S&P Capital IQ

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Chubb Limited NYSE:CB

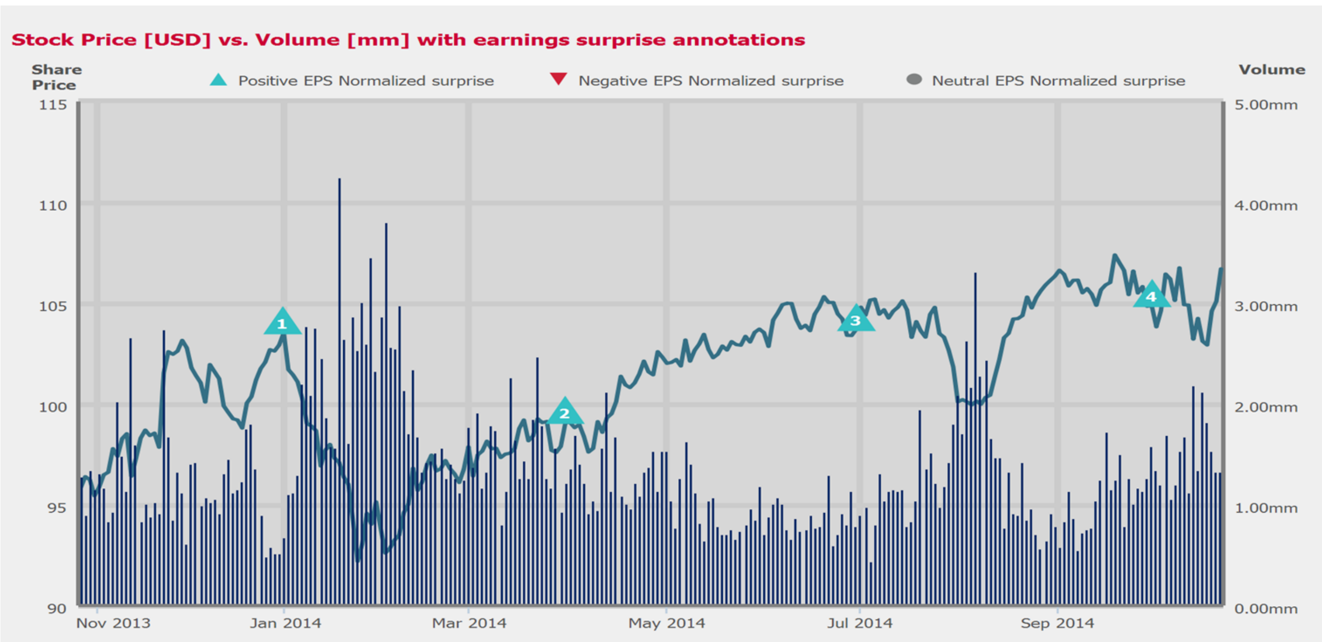
FQ4 2014 Earnings Call Transcripts

Wednesday, January 28, 2015 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2014-			-FQ1 2015-	-FY 2014-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	2.31	2.47	▲6.93	2.26	9.63	9.79
Revenue (mm)	3841.40	3803.00	▼(1.00 %)	3884.20	15837.00	15787.00

Currency: USD
Consensus as of Jan-28-2015 10:36 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	2.02	2.39	▲1 18.32 %
FQ1 2014	2.14	2.27	▲2 6.07 %
FQ2 2014	2.23	2.42	▲3 8.52 %
FQ3 2014	2.36	2.64	▲4 11.86 %

Call Participants

EXECUTIVES

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

Helen Wilson

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

John W. Keogh
Chairman

Juan Carlos Andrade
President of the Overseas General Insurance Division and Executive Vice President of the Chubb Group

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

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Meyer Shields
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Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Scott Frost

Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

Good day, and welcome to the ACE Limited Fourth Quarter Year-end 2014 Earnings Conference Call. [Operator Instructions] As a reminder, today's call is being recorded. 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 December 31, 2014 Year-end Earnings Conference Call. Our report today will contain forward-looking statements, including statements relating to company and investment portfolio performance, pricing, economic and insurance market conditions and acquisitions, including one that has not yet closed, 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 excellent operating results for the quarter. All divisions of the company made a positive contribution to both quarterly and annual operating results, which were driven by growth in both underwriting and investment income.

For the year, we produced record operating income, world-class combined ratios, strong premium revenue growth and reasonable book value growth considering foreign exchange. And lastly, we produced an excellent ROE.

We also made many investments in our company that will contribute to our results in the future.

After-tax operating income for the quarter was $827 million or $2.47 per share. For the year, net operating income was over $3.3 billion or $9.79 per share, up 4.7% from 2013, and again, a record for our company.

Our P&C combined ratio was excellent, 88.5% for the quarter and 87.7% for the year, with underwriting income increasing over 7% for the quarter and year. These calendar year underwriting results benefited from very strong current accident year performance. Current accident year underwriting income, excluding cat, was up 23% for the quarter and 13% for the year. The current accident year results are a reflection of our premium revenue growth globally and margin improvement around the world in many of our businesses as a result of pricing action, portfolio management efforts, product mix and expense control.

To breakdown our current accident year underwriting results further, the combined ratio for global P&C, which, as you know, excludes agriculture, was 89.4% for the year, and for agriculture was 87.8% for the year. The quarter's results for agriculture -- the fourth quarter's results for agriculture included a loss ratio true-up for our crop business for the year, which improved over our third quarter projections due to improved crop prices and yields.

Net investment income was a record $577 million in the quarter. For the year, we benefited from strong operating cash flow, and produced net investment income of $2.25 billion, up over 5%, quite a good result, given the historic low interest rates, so we'll have more to say about the quarter and the year.

ACE's strong earnings led to excellent operating ROEs of about 12% for both the quarter and year, with surplus capital scrubbing almost 200 basis points off the ROE. At approximately 1,000 basis points over the risk-free rate, our ROE is an excellent return for shareholders in this rate environment. And as we have said before, keep in mind that every 100 basis points of investment portfolio yield for ACE is equal to approximately 200 basis points of ROE. Interest rates will not remain this low indefinitely.

ACE is a truly global dollar-based multinational insurer. And as such, our premium revenue and book value growth in the quarter were impacted by the strong dollar. Per share book value grew 6.1% for the year, but declined modestly in the quarter due to FX. Excluding foreign exchange, book value per share grew 8.8% for the year. Our shareholders have and will, over any reasonable period of time, continue to benefit from our global presence and diversification, and our ability to take advantage of opportunity all over the world. There has been a remarkably rapid investor flight to the dollar in search of safety as a result of several factors, including a decline in the price of oil, from an increase in supply and reduced demand; declining economic growth in major economies of the world, including China, Japan and the Eurozone, which is in crisis; and the follow-on impact in natural resource-based economies in Latin America, Asia and Africa; not to mention geopolitical tensions, particularly in the Middle East, spreading terrorism in Russia, Ukraine. The U.S. right now is the preferred destination for many investors seeking safety. We are the prettiest house in a pretty shabby neighborhood. Over time, I imagine the dollar's strength against many currencies will go the other way. Keep in mind ACE's book value, $30 billion at December 31, has increased 22% in the last 3 years, 50% in the last 5, and it has tripled in the last 10.

For the year, P&C net premiums increased about 6% in constant dollars or nearly 7%, excluding agriculture. Growth was broad-based from all regions, illustrating how we have successfully built a diversified business by product, geography, customer and distribution, so that we can outperform in spite of the conditions around us.

Let me break down the P&C growth by area: Commercial P&C, A&H and Personal Lines.

For the year, our Commercial P&C business has generated growth of over 5% globally, with contributions from most every region. U.S. retail and wholesale grew 5.5% and 10.5%, respectively. Internationally for retail, Latin America led the way, with Commercial P&C net premium growth of 17% in constant dollars, followed by growth of 10.5% in Asia, while Europe declined about 1.5%. Growth in our London-based DNS business, which saw more competition during the year, was flat. Net premiums for our agriculture businesses were down about 2.5% for the year, in line with our expectations. The decline due to lower crop commodity prices versus prior year had no impact on our overall market share, which basically remains steady at about 22%.

For the year, our A&H Insurance business grew 4.5%, globally in constant dollars, with international up over 7.5%, led by Asia with growth of 22% and Latin America with growth of 11%, while Europe declined 8%, due to the economy and underwriting actions taken.

Premiums for our combined insurance business were down 1.3%, but up modestly in the fourth quarter, led by our core North American franchise, which grew 2%, its best performance in several years and a sign that this business is turning the corner.

Net premiums written for Personal Lines were up 25% in constant dollars or 13%, excluding the contributions from our Mexican and Thai acquisitions. We are generating good organic growth for this $2 billion business, which has tripled in size in the last 5 years and is now approaching 13% of the company's net premiums. Our Personal Lines business is a strategic growth area and poised to continue its growth globally. To that effect, as you saw last month, we signed a definitive agreement to acquire the U.S. high net worth personal lines business of Fireman's Fund for $365 million. The addition of the Funds business, which will be integrated into ACE Private Risk Services, will expand ACE's position as one of the largest high net worth personal lines insurers in the U.S. The fund has a good mix of business, with about 80% of the book, homeowners, collections and valuables and umbrella liability. In fact, the funds statutory filings don't readily upon reading them reflect the profitability of the business, as they omit from the Personal Lines category lines such as collections and umbrella. In total, the loss ratio of the business is good. The expense ratio, that's been a problem and that will run much lower under ACE, given our technology, operational processes and combined scale. We expect the acquisition to be accretive to our earnings immediately. We also expect a good ROI and ROE over a reasonable short term -- short period. We anticipate the acquisition will close in the second quarter. We are proud and excited that most Fireman's Fund colleagues will be joining ACE.

Returning to our production results for the year. Our International Life Insurance business, which is focused primarily in Asia, had an excellent year, with net premiums and deposit growth of 18.5% in constant dollars.

Lastly, our Global Reinsurance business had a very good year with a combined ratio of 72.3%. Net premiums declined almost 6%, as we maintained underwriting discipline in a market awash in capital. As we have said in the past, and continually demonstrated, we are fully prepared to shed volume in any business as necessary in order to maintain an underwriting profit. And as a reminder, as a substantial buyer of reinsurance, we continue to benefit from the current reinsurance market in terms of pricing and improved terms.

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

Pricing environment grew modestly more competitive in the quarter for our commercial P&C business in the U.S. We continued to secure rate in many general and specialty casualty-related classes, but at a modestly reduced pace from the third quarter. On the other hand, property rates continued to decline at about the same pace we experienced in the third quarter.

Taking our U.S. Commercial P&C business by its pieces, and starting with our large and upper middle-market Retail Business. General and specialty casualty-related pricing was up 1% in the quarter compared to a 1.7% increase year-to-date, with pricing varying by line. For example, large account risk management-related casualty pricing was up 2.3% versus 3.2% for the year. Management and Professional Liability pricing was up about 1.25% in the quarter compared to 1.8% for the year. Pricing for Excess Casualty was up 2% for the quarter versus 3.5% for the year, while foreign casualty pricing was down 2.4% versus a 1.2% decline for the year. Property-related pricing continued to decrease at a steady pace, down about 7% for the quarter and year. For our U.S. Retail Business, the renewal retention rate, as measured by premium, was 92% in the quarter.

Turning to our U.S. E&S business.

Casualty rates were up 2.6% in the quarter versus 4.6% for the year. Professional lines rates were up about 4.5% in the quarter versus 4.1% for the year, while property was down about 7.5% versus 6% for the year.

Internationally, the retail commercial P&C rate environment improved marginally, with rates down 3% in the quarter versus 4% prior quarter. For the year, rates declined 2%. Asia was the most competitive region, with rates down 6% in the quarter, whereas pricing in Latin America declined 2%, and the U.K. and the continent are rather stable, with rates down 1%. For international in total, casualty rates in the quarter were down 1%, property was down 4%, financial lines rates were flat.

Looking ahead for January 1 business, from what we see now, pricing was essentially the same as the fourth quarter, globally. John Keogh and John Lupica can provide further color on market conditions and pricing trends.

In summary, ACE had an excellent year. In addition to producing record financial results, we made numerous investments for future growth in earnings. For example, we launched retail distribution to complement our existing wholesale capabilities for our U.S. middle-market specialty and E&S business. We started a new micro business division to serve very small U.S. Commercial businesses. We made 3 acquisitions and closed 2 of them in Thailand and Brazil, further expanding our presence and capabilities in promising developing markets. And of course, as I mentioned, we signed the deal in the fourth quarter to acquire the Fireman's Fund high net worth personal lines business. These are the seeds of future growth for our company, just as you're seeing today the fruits of investments we made over the past 10 years.

Finally, allow me to address point blank, a misconception about our company and our industry that I have read of late in some analysts commentary. There are some who seem to believe insurance is boring, that we're nothing more than a common utility. Well, nothing could be further from the truth. We are a vibrant entrepreneurial growth-related company that participates deeply in the diverse and complex economic and social activities of the world. To truly know us is to understand the true dynamism of this organization and the unlimited opportunities that lie ahead for us over time.

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.

A record operating earnings for the year contributed to growth in our tangible book value per share of 5.3%. Book value was negatively impacted by foreign exchange valuation losses of $600 million for the quarter and $750 million for the year. These losses relate to our net asset exposure to foreign currencies. They 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 jurisdictions, and we keep our required capital in local currencies.

Excluding unfavorable foreign currency movements, tangible book value per share increased 8.6% for the year. Goodwill and intangibles relating to the 2 acquisitions we made in the year had an additional negative impact on tangible book value per share of 2.7 percentage points. Excluding the impact of both foreign exchange and the acquisitions, tangible book value per share increased 11.3% for the year.

Our tax rate on net income for the quarter was 29.5%. This is higher than our normal run rate and was impacted by a deferred tax charge included in a $600 million foreign exchange loss. This item added 14.6 points to the tax rate.

We had very strong cash flow of $1.3 billion for the quarter and $4.5 billion for the year that benefited our investment income and contributed to growth in our cash and invested assets of $63.6 billion, which were up $2.1 billion for the year.

Record investment income for the quarter of $577 million was better than anticipated, principally due to higher private equity distributions and higher call activity in our corporate bond portfolio. Our strong cash flow will continue to benefit our estimated quarterly investment run rate -- investment income run rate of approximately $555 million, even with current new money rates of 2.8% versus our current book yield of 3.8%. 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 after-tax realized and unrealized gains of $55 million, related to the investment portfolio and a mark-to-market loss on our VA reinsurance portfolio of $153 million, both of these were due principally to decreasing interest rates. Our net loss reserves were up $107 million for the year or 0.4%. They were up $659 million or 2.5% for the year, adjusted for foreign exchange. The paid-to-incurred ratio was 101% for the quarter or 87% on a normalized basis, which takes into account prior-period development and crop loss payment activity. This quarter's ratio is seasonally affected by significantly more crop payments than incurred losses, which normally occurs in the fourth quarter. Our paid-to-incurred ratio of 96% for the year was flat with last year.

In the quarter, we had net positive prior-period development of $107 million pretax. For our active companies, we had $237 million of positive prior-period development, approximately half from long-tail lines, principally from 2008 and prior. The remainder was from short-tail lines.

In our Brandywine and other one-off operations we strengthened the reserves by $130 million pretax. The charge related mostly to asbestos and comprised account-specific development and defense-related costs on existing accounts. Average indemnity severity for individual asbestos claims has remained stable.

Cat losses were $64 million after tax in the quarter from a number of worldwide weather events.

Full year A&H net written premiums were up 4.4% on a constant dollar basis, while A&H operating income was down, 0.9%. Normalizing for prior-period development and positive nonrecurring items last year, A&H operating income was up 4.9%.

Total capital return to shareholders during the quarter was $650 million, including $430 million of share repurchases and $220 million in dividends. Our total share repurchases were $1.5 billion from the November 2013 announcement of our plan to year end 2014.

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 our first from Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I got 2. I guess one question is in overseas. What drove the margin improvement there in the fourth quarter, sounds like pricing was down year-over-year, but you saw the best margin improvement of the year in the fourth quarter? Just trying to get an understanding of what happened there.

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

John Keogh?

John W. Keogh
Chairman

Sure. Most of that is really due to large loss activity outside of a loss pegged in fourth quarter last year versus this year, so a more benign quarter for us this year.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it, okay. And then as far as the crop business, I was trying to understand, I guess there was a hedge in the third quarter, if I remember right, which provided some benefit, given the decline in crop prices, and so can you comment on kind of what happened to that hedge this quarter?

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

We closed out the hedge in the third quarter.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And was there a gain or loss associated with that closeout?

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

We disclosed the gain during the third quarter, both in writing and on the call.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. So you closed it out at that gain level?

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

Yes, we did. The current accident year, crop result, without the hedge, was a 91.1% combined ratio.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Current accident 91.1% without the hedge, okay, great. And then any impact from the volatility of the Swiss franc in January that we should be thinking about?

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

No, we have very little net asset in Swiss francs.

Operator

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

Kai Pan
Morgan Stanley, Research Division

First question for Evan. You mentioned about the volatility in global economies, especially in Europe, as well as some of the emerging markets. So given your global footprints, I just wonder what you see as challenges, as well as opportunity for ACE.

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

Yes. As you well know, we are pretty rigorous planners. We have a plan for 2015. And our growth in the fourth quarter and our growth in the first quarter as far as we can see in local currencies continue as we expect it to be. There is always some places that get a little worse because of economic activity, some places, that get better. And overall, we are looking pretty good. And the pattern overseas has been that Europe and the U.K. have been relatively flat for some time. Asia and Latin America have been growing overall at double-digit. And that pattern, excluding some re-underwriting in Latin America in the fourth quarter continued, and we see it continuing from what we can see.

Kai Pan
Morgan Stanley, Research Division

Okay. That's great. And then if the currency stay the same, what would that -- the impact your premium growth, as well as profitability in 2015? And do you have any sort of foreign currency hedges?

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

First of all, we don't give guidance, so you won't get that. But you saw -- you yourself see what the fourth quarter impact currencies had on revenue growth, so I think you see a theme that a stronger dollar obviously impacts revenue, though far more modest and it's quite modest impact to earnings.

Kai Pan
Morgan Stanley, Research Division

And currency hedges?

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

We don't hedge on revenue. The only thing we hedge from time to time is cash movements remittances. I'm answering all of Phil Bancroft's questions.

Operator

We'll take our next question from Jay Gelb with Barclays.

Jay H. Gelb
Barclays PLC, Research Division

Evan, on the reinsurance business, clearly, there's been a flurry of consolidation activity over the past 2 months and it will be helpful to get your updated perspective on this trend.

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

Yes. I think there are -- given we've talked about this for a while, and I was asked this, I think, at the last call that we had, my view of the -- given the softness in the reinsurance environment and the wholesale market, particularly, London and Bermuda, which to me, are quite akin to the reinsurance market. The pressure that, that places on smaller players and to me, I imagine there would be more consolidation and we're seeing that. I think there is a drive to a bigger balance sheet that gives some more flexibility and there's more attractive to counterparty, and that creates more efficiency in terms of expense take out. On the other hand, it is doubling down on about, more concentration in reinsurance in London Bermuda wholesale, though it is a player then, who swings a bigger stick, and so maybe commands more attention and respect in the marketplace, and I understand that. And the balance sheet flexibility does give them a chance to ride out conditions more easily. On the other side of the coin, it means fewer players competing. And maybe it means some capital comes out of the business. And that -- hopefully, that creates some stability, and hopefully, bigger player will equal more rational behavior. And that's what I -- and from a counterparty perspective, I like a bigger balance sheet for those that we're reinsuring to, or doing business with.

Jay H. Gelb
Barclays PLC, Research Division

That makes sense. For ACE's own reinsurance operation, can you talk a bit about -- given the, I think, 5% contribution to ACE's overall premiums, how you feel ACE's reinsurance business fits into the scheme of things, these days?

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

Yes. ACE globally or Tempest is a very important part of our company. It's a -- it will wane and wax to some degree with market conditions as we maintain discipline. It's been a very good contributor to book value growth in the company. It's a reinsurance market, is deep and big and dynamic, and over time, presents opportunity. It's a very big balance sheet behind ACE Global Re, that's the ACE balance sheet. That is AA rated. There aren't a lot of AA-rated reinsurers, and there aren't a lot with the balance sheet of our size participating in the business. And those continue to present advantages to Global Re. And then on the other side of the coin, in the short term, mergers and acquisitions of size -- relative to your own size can be distracting, and you've got to look little more inward, and that can present some tactical opportunity for Global Re, and fewer players should mean, maybe a little more rational competitive environment over time and that can only benefit us.

Jay H. Gelb
Barclays PLC, Research Division

And then my final question, probably for Phil. On the Fireman's Fund deal, I believe ACE assumed the legacy reserves attached to that. Can you describe why that was the case, and what that is made of and how big is it?

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

He's saying we are assuming the existing liabilities of the business that we are acquiring...

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

We are assuming the unearned trend and premium and the liabilities. There's liability associated with the unearned.

Jay H. Gelb
Barclays PLC, Research Division

Right, I just -- it was just...

Evan G. Greenberg

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

If you like it on a written basis going forward, why wouldn't you like the unearned?

Jay H. Gelb
Barclays PLC, Research Division

I understand the unearned premium, but does it include the legacy loss reserves as well?

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

In the existing portfolio we're transferring to our books.

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

But it's personal lines, it's more short tail.

Jay H. Gelb
Barclays PLC, Research Division

Just Personal Lines?

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

Yes.

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

Oh yes, yes, yes. High net worth. Yes, yes, pull over.

Operator

We'll go next to Sarah DeWitt with JPMorgan.

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

Remember, it was a renewal rights deal really for the personal, the high net worth personal lines business of the Fireman's Fund. And in addition to the renewal rights, we took the unearned portfolio of that business only.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

This is Sarah DeWitt from JPMorgan. On the -- on acquisitions, what's your pipeline for opportunities looking like? And what lines or geographies are you most interested in growing through acquisitions?

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

Yes. We are not going to talk much about that. The pipeline -- we always have a pipeline as we talk about, fairly frequently. We always have a pipeline of opportunities. We pull the trigger on a small minority of what we see, and we look at things all over the world. And they are in areas where we are already endeavoring to grow organically, and so acquisitions to complement our organic growth strategy.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay. And can you remind us how many points on the ROE, the drag from excess capital is? And as you look out over the next 5 years, do you think you'll have opportunities to fully deploy that?

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

As I just said 10 minutes ago, it's 2 point -- it's between 1.7 and 2 points on the ROE. And yes, I think as I look out over the next x number of years, we will have opportunity to deploy that.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay. And then finally, on the agriculture business, can you talk about your outlook for that business heading into 2015, given where commodity prices are currently? And there seems to be more sellers in that business. Are you interested in growing share through acquisitions?

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

I won't comment on acquisitions. Looking forward that way or speculate about that, but we're very happy with our concentration, and our market share and amount of exposure we, therefore, have in that business. If you looked at commodity prices today, they are below where they were last year in February, and it's a February average that determines the pricing for contracts at that time. What it will be in February of this year, who knows? And particularly, the volatility factor that's applied to average pricing in the month. And what our exact spread will be by commodity product, based on the forms we write, you don't know with certainty. But the theme would be that revenue would be down. What percentage? I don't know.

Operator

We'll go next to Vinay Misquith with Evercore ISI.

Vinay Gerard Misquith
Evercore ISI, Research Division

The first question is on the core growth in Overseas General segment, that was about 8.4% this quarter. And I believe there was an acquisition. So what's the core growth x the acquisitions this quarter?

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

X it, was about 6.5%.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. And that seems to have slowed down a bit from the past few quarters. Evan, you already gave an outlook about the future, do you see things especially, I mean, in Brazil, slowing down now versus the last few quarters?

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

No. No. During the quarter, we also had -- we did some re-underwriting of some business that we didn't like the looks of it, and that was in Latin America. And that was a one-time. It's behind us. So that had about a 2-point roughly impact as well. And I don't see a slowdown in our business, in Brazil. And I'll let John Keogh just comment a little bit about the fourth quarter pattern of growth and what we see as we go into the first quarter.

John W. Keogh
Chairman

Sure. I mean, and I have touched on it a bit earlier, Vinay, which is if you look at our fourth quarter, and in fact, if you look at our year, our growth pattern has been pretty much a story of flat Europe and double-digit growth in Latin America and Asia, and that's, I said double-digit growth. That's with the exclusion of the contributions from the acquisitions we made in Asia and Latin America. As we think about our plans for the year ahead and look at the environment, then we are looking at more of the same, one month into the year, and right now, things are really going according to plan.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, that's helpful. The second question is on foreign exchange. Did this quarter, probably about a 5 point in the overseas general segment. Kevin read in just -- your exchange rates right now, so would that be sort of nearly double in 2015?

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

Well, we would say is from the end of the year, '14 to now, we've seen a deterioration, that would impact our book value by about $170 million.

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

He's talking revenue.

Vinay Gerard Misquith
Evercore ISI, Research Division

And from the revenues, sorry?

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

He's talking revenue growth. What you saw as the FX impact in the fourth quarter, I am no genius at this, but I can imagine that, that same pattern year-on-year, as you look at first quarter or second quarter if exchange rates stay the same, you're going to see roughly the same impact.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, fair enough. And the last one if I may, on the reinsurance.

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

That's on revenue, that's on revenue, right. Not income.

Vinay Gerard Misquith
Evercore ISI, Research Division

Right, right. And Evan, you said that the revenues and expenses are fairly matched, correct?

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

Correct. Assets and liabilities.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, great. And then on the reinsurance side, any update on your reinsurance purchases and the cost savings in that?

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

Well, I won't get specific by contractor, by area, as you know, but you've been seeing general market commentary that both rates and terms and conditions for buyers of reinsurance have improved, and we are a major buyer in the market. We think we're pretty heads-up buyers. And we have benefited from reinsurance market conditions, both in terms and conditions and in pricing. And that will flow through, both to benefit our competitive profile in the marketplace and will -- and any savings will flow through to the bottom line. But I'm not going to give you an exact number.

Operator

We'll go next to Charles Sebaski with BMO Capital Markets.

Charles Joseph Sebaski
BMO Capital Markets U.S.

I was hoping to get some thoughts of an odd plans for the Personal Lines business. With the Fireman's Fund acquisition, what's the growth potential for you guys in the U.S. in the High Net Worth business line?

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

Yes. Charles, it is -- when you add together ACE and the fund, where we were both very active players in the high net worth, we become clearly one of the top 3 players in that business. It expands our presence within distribution significantly. It enhances our underwriting insights with more data. And it brings a lot of talent, a lot of very good people to the organization. So it takes what we've been doing and organically, which we've built a good business. And it takes 2 brands and puts them together that way. There is a lot of growth potential in the business. And let me be clear. ACE is a high net worth personal lines player. We have no desire and no illusions about trying to enter the traditional Personal Lines business in the U.S., that's not our play, the general market Personal Lines business. We bring nothing to the table for that. But the high net worth market is a different marketplace. The kinds of coverages they require is much broader than the general market. The kinds of limits they require is broader. The geographic area in which you serve as an individual customer is far broader. They are much more service-oriented as the profit -- as the product proposition offering to a customer is, it's much more service intensive. It's less about price. They're much less price sensitive. The growth available is significant over time. And it's not simply by one high net worth writer taking the business from another. Instead, a lot of high net worth potential clients reside on the books of traditional Personal Lines writers, who do a fabulous job serving their customers overall, but they don't really serve the proposition in need of the high net worth customer, and the opportunity for us is in that cohort of business that exists with others.

Charles Joseph Sebaski
BMO Capital Markets U.S.

Where do you -- where is the dividing line in terms of actual net worth or policy size for what constitutes a high net worth customer?

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

Are you wondering whether you qualify? And should I...

Charles Joseph Sebaski
BMO Capital Markets U.S.

I don't qualify, but I'm looking for something to aspire to.

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

Charles, that varies by customer, by geography, really, but it has to do with both buying behavior, as well as value, total values of -- to begin with your home. And while I could give a little bit more on that. I'll tell you what, I'm going to ask Juan Andrade to tell if you -- a little about that and then you might be surprised, maybe we'll send you an app.

Juan Carlos Andrade
President of the Overseas General Insurance Division and Executive Vice President of the Chubb Group

Thanks for the question, Charles. I think Evan is right. It really does vary. For us, it is really a combination of the sum insured of the home, the lines of business that you purchase, are you also purchasing an excess liability and umbrella policy, do you have multiple homes with you, do you have fine art collections, et cetera. And ultimately, we also look at the premium that, that account really derives, but for us, really it's a combination of all those things.

Charles Joseph Sebaski
BMO Capital Markets U.S.

Okay. I guess one other question on the Personal Lines and that should be more on the international and regard to some of the recent acquisitions in Latin America. How much opportunity is there for you guys in cross-selling Life, A&H, Personal Lines on the international book? Are those distribution points the same? And do you see synergies there for that cross-sell?

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

Great question, great question. Love it. So I'm going to divide it into 2 pieces, so I make it really simple and clear. Agency-derived business versus Direct Response Marketed business. So where we Direct Response Market, the cross-selling opportunity where we do so much A&H Direct Response Marketing, to cross-sell specialty personal lines, a variety of products like householders insurance, home contents and other simple products of Personal Lines and simple Life products like term Life, with what we are already doing in A&H direct response, that opportunity is significant and we're doing that. On the agency front, where we write a lot of Personal Lines that might be automobile related, the opportunity to cross-sell Small Group A&H, to cross-sell SME, that is small business insurance through those same agents to the customers, the opportunity is significant. And so it varies by country and by distribution channel that we're pursuing, but that is a real focus of the organization, has been and continues to be.

Operator

We'll take our next question from Paul Newsome with Sandler O'Neill.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

One quick question. Did you contribute capital into the Brandywine operation towards that reinsurance or accounting charge that we saw?

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

It's just an accounting charge. We strengthened reserves by the $130 million that I mentioned, but there is no transfer of capital necessary for that.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

Okay. And then my more loaded question. You've got, in some of these foreign areas, interest rates that are getting to 0, if not negative numbers in some rare cases, what does that do to your investment strategy, in places where you basically get no returns on your investments? What do you do in that situation?

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

Well, we haven't done anything in terms of taking additional risk. Our portfolios are primarily corporate bonds and government securities in those jurisdictions. And we haven't made any plans, as I stated, to change the structure or to take additional risk. We talk about our overall book yield continuing to drop as our portfolio rotates into those lower yields, but we've been doing a pretty good job of keeping the portfolio turnover to a minimum and keeping our book yields fairly constant.

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

Let me add to that. First of all, if you're saying 0 rates, you're thinking of Europe. And if you think of the rest of our portfolio in other places, interest rates have actually gone up, in most jurisdictions or a lot of them. So it bounces around between the two. Secondly, as Phil was saying, in Europe and in the 0 rate, we are more heavily corporate than government-related securities, and their high-grade corporates and rates, spreads have widened.

Jon Paul Newsome
Sandler O'Neill + Partners, L.P., Research Division

So I guess the question I am trying to get to is, is there any danger that you end up in a situation, where you can't match the assets and liabilities of the -- in the local currencies to keep yourself I think current measurement?

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

No. No, because we don't discount. So when you talk about matching, you're -- that would be a duration liquidity question, it would hardly be that, oh, so in Europe, you must be discounting, have to earn a certain rate on the discount, and can you earn that. We don't discount our property-casualty loss reserves.

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

And in most jurisdictions, we have to keep our assets and liabilities in currency and our required capital. So there's really, if you're thinking we might invest euro liabilities somewhere, in some other currency, that wouldn't happen.

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

We never do that.

Operator

We'll go next to Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just a couple of questions here on Itau. One, is there any seasonality on a quarterly basis to the premium as it comes in? And then the second part of that is, Itau steers away a lot of its premium. I'm wondering if any of this reinsurance contracts have been restructured yet, or if so, would you just state those being restructured or at least decline the amount of sessions kind of come the first quarter of '15?

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

Yes. The -- I'm sorry, I got to tell you, it's Itau. Call me, [indiscernible]. But it's Itau. There is some seasonality to the flow of the business, not tremendous, though the net -- and that would be on the gross premiums. The net premiums vary by class, and so there may have been a little bit more seasonality to how they retained business. You are correct, substantial premium sessions, they gross line, an awful lot.

That will continue, but there is obviously opportunities, real opportunities for ACE to recapture business that has been seeded and retained at net. And so you'll see that -- that will occur over a period of time.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay, great. And then just a second question. I'm just curious for John Keogh. Terms and conditions on the primary turns, I know reinsurance has been loosening up, are we seeing any trends in terms and conditions loosening up? And it's often the way the companies try to get more competitive is through terms and conditions.

John W. Keogh
Chairman

I mean, certainly, Brian, in the -- as a buyer of reinsurance, we've seen that from our reinsurers, which has been to our benefit in terms of the reinsurance buys of the past 12 months. On the primary side, you can look and talking to our line execs around our January renewal business, nothing -- there is some anecdotal here in there, in terms and conditions that we're seeing in Europe. Some of the classic soft market behavior in D&O, where you're getting excess carry is willing to drop-down and be primary if the primary carrier doesn't cover the claim. You are seeing free reinstatements on D&O, but that's really in Europe. Otherwise, everyone's got a story here and there, but in general, the terms and condition in the primary insurance space right now, at least internationally are pretty stable.

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

Yes. And Brian, it's John Lupica. I would concur for the North American environment. It's virtually identical to it. John has just described. Terms are basically holding. What I would add to that on the property side, we are seeing requests for smaller cat deductibles occasionally. We're seeing requests for bigger limits. Nothing unusual, based on the market that we are going into. We've seen it before.

Operator

We'll take our next question from Meyer Shields with KBW.

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

I hate to nitpick, I'm just curious about the core loss ratio increase in the North American P&C segment, that's only a sort of soft spot that we saw in the quarter.

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

Sure, John Lupica?

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

Yes, thanks. So really the loss ratio, Meyer, was 2 things going on. We had a one-time benefit last year from a reserve release, and we also had another one-time adjustment that was made. When you account for those...

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

Huge benefit, last year also.

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

Benefit, thank you. When you account for those 2, our current accident year ratio was essentially flat. We did have a bit of large loss activity, a bit more this year than last year, but I wouldn't consider that significant.

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

Okay, that's helpful. And Evan, you said that Asia is the most competitive geographic region in P&C. Is there a difference in pricing trends between the established and the emerging insurance markets?

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

Yes, there is some. John Keogh was mouthing something at me. I don't know if he's saying, but I'll let him talk first.

John W. Keogh
Chairman

No, I think the thing Asia varies on is retail versus wholesale. I think if you get out into Asia and certainly in London, the wholesale markets where brokers are bringing business from around the region, whether it's into London or into Singapore, that market is much, much more competitive in our observations than the market you see on the ground as a retail underwriter in the local market, so I would contrast the wholesale and retail.

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

The other -- and maybe to take it a step further. Australia and New Zealand has a different competitive complexion than Southeast Asia and North Asia. And it does vary by country. The wholesale business, John's referring to, is typically the large commercial risk in Asia that finds its way in. The middle-market, upper middle markets, small commercial within each country in emerging Asia is much more stable than the balance of that. And when I refer to competitive price conditions, I was referring really to the larger corporate business.

Operator

We'll go next to Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple of questions. First is maybe for Phil. Can you talk about the alternative investment return in the quarter, and maybe how much it was above what you would expect to be normal? And then secondly, if -- maybe Evan or someone else could talk about the claims environment, or what you're seeing from a claims inflation standpoint? It's nothing to be terribly onerous or a big change, but I want to get a sense of what you're seeing out there?

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

I think with respect to the alternatives, they were probably about $10 million more than we expected. And then I would add to that the bond -- the call activity on our bond portfolio. That added another $10 million. So in addition to that, our portfolio yield was a little bit higher than we expected. So all of that together, I gave you last quarter a run rate of $550 million, and you can see we came in at $577 million, but that's what comprised the difference.

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

The claims activity, Jay, it's reasonably well behaved. Overall, from inflation perspective, I see it as reasonably tame, either within or below trend as we'd imagine it to be. On the other side of the coin, depending on the market, there is certain competitive market behavior that drives down premium rate below loss cost is, and those are the areas you got to pay attention to and take action. And there is, of course -- there is more of that today than there was a year ago. And there is more of that a year ago than there was 2 years ago. I mean, that's just natural. You've got to be focused on -- you got to be so vigilant and on top of portfolio management line by line, territory by territory, and just don't take your eye off of it.

Operator

We'll go next to Mark Dwelle with RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

One question. You had mentioned the impact on -- from FX was primarily, dollar strengthening which makes perfect sense. Which -- from a capital standpoint, which currency pairs are you the most sensitive to?

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

The largest impacts came from the real in Brazil, the peso, British pound, Australian dollar, the yen and the euro. They were really the top.

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

And he just gave it to you backwards. The biggest really is euro, that's why we have biggest balance sheet.

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

Biggest balance sheet but not as big an impact on the quarter, that's all. I was reading it in impact order whichever way, but anyway those are the currencies that you would focus on to see where we stand.

Operator

We'll go next to Scott Frost with Bank of America Merrill Lynch.

Scott Frost

In terms of capital management, we've seen some activity to retire or tender higher coupon debt preferred issues. Is that a consideration for you, or where does that fit in your capital management plan?

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

No, we don't have plans to do that. We're fine with the public debt structures that we have. The prepayment penalties are so severe that it doesn't make sense for us. What we have been doing though is prefunding debt that is maturing, so we prefunded 2 issues so far that will mature in -- later this year actually, and we'll consider that going forward.

Operator

We'll take our final question from Ian Gutterman with Balyasny Investment.

Ian Gutterman
Balyasny Asset Management L.P.

I guess my first question is on accident year margins. With pricing continuing to moderate slightly, it seems in most of your -- at least, in most of your Commercial Lines, pricing is probably below where you pick loss cost trend. Is there enough opportunities still in underwriting and mix and so forth to offset that? Or is it reasonable to think margins are more likely to recede than stay stable or expand from here?

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

Yes. Ian, the loss environment has been pretty benign, to start with that. Number two, trend continues. So when I think of the benign loss environment, I think of more short-tail lines. And when I think of the casualty business, trend continues, whether it's running better than you imagine, it doesn't mean it's 0. There is -- it remains a healthy trend. So and on the other side of the coin, there is always portfolio management opportunities and changing mix of lines of business that we accelerate, where we see good margins, so you get all that. But when I roll it all together, I've said it before, you expect -- it's natural to expect, look at the combined ratios that we're running, they are such world-class, they're low. So I imagine the accident year margin, the accident year combined ratios to rise over time.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. And is it fair to say that the lower loss trend we have seen, that's emerging as reserve releases as opposed to that you're lowering your pick, or have you been changing your loss trend pick and as a result of the evidence you've seen over the last few years?

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

No, we really haven't changed our loss trend pick. I realize you could do that, but I think it's an imprudent way to run a company. We write a lot of longer-tail business. And even your medium, shorter-tail businesses, 3 to 7 years, good news always comes early, bad news comes late, number one. Number two, people like to describe the business of underwriting with some kind of precision like it is -- like you have such perfect information that you can price and you can select risk with precision, and that's just not the case. And I think the guys who do better are the ones who recognize that. And so you're best to remain with the more conservative, what somebody might deem a more conservative trend factor, I think it just safeguards the balance sheet. And what's the price of that? A little opportunity cost of some business in the marketplace? I'm not worried about that.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. I just want to make sure nothing changed. And then just my final question is on the energy, I guess it could be a number of things on energy, but maybe I'll just focus on one, which is the investment side. It looks like you have about $2 billion in energy investments and maybe 800 BBB and 900 below investment grade. Can you just give a little color on what we should know about that? I guess when you hear all these stories about high-yield energy bonds that people are concerned about, how much of a worry is that for you?

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

So our investment portfolio is bonds. That's where the -- that's where our exposure is. And it's -- please bear with me. It's about 5% of the portfolio. It's 3% in and you see the 2 pieces that you're looking at. We have a third piece in the nondollar portfolio that just isn't split by sector, so it's about $3 billion in total. The average credit rating is BBB. It's well-diversified. There is 250 issuers. And the top holdings are in the largest integrated companies that are all investment grade. So we've studied it. We're very comfortable with the concentration. And the entire portfolios straightened over par right now, so we are comfortable with the valuation.

Ian Gutterman

Balyasny Asset Management L.P.

Got it, got it. So no big overweight on Canadian Oil Sands market, or anything like that?

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

No, no.

Helen Wilson

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

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