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Market Intelligence

# **Chubb Limited** NYSE:CB

## *Earnings Call*

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# Call Participants

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## EXECUTIVES

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*Senior Vice President of Investor Relations*

**Peter C. Enns**  
*Executive VP & CFO*

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# Presentation

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## Operator

Ladies and gentlemen, thank you for standing by. My name is Brent, and I will be your conference operator today. At this time, I would like to welcome everyone to the Chubb Limited Third Quarter 2023 Earnings Call.

[Operator Instructions]

It is now my pleasure to turn today's call over to Ms. Karen Beyer, Senior Vice President and Director of Investor Relations. Ma'am, please go ahead.

## Karen L. Beyer

*Senior Vice President of Investor Relations*

Thank you, and welcome, everyone, to our September 30, 2023 Third Quarter Earnings Conference Call. Our report today will contain forward-looking statements, including statements relating to company performance, pricing and business mix, growth opportunities and economic and market conditions, which are subject to risks and uncertainties, and actual results may differ materially. Please see our recent SEC filings, earnings release and financial supplement, which are available on our website at [investors.chubb.com](https://investors.chubb.com) -- [investors.chubb.com](https://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 statement supplement.

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

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

## Evan G. Greenberg

*Executive Chairman & CEO*

Good morning. As you saw from the numbers, we had another outstanding quarter. Our performance was marked by double-digit global P&C premium growth, world-class P&C underwriting results including an 88.4% combined ratio, record net investment income and strong life operating income, all leading to record operating earnings per share. Once again, our premium revenue growth was well spread and broad-based with excellent results in our Commercial and Consumer businesses in both our North American and International operations.

Our annualized core operating ROE was 13.5%, with a return on tangible equity of \$21.2 million. Core operating income of \$4.95 per share was up 58% over prior year. And for the first 9 months, we have produced record operating income of \$5.9 billion or \$14.27 per share, up 27.5%. In the quarter, our underwriting performance was driven by a combination of strong-earned premium growth, excellent underwriting margins, which included an ex-cat current accident year combined ratio of 84.3% or 83%, excluding agriculture, favorable prior period reserve development in both North America and overseas general and relatively average cat losses compared to our expected P&C underwriting income of \$1.3 billion was up almost 84%.

Our positive reserve development speaks to the strength of our reserves and are reasonably cautious or conservative approach to reserving. As I've said for years, we generally strive to recognize bad news early and are slower to recognize good news. We're in a balance sheet business. Our loss reserves are the most important part of the liability side of our balance sheet.

On the asset side, record adjusted net investment income of \$1.4 billion was up \$361 million or 34% over prior year. Our portfolio yield was 4.1% at the end of the third quarter versus 3.4% a year ago.

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While our reinvestment rate is currently averaging 6.2%, we have very strong liquidity, and our investment income run rate will continue to grow as we reinvest our cash flow at higher rates. We are growing income without a change to our invested asset risk profile. In the quarter, we increased our ownership in Huatai Group to 69.6%, and now we're consolidating results, which were accretive to EPS and ROE.

Earlier this month, we closed on additional shares, and our ownership stands now at over 72%. I expect this to increase further and reach between 83% and 86%. A summary of the financial impact of Huatai is provided for you in the earnings release and the financial supplement.

Peter will have more to say about financial items, including cat, prior period, reserve development, investment income, book value, ROE and Huatai. Now turning to growth, pricing and the rate environment. Consolidated net premiums for the company increased over 9% in the quarter, made up of 8.4% growth in our P&C business globally and about 15% in our Life division.

Global P&C premium growth, which excludes agriculture, was 12.3%, with commercial lines up almost 10.5% and consumer lines up about 17.5%. In agriculture, Crop premiums were lower than last year due to the timing of when we recognize them. Year-to-date premiums were, in fact, up modestly. As to the higher combined ratio in agriculture this quarter, we simply recognized a quarter earlier than last year, what we think is the likely development for the year based on what we know today about crop conditions and pricing.

In terms of the Commercial P&C rate environment, rates and price increases in property and casualty lines in aggregate remains strong in the quarter in both North America and our International divisions, while decreases in financial lines in North America continued. We remain vigilant and diligent about staying on top of loss cost inflation.

Beginning with North America. Commercial premiums, excluding agriculture, were up 8.7%. P&C growth was 10.5%, excluding financial lines, which were up 1%. Our very large middle market division had its best quarter of the year with premium growth of 16.3% and middle market financial lines up 1.5%.

Our major accounts and specialty division grew 7.2% with P&C up 8.4% and financial lines flat. Overall pricing for total North America Commercial increased 9.3%, including rate of 5.9% and exposure change that acts like rate of 3.2%.

Let me provide a bit more color around rates and pricing. Pricing for Commercial Property & Casualty was up 13.9%. Property pricing was up 23% with rates up 16.6%, an exposure change of 5.5%. Casualty pricing in North America was up 11%, with rates up 8.7% and exposure up 2%. Workers comp which includes both primary comp and large account risk management, pricing was up 5.5%, with rates essentially flat and exposure up 6%. We are trending loss costs in North America at 6.7%, same as last quarter. And again, that compares to pricing of 9.3%.

In general, we're trending loss costs in short-tail classes at 5.8%. And long tail, excluding workers' comp, loss costs are trending at 7.1%, and our first dollar workers' comp book is trending at 4.7%. For financial lines, the underwriting environment remains aggressive, particularly in D&O, rates have continued to decline. In the quarter, rates and pricing for North America Financial Lines in aggregate were down 4.8% and 3.8%, respectively.

We are trending Financial Lines loss costs at 4.7%. Renewal retention for our commercial businesses in North America was 92.7%, and our new business grew 14%.

On the consumer side, our high net worth personal lines business had another excellent quarter, with premiums up over 9.5% with our strong retention and new business growth. In our homeowners business, we achieved pricing of 15%, while our selected loss cost trend was similar to last quarter at 10.5%.

Turning to our International General Insurance operations. Net premiums were up about 21.5%, and this includes a 7.5% contribution to growth from the Huatai consolidation. Our International Commercial business grew 17.5%, while Consumer was up 28.4%.

In our International Retail business, growth was broad-based with all major regions producing double-digit growth. Latin America led the way this quarter with premiums up 23%, made up of Commercial Lines growth of 16% and Consumer up more than 28%.

Europe and Asia Pac had strong quarters with growth of 14.2% and 10.2%, respectively. We continued to achieve improved rate to exposure across our International Commercial portfolio with pricing up 9.3%, rates up 5.7%, and exposure change of 3.4%. Property & Casualty lines, pricing was up 11.7%, with rates up 7.1% and exposure up 4.3%. While Financial Lines pricing was up 2.3%, loss cost inflation across our International Commercial portfolio remained steady from last quarter, trending at 6.6%.

Within our International Consumer, our A&H and Personal Lines divisions both had strong orders with premiums up 16.5% and over 40%, respectively. Personal Lines growth in Latin America rebounded sharply, with premiums up 43% on the back of growth, in our Mexican auto portfolio, where we're taking significant rate actions to reflect the loss cost environment.

In our International Life business, which is almost entirely Asia, premiums were up nearly 20%, including the impact of the Huatai consolidation. Life segment income was up nearly 15%, \$288 million.

In summary, we had a simply outstanding quarter, contributing to outstanding year-to-date results. We are growing exposure in a thoughtful and balanced way, mindful of risk environment, and underwriting conditions, which are favorable in many areas of our business. Looking forward, we are confident in our ability to continue growing revenue and operating earnings globally, which in turn drive EPS through the 3 engines of P&C underwriting income, investment income, life income.

I'm going to turn this call over to Peter, and then I'm going to come back and take the questions.

**Peter C. Enns**

*Executive VP & CFO*

Thank you, Evan, and good morning. First, I want to note that we completed our first quarter with Huatai Group as a consolidated subsidiary. The results of Huatai are reported at 100% within our financials, with only certain key metrics reported at the company's 69.6% ownership interest, including consolidated core operating and net income, book and tangible book value and ROE measures. Turning to our results.

Chubb reached 2 milestones this quarter. Invested assets reached \$130 billion and adjusted net investment income topped \$1.4 billion. Operating cash flow was a record \$4.7 billion, reflecting our record investment income and strong premium collections. During the quarter, Moody's affirmed and moved our outlook from stable to positive, and as you know, S&P affirmed our group's rating with stable outlook earlier this year.

Core operating ROE on a deployed capital basis is approximately 15.5% and the related operating return on tangible equity is approximately 27%. The book value per share, excluding AOCI, increased 2.6% and 7% for the quarter and year-to-date, respectively, reflecting outstanding results for both periods. Tangible book value per share, excluding AOCI, decreased 4.2% for the quarter with 7.5 percentage points coming from the dilutive impact of consolidating Huatai. With the consolidation on July 1, Chubb had additional goodwill and intangibles of \$3.5 billion pretax.

In Q3, we've already earned back almost 2/3 of that amount and expect to earn back the rest within this current fourth quarter. Huatai had a modest impact on results this quarter, in line with expectations, adding \$0.12 or 2.5% to core operating income per share, third of which related to the favorable impact of purchase accounting adjustments in the quarter, which will decline over the next year. As previously noted, adjusted net investment income for the quarter was a record \$1.415 billion or \$140 million above the top end of our guidance, of which \$100 million is related to Huatai, which was not included in our prior guidance.

In the fourth quarter, we expect adjusted net investment income to be approximately \$1.435 billion to \$1.45 billion on a recurring basis, including Huatai and to continue to grow from there. We remain consistent and conservative with our investments with 83% of our fixed income portfolio rated investment

grade, an overall average credit rating of A. This quarter, we recognized an unrealized loss on our portfolio of \$2.2 billion after tax, reflecting rising interest rates.

We also recognized a modest favorable \$18 million recovery of expected credit losses net of an immaterial impairment charge in the quarter, which attest to the overall quality of our portfolio.

Huatai's investment assets added \$12.7 billion gross or \$6.4 billion attributable to Chubb to our investment portfolio. With over 2 decades as a strategic partner with Huatai, we have deep insight into Huatai's portfolio, and it fits well with our overall conservative approach to investing. 87% of Huatai's investment portfolio is fixed income-related and is very high quality with an average credit rating of A, and with 98.5% rated investment grade.

Turning to our underwriting business. For the quarter, we had pretax catastrophe losses of \$670 million, principally from weather-related events and wildfires in North America. Total catastrophe losses were split, 82% U.S. and 18% internationally. Prior period development in the quarter in our active businesses was a favorable \$261 million pretax. The PPD in our active businesses this quarter consisted of \$316 million favorable development in short tail lines and \$55 million of unfavorable development in long tail lines. Our corporate runoff lines had adverse development of \$61 million, principally related to environmental exposures. Our paid-to-incurred ratio for the quarter was 73% and was 84% through 9 months.

This quarter reflects the impact of strong premium growth on reserves, and the timing of our crop insurance payments. Our core operating effective income tax rate was 18.8% for the quarter which is within our guided range of 18.5% to 19% for this year.

I'll now turn the call back over to Karen.

**Karen L. Beyer**

*Senior Vice President of Investor Relations*

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

## Question and Answer

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### Operator

[Operator Instructions]

Your first question comes from the line of Bob Huang with Morgan Stanley.

### Jian Huang

*Morgan Stanley, Research Division*

Congratulations on the quarter. My first question is actually on reserving. You obviously talked about recognizing bad news first and good news later. Curious about your thoughts on the recent developments. European reinsurers have talked more about the cautionary view on the U.S. casualty reserves. Social inflation has been around for years, but this is clearly something that European reinsurers are talking more about now.

Just given their recent renewed caution, so to speak, on the U.S. casualty side, are there any adverse trend that you're seeing across the industry that would justify this view? Any specific factors that you would like to call out? Curious about your view on this.

### Evan G. Greenberg

*Executive Chairman & CEO*

Well, this is hardly a new topic. And I'm not going to really rehash old ground. We've been talking about this for a number of years. So, no, there's nothing new. And just look back on our quarters, look back on what we use for loss cost development. Reinsurers who just simply, and we've been saying it, they have lagged in recognition. And so they're just beginning to catch up to it. Welcome, Pilgrim. I really don't know what to add beyond that. There's no news to us.

And frankly, I don't think there's really that much dues to them. They've just been slow to be willing to recognize it. And when you fall behind on casualty, it's very painful. You got to catch up.

### Jian Huang

*Morgan Stanley, Research Division*

Okay. Got it. That's actually very helpful. My second question is on Cyber Insurance. There has been a few very notable cyber breaches in consumer sector, casino gaming and more recently, a cybersecurity firm also had a pretty serious headline breach. Given Chubb is an industry leader in cyber insurance, curious.

And also, given that your recent partnership with SentinelOne, curious about your view on how the recent headline yield could impact pricing environment as well as the industry as a whole. And then how you think about Chubb's positioning in Cyber Reinsurance going forward?

### Evan G. Greenberg

*Executive Chairman & CEO*

Yes. Cyber is a relatively new line for the industry and around a number of years, but when you view it relative to other lines of business, it's relatively new exposure. And by the way, it's an evolving exposure. The world is more interconnected in everything today, for example, than it even was more so than it was 3 years or 5 years ago. The world is a hostile environment, geopolitically and from a criminal element point of view.

The ability to use cyber as a tool of mischief or worse and for ill-gotten game is evolving and the tools that those actors use are evolving. At the same time, the industry and Chubb included, are improving our ability to manage the risk and to underwrite and provide risk management capabilities around these exposures.



So on one hand, the criminal element is gaining more tools and at the same time, law enforcement and those like our industry are gaining better tools and better insight. It's both. So it's evolving. It's an active environment from a loss point of view, frequency and severity of loss. And industry pricing and industry coverage has to reflect that. I notice it in some segments of the business where I think there is discipline.

And then there are other segments of the business that I think could use more discipline. And the good news about crop around Crop Cyber, unlike, say, casualty, it reveals its secrets quickly. And so if you're too loose in your underwriting and you're just chasing market share, you're going to get caught pretty dark way. And I'll stop, right?

### **Operator**

Your next question comes from the line of Greg Peters with Raymond James.

### **Charles Gregory Peters**

*Raymond James & Associates, Inc., Research Division*

All right. Good morning, everyone. Well, I assume it's good morning, unless you're in Singapore or in Europe.

### **Evan G. Greenberg**

*Executive Chairman & CEO*

I'm right here in New York City. Good morning to you as well.

### **Charles Gregory Peters**

*Raymond James & Associates, Inc., Research Division*

Well -- yes. So I was listening to your comments, and you mentioned, you highlighted the Mexican auto business. You obviously highlighted the success of your North American personal lines business. It feels like we're dealing with a once-in-a-generation hard market in the auto insurance market. And I know you have a specialty business, for your Personal Lines in North America. But I'm wondering if you have any thoughts of branching out into other areas of the market, considering all of the dislocations that are occurring there?

### **Evan G. Greenberg**

*Executive Chairman & CEO*

In general, Personal Lines market in North America, that's not a market for us. We don't bring anything to that party. And frankly, I think it is a well-served market. Some would suggest it's over-served. We have a -- not as big, it's a pretty big niche, high net worth in the United States, and our capabilities and our insights are just so especially built for that, that we have a real true franchise advantage. We're distinctive. And that's what we look for.

When you get outside the United States, General Auto -- General Market Auto and homeowners, the commodity business and most chase it for volume rather than for a decent return on underwriting, we're very selective of how we do it.

We constantly search and research environments around the world where it can suit our approach to underwriting, and we can bring a distinct advantage to the marketplace and build a franchise of size that has a competitive advantage for a number of reasons, Mexico is one of those for us where we insure over 2 billion autos. And we run a combined ratio that is the envy of the industry.

### **Charles Gregory Peters**

*Raymond James & Associates, Inc., Research Division*

I guess, I'm going to pivot for this follow-up question on, back to the Reinsurance business, I think I asked you about this in the previous quarter. But it's just striking to me when I look at your Global Reinsurance business, and I don't see a lot of growth in the top line. I know you are growing your property exposures. But where there's a lot of rhetoric in the marketplace about where we are with the 1/1 renewals with pricing and reinsurance. I thought, I'd ask you about your views on how you think pricing for reinsurance



is going to evolve over the next year. If I look at your topline results, it probably isn't -- probably don't have a favorable view, but I'll throw that out for you to comment on, please?

**Evan G. Greenberg**  
Executive Chairman & CEO

Yes. Greg, last year, in the third quarter, so just a level set, there were, as you know, much larger cat events. And so we collected a lot of reinstatement premium last year. In the third quarter that we didn't have those level of cat events this year. So if you adjust for that, our Reinsurance business actually grew in the third quarter by 20%. So just to level set about that, we're not running away from the Reinsurance business. On the other hand, as I have said, I think it's a -- for Chubb, it is a better trade to us to grow our insurance property a catastrophe-related exposure than it is to do it through our insurance or reinsurance operations.

And so we have put much more capital or taking more exposure on the insurance side where we've got great transparency. We've got great distribution reach. We've got underwriting expertise up and down the food chain, from Personal Lines to small commercial to large industrial commercial, the E&S across North America, across the globe. And so we're participating heavily and choosing to do it there.

On the -- and we'll see what 1/1 produces. And if we like the risk-adjusted returns on a relative basis to insurance, then we would lean in and do more in the property cat area, but it's not -- money is not burning a hole in our pocket by any means. On the other side, Reinsurance Casualty, well, as I just said, look, it's not a new story to us about Casualty. And nor to our -- those who run our Reinsurance business, and they have the insights of Chubb's insurance business. And so we've been very, very cautious, and we've shrunk our market share significantly.

If Casualty Re improves to a point where it reflects the environment and you can earn a reasonable risk-adjusted return, you'd see us right more there. Other than that, we've got plenty of handles to pull and chop and we remain patient and cautious. It's the only way to outperform in the insurance business as far as I know, over time.

**Operator**

Your next question comes from the line of David Motemaden with Evercore ISI.

**David Kenneth Motemaden**  
Evercore ISI Institutional Equities, Research Division

I just had a question on North America commercial and the growth there. Obviously, the net premium written growth is coming in just as you said it would, Evan. But I'm looking at the gross premium written growth and that decelerated a bit to 3% from 9% last quarter. I'm wondering if you could just walk through some of the moving pieces as to why that decelerated a little bit?

**Evan G. Greenberg**  
Executive Chairman & CEO

Yes. Thanks so much, David. Look, it's pretty simple. It was a couple of non-repeat or one-off fronted or structured deals. So adjusting for those and really like 2% or 3%. The gross growth was actually in line, right in line with that. So there's no underlying trend or broad sort of systemic, it was simply related to a couple of fronting deals.

**David Kenneth Motemaden**  
Evercore ISI Institutional Equities, Research Division

Got it. Understood. And then just on, Peter had mentioned overall ongoing reserve development still strong on the ongoing business and all in. He had cited \$55 million of unfavorable on long tail lines which is small, but just wondering if you could just talk about what segments that was focused in. And what lines were driving that and maybe a little bit of detail on what's going on.

**Evan G. Greenberg**

*Executive Chairman & CEO*

It's -- no, there's nothing new. No new story about it. It's auto and excess casualty. And it's those years of '17 to '19, maybe a little bit of '16, and that's about it.

There's enough -- there are more words for me that, we've all been talking about it. So for a number of years, and it is just continues to develop a bit, and we just strive to stay right on top of it.

**Operator**

Your next question is from the line of Mike Zaremski with BMO Capital Markets.

**Michael David Zaremski**

*BMO Capital Markets Equity Research*

I guess, I'll ask a question specifically on the North America Commercial segments, and it's kind of -- it has to do with, I guess, reserves to -- taking off of some of the other questions. But if I just look at year-to-date, and this definitely isn't a Chubb-specific phenomenon, but I'll cite Chubb's stats. Reserve release levels running, let's just say, 50% below last year, 50% below -- even Chubb's like historical 5 years looking at our model. I guess it implies something has changed. And I guess the question we get from investors and by the way, I'm cognizant the absolute combined ratio is great.

But the question we get from investors is if reserve release levels have changed so much, why haven't loss cost inflation assumptions changed materially? Is that anything you'd like to comment there?

**Evan G. Greenberg**

*Executive Chairman & CEO*

Loss cost inflation. Let me tee off of that for a second. I think your mental model may not be exactly right. Loss cost inflation over the last 2 years and maybe longer, you've watched it step up our disclosed loss cost inflation. And when it steps up, it first impacts your view and therefore, your pricing and your loss ratios for your current accident year. You then have to apply it going back on your in-force reserves.

But your in-force reserves continue to develop, and as they develop -- if they develop with more inflation in the current calendar year than you imagined, and you think it has credibility, then you have to adjust those reserves going back.

And then that informs your inflation factor you're going to use in the current period. And that's why you see inflation cause loss cost inflation has evolved over the last few years with the notion of increase of frequency of severity in particular. You had the pandemic and those who I think were smart, were careful and didn't imagine that patterns had changed, even though you couldn't observe them and kept trending the same. But it trended the same and if inflation was a little worse when you look back on it, then you have to keep adjusting for that.

We have produced, what I can tell, the \$600 million through 3 quarters or more of prior period reserve, positive development. That's on a trend of a net \$800 million. And we've had legacy runoff exposure as best as environmental molestation, all of that included in that. I think when you look back historically on Chubb, the reserve development is pretty steady and pretty prudent there.

**Michael David Zaremski**

*BMO Capital Markets Equity Research*

That's very helpful and I appreciate you partially correcting the way I was thinking about it. I guess my quick follow-up is, you've talked more than some of your peers about exposure acting as rates. And maybe it's not fair to, but some of your peers say that only some exposure access rate. I don't know if that's a conversation you want to have or you want to delve into whether you think the vast majority of Chubb's specific exposure really does act as rate more so than others? Or anything you want to add there?

**Evan G. Greenberg**

*Executive Chairman & CEO*

No. I think both comments are consistent. It depends on what line of business you're talking about, and we adjust our exposure, it's adjusted exposure. And therefore, it adjusts to reflect only that portion of the exposure that acts like rate. And that will vary by line, different for General Casualty than it is for workers' comp, different for Property, how you look at, how you view it.

So the percentages and the ingredients, it varies by line of business. And that's reflected in how we disclose, we look at it for ourselves and disclose it to you.

And then by the way, depending on the line of business, we also -- to make it one step more complicated, but you don't need to worry, we just show you a net of it. We also there's economic and then we have insurance adjustments that can take exposure down. We increased retentions of a client in Casualty. We increased deductibles in Property. That's actually reducing exposure and not adjust and gets netted.

### **Operator**

Your next question is from the line of Paul Newsome with Piper Sandler.

### **Jon Paul Newsome**

*Piper Sandler & Co., Research Division*

Congratulations on the quarter. Just a couple of maybe follow-up questions. On the Crop business, was there anything that was -- that triggered the early recognition of [ declining ] prices or yield or anything that stuck out for why the little bit of a change?

### **Evan G. Greenberg**

*Executive Chairman & CEO*

No, not really, Paul. We just had better information by the nature of this growing season, for instance, winter wheat, we -- you know that in the third quarter, and winter wheat as an example, it's under pressure this year relatively. And so that goes into the loss ratio number.

California had storm events and et cetera, that revealed losses earlier. So we were just -- we just had better data to be able to adjust this year in the quarter than we -- in the third quarter than we did last year where we really emerge greatly. I think tail end of harvesting.

### **Jon Paul Newsome**

*Piper Sandler & Co., Research Division*

Okay. That's great. And then different topics, a little bit on the reserve front, [indiscernible] some of the other peers are talking about health care inflation being a good guy of late and helping out workers' comp reserves, in particular. Are you seeing some of the same effects there as well where the health care piece, which crosses all sorts of things in your business is coming in a little bit better than others is what you're expecting?

### **Evan G. Greenberg**

*Executive Chairman & CEO*

No. We're, in fact, we've used, and we -- not this quarter, we had done it in the past. We've reflected on a bit higher medical inflation trend, recognizing that medical inflation overall is more elevated. And what you see in a current period when you're booking an accident year, is only so relevant because comp has a tail to it and medical has a tail to it. And so you reflect that at least here, we reflect that prudently and how we think about medical inflation when we construct our loss picks.

### **Operator**

Your next question comes from the line of Tracy Benguigui with Barclays.

### **Tracy Dolin-Benguigui**

*Barclays Bank PLC, Research Division*

Real quick for clarification. Your commentary about 13.9% pricing increases in North America, commercial, that's ex financial lines, right?

**Evan G. Greenberg**  
Executive Chairman & CEO

Correct.

**Tracy Dolin-Benguigui**  
Barclays Bank PLC, Research Division

Okay. So keeping that in mind, it looks like we're seeing strong but sequentially less momentum in property pricing. Is there seasonality to keep in mind? Otherwise, can you shed some light on the competitive environment? Writing capacity entering, ability to pass on higher reinsurance costs or, to some extent, more retention of risk by insureds to contain costs?

**Evan G. Greenberg**  
Executive Chairman & CEO

I don't square with that comment. I believe I gave you like 23% in Property. Property pricing remains extremely strong. So you're seeing something that we're not seeing.

**Tracy Dolin-Benguigui**  
Barclays Bank PLC, Research Division

No doubt. 23% is great. I was just comparing that to 31.5% in the second quarter.

**Evan G. Greenberg**  
Executive Chairman & CEO

No, it's just -- no, there's nothing. This is volatility quarter-to-quarter depends what we might write a little more in Commercial Lines versus in middle market versus what we wrote in E&S versus what we wrote in major accounts, but on a cohort for cohort. We're not seeing a difference.

**Tracy Dolin-Benguigui**  
Barclays Bank PLC, Research Division

Okay. Very good. Also real quick, just a follow-up to David's question. Was there any sizable workers' comp offset to the \$55 million adverse development you took for long tail lines?

**Evan G. Greenberg**  
Executive Chairman & CEO

There was in middle market. Workers' comp, not large account workers' comp. We -- that's -- this is the quarter that we study middle market.

**Tracy Dolin-Benguigui**  
Barclays Bank PLC, Research Division

Okay. But was it large enough where it might have been a larger charge you took in auto and excess liability, you might have seen a nice offset.

**Evan G. Greenberg**  
Executive Chairman & CEO

I'm not -- we don't come out with parts and pieces. And so if we look at it, we roll it all together. But there was more in auto and excess together on a gross basis. And then there are other lines that are better. And so you add it all together and it nets.

**Operator**

Your next question is from the line of Yaron Kinar with Jefferies.

**Yaron Joseph Kinar***Jefferies LLC, Research Division*

First question. So we're hearing from some executives that they're voicing concern about medical loss environment looking ahead. While it's currently benign, there is a concern that it may be picking up. So how are you thinking about that with regards to both kind of prior accident year reserves and forward appetite. And honestly, I'll leave it to you whether you want to discuss this on a company basis or what your views are with regards to the industry and how it has to approach this?

And maybe even touch on which lines other than workers' comp that, I think we're all aware of could be most impacted by that shift.

**Evan G. Greenberg***Executive Chairman & CEO*

Yaron, I think I just answered it. So I'll repeat myself. We adjusted our loss picks to reflect in our inflation numbers we use. We adjusted to reflect our view of higher medical inflation already, and we did that a number of quarters ago. And we're steady in the use of that because we already raised it.

**Yaron Joseph Kinar***Jefferies LLC, Research Division*

Okay. And do you think the industry is in a relatively similar position?

**Evan G. Greenberg***Executive Chairman & CEO*

I don't underwrite for the industry. So I don't see what the industry fix. I don't know what each company fix. I can only manage Chubb. If everybody wants to give me their's, I will fine on it, but I don't have much.

**Yaron Joseph Kinar***Jefferies LLC, Research Division*

Well, I guess I could maybe phrase it a different way. Since you have adjusted for this already, I would think that your pricing is also accordingly adjusted.

Are you finding that your prices are still competitive with the industries? Or is the industry still essentially pricing for a lower loss inflation?

**Evan G. Greenberg***Executive Chairman & CEO*

I don't see, you're conflating 2 things. What people actually charge in the marketplace and what their loss picks are, what their charge reflects. They may be reflecting the same things I reflect and they're willing to underwrite to 100%. And I'm not. So I can't take that bait you're putting out there.

I just don't know what they're each picking for loss cost and then how, whether they want to underwrite to a 97% or 95% when at Chubb, we're just not going to do that.

**Yaron Joseph Kinar***Jefferies LLC, Research Division*

Point taken. Makes sense. The other question I had, North America Commercial, the underlying loss ratio improved year-over-year. Nonetheless, was a bit elevated relative to the first half. Were there any one-offs this quarter or in the first half? Or should we look at the year-to-date as a reasonable run rate?

**Evan G. Greenberg***Executive Chairman & CEO*

Yaron, take a step back, if you would, with me for a second. Look at the combined ratios we are putting up. They are world-class. They are unbelievably good. They're believable because they're real. They are

tremendous. North America's loss ratio year-on-year, has improved almost half of it. From what is a really world-class to begin with. It speaks for itself. These are great combined ratios. And when you look at sequential this or you look at that, I just don't relate to that.

**Yaron Joseph Kinar**

*Jefferies LLC, Research Division*

Fair enough. And certainly great combined, no...

**Evan G. Greenberg**

*Executive Chairman & CEO*

It's like -- it's tremendous. And you take that kind of -- those kinds of underwriting margins, you add stronger premium growth to it. You look at what I think is responsible pricing across the portfolio, ex cat for an accident year for insurers right now are going to look lower because everybody is more cat-levered in their pricing, in their combined ratio because they're writing more property and they're getting the price on -- probably they're writing more property and taking more cat exposure, of course.

And the real action to me is, therefore, what's your published combined ratio? Are you charging adequately? And by the way, that includes are you charging adequately for your property, and property cat exposure? There'll be volatility quarter-to-quarter, but over a period of time and masked within there, what are you picking for your casualty combined ratios? And how are you underwriting for that? And when you mix the two together, you better be running a pretty darn good current accident year ex-cat combined ratio, that's more of the way I would be thinking about this if I was on the outside.

**Operator**

Your next question comes from the line of Brian Meredith with UBS.

**Brian Robert Meredith**

*UBS Investment Bank, Research Division*

First one, any green shoots at all and maybe the pricing environment for Financial Lines here? I mean, it's been pretty competitive here for a while. I know that we've talked about the cyber losses coming through. What are you seeing there?

**Evan G. Greenberg**

*Executive Chairman & CEO*

No, I'm not saying. It's pretty -- it's -- this industry just has -- does what I think is a pretty dumb stuff at times. And Financial Lines is a very broad category. It has everything from public D&O to private D&O, nonprofit D&O, original missions of all kinds, cyber insurance. So it's a real dog's breakfast of a lot of different lines. And each one goes to its own [ trump ] right now a bit. There are large pockets in there that I think are stable and/or managed adequately or handled decently.

Then you have a couple where, my God, the number of MGAs that have pens today and the amount of capacity they proliferates. And by the way, a lot of that capacity coming back to the same balance sheet aggregating back and you've got this sort of circular firing squad, which we tend to do now and again. It's in those areas that I don't see green shoots. And then the rest behaves reasonably to me. So I wouldn't lump my first message to you, don't loan Financial Lines altogether. And then secondly, there's a couple of dumb areas.

**Brian Robert Meredith**

*UBS Investment Bank, Research Division*

Makes sense. And then my second question, Evan, a little bigger picture here, just thinking about just generally, the General Casualty Lines here. As you kind of pointed out, really attractive combined ratios that you're printing and in the industry in general. And now we're also looking at long-term interest rates that are decade high, right? Are we seeing any weakness at all from a pricing perspective? Do you



anticipate that's going to start happening here in the next 12 months, just given the return profile of the business and how attractive it is?

**Evan G. Greenberg**  
Executive Chairman & CEO

I haven't seen it really because higher interest rates are also a proxy for loss cost inflation. So you've got an industry that I think is trying to stay on top of loss cost or has that impetus behind them to stay on top of loss cost in casualty. And other than in workers' comp, it hasn't been totally benign as you well know, and it's been around for a while. So I think that higher yields are ameliorating, and by the way, if you do the math and you translate the higher yields to what it means to earn the same return, what combined ratio affect you would get to achieve the same return.

It's modest in combined ratio relatively, a point here, a point there, it's not like, wow, I can raise my combined ratio as 5 points to achieve the same 15%, as an example, risk-adjusted return. No, you can't and we run the math.

**Operator**

Due to time constraints, your final question comes from the line of Alex Scott with Goldman Sachs.

**Taylor Alexander Scott**  
Goldman Sachs Group, Inc., Research Division

I wanted to ask about the environment broadly in Asia across the different countries. And just now that you've scaled up that business in a bigger way with the addition of Huatai being consolidated and so forth. What are you seeing in the environment? Where do you see the growth opportunities looking ahead?

**Evan G. Greenberg**  
Executive Chairman & CEO

Yes. Well, we touched a bunch on it last quarter, and I'm going to just, it doesn't change in 2 or 3 months. So I'm going to reiterate it a bit to you. We operate in 12 countries in Asia. Half our business is commercial, half is consumer. And the consumer spreads across non-life and life. We're the largest direct marketers of insurance in Asia easily.

And our life and non-life operations work closely together. We have huge digital capabilities that have grown out at dust. And the world is converting in direct response marketing from phone-based to digital to a combination of the two. Our agency operations for distribution are brokerage operations for distribution. We play up and down the food chain of lower middle market right through to the largest corporate and we segment distribution and product that way.

And it is across 12 distinct markets. Asia and North America are the 2 regions, I think that will have the greatest economic growth potential over the next decade or 2 in Asia, get out of China. Asia is very vibrant, very dynamic, North Asia, older population.

Southeast Asia with over 700 million people, young populations and those economies are growing more quickly and they're emerging. Look at Vietnam today. Look even where Indonesia is going today. Singapore, those markets are all -- and Thailand, those markets are so dynamic with a lot of opportunity, but it's hard work. You have to really know those markets, and we've been there for decades. And we have spent the time to build, and build and build capability on a local market basis.

It's nothing to say you're in Asia. It's where are you in your capability in Thailand or Vietnam or any of these markets, they're distinct and you've got to have local capability, knowledge and a good command and control around underwriting. I'm very energized about what I see for this company over time in Asia. And I think it will continue to represent over time a greater share of our business. Thanks for the question.

**Operator**

At this time, I would like to turn the call back over to Ms. Karen Beyer.



**Karen L. Beyer**

*Senior Vice President of Investor Relations*

Thank you, everyone, for joining us today. If you have any follow-up questions, we'll be around to take your call. Enjoy the day.

**Operator**

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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