S&P Capital IQ

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Chubb Limited NYSE:CB

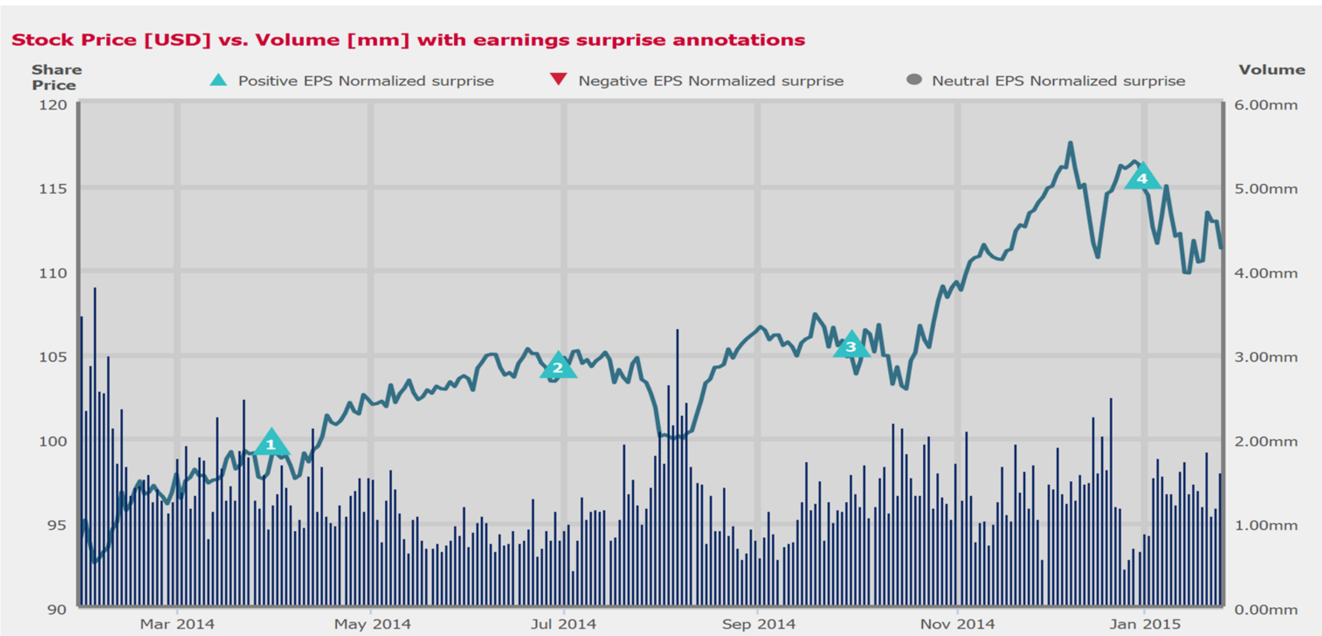
FQ1 2015 Earnings Call Transcripts

Wednesday, April 22, 2015 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2015-			-FQ2 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.21	2.25	▲1.81	2.31	9.20	9.53
Revenue (mm)	3643.25	3585.00	▼(1.60 %)	3938.00	15156.50	16400.40

Currency: USD
Consensus as of Apr-22-2015 11:51 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2014	2.14	2.27	▲6.07 %
FQ2 2014	2.23	2.42	▲8.52 %
FQ3 2014	2.36	2.64	▲11.86 %
FQ4 2014	2.31	2.47	▲6.93 %

Call Participants

EXECUTIVES

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

Helen Wilson

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Presentation

Operator

Good day, and welcome to the ACE Limited First Quarter 2015 Earnings Conference Call. Today's call is being recorded. [Operator Instructions].

For opening remarks and introductions, I would like to turn the call over to Helen Wilson, Investor Relations. Please go ahead, ma'am.

Helen Wilson

Thank you, and welcome to the ACE Limited March 31, 2015, First Quarter Earnings Conference Call. Our report today will contain forward-looking statements, including statements relating to company and investment portfolio performance, pricing and business mix, economic and insurance market conditions including foreign exchange, and integration of acquisitions, 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.

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

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

Good morning. ACE had a reasonably good start to the year with earnings per share essentially flat with the prior year. It's a difficult quarter for U.S. dollar-based multinationals. Foreign exchange impacted our revenue, earnings and book value growth in the quarter. And beyond that, we also overcame a couple of favorable items that benefited first quarter '14.

After-tax operating income for the quarter was 743 -- $745 million or $2.25 per share. We overcame about $0.18 of headwinds, $0.06 from FX, $0.12 from the items that benefited '14 and didn't repeat. We produced an operating return on equity of nearly 11%. Book value per share growth was up 1% in the quarter and stands at $90.81. Underlying book value per share grew 2.4%. If the dollar does not strengthen in any material way from here, we don't expect any further foreign exchange impact to book value.

Our P&C combined ratio was 88.4 in the quarter, down about 0.5 point from prior year, with total underwriting income up over 3% pretax.

It's worth noting, simply for underlying trend purposes, that the positive items in '14 that I mentioned benefited the global P&C current accident year combined ratio in that year by 0.5 point. Remember, global P&C excludes agriculture.

Adjusting for those items, the global P&C current accident year combined ratio for the first quarter was essentially flat year-on-year. Phil will have more to say about the one-time items.

We benefited this quarter from the '14 crop year runoff by $33 million, bringing the '14 year ultimate result to an 86.5 combined ratio, a very good year.

In essence, the positive crop insurance development versus last year's first quarter offset the impact of foreign exchange and the positive items in '14 to generate flat earnings per share year-on-year.

We produced $551 million in investment income in the quarter. This, too, is a good result, given record low interest rates and speaks to our strong cash flow.

Phil will provide more detail on our investment portfolio and results.

On a constant dollar basis, total premiums grew 2% net premiums. And excluding agriculture, global P&C net premiums were up 5%. Foreign exchange impacted premium revenue results in the quarter by 5 points.

In North America, net premiums for P&C, excluding crop, grew 1%. In our large commercial business, ACE USA, net premiums declined about 2.5% due to a particularly large account booked in '14 that we chose not to renew this year.

We grew over 30% in ACE commercial risk services which serves small to mid-market clients. And 6% in Ace Westchester, E&S, as all lines except property group. Net premiums for our agriculture business were down over 50% in the quarter, due in large part to the premium sharing formula with the U.S. government. Because the '13 crop year was a difficult loss year, we received more premium from the government as part of the profit and loss true up in the first quarter '14 than this year. We don't expect nearly that rate of premium decline for the remainder of the year.

In ACE International, where the impact of foreign exchange was most pronounced, P&C net premiums were up over 2% on a reported basis, but 13% in constant dollars. Asia and Latin America had strong growth with net premiums up 14% and 50%, respectively, while premiums in Europe were up 1%. In our London market based E&S business, premiums were up about 1.5%, again, in constant dollar.

There was some softness as expected in the quarter in our global A&H insurance business where net premiums grew about 3.5% globally in constant currency. Premiums for combined insurance were up 4% in our core North America business, with new sales continuing to grow at a double-digit pace.

We expect, on a constant dollar basis, total A&H growth to return -- to accelerate each quarter as the year goes along.

Net premiums written for global personal lines were up about 19%, again, in constant dollars. As you saw on April 1, we closed our acquisition of the U.S. high net worth personal lines business, Fireman's Fund. We're busy integrating that business with ACE Private Risk Services, which is now one of the largest high net worth personal lines insurers in the United States.

Our Asia-focused International Life Insurance business had a good quarter, with net premiums and deposit growth of over 18% in constant currency.

And finally, due to market conditions, net premiums declined 9% in our Global Reinsurance business. Given the impact of foreign exchange and recent acquisitions, it may be difficult for those who invest in or follow us to project our growth.

Therefore, I want to provide a little assistance. From what we know now, net premium revenue growth for the full year '15 will be up mid-single-digit on a published basis, which means almost 10% on a currency neutral basis.

We will benefit from our growth initiatives both organic and acquisition-oriented, particularly in the U.S, Latin America and Asia.

I wanted to now say a few words about current commercial P&C insurance market conditions.

The underwriting environment grew modestly more competitive in the quarter for our commercial P&C business globally. In general, the underlying pattern we see is large account business is more competitive than mid-sized, wholesale is more competitive than retail, and property more so than casualty-related.

In the U.S., rates for general and specialty casualty-related classes were up 2%, while property-related prices declined 7%.

Taking our U.S. commercial P&C business by its components, and starting with our large and upper middle market retail business, the ACE USA pricing trend was pretty stable with general and specialty casualty related pricing up 2% in the quarter and varying by line. For example, large account risk management related casualty pricing was up 2.1%; management and professional liability pricing was up 3.2%; excess casualty was up 2.1%; and foreign casualty pricing was up 1.3%. Property-related pricing continued to decrease at a steady pace, down 5.2%. To maintain these price levels requires discipline. For our U.S. retail business, the renewal retention rate is measured by premium, was 93% in the quarter and by policy count, it was 83%.

The impact from change of exposure added about 2.5 points to premium.

Turning to our U.S. E&S business. Casualty rates were up 1.4% in the quarter, professional lines rates were up 3.7%, while property was down about 8%.

Internationally, while commercial P&C insurance market conditions were again modestly more competitive, the pricing for the business we wrote was pretty stable overall. Rates were down 1% in the quarter, Asia was the most competitive region with rates down 4%, whereas pricing in Latin America and the continent was flat, and the U.K. was down 1%. For international in total, casualty rates in the quarter were down 1%, property was flat and financial lines rates were down 2%.

In our London marketing E&S business, rates were down 3% in the quarter.

We are ameliorating the impact of pricing on our combined ratio through a combination of mix shift, targeting classes with better margin, portfolio management that informs underwriting actions, including tighter individual risk selection and pricing actions in more stressed areas, as well as better marketing and new product innovation.

As you know, personal lines, small commercial and A&H are approaching 40% of our company net premiums. For these businesses, rates were flat to up mid-single-digit depending on portfolio and territory. In the U.S., small commercial and personal lines achieved rate, including exposure growth of 5% to 6%. And Internationally, 1% to 2%, while group A&H pricing was flat.

John Keogh, John Lupica and Juan Andrade can provide further color on market conditions and pricing trends.

In summary, we produced good results this quarter, despite foreign exchange and remain confident in our ability to overcome these challenges as the year progresses.

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

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

Thank you, Evan. Book value per share grew 1%, and tangible book value per share grew 1.8% in the quarter, both were impacted by foreign exchange losses of $441 million, $268 million of which impacted tangible net assets. As a reminder, these losses represent a point in time mark-to-market valuation adjustment, and do not affect the capital position of our foreign operating units.

We match our assets and liabilities in each jurisdiction, and we keep our required capital in local currencies. If and when the dollar weakens, the book value impact would be positive.

Excluding unfavorable foreign currency movements, book value per share increased 2.4%, and tangible book value per share increased 3%.

We had a very strong operating cash flow of $1,075,000,000 for the quarter that benefited our investment income and contributed to the growth in our cash and invested assets, which are now $65 billion.

Investment income of $551 million was about what we expected, and was impacted negatively by $7 million of foreign exchange when compared with the prior year.

Our strong cash flow will continue to benefit our estimated quarterly investment income run rate of approximately $550 million, even with current new money rates of 2.6% versus our current book yield of 3.6%.

The estimated investment income run rate is subject to variability and portfolio rates, call activity, private equity distributions and foreign exchange.

During the quarter, we had pretax realized and unrealized gains of $455 million relating to the investment portfolio and a mark-to-market loss on our VA reinsurance portfolio of $57 million, both of these were primarily due to decreasing interest rates.

Our net loss reserves were up $247 million for the quarter or 1% after adjusting for foreign exchange and crop activity. The paid-to-incurred ratio was 109% for the quarter or 89% on a normalized basis, which takes into account prior period reserve release activity and crop loss payment activity.

In the quarter, we had net positive prior period development of $83 million pretax, principally from short-tail lines.

Cat losses were $40 million after-tax in the quarter, primarily from a number of U.S. weather events.

Evan mentioned that there's a number of favorable items that benefited last year, and impact the year-on-year comparison of our operating earnings per share. North American P&C underwriting income pretax benefited by $25 million, $18 million after-tax, from both lower excess or loss premiums exceeded under our 2014 catastrophe reinsurance program and a favorable settlement related to prior year state premium assessments.

In addition, life underwriting benefited last year from a reserve release of $6 million, both before and after tax.

Also the tax rate was lower in 2014 because prior period development emerged in lower taxed jurisdictions. This increased our operating income in 2014 by $16 million for global P&C coming from North America.

The total after-tax impact of these items was $40 million or $0.12 per share. When comparing year-on-year results for global P&C, note that last year's positive prior period development of $100 million included $42 million of positive prior period development from the resolution of a large 2003 claim in our North American P&C segment. Excluding this claim, prior period development last year would be $58 million compared to this year's $50 million.

Also, prior period development in our Agriculture segment was negative $38 million last year versus positive development of $33 million this quarter.

Total capital returned to shareholders during the quarter was $560 million, including $340 million of share repurchases and $220 million in dividends.

I'll turn the call back to Helen.

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

Question and Answer

Operator

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I have one question, I guess, about capital deployment. It looks like you now, you've stepped up pretty consistently and are buying back $350 million to $400 million a quarter, deploying about 70% of earnings. Should we be thinking about that approaching 100% of earnings at some point? Or do you expect that you still want to keep some capital there for M&A? I mean, not that you don't have plenty to do that anyway, but, I mean, how should we be thinking about your propensity to potentially lift that back up to 100% earnings?

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

I think the way you should be thinking about it, Michael, is not to speculate. We gave some guidance in essence by our intention of share repurchases for the year. And that is as an authorization to repurchase up to $1.5 billion, but that was our stated intention, that's what we're doing. Our dividend, you see what our dividend is. So in total, it shows that we're returning, our intention is to return, roughly this year, in that range, that 70% range. And as things go along, as we see the environment, assess the environment and versus our strategy and both together speaking to our needs for capital, we'll make future decisions and you'll know about those.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And then one question, I guess, Phil, on the debt that you guys issued. I'm guessing, you mentioned pre-funding some debt that's coming later this year. Should we assume that the $450 million in May and the $700 million-or-so in November that you'll just pay those off and not reissue any debt at that point? I'm just trying to think about just...

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

Yes, that's our plan. That is our plan.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And then last question, just on crop. It sounds like there should be no kind of catch-up impact in the second quarter from what happened here, that this was just related to the settlement of the prior crop year. Is there anything other -- if whatever we were thinking about for the rest of the year on crop, it sounds like that shouldn't change based on what we saw in the first quarter, is that fair?

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

That is very fair. And the first quarter is a -- first of all, it's a small percentage of the total premium, and so you get that. And you have this messiness of the -- depending on your profit and loss in the prior year. You have the true-up with the government. And also last year, the winter wheat season, which is a '13-'14 season. This year is the '14-'15 year season, but winter wheat, it crosses years. We booked more of the winter wheat premium last year in the '13 fourth quarter. And this year, we booked more in the first quarter of '14 -- and this year, more of it was in the fourth quarter. So you have that timing difference. And as we go forward, the way our accounting works, we should not have that. We should be consistent with how we did this year.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. Perfect. And then just one bigger picture on Cyber, as a topic and an area of focus for ACE, I mean, is that an area that you see as an opportunity to have a pretty substantial impact on kind of the way that, that product and vertical evolves? Or is it still a little too early to start really setting up a big presence there as those liabilities start to come into focus?

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

Well, that's a good question. And look, as -- in order for insurance to remain relevant in society, you can't simply hold on to the past. Perils are emerging as society matures and develops from science, regulation, legal, all kinds of areas that impact it, globalization. And with -- as economy digitizes, as society digitizes, there are more exposures that are going to emerge and cyber risk security is one of them. And this is something that the industry, to be relevant, has to come to grips with and meet the needs of these exposures for clients. ACE is one of the major insurers of cyber insurance as it is today. It's a nascent area, it's small. And most of the product demand is in the United States, it's not in other countries yet. We keep probing it for other places to -- but there'll be more of demand for the risk, more demand for insurance for the risk. And we're committed to the line. We see lots of opportunity for it, but it's still small. Overall, the premiums globally about $1.5 billion to $2 billion. And we estimate our market share at 8% or 9% of that. So we're quite active. We're mindful of the risk environment around it, so it's kind of category of client and size of client related. You got to be mindful of that. You've got to be paid properly for the risk. But with all that said, this is an area of growth for ACE.

Operator

The next question is from Clifford Gallant with Nomura.

Clifford Henry Gallant
Nomura Securities Co. Ltd., Research Division

The question I had was just in regard to AVR Re and your investment in that. And I was wondering if you're now at a point where you can comment on what you think the opportunity might be there?

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

Well, the opportunity, it's not a -- it doesn't do third-party business. It's -- you've seen all the material on it, it's out there. And it is, in essence, the only reinsurance business it will be accepting is ACE's business.

Clifford Henry Gallant
Nomura Securities Co. Ltd., Research Division

Will that change over time? Or what is the long-term plan?

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

No, that's not our intention. The board of the company, we own 10% or 11% of it, and we're one board member though. The board and the management of the company may decide differently in the future. But from everything I can see right now and the next number of years, that will not be the case.

Operator

The next question is from Ryan Tunis with Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

So I guess my first question, I guess, just drilling down into the life results a little bit. Obviously, $66 million reported this quarter. That compares to $76 million in the fourth. I think the press release referenced the runoff, or the VA block or the reinsurance block is contributing to that. I guess just breaking it down a little further, how much of that sequential decline was related to reinsurance maybe versus something else, International Life or U.S. A&H?

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

As we said, there was a $6 million item reserve release in the fourth quarter of last year. We also have a runoff of the VA, and we also have an FX. And 3 of those together, combined to be the impact of -- I mean, the change.

Ryan James Tunis
Crédit Suisse AG, Research Division

Okay, understood. And then also on the supplement, I guess, you guys disclosed personal A&H operating earnings, and I'm guessing that's mostly U.S. combined. But this quarter, I think, that was $113 million. That looked in line with the year ago, but it was kind of down from what looks to be kind of a low 120s run rate over the last few quarters. I'm just wondering, what's kind of going on there? Is there seasonality around that? Anything you can add will be helpful.

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

We're a little -- we're sitting here a little perplexed by your question, and I'm not sure exactly what you're focused on. But I'll tell you, what about if we take that figure offline.

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

[indiscernible]

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

And fill in -- we don't see any sequential weakness, but Phil and Helen will take it offline with you.

Ryan James Tunis
Crédit Suisse AG, Research Division

No problem. I guess just one for Evan. Your comments on the smaller end of the market, I think, remaining somewhat less competitive than the larger. And I guess you saw that this quarter, another strong growth quarter in commercial risk services. I think you said up 30% there. I guess over the past few quarters, kind of how has the competitive environment been evolving? I mean, growth looks like it continues to remain robust.

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

Yes. It's a -- first of all, it's -- it benefits from its size, it's not a huge business, it's in the hundreds of millions of dollars is a business for us, not in the billions. And it is specialty-oriented more than traditional package business in the traditional package area. We're really focused only on the micromarket, and that is very small companies where we see good opportunity. We've invested more and more in this space in terms of product, in terms of, I should say, begin with talent. We have really, in the last 2 years, beefed-up the talent in that area. So we've been investing in it with people for 5 or 6 years. And we have expanded product significantly over the last 18 months, and we've expanded cohort of customer focus. So in addition to mid-market, on the very small and -- the smaller end of that market, we went right down into the micro, and so those efforts. And then that leads to distribution and the technology we've put in place to help facilitate that. So a lot of investment and we're benefiting from the result of that. I don't expect these kinds of growth rates will continue forever, but we're getting -- they are in line with our plans. And they're not a surprise to us. Did I answer your question, Ryan?

Operator

We'll go next to Jay Gelb with Barclays.

Jay H. Gelb
Barclays PLC, Research Division

I just want to touch base on a couple of items. So I believe you mentioned that even if -- or if dollar doesn't strengthen further, there should be no further impact on book value from foreign exchange. Is that the same case for earnings per share as well?

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

Well, not, no, not on a comparative basis. So the run rate you saw in this quarter, might get mildly worse in the second and third quarter, just mildly. It's a reasonable run rate to use. And then the fourth quarter should get better because we've had the deterioration in the fourth quarter. I mean that we've already experienced the deterioration in last year's fourth quarter.

Jay H. Gelb
Barclays PLC, Research Division

4Q better, meaning less of a drag...

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

Yes.

Jay H. Gelb
Barclays PLC, Research Division

Than 2Q, 3Q?

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

Yes.

Jay H. Gelb
Barclays PLC, Research Division

Okay. And then for the full year?

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

2Q and 3Q will be right in, they're right in the range of first Q.

Jay H. Gelb
Barclays PLC, Research Division

Okay, that's helpful. On the agriculture business, Evan, I know you mentioned that directionally, premiums could be lower for the rest of the year, not as much of a decline as in the first quarter. I believe agriculture premiums for all of 2014 for net working premiums were $1.6 billion. Do you have a sense where that may shake out for the full year '15?

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

I think you should imagine that commodity prices are going to have a low double-digit impact, 10%, 11% range.

Jay H. Gelb
Barclays PLC, Research Division

For the full year?

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

Correct.

Jay H. Gelb
Barclays PLC, Research Division

And then we would take into account volume as well?

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

Yes. But I just took that into account to give you the impact on premium.

Jay H. Gelb
Barclays PLC, Research Division

Perfect. The final question I had is, given the severe winter weather in 1Q, particularly in the Northeast. The -- I was just wondering if that was a factor at all in ACE's result. And also noting that your catastrophe impact for 1Q was a lot lower than what we saw, for example, out of Chub [ph] which also has a high net worth business. I just wanted to get your perspective there.

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

Yes. We had -- look, we had -- last year, we had cat losses were a little bit up, elevated. And this quarter, they were right in line roughly with that, a bit elevated, but not -- nothing terrible.

Operator

We'll go next to Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First question on the -- thanks for the color on the total premium growth for the addition of the acquisitions, do you also have to see any sort of combined ratio impact from these acquisitions?

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

Combined ratio impact from these acquisitions? Sure. Every acquisition is -- I mean, Kai, every acquisition is going to have -- if it has anything of size in terms of premium, it's going to produce a certain run rate of its business. It's going to have a combined ratio, it's going to mix into our total. So mathematically, you get that. If you're looking for how much it will be, well, buddy, that's another question, and I'm not going there.

Kai Pan
Morgan Stanley, Research Division

But direction though -- are those 2 acquisitions, Itau and Fireman's Fund, do they have the high combined or lower combined ratio relative to your existing book?

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

In total, they will be beneficial.

Kai Pan
Morgan Stanley, Research Division

Okay. And then second question. If you step back, Evan. If you look at the past 3 years, you produced operating ROE around 10% to 11%. While the P&C pricing was generally rise and the cat losses has been relatively been nigh. So going forward, if you -- we've seen the P&C pricing is decelerating, do you think, like the ROE going forward will decline? Or there are any driver -- like drivers you can pull to maintain or even improve that ROE?

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

Yes, Kai. And I said this earlier in the commentary, it's about more than pricing. We are quite diversified by product area. A lot of our business is not commercial P&C, and our commercial P&C is spread very well across the globe and spread around a lot of products. And our data analytics and our portfolio management capabilities continue to improve. And so our risk selection and ability to focus in areas where we see better margin for the current rate levels, and our ability to shift mix that way improves. So -- and then we have acquisitions that just are another way of contributing to that in terms of mix, be it product or geography that help ameliorate movements in price. And so I think we have a lot of handles to pull, and we're pulling all of that we can that help to ameliorate the impact of pricing.

Kai Pan
Morgan Stanley, Research Division

Okay, that's great. Lastly, if I may. Is on the -- you've seen the recent wave in the merger acquisition and reinsurance space. Do you think the current environment is also right for us more acquisition, like opportunities in the industry consolidation on the primary side? And where ACE fit in that space do you see more opportunities for future acquisitions?

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

Well, there is a constant flow of deals. We've said before, many, we look in the -- at circa 100 deals a year on globally. Pull the trigger very selectively. It's got to meet our strategy and our standards. And that kind of flow activity continues. It's driven by many things. It's driven by the P&C cycle. On one hand, it's driven by economic conditions in various territories. It's driven by owner strategies of where they -- what kinds of businesses they want to be in, in the future. So there are many things that drive the motivation. Of course, when you have -- just as you look narrowly at the P&C industry, whenever there's -- whenever you have pricing pressures and growth pressures, and now you got low interest rate pressures, so earnings pressures and growth pressures, that will drive many who don't have a view of or an ability to move beyond that. It has them assess the opportunities for merger and acquisition. So you typically will see it, at this kind of point in cycle and see a pick up. It wouldn't surprise me.

Operator

The next question is from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just the first one. Is it possible to give us some color on the impact of Itau acquisition in the oversea segment? Particularly, I was a little surprised at your -- actually premium retentions went up in the quarter given that was kind of a part of a consolidated results now as well as admin expenses actually going up given the favorable impact of FX on expenses.

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

Yes. So Brian, what's the question?

Brian Robert Meredith

UBS Investment Bank, Research Division

The question is what's the...

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

Yes, I'm trying just to break it down.

Brian Robert Meredith
UBS Investment Bank, Research Division

Sorry, it's a long convoluted one. So the impact is, why are retentions up in the overseas? Premium retention up in overseas on a year-over-year basis with Itau coming in? Or do they have much of an impact on it?

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

Yes. So on premium retention, no. That's more of -- that's a mix of business question. There wasn't a change of reinsurance. And yes, Itau came in, but it's a big organization. And there were growth in a lot of other areas. You saw personal lines growth, and A&H growth. And then there's a lot of other small commercial in Asia and other places. So the mix -- that will bring it down, that's why you shouldn't simply imagine Itau. And then also, remember, whatever, however, Itau reinsured in the past, that was based somewhat on their own net retention appetite. And ACE, they have a different appetite.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. And then also just quickly, Petrobras, obviously a lot going on down there with respect to Petrobras. What's ACE's exposure to -- what's going on down in Brazil in Petrobras?

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

I was trying to get John Keogh to answer it, and tell you that we're not going to comment on that on line on exposure. But he doesn't want to. He didn't say it. So Brian, we're not going to comment on an individual situation. We're not -- we're mindful of Petrobras' circumstances. And obviously, and the impact on both growth and the construction business as well as surety exposures, both their own and generally within the construction industry. And we're not -- while we're alert, we're not concerned.

Operator

The next question is from Thomas Mitchell with Miller Tabak.

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

I was wondering if you might have sort of an equivalent of year-over-year premium growth on what might be called the same-store basis. That is, without acquisitions.

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

Yes, we are not breaking that out right here. Once -- as you know our policy, once something becomes a part of the company fundamentally, we just don't start breaking down all the parts and pieces of each part of the company. And so these fold in and there you go.

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

Well, I wasn't asking about the individual pieces, I was just wondering about the impact of acquisitions on the overall total.

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

There are acquisitions that we've made over the last 8 or 9 or 10 years. And so are you asking me pull all those out?

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

Well, that would be very nice.

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

I got you, buddy. Well, it's like, I don't see the value. I know you will, you like that. You're a data junkie, but I -- we're not pulling those out.

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

Okay. Separately, what either has happened or hasn't happened with the Terrorism Insurance Act?

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

Well, it renewed. And therefore, the market is stable, and it's kind of business as usual because the TRIA backstop is in place, Tom.

Operator

Next question is from Jay Cohen with Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Question is on AVR Re. Will ACE be ceding additional business to AVR Re? Or you -- will you simply transfer stuff you're proceeding to others now and move it into AVR Re?

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

The latter is more correct. It's correct. It's -- AVR Re is -- will simply be a following participant on our treaties. They will not -- our existing pool of treaties and the intention is, is they will take a share across the board. And they will not be a leading market. We're going to maintain the discipline of the third-party reinsurers establishing terms, the marketplace establishes terms for reinsurance. And AVR Re will simply -- will be a capacity player.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. And do you pay a brokerage commission when you cede to AVR Re?

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

Well, we never pay a brokerage commission. The reinsurer pays a brokerage commission, by the way.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. Is there any economic benefit to -- for the market to having AVR there?

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

Is there any economic benefit to the market? Not that I know of. You mean, the market generally outside of ACE, is there a benefit to them that AVR Re is there?

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes.

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

No. I see a benefit to ACE's investors. And I see a benefit to the investors in AVR Re. And I see a benefit to ACE. I don't see a benefit to the general market, we do not create it with that in mind.

Operator

The next question is from Charles Sebaski with Bank of Montréal.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

First question is on the ACE 4D, that there was a press release that went out yesterday on the data and analytics. And kind of how that will be incorporated in your business? And how that's different from how you have been doing business up until this new system or new offering on risk selection has gone out?

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

Oh, okay. Yes, please. John Lupica is going to answer that question for you.

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

Thanks for noticing that the 4D is a tag-on we're using for our data analytics tool for loss predictive modeling. We view it as a great win-win. Housed inside of our claim operation. It's sits mainly in ESIS but we can use -- ESIS is our third party administrator, and we can use it as ACE claims as well. And what it is, in essence is we look at claims at intake, at 3 months, 6 months and 12 months. We can identify the high-risk claims for our insurers and ourselves. Again, we say it's a benefit because it's -- as a third party administrator benefiting our insurers in their deductible, and then certainly benefiting ACE, if we manage those large severe claims better into smaller numbers that avoid attaching it to our layers. So it -- we view it as a claims product for ourselves and the market, i.e., the win-win there. Does that help you?

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. And so for the market, I mean, will you only be using this internally? Or this will be available for sort of outsourced?

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

This is for clients. We're doing this as a service to clients. So we use data analytics to benefit ourselves and portfolio management and risk selection, and in claims management, but we do a lot of risk management business. Where our clients have skin in the game and this is to help them.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. I guess, Evan, I have another question on the cyber risk, in general. And I guess the question I have is, for the market to kind of mature and scale, how do you guys view risk aggregation in that product? Because it would seem to fall more along the lines of a war risk than a more traditional insurance risk on how aggregations could be in that product. I'm just curious on how you guys think about that.

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

Yes, we don't particularly think of it as war risk which is very extreme. But we think of it a little more akin to cat risk, only it has different geographic boundaries. And so we do in our enterprise risk management. We do go through as we do with many of our businesses. We are mindful of aggregations. We do event planning scenarios where we imagine different kinds of events and the impact they could have on our concentrations of exposure. Therefore, what you call the PMLs, probable maximum losses that could occur from a portfolio. Now admittedly, as anybody would say, it's a kind of accrued exercise. It's to use the best brains and the best data and technology available you can find to help you with that. But there's a lot of basis risk. And that, therefore, informs how much aggregation we're willing to take understanding that the number is wrong. And if that helps you with it, we go through that exercise.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

I guess in the thought on the enterprise risk management and the aggregation, I guess my thought is conceptually, you could have a rogue hacker data breach that could theoretically hit every insured in a portfolio regardless of geographic circumstances. And so how do you -- do you aggregate it just from a total product purposes that total cyber ag exposure will be x regardless of geographic or industry?

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

No, no. You didn't exactly listen to me, so, no. We don't see a 100% PML. And you're using the word, rogue hacker. And rogue hacker, typically will hit 1 or 2 or 3. You're more concerned about something like wild virus. And that will have more of a systemic to it or bringing down of the Internet, and which wouldn't be a rogue hacker. And that would have a systemic nature to it in terms of denial of service. So how you sell cover and then how you PML those exposures because the notion of a 100% loss, no, we don't see that. There are many other factors that come into play. Charles, if you want to become a cyber underwriter, we welcome you. Come on in. If you're thinking about it. And you know what, we're hiring.

Operator

The next question is from Al Copersino with Columbia Management.

Al Copersino

I don't know if this is a particularly easy question to answer, but thinking about U.S. commercial underwriting versus overseas commercial underwriting, we, on the buy and sell side, obviously, focus perhaps too much, but we focus a lot on pricing and maybe we focus a little bit less on loss cost trends and how expensive LAE is and things like that. But I was wondering if you could tell us, what is the combined ratio where ROE or margin differential for a U.S. large case commercial business versus a overseas large case commercial business? Are the 2 roughly similar because you choose where to play overseas?

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

God, it is such a difficult question in the sense that, and I'm not going to evade it. I'm going to see if I can help you with it. But in the first instance, when you get to commercial P&C, the accounts are so different. And so comparing one account to another, and -- but if I try to do that very crudely, and I look coverage, and we take similar coverages because ROEs and combined ratios will vary by type of coverage. The terms and conditions adjust to the local marketplace as well. And so for instance, we might have much tighter conditions around casualty in the United States to get to the same result than we do on the continent of

Europe, or in Mexico, if I just -- just picking examples for you. And so the marketplace adjust that way. Number two, it will depend also to a degree, so you get a sense of how messy it is. That what's the access there? There are some markets where the combined ratio on a commercial P&C will be lower because the market is just a more stable marketplace. That may be cultural, they have tacit renewals. It may be that there is less influence from major global players and the reinsurance markets in that marketplace. It may be the dominance of local players of a couple of local insurers. And sort of business community in total protecting their own. There's all kind of things that drive and affect us. And so you can't really kind of put it in a neat box. I think, the way you're struggling to do it, and I understand the question. Hopefully, I helped you a little bit.

Al Copersino

You did, that's helpful. And the only reason I ask is that you all are focusing, and rightly so, on reminding us of the geographic and product diversification input, almost 40% is nonlarge K [ph], that sort of thing. So I was just curious if you could point us in that direction in terms of the relative profitability, but that was helpful, I appreciate that.

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

You're welcome.

Operator

Our next question is from Ian Gutterman with Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

My first question is just a follow-up. The overseas growth of 11% x currencies is kind of a follow-up to the earlier question. If I -- was -- is there seasonality in the Brazil business? Because I took sort of my estimate of Brazilian premium divided by 4 and subtract that from the 11%, it looks like that the core overseas was pretty flat-ish. Am I close there? Or was there seasonality that skews that analysis?

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

No, I'm going to let John Keogh answer because we're both shaking our head violently. There was actually very good growth and...

John W. Keogh
Chairman

Yes. So, Ian, when I look at Latin America, actually, without the Itau premium that we had this quarter, we had good solid double-digit growth in Latin America ex-Itau so. That and I'd also say in terms of any seasonality that there's nothing in first quarter that would suggest that.

Ian Gutterman
Balyasny Asset Management L.P.

Perfect, okay. Evan, can you just talk a little bit about -- you talked a lot about pricing in various parts of the market. Can you talk about terms and conditions? And just the quality of underwriting in general? Are we getting to that point of the cycle where underwriters are not wanting to give more price, so they start changing language or giving in on sublimates, and things like that, that tend to lead to bad outcomes a few years later? Or are we not there yet?

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

Ian, we're seeing it, but we're seeing it more on the margin. It's not back to the late '90s that way. We are seeing -- but we are seeing more of things that would cause us to shake our heads. And we'll see a broadening of terms and conditions in property. We're seeing marginally a broadening of terms and conditions at times in casualty. And it's related, in particular, new business of any size comes to market and people have been really hungry. But we're not seeing the stupidity we've seen in the past, not yet.

Ian Gutterman
Balyasny Asset Management L.P.

Not yet exactly. Then lastly, just a little more on the M&A question from earlier.

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

And by the way, that's more of a U.S., U.K., Australia comment. Anywhere else in the world, okay? When we talk about terms and conditions.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. And then lastly on M&A, I was just curious if you could expand a little bit on your thoughts on what we're seeing in the industry elsewhere? I mean, obviously, a lot of it so far has been reinsurance and that's probably a less interest to ACE. But what do you see when you look at the chessboard, what the next moves are? Do you think it remains a reinsurance game where scale really needs -- is needed there? Or do you think the spreads and we start to see major primary deals as well because there is a need for more scale at this point in the cycle?

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

Ian, I don't see any major primary on the horizon, but you know how that goes. And then tomorrow morning, I get on the train and I pick up the newspaper, and there it is. So no, I'm not a savant at this. And -- but I don't see that on the horizon at the moment. I mean, there are a couple of situations that are pretty well known out there of larger primary that wouldn't surprise any of us, including you. And that's just a question of, probably a little more of a question of when than if.

Operator

The next question is from Meyer Shields with KBW.

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

Evan, my impression of...

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

Meyer, I lost you on my impression of. Wow, this is not these guys, this is something on the service zone, it has to be. Meyer, are you there? Or we just lose the call altogether?

Operator

[Operator Instructions] And we have a question from my Meyer Shields with KBW.

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

My impression of the high net worth market, first lines market in the U.S., that it's been fairly concentrated, and now more so with the acquisition of Fireman's Fund, do that have any implications for pricing or profitability? The fact that one of the relatively small group of companies is now subsumed within ACE?

Evan G. Greenberg

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

I don't think so, Meyer. We don't view our opportunity as simply 3 or 4 players trading business back and forth. The high net worth personal lines potential marketplace is a much larger marketplace than it is today. It's being served by good companies, but the traditional lines companies who don't really meet the needs, both coverage and service of high net worth client base and customers. And so our real opportunity is to migrate more of those customers from where they are today to ACE. And not simply chasing someone else's business.

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

Okay, that's helpful. And Phil, quick question. If we adjust net investment income for foreign exchange, it came in ahead of the sort of $550 million quarterly run rate.

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

Yes, I think the run rate was $555 million.

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

Okay, so it's just the FX issues?

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

Right.

Helen Wilson

Operator, is anyone left in the queue, please?

Operator

At this time, we have no further questions. I'd like to turn the call back to Helen Wilson for any additional or closing remarks.

Helen Wilson

Okay. Thank you, everyone, for your time and attention this morning. We look forward to speaking with you again at the end of the next quarter. Thank you, and good day.

Operator
This concludes today's call. Thank you for your participation.