S&P Capital IQ

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Chubb Limited NYSE:CB

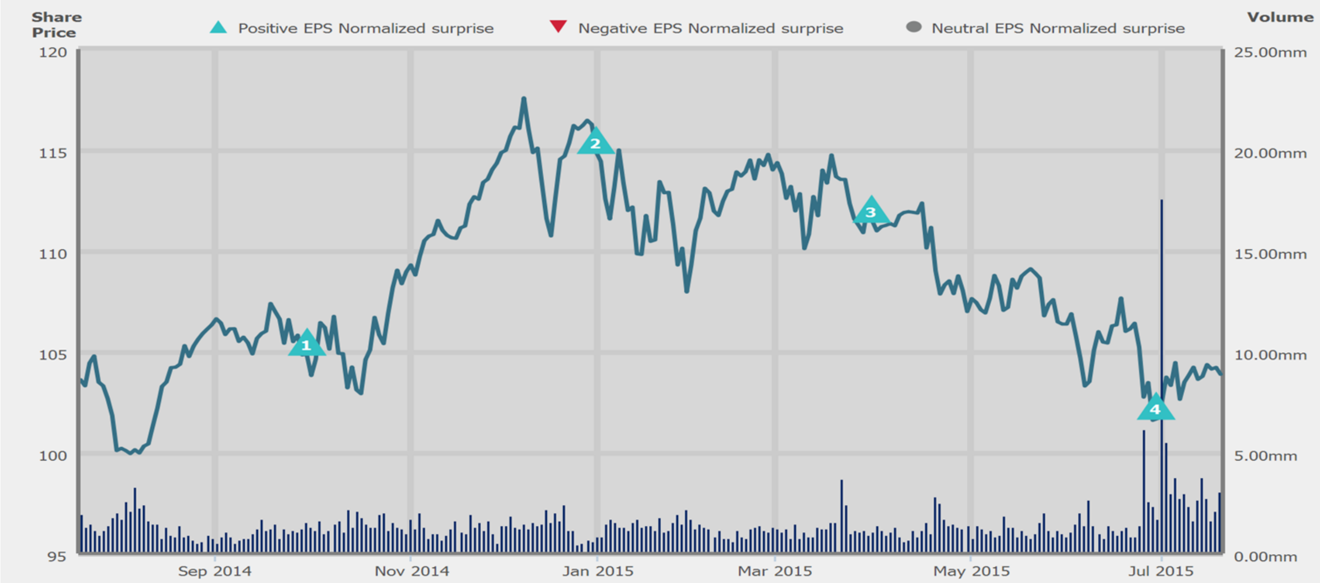
FQ3 2015 Earnings Call Transcripts

Wednesday, October 21, 2015 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2015-			-FQ4 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.37	2.74	▲15.61	2.27	9.47	9.55
Revenue (mm)	4381.16	4217.00	▼(3.75 %)	3934.50	16013.00	22900.00

Currency: USD
Consensus as of Oct-21-2015 12:50 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2014	2.36	2.64	▲1 11.86 %
FQ4 2014	2.31	2.47	▲2 6.93 %
FQ1 2015	2.21	2.25	▲3 1.81 %
FQ2 2015	2.28	2.40	▲4 5.26 %

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

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

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

ANALYSTS

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Presentation

Operator

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

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

Helen Wilson

Thank you, and welcome to the ACE Limited September 30, 2015, Third Quarter Earnings Conference Call. Our report today will contain forward-looking statements, including statements relating to company and investment portfolio performance; pricing and business mix; economic and insurance market conditions, including foreign exchange; and completion and integration of acquisitions, all of which are subject to risks and uncertainties. Actual results may differ materially. Please refer to our most recent SEC filings as well as our earnings press release and financial supplement, which are available on our website, for more information on factors that could affect these matters.

This call is being webcast live, and the webcast replay will be available for 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. As you saw from the numbers, ACE had a great quarter with record earnings, record underwriting results and good revenue growth in constant dollars.

After-tax operating income of $897 million or $2.74 per share was driven by P&C underwriting income of almost $600 million. Foreign exchange continued to cast a shadow in the quarter, impacting our premium revenue, income and book value. Book value declined 1.5% due to FX and financial market volatility in both equity and fixed income markets. Our annualized operating return on equity was about 13%, an excellent return on shareholder capital. Year-to-date, we have produced over $2.4 billion or $7.38 per share in operating income, which is essentially flat with prior year, in spite of about $85 million in foreign exchange headwinds.

Strong underwriting gains and 6.5% premium revenue growth in constant dollars contributed to these results.

Returning to the quarter, underwriting results were again simply excellent. Total P&C underwriting income growth was driven by strong, underlying current accident year results, positive prior-period reserve development and relatively low catastrophe losses.

The P&C combined ratio was 85.9, and the P&C current accident year combined ratio, excluding cats, was 89.2 versus 89.8 prior year. So an improvement. All P&C divisions produced outstanding calendar year and current accident year results in the quarter.

We are about 2 months into the conversion of the Fireman's Fund business stays [ph] paper. We are on track and, in fact, ahead of plan. As of today, both business retention and financial performance are ahead of our original projections. The retention rate, as measured by premium, is 87%. The business we are not converting is in line with our expectations because it either does not meet our business profile or, in our judgment, is underpriced. If you would like more color during the Q&A, Juan Andrade is prepared to answer your questions.

We produced $549 million in investment income, down about 3% on a reported basis and 1% in constant dollars -- a very good result given the interest rate and equity market environment and adverse FX movement. We continue to benefit from strong operating cash flow.

Turning to revenue growth. Global P&C net premiums, which exclude agriculture, grew nearly 8% in the quarter in constant dollars. Foreign exchange negatively impacted global P&C by 7.5 points, nearly equal to our underlying growth. In North America, net premiums for P&C, excluding crop, grew 11%. In our large commercial business, ACE USA, net premiums grew just over 2%. In our 2 wholesale E&S businesses, ACE Bermuda and ACE Westchester, net premiums grew about 4.5% and 2.5%, respectively. We grew 11.5% in ACE Commercial Risk Services, which serves small to mid-market clients for specialty products.

Premiums in our U.S. personal lines business were up 86%, driven by the addition of the Fireman's Fund business. Excluding Fireman's Fund, our high net worth personal lines business grew 14%, our highest growth rate of the year, as we are also benefiting from increased submission activity and new business from over 300 Fireman's Fund agents newly licensed with ACE.

Premiums in our agriculture business declined 3.5% as expected due to lower commodity prices and fund selection. The crop business is in good shape. And from what we see today, it appears it will be an average crop year in terms of profit and loss.

Turning to our international operations. P&C net premiums in ACE International were up 9% in constant dollars, driven by Latin America with strong growth of 22%. Premiums in Asia-Pacific were up 8%, while premiums in Europe were down 1%. In our London-based E&S business, premiums were down 12% as we continue to shed business in the London wholesale market.

In our A&H insurance business, net premiums were up about 6% globally in constant currency. A&H premiums internationally were up about 5.5%, led by Asia with growth of 15%. Premiums for combined insurance were up about 5%. Net premiums written for international personal lines were up 18% on a constant dollar basis.

In our Asia-focused international life insurance business, premiums were up almost 9% in constant currency. And finally, in our Global Re business, net premiums declined 9.5% due to market conditions.

I want to now say a few more words about current commercial P&C market conditions. The underwriting environment continued to grow more competitive in the quarter for our commercial P&C business globally. With some exceptions, price declines accelerated modestly, though it varied by class of business and geography. All of the themes we've been saying in previous quarters remain true. Large account business, particularly shared and layered, is more competitive than midsized; wholesale is more competitive than retail; and property, more so than casualty related.

For our U.S. commercial P&C business, general and specialty casualty-related pricing was flat in the quarter. Management and professional liability pricing was down 0.5%, and property-related pricing was down 9%. New business writings in North America were down year-on-year, as one would expect, but it varies by class depending on the rates and terms we could secure. So in fact, new business was up in certain targeted classes, including specialty small commercial, personal lines, professional lines and A&H. Renewal retention levels are holding up well. For our U.S. retail business, the renewal retention rate, as measured by premium, was 96%.

Internationally, commercial P&C insurance market conditions also grew incrementally more competitive. Again, for the business we wrote, casualty rates were down 3%; property was down 7%; and financial lines rates were down 1%.

Generally speaking, pricing is not keeping pace with loss cost trends, though it varies by line and geography. We continue to execute strategies to ameliorate, to the extent possible, the impact of pricing on our combined ratio through a combination of mix shift, targeting classes with better margin; portfolio management that informs underwriting actions, including tighter individual risk selection; and pricing actions in more stressed areas. John Keogh, John Lupica and Juan Andrade can provide further color on market conditions and pricing trends.

Well, the main event to talk about today and quarters to come I'm sure, is our merger with Chubb. I want to fill you in on where we stand. We're on track with obtaining all necessary regulatory approvals in order to close, hopefully, early in the first quarter of '16, as we had announced. We received necessary U.S. antitrust clearance, as you all saw, and we expect to announce an overwhelmingly-positive response from both companies' shareholders, following tomorrow's extraordinary general meetings that will be held by each company. Although the voting continues, based on the 80% of ACE shareholders who have cast their votes today -- to-date, approval of all Chubb-related proposals is running in the very high 90s.

We are making very good progress in our integration planning process. Things are moving very well, with executives on both sides working in teams that represent all lines of business and support areas around the world, addressing leadership, organizational structure, roles and responsibilities and resource requirements. We are also establishing teams to work on future growth initiatives. The chemistry between both sides is excellent. Communication is good, and we are building a detailed road map for integration that will allow us to hit the ground running when we close.

We are learning more about each other, and I think the admiration for each other's people, business and culture has only grown stronger. By way of a few examples, ACE people, starting with me, have a greater and growing appreciation for Chubb's renowned global claims and risk engineering capabilities, its U.S. branch and agency distribution system and its training capabilities. Chubb people have a greater appreciation for ACE's product breadth, global operations, risk appetite and insights and speed at which we move. Senior leadership is also working separately as a team to help facilitate cultural integration.

Lastly, I will tell you that the reception we have received from the agent and broker community as well as from our customers has been very supportive -- very positive. For example, members of our senior management team from both ACE and from Chubb, including me, were in attendance 2 weeks ago at The Council of Insurance Agents & Brokers, or CIAB, meeting in Colorado Springs. There was an energy and an optimist -- optimism in the room among our teams that signaled to our important distribution partners how excited we all are about our 2 companies coming together. They all recognized the complementary nature of our companies. Frankly, the more we know and the more we learn about each other, the more bullish we are on the value-creation opportunities we can create for our customers, our business partners, our employees and our shareholders.

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

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

Thank you, Evan. In the quarter, investment income of $549 million benefited from our strong cash flow, private equity distributions and call activity from our corporate bonds. Year-to-date, cash flow has essentially offset the impact of FX on our cash and invested assets, which are down $140 million on a reported basis and up $1.2 billion in constant dollars. Our average new money rate is 2.9% versus our current book yield of 3.6%.

For the past 12 months, our operating cash flow was $4 billion. As I've said on previous calls, our strong cash flow has offset the impact of lower reinvestment rates, and we expect this trend to continue. Our cash flow for the third quarter was $808 million. There are a number of factors that impact the variability in investment income, including the level of interest rates, prepayment speeds on our mortgages, corporate bond call activity, private equity distributions and foreign exchange.

We currently expect our quarterly investment income run rate to be $540 million. Net realized and unrealized losses were $1.16 billion after tax. This included losses of $309 million in our investment portfolio, primarily due to widening of credit spreads on our corporate bonds; a $313 million loss from the mark-to-market impact on our variable annuity reinsurance business; and a $548 million impact on book value from foreign exchange. FX impacted tangible book by $345 million.

Our investments remain in an unrealized gain position of $1.3 billion after tax. Since September 30, we have recovered a substantial portion of these marks, almost $450 million, including a positive mark on the investment portfolio of $200 million. Our net loss reserves were up $212 million, adjusted for foreign exchange, and our paid-to-incurred ratio was 94%. We had positive prior-period development of $210 million pretax, with about 1/4 from short-tail lines and 3/4 from long-tail lines from accident years 2010 and prior. This included $76 million of adverse development for legacy environmental liability exposures in our Brandywine runoff operation, which is included in our North American segment. As a reminder, we conduct our environmental review in the third quarter and our Asbestos review in the fourth.

Our prior-period development also included the positive impact from the release of $79 million from an individual legacy liability case reserve in our Overseas General and Global Re segments. Pretax catastrophe losses of $72 million came from a number of worldwide events, including $22 million from the explosion in Tianjin; $5 million from the Chile earthquake; and the balance from other events, including U.S. flooding and Asian typhoons.

In the quarter, the Fireman's Fund business made a onetime contribution of 0.75 point to the improvement in the combined ratio due to the underwriting gain from the portfolio assumption. However, note, the Fireman's Fund contributed only $20 million to operating income, with underwriting gains substantially offset by purchase accounting. On the other hand, foreign exchange negatively impacted operating income by $36 million.

As you can see on Page 4 of the supplement, our A&H constant dollar operating income was down $6 million compared to last year's quarter. We had positive reserve development of $8 million in last year's quarter and negative development of $5 million this quarter. Excluding development, earnings growth was 6.1%. This business continues to perform very well. Also on Page 4 of the supplement, you will see life operating income is down $8 million. This is principally due to the runoff of the VA reinsurance book. We are finalizing our plans for our $5.3 billion debt issuance in connection with the Chubb acquisition. We'll make an announcement in the near future.

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] We will take our first question from Cliff Gallant with Nomura International.

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

Great. I've got 2 questions. The first one was in -- and thank you, Phil, for that -- the $22 million loss number for the Tianjin loss. I was curious, when we see events like that in the news, from an insurance claim perspective, how should we think about losses like that? How does it differ from what -- from an event that we might see in the U.S.? And then my second question, I just will and really to sort of follow up the -- you volunteered Juan Andrade to speak about the conversion rates and the -- of the high net worth business at Fireman's. I would love to hear more detail about it. How is the approach different between -- with how Fireman's is running it and how you guys are? And are there any lessons that will be applicable as you integrate other high net worth business?

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

Yes. So your first question -- I don't know how to answer your first question because I don't know what you're asking really. So can you be more specific or rephrase it? I mean, it's a man-made natural -- it's a man-made disaster that occurred in an urban center. The only difference, I'd say, really between that loss occurring in China than anywhere else has to do with the regulatory environment and how you enforce the accumulation of toxic chemicals or other combustibles in an area like that. And so the risk management, generally, and infrastructure of a more developing country versus a developed country. But other than that, if that's what you're getting at, there is an answer. But other than that, I'm not sure I understand the nature of the question.

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

No. That is a good answer. I appreciate that.

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

On -- again, on personal lines, before we dive into it, what would you like to know?

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

Well, what is the conversion rate of the business -- of Fireman's today? What challenges have you had? Have there been any surprises? And again, is it -- are there lessons applicable to -- that you'll apply when you look at the Chubb book?

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

Yes. Let's -- before Juan gets into that with you, let's -- I want to make sure you understand something about the Chubb book versus the Fireman's Fund. In the Fireman's Fund, it's a conversion. We are literally having to convert the customer from the policy they had with Fireman's Fund, the statutory paper, to ACE paper. We did not buy the insurance company; we bought the renewal rights to the business. And when you put Chubb and ACE together, there is going to be no conversion. They will -- the customers will remain on the paper they were on. With that, let me turn it over to Juan. Go ahead.

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

Thank you, Evan. Cliff, what I would say, really to start, is a couple of things. I would reinforce the fact that our premium retention is running at roughly around 87%, which is really better than the expectations that we had when we did this deal. Secondly, and as Evan mentioned, when we look at the total return aspect of the underwriting income from this business, it's also running better than what we expected. I think in the 6-or-so months since we closed this deal back on April 1, we have been able to successfully integrate over 500 new colleagues from the Fireman's Fund. We're very pleased with the talent and the skill that they have brought. We have created 2 new centers, 1 in O'Fallon, Missouri and 1 in Bethlehem, Pennsylvania, that have really deepened our ability to provide even better claims service, even better operational service and capabilities to our customers. In addition to that, we've also onboarded about 357 new Fireman's Fund agents that were not appointed with ACE prior to all of this. Those agents are associated with roughly over 400 storefronts, and that has generated some of the very positive momentum we're seeing in the quarter from a new business standpoint as well. So all of that -- so far, so good. We have received tremendous support from our distribution, both the fund distribution as well as the ACE distribution and all of this. And it's frankly one of the reasons why we're seeing the retention rates where they are. Regarding the business that we're not retaining, as Evan pointed out, I think there's really a couple of specific reasons for that. One of those is really some of that business does not fit our target client strategy -- meaning that it's truly not high net worth business, so we are doing some selective reunderwriting there. I would say, a second category is business that we don't believe is adequately priced for the exposure, particularly in some cat-prone areas. And therefore, you see some of the business that we're not retaining, which, again, all of that has been built into our models and really has been contemplated into our financials.

Operator

And we will take our next question from Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just on the North America P&C business, the expense -- you're looking at about 210 bps of improvement year-over-year; about 2/3 of that was expenses and acquisition in particular. Second quarter in a row that, that's been down year-over-year. Is there something changing there, reinsurance or some other attribute that's driving that acquisition ratio down? Or is that not something that we should think is -- should continue?

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

Well, it's going to continue. It's going to continue for a period of time. We have a mix of business change, and we do have selectively, in that mix of business, more reinsurance. And the biggest impact to all of that has to do with the Fireman's Fund business that we picked up.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Okay. Okay. So that's -- and then on the other 1/3 being the underlying loss ratio, is it fair to assume that, that's weather or lack of weather? Or is that potentially some mix shift as well?

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

Well, you see current accident there -- you see current accident year ex cat. So you understand how it looks without cat losses within it. We told you that there was some improvement due to the Fireman's Fund. And when you adjust for that, you can see how the loss ratio is very stable year-to-year.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So on apples-to-apples, if you were to control for those shifts, then pretty stable?

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

Yes, sure.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And then I also saw ACE recently purchased...

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

And as you know -- let me just say one thing. As you know, it's up a little bit. And that's a combination: on one hand, you got price and trend; and on the other hand, you got mix changes. And I do expect over time, all things equal, you expect the loss ratios to rise a bit.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Great. And then lastly, CoverHound, the company mentioned that it had taken a stake, or there was a release that ACE had taken a stake in that company. Can you talk about -- and I think if I remember right, the release mentioned some business through Fireman's Fund that was being placed. Can you talk about like strategically what benefit that provides? And is there also some opportunity with the new Chubb book to leverage that relationship as well?

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

No, I'm not going to talk much about it. The only thing I'm going to tell you, is I think in your mind, you linked Novato, California with San Francisco, California. You linked Fireman's Fund and CoverHound because we didn't put any linkage, but there is no linkage between Fireman's Fund and CoverHound. And we're not doing any personal lines business with CoverHound, and we have -- we really have no plans to. We like CoverHound. We like what we see in terms of their technology and their development and their algorithms to match customer to the right insurer, and they're very thoughtful people. And stay tuned as to what more over time we may do with CoverHound.

Operator

And we will take our next question from Ryan Tunis with Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

I guess, my first question is just on the life segment. Obviously, we've had this headwind from the VA runoff, I guess, the last couple of years. But it sounds like international life insurance growth still remains pretty strong. I'm just wondering if there's any visibility on where you might -- on when you might see that crossover, where growth from either U.S. A&H or international life might be enough to kind of offset that headwind?

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

Yes, that's a really -- that's a good question, and we look at that all the time. The international life business was in a loss-making position because it was greenfield, and we were continuing to invest to grow it, to build it because building distribution, agency distribution is costly, so we kept plowing into it. And it crossed over last year, this year into a positive earnings position. Its earnings over the next year, 2 and 3 will accelerate significantly and will overcome that number. Our projections are over the next 5 years, so it has to happen year-by-year, but that it will be a meaningful -- international life will become a meaningful contributor to ACE's earnings.

Ryan James Tunis
Crédit Suisse AG, Research Division

And I guess, just to try, by meaningful, $100 million, more than that or...

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

To be meaningful in ACE, it has to have hundred -- it has to be in the hundred -- you have to have hundreds of millions to be meaningful to ACE.

Ryan James Tunis
Crédit Suisse AG, Research Division

Okay. Understood. And then I guess, my second one was -- I guess, just on professional lines and combining the 2 companies and whether it's right or not, I think we think about Chubb as writing more primary layer professional lines business, ACE writing a little bit more excess or large case. And I guess, how do you think about the opportunity longer term integrating those 2 businesses? And is that the type of process that could cause near-term disruption because of any customer overlap?

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

No, not that much, very little as we look at it. I think you got it partially right. I think we look at it this way: Chubb is so strong in middle-market and small customer professional lines business. And there, of course, it's not a shared and layered business. You're writing it, ground up. In the shared and layered, the large account business, ACE is a very meaningful primary writer as well as an excess writer as well as an individual DIC writer, which is major Side A coverage. Chubb as well writes in the large account space. We don't see an overlap, by the way, when we -- to the degree we are able to look at our concentrations of customer, we don't see an overlap that gives us concern, and we don't see an overlap of significance. The franchise balance between the 2: one is more large account brokerage-oriented; one is more agency- and middle-market-oriented, though they're both in each other's space that way, and it's just going to enhance it.

Ryan James Tunis
Crédit Suisse AG, Research Division

Got it. Got it.

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

Was that it, Ryan?

Ryan James Tunis
Crédit Suisse AG, Research Division

Yes, that's it.

Operator

And we will take our next question from Josh Stirling with Sanford Bernstein.

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

So Evan, I was hoping I could start with a big-picture question and strategy, if you don't mind. I know you take a long-term view of the business. And I'm wondering if you can walk us long term how you're thinking about growth. I mean, if we look back in the past decade, you've organically had a lot of products, you've done bolt-on acquisitions, entered new markets, and you took advantage more recently of a hardening market to accelerate the top line. But now as the market is softening, you've got -- and you've got Chubb to digest, I'm wondering how we should think about growth as we look out the next 5 or

10 years. And looking at the portfolio today, given all you've built, what do you think long-term run rate for growth would be sort of either the number you're shooting for internally? Or what we should think of as a sustainable target?

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

Yes. I'm not putting out a long-term growth target, but I'm going to give you a picture. And I appreciate the horizon you're taking of 5, 10 years. And I'll deal just within the 5-year period right now. We're already putting together teams to focus on what we see is meaningful growth opportunities -- target opportunities. Chubb has approximately 4,500 agents in the United States that it has a deep relationship with. Chubb has industry verticals in the middle market with deep product capability based on insights they have into those customer cohorts that they've done a lot of study and a lot of work on -- very thoughtful. Our ability to add, and we can see it, of middle market-oriented specialty products to the Chubb core portfolio to enhance industry verticals, grow them, to enhance general market customer -- those customers, in many instances, and the products we're contemplating together, are already buying those products. And in many cases, those agents are already selling those products. They're just not doing it for Chubb, or that agent is not selling it to that customer, someone else is. And we see a whole lineup of that, on one hand. Number two, the small commercial space is an area -- a very big marketplace. And it's an area that ACE has been endeavoring along in a specialty way Chubb has been contemplating, and Chubb brings traditional product capability that ACE doesn't have. ACE brings specialty product capability and some technology that Chubb doesn't have. And Chubb brings distribution that is awesome to be able to move into that space. We see a very large opportunity that way. When -- and 2 other things on the U.S. when we think about it. In the upper middle-market area, ACE doesn't have a good traditional product offering in commercial auto, in risk transfer comp. Chubb brings us capability in that area that will enhance our presence. Now you have to be mindful of underwriting cycle, and sometimes it'll be a greater opportunity than others. And it is one of the death valleys -- there are a few of them -- of the insurance industry, so you have to be very careful. We -- I make those comments so you understand we're well-informed about all that, we're underwriters. And -- but that is a real opportunity for us to begin tiptoeing into. In the personal lines area, stay tuned. I'd say $41 billion, we can tell, marketplace, and we'll have between us somewhere around $5 billion of that. There are a lot of customers out there who are not buying high net worth product, though they have the need of the coverages and the services that are provided. It's a long term to grow that and get them out of the traditional writers that they are with into something -- into a product that more meets their needs, and they're not really price-conscious. They just don't focus on it. But the stay-tuned is also about -- masterpiece has been a leader in the industry -- in that industry. It is really -- it really sets the course, and it may be time, in a reasonable period of time, to reveal masterpiece 2.0. And that's on our radar screen. When you get internationally, ACE has endeavored along both in brokerage and agency distribution, as you know. We have grown both large commercial, and we have grown middle-market commercial business in -- on the continent, in the U.K. -- modestly in those -- and in Latin America and Asia. Chubb colleagues that we will be adding bring us a lot more capability to add resource and industry verticals and product to our distribution and to our own -- and to bring enhanced distribution and to enhance our presence in that market. And we see it in a meaningful way. And there are 3 or 4 or 5 countries right now on our radar screen that we're building plans to move into. So I think the growth will start to show -- it takes time to put in place. I think it will -- and we'll find a way without gaming it in any way to reveal -- to show you the progress. It won't be right away, and -- but I think over the medium term, you look out a couple of years, you're going to see meaningful additional revenue streams that the 2 of us, as one company, will be able to get, that the 2 of us independently would never get. And over 5 years, I think it's going to be very meaningful revenue that will throw off -- we're underwriters. We're looking for margin. It'll throw off meaningful margin.

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

If I could switch here just briefly sort of the other side of the coin, integration and sort of operating risk management, sometimes good deals sort of flounder from lack of attention to details once you close and...

Evan G. Greenberg

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

My colleagues are laughing because...

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

But ultimately, I'm wondering, as you think about the history of the industry, you think about other deals that went sideways. What are the big risks for integration and leveraging the franchise that you guys are aware of and that you're sort of managing around to try to avoid them?

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

I can't point with specificity to what I -- knowing what the failures are; I don't know them intimately, of others. I can give you my own sense of it, though. And that is that somehow, you make a large acquisition. And when it closes, it's like victory, I did it, we're done. Frankly, from the day we announced -- well, I should say, the day after we announced -- we dove right into what it's going to take to integrate. We're deep into integration planning. You really -- it is about detail. It's about understanding and causing all your colleagues to understand and everyone to conceptualize and then bring it down to a fundamental day-to-day action plan that you can execute. What are your expectations as to the true resource required? What does the organizational structure look like? And who are the right people for it? And what is the right cost for that kind of a business or that kind of a service organization? And it has been, and is, a drains-up exercise that we are going through. You want to get it done reasonably quickly. You can't linger on it, or you're internally focused too much. And then you've got to get on from the day you close with the implementation of it. And you can't lose your appetite or your passion for the detail of it. And we're looking at the detail all the time, and everyone is as we plan it. And we know we've got short time until we have to begin executing. And that execution takes time. And it takes you -- when you run the cycle, it takes you 2 years to get other than mop-up done. And you have to not -- you have to be relentless. You can't lose your focus. You can't get bored with it. You got to know it has to happen, and you've got -- and it takes leadership to lead people. It's a long march, and you got to lead them from the beginning until the very end. And you got to be intimate with it. And at the same time, you've got to -- you've got to, in parallel, create for your organization the vision of why you're doing it because you're doing it for the greater good, you're doing it for the efficiency, you're doing it to be competitive, you're doing it so you can invest, and you got to lead to it and show it. Because in parallel, you got to move on growth opportunities and show the positive at the same time you're working on what is a difficult process of integration. And it takes a wide bench of managers. And the managers are the team that has to lead it. And that team is inclusive. It's not a we and they. Very quickly, it is not ACE and Chubb; it is just Chubb, and it is all of us. And it's getting people's mental mind around that, that you are -- that, that's who you're dealing with. We are all colleagues. Let's just get it done together. That's the whole deal, man.

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

Great. We'll hear from you next quarter as Chubb.

Operator

And we will take our next question from Jay Gelb with Barclays.

Jay H. Gelb
Barclays PLC, Research Division

I want to follow up on that comment, Evan, on the high net worth market. I just wanted to clarify: Are you sizing the high net worth personal lines market at around $40 billion, of which the commodities Chubb would have $5 billion currently?

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

Go ahead, Juan.

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

Yes. So Jay, thanks for that. So the...

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

You may correct me.

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

The U.S. personal lines market is roughly about $250 billion. I think the last estimate that was out there from Koning and a few others estimates high net worth to be roughly in the $80 billion range. What we're referring to in the $40 billion range is really our sweet spot and our target clients and what we'd like to go after. And so when we think about our true client strategy of being high net worth, ultra high net worth customers, that's really how we're sizing that market.

Jay H. Gelb
Barclays PLC, Research Division

Okay, Juan. Why would the target market be half the total?

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

Well, these...

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

Isn't that big enough for you?

Jay H. Gelb
Barclays PLC, Research Division

$40 billion is pretty big.

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

Would you like change to you on that? How about when we get close to that target, we'll start arguing about the other $40 billion.

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

That's good, Jay. These are approximate numbers. And the way that some of the firms out there, the consulting firms, et cetera, and the research firms, identify high net worth is not exactly the way we do it. So for instance, Koning and a lot of the folks out there will define anything over $1 million in value, our homes typically are over $2 billion and $3 billion in value and higher. So we do identify a subset of that high net worth market. That's really what we're looking at.

Jay H. Gelb
Barclays PLC, Research Division

All right. That's helpful. And then I guess, more for...

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

Don't worry, Phil [ph] . You meet our target customer.

Jay H. Gelb
Barclays PLC, Research Division

Actually, I am an ACE homeowner's customer. I don't think I'm [indiscernible].

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

Thank you very much.

Jay H. Gelb
Barclays PLC, Research Division

I might not be your target market, though. With regard to the share buyback story...

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

Buddy, you always are. Go ahead.

Jay H. Gelb
Barclays PLC, Research Division

With regard to share buybacks, can you kind of clarify what the plan is for 2016 after the merger closes and then what you're thinking about in terms of share buybacks as a percentage of annual earnings going forward?

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

Yes. What we have said is that for '16, we expect no buybacks. And when it gets to '17, we'll let you know, right? We'll see how the capital develops, and we'll make that decision as we go into '17.

Jay H. Gelb
Barclays PLC, Research Division

Historically, ACE stand-alone...

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

Buybacks are not the first thing on our mind.

Jay H. Gelb
Barclays PLC, Research Division

Okay. I mean, historically, ACE has repurchased around the equivalent of half of annual operating earnings, and Chubb is -- was higher. Is that half level a potential starting point?

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

What are you calling historic?

Jay H. Gelb
Barclays PLC, Research Division

2014.

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

I'm thinking the last 12 years, buddy, and I don't know that you'd come to that number.

Jay H. Gelb
Barclays PLC, Research Division

All right. And then the last one, if I can try on this one. So the -- ACE's effective tax rate is in the low teens. Chubb's is in the mid-20s, including the benefit for Chubb of a big municipal bond portfolio. Is it -- putting those 2 things together in year 1 after the transaction, is it then reasonable to expect that the new ACE-Chubb would have a higher tax rate than ACE on a stand-alone basis?

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

Yes, that's the way we have planned it, right? We have said that we don't expect to see -- we don't expect or we haven't built into our plans any changes to the reinsurance. As you know that -- our view has been this deal stands up without that. And so that's the way we're going forward.

Jay H. Gelb
Barclays PLC, Research Division

That's what I thought, too.

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

No material reinsurance.

Operator

And we will take our next question from Sarah DeWitt with JPMorgan.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Just a follow-up on the tax question. I would think there would be a substantial opportunity to put in some internal quote [ph] of share reinsurance and gain some meaningful savings on the tax side as well. Could you just elaborate on why that wouldn't be the case?

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

No, we're not going any further with that line of thinking. I -- but if you want to elaborate on why you think there is that opportunity, we're listening.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay. Yes, I think it's a -- I wouldn't think it'd be like you'd leave any money on the table, I think that would be a meaningful additional revenue stream in addition to the strategic sense of the deal. Okay. And then just moving on...

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

Well, I think you're -- Sarah, I think you're not thinking of it the right way, not the way we think about it. We don't do internal reinsurance for tax planning purposes, and we never have. We do it for capital management purposes, and we do it around how we manage our risk exposures and where we pool capital and therefore pool risk so that we can manage volatility and we can manage our capital exposures that are spread around the world to be able to take the risks we take locally. So if you think that way about it and you put your head around that, I think that then that leads you to a whole another line of thinking, and I think you then understand why we're not going to expand on that on the call.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay. Fair enough. And then just the unfavorable development in the A&H business, could you just elaborate on what drove that and how we should be thinking about the run rate life earnings going forward?

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

Well, I think the A&H, we had a positive prior-period development last year. And so we can't -- we just can't project reserve development. This year, $6 million, it was noise, and it's -- there's nothing systemic. And it was in a portfolio where we just saw that it's quite profitable portfolio, but the loss ratio was running a little bit higher in there than we had estimated. And so we adjusted for it and just raised it.

Operator

And we will take our next question from Vinay Misquith with Sterne Agee CRT.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

The first question is on the soft issues with integration. I'm sure you're doing a lot also with the details. But just a big question on the cultural integration. Evan, it would be helpful to hear from you after your own experiences and what's being done on a firm-wide basis to integrate 2 very different cultures?

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

Yes, I have to tell you, the more we get in and look and the more we work together, the more, in my mind, and I think, in the mind of my colleagues, and I believe in the mind of our Chubb colleagues, those who've been working together, the cultural differences, there are far more cultural similarities than cultural differences. And I think the differences have to do a lot with simply speed and have to do with in some areas what we consider what management responsibilities or supervisory-level responsibilities, how broad are your responsibilities. I don't think -- I think what's so similar is our striving to execute with excellence, our striving -- we both put a lot of pride on technical excellence, whether it is in underwriting or in claims or in product or in actuarial or in accounting, I think you find that -- and that's one of things we're seeing. Each one comes to the table and has sniffed the other one out as to how are you about, how detailed are you, and how deeply do you think about it. And I think we find that the similarities are gratifying. When we listen to each other's objectives and what you concentrate on and focus on to execute your plans, what's important to you, speak in very similar ways. When we think about opportunities, we see it in a similar way. Chubb is an older company and has some of the attributes that I -- that we admire of an older company that is more mature, in some ways, in its processes and capabilities. I shout out claims, to some degree, but more training and development and some areas like that. ACE has invested more in technology; I don't mind saying that. As an example, we're both deep into data analytics. Culture requires -- now to answer your question directly, it requires leadership and management to be extremely visible in the behaviors and exhibiting the behaviors that they expect of everyone else It's not just what you say, it's how you do it. People watch your actions, and then they listen to the exact words you use. Not your description of culture, but how you live the culture. That is true of the senior-most leadership and how we all display it. That then is emulated by the leaders at the next level and on down, and it cascades. And that we are all vigilant to reinforce that is important. Yes, at the same time, we have groups working on what I'll call the more mechanical ends of it -- of language that we use in common, so that we know what each other is saying of being clear of -- here are some of the behaviors that we all admire and should accelerate, what our brand identity is together. And so we give ourselves a name of -- a meaning behind the name of Chubb. Those are all things that we're paying attention to, and that will happen here. But finally, culture is also built on shared experiences, in my experience. And that is the more people work together and have shared experience together, that's what builds a common team spirit between yourselves. That's how you take from what starts out as a little more sterile to absolute familiarity and where people really are one because they've gone through it together. And you can't short-circuit that. You can try to help it to happen and create those experiences that'll happen over time and you pay attention, and you be patient about that part.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

Okay. That's helpful. The second question is on the small commercial initiative. My thoughts or my views about small commercial is that it's more for low-touch business versus maybe the middle market to the higher end, which is more high-touch, and that small commercial is driven by technology. So could you help me understand how long do you think you would take to build up your technology? And what sort of investment do you think it would entail for you to be a meaningful player in small commercial?

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

Stay tuned, Vinay. We're not going any further with a road map.

Operator

And we will take our next question from Jay Cohen with Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A lot of my questions have been asked. One other question. Phil, I think you talked about a run rate of $540 million for investment income. And I believe last quarter was $550 million, although the new money rate is still the same at 2.9%. So what -- it's not a big number, but what changed in the interim?

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

Our -- we have to make estimates of calls and private equity distributions. And in our view, the portfolio is turning over to the new money rate, even with the additional cash flow.

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

FX, too, --

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

Yes, we have FX as well, but we had it this quarter. Yes.

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

The dollar is strengthened more, too, Jay.

Operator

And we will take our next question from Ian Gutterman with Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

Evan, first, I just wanted to clarify. I believe you said that you hope to close the deal in early first quarter. And if I recall, last call you just had first quarter, was I not listening closely enough last quarter? Or was that a change?

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

Ian, do you like -- and it's like Kremlin watchers. There's no change, okay? There's no change of sentiment. We're not worried about it. It's, yes, first quarter.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. Okay. Just see how you obviously got through some approvals already. So I didn't know if that sped things up. Okay. So I also wanted to ask on the personal lines just to understand a little bit better the difference between how you go to market with Chubb and the Fireman's deal. So if I understood the way you were saying it, under Fireman's essentially that name doesn't exist anymore, right? So you're just going to market, everything's -- when they renew, it becomes ACE? And if you're going to have 2 separate papers in the market going forward, it's obviously -- I mean, I just know what I'm shopping for, right? You get 4 or 5 names that got shown to you. It's not like you get 20, like, standard to market personal auto. So how in the agent's mind -- are they going to have 2 -- are they going to have a representative from ACE and a representative from Chubb that they are going to deal with? Or how do you not confuse the agents, I guess, is what I'm trying to get at, if they're going to have 2 separate...

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

It's really -- Ian, it's really simple. They're going to have 1 Chubb person call on them. Let me -- I'm going to ask you a question about your homeowner's insurance now. Here's your test, buddy. You have an insurance company that you bought it from. Do you know the statutory company name on the paper, the actual statutory company name? So for instance, you buy from Chubb. You could be buying -- you're buying Federal paper most of the time. Do you know it's Federal? Or do you buy Chubb?

Ian Gutterman
Balyasny Asset Management L.P.

Understood. Okay. Okay, so you're not going to have 2 separately-priced [indiscernible] Okay. Okay.

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

And so in this case, there is going to be, under the Chubb brand umbrella, multiple statutory entities. And so if you already have a stats ready [ph] , if you bought from Chubb, you're going to still have Chubb. And there's going to be 1 Chubb representative calling on your agent who is servicing you. I hope you're going to be one of our clients.

Ian Gutterman
Balyasny Asset Management L.P.

I already have, so...

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

And so the underlying paper won't change. It may still say ACE American, as an example, or say Federal. That's the only thing we're saying. So you have to distinguish the statutory. That's it.

Ian Gutterman
Balyasny Asset Management L.P.

Understood. Okay. I wanted to make sure you weren't going to market with -- Chubb was going to...

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

Oh, no, no, no. We haven't lost our minds.

Ian Gutterman
Balyasny Asset Management L.P.

have a piece [ph] on the one hand and ACE...

Ian Gutterman
Balyasny Asset Management L.P.

Got it. Got it. Okay. That's what I was worried about. Okay. Got it.

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

Boy, you guys. You have had 2 where there's been an emotional and an intellectual test here, that you are concerned about us right now.

Ian Gutterman
Balyasny Asset Management L.P.

I do. I am a Chubb client. So I just want to make sure you're not going to take my store back up [ph] from me.

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

Your file is on Juan's desk today.

Ian Gutterman
Balyasny Asset Management L.P.

And then just lastly, you mentioned the Asbestos usual analysis in Q4. Just given -- any changes you're seeing in the environment? We have seen, I think, from others, charges continue to tick up a little bit. It sounds like there's a little bit of increase -- sort of the typical increase in defense costs and maybe a little worse. Maybe we're getting more real measos [ph] as people are living longer. Anything -- any color you can provide on it? Is this sort of business as usual? Or does it feel like things have gotten a little worse?

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

I think it's -- I think business as usual in what remains just a hostile environment. The liabilities are long-dated, and they're in runoff, and -- but we don't see any -- we don't see change to the environment. The legal environment has been hostile for years, and that remains. The mortality tables and measos [ph] living longer has been baked into the thinking in that environment. You're right that, that is something we've been living with as a dynamic. The plaintiffs going to more peripheral industries and defendants, whether it's pump manufacturers or those who make flooring, has been going for a number of years. So what you end up with in development is really case-specific as the cases ultimately develop and settle, which is claims work, much more than it's actuarial work.

Operator

And we will go next to Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

So Evan, just a quick question here. Last quarter, I think you mentioned that even with the FX, you expected to see mid-single-digit revenue growth in the P&C business through year-end. It doesn't look like that's achievable. What's changed?

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

FX.

Brian Robert Meredith

UBS Investment Bank, Research Division

Just FX is just worse than you...

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

Yes. FX is worse, and that's primarily -- Asia and Latin America economically are a little slower. And you see some softness there, and -- but that impacted us in the third quarter on the margin, but marginally. It was more FX, it was worse than -- we took another leg down. The dollar took another leg up. And you saw that. And that was not in our forecast. That was not in what we had forecasted. We did not anticipate that. That is how we would have [ph] .

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then next question. What other regulatory approvals do you still need to close the Chubb transaction, like the major ones?

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

Well, we need -- sure, we need insurance department approvals. 6 or 7, Joe, is -- go ahead.

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

Yes, we need approvals from 6 or 7 state insurance departments, and we need approvals from about the same number of foreign regulators as well.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. And then last question, Evan. So ACE is known as a very efficient operator out there -- as one of the insurance company. I'm just curious, when you look at Chubb, what disciplines and what areas do you think you can make them more efficient? Are there areas that you can identify? Not so much merger synergies, but more what Chubb does.

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

I don't know enough yet. I can tell you one thing that what I -- they are thoughtful underwriters, thoughtful leaders that way in how they think about their domain and their business. And we've seen that. And they've been very -- they're thoughtful in how they manage claims and a lot of expertise. I doubt we're going to lend a lot of benefit to their fundamental underwriting thinking. I think there'll be colleagues, and it will be on the margin that will each find it. I think some of our rigors and process around enterprise risk management and how we think about it and how we think about concentrations of exposure and how we think about using our own capital and industry capital to manage that, I think there will -- I think that putting the 2 together, we will gain from that. I think we'll both gain from the insights over time. It's not like throw the switch into the data and analytics of the 2 of us in that regard. I think that ACE -- Chubb has deep distribution knowledge and experience in agency that will help us -- help ACE. On the other side of the coin, ACE has very broad distribution capabilities and experiences in other channels of distribution, including direct response. And we have technology in those areas that, I think, will over time, we will mix and match for each other and help improve our overall distribution management.

Helen Wilson

That's all the time we have today. So thank you, everyone, for your time and attention this morning. We look forward to speaking with you again at the...

Operator
And this does conclude today's conference call. Thank you again for your participation, and have a wonderful day.