S&P Global
Market Intelligence

Chubb Limited NYSE:CB

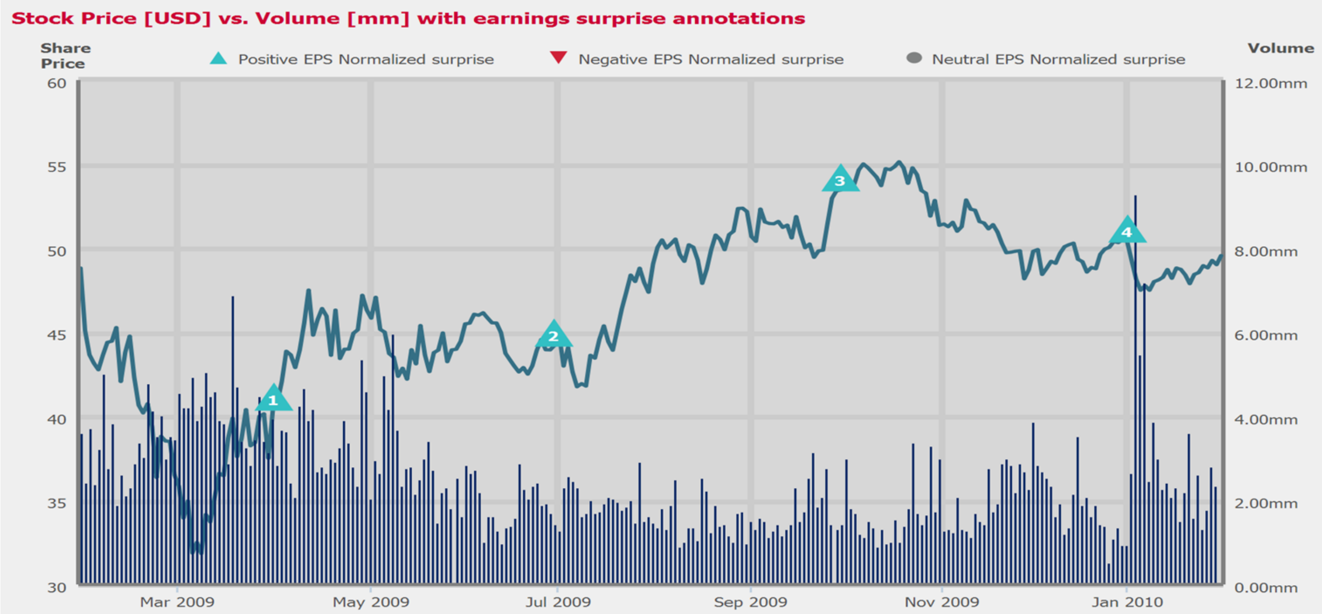
FQ1 2010 Earnings Call Transcripts

Thursday, April 29, 2010 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2010-			-FQ2 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.70	1.70	▲0.00	1.89	7.14	7.39
Revenue	-	-	▲2.93	-	-	-
Revenue (mm)	3469.34	3571.00	-	3458.26	13434.51	13941.94

Currency: USD
Consensus as of Apr-29-2010 12:48 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2009	1.96	1.99	▲1.02 %
FQ2 2009	1.94	2.09	▲7.73 %
FQ3 2009	1.96	2.07	▲5.61 %
FQ4 2009	1.94	2.01	▲3.61 %

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ANALYSTS

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Jay Gelb
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Keith Walsh
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Matthew Heimermann
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Philip Bancroft

Vinay Misquith
Credit Suisse

Presentation

Operator

Good day, and welcome to the ACE Limited first quarter 2010 earnings conference call. Today's call is being recorded. (Operator Instructions) For opening remarks and introductions, I'd like to turn the call over to Helen Wilson, Investor Relations.

Helen Wilson

Thank you, and welcome to the ACE Limited March 31st, 2010 first quarter earnings conference call. Our report today will contain forward-looking statements. These include statements relating to economic and insurance industry trends, our financial outlook, competition, and growth prospects, all of which are subject to risks and uncertainty. Actual results may differ materially.

Please refer to our most recent SEC filings as well as or earnings press release and financial supplement, which are available on our Web site for more information on factors that could affect these matters. This call is being webcast live and will be available for replay 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 Greenberg

Good morning. All things considered, an eventful quarter for natural catastrophes, the continued impact of recession, and competitive market conditions, ACE had a good first quarter and start to 2010.

After tax operating income for the quarter was $579 million or $1.70 per share, while net income in the period was $755 million. All divisions of the company made a strong contribution to the results. We recorded a $149 million in after tax CAT losses for the quarter, which was marked by a large number of significant natural catastrophes globally.

As you know, we previously reported a first quarter loss estimate of $125 million after tax. That estimate for the cohort [ph] catastrophes known at that time has improved. However, subsequent to the announcement, there were a number of additional events, including the storms in Perth, Australia and the northeast United States, both of which resulted in historic levels of flooding. Losses from those additional storms are estimated at $32 million after tax. We've included an exhibit in our supplement that sheds more light on our CAT losses both gross and net.

I believe ACE's level of losses in total demonstrate good underwriting discipline in risk management. It's worth noting, that of the total CAT losses, global REs [ph] were $29 million, a relatively modest number that reflects what has been our underwriting position regarding non-US CAT RE. Namely, that we are underweight exposure because of inadequate pricing, and in many instances, lack of creditable data.

Some analysts have expressed surprise at the level of our net CAT losses. I would refer you to our 10-K, where we provide disclosure about our catastrophe reinsurance protections. Including the fact that we purchase, in certain regions of the world, drop down covers. Knowing this fact may help you better understand the level of our losses. We benefited in the quarter from positive prior period reserve development in the amount of approximately $96 million, nearly all of which were short tail lines related.

Over $40 billion [ph] of the $96 million would be '09 year crop insurance adjustment. As you might recall, the first quarter's results typically include a prior year crop adjustment, which in a good year, helps the loss ratio that hurts the expense ratio. Our combined ratio for the first quarter was 92.8%, which was very good.

The underlying health of our business is in good shape as demonstrated by our current accident year combined EX-CAT of 90.2% versus 88.6% last year. The expense ratio was up about three points in the quarter compared to the same period last year, two thirds of which was due to crop profit sharing and CAT reinstatement premiums. Phil will provide more details.

I want to make a few comments about growth, pricing and the environment. Total company net written premiums were up 4%. And adjusting for foreign exchange, they were up 1%, reflecting both the economic environment and insurance market pricing pressures. We are obviously operating in a competitive insurance market. In my judgment, for the industry overall, the CAT losses in the first quarter are an income event, not a balance sheet event, or for most companies, a reassessment of risk event.

As a result, I believe we are going to continue facing competitive market conditions. On the other hand, the economy in general has stabilized and is showing some signs of improvement. With that said, generally speaking for ACE, while there is less opportunity to write new business at an acceptable return, there is still much opportunity around the globe nonetheless, because of our capability with geographic and product.

We saw many of the same competitive trends I've spoken about in the past continuing in the quarter. For example, retail insurance perform better than wholesale, while retail growing - with retail growing 4.5% in constant dollars and wholesale shrinking 1%. In the US, retail P&C insurance net premiums grew 6% in the first quarter. And our renewal to retention ratio is steady at around 88%. However, because of our decision to invest and grow last year, particularly in numerous specialty casualty related areas, our available renewal premium in the first quarter was up rather significantly over prior in a number of areas such as professional lines, excess casualty, environmental and construction.

Our premium growth in North America also benefited in the quarter, the more capability to handle complex and front-end business, which added to growth in both gross and net. Specifically, we wrote a couple of loss portfolio transfer type accounts as well as a number of large global and risk management type property and casualty accounts. We also wrote last year - late last year as a result of a flight to quality, a couple of large workers' comp programs and these are contributing to our new business growth as well. Excluding these items, our total new - our total new business writings were down, even though our submission counts continue to rise.

Pricing for the business we wrote in the quarter was down about 1.25% in North America. In general, pricing on new business was worse than on renewals by about 3%, although it varies by line. And let me give you some renewal pricing specifics.

Casualty related lines, umbrella access, environmental, construction, and custom casualty overall, was up by about 2%. Energy type property rates were down about 4%. Commercial property and marine, they were down about 5%, and for risk management business, which is GL and Comp, was flat. Medical professional liability pricing is down five and professional lines, D&O, E&O and FI, all blended together, we're down by 3.5%.

On the international side, retail P&C insurance grew 5% in constant dollar during the first quarter. The renewal-retention ratio was steady for the quarter. Pricing for the business we wrote was down 1%, property was flat, and financial lines were down about 3% and casualty was down by about 1%.

On the wholesale side of our business, our London based business shrank 16%, while our US wholesale was down 25%. However, this included a decline in crop insurance premiums of over 30% offset to some extent by about a 10% increase in other lines, made up predominantly of growth in CAT related property, increased retentions in our professional liability business and good growth in wholesale environmental. Our Bermuda-based wholesale business was flat.

One last thought on the insurance market environment. Client business exposures that we use for rating purposes were down approximately to 5 to 6% in the quarter, particularly client sales related exposures. These obviously impacted premium revenue.

As we have said in the past, insurance lags, broader economic activity for our clients renewing in the first quarter, we are rating off a base that begins with their own line exposures, both for retro premium adjustments and for calculating current year's renewal.

Turning briefly to some of our other businesses, global RE saw reasonable growth in the quarter although was primarily a consequence of the business we wrote in 2009. Annualized underwriting year premiums written in the quarter actually shrank. Our high net worth personal lines business in the US had another good quarter and is growing rapidly and according to plan. Net premiums were up 43%. We have developed an excellent reputation for underwriting and servicing in this business and is continuing - it is contributing nicely to our growth.

Finally, turning to our accident health insurance business, A&H grew 8% in the quarter benefiting from foreign exchange. In constant dollar, A&H was essentially flat. A&H growth rates are stabilizing, though it varies by region and business. Growth continues to be impacted by the recession globally, lower employee counts, fewer travelers and a slow return or no return to consumer credit.

Combined Insurance has improved and growth and constant dollar began to pick up modestly in the quarter. Their new model for modernizing agency in the US is showing the best result in terms of agent productivity we've seen yet. In fact, equally or exceeding our expectations. As a result, I am optimistic about the future for our US business and we are adopting and exporting the model to other markets.

For the quarter and combines other large markets, Australia, New Zealand are doing very well and growth has picked up. Spain, which is small but has good potential, is beginning to show signs of improvement. And the UK is stabilizing and is showing a better trend, while Ireland continues to lag.

ACE International, our other major A&H portfolio, has stabilized but is not yet demonstrating real growth. And constant dollar premiums were down 1% when you include some of the A&H premium that was more appropriately moved to the life insurance division.

We have a lot of activity and opportunity in the pipeline and expect both Combined Insurance and International ANH to continue to improve and resume positive and meaningful growth as the year progresses, particularly in the second half.

Lastly, we have received calls about the impact of volcanic ash on our travel accident business. We expect losses to be de minimus.

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

Phil Bancroft

Thank you, Evan. Our balance sheet continued to grow stronger in the first quarter. Our cash and invested assets grew by almost $1.3 billion. Our tangible book value per share increased by 5.8% to $49.48, and our operating cash flow was strong at about $820 million.

Operating ROE for the quarter was 12%. Net realized and unrealized gains from our investment portfolio were $574 million before tax. Our investment portfolio was in overall unrealized gain position of $1.2 billion pre-tax as of March 31st. Included in our unrealized gain and our realized gain, is about $44 million related to the sale of our AGO shares. We have now sold all of our remaining interest in AGO. Our portfolio continues to be predominantly invested in publicly traded investment grade fixed income securities and is well diversified across geographies, sectors and issuers.

The average credit rating remains at AA with over half invested in AAA securities. The duration of our portfolio is relatively short at 3.7 years. Investment income was $504 million. Income on new cash flow was offset by lower new money yields and our investment income was about flat with last year. The average yield on our invested assets is 4.4% with new money rates around 4%, assuming we invest funds in a similar distribution to our existing portfolio.

Net loss reserves were up about $25 million for the quarter. They were impacted by foreign exchange, which reduced the growth by approximately $200 million. Our paid-to-incurred ratio was 92% and has been steady for the past four, five quarters. Our expense ratio is up 3% points compared to last year.

This increase includes the effect of our annual crop settlement, which was about half of the increase, and foreign exchange with the impact of reinstatement premiums for this quarter's CAT losses.

Adjusted for these three items, the expense ratio increased by about 70 basis points.

Given a number of unusual items impacting the expense ratio this quarter, we’ve included an additional page of disclosure in the supplement. Financial flexibility at the holding company level remains strong, given our operating company's dividend capacity and low levels of debt refinancing needs over the next five years. Our debt-to-total capital leverage ratio of 13.6% continues to be conservative relative to our current rating level, and our reinsurance recoverable leverage is down to about 65%.

With that, I’ll turn the call back to Helen.

Helen Wilson
Thank you, Phil. At this point, we’d be happy to take your questions.

Question and Answer

Operator

Thank you. The question-and-answer session will be conducted electronically. (Operator instructions) We'll take our first question from Jay Gelb with Barclays Capital.

Jay Gelb
Barclays Capital

Thanks. Good morning, a couple of questions for you.

Phil Bancroft

Good morning, Jay.

Jay Gelb
Barclays Capital

First, could you give us a sense of the potential exposure for ACE on Deepwater Horizon, both on the property and maybe on the environmental side? Second, I was wondering if ACE had any plans to update guidance based on the first quarter catastrophe experience. And I'll just stop there.

Phil Bancroft

No, we will not update - we don't update guidance now. We will take a look at mid-year. And if there is a reason to update it, well in either of that, we will comment on guidance at that time.

As far as the offshore rig, look, this is a class of business we write. As you know as a matter of policy, we don't comment on individual claims. However, what is our policy and has been our practice, if there's anything material that could impact us, we will notify you of that. We will put something out about it. So that's all I'm going to say about that.

Jay Gelb
Barclays Capital

Is it fair to say though that with catastrophe losses already in the first quarter, seeing a path of the amount the - estimated for the year, and then the second quarter impact potentially Deepwater Horizon. It feels like it's getting up there in terms of the CAT load before wind season.

Phil Bancroft

Well, first of all, I think you're mixing chalk and cheese. CAT losses are simply for natural catastrophes. That's wind, flood, and quake, and everything else going on in the world that's Mother Nature related. And you wouldn't update your guidance based on that because who knows what the total year is going to look like in terms of catastrophes. Mother Nature doesn't schedule them on a quarterly basis to flow in some sort of predictable way. And so, second quarter could be light for CATs. Third quarter could be light. And you could be light on what you projected for the annual. So I don't think you'll update based on the CAT losses. And something like the rig, no, that's an energy related loss. And that's totally separate from CAT.

Jay Gelb
Barclays Capital

I understand. What type of reinsurance protection outwards did they have for energy losses (inaudible) -?

Phil Bancroft

We don't comment on that.

Jay Gelb
Barclays Capital

Okay. Thanks.

Operator

Next we'll move to Keith Walsh with Citi.

Keith Walsh
Citi

Hey, good morning, gentlemen. Evan, first for you, just any thoughts on the Dodd Bill that's currently being debated out there in Congress, and thinking about the impact on your company bit on the P&C industry as well.

Evan Greenberg

Yes, the bill right now contains to the industry a provision, potentially, that would have this new systemic risk regulator viewing P&C insurance as well for the scanning for systemic risk. Number two, if they have - and right now, as of last night, it appears that the fund - the pre-funded fund, is - or post-funded is out for the moment. But any fund could potentially include P&C insurance.

Now, they've really diluted it in terms of the parameters under which they would assess, and therefore, the impact on P&C. However, we and all the major - most of the major companies in the US, we are - we have come together as a coalition to actively fight this given that we are highly and well regulated by the states. And we were already paying into for systemic. And we already pay into a solvency fund. And P&C is not systemic. And so, we're making those arguments to not simply dilute what P&C's contribution could be if there was a fund, but get us out completely because it's redundant.

And secondly, for systemic, let's not have duplication of the Feds' oversighting and the states. Let's be clear within the bill that it leaves it to the states even if there is some kind of scanning and oversight by the Feds in systemic. That answered it for you?

Keith Walsh
Citi

Yes, absolutely. And then the second question around the accident and health business, you've got this pretty differentiated franchise from most of your commercial P&C peers. Yet, you don't really - you guys don't really do a good job disclosing it in the market. And I just - I'm very curious why the disclosure isn't - the company isn't carved out separately. You don't give us allocated capital to really measure and value that piece of the business if you want to get paid for your stock.

Evan Greenberg

Well, it's a fine line to walk. It's a fine balance of how much transparency you provide and give a road map to your competitors of how to think about that business.

Keith Walsh
Citi

I mean with all due respect, you got AFLAC as stand-alone out there we could look at it. And I don't know -

Evan Greenberg

I understand that. AFLAC is a - is fundamentally a Japanese cancer insurance and other supplement related business, next to impossible to get into. And others have, a few others have. I get that. And so, it's a fine line and we make a judgment.

Keith Walsh
Citi

Okay. Thanks a lot.

Evan Greenberg

You may not like - I appreciate you may not love my answer, but I'm giving you our logic.

Keith Walsh
Citi

That's great. Thank you.

Evan Greenberg

You're welcome.

Operator

Next we'll go to Matthew Heimermann with J.P. Morgan.

Matthew Heimermann
J.P. Morgan

Hey, good morning, everybody.

Evan Greenberg

Good morning.

Matthew Heimermann
J.P. Morgan

A couple of questions, and I realize nitpicking one quarter with respect to the action in your loss ratio is a little bit dangerous. But it looked a little bit low relative to where you've been running on in prior quarters and on an annual basis? And I didn't know is there was anything unusual affecting that ratio this quarter?

Evan Greenberg

I thought you might ask me that question. It's up. And it's up over prior year. And I think you'd need look at it quarter - prior year on prior year, not sequential quarter because a lot of seasonality to our business. Number one, it is up. It's up more than it actually appears when you adjust for one or two things. Crop insurance-

Matthew Heimermann
J.P. Morgan

Can I stop you for one second because I actually - I'm getting a ratio that's down versus the prior period, and sequentially.

Evan Greenberg

Although, we'll have to take it offline because it is up over.

Phil Bancroft

If you go to page two of the supplement and you look at the adjustments that we make at the bottom of the page, it's actually going, in our view, from 60.7 to 61.1.

Evan Greenberg

So Matt, we'll just take the math calculation off line, okay?

Matthew Heimermann
J.P. Morgan

That's fair. Could you go ahead though and continue on the underlying movements that you were going to discuss anyways, just to get a little bit more granularity on what's under the surface?

Evan Greenberg

I'd be pleased to do that. It is going - it's going up more than it shows. And broadly, retail insurance versus wholesale, retail is up significantly more. I say significantly, a couple of points. Wholesale is actually down a little bit. And what you adjust for is crop insurance. We wrote less crop for the current accident year. And Brian could explain why. And crop carries a higher loss ratio with it. So that's a mix - that becomes a mix change.

And by the way, some of the rest of you may notice in our supplement that it looks like casualty is a bigger percentage of our business. It's really not. It's that we wrote less crop because we booked in property. And if you adjust for that - and that's just a - that's just a matter of commodity prices, really, that's dropping that, I believe. And Brian will talk more about it. But anyway that also impacts to current accident year loss ratio. Predominantly, that's the main reason.

And then, in the Westchester we also wrote more - we wrote more property CAT-related business in the quarter than casualty. And that carries a lower loss ratio. So it's those sorts of things that actually I'm asking what is - when you go product by product, cohort by cohort, a higher and increasing trend in current accident year, which is perfectly normal and natural given pricing and what we think is enduring trend.

Matthew Heimermann
J.P. Morgan

That's fair. And then I guess on the high net worth business, can you just talk to me a little bit about - I mean granted your - that's a small business for you, so growth isn't surprising. But could you just discuss maybe how you're attracting new business and how you're pricing and coverage might vary from some of the more established players in that market?

Evan Greenberg

Sure. And we're not buying the business. With that, I'm going to let Brian talk to you about it because this market is not such a price sensitive market as much as they are service and coverage.

Brian Dowd

Yes, I think that's right. As you correctly point out, it is a pretty modest-sized business (inaudible). As we talked about when we acquired this business, one of the things we wanted to bring to it was the scope of ACE. So now, the full distribution capabilities of ACE around the country, we've expanded from 16 states to 50 states and we're utilizing our distribution system. And remember, this is a business that, frankly, the vast majority of it is with carriers who really don't want it, right?

We're always thinking about the - of the jobs in AIG, departments fund had a lot of this business. But in their fold, market share's probably less than 10%. So there's a lot of this business available to our distribution system that we get. Frankly, our pricing is very comparable to our - to our peers. It isn't a price gain for most part. It is a service point of business. And we have terrific service capabilities in this area. So we're really pleased with where it's going. And, frankly, it's been leveraging the needs of the organization to the fullest extent.

Evan Greenberg

And by the way, if you - I invite you to go talk to agents out there about the experience with ACE in this business. Our systems are considered the superior - the gold standard now for supporting agents in doing the business. And by the way, for those of you who qualify, we'd be very happy quote and underwrite yours. And I think you'll see why people are enjoying putting their business with ACE.

Matthew Heimermann
J.P. Morgan

All right. Thanks for the answer on the offer.

Evan Greenberg

A little advertising.

Matthew Heimermann
J.P. Morgan

I'm sure it's fine.

Operator

The next we have Jay Cohen with Bank of America/Merrill Lynch.

Evan Greenberg

Good morning, Jay.

Jay Cohen
Bank of America/Merrill Lynch

Good morning. Several questions, first, can you tell us actually how big the personal line of business is at this point?

Evan Greenberg

At the end of the year, last year, we told you, I believe, that in - we did in the fourth quarter. I put it in our commentary that we write on an annual basis at the end of '09 just shy of about $1 billion of total personal lines, domestic and foreign.

Jay Cohen
Bank of America/Merrill Lynch

That's great, two other questions.

Evan Greenberg

(inaudible) personal lines. And the US is predominantly the high net worth.

Jay Cohen
Bank of America/Merrill Lynch

Got it. Two other questions, I'll just ask them both, and then let you comment. First is, can you talk about what you're seeing from a loss trend standpoint, specifically claims frequency? And then secondly, are you seeing in the market more acquisition opportunities to consider?

Evan Greenberg

Sure. I'm going to ask Brain to just talk about loss frequency. The loss trend we're seeing, not necessarily (inaudible), but frequency and severity. It's really very spot line. And I'll come on the acquisitions.

Brian Dowd

One of the things that has continued on the loss frequency side, our loss frequencies, we've gone through an extended period where loss frequencies are actually still down. The trend is starting to moderate. We saw a tremendous improvement in frequencies over the last four to five years, and they are starting to moderate. But the frequencies are still lower than historic norms. Severities are starting to decline a little bit, the trend inflation starts to occur throughout our (inaudible). But for the most part, all of our products are performing as we expected on the claims metrics.

Jay Cohen
Bank of America/Merrill Lynch

It's clear. Thanks, Brian.

Evan Greenberg

You want to comment on that.

Phil Bancroft

I think the - similar observations around the world. I mean there are always certain markets that we observed hitting a bit unusual, be it good or bad. And I would point to some markets particularly in Southern Europe right now where we're noticing a change in the casualty environment, the change in what we're seeing in terms of the frequency and severity of losses on our liability business. But generally speaking, I think what Brian observed for North America has been consistent. But as general observation for the international market as well.

Evan Greenberg

On the acquisition environment, what would you - what specifically, Jay, would you like me to comment on that one?

Jay Gelb
Barclays Capital

I think, clearly, a lot of people look at your balance sheet and you have a fair amount of capital flexibility. You've made acquisitions in the past. There are opportunities out there. We're just wondering are you seeing more opportunities coming to you. What's the acquisition environment like for you? Are you getting excited about potentially doing deals or is still very much the same?

Evan Greenberg

Excited, I'm an excitable fellow. The acquisition environment is, first of all, view it globally. And it really varies by the kind of business and the geography. But overall, as a result of the financial crisis, soft market, the global environment right now has created a lot of - I would say a lot of insecurity, and potentially a lot of pressure and varies by company, a lot of pressure. And with that always comes opportunity. And then it gets down to the bid ask. And it's not simply - it's not a flow. You don't see a big flow. It's very individual company, individual situation related.

But there's a fairly steady stream. And some of it are things that you would know about that are known situations, and they run their course and it's a matter of time. And then, there are many that you just wouldn't know about. But they are generally along the same themes. And in a word, most of the acquisition environment is presenting itself based on weakness of others, not based on strength.

And the money is not burning a hole in our pocket. I have said this. We do not feel this is - that we have to do something. We're not imagining that '10 could be a big acquisition year. Could be, may not be. I don't know. It's opportunistic. And if it doesn't happen in '10, then there's always '11. And so it's got to fit.

I just remind you and I refer you also to our annual report, our shareholder letter, it's got a - the industrial logic has to be there first. It's got a (inaudible) strategy. It's got to advance something we are already endeavoring to do organically, in either a product or a territory. And it's got to make us better. And it's got to be accretive to shareholders and make financial sense. We're not going to kid ourselves. And by the way, accretive is not, "Well you're earning 3% or 4% on new money. So hey, how about a 6%?" No, we're not going to play a game like that. On a risk adjusted return basis, it's got to be accretive, period.

Jay Gelb
Barclays Capital

At (inaudible) spread, you mentioned where it comes down to. You sent that to narrowing it all. Are people getting more reasonable in what they're looking for, for valuations?

Evan Greenberg

It's all over the place, Jay. It really is. It is. It's all over the place. There's not one clean-cut.

Jay Gelb
Barclays Capital

Okay. Thanks.

Evan Greenberg

You're welcome.

Operator

And next we'll go to Vinay Misquith with Credit Suisse.

Vinay Misquith
Credit Suisse

Hi, good morning. On the Chilean laws, I was wondering if you could give us some more color about your primary insurance market share in Chile. The market sources say that it's both 5% share. But I was wondering whether it's more accident and health in that area.

Phil Bancroft

Vinay, it's accident and health, and it's property and casualty. It is both. It is a single - we don't actually - today, I don't know off the top of my head. And (inaudible) how is it our precise market share. And we probably wouldn't really get into that. But it's in the single digits, yes. And it is a mix of both ANH and commercial. And the commercial is more large account commercial than it would be semi or small businesses.

And on loss, we had the big one. Loss shows how our portfolio (inaudible).

Vinay Misquith
Credit Suisse

Sure. I'm just trying to get a sense for if the industry losses rise, will there be any chance that it could go to the top of your reinsurance cover within that area?

Philip Bancroft

Well, chance. We're insurance. Risk business is always odds, but highly, highly, highly unlikely, not practical.

Vinay Misquith
Credit Suisse

Okay. That's great. The second question was on the casualty of premiums, and this is on page five. It appears that those premiums are 10% this quarter year-over-year. And maybe there was a one-time item. I was just hoping you could help us with that bit?

Philip Bancroft

Let me see the page. Before I speak, I just want to look for a second because I think I - you're talking about in the current quarter, you're looking at the $1.381 billion going to the $1.516 billion?

Vinay Misquith
Credit Suisse

Yes, correct.

Philip Bancroft

And you're asking about the gross in that? Well, a couple of things, there are some one-time items. We wrote a couple of large accounts that would do that. And then as I explained, we are growing. And we grew in specialty, casualty-related areas. In particular, I went through it, financial lines, environmental, excess casualty, and construction. We increased our presence both in the US and overseas. In those areas, we wrote a - we wrote more new business in the first half last year. And that increased our renewal base. And so we grew from that. And though new business writings, we wrote new business, but new business was down a bit. So the two together, between the - our ability to handle very complex, and on the other hand those specialty classes, that's where you're seeing it from.

Vinay Misquith
Credit Suisse

Okay. Thank you.

Philip Bancroft

You're welcome.

Operator

(Operator instructions) Next we'll go to Ian Gutterman with Adage Capital.

Evan Greenberg

Hi, good morning.

Ian Gutterman
Adage Capital

Hi, Evan, and how are you.

Evan Greenberg

I'm good. You?

Ian Gutterman
Adage Capital

Good, just going to hold a call here. But just a follow-up of today's Chile question, I guess I was - there was something - I believe it was the Chilean government, maybe it was the minister position, that showed all the CAT players - CAT reinsurance-

Evan Greenberg

$630 million.

Ian Gutterman
Adage Capital

Right. So do you - have really a high number then you have related to the loss. Can you explain that?

Phil Bancroft

Yes, I can explain that, though I'm not going to go deep into it - what I - just to help you with it. Remember that we - through our own retentions, we don't simply take our retentions locally in a country. But ACE's balance sheet, we pool exposures. And so, we have internal reinsurance to do that. And so, when a government publishes that they don't distinguish, and so you're seeing the internal reinsurance that maybe all sticks to us. You certainly wouldn't see any global reinsured party business because they don't write it from Chile locally. They would write any of that outside of Chile. So I think that tells you your answer.

Ian Gutterman
Adage Capital

I guess it was chalk and cheese. I mean, you're showing a gross - I guess you didn't show the gross (inaudible). Okay.

Evan Greenberg

You want to - if you’re not going to take off your retention locally, then you can have exit reinsurance for internal reinsurance purposes. Okay?

Ian Gutterman
Adage Capital

Right. Okay, now I got you.

Evan Greenberg

You got it.

Ian Gutterman
Adage Capital

Okay. To follow up on that, actually your question, I actually do get the math. It was up year-over-year. What I wanted to ask you about is - and I don’t know how closely you’ve looked at - which appears in your reporting. But you’ve been one of the few companies who actually have some of that increase year-over-year, which is neither logical given pricing trends. It seems like most of peers have shown improvement in their accident years, which has been puzzling to me. I don’t know if you've noticed that trend or not. But if you have - I’m sorry?

Phil Bancroft

I’ve noticed.

Ian Gutterman
Adage Capital

Yes. What does tell you about where we are in the cycle? Does that make you concern that we're starting to get to the point where companies are maybe starting to lie to themselves a little bit about the results or just being more optimistic. And maybe that implies that that's got to take a little bit longer for the cycle to play out than we hope.

Phil Bancroft

I'm not in their heads. So I can’t comment on each company individually. And I wouldn’t do that. I wouldn't pretend to guess for them. But I would tell you overall, to me - it tells me one of two - it tells me couple of things. First, as you said it, it’s certainly more optimistic. And it is certainly more - less conservative than it was. There is no denying it’s a weakening of the balance sheet to me. As prior accident years may have been booked on a more conservative basis, current as I - is absolutely on less conservative. And then it’s going to vary by company, whether they are deficient or simply adequate. I don’t know. And their motivations of whether they are naive, whether they're lying to themselves, or worst. I just can’t speculate. However, it is not surprising this occurs in every cycle. This is how the cycle works.

Ian Gutterman
Adage Capital

Right. It's the idea that we're all smarter this time.

Phil Bancroft

Until it runs its course, you know my judgment. It turns on the balance sheet. And that’s what you’re watching.

Ian Gutterman
Adage Capital

Great. Okay.

Phil Bancroft

And no, I don't know if we're smarter this time. We're still human beings. We just have more equipment around us.

Ian Gutterman
Adage Capital

Exactly. Evan, my last question is - just can you - crop was down 30%. I assume some of that was just price of commodities being done year-over-year. But did you also cut back market share?

Evan Greenberg

No, no, no. We didn't cut back market share. But Brian is going to give you the second reason.

Brian Dowd

Yes. Ian, if you look at the first quarter premium for crop, the net (inaudible) is about $100 million lower in '10 versus 2009. It's two factors, right? You look at the commodity prices. And there's also the SSAP adjustment that you have to do based on the profitability of the business. So I look at 2010 in the first quarter if the winter - wheat prices were about 38% lower year-over-year. So that amounts to a big portion of the drop in premium.

But on the second piece, which is about half, is tripled to the - when you make a larger profit in the crop business, you have to see more of the premium to the Federal Crop Insurance Corporation under the terms of the SRA. So 2009, as a year-over-year, was a very profitable year, so we made more profit. So you actually see under the accounting adjustment premium to the government at a greater proportion on our higher profit year. And we make that adjustment here in the first quarter.

Ian Gutterman
Adage Capital

Okay. That makes sense. So it's not a - I (inaudible) a second search about the proposed legislation. But it doesn't sound like it - it's something that's going to change your appetite dramatically for the business and just make the - if something passes, it's just going to be a little bit less profitable and you have to reintroduce in the book sum?

Brian Dowd

Well certainly, we got to wait and see what the SRA looks like, right? And we'll run all of our miles on how to best serve our customers, right? And certainly, nothing so far in the first quarter premium has anything to do - but mostly for the year that you're talking about will come out next year. The change is - the New SRA until 2011, so the 2010 crop you're under the old SRA. So that won't affect it until next year's rate. 2010 premium, though, when you start to see it in the second and third quarter, will probably be impacted again because commodity prices are lower and more stable against it. You may see that. If you have the same market share, you'd likely see lower premium in 2010 than you would have seen in 2009.

Ian Gutterman
Adage Capital

Okay. That makes sense. Great. Thank you.

Phil Bancroft

You're welcome.

Operator

At this time, we have no further question. I'll now turn the call back over to Helen Wilson for any additional comments or closing statements.

Helen Wilson
Thanks very much for your time and attention to this party. We look forward to meeting you again at the end of the next quarter. Thank you, and good day.