

Chubb Limited NYSE:CB

FQ4 2015 Earnings Call Transcripts

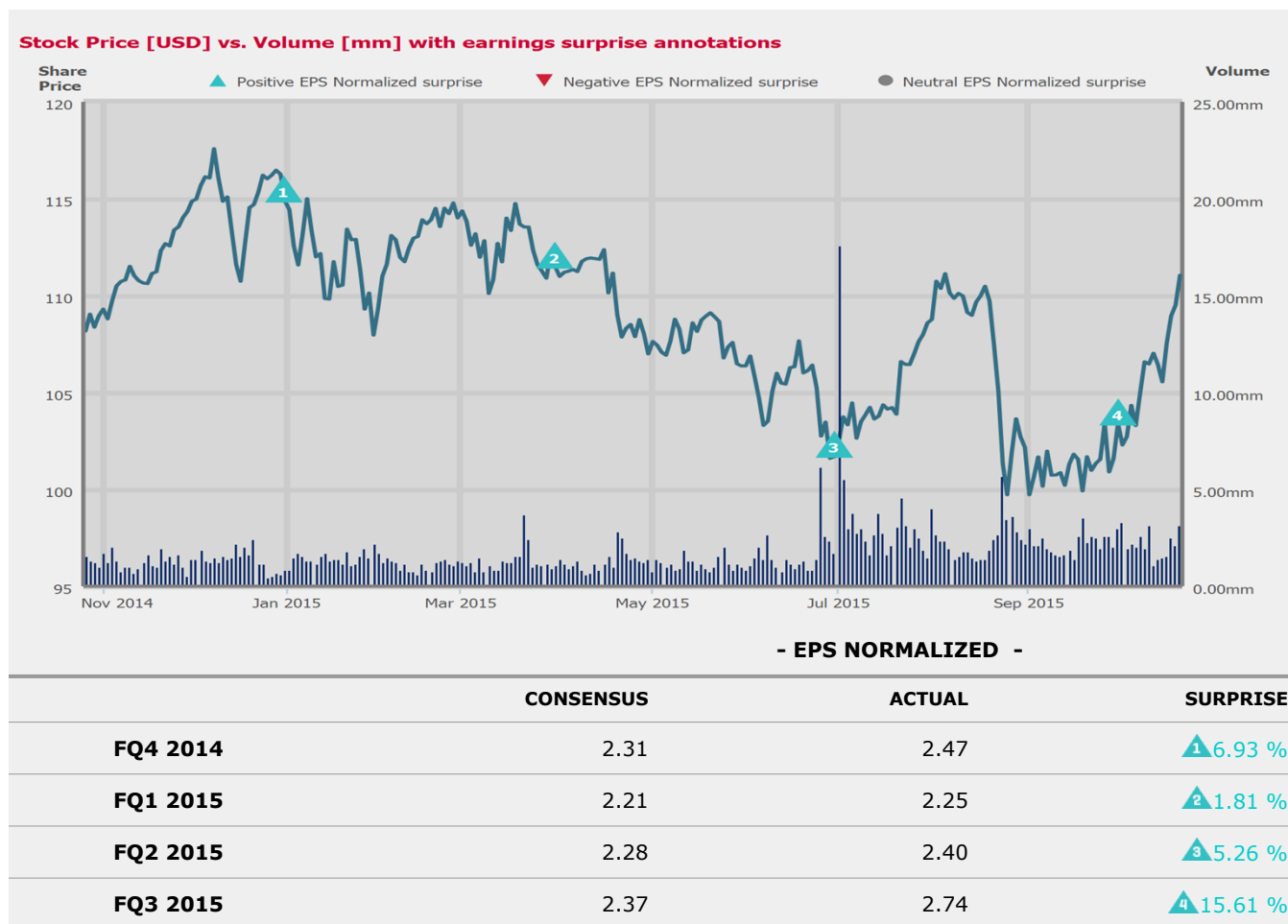
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S&P Capital IQ Estimates

| | -FQ4 2015- | | | -FQ1 2016- | -FY 2015- | | |
|-----------------------|------------|---------|------------|------------|-----------|----------|--|
| | CONSENSUS | ACTUAL | SURPRISE | CONSENSUS | CONSENSUS | ACTUAL | |
| EPS Normalized | 2.26 | 2.38 | ▲ 5.31 | 2.23 | 9.59 | 9.76 | |
| Revenue (mm) | 3980.00 | 3629.00 | ▼ (8.82 %) | 6455.00 | 16050.33 | 15715.00 | |

Currency: USD

Consensus as of Jan-27-2016 10:51 AM GMT



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

Paul J. Krump

Executive Vice President and President of Personal Lines & Claims

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

Timothy Alan Boroughs

Chief Investment Officer, EVP, Chief Investment Officer of Chubb Group and EVP of Chubb Group

Jay Adam Cohen

BofA Merrill Lynch, Research Division

Jay H. Gelb

Barclays PLC, Research Division

Jon Paul Newsome

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

Kai Pan

Morgan Stanley, Research Division

Lawrence David Greenberg

Janney Montgomery Scott LLC, Research Division

Meyer Shields

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

ANALYSTS

Brian Robert Meredith

UBS Investment Bank, Research Division

Charles Joseph Sebaski

BMO Capital Markets Equity Research

Clifford Henry Gallant

Nomura Securities Co. Ltd., Research Division

Ian Gutterman

Balyasny Asset Management L.P.

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

Ryan James Tunis

Crédit Suisse AG, Research Division

Vinay Gerard Misquith

Sterne Agee & Leach Inc., Research Division

Presentation

Operator

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

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

Helen Wilson

Thank you, and welcome to our December 31, 2015, Fourth Quarter Year End Earnings Conference Call.

Our report today will contain forward-looking statements, including those relating to: Company and investment portfolio performance; pricing and business mix; economic and insurance market conditions, including foreign exchange; and completion and integration of acquisitions, 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 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 1 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, and welcome to our first earnings call as the new Chubb. On today's call, I will focus on the full year and fourth quarter 2015 results of Legacy ACE Limited. I will not comment on legacy Chubb's '15 results.

In the context of currency headwinds, which all multinationals have experienced, ACE had a good quarter that contributed to a very good year by all financial measures except book value growth, which was impacted in particular by foreign exchange and rising interest rates in the U.S.

All divisions of the company made a positive contribution to both quarterly and annual operating earnings, which were driven by excellent P&C underwriting and investment income results.

For the year, we've produced over \$3.2 billion in operating income, record underwriting results, strong premium revenue growth on a constant-dollar basis and a very good ROE. It was quite a year. In fact, historic from a strategic perspective as we made a number of investments in our company that contributed, and will contribute, to future earnings growth, with the highlight being, of course, our transformational acquisition of Chubb.

After-tax operating income for the quarter was \$780 million or \$2.38 per share. For the year, net operating income was \$9.76 per share, essentially flat with last year's record earnings of \$9.79 per share. When adjusted for the impact of foreign exchange, our full year operating EPS was actually up 3.5%, an achievement few U.S. dollar-based multinationals can claim and a standout result for our industry. In fact, our \$3.2 billion of operating income was down 3%, all FX related. Adjusting for that, operating income was flat, something few insurers can boast.

Our P&C combined ratios were truly excellent. 87.7% for the quarter; and for the full year, a record low of 87.4%. For the year, P&C underwriting income was almost \$2 billion, again a record for our company. In constant dollars, P&C underwriting income was up 8%.

These terrific calendar year underwriting results benefited from very strong current accident year performance. P&C current accident year combined ratio, excluding catastrophes, was 88.8% for the year. The P&C current accident year results are a reflection of our premium revenue growth and margin improvement globally as a result of pricing action, portfolio management efforts, product mix and expense control.

To break down our current accident year underwriting results a bit. The combined ratio for global P&C, which excludes agriculture, was 88.9% for the year. Agriculture had an excellent year and it ran at 88.2%.

Full year net investment income of \$2.2 billion was down about 2.5%. It stood up quite well given the historic low interest rates and it benefited from a very strong cash flow, just shy of \$4 billion.

ACE's strong earnings led to very good operating ROEs of over 11% for the quarter and 11.5% for the year. As I have noted before for ACE, every 100 basis points of investment portfolio yield is equal to approximately 200 basis points of ROE.

Even with the Fed's first rate increase in 7 years, the short-term interest rate environment remained highly uncertain, given global economic and geopolitical conditions. Although rates will not, and frankly shouldn't, remain this low indefinitely.

As I said earlier, ACE, and now Chubb, is a truly global dollar-based multinational insurer with a great spread of business. And as such, foreign exchange impacted our premium revenue, our income and our book value throughout the year.

In spite of our great earnings performance, per share book value growth was essentially flat for the year. It was up 3.2% excluding foreign exchange. Phil will have more to say about book value as well as prior period reserve development and catastrophes.

Turning to revenue growth for the quarter. Global P&C net premiums, which exclude agriculture, were down 2%, but up 5% when measured in constant dollars. Whereas for the year, Global P&C grew over 1% on a published basis and nearly 8% in constant dollars. FX had a modestly bigger impact in the quarter than on the full year.

For the year, our 8% constant-dollar growth came primarily from North America, Latin America and Asia. In North America, net premiums for P&C, excluding crop, grew over 10%. Net premiums in Latin America and Asia grew 18% and 15%, respectively, whereas they grew 3% on the continent and declined 2% in the U.K.

Relative to the full year, constant-dollar growth in the quarter was slower, again, 5% versus full year 8%, and was impacted by both economic conditions in Asia and Latin America, which caused a modest slowdown in our consumer businesses; and industry market conditions for our commercial P&C business, which grew more competitive as the year progressed. We will always trade market share for underwriting discipline.

That leads me to a few words about current commercial P&C insurance market conditions. The pricing environment grew incrementally more competitive in the quarter for our commercial P&C business globally and varied depending on the territory, line of business and size of risk. As noted in prior quarters, large account business, particularly shared and layered, is more competitive than midsized. Wholesale is more competitive than retail and property is more competitive than casualty-related.

For our U.S. commercial P&C business, that's Legacy ACE, general and specialty casualty-related pricing was down about 0.5% in the quarter. Management and professional liability pricing was up 0.5% and property-related pricing was down over 9%. New business writings in North America were down 11% year-on-year as we became more selective, but varied by class, depending on the rates and terms we could secure. So in fact, new business was up in certain targeted classes.

Renewal retention levels are holding up well. For our U.S. Retail business, the renewal retention rate is measured by premium, was 94%; and by policy count, 80%.

Internationally, commercial P&C insurance market conditions also grew incrementally more competitive. Again, for the business we wrote, casualty rates were down 2%, property was down 7% and financial lines rates were down 3%. London wholesale was the most competitive market. For example, aviation was down 8%, energy was down 18% and marine was down 5%. John Keogh, John Lupica, Juan Andrade and Paul Krump can provide further color on growth and current market conditions and pricing trends.

As all of you saw on January 14, we completed the acquisition of Chubb Corporation for \$29.5 billion. The new Chubb is pretty darn impressive by almost any measure. We are, in fact, the largest publicly-traded property/casualty insurer in the world, a global leader in commercial P&C for customers of many sizes, the premier provider of personal lines to high net worth individuals and families in the U.S., the global leader in professional lines and a global leader in A&H and international personal lines.

What our organization accomplished in the 6-month period between our acquisition announcement on July 1 and our closing date is simply amazing. And all of it done in parallel. Let me give you just a little color. First, led by the entire general management team globally with support of our operations management group, we established a comprehensive integration road map and detailed integration plan of action that covers all areas globally, including underwriting, claims, sales, marketing, client and technical services, business processing, IT systems, HR and real estate. This ensured that everyone would be ready to hit the ground running and begin executing as soon as we close the acquisition. We, in fact, are doing that right now.

Our legal and shareholder communications team secured all regulatory and shareholder approvals so that we could close the transaction by January 1. Well, we achieved that objective on January 14. Our communications group conceived and launched an entirely new brand. Our finance and investment management group secured \$5.3 billion in debt financing, the largest amount ever raised by an insurance company. We concluded all planning necessary so that within the first quarter, we can integrate the entire Chubb investment portfolio into the way we manage investments and reallocate the invested asset to secure improved risk-adjusted returns. More to come about this in the future.

In risk management, we engaged in thoughtful analysis and planning that continues so we can understand the new company's aggregate accumulations and risk profile for all major underwriting classes, lay out a road map for risk appetite and manage the combined company's aggregations in context of our balance sheet wherewithal. All underwriters around the world received instructions on day 1 regarding authorities and operating procedures, so we maintained continuity as we hit the ground running.

Lastly and most important, all along the way and by year-end where regulatory conditions permitted, we were able to tell the vast majority of virtually all of our customer-facing employees around the world in general management, underwriting, claims, sales and marketing, in all branch offices at all levels that they have a job, what that job is and who they report to.

So like I said, while it's very early days, we've hit the ground running, and we are striving to execute with a high degree of discipline. We are on track with all of our integration plans, including organization structure, process and people, and that includes both expense synergies and new revenue initiatives globally.

Concerning the latter, our incremental growth plans include new product capabilities to the middle market and agency channels. Many employees have been engaged in the formulation of a plan of action to begin launching new growth initiatives during '16. In fact, we had over 1,200 ACE and Chubb colleagues in North America together the first week in January reviewing plans for the year that covered all areas, including new growth initiatives. I couldn't have been more optimistic with what I observed. The feeling was collegial and energized with a strong sense of focus.

In summary, I'm excited about the value creation potential of the new Chubb and more confident than ever in our future. The energy level and the morale are high. And as always, we are impatient in execution.

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. Investment income for the year was strong at almost \$2.2 billion, down 2.6% from last year as reported and 0.7% on a constant-dollar basis. Our full year operating cash flow of \$3.9 billion almost completely offset the impact of the rollover from our higher book yield to lower new money rates.

Investment income for the quarter was \$532 million, down \$45 million or 7.7% from last year, reflecting unfavorable foreign currency movements of \$14 million, a decline in private equity distributions of \$10 million and a decrease in call premiums from our corporate bond portfolio of \$15 million.

Tangible book value declined 0.5% for the year and was adversely impacted by after-tax unrealized investment portfolio losses of \$1 billion, unfavorable foreign currency movements of \$663 million and the addition of \$474 million of intangibles relating to the Fireman's Fund acquisition. Excluding these items, tangible book value increased 8.5%.

Net realized and unrealized losses after tax totaled \$605 million for the quarter and comprised unrealized losses of \$411 million relating to the investment portfolio, primarily due to rising interest rates; and realized losses of \$109 million from the portfolio, primarily from sales of portfolio assets to fund the acquisition of Chubb.

We also had foreign exchange losses of \$138 million and a \$55 million realized gain related to the mark on our variable annuity reinsurance portfolio.

You can see on our balance sheet that short-term investments and cash increased \$9.4 billion from September 30. This includes the proceeds of our debt issuance and funds from the liquidation of investment portfolios in preparation for the closing of Chubb.

Our year-end investment portfolio exposure to the energy sector totaled \$1.87 billion, down from \$3.2 billion in late 2014. When combined with the legacy Chubb portfolio, energy holdings totaled \$2.4 billion or 2.3% of the combined portfolio, have an average rating of BBB and are well diversified, with over 200 issuers. We are comfortable with both the concentration and current valuation of our exposure to the energy sector, which is currently valued at approximately 92% of par.

Our net loss reserves were up \$275 million or 1% for the year, adjusted for foreign-exchange. The paid-to-incurred ratio for the quarter was 111% or 102% on a normalized basis, which takes into account prior-period development and cross -- crop loss payments activity, which by the nature of the business, is heavy in the fourth quarter. For the year, our paid-to-incurred ratio is 92% and is more indicative of our trends.

In the quarter, we had positive net prior-period development of \$100 million pretax. In our active companies, we had \$159 million of positive prior-period development, of which \$45 million was from long-tail lines principally from 2009 and prior accident years. The remainder was from short-tail lines.

In our Brandywine and other run-off operations, we strengthened reserves by \$59 million pretax. The charge related to asbestos and comprised account-specific development and defense-related cost on existing accounts. We see no underlying change in the asbestos landscape, and the average indemnity severity for individual asbestos claims has remained stable.

Cat losses of \$67 million after-tax were almost flat with last year's fourth quarter, with \$24 million from the U.S., \$15 million from Europe, \$17 million from Latin America and \$11 million from Asia.

Fourth quarter life segment operating income was down versus prior year due to unfavorable claim reserve development in the combined U.S. operation of \$11 million after tax in 2015 compared to positive development of \$5 million in 2014. After the 2015 adjustment, the combined ratio for this business remains in the low 90s. Life operating income was also affected by the continued run-off of our variable annuity book, which was down \$8 million from the prior year.

Our operating income for the quarter was negatively impacted by foreign exchange of \$34 million in comparison to last year's fourth quarter and \$119 million year-on-year.

With respect to the new Chubb, we estimate an investment income run rate for a full quarter of approximately \$810 million to \$825 million. The first quarter may be modestly lower due to the timing of the close. We also expect a tax rate ranging from 16% to 18% for 2016.

Beginning with the first quarter, we are planning additional financial reporting disclosure for the consolidated Chubb. We will provide additional detail around production and underwriting results from both personal lines and commercial lines in North America insurance. And in overseas general insurance, we will provide an aggregate breakdown by region. We will also provide more detail on written and earned premium by line of business globally. We will issue information shortly that provides the format you can expect for our new disclosures.

We will provide you with periodic updates on our estimated expense synergies and the estimated cost and timing to achieve both. As you will recall, our stated expense synergy target is \$650 million annual run rate by the end of the third year. The current estimate of integration cost is \$535 million, with an additional \$100 million in branding-related expenses.

When we present our operating income in the future, we will exclude the positive impact of the amortization of the purchase accounting premium on a Chubb debt we acquired in the transaction and the negative effect of the amortization of the purchase accounting premium on the investment portfolio we acquired. We will also exclude, as we have to date, onetime integration costs associated with the transaction. We don't believe these items reflect our ongoing operations. All other purchase accounting intangible amortization will be included in operating income.

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] Let's go to Kai Pan with Morgan Stanley.

Kai Pan

Morgan Stanley, Research Division

Congratulations to a new start as the new Chubb. The first question for Evan probably is that now you have 6 months since the announcement, when you're looking deeper into the Chubb -- legacy Chubb organization, what surprised you the most at both the upside and downside? And where do you see opportunities that you have -- that you did not see, like before the merger announcement?

Evan G. Greenberg

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

Kai, it's funny. I've been asked this question numerous times and so I've had a chance to reflect on it a bit. There haven't been that many surprises, in fact, to me. The biggest surprise has been, honestly, as we've gotten into all the detail at multiple levels of the organization, is the depth of talent, the depth of knowledge. And as we drill into detail and understand businesses, the commonality in how we all think about it and how we approach it and what we see as the important objectives, that has been tremendous. The fit between ourselves and how apparent that is becoming to the organization at large, the speed at which that has been occurring has been a pleasant surprise. Kai, I really can't point to negative surprises. I have no doubt there's always negative surprises to come. That's just the nature of life. But I haven't really seen any, in the last 6 months, of any consequence.

Kai Pan

Morgan Stanley, Research Division

Okay. On the sort of like the cost-saving target of \$650 million, do you have a sort of, in your mind, at roughly what percentage -- or like where are they coming from? In term of, like, staff or infrastructure? Or in term of geography? And how much that you think the cost saving will eventually -- it will be reinvested back into the company for the future growth?

Evan G. Greenberg

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

Yes. The \$650 million, we know in very precise detail every area that it comes from, both geographically and by area of the business and how it breaks down on the cost between staff and other things. We're not going into that detail, but we know it precisely. We have a good idea of the timing and -- but we will be refining that through the quarter. And as we go along in the future, we'll give you a better sense of timing and we'll give you a better sense of the annualized run rate as we achieve it or see it. And we'll give you an update on the expense to achieve it as well. And we'll give you an update on the overall target number. So we'll give you more in the future about that.

Kai Pan

Morgan Stanley, Research Division

If I may, last very quick one is that if currency stayed as it today, so what's roughly impact on your -- both the revenue as well as the operating income for 2016?

Evan G. Greenberg

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

Are you asking me what's our growth rates for -- I'm not sure of your...

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

The impact of FX if FX rates stayed the same.

Evan G. Greenberg

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

If FX rates stayed the same, then what's the quarter-on-quarter impact? It -- because the FX rates are different this quarter than they were first quarter of last year, et cetera.

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

You know what I can do is just take that off-line. We'll take that...

Evan G. Greenberg

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

Yes, we'll take that off-line with you, Kai. We don't have a precise number in our heads right now.

Operator

Next, we'll go to Cliff Gallant with Nomura.

Clifford Henry Gallant

Nomura Securities Co. Ltd., Research Division

I actually wanted to ask you a little bit about Brazil. I know between the sort of the Legacy Chubb business and Itau and ACE's own organic business, that you have a strong position in the market. I was wondering, what is the outlook? And as you approach integration in a market where there's a lot of change, is it different than how you'll approach it in markets where the outlook is more stable?

Evan G. Greenberg

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

First of all, no, we will not. To answer that last part first, no, approach it exactly the same. There is no difference in how we approach it or -- the fundamentals don't change. Look, the environment in Brazil is difficult. The economic environment, the political environment is very tough, and it is -- the leadership of the country is inadequate and the policies of the government in Brazil are inadequate. And while some of this is natural resource-based and has to do with slowdown in China and others. On a relative basis, Brazil is much more soft because many of those problems that are created right now are at their own hand. And they could correct them. And I'm afraid, given the political gridlock in that country, that will not happen in a short period of time. You talk to smart Brazilians who are worldly, who are well-educated, they understand what needs to be done in their country. And I suppose just like in our country, it's left to the local citizens to ultimately address it, and they will. In the meantime, look, our business is a good business and it is fundamentally a very good business. We continue to make money in Brazil. Of course, we suffer from the foreign exchange and there's nothing you're going to do about that. On a local currency basis, it's business as usual for them. It's very stable and we're maintaining all the disciplines we need to that are very fundamental to maintaining what is a great franchise. And I have no doubt, given the talent of the people, the size of that country, the size of the economic opportunities for that country, which is broad-based, that with a change of leadership, a change of policies, you'll see the other side of Brazil again.

Clifford Henry Gallant

Nomura Securities Co. Ltd., Research Division

Okay. I have one follow-up for Phil. Just to clarify something you said. I think it was a -- you gave us 16% to 18% expected tax rate for 2016. I just want to clarify that was for the pro forma ongoing Chubb this year, for both...

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

That's correct. That's correct. We're saying we estimate the 2016 tax rate for the combined company at that level.

Operator

Next, we'll go to Charles Sebaski with BMO Capital Markets.

Charles Joseph Sebaski

BMO Capital Markets Equity Research

Congratulations on a quick close. I guess the first question is on risk aggregation and how comfortable you guys are at this point, how quickly you've closed. If there's any thoughts on need of extra reinsurance while you get through the first renewal cycle of the combined book.

Evan G. Greenberg

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

Yes, we're not going to go into that, Charles. We're doing all the analysis. We've done a lot of analysis. We're continuing to do analysis. And if we find, in any areas, that we have accumulations beyond our appetite and exposure to our balance sheet, we know how to address those, and we will.

Charles Joseph Sebaski

BMO Capital Markets Equity Research

I guess regarding the new business growth outlook, and you talked about having a 1,200-person event earlier this year, will there be any kind of product rollout that you would discuss publicly? Or in terms of, I guess, some more insight on where the opportunity on growth is. Would appreciate any thoughts on that.

Evan G. Greenberg

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

Sure. I have discussed it at length to -- for investors and sell side over the last couple of quarters, so it remains on those themes. As we launch new initiatives during the year, we will publicly disclose them, announce them. Obviously, we're going to do that because we want distribution and customers to be aware of what we have. We're going to be marketing it. And we will therefore make you aware of them. I'm not going to discuss them in any -- anything in any detail in advance. I'm hardly going to give a road map to my competitors.

Charles Joseph Sebaski

BMO Capital Markets Equity Research

Okay. I guess just finally, one quick question on integration cost and just conceptually. I guess, Phil, you're keeping the Chubb integration cost below the line here, but I guess you would be putting the synergy savings, so the \$650 million above the line as they come in. And I guess conceptually, there's a couple of years here while you would have both savings and expenses. Should these -- should we think of these both above the line or below the line? Or how do you plan on addressing those in the first few years here?

Evan G. Greenberg

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

Charles, before Phil embellishes on it, let me say this. The reason the expense is below the line is they are onetime items, and so they distort your picture of the ongoing. The savings is ongoing. You're going to have that every year, and that only builds. And that's why it goes above the line. It's actually to give you the clearest picture.

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

I don't think I can add to that.

Operator

Next, we'll go to Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

So I have one question on the investment portfolio. Just wanted to know how you're thinking about the former Chubb's book there, and does the tax rate of 16% to 18% contemplate that portfolio remaining heavy on muni bonds. Or does that start to look more like ACE's over time?

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

Well, in that tax rate, we haven't contemplated any major shift in the makeup of the portfolio. And in terms of our thinking about the portfolio, let me turn it over to Tim Boroughs to give you his view on what we'll do.

Timothy Alan Boroughs

Chief Investment Officer, EVP, Chief Investment Officer of Chubb Group and EVP of Chubb Group

Michael, it's Tim Boroughs. So with regard to the asset allocation, generally, the legacy Chubb portfolio has similar characteristics to the ACE portfolio. In other words, it's predominantly high-grade fixed income, AA-rated with a 4-year duration. The principal difference, as you mentioned, is that the Chubb portfolio is much more U.S.-centric and holds a much larger proportion of municipal bonds than ACE. Over the course of the last few months, we have evaluated the appropriate structure of the Legacy Chubb portfolio as we combine it with ACE. In addition, we have been evaluating the appropriate level of investment risk to take in the combined portfolio. This evaluation includes an assessment of our investment leverage, operating constraints and obviously market valuations. Although I think we want to make it clear that we're not going to change our conservative investment philosophy and overall appetite for risk, as Evan mentioned earlier, we see the opportunity to enhance risk-adjusted returns and are beginning to implement these changes currently.

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

And Phil, maybe -- that's very helpful. When you talk about...

Timothy Alan Boroughs

Chief Investment Officer, EVP, Chief Investment Officer of Chubb Group and EVP of Chubb Group

We know it's more general, but you want to have to keep [indiscernible]

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

No, it's fair. It's totally fair. And I do appreciate those, sort of the philosophy behind it. As far as the 8 10 [ph] or so per quarter, Phil, that talked you about, how much of that is a lift off of sort of reinvesting Chubb's portfolio? Or you sort of thinking about that just on a -- on the basis that the portfolio stay as they are today?

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

Yes, it's the latter. What we've done is we can see the portfolio, we've seen the assets that were distributed in connection with the acquisition so we can see the remaining portfolio. And we really project it on that basis. And we'll update you as we go forward about what changes we make to the portfolio and what impact that will have on our thinking about guidance.

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

Great. And then just last real quick here, Phil. On the energy portfolio, the 92% you sort of said today. Is that today or 2015 year end? Just because there's been some difference there. And if so, is there a change?

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

There isn't a significant change. It's about the same for both periods.

Operator

Next, we'll go to Paul Newsome with Sandler O'Neill.

Jon Paul Newsome

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

Could you perhaps speak to the energy-related exposures in the insurance book as opposed to the investment portfolio, and if there's any impact or potential impact from some of these companies perhaps going bankrupt, et cetera, over time?

Evan G. Greenberg

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

Yes. We, in fact, observed that pretty closely. I don't like -- mind telling that even in our last enterprise risk management session, we focused on an update of it because we've been following it for some time, our aggregations. It's a credit exposure question. And so we write trade credit insurance, we write political risk insurance, we write surety and in particular, those -- and we write professional lines, D&O. And those would be the classes that would be subject. We have a pretty good sense of our aggregations, as you know. We have a good sense of the current environment and how it plays against those aggregations, and we're comfortable with our exposures. We think we understand them and they're pretty well in hand. They're well in hand.

Jon Paul Newsome

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

Is there any way to put some numbers around the size? I'm not actually looking for anything precise, but Travelers talked about it being potentially cents per share if things really truly went bad, but -- your...

Evan G. Greenberg

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

We look at them going bad. We look at downside exposure and we don't see, from what we know today, we don't see an event on the horizon that is going to create a significant impact to the company and our outlook for the year.

Jon Paul Newsome

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

And then I have a separate question that's completely unrelated. I think of a sort of hallmark of the old ACE as having an unusually heavy percentage of its business in accident health business, with all the stability that it normally brings. I would imagine, and I could be wrong here, that by adding the Chubb, that percentage goes down. In theory, that stability is less because it's just a smaller percentage. Does building that up to, say, 1/4 of your business again, in accident, help? Is that a priority prospectively as we look in the future for the combined company?

Evan G. Greenberg

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

Well, first, I would say this, I want to address -- you made 2 points, and I want to address each. I'll take the last part first. We love our A&H business, and it is the core of what we do. And we want to grow, and that business has growth potential in important areas of the world over a period of time, over any

reasonable period of time, and we intend to pursue that rigorously. I would like to see the percentage of A&H grow as a percentage of the company's business. That means that great A&H business is growing faster than everything else and that would be terrific. And that would -- that is Ed Clancy's mission in life, just to get that done. But I want to address yours about stability because I think there is -- I think while that is true on one hand, let's not miss what legacy Chubb is bringing to Legacy ACE, and that is very stable U.S. businesses. The middle market, agency commercial business and the small commercial business that they write has a signature to it. When you look at revenue and profit and loss of that business, that has -- represents great stability and is a real ballast. I think while you don't compare and contrast one to the other precisely, they're different businesses. Let's not forget that and the quality that, that brings. On the personal lines business, the high net worth personal lines business, I would make the same statement. And finally, what I'd say to you is we become the largest professional lines writer in the world. D&O, E&O, lots of classes of each, but particularly, that Chubb portfolio of professional lines. Unlike ACE that was at the upper middle market and large account end, that has a little bit of a more -- a greater volatility signature to it, pattern to it. But the Chubb portfolio is in more middle market and small account related. Tremendous business, a franchise virtually impossible to duplicate in any short period of time by anyone. So when you think about that A&H, I wish you would think about the totality of the business spread of what the new organization becomes. I hope that helps you.

Operator

Now we'll go to Brian Meredith with UBS.

Brian Robert Meredith

UBS Investment Bank, Research Division

A couple of questions here for you. Evan, the first one, 2 of your largest competitors right now are undergoing some reunderwriting of their books of business. I'm just curious, are you seeing any impact from that, any opportunities? Do you expect any other opportunities? Or is the business that's going in the marketplace just not good enough for you guys?

Evan G. Greenberg

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

Well, Brian, as always, these things are a little messier. It's not a completely straightforward answer. The market, in the short term, there's a very -- there's a short term and there's a medium term to this. I do believe that we benefit over the medium term. The stability of our organization, the capabilities of our organization, the consistency is attractive. And it's attractive to both clients and producers. It inspires confidence and financial services in who you do business with. First and foremost, the grease of that is confidence. And so I think that you can't get away from that. That will manifest itself around the world in different ways. In the short term, one of the things that we know that is always true that companies do to compete and maintain a competitive profile is they just -- they become a little less disciplined in underwriting, and it'll show up in pricing and terms and conditions. And if you want to simply defend what you got at all cost or you have less command and control because you're just not operating as well as you might, well, that, in the short term, can actually be to our detriment. Like a wounded animal out there, sometimes, stay out of the way. And that, I would suggest to you, is a little bit of the dynamic in the short term that we see, and we're disciplined guys. We're not buying market share from anybody, and then to do what, turn around and have something we need to fix later or piss off a client because we wrote their business too cheap and it's not sustainable? Not doing it.

Brian Robert Meredith

UBS Investment Bank, Research Division

Got you. And then the second question, Evan, you mentioned that you've very quickly went out and identified all the people that are going to have a job in the organization here going forward. Now I guess the question is, one, have you aligned incentive comps for the organization? Two, what do you do with the...

Evan G. Greenberg

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

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What was the first part? I missed that one.

Brian Robert Meredith

UBS Investment Bank, Research Division

Have you lined -- well, you've said that you've basically identified all the people that are going to have a job in the go-forward organization, right, that you just had initially, right?

Evan G. Greenberg

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

Yes, I did.

Brian Robert Meredith

UBS Investment Bank, Research Division

And now that, that's happened, I guess the question is what are you doing to make sure you keep those people during this integration process? And have you actually aligned incentive comp programs into organizations already as well?

Evan G. Greenberg

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

Yes. So let me try to take both of those. I don't kid myself. We're not going to keep everybody. I do think -- I firmly believe this, that loss of talent that we have will be very much on the margin. It won't be in large numbers and we have great depth within the organization. It's going to be -- it's a little bit of a self-selecting process. Those who want to sign on to an environment that is ambitious, that is hard working, that is driven to win, that is -- has an aggression to it, certain aggressive stance, all those attributes I could describe. They're juiced and energized by this. And I really don't have the concerns about losing those people, and I believe that is the overwhelming vast majority of the talent of the combined organization. And as a prior question kind of shows, this organization is on the ascendancy. Where do you want to be? Why wouldn't you want to be here? This is just a great place to be a part of. Secondly, yes, at the end of the day, it's not just about the organizations, but individuals' motivations and aspirations. And people, they also work to be paid. They want to be incented and we have no problem incenting for performance. And we believe that our value creation is -- in the future is substantial, what's in front of us. And anybody who's holding any equity in the combined companies' stock, well, I got to tell you what, that's a pretty good motivator of retention.

Operator

Next, we'll go to Vinay Misquith, Sterne Agee CRT.

Vinay Gerard Misquith

Sterne Agee & Leach Inc., Research Division

The first question is on the business loss. I'm sure that when you did the deal, you had certain projections of how much business you'd lose. It seems that the business is holding up pretty well. I'm just curious as to how the business is tracking. Was it your expectation, so far?

Evan G. Greenberg

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

Well, it's extremely early days, but we're very pleased with what we see in the early days. It is tracking very well. But it's early days, we'll see.

Vinay Gerard Misquith

Sterne Agee & Leach Inc., Research Division

Sure, fair enough. The second question is on the tax rate. Phil, you mentioned 16% to 18% for 2016. And so it's just the first part for this year, should we think in terms of further reduction in the future?

Philip V. Bancroft

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CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

It's too early to say. We've done our projection at this point for this year. And as I said with investment income, we'll update you as we go forward.

Operator

Next, we'll go to Ryan Tunis with Crédit Suisse.

Ryan James Tunis

Crédit Suisse AG, Research Division

I guess, my first question is more on the reserve side. And now that ACE and Chubb are on the same platform, I guess at some point, we'd expect to see some harmonization of the 2 legacy books to some kind of common reserving in terms of one -- and just hoping maybe you could give us some color on what that could potentially look like in terms of either when that happens, what kind of impact that could have on the loss ratio or just anything along those lines.

Evan G. Greenberg

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

Well, we're all looking a little puzzled, so I'm going to -- let me walk it through with you a little bit. Both companies, I think, have a rigorous approach to reserve management. And I think you have years of track record of each to observe that. The difference between us is not in reserve philosophy, or in rigor or in knowledge of our businesses. The difference is a bid-in process of how we each go about it, and it's on the margin. It's not in the main event substance of it. We each have pricing actuaries separate from reserving actuaries. We each review our -- all of our portfolios on a regular basis. We each have outside actuaries review our portfolios as well as our independent auditors. And so it's really a process difference to a degree and some inside baseball that we're dealing with. We will amalgamate it to the ACE processes that will happen through '16. It's already been substantially mapped out by our -- led by our Chief Actuary with the team of both organizations. We have mapped out a new actuarial organization that brings legacy Chubb, Legacy ACE actuaries on to the same teams and we mix it. So all of that moves forward. And frankly, I think you should feel it as sort of a business as usual.

Ryan James Tunis

Crédit Suisse AG, Research Division

Okay. That's helpful. I just have one quick one for Phil, and it might actually be better for offline. But just in terms of the NII guide, I wanted to make sure I know what that encompasses. That's got all of the normal net investment income of both companies and it also has like the limited partnership income for Chubb, is that correct?

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

It does, the piece that we would ultimately put into our investment income. And, obviously, it obviously reflects the reduction to the portfolio or the distribution made in connection with the sale.

Operator

Now we'll go to Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen

BofA Merrill Lynch, Research Division

Yes, another question for Phil. So you had talked about some of the peak-up adjustments not being included in operating earnings: the adjustment to investment income, the amortization of the Chubb debt. Can you give us roughly what those numbers would net out to? Because they will impact your net income in our book value forecast.

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

You know what I'll do? I will be updating our S4 -- well, a document like that in just a few weeks, but by the end of March, and it'll have pro forma adjustments for all that stuff, that are up-to-date with the mark on the portfolio and a mark on the debt that's more current. You can also refer back to the S4 to get order of magnitude of that point in time.

Jay Adam Cohen

BofA Merrill Lynch, Research Division

Great. And then secondly, intangible amortization, can you give us some guidance on what that's going to look like?

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

Yes. And again, that's right in the S4. I think it's Page 158. It shows the nature of each of the amortizable pieces and the amortization by year, so you'll be able to see. And if you want to call, I can walk you through it.

Operator

Next, we'll go to Ian Gutterman with Balyasny.

Ian Gutterman

Balyasny Asset Management L.P.

I guess, first, just a follow-up on -- I want to stay with that scenario. Phil, if I can make a request when you do give us pro forma with the new segmentation, if you can give us as many quarters back as you're capable of? I'll just leave it at that, and we can discuss later what that -- what might be a good number if you want. But I was curious, I think, just given there's going to be new segments and there's a lot of moving pieces, if we can have a good string of prior quarters, that would be helpful. So my question, first, Evan is your...

Evan G. Greenberg

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

Before you ask your question, I'd like Phil -- Phil needs to give you a response to that, because we don't want you to...

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

It'll take some time. At some point, from an SEC standpoint, we'll be required to show some earlier quarters. But initially, it will take some time before we can reconstruct the earlier period. So the initial cut will be for the current quarter. And then as we go forward, we'll try to build in the prior quarters. But we can talk offline about what the requirements are and when it'll happen.

Ian Gutterman

Balyasny Asset Management L.P.

Got it. Great. So Evan, in your comments about the meetings you've had internally about getting everyone prepared to pursue growth opportunities. I was wondering sort of the other side of that, which is the distribution, right, and sort of how have you been reaching out to agents and especially, particularity the Chubb agents to get them comfortable with what you're thinking of and what's been the receptivity to the plans that you're looking at? And just sort of how much beyond just sort of their willingness just sort of, what's the right way to say, just sort of what hurdles are there as far as just time that needs to be spent explaining things and getting them comfortable that sort of maybe distracts from the actual selling of business?

Evan G. Greenberg

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

Well, I -- the last part of that is where I'm going to start. It is cathartic and it is soul cleansing to get on with value creation and writing business. And agents have business to grow. They are our business. They are not -- I'd say, most of their time is hardly obsessed with being distracted about this. They got practical questions, they want practical answers and they observe what they see. They don't just imagine because they live day-to-day. They have clients, they're building business and they need those to thrive. Executives at all levels of the organization have been reaching out to agents and meeting agents. Everyone has. Our field organization, and I say our field organization, it is one. Legacy Chubb and Legacy ACE at all branches, all regions, are knitting themselves together quickly. And they are out visiting agents and they are out delivering the message of we are open for business. What you saw from us before individually, you can expect of us united as one, and we're bringing more to you. They are all out delivering that. The senior executives, from Paul Krump, John Lupica, John Keogh, Harold Morrison, everyone is out. We're doing it around the world. I'm out there seeing agents. I was out last night seeing agents. And I mean, our business comes from producers and they need to feel comfortable. I don't mind saying and let's just say it, where is the most sensitive part? It's really not on the commercial end and with brokers and agents. It's more on the personal lines end and how are you going to handle Fireman's Fund versus ACE versus Chubb. And the communication to all personal lines agents has been a major focus and it's a major focus of Fran O'Brien and her team. And I'm going to ask Paul Krump to maybe add a little color.

Paul J. Krump

Executive Vice President and President of Personal Lines & Claims

Sure, Evan. I think you're spot on when it comes to the personal lines piece. There is some concern on some of the producers that will take advantage of our competitive position to the detriment of both of them and their clients, but I can say emphatically that nothing could be further from the truth. We clearly intend to use our combined capabilities to improve our product and service offerings. Our risk at pricing-related insights now that we'll bring all 3 organizations together is going to be terrific. And we're going to be advancing our leadership position, so more customers and more agents want to do even more business with us. When it comes down to it, we know that we are here to help them grow their business.

Evan G. Greenberg

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

No one -- I think, Ian, the question, are we internally focused? That has been a lot of discussion in the organization and from before we closed and I can guarantee you, from the day we closed, and that is no, value creation is not on the inside. Value creation is out there, and that's where we live.

Ian Gutterman

Balyasny Asset Management L.P.

Perfect, perfect. And then if I could ask just one last one, just a little bit on that topic. The growth opportunities you anticipate, look, I guess, leaving aside from a moment any change in the pricing environment, are those growth opportunities, should we think about that as obviously helping premium, but are they -- should we assume that they're sort of margin neutral to your current mix? Or do you expect them to be helpful or detrimental to your margins, again, leaving the pricing impact aside?

Evan G. Greenberg

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

That's the hard part, leaving things aside. We're leading -- as you would, it's common sense. We lead with products that are the most compelling, that have the nicest margin opportunity so that are compelling for both the insured, the agent and ourselves. And that's what you lead with, number one. Number two, I think the way to think about it, because I don't want people to overestimate. We have a good focus and activity to be on the front foot, not just promoting what we have, but bringing to our various channels and various segments of customer, product that each didn't have. But that takes time. We'll launch it but -- and there'll be launches throughout '16. But building revenue that casts a shadow in that takes time, particularly if you think about middle market or you think about small commercial. You can do a

lot of volume of policies, but average premiums are relatively small. So it takes time to build. But you know what, what does it do? It energizes the organization. It energizes producers and the imagination. It reestablishes further your image and your relationship with clients, and it -- and over time, it just burnishes your franchise and makes it that much stronger as it builds revenue. And so we're going to be activity rich in that regard this year more than it will cast a shadow of revenue.

Operator

Now we'll go to Meyer Shields with Keefe, Bruyette, & Woods.

Meyer Shields

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

Evan, you mentioned a pretty big disparity in the U.S. book between the renewal rate measured in premiums and the renewal rate as measured in policies. I'm wondering whether that has any positive implications for the expense ratio.

Evan G. Greenberg

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

That's an interesting question. No, the answer is not really. It's larger trades that will distort it in the quarter, so you might be losing some smaller premium flow business that impacts it. You've got some business that has one-time premiums in it, and that will impact the policy count, particularly at lower levels. So imagine, in inland marine project-related business. And -- but then the balance is larger trades, in particular. John Lupica, you want to add anything?

John J. Lupica

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

I would just add the comment that submission activity is also there, so it's not like we lose that flow. Our new binders are up in our targeted areas, so we're still servicing the new business. So even though you're seeing a renewal retention below what we would normally see, we will not impact their expenses because we still have a vibrant business that we're running in all segments.

Evan G. Greenberg

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

No, the question, and I got you, Meyer, is, okay, so policy count versus that average premium, that premium renewal retention on premium. And no, that won't affect -- that won't impact expense ratio. You're going after -- you got the same machine going after the business.

Operator

And now we'll go to Jay Gelb with Barclays.

Jay H. Gelb

Barclays PLC, Research Division

I had a couple of questions about the broader industry. First is with regard to the large reserve charges I've seen from a couple of major commercial players like AIG and Zürich, while at the same time, the new Chubb obviously has some reserve redundancies over time. And I'm trying to get your perspective on whether you think these large companies taking reserve charges, does that have any implications for the cycle at this point?

Evan G. Greenberg

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

I don't think so. I think that -- I don't think that those that have taken reserve charges are in a position, a leadership position, at this moment in the cycle to influence industry pricing. I think there are a lot of players out there who were chasing business. Many are "diversifying" into areas that they don't have much data on or know much about. They simply have underwriters who rely on spot market pricing to determine

whether it's reasonable or not. On the larger business, the only place that I imagine is when you get to where its real capability is related, and that is primary layers where you rely on services and it is -- there are very few who are capable of doing that on a global or national basis for sophisticated companies. There, the market is more disciplined and remains more disciplined because it's a few players who can handle that. And it's in those areas, it could keep and just reinforce the need to remain disciplined in those areas by those larger players. But other than that, in general market, I don't see their travails swinging a stick on market cycle at this time.

Jay H. Gelb

Barclays PLC, Research Division

The next issue I wanted to touch base on is multiyear deals in the U.S. in the large corporate market. Based on our discussions with a number of risk managers, we're seeing an increased presence of multiyear deals in large commercial policies where it seems like the insurers are trying to lock down accounts and have kind of a known perspective on what the next couple of years will hold in terms of client retention. Is this something you see as good or maybe a challenge going forward for the industry and the new Chubb?

Evan G. Greenberg

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

First of all, it's nothing new in the soft part of a market cycle. And let's see. A customer wants to low -- wants to lock in at a low price and we get that, and we will hardly play that game. On the other side of the coin, there are some classes where the -- where you will judge the price is quite adequate. And if it is, then for stability purposes, on the margin because you don't want to restrict your flexibility. You will follow along with that. But I got to tell you, most of what I see right now is more locking in price that way on, for instance, property business where rates are becoming too cheap and they've dropped precipitously. And in that case, I just don't think that's a very good strategy to preserve. I think you're preserving market share at the cost of underwriting.

Helen Wilson

We have time for just one more person to ask a one question, please.

Operator

Our last question will come from Larry Greenberg with Janney.

Lawrence David Greenberg

Janney Montgomery Scott LLC, Research Division

Not much left to ask, but, Evan, maybe can you just give us a little bit of an update on the life segment? You had some adverse development. Earnings have been trending down, in part because of the VA reinsurance runoff. Can you just discuss the interplay between maybe the underlying business and that run-off business and how we should think prospectively about the opportunities there?

Evan G. Greenberg

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

Yes, sure. First of all, you -- I think there's an interplay of 3 things, and then I'm going to give you just a little general sense of pattern that I imagine, going forward. The VA is in run-off and you'll see a -- as you know, as you rightly know, you're just going to see a natural decline in income. On the other side of the coin, international life is growing and it's -- I told you that its income will emerge over the next few years and cast a bigger shadow. And this year, its business will continue -- will produce -- should produce an increasing profit as the year goes along. But what has been impacting international life, no different than our international P&C business, is foreign exchange. And we just don't control the foreign exchange market. So I can't predict that part, but I don't believe you're going to see, going forward, the same kind of impact year-on-year for foreign exchange that we saw in '15 because I don't think the dollar is going to continue strengthening to the degree that it did. I don't think anyone does. So that will benefit. Combined is growing in North America. We did have some noise around -- this year around reserves for the prior

because the development showed that it -- we maybe underpegged its loss ratio in a couple of prior years, but the margin is healthy on that business. And you're comparing a year-on-year when in fact we had releases from prior years. And -- but I think that business is growing as we've showed you. And I think its margin over a period of time is pretty stable and so it will naturally have a growth in earnings. I can't tell you what quarter that happens. So I imagine that in total, the earnings, as we look forward in the life business, will, from quarter-to-quarter, as the year goes along, improve. Not dramatically, but improve. And I think that trend of VA going down but international life's earnings emerging, that part will accelerate over the next couple of years. Does that help you?

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

That does conclude today's conference. We thank everyone again for their participation.

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