follow up on that revenue potential, revenue growth opportunities, could you talk a little bit more about sort of 3 specific area in terms of high net worth and also middle market commercial lines as well as international opportunities?

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

Yes. In high net worth, what did you want me to tell you?

Kai Pan
Morgan Stanley, Research Division

Just wondered, like is that -- how the integration has been. And because we recently heard some of the competitors essentially hiring legacy Chubb people trying to start a business there, do you see potential loss of business? And what's the area of growth from current levels?

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

First of all, when we did the merger, we imagined -- it doesn't take a lot of imagination, in fact, to imagine that as a result of putting 3 of the 4 major players in high net worth together, that you would ultimately breed additional competitors in that space. And I've said that from the beginning. And that is a healthy thing. The market needs choice, number one. Number two, it isn't about the roughly $10 billion high net worth market, or $8 billion or whatever it is, that exists today. It's about the market that we imagine is in the $30 billion or $40 billion range, those who require or really need a richer product that is rich in service, rich in coverage, rich in benefits and more about service and benefits than it is about price. And those individuals who have a lifestyle and assets to protect are insured in more standard lines companies right now. And the long-term play is to attract them and serve them in the high net worth market. So that's the real play. What I'd say about competition is pretty simple. To step up to the standards and the level that Chubb represents, which is the gold standard of the business, requires years of investment and attention. You don't build something like this overnight. The capabilities you have to bring in terms of service capabilities, both risk and engineering services to individual customers, and the claims service capabilities and the richness of the coverages and the ability to service them all over the globe, well, I'll tell you what, that's not an easy lift. And you win these customers one by one, and the average premiums can vary anywhere from $5,000 to a couple of hundred thousand dollars. It's hard work. So to anybody entering the space, it is a good business. And if you do it right, it takes a lot of patience, a lot of capital and good luck. And by the way, we'll put the welcome mat out for you.

Kai Pan
Morgan Stanley, Research Division

Okay. That's good. When do you expect those revenue growth opportunity will emerge materially to the income statement?

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

I'm not speculating on the period, but what I did say is you would -- I did say initially, and I hold to that, that we expect for all the efforts we're doing right now that are revenue related, they will really begin to show in a material way by year 3, though we're already seeing it in cross-sell around the organization as we bring more specialty and our large account capabilities to the middle market and agency distribution that we have. And we will, as we have something meaningful to say about that, update you as we go along. And that, I don't expect is a year 3. I expect that's a year 1, 2 and 3.

Operator

We'll take our next question from Ryan Tunis of Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

Evan, I guess my question is just on new business in North America. It sounds like that was more of an issue this quarter potentially than retention. Just wanted a little more detail on what was driving the softness there, it sounds like, earlier in Q1. And what's allowed things to improve more recently?

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

Sure. Ryan, you see or you heard me say it. It was more large account than it was in the middle market area. Though middle market new business was down about 4%, large account was down in around 30%. January was a much tougher month in terms of new business, then February and March was better, and April was better than March as we go forward. So we know a combination of things as we look at it. Definitely, there was -- it was a more competitive environment in January. And January is always a competitive month relative to other months. As a matter of fact, I have to tell you, in the softer part of the cycle, you're better off to try to write new business in the off months of a quarter. January is tough. April can be tough, March, April. And June, July is like January, the way people go after it. And they have some growth objectives that they want to achieve. So there was some impact from that, and we see that. But in the fourth quarter, we had a lot of people we focused for 6 months very intensely on planning the merger. And there were sort of 11th-hour jitters of people as we come up to close, and everybody is focused on to a degree of the integration and the structure and who am I working for and what is my job. And then the integration itself, all the planning of that just takes time, and it's some time away from working on new business. And January, and to a degree, February, is impacted by your activities in the fourth quarter, which is November, December. And then we closed the middle of January, so everybody then has to execute. And there is just a mountain of execution when you take it by function, by area of business, by geography all over the world. And I'm very proud about how we've executed because people have done it. It's been in a -- there haven't been a lot of surprises. Everybody's known what to do, and it's gone very smoothly. And we've been -- and then people have been -- spent a lot of time getting to know each other and getting to know what the capabilities were and learning the products of each other before you can take it out to market. And we could really begin to feel that start to take hold in February, move into March, and as it moves in April, it just keeps on building. So maybe that gives you a little sense.

Ryan James Tunis
Crédit Suisse AG, Research Division

Yes, that's very helpful. And then my follow-up is just on small commercial. I'm just hoping you could talk a little bit more about the opportunity there now that you've brought out more detail on it, I think, from a product standpoint earlier in the quarter. And just how important is the small commercial initiative overall to your revenue synergy outlook over the next few years?

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

As is characteristic of, I suppose, of our organization and of me, I'm not going to do a lot of talking about something that we're building and planning. I'm hardly going to stick a roadmap out there. And we let results and activities speak, but we are -- we have all the parts and ingredients. We have the sticks to rub together and make fire. And we have the distribution. We have the data and the know-how. And we have the insight. We have the focus. We have the resource that we're putting attention to. We have the roadmap for technology. And we're coming. And we are building right now and focused on building. We already had, between the organizations, a nascent -- what I call a nascent small commercial business, modest, very modest in size, and specialty oriented. And that continues. Those efforts continue, and they have a reasonably aggressive plan in action, a set of actions to achieve results in '16. But that's not the main event for us. This is an $80 billion marketplace, and we intend, over the next number of years, to grow, to be a meaningful player. I might say, a little like I said about high net worth, you really have to -- it takes time to build capabilities, to build all the services and product know-how, to have the right insights into pricing and to execute because it's work intensive. The average premium sizes are small. It's high transaction volume, and you got to win over and wire up the distribution. And we are focused on all of that. And so over the next few years, I expect that to grow and be a meaningful contributor to our business. And as time -- as it's appropriate, we will update you more specifically. Don't look for much out of me in '16.

Ryan James Tunis
Crédit Suisse AG, Research Division

I appreciate the good new disclosure and information on the merger you guys gave.

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

You're welcome. Thank you.

Operator

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

Charles Joseph Sebaski
BMO Capital Markets Equity Research

First question, Evan, I guess, is on the Personal Lines on international. The growth was strong there. I'm curious if -- what parts or regions you're seeing and how the brand change, I guess, is working on international. Obviously, the Chubb brand is -- I think has better name recognition in the U.S. than it might internationally. I'm curious about how the international Personal Lines was going.

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

Yes. So the brand change had no impact on our revenue growth in the quarter. The growth is pretty broad based. It came from both specialty and traditional. It came from a wide range of geographies, from Mexico to Malaysia to Europe, where we do a lot of specialty. So broad based. In Mexico, it's automobile and small commercial related, but automobile in particular. In Malaysia, it's auto and, again, specialty and small commercial related. We write cell phone insurance out in Asia, and that had nice growth. In Europe, we write cell phone-related insurance, and that had really nice growth. So it isn't from one place nor one geography. And it isn't traditional versus specialty. It's broad based. But it's very -- when I say broad based, we're very targeted and focused about where we choose to do Personal Lines and how we choose to do it. It's easy to put on a lot of revenue in that business. It's not easy to do it and make a decent margin.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

What's the opportunity on the high net worth business on the international front as opposed to how -- the size of the business in the U.S.? Is that a meaningful focus for you guys now or...

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

It's a focus. Meaningful? It's nothing like the United States. And it's not going to -- I don't think of it in terms of -- if I think of the U.S., high net worth is a meaningful business. I don't think of international high net worth that way. I think of it as a good business, and it's a very good business and a good opportunity, but it's really focused in a limited number of territories. U.K. Australia, maybe a little bit on the continent, that's the majority of it. The balance is small pockets of high net worth, and that's mostly serviced by us out of our London operation.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. And just one final one, and maybe it's for Phil. On the tangible book value calculation that you guys do, the tangible -- the goodwill is done net of tax...

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

Yes, it is.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Which I think is different than how you did it before. Just trying to understand how that -- to expect to flow-through going forward.

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

Yes, it would definitely be net of tax. Goodwill and other intangibles would be reflected net of tax in our calculation of what tangible book value represents.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

And will that tax basis off the goodwill be fluctuating over time or going down? Or is that kind of -- it seemed like the goodwill, in historic, kind of stayed flat, so I'm just wondering if that's something that's going to change.

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

It should not. It would decrease in relation to the amortization of the intangibles.

Operator

From Barclays, we go next to Jay Gelb.

Jay H. Gelb
Barclays PLC, Research Division

I was hoping you could expand a bit more on the opportunity to gain market share resulting from several of the other large global commercial insurers facing some dislocation in terms of the brokers looking to have stable capacity for the customers.

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

Yes. I've talked about this a little bit in the past, and so I'm going to -- I'll talk a little more about it. The first thing I'll tell you is it's a double-edged sword, and you got to be careful. On one hand, as I said the last time, when there's a wounded animal loose, be careful. Stay out of the way. Don't try to corner it. On the other hand -- look, we represent -- and that's what I tried to say in my commentaries, we represent a very attractive market and alternative for large accounts seeking a deep balance sheet, great underwriting expertise, as you know, great reputation for service, global capability, broad product offering and services. There are -- and by the way, which has become more and more the play in large account business, your technology, your ability to deliver in a way that the service standards are met, the service expectations are met. And those standards of service have only risen. The expectations have only risen over the last decade, in the last 5 years and 3 years. People expect great data, great information in a very rapid way, self-served way, where they can serve themselves. We have that technology. Very few have that. Our ability to move money, our ability to service self-insureds, our ability to risk engineer, our ability to provide primary casualty coverages, including professional lines, all over the world and service claims, very few can do that. And we have been stable in terms of our capacity offering and our approach to underwriting and our pricing. Sometimes, the market moves closer to us when the market is more disciplined in terms of underwriting. Sometimes, the market moves further away from us because others are willing to sell something at a price we consider too cheap or at terms we consider too broad. So on one hand, we're in a market where it's competitive, and some things are being sold at prices that are below costs we think are reasonable. On the other hand, there is this pull and desire for stability and certainty and familiarity, and that is drawing more towards us. So I can tell you we just came back from RIMS, all of us there. I have not seen a reception towards our company in -- towards this company, I don't think I've ever seen the reception like I saw at RIMS. We are really popular kids on campus.

Jay H. Gelb
Barclays PLC, Research Division

All right. And then for Phil, should we still think about, in terms of share buybacks, no activity for 2016 but, perhaps, more likely in 2017?

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

We have no plans at this point for buybacks, and we'll keep you posted as we go, as we see how our capital develops.

Operator

Our next question comes from Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just a couple of questions, if I could, quickly on Personal Lines within the Overseas segment. You mentioned the growth there. What does the profitability look like in that book? Is it closer to the segment overall? Or is it closer to what you generate in the North America Personal Lines business?

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

I'm hardly going there.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

All right. Okay. Well, then back to the U.S. Do you think that in that book that you have an opportunity to grow at these levels of profitability? I mean, is there still enough room in that high net worth segment, either because of your consolidation, really, or because of the expansion of that market, for you to grow consistently?

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

Yes. And Michael, on international, the profitability meets our hurdle rates, and it meets our underwriting standards, or we wouldn't be doing it. But I'm hardly going to put a roadmap out to others. On the domestic and margin, there's been questions to us of, well, now that you're so dominant in that business, we assume you're going to now, in a sense, be predatory, take advantage, raise prices, et cetera, increase margins. I think there's a naïveté about all of that, and I think that's wrong. Our approach is to earn an adequate risk-adjusted return in the business. The business does that reasonably well today. There is a lot of risk in the business. The business is regulated. You have to file your rates, and they have to be just -- they have to be actuarially justified, and we do that. And that adds a complexity but adds a stability as well. Secondly, we want to win customers by offering a great service at a fair price, and hardly do we want to try to push it where we make our money simply on -- try to make more money on the cohort we have rather than grow the cohort if we're making an adequate risk adjustment. So with all of that, what I'd say to you is we see stability as we look forward in the margins in the business. And we don't consider that we're making excessive returns. On a risk-adjusted basis, we are not. We're making reasonable returns.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And then just -- is there a material difference between legacy Chubb's acquisition costs in sort of the Personal Lines business versus ACE's, legacy ACE's? And is that something -- if there is, is that an opportunity for the combined company?

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

There is not. Agents are -- they are very efficient when it comes to acquisition cost. And they are a great market leveler, and they are highly intelligent.

Operator

And up next is Vinay Misquith of Sterne Agee CRT.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

The first question is on the premium growth. There was a modest 1% premium decline this quarter, I guess, because of competition and some integration. I'm curious, Evan, if you could parse out what was the bigger impact and when do you think the drag from the integration will recede.

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

Vinay, I think I just have gone on about that for the last 20 minutes, and I think my commentary said it. So I can't -- if you're looking for a point estimate, a numeric estimate of what was specifically integration related versus market related, I can't give you that. Nobody knows that. But I can tell you that the market -- market discipline, for those who are disciplined in underwriting, absolutely is having an impact on growth rate, and you could see that as you look at players who've reported. And that definitely has an impact on us. And there were times -- and I've said this. I've been very clear that there are times that revenue is for vanity, and revenue growth is for vanity, and it's best you take your eye off of that. And there are pockets of the business, many pockets of the business where I and my colleagues think that it's not an overly attractive market, and you better discriminate very carefully on what you choose to write and how you choose to write it and if you want to maintain underwriting margins. And that's our first objective. So I will shed revenue without a tear in any class, in any line of business where we can't make an underwriting profit. Period. And you know that about us. The retention rates were very high. And that, to me, shows me the market reaction towards us and the demand for business from Chubb, from doing business with Chubb, by both distribution and customers, and the good work of our people. When I look at the pattern of new business and how it came in and where it came in and the timing of it, it's very clear to me that the integration -- and in discussions with our people, that the integration had an impact. And when I look at how we're moving month to month, I can see that beginning to recede and people really getting on without getting out there and driving for it. So I see a combination of both impacting it. I can't do anything about the market, and that will be what it will be. But I can tell you getting the organization focused, that is something we can do something about, and we're all focused on that. Everyone is out there. We've been to many regions, to many offices, working with our people and helping them to get on the front foot. And I feel really good about the energy level and the focus of the organization that is taking hold. And to the extent that, that impacts revenue growth, you can look forward to improved results as we go forward.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

No, that's helpful. The second question is for Phil. And first of all, thank you so much for the expanded disclosure. That's really helpful and is helping all of the sell-side with these numbers. From the expense synergies, how much of that was actually realized in the first quarter?

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

So the actual accounting save in the first quarter was $29 million.

Operator

And from UBS, we go next to Brian Meredith.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just 2 quick numbers questions and 1 other one just quickly. So Phil, on the $100 million to $120 million of additional investment income, what's the after-tax number?

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

Let's see. Let's call it $75 million on the low end of the range. The $100 million translates into $75 million.

Brian Robert Meredith

UBS Investment Bank, Research Division

Okay. Terrific. And then second question. Exposure to a couple of earthquakes we've seen recently and some of the activity in Texas?

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

Yes. We will have losses from the activity in Texas, from the earthquake in Latin America, from the earthquake in Japan. From the 2 earthquakes, from what we know at the moment, our losses will be relatively modest, nothing outsized. And from the losses in Texas, normal spring losses. You expect these kinds of losses in the springtime. It's the volatility of weather. More tornado-related activity, severe storm-related, flooding, hail, all occurs, as we know, in the second quarter. And so this kind of activity, so far, to date, what we're seeing is not producing losses beyond what we would imagine or expect.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then last question, Evan. You struck this relationship with Suning, and hopefully, I'm pronouncing that correctly, in the quarter. Could you give us -- elaborate a little bit on kind of what the potential is there for that relationship, how quickly you expect it to ramp up?

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

Yes. I expect it to ramp up and begin showing potentially, you don't know with certainty, but potentially real premium revenue in '17. It is direct-response marketing in all its forms, digital, phone-based, predominantly of simple accident, travel and credit-related products, maybe some small commercial, householders-type products to serve the customer base of Suning, that is approximately 130 million people that are active users of Suning. Suning has about 1,500, thereabouts -- I'm sure I have the number wrong, but thousands of stores throughout the country. And then they have a very large, very active online business. They serve financial needs of over 30 million customers, and we will be -- and do it in a digital way, and we will be actively marketing to those. The cooperation -- it's one thing to sign one of these. It's another thing to actually operationalize. And we're just beginning the operational phase, and this is something that the real meaningful benefit will come over a few years. But Suning, in very early days, is showing to be a very active and cooperative partner and is a giving us a lot of access to data, a lot of encouragement in terms of use of their distribution and is very welcoming with building the business, and I'm grateful for that effort. So this could be -- we're cautiously optimistic. This could be a great venture.

Brian Robert Meredith
UBS Investment Bank, Research Division

And it's on your paper or Huatai's paper?

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

No, this is on our paper. It's on Chubb. We've got 100% of this.

Operator

We'll go next to Josh Stirling of Sanford Bernstein.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

So listen, I just wanted to touch a bit more on growth from more of a long-term perspective. Obviously, we all think of you as a growth company, but with the moving pieces of the market and integration, it was obviously a flat quarter. When you, Evan, look across the portfolio and sort of look a couple of years out, what kind of long-term organic growth rates do you guys think are potential? And I think this is an important question for us because it's hard to figure out from the outside given all the different growth businesses you have at legacy ACE and in combination with, obviously, the legacy Chubb opportunity. And I would really love to get a sense of what you're shooting for and what you think, maybe through the cycle, kind of long-term underlying organic growth potential might be.

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

Yes. So I'm going to answer and give you 2 answers. First, you didn't define growth the way I define growth and the way, therefore, we define growth -- a growth company for us. A growth company in this business is growth in book value and tangible book value. That's how you define growth in a risk business, not revenue growth, which is an overly simplistic way. Ultimately, you have to gain revenue growth as well. So I reject that notion of what's a growth company. Number two, we will -- we don't give guidance, and so I'm not going to start giving guidance about revenue growth, but I will say this to you. I firmly believe that whatever the growth rate was projected, and at ACE, we do long-term -- at ACE, we did long-term 5-year plans. We would roll forward every year. And we had a projection of what we thought our growth rates would be over a coming 5-year period. I have a sense of what Chubb -- legacy Chubb would have thought of its growth potential over a 2- to 3-year period and what they would have seen. I do firmly believe that when you sum those 2 together, the 2 together will have greater growth than the 2 would -- the sum of the 2 separately would. There is little doubt of that in my mind. How significant? We have ranges internally from what we think might be conservative to what we think might be more aggressive. But when I pitch it up the middle, I think it will be meaningful. And I did say that I thought that by the fifth year, it would come into the billions of dollars range and multiples of billions, and I believe that, from what it otherwise would be. And while that's not a -- what you wanted as an answer from me specifically, I hope that gives you some insight.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

Sure, sure. We'll take it and work with what we can. If I just were to ask you more tactically, managing risk through the soft market is a major focus for a lot of investors. Could you walk us through a little bit of your sort of tactical playbook as you think about maintaining margins through the next 3 or 4 years?

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

Well, maintaining margins is about underwriting, and it's about underwriting selection, and it's about your portfolio. What I love is the balance of business in this company. By geography, when I look at opportunities through Asia, when I look at opportunities in Latin America, when I look at opportunities through the United States and I just look geographically, I see -- and in Europe, I see so much room to move, where there are some territories and some lines of business that, to maintain margin, you need to shrink. I see other areas where we have the capabilities, we have the presence and it's about execution to grow in those areas. And when you have the data we have and the knowledge we have, putting that to work, it is a job of execution at that point. When I look at our spread of business by type of business, by customer, from large segment where it's obviously, except for the dislocation of others that put some wind at your back, it's obviously the more difficult area to grow, and in fact, you're going to go sideways or shrink it in many areas of that business if you're going to maintain underwriting discipline. But I then look on the other side of the coin at the middle market and the capabilities we have in that area and our reputation and our relationships and our ability to drive more product and grow that more quickly, that just gives me a lot of optimism. I look at our A&H business around the world. I look at our Personal Lines business, both in the United States and outside the U.S., and potential in that area. I add it all up, and there are areas where you apply the gas, and there are areas where you apply the brake. And we know how to do that quite well. And as I said, I will never get baited into revenue growth to maintain margins. And when my guys are feeling a little bad because they have to shed business to maintain margin, I got to tell you what, I suck it up and I cheerlead it because it's the right thing to do.

Operator

We'll take our next question from Sarah DeWitt of JPMorgan.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

I just wanted to drill down on the expense savings. How much do you expect to drop to the bottom line? My sense is legacy Chubb was somewhat under-invested in, so are the expense savings net of any reinvestment? Or how much could that be?

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

No, we haven't figured in -- that's not net of reinvestment. And Sarah, you have a natural growth -- I'm not going to give you any point estimate number. You have a -- but I'll give you the way I think about it, and 2 ways. One, you have a natural growth rate of expenses based on your invested base of businesses, and you can see that. You see how ACE has been disciplined in expense and Chubb was disciplined in expense. So the overall organization is disciplined that way. You then have some investments you make in new businesses, so small commercial, as an example. Or maybe you're expanding your cyber business or other businesses, and those will take investments. And then on the other side of the coin where -- we talk about legacy Chubb as being starved in some ways, and I think that's right. On one hand, it's technology, and so you invest in technology. But there, you have a cash spend, but you then capitalize and amortize over many years, so that impact will not be as you would imagine, sort of $1 of expense and $1 drops to the bottom. But you got a cash flow, and then you have an amortization of it. So those are what draws away from expense save and from the direct -- coming directly all to the bottom.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay, great. And then on the reserve...

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

I didn't help you worksheet manage it that much better, I got it. But we each live in our own hell.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

No, no. That's helpful insight, though. And then on the reserve releases, that was higher than I would have expected. Could you just talk about the difference...

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

What did you expect?

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

A little bit lower than the pro forma a year ago.

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

How did you do your number?

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

It was not that scientific, I'll tell you.

Evan G. Greenberg

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

I thought so. I'm sorry. I just had to do that. It was like, well, what do you think? How'd you do it?

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

More directional. But could you just elaborate? Are there differences between the reserve process at legacy Chubb and legacy ACE? For example, does one company lets the reserves season for longer? Or does one company take them down quicker historically?

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

Yes. There was -- the one thing I'm going to say, and then I'm going to ask a colleague of mine to give you a little more insight into it, there was not a change in reserving process, the way of thinking about reserve at either legacy Chubb or legacy ACE, that produced this. There was consistency. And I'm going to ask Sean Ringsted to now just give you a little more.

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

Sarah, I think just by way of background, as we went into the integration, we found a lot of similarities between the companies, right, as opposed to the differences. And the differences are very much at the margin, but both companies have robust processes. We've got really good teams of actuaries and good control environments. And the methods and the assumptions in the reserving methodology are pretty consistent across like products. And I think, too, and you've heard Evan emphasize this on prior calls, right, both legacy companies have a conservative approach, especially for the long-tail casualty lines. There are some differences. I'd put those at the margin. Clearly, our process in terms of timing and frequency of studies would be different. Our reserving platforms are different, but we're working to converge those processes and expect to have that done in 2017. So I think you'll find far more similarities in the respective processes, and we're going to enjoy continuing those in the future.

Operator

And we'll take our final question from Jay Cohen of Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Great. Just 2 questions. I think they're relatively quick. First, for Phil, the interest expense on an ongoing basis, where will that land?

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

It's in our interest expense in the corporate segment.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

No, I mean, what's the number? Is the first quarter a good number to use going forward?

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

It is. It's a complete number. All right, you know what I would do? There's 14 days of the interest expense that we didn't put into operating income. So I would just gross that up by the 1/6 of the quarter that wasn't there.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes, that's what I figured. I wanted to check that. And then secondly, on the investment income, the pickup you talked about, what changes to the portfolio are you making to achieve that higher run rate of investment income?

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

We've had extensive discussions with our outside managers who have a real deep expertise in asset allocation and municipal and corporate credit research. And our analysis shows that we can restructure the portfolio within securities and sectors to enhance the yield and diversify the holdings. And I just want to reemphasize that those actions are not going to alter the risk profile of the portfolio. We'll keep the overall credit rating at AA.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And Phil, is part of the benefit that Chubb had a big muni portfolio, the tax structure of the overall company is a bit different? Can that be restructured a bit? Or is that really not part of the game plan?

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

I think over time, I think we can more actively manage the municipal portfolio, but that will take time as a lot of that is long-dated. So that's certainly a part of it, to change from a really high-rated long-term hold strategy to a more active management in the muni portfolio.

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

But not -- your question was as a percentage of the total portfolio.

Philip V. Bancroft
CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

We don't expect that to change.

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

Right.

Helen Wilson

Okay. 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
This concludes today's presentation. Thank you all for your participation.