S&P Global
Market Intelligence

Chubb Limited NYSE:CB

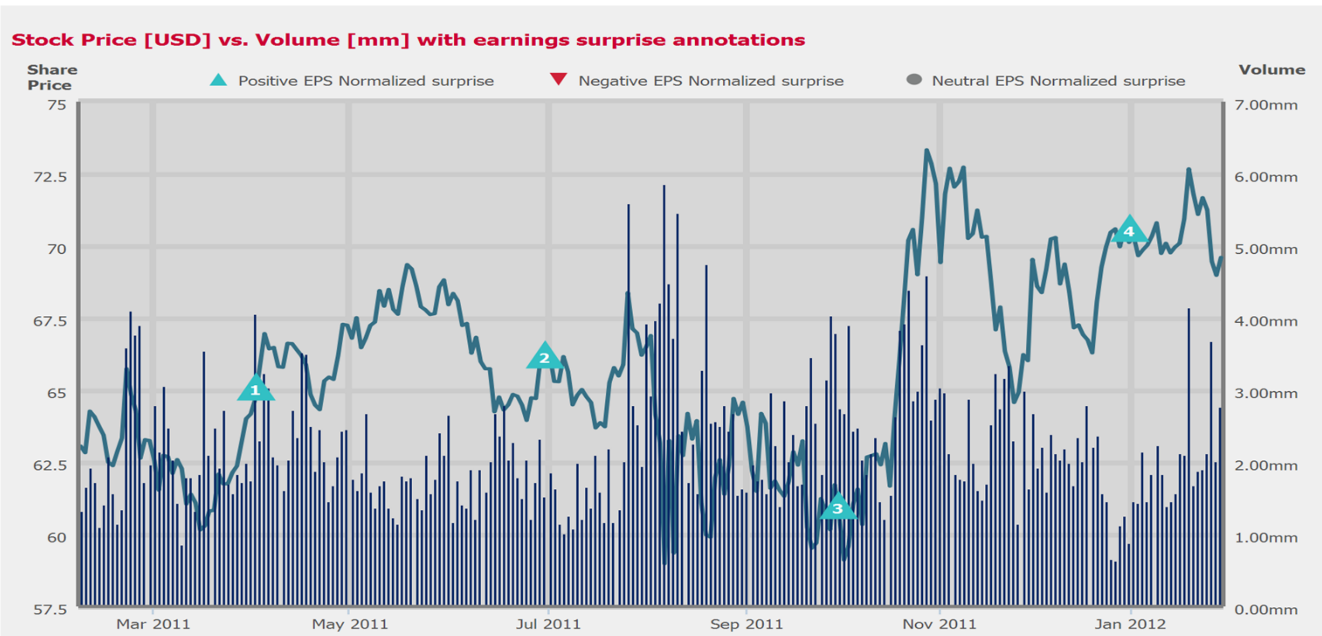
FQ1 2012 Earnings Call Transcripts

Wednesday, April 25, 2012 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2012-			-FQ2 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.87	2.05	▲9.63	1.91	7.58	7.68
Revenue (mm)	3444.15	3572.00	▲3.71	3925.18	15541.14	16125.61

Currency: USD
Consensus as of Apr-25-2012 1:28 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2011	0.67	0.79	▲1 17.91 %
FQ2 2011	1.63	2.01	▲2 23.31 %
FQ3 2011	1.77	2.22	▲3 25.42 %
FQ4 2011	1.79	1.94	▲4 8.38 %

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EXECUTIVES

Evan G. Greenberg
Chairman, President & CEO

Helen Wilson

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

Philip V. Bancroft
Executive VP & CFO

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Michael Steven Nannizzi
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Thomas Spikes Mitchell
Miller Tabak + Co., LLC, Research Division

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Presentation

Operator

Good day and welcome to ACE Limited's First Quarter 2012 Earnings conference call. Today's call is being recorded. (Operator Instructions) There will be a question and answer session at the end of the presentation. (Operator Instructions).

For opening remarks and introductions, it is my pleasure to turn the call over to Helen Wilson, Investor Relations. Please go ahead.

Helen Wilson

Thank you and welcome to the ACE Limited March 31, 2012 First Quarter Earnings Conference Call. Our report today will contain forward-looking statements. These include statements relating to Company performance and guidance, premium growth, ACE's business mix, and pricing and insurance market conditions, all of which are subject to risks and uncertainties. Actual results may differ materially. Please refer to our most recent SEC filings as well as our earnings press release and financial supplement which are available on our website for more information on factors that could affect these matters.

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

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

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

Evan G. Greenberg
Chairman, President & CEO

Good morning. ACE had a good first quarter. Our results, both revenue and current accident year income, were right on plan, and then we benefited additionally in positive prior period reserve development and life catastrophe losses. Pricing continued to improve and was in line with or a little better than our expectations. All in all, a strong start to the year.

After-tax operating income, as you've seen, for the quarter was $701 million or $2.05 per share, and our operating ROE exceeded 12%, a very good return. Book value grew 4.5% and now it stands at $25.4 billion. Book value growth benefited from both strong operating income as well as investment portfolio gains resulting from a narrowing of interest rate spreads and favorable equity markets during the quarter. In addition to the portfolio gains, we also had an improvement to the variable annuity mark on the order of about $230 million. Phil will have more to say about the market's impact on our investment portfolio and the VA mark.

Our underwriting results were simply excellent. We had a combined ratio for the quarter of 89.2% and benefited from both positive prior period reserve development that was flat with last year's first quarter, and of course low cat losses. What is noteworthy is that our ex-cat current accident year operating income was up over prior year, and that included current accident year underwriting that was flat with prior year. This is a reflection of the excellent health of our current business due to our underwriting discipline and our balance of business between various lines and geographies.

Total company net premiums in the quarter grew 3.7%. Our growth rate was right in line with our plan. Foreign exchange had approximately a 1% adverse impact on our premium growth rate. For the balance of the year, we expect premium growth to pick up continuously quarter by quarter and average mid- to upper single digits in constant dollars, excluding agriculture insurance. Crop premiums, as you know, are impacted by commodity prices, and therefore agriculture will likely be down year-over-year about $250 million. Crop premium volume is concentrated in the second and third quarters.

Returning to the quarter, in North America growth was impacted by our continued action to shed risk-transfer workers' comp business. Even with the current price increases being achieved in the market, this class runs at combined ratios significantly over 100% and simply doesn't meet our standards. We've been exiting this business for three years and by the end of the year our volume will be negligible. Adjusting for this reduction, our underlying growth in North America was around 3% with retail insurance up 3.5% and our wholesale and specialty business about flat.

For our U.S. retail commercial P&C book, our new business writings grew 20% year-on-year, albeit from a relatively low base. The renewal retention ratio as measured by premium in our U.S. retail was 94% in the quarter, up from 92% prior year; and on a policy count basis, our renewal retention rate is also up two points to 83%. Our increased retention rates are a consequence of some better pricing and the fact that we began more rigorous portfolio management a couple of years ago.

In the quarter, some of the areas where we saw our best growth were property and inland marine, risk management casualty, our U.S. brokerage-generated A&H business, and certain specialty casualty lines such as life sciences and foreign casualty. In addition, ACE Westchester, our E&S business, grew for the second consecutive quarter on the strength of property and inland marine in particular.

In our international business, growth in the quarter was quite strong and up about 11% in constant dollars. Retail business through our ACE International division was up 12%. Our wholesale business through our London-based ACE Global Markets franchise was essentially flat. We benefited from double-digit growth in both commercial P&C and A&H in Asia Pacific and Latin America. Our business on the continent was up about 3% while our retail business in the U.K. was down due to competitive market conditions.

A&H globally started the year a little slow in terms of growth due to a few one-time items, but again right on plan. We expect our A&H growth rate to pick up and average mid- to upper single digits for the balance of the year. Operating income for A&H globally was up about 10% for the quarter.

Our international life business is doing well, growing double digit in Asia and Latin America. Operating income for our life division was up 28% for the quarter. Global re-premiums for the quarter were down about 15%. We wrote more property cat business where we found pricing reasonable, particularly in North America. Pricing for other classes of reinsurance business - general casualty and professional lines in particular - remain soft and not in line with our standards to earn an underwriting profit, so we shed more business.

Looking ahead to April, we wrote more property cat in Japan where pricing improved, and overall we expect global re's growth rate will improve relative to quarter one as the year goes on.

To put all of these revenue growth numbers in context, I want to make a few comments about pricing and the market environment generally. In the quarter, as I said in my opening, insurance prices globally were in line with expectations and in the U.S. were sequentially better month by month than what we experienced in the fourth quarter in many classes. Overall for the quarter, pricing in North America was up over 3% and we achieved better rates on new business than renewal. Let me provide a bit of detail.

The average rate increase for our retail business went from 1.8% in January to 2.9% in February to 4.6% in March, averaging 2.6% for the quarter. Similarly in our U.S. wholesale business, the average rate increase went from 5.1% in January to 8% in February to about 8.5% in March, again averaging 6.6% for the quarter. To break that down further, property prices benefited from cat-driven pricing increases and were up an average of 11.5% for our retail book, 10% for wholesale, and 17% for energy-related risks. For excess workers' comp business, prices were up an average of 14%. For marine classes, prices were up an average of 2% to 3%, and for casualty classes excluding professional lines, prices also clustered around the 2% to 3% level. The rate of decline for professional lines business slowed to 1% for the quarter, but rates turned positive 1% in March - our best quarter in quite a while. And for our wholesale business, we saw prices increase of about 5% in casualty and environmental, and 4% in professional lines.

Internationally price are up for cat-exposed property, particularly in territories that have suffered significant losses. Rates are also up in certain classes of business that have suffered large attritional loss, such as energy and power generation. The balance of international markets remains soft with rates flat to down modestly; frankly, the same as I told you last quarter.

In the U.S. and internationally, most insurers are still underwriting for market share. There's plenty of capacity available, both insurance and reinsurance. A number of companies, particularly larger and more sophisticated ones, are pressing for rate more broadly. I believe they want to earn a more reasonable return for the risk and are willing to show some discipline. Some are shrinking line sizes or beginning to exit certain businesses altogether; however, there are plenty of competitors around ready to take advantage of more responsible underwriters' actions. I believe what we are seeing is an income statement and not a balance sheet-driven market pricing correction. This is a pricing correction that beyond comp and cat-related property and a handful of highly stressed lines is still rather modest, inconsistent, and is not yet keeping pace with loss cost trends in many areas. In my judgment, prices generally are still inadequate in most classes to earn a reasonable risk-adjusted return; however, with that said, pricing is slowly improving and for the smart and capable underwriter, any level of pricing relief does create some opportunity for growth, and I can assure you we at ACE aren't missing that. My colleagues and I can provide further color on market conditions and pricing trends.

In summary, we're off to a very good start to the year. Our income statement and balance sheet are in great shape. Book value growth was excellent. Again, we are on plan and expect revenue growth to pick up as the year progresses. The pricing environment is incrementally better in the U.S. and this is creating some opportunity for growth. Additionally, our business in those areas of the world with more robust economic growth continues to perform well.

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

Philip V. Bancroft
Executive VP & CFO

Thank you, Evan. Our balance sheet reached two new milestones this quarter - capital now exceeds $30 billion and shareholders' equity exceeds $25 billion. Tangible book value per share grew 5% and cash and invested assets grew by $1.2 billion. Net realized and unrealized gains were $570 million pre-tax, including a $390 million gain from the investment portfolio and a $230 million gain from our variable annuity reinsurance portfolio, offset by a few minor items. The gain from the investment portfolio resulted primarily from declining yields on corporate bonds while the VA gain resulted primarily from increases in worldwide equity values and an increase in interest rates on long-term treasuries. The gross realized gain from the mark-to-market accounting treatment for VA was $460 million, offset by the change in the value of the equity hedges of $230 million.

Our investment portfolio is in very good shape. We have no exposure to sovereign debt of distressed European countries and our exposure to eurozone financial institutions totals $1.2 billion, or less than 2% of the portfolio, and is concentrated in northern Europe. The overall credit quality of our eurozone financial institution securities is double-A with over $700 million rated triple-A.

Investment income was $544 million for the quarter. This was approximately 4% lower than the previous quarter, resulting from private equity distributions which vary from quarter to quarter. Our current book yield is 4%. Current new money rates are 3% if we invested in a similar distribution to our existing portfolio. We estimate the current quarterly investment income run rate is approximately $535 to $540 million on average, again with some marginal variability up or down. Operating cash flow of $570 million was lower than our normal quarterly run rate primarily due to higher cat loss payments and the repayment of cash collateral we received on a large one-off transaction we discussed in the second quarter of last year. These items reduced our cash flow by $200 million.

Our net loss reserves were up about $100 million for the quarter and our paid-to-incurred ratio was 108%. Adjusting for cat activity and prior period development, our paid-to-incurred ratio would have been 96%. During the quarter, we had positive prior period development of about $80 million after-tax split about evenly between short and long-tail lines. The casualty release was concentrated primarily in the years

2004 to 2006. We also had $25 million of operating income related to the adjustment for crop results for 2011.

The expense ratio was 32.3%, up from 31.5% last year, yet all principal segments had a lower expense ratio. The rise was due primarily to a higher share of premium from the overseas general segment which has a higher expense ratio.

Our effective tax rate fluctuates based on where our earnings emerge. In Q1, the operating income effective tax rate is low relative to other quarters primarily because we had a greater percentage of our income emerge in lower tax jurisdictions than we would expect. For example, our favorable prior period development was in lower tax jurisdictions.

We retroactively adopted the new guidance issued by the FASB related to DAC. As expected, our book value was reduced by about $180 million and there was no significant impact to our income.

In the quarter, we accrued $200 million for the payment of common stock dividends. This amount is larger than normal because it includes two quarters of the dividend increase that was approved by shareholders in January. As a result, the accrual includes $40 million for the increase to the fourth quarter dividend and $160 million for the full first quarter dividend.

Our press release issued last night included our updated guidance for 2012 simply to account for the positive first quarter prior period reserve development and the lower than expected cat losses realized in the quarter. Our range is $7.03 to $7.43 in after-tax operating income per share for the year. This includes cat losses of $325 million after-tax for the second through fourth quarters. Guidance for the balance of the year is for the current accident year only.

I'll turn the call back over to Helen.

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

Question and Answer

Operator

Thank you. (Operator Instructions) We take our first question from Keith Walsh with Citi.

Keith F. Walsh
Citigroup Inc, Research Division

First question - you mentioned in your commentary rate's up, retention's up, and new business is up, and that just a very different story than we're hearing from others. I want to know why is that, and then why with new business pricing—why would that be better than renewal? I would think customers would leave for a lower price than they currently have. If you could just talk around that, and then I've got a follow-up.

Evan G. Greenberg
Chairman, President & CEO

Well, I'm not sure exactly what you mean by all of that, but I'll add the color I can add to it. First, new business pricing was better than renewal pricing on a line-for-line basis, where we match like-for-like. We achieved better pricing on new than renewal, and you ought to because it's the new customer to you versus the customer that you know, number one. Number two, ACE has been engaged in, I think probably ahead of others, more rigorous portfolio management and risk selection, and you know for the last two years we've been telling you retention rate is down because of portfolio management where we have been shedding business that we understood within a cohort, there is that risk which is better and that risk which is more substandard. And in more finely tuning portfolio management, we could differentiate between that and we were shedding that business that just could not achieve an underwriting profit. Therefore when we're looking at price increases and better informed by selection, our retention rate is therefore—we've already run that gauntlet and our retention rate is therefore improving as a result of that. That's also helping inform us on the new business that we select.

Now, it varies quite a bit by class, as pricing has varied by class, and I gave you that information that you have a better understanding of where we're seeing greater rate increases versus where it is more modest and tougher.

Keith F. Walsh
Citigroup Inc, Research Division

Okay. And then switching gears, the big three brokers - Aon, Marsh, Willis - all have data services they're selling to underwriters these days. How much do you pay for this, and do you view this as the post-Spitzer pay-to-play 2.0? Thanks.

Evan G. Greenberg
Chairman, President & CEO

No, I don't view it as a post-Spitzer pay-to-play 2.0. Brokers have begun, particularly the big two, have begun to monetize some of their services as they see them in terms of data that can better inform underwriters on their portfolio and their customers so that they can be more efficient in their targeting of that, and a number of companies do participate in that. ACE does participate in that, and I'm not going to discuss bilateral transactions between us and any customer, or any broker. That's proprietary.

Operator

We'll take our next question from Mike Zaremski with Credit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

I'm curious if you see broad pricing momentum continuing in the U.S. I know there's been no momentum in Europe. I ask because last quarter, I recall you saying that pricing in December was up about 4% in the U.S., and I believe it was up only about 3.6% in 1Q as a whole. So I was just curious if there was any pricing deceleration.

Evan G. Greenberg
Chairman, President & CEO

Well, January, the pricing as I gave you month by month, January, the pricing fell back overall, and then it improved as the quarter went along, number one. Number two, you've got to be careful in looking at any one month and the credibility of that. The cohort gets smaller, and there's always a change of mix of business between one month and the next month - so was there more property or more casualty, as an example, in a current month. But it is right that you seem some bit of erratic behavior to it, and so can you really discern a pattern? As I've looked at it, it looks pretty good that what we have seen of the pricing firming as the quarter went along seemed to be a pattern. Is it anomalous? Will it fall back a bit and be up and down a bit? I'm not sure. I don't think there's a way of telling with certainty.

What I do believe, which is what I said earlier in my commentary, is that it is more of an income statement driven and not balance sheet driven, so I see it as a pricing correction more than I see—I don't use the term hard market, and I don't in my own judgment believe we're going towards a hard market. A hard market means there's not capacity, and there is a lot of supply around and capacity around. So I see a market correction that is rational line by line; and where loss ratios and combined ratios are a more acute issue, you're seeing greater pricing, and where it's less acute or it's still a problem but there's lots of capacity, then you're seeing less of a pricing correction.

Whether this continues to march along and you're going to get rate on rate as the year progresses remains to be seen.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. That's helpful. Lastly in terms of the investment portfolio, I noticed the allocation to A and below rated investments increased roughly 200 basis points sequentially and the duration of the portfolio picked up a little as well. Were those purposeful actions, or more due to rating agency actions or interest rate movements?

Philip V. Bancroft
Executive VP & CFO

So let's take the shift first. The shift was really the result of an increase in the value of our securities that are A and below rated. We just had an increase in the mark that increased our portfolio. We also had reinvestment of investment income into that portfolio, so those were the major drivers of the increase in that. The increase in the duration was just a tactical move to move more into municipals that had a higher duration, and that had a slight impact on our overall duration.

Evan G. Greenberg
Chairman, President & CEO

Very slight movement in those.

Philip V. Bancroft
Executive VP & CFO

Yes.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. Phil, can you just lastly comment on the new money rate?

Philip V. Bancroft
Executive VP & CFO

The new money rate we said is about 3% if we invested as in the distribution of our existing portfolio.

Operator

For our next question, we go to Vinay Misquith with Evercore Partners.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

The first question is on political risk insurance - have there been any repercussions from the YPF nationalization in Argentina?

Evan G. Greenberg
Chairman, President & CEO

What do you mean by repercussions? You mean what?

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

So of first is your exposure, and second is are there any knock-on effects from some suppliers or from some business partners that you see?

Evan G. Greenberg
Chairman, President & CEO

Are you talking about losses or demand for coverage? I'm sorry, Vinay.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

The losses, I'm talking about.

Evan G. Greenberg
Chairman, President & CEO

No.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Okay. The second question is on loss cost trends. I believe last quarter you said that loss costs were about 5% for some lines. Some peers had mentioned 4% recently. What are the actual loss cost trends you've seen over the last couple of years, and do you see those trends continuing in the future?

Evan G. Greenberg
Chairman, President & CEO

I'm going to ask Sean Ringsted, our Chief Actuary, to make a few comments about loss cost trends.

Sean Ringsted

Morning, Vinay. I think I'd start off with a statement that across all lines in general, we see a loss cost trend that's consistent with our 2012 plan expectations. It does vary, though, by the component pieces of frequency and severity by class of business. If you're looking at frequency, I think we would say that is flat with a variation by class. As Evan mentioned on the comp side, we're out of the risk transfer and in the risk management, and now we've seen a bit of an uptick in frequency, but that could be a shift into lost time claims for medical and/or the impact of audit premiums. So it's modest and offset by severity, so I think in general on the comp side we think we're in line with our plan expectations.

For casualty, it's choppy. We see classes where frequency is down. We see it flat when you adjust for mix, and some classes have an uptick. But again in general, we think that's on track with the plan. Some of the casualty for professional, we see some classes that had a high frequency in the recession-impacted years now starting to show a decline in frequency, while for a few smaller specialty classes we've seen an uptick in frequency, which we're watching.

So I think the general theme again is that we're in line with our 2012 plan expectations. One comment on the 5% that you mentioned - you want to think about that as having a range around that. I think we've given in prior calls for some of the higher excess classes. We're picking a trend higher than that, and that's consistent with prior years and we've not moved around that.

Evan G. Greenberg
Chairman, President & CEO

And Vinay, the other thing - when somebody says 4% or 5%, first of all, what line of business are we talking about, and are we talking about primary or are we talking about excess? So you've got to get very granular, very specific. And if they add their whole book up and add it up and average it to 4%, everybody's book is going to be different.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Fair enough. That's helpful. Thank you.

Operator

We now move to Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

I guess my first question relates to the current European economic pressures. I'm wondering what sort of impact are you seeing in terms of demand and your premiums as we move towards a recession in many of the countries.

Evan G. Greenberg
Chairman, President & CEO

We're seeing demand on our European book as quite flat, or in certain areas economic activity is declining, so that means exposures necessarily decline. Our European book grew modestly in the first quarter a couple of points, and that was really exposure growth from writing in business, expanding our business, and also getting a little bit of price on property cat-related. Other than that, Europe is flat to down.

Amit Kumar
Macquarie Research

Got it. Okay, that's helpful. The other question I had was on the discussion on the crop book. I think you mentioned that premiums will be down by $250 million or so. I'm looking at the corn and soybean prices and I'm just wondering if you can sort of expand on that, because soybean prices obviously have recovered. Maybe it's a bit premature, but expand on that comment, please.

Evan G. Greenberg
Chairman, President & CEO

Oh, no - everybody's a farmer now, and every urbanite seems to have a real agriculture thought these days. First of all, it doesn't matter what commodity prices do through the rest of the year as far as revenue is concerned. Revenue is already in the can; it's about loss cost now, because the U.S. Department of Agriculture declares a revenue price. It picks a crop price for soybeans and corn that is used to price the insurance product, and that is declared in February sometime, or March. That's what you're locked into. Now, where fluctuations in prices matters is at the time in November-December when you get to losses and how you adjust losses, and the differential between the February-March price and the price at year-end comes into play. But as far as revenue is concerned, that was locked.

Amit Kumar

Macquarie Research

Got it. Okay, thanks.

Evan G. Greenberg
Chairman, President & CEO

Now you're a little smarter, Amit.

Amit Kumar
Macquarie Research

I think I want to go and try to become a farmer now.

Evan G. Greenberg
Chairman, President & CEO

Oh yes. Good luck, Amit. Stay with analytics.

Operator

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

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

This is just a sort of theoretical question, but we've seen several underwriters - yourselves included - who have had in various classes of business anecdotally have given indications that rates are at 3% or 4% or 5% where the underlying premium growth in those lines has been more like 1% or 2%. Even if we're not in a hard market, it would seem to me that you would need underlying exposure growth to get to total premium growth that would be more than whatever the rate increases are, and I'm wondering if you anticipate that happening any time soon.

Evan G. Greenberg
Chairman, President & CEO

Well Tom, I understood your question, and exposure growth comes two ways - it comes from economic activity growing, and by the way let's just take that we gave you an 80%-some odd, I think it was 83%, renewal retention rate in terms of policy count and 94% renewal retention rate in terms of premium. Two and a half points of that was due to economic activity exposure growth, so you do need exposure growth to help along with that - that's right, and then after that it's how much new business exposure growth, so actual units of growth, you take on. We wrote 20% more new business and not enough that it equals the rate increases we're getting yet - the rate increases. Not enough that it equals the amount of business exactly that we're losing and then rate increases kind of made up the difference, if you take out workers' comp, risk transfer workers' comp, I'm normalizing for that. And so if our new business growth continues to pick up, then that plus rate will overwhelm what you're shedding or losing on the renewal side. I think I got and answered your question.

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

Yes, you did.

Evan G. Greenberg
Chairman, President & CEO

And you realize that I said that I expect premium growth to pick up as the year progresses.

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

Yes, without referring to that, that's what I had in mind.

Evan G. Greenberg
Chairman, President & CEO

Yes, but I answered that in my commentary already to you. I said mid to upper single digit in the P&C businesses, and I said the same in A&H.

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

And then the other question is whether you see any areas where there really is—for want of a better term, whether there are underwriting classes where things have gotten so bad that you see opportunity, either in the form of making acquisitions, or in the form of doing significant new business that you haven't already started with. Japan might be an example.

Evan G. Greenberg
Chairman, President & CEO

I'm sorry?

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

I'm sorry - when I say so bad, I mean Japan might turn out to offer some of those opportunities for instance, is the idea.

Evan G. Greenberg
Chairman, President & CEO

Yes, not on the acquisition side but on new business. You know, we have an operation in Japan and we're on the hunt there, but so far the Japanese have circled the wagons on the business that they have, but we're seeing some opportunity begin to emerge there, and more may, particularly with the overseas interest exposure of major Japanese corporations, where Japanese insurance companies were in essence kind of taking one for the team and were naïve in their underwriting. There, we may be seeing—we're seeing some opportunity and that may accelerate. Time will tell.

As far as more broadly, we're seeing around the margin, around the edges in certain specialty lines and targeted areas, but nothing of great significance yet. Not a hard market. As far as whether we're seeing that on companies themselves who might have pressure, well, nothing I'd care to comment about.

Operator

And we'll go now to Greg Locraft with Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

Hi guys, good morning. Wanted to just pursue the guidance. It's very hard to get to the guidance that you guys outlined unless I don't assume much improvement in the combined ratio year-over-year, so I'm trying to reconcile what is clearly an improving top line scenario given your commentary, the actuarial commentary that loss trend is in line with expectation, and then run that through my model and get to your guidance. The only way I can do that is—something doesn't connect in the model, so just kind of curious how you're thinking about margin progression as the year plays through.

Evan G. Greenberg
Chairman, President & CEO

Well, we can't comment on your model, and I'm going to turn it over to Phil in a second. Your model is your model. We give you a range, though, of our current accident year expectation, a range around that in the beginning of the year - we did as to what we thought our EPS would be on an operating income, on a current accident year basis. We told you what the cat loss expectation is within that. We have now updated that simply to add in the prior period development we had and simply to add back into income the difference between what we originally expected for first quarter cat losses and what actually occurred. And other than that, we left the year exactly the same on a current accident year basis.

Now, how it's made up of investment income or underwriting income, we did not give you those pieces.

Gregory Locraft
Morgan Stanley, Research Division

Okay. I guess by way of follow-up, when you set up the guidance back then, did you think pricing would be as good as it was right now and that loss costs would be in line with what you thought? Loss cost is what you thought?

Evan G. Greenberg
Chairman, President & CEO

I think as I said in the very beginning, Greg, that pricing in the first quarter was basically in line with what we expected in our planning, and our revenue was in line with our planning. We were right on plan in the first quarter.

Gregory Locraft
Morgan Stanley, Research Division

Got it, okay. The numbers are great; I'm just curious.

Evan G. Greenberg
Chairman, President & CEO

In terms of current accident year, in terms of underwriting, and in terms of revenue, we were right where we were, and by the way I believe in the previous quarter Phil had given you at that moment what we understood at that moment about investment income, and the first quarter was right in line with that as well.

Gregory Locraft
Morgan Stanley, Research Division

Great. Thank you very much.

Evan G. Greenberg
Chairman, President & CEO

You're welcome. And remember, new business has to earn, and the premium you write this year has to earn its way in.

Gregory Locraft
Morgan Stanley, Research Division

I was wondering if there was a lag and that's just what we're dealing with, which sets up really nicely into next year, so.

Evan G. Greenberg
Chairman, President & CEO

Yeah, sure, and then we have—well, I didn't mean yeah, sure that we're set up nicely with the next year, but remember you've got to be careful with us when you think about current accident year on mix of business. Remember, we shed high combined ratio business that doesn't meet our standards, so you look at a workers' comp, risk transfer comp, it's down to almost nothing, and last year it was more. We've been shedding business like that. You know, heck with market share in that. That, it's not just a matter of rate increase. And then that A&H business keeps growing and international and other areas keep growing, so the mix of business has an impact that you can't exactly see completely. You'd have to work here to see it. But that's another ingredient you've got to keep in mind.

Gregory Locraft

Morgan Stanley, Research Division

Okay, great. Thank you very much.

Operator

And for our next question, we go to Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Good morning everyone. Evan, I want to talk a little bit more about the risk transfer workers' comp. You guys have been downsizing, you said, for three years, but that really accelerated at the end of last year. Given that it's right at the same time that pricing picked up, the industry was reporting somewhere maybe north of 110% combined. What did you see in it that just as pricing was picking up, you guys wanted to go cold turkey on it?

Evan G. Greenberg
Chairman, President & CEO

Well first of all, I don't — yes, north of 110%. I'd say north of 115% or 120%, an interest rate environment that is — you know, what does the yield curve show you, the 10-year yield curve. You know, there's no percentage in it, not for us, and ACE was never a major writer of that business. It was X-hundreds of millions of dollars at its high point, and it didn't accelerate in the fourth quarter - I don't agree with that. We've been shedding it almost ratably, almost on a pro rata basis starting around two and a half years ago, I suppose, and we're almost completely done with it.

It's just nickels and dimes, and to put a number on it, we shed about 25 — you know, because I gave you the difference in growth rates without it, so if you did the math you'd see that we shed about $25 million in the first quarter. Not that big.

Joshua David Shanker
Deutsche Bank AG, Research Division

And then your appetite—I'm sorry? I'm sorry, I interrupted you. What did you say?

Evan G. Greenberg
Chairman, President & CEO

I said you could see that it's not a—you know, in percentage terms on North America, it had a couple of points, but $25 million is just not a lot of premium for ACE.

Joshua David Shanker
Deutsche Bank AG, Research Division

Understood. And do you still think there's room for profitability in the excess workers' comp space?

Evan G. Greenberg
Chairman, President & CEO

We have been in that business for a long time. We have a pretty seasoned book of that business and we write it two ways. Mostly we write it where we write the underlying risk management contract, so it's different how that business behaves when you are handling all the primary underlying for a self-insured, and that's what we're doing primarily. And then we write a modest book of standalone work comp excess, which is for larger accounts, which we've also been doing for a long time.

Joshua David Shanker
Deutsche Bank AG, Research Division

And just to complete that thought, 2010 versus 2011 loss cost trend in workers' comp, how quickly was that accelerating for the industry, for you? Any color you can give there?

Evan G. Greenberg
Chairman, President & CEO

Well, the industry acceleration, I'm not going to be the expert. I've talked to guys who write big bucket loads of that, but you certainly have been seeing the data recently emerge on California, which is a very large percentage, as you know, of the overall industry's risk transfer comp business, and you see how California is behaving '10 to '11 and there you're seeing both frequency and severity issues emerge.

On the balance of our book of business, for our book of business ex-the risk transfer comp where we write risk management business, and that's where we'd write excess, we've seen a good deal of stability between '11 and '10. It's been pretty flat.

Joshua David Shanker
Deutsche Bank AG, Research Division

Thank you for the color.

Operator

Next we go to Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Thanks. I had a question - I'm kind of looking at your retention. It's obviously high, it's growing. Your pricing commentary may be below some peers that we've seen just here recently. Just trying to understand - does that reflect more mix of your business, or how do you look at the trade-off between retention and pricing? And just one follow-up, thanks.

Evan G. Greenberg
Chairman, President & CEO

Are you talking about net to gross retention versus—

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

No, I'm sorry - I mean your comment about 94% on dollars and 83% on policy count, both up a couple of points it sounded like.

Evan G. Greenberg
Chairman, President & CEO

Yes, and the question is -- I'm sorry.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just the question is—yeah, how you think about retention. So is there a point where retention is too high and where maybe you're able to kind of push for more rate, an efficient frontier, I guess if you will, of retention and pricing.

Evan G. Greenberg
Chairman, President & CEO

Yeah, I see where you are. I focus more on that 83% when I think about that question than I do the 94%, because that has revenue tied to it. Obviously is the difference between the two, right - it's exposure, it's rate increase, and then it's a question of did you keep the bigger risks and shed smaller risks, okay? You get what I'm--? That's the difference between the two, those elements. So I focus on that 83%, and that 83%, you know, that could go to 85%, 87%. I've seen it in that range before. In a hard market, I've seen it up at around 89%. So it depends on where we see the market environment, but there can be some—there's still some more elasticity in that potentially. And then yes, of course, we're always studying each line of business and each office, and down to underwriters, as to where do you—where the anomalies end up, and are we somehow trading market discipline and our underwriting discipline in any area. So we're constantly surveying it on a granular basis.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I guess the question is would you be willing to see that fall into the 70%s if you could get a point or two rate?

Evan G. Greenberg
Chairman, President & CEO

I have, I have. I was reporting those kinds of numbers to you last year and the year before where we were talking 80%, 81%, and I was talking 78% or 79% two years ago when we were—especially as we were beginning to be engaged in more refined portfolio management.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

All right, understood. And just one follow-up, I guess - you kind of mentioned an income statement-driven pricing change this time around is kind of what it feels like. Does that reduce the need or desire, the approach to accumulate capital? I mean, you're running about $3.5 billion a year, it looks like, just from a cash flow perspective, and if big chunky opportunities don't arise, if that is the flavor of this inflection point that we're seeing right now, does that mean that we can expect you to warm up to other deployment actions?

Evan G. Greenberg
Chairman, President & CEO

Well, I do think it is more income statement than balance sheet-driven. We're constantly assessing opportunities on deploying capital. Be careful with your $3.5 billion number. I don't know really where you get that number. Be careful - cash flow is first of all not earnings, and secondly we have capital needs that also grow, and that's based on exposures and mix of business and jurisdictions and rating agencies and regulators who are all constantly changing, so you've got a needs side on one hand and you've got an earnings generation side on the other hand. Then you've got increases dividends that we pay to our shareholders, so you've got to consider the whole picture when you start thinking of how we might be accumulating more capital flexibility.

Secondly, opportunity comes a little lumpy and the money is not burning a hole in our pocket, as I tell you continuously. We have a long-term strategy, and we're clear and focused and very disciplined about it. But if ultimately we don't believe that we can deploy that capital at a rate that meets our hurdle rate of return to shareholders, then we will find other ways to return that money to shareholders, and we know that.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. I understand. Yeah, I'm just wondering if this is—

Evan G. Greenberg
Chairman, President & CEO

And remember, I look at a 12%--I look at an excess of 12% ROE and I say, yeah, that's pretty good in this environment, and I think our ROE has continued to be quite good. We've used money to grow the company and it's still gone toe-to-toe in ROE fundamentally with those who have been increasing their ROE by buying back stock. So we've kept faith with shareholders, and yes, ROE does scrub—the surplus capital does scrub a few points off of ROE, and we know that and we think that's a price that is worth paying for long-term shareholder value creation.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

All right. But it sounds like you look at it—seasons change, things change. You're kind of looking at everything with same picture, maybe a different lens, but as—

Evan G. Greenberg
Chairman, President & CEO

All the time. Constantly. It's dynamic. We're not religious about them.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. Thank you very much.

Operator

We go next to a question from Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

First I wanted to follow up on the question about new business versus renewal. Just to clarify - are you saying the rate increases are greater on new business versus renewal, or the tactical ratio or ROE or however you want to think about it are higher on new business than renewal?

Evan G. Greenberg
Chairman, President & CEO

No, the rate increase. The rate.

Ian Gutterman
Adage Capital Management, L.P.

So you're getting—so you're actually getting better--

Evan G. Greenberg
Chairman, President & CEO

The adequacy of the rate, so that's how you measure cohort to cohort. It is better adequacy on the new than it is on the renewal.

Ian Gutterman
Adage Capital Management, L.P.

And can you help me understand why that is, because I guess that seems a bit surprising just—you know, your competitors I would think, if that business was priced so well, wouldn't let it get to market. Why is the business hitting the market better than the business that's on your books, when what's on your books is probably better than what's on other people's books because you've been more diligent about re-underwriting in the past few years?

Evan G. Greenberg
Chairman, President & CEO

I'm going to give you a general comment and then I'm going to ask John Lupica to give you a little color on that also. I want to be careful in this statement - different underwriters handle their issues differently than each other, and some take a blunt instrument approach and they will simply say, listen, I want X-percentage on the entire class of business and that's all there is to it. They do less distinction between risks, and there is one flash to you as to a reason why you will get better adequacy on some business than you might otherwise expect. Do you understand how I--?

Ian Gutterman
Adage Capital Management, L.P.

I think so, but is that…

Evan G. Greenberg
Chairman, President & CEO

I'm going to ask John to add a little color. Would I what?

Ian Gutterman
Adage Capital Management, L.P.

Would you say that's normally the case for you that new business pricing is better than renewal, or is that something that's flipped?

Evan G. Greenberg
Chairman, President & CEO

No, no, it depends. It's so dynamic, it depends on where you are in the market cycle. I could tell you that generally in a soft market, why were we writing less and less and less new business? Our new business rates have declined. I mean, they were up 20%. One of the questions to ask me is, where was your new business three years ago? How does it relate today to what you did three years ago? It's probably half of what we wrote three years ago, or less; and so now it starts increasing. Why did it happen then? Because new business was coming at relativities - and we were telling you at the time, new is 90% or 95% of the renewal business.

You're getting old again - you've got to remember back to that. You were asking that question. You get what I mean? I'm going to ask John to add a little color to that.

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

Just to add on that, to Evan's point, our new business space is relatively small compared to the entire portfolio, and on a year-over-year basis we have seen it up a little bit, as Evan has reported. One example is really property where we can get new pricing adequacy that's well in excess of 100% of our renewal base. It's really because of the portfolio optimization that we've done within our organization. We can look to charge more for the capacity that we've allocated to that line of business on capital that we have within the organization. So as we look at the price movements, it's really a matter of looking at what we have in the portfolio, how are we able to reallocate, and how we're able to see the deployment at a little higher and better rate. In property, we've seen it up. In our H risk management business, we've seen the adequacy up as, again, we're selective about the new business, we're seeing more opportunity, and we get to pick where we can deploy it fastest.

Ian Gutterman
Adage Capital Management, L.P.

Okay, that makes sense. I'm with you now. And just a transition from there to a follow-up on, I think, the other topic about what does this mean. You know, some of your peers talking about pricing X versus loss cost Y, and therefore we're going to see X near improvement and so on and so on, and I know that's a hard question to answer because of some of things you already discussed on mix and these other issues. But based on your comments, is it fair to say at least on a written basis for now that you think the business you've written year-to-date, let's say, on a written basis has a priced ROE better than the business you were writing a year ago?

Evan G. Greenberg
Chairman, President & CEO

I'd say in aggregate, yes - modestly better.

Ian Gutterman
Adage Capital Management, L.P.

Okay, but that's on a written—

Evan G. Greenberg

Chairman, President & CEO

For the United States, I would say that's true. But then I've got to tell you, after that general statement, I then go line by line because you've got to distinguish long-tail versus short-tail. If I took away and just looked at the long-tail by itself, I'm more circumspect about giving that as an answer. I would say rate of deterioration has slowed, but I wouldn't say that it's leaped ahead.

Ian Gutterman
Adage Capital Management, L.P.

Got it. But as your mix shifted—

Evan G. Greenberg
Chairman, President & CEO

I'm not there.

Ian Gutterman
Adage Capital Management, L.P.

Okay, but on a total portfolio because your mix shift is moving away from those lines and more towards the former lines, there's probably a positive mix—

Evan G. Greenberg
Chairman, President & CEO

I'd say between selection and pricing, and with all business together, yes.

Ian Gutterman
Adage Capital Management, L.P.

Got it. Thank you very much.

Operator

We go next to Josh Stirling with Sanford Bernstein.

And Mr. Stirling disconnected. We'll move on to Matthew Heimermann with JPMorgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Hey, good morning. I guess first question is you had a line in your annual I liked a lot, which was talking about the industry having excellence in managing mediocrity. But obviously this isn't a traditional hard market - the tide isn't going to lift all boats. But I'm wondering if that's a better environment for you to further differentiate yourself and your performance, given some of the investments you made in underwriting which you've highlighted in parts of the call this morning.

Evan G. Greenberg
Chairman, President & CEO

You know, I don't know if I would consider it better or worse or any of that. I don't really think in those terms - maybe I'm warped. For me, I just think about it, just tell us the ballgame we're playing. Whatever game we're playing, we're fine. We're going to do just fine and we're happy. We will outperform, and in my mind if it's going to be a market like this that has this kind of stability to it, this characteristic of stability, it obviously on one hand prolongs any notion of a hard market. On the other hand, it does create, as you'd say, more opportunity given our parts and pieces, and in this business there's always a deviation around the mean. Everybody doesn't perform the same and there's great opportunity to distinguish yourself one side or the other of the mean. This does give us opportunity and I believe that we'll always perform better, and it's better than the market it was a year ago. So we'll take advantage.

Obviously if you had a real hard market, I'm confident ACE would double or triple its size. In this case, we're going to grind out singles and doubles, and you know what? No problem. Let's play ball.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Thanks for that. The other question I had - could you talk about some of the things in the A&H segment that just led to this being a little bit lower growth quarter? I'm just curious—you know, the past dynamic has been international growing and domestic pretty stagnant. You mentioned a pick-up in U.S.-brokered business, but on the international side I'd be curious whether or not, let's say—some of the emerging markets, right, are still posting healthy growth but not seeing as much momentum in some of the economic activity as seen in the past. I'm just curious if whether or not that's something we should worry about correlating to your own business growth.

Evan G. Greenberg
Chairman, President & CEO

Sure. No, I don't see that. The areas where we've been getting growth in A&H internationally where they've been double digits continue to be double digits, and I see that for the balance of the year. If anything, I've seen it improve overall. Europe is soft, flattish, but that's been that way. The U.S. brokerage business is a relatively small book, but—I say relatively small, it's still hundreds and hundreds of millions of dollars, the brokerage business, and it's a good business and that has grown fairly nicely. We had a couple of one-off items this quarter, particularly in Europe and Japan, that just depressed the growth rate, and that's why I see it returning to mid to upper single digits as the year goes along.

Combined itself - combined is starting to show some signs to me and to the management where leaving aside the U.K., Ireland, where just the regulatory environment—that aside, but where I look at the major portfolios, which is the U.S., Canada, Australia, that business - we're seeing that stabilize and we're seeing the early signs right now of what we think is pick-up in growth. And we think that will start to show in those numbers by year-end or the first quarter of next year.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Okay. Thanks much.

Evan G. Greenberg
Chairman, President & CEO

Actually, I'm pretty bullish about A&H.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

It sounds it.

Operator

We go now to Meyer Shields with Stifel, Nicolaus.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

I just wanted to throw in two small questions, if I can. One - does the shift more towards property and away from casualty that we saw in the quarter does that imply any constraint on further portfolio duration lengthening?

Evan G. Greenberg
Chairman, President & CEO

In the investment portfolio? No, but I'm going to let Phil on.

Philip V. Bancroft
Executive VP & CFO

No, we don't expect that. We manage our durations slightly lower than the duration of our overall liability anyway, so we don't see any significant shift caused by a shift in the business.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Okay, fantastic. And could you talk about whether or how casualty reserves from accident years 2010 and 2011 have played out so far?

Evan G. Greenberg
Chairman, President & CEO

Casualty reserves from 2010, 2011? It's way too early. It's way too early. You know, look - good news comes early, bad news comes late, and it's so immature but we don't see anything negative emerging on those years to us, from what we expect.

Meyer Shields
Stifel, Nicolaus & Company, Incorporated, Research Division

Got it. Thank you very much.

Operator

We go now to Josh Stirling with Sanford Bernstein.

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

Hey, thank you for taking my call, and I apologize about that before - apparently I just don't know how to use my telephone. A very brief question - obviously you've been positioning a leveraging mix to avoid workers' comp and some casualty lines. What sort of benchmarks should we be looking for when we think about other competitors and broadly the industry getting maybe 8% of rate? How much rate do you think that line needs before it starts to get to be attractive returns which would allow us to be more constructive and allow you to sort of think about getting more active there, or in other sort of similarly long-tailed casualty lines?

Evan G. Greenberg
Chairman, President & CEO

Well I think, Josh, what you have to do, you can do it pretty easily yourself. Take workers' comp, look at NCCI and other data, which you can get pretty easily, and see what they tell you about combined ratios right now. But let's call them in the 120% range, and then imagine the yield curve, which is going to take you from 2% to 3% to 3.5% over a 10-year period approximately - don't hold me to that. You'll see the yield curve. And then, apply rate on that and imagine that paid claims—if you're going to finish this, imagine paid claims, that you pay out half roughly in the first five years and then you pay out the balance over the duration after that, which is between year 5 and, call it, year 15 - most all of it's gone. You still have some left at the tail.

So if you run all that out and apply what you think is a loss cost, which we'll tell you in our judgment on that business is 5% or 6%, medical doesn't — you know, medical just moves along. I think you'd see that you'd probably got to run it in the 90%s to get any kind of return on capital that starts to make you interested, and I'm not sure that an 8% or 10% rate increase on that does that for you.

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

Yes, I think if the math you used that one, it'd probably be 30 or 40 points of rate need.

Evan G. Greenberg

Chairman, President & CEO

You've got the calculator.

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

Yeah, that's right. And I guess the final question that's related to this is when we see you guys improving your accident, your loss ratios year-over-year and quarter-over-quarter, should we think about that—just because we don't have line of business detail, should we think about that primarily as driven by mix shift away from casualty lines, or is that underlying improvements across the various businesses?

Evan G. Greenberg
Chairman, President & CEO

No, I don't think you see improving quarter on quarter on quarter. It bounces around and mix shifts kind of by quarter, because there's seasonality to some of our business, to much of the business, and some businesses aren't so seasonal, like A&H isn't as seasonal, but other businesses have a seasonality to them, and you've got foreign exchange. You know, you can't exactly—it's not symmetrical on a quarter-by-quarter.

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

Okay. Thanks for fitting me in.

Operator

And now we go to Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Hey, good morning. Two quick questions here for you. First one - Evan, it sounds like the wholesale market right now is getting a little bit more rate, and maybe business is moving that way. Can you just remind us what your breakdown of wholesale versus retail is in the U.S. when we look at your commercial business?

Evan G. Greenberg
Chairman, President & CEO

First of all, I don't see the business moving that way. I do see improved pricing in wholesale versus retail, but as far as classic hard market where you'd see a tremendous amount of business move out of the retail into the wholesale business, we do not see that. You see it more in property cat-related area as, for instance, a line of business because they're searching capacity out. But beyond that, we don't see it. It's very much on the margin right now, number one. Number two, the mix - ACE Bermuda we throw in, and we throw in Westchester. Those two are what we consider our wholesale and P&S-related North America business. The balance U.S.A. and the other businesses like our personal lines business, that all forms part of retail. You know, we're seeing growth on the Westchester side. The ACE Bermuda side, which as you know is high excess, we're not seeing growth there. We're seeing the business flat.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay, great. And just to follow on your comment on personal lines, I'm curious your thoughts on kind of the personal lines market right now, opportunities there for you. I mean, you'd mentioned at your investor day you'd like that to be ultimately 20% of your mix. Where do we stand there?

Evan G. Greenberg
Chairman, President & CEO

And remember I said that globally, so our personal lines business in the U.S. and internationally is right on plan. When I look at their first quarter, their revenue growth and what we expect from them as far as the expense ratio and loss ratio, their fundamentally right on plan. The U.S. is continuing to move, just focused on that high net worth market, and I think in a disciplined way in terms of pricing and risk selection and concentration management and product and - the most important - service to customers, and distribution management. That is right on track for us, so I'm feeling pretty good about that, and I think year-end you saw we were roughly, I think, about a billion and a half of personal lines business in total, so it's growing.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great, thank you.

Operator

For our final question, we go to Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Great, thank you. Most of my questions have been answered. I did have one question - I wouldn't mind hearing more about the life insurance segment, and specifically underwriting income where the top line is growing but you have seen the margins on that business get worse. I know there's a lot of changes in there, so I'm wondering if you can give a bit more clarity to what's happening in that business.

Philip V. Bancroft
Executive VP & CFO

Two things happened in the quarter. If you look at the benefit ratio, it's up and I would say artificially, because we have those separate account — the separate account growth is split between other income and benefits. So you'll see in the table that's in the supplement, the benefits are up but we also have a reduction in the expense for the benefit that we take on the other side of the separate account. So that washes out. We did have a slight increase in the benefit ratio net of that because we had a little bit of an increase in the VA benefit ratio. The other thing you'll see is that the impact of the DAC in this quarter increased the expense ratio. So—

Evan G. Greenberg
Chairman, President & CEO

You know, which we have the debate in here. The real measure of life insurance, the more we're growing the traditional life insurance business, the real measure is operating income. Loss ratio is right for the P&C business. Benefit ratio is a better measure for life insurance; and then as Phil said, when you write separate account business, you're earning your income between the underwriting line and the other income line.

Philip V. Bancroft
Executive VP & CFO

And it just washes out to zero because it all belongs to the policy holders.

Evan G. Greenberg
Chairman, President & CEO

Yeah, so you've got to—be careful with that line.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Absolutely. And I guess while we're on the topic, can you talk about if the acquisitions in that business that you made over the past several years and how those are playing out?

Evan G. Greenberg
Chairman, President & CEO

Yeah. The acquisitions we made were Hong Kong and Korea of New York Life's business, and they're both playing out as we expected them to. Hong Kong is on plan and is in fact growing agents and growing business. Korea, we knew would take longer. We knew that it would—actually as we acquired it, it was in a more unstable—as it came to us, a more unstable condition. It has stabilized and roughly a quarter later than we expected it to, so fundamentally that works for me. And it's beginning to pick up and grow its agents, and right behind that it will start growing its business. So it's where we expected both of them to be.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Great, thank you.

Helen Wilson

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
Ladies and gentlemen, that does conclude today's call. Once again, thank you for your participation.