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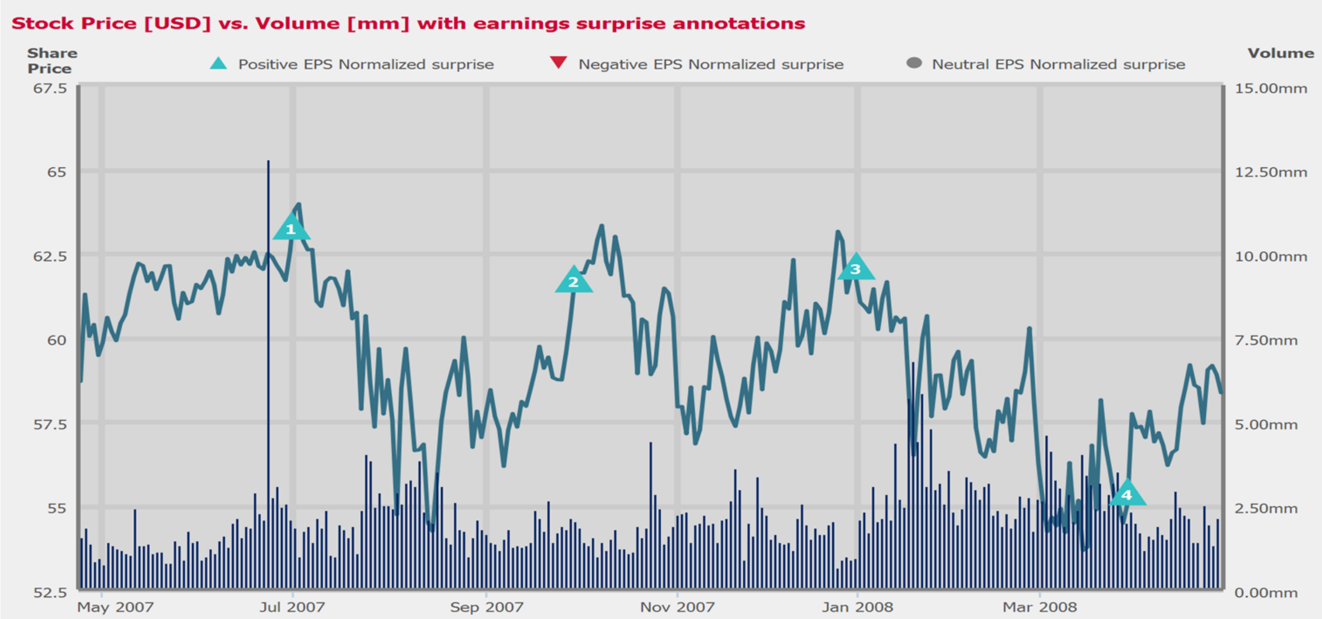
FQ2 2008 Earnings Call Transcripts

Wednesday, July 30, 2008 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2008-			-FQ3 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.90	2.18	▲14.74	1.78	7.86	7.73
Revenue	-	-	▲7.63	-	-	-
Revenue (mm)	3342.94	3598.00	-	3133.50	12976.11	13718.74

Currency: USD
Consensus as of Jul-30-2008 10:16 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2007	1.84	1.98	▲7.61 %
FQ3 2007	1.82	2.06	▲13.19 %
FQ4 2007	1.90	2.05	▲7.89 %
FQ1 2008	1.91	2.16	▲13.09 %

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Call Participants

EXECUTIVES

Evan Greenberg

Helen Wilson

John Keogh

Phil Bancroft

ANALYSTS

Brian E. Dowd

Brian Meredith
UBS

Jay Gelb
Lehman Brothers

Josh Smith
TIAA-CREF

Joshua Shanker

Matthew Heiman
JP Morgan

Paul Newman
Sandler O'Neill and Partners

Susan Spivak
Wachovia

Unidentified Analyst

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Presentation

Operator

Good day and welcome to the ACE Limited Second Quarter 2008 Earnings Conference Call. Today's conference is being recorded. Your questions will be addressed after today's presentation. [Operator Instructions].

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

Helen Wilson

Thank you. Welcome to the ACE Limited June 30, 2008, second quarter earnings conference call.

Our report today will contain forward-looking statements these include statements relating to our financial outlook and guidance, business strategy and practices, growth prospects, investments and use of capital, integration and performance of recent acquisitions, our redomestication to Switzerland and its effects, our stock price, general economic conditions, pricing and market conditions, and exposures, losses and reserves, 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 will be available for replay for one month.

All remarks made during the call are current at the time of the call and will not be updated to reflect subsequent material developments.

Now I'd like to introduce our speakers. First we have Evan Greenberg, Chairman and Chief Executive Officer, followed by Phil Bancroft, our Chief Financial Officer. Then we'll take your questions. Also with us to assist with your questions are several members of our management team.

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

Evan Greenberg

Good morning. As you can see from the numbers, we had an excellent second quarter, all divisions of the company performed well and this was the first quarter we consolidated the results of combined insurance, which contributed to our growth both revenue and earnings. I might add Combined is on track in terms of EPS accretion and expense and revenue initiatives. After tax operating income for the quarter was $738 million up 11% over prior year, our net income was up 15% and ROE was almost 18%. Underwriting benefited from good current accident year results and relatively right level of CAT losses, including the modest amount associated with the impact of the flood losses on crop insurance portfolio.

On that subject as of today the ultimate impact from the floods on our crop portfolio maybe less than we initially thought. Additionally, favorable growing conditions share volume of acreage planted nationwide, commodity prices and the volume of replanting should all contribute favorably to our ultimate calendar year crop results, at least as things stand today. Our, second quarter results also benefited from positive prior period development, about two-thirds of the release was related to property and other short-tail lines with the balance coming from casualty. The, modest casualty related release resulted from annual actuarial reviews we conducted of certain portfolios during the quarter. We review each of our portfolios in depth once a year and these studies are conducted throughout the year. Investment income was up 13% in the quarter and invested assets have increased 5% during the first six months to more than $44 billion. Operating cash flow was quite strong for the quarter at just over $1 billion.

In the quarter, we completed the redomestication of our holding company from the Cayman Islands to Zurich, Switzerland. Our shareholders recognized the strategic wisdom of this move and with an overwhelming level of support over 95% voted in favor of all move related proposals. A consequence of

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the redomestication was ACE's removal from the S&P 500 stock index, an event we and our shareholders understood could occur. This is currently having a rotation related impact on our share price that we believe is transient. At the end of the day, it is performance that dictates share price. I know some of you are interested in the subject of share buybacks. We currently have no plans to support what we consider a transient impact to our share price with buybacks.

Our operating performance will ultimately take care of that. We have better uses for our capital in support of our business. Market conditions remain about the same as in the first quarter with prices continuing to decline at approximately the same rate around 10% in the US in aggregate and mid upper single digits overseas.

Market conditions are soft and this is true of all territories around the world but pricing conditions vary by line and country. During the quarter, our net premiums increased 17%, and as I said earlier this is the first quarter we consolidate to combine and made a significant contribution to our growth excluding Combined, our growth was about 4% not bad given market conditions and represents a reasonable balance between the market and underwriting. Our global A&H business excluding Combined experienced reasonable growth up 18% with the fastest growth in Latin America and Asia, 34% and 13% respectively.

And our Global P&C business excluding A&H was up 1%, North America was up 1%, ACE Overseas General was up 9% and Global Re was down 19%. While P&C growth is obviously under pressure due to underwriting conditions in many lines, this was offset to some degree again by growth in our international P&C business specifically in Continental Europe, Latin America and Asia and we also benefited from favorable foreign exchange. A number of our specialty businesses in the US where we judged the pricing to be reasonable experienced growth such as E&O, environmental, international coverages for small US companies doing business overseas, our crop business and our political risk business in North America and London.

This offsets declines in other areas where competitive pressure simply caused us walk away. On that front our Lloyd based wholesale business shrank even marine, property and aviation market conditions. Our US wholesale casualty business, retail -- US retail workers comp, our US Commercial D&O and medical professional business. And on the reinsurance side our casualty and risk property business all shrank to name a few. Our property cat related insurance CAT related insurance and reinsurance business particularly for US exposed risks performed to expectations in the quarter. US CAT related pricing particularly for wind exposure has remained reasonably disciplined. I believe the soft market conditions will continue for the foreseeable future and the financial crisis and its effects will be with us for sometime. Add to that a slowing economy and the Specter of inflation and there is a great deal of uncertainty. Nonetheless, I remain quite confident and our company's ability to continue to produce superior results, we are well positioned for the future.

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

Phil Bancroft

Thank you, Evan and good morning. The financial markets continue to be volatile in the second quarter, in spite of this our book value per share grew modestly during the quarter and our cash and invested assets increased almost $700 million to $44.4 billion. Cash flow was very strong at $1.1 billion. Globally, interest rates rose significantly during the period, resulting in a level of fixed income, price declines not seen in the market since 1994. As a result our net realized and unrealized losses were about $570 million before tax. This included $740 million from our investment portfolio partially offset by $170 million of gains from derivatives relating to the GMIB liabilities of our Life Reinsurance business, and from our share of gains from partially-owned insurance companies, principally AGO. Substantially all of the loss in the portfolio is a result of market pricing changes. Actual credit related impairments were approximately $28 million. As we've mentioned previously, we do not invest in CDOs or CLOs and our subprime exposure remains minimal.

The credit quality of our portfolio remains high at AA, with a duration of 3.7 years. As we highlighted in our financial supplement the ratings of our mortgage portfolio remain predominantly AAA. In addition the characteristics have not changed dramatically from our previous disclosure and we don't expect any

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material losses. 73% of our residential mortgage is held in Federal agencies securities. While the recent legislation doesn't mandate an explicit guarantee of Freddie and Fannie, we believe the mortgages in senior debt are secure and the ratings will be sustained.

Our P&C loss reserves increased $644 million during the quarter excluding Combined they increased $293 million. During the quarter we completed the financing for the combined acquisition using $450 million of five-year bank debt, bringing the average rate on our borrowing for the acquisition to 4.8%. $700 million of the $1 billion of repurchase agreements we issued prior to the closing remain outstanding at June 30th, these mature in September.

We also redeemed $575 million of the 7.8% perpetual preferred shares we issued in 2003. We partially refinance those through the issuance of $450 million of senior debt with an interest rate of 5.6%. Our current debt to total capitalization ratio is 19.6%. We expect this to fall to about 17% by the end of the year. Catastrophe losses total $58 million for the quarter comprising a number of losses from around the world including US crop losses of about $15 million. Prior period positive development was approximately a $100 million for the quarter of this approximately $70 related to short-tail and $30 million to our casualty portfolios primarily from 2004 and prior years.

Our current P&C accident year loss ratio excluding CAT losses was almost flat compared with last year's quarter. However, if we normalize the ratio for the change in mix of our business the ratio is up 2.5 points. For example, A&H and International P&C are now a greater percentage of our business.

Our expense ratio grew by 3.1 percentage points compared to last year's second quarter, approximately one point of this increase relates to the addition of Combined and about one point relates to a shift in mix of our business to ACE Overseas General P&C and A&H, both of which have higher expense ratios. We have no update to the guidance that we gave on last quarter's call.

And with that I'll turn the call back over to Helen.

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

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Question and Answer

Operator

Thank you. [Operator instructions]. Our first question will come from Susan Spivak with Wachovia.

Susan Spivak
Wachovia

Oh, gosh. Good morning, Evan and Phil. Just a couple of questions. Number one, I wanted to follow up on the inflation issue. Evan, it is something that you have been talking about potentially happening for couple of years. I think the industry in general has benefited from such low inflation. When do you think it will really start to hit rock costs? That is the first question. And then unrelated, I am just curious about, you know, what are your view about increasing your reinsurance business potentially through acquisitions, now as you know, lots of companies out there trading below book value that have only been riding in the hard market and it would seem as if an area that you would round out your portfolio or is that something given the opportunity you would just look to grow organically?

Evan Greenberg

Good morning, Susan. Inflation, I don't know -- they have been talking about it a couple of years but certainly for the last few quarters, I have commented upon it. Look in the short-tail lines, we do think, in particular, in the foreseeable future, lost costs will increase and we're beginning to see some signs of it. It shows up in both the cost of repair or replacement and in the time element coverages. Commodity prices being where they are it does have an impact whether it is property or the technical related risk such as energy or even on the marine portfolio where tonnage is in great demand. Shipyards are in great demand and the cost of repair and the materials for repair are going up and we are beginning to see it in individual claims, and you always see it -- you got to be leading edge about this. You always see it in individual claims before it starts to show up in your portfolio analysis in a broader way. So, I would make comment. We don't see it at this time in casualty related. And, we've been as you know, conservative I might add before I get the question, we've been pretty conservative in our trend factors that we have used. Yes, the last number of years have been benign from a loss cost inflation perspective. We didn't really reflect that because we believe it's fairly transient. So, on the other side of the coin we really don't have to be doing much adjustment to our factors right now and going forward.

On the acquisition, I really don't want to comment much about that hardly, we look at most everything that might be available. We do have a clear strategy of where we want to take the company, so we are not -- an acquisition has to fit that strategy. And on the reinsurance business in particular, well, we have pretty good operation that is quite capable, has the capability under market conditions to expand rapidly in an organic fashion and I am not sure what a reinsurance related acquisition necessarily does for ACE. No, I will never say never.

Susan Spivak
Wachovia

Okay, thank you very much, Evan.

Evan Greenberg

You're welcome.

Operator

Our next question will come from Matthew Heiman with JP Morgan.

Matthew Heiman
JP Morgan

Hi, good morning everyone.

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Evan Greenberg

I think it is Matt Heiman.

Matthew Heiman
JP Morgan

But I will answer to that.

Evan Greenberg

Herman or anything else.

Matthew Heiman
JP Morgan

Just a quick question. One of the initial steps with Combined was going to be reorganizing the field and streamlining some of the processes. I was wondering if you could just give us an update on that and whether there is any -- if you are substantially through that if there are any early indications of how that's proceeding?

Evan Greenberg

Yeah, I did say that and we are on track for that, but what I also said that I will remind you, you know, Combined is more akin to life insurance, though it is an accident product and it has a very particular way of doing things. An old, proud, well-established franchise, and change has to -- and it is an agency-related organization for distribution, which says that it's quite emotional in its belief in what it does and how it does it. And you have to be very mindful of that and it takes a great deal of sensitivity and skill to make substantial changes in an organization like that. And so, I was very clear from the beginning is that our -- the accretion of Combined would come in the immediate future from expense related and revenue related accretion particularly the reorganization of the sales organization, the modernization of it in the developed markets like the US and the UK that will come over time. And so, you're not going to see those results for a while though I can't tell you it is on track, it is proceeding the tests that we have done of a new model are working and they were doing these before ACE showed up on the scene are proceeding well. And, in fact, we are going to rollout the changes we are making more quickly then originally thought on the Combined operation itself and the field force is kind of screaming for it. So, it is on track, it is working though it will be sometime I think, before we will see it show up in any meaningful in the result.

Matthew Heiman
JP Morgan

Okay, fair enough. And then, just Phil or Evan on the -- with respect to the reserve development can you just give us a sense of what percentage of the reserves were looked at this quarter and kind of visit, is that indicative of what while assuming it's a quarter, is that indicative of what you would look at the rest of the quarter. Just curious of whether how that process flows in terms of the size of the reserves and thing like that?

Evan Greenberg

You know, I don't have a percentage in my head, I don't think -- look at my colleagues. None of us really do. But what I can tell you is I can't say its exactly one quarter but we look at a meaningful amount of our reserves each quarter.

Matthew Heiman
JP Morgan

Okay.

Evan Greenberg

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And because you got to get through the year and it is a work plan, so we kind of spread the work fairly evenly through the year.

Phil Bancroft

Certainly we wouldn't project that based on the percentage that we would have any development in relation to the amount of the studies; these are just studies that are done.

Matthew Heiman
JP Morgan

Absolutely. I was just particularly with the casualty; I was just curios what that base was though.

Evan Greenberg

No, it's throughout the year. So, we do substantial number of reserve reviews each quarter.

Matthew Heiman
JP Morgan

Okay, perfect. Thank you.

Evan Greenberg

You're welcome.

Operator

With Lehman Brothers, we will hear from Jay Gelb.

Jay Gelb
Lehman Brothers

Good morning. I had couple of numbers question. First, I don't know if you have available the gross net premium for crop for the first half of this year versus a year ago?

Evan Greenberg

Jay, I can get that you. We will take it offline, alright.

Jay Gelb
Lehman Brothers

Okay, thank you. And then, on page 15 of the supplement it looks like the average market yield of fixed maturities went up on a link quarter basis from 5.1 to 5.6, could you talk a little bit about that was that driven by Combined Insurance or the re-domestication?

Evan Greenberg

Clearly, its two things that drive it. One, we have less short-term investments because we use a lot of that to pay for the combined acquisition and the second part was as you suggested was just the addition of the combined portfolio. We didn't any meaningful strategic change in the mix of our investments during the quarter.

Jay Gelb
Lehman Brothers

Okay. And then, finally, on the effective tax rate what's the right level we should be thinking about going forward?

Evan Greenberg

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You know, we haven't given guidance on tax rates. But, as you will see if you look over history, we have been ranging from 18%, 19% to 20%, even 21% right. So, it's a function of where the income falls and its in that range.

Phil Bancroft

Its 20% as you will note for six months. Last year was the same 20%. Its in that range up or down a little bit.

Jay Gelb
Lehman Brothers

Okay, thank you.

Operator

We will go next to (inaudible) with Credit Suisse.

Unidentified Analyst

Hi, good morning. First a simple numbers question, if you could give me the income on other investments, I think, last quarter it was negative $6 million?

Evan Greenberg

Yes. I am sorry what was the question?

Unidentified Analyst

If you could give us the number for this quarter please?

Evan Greenberg

Other income to $125 million and as I mentioned in my commentary a large part of that is our gain from our investment, our share of the earnings from AGO.

Unidentified Analyst

Sure, right, fair enough. Second question is for Evan, what is progress being made on this further expansion of Combined Accident and Health business outside the US?

Evan Greenberg

Its proceeding, it's on track. We are expanding right now in Latin American, beginning to expand in Latin America, we are beginning to expand in Asia; we are improving and working with them on markets that they have already expanded into. And as I said, as I have said repeatedly these efforts while they are underway you won't see meaningful results for two or three or four years because this business is written $80 bucks a policy at a time. And you got to build the agency force and you got to get them productive and so its on track.

Unidentified Analyst

Fair enough. And finally, what is the persistency of the business you're seeing in the US, Evan. Has this become less because of the soft economy or has it held pretty steady? Thanks.

Evan Greenberg

You're referring to the Combined when you ask persistency?

Unidentified Analyst

Yes.

Evan Greenberg

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Or P&C business?

Unidentified Analyst

I am referring to the Combined business.

Evan Greenberg

The persistency of business is quite steady, we don't see a decline in the persistency as a result of economic conditions. I might add, we do see a little softness not material but there is a little softness in the growth in new business at the moment because of gas prices. But, what we are doing in the model change is and some of what we are doing in incentives, switching incentives to gas cards and that sort of things for agents helps to ameliorate that.

Unidentified Analyst

That is wonderful. Thank you.

Evan Greenberg

You're welcome.

Operator

We will hear next from Josh Smith with TIAA-CREF.

Evan Greenberg

Good morning.

Josh Smith
TIAA-CREF

Hi, thanks for taking the question. Just quickly on AGO, using the equity method how are you going to account for the 50% drop or 40% drop in the stock price post 2Q that is going to come on the balance sheet as opposed to running for the income statement?

Evan Greenberg

It doesn't come on the balance sheet, what we will look at is whether we think if there is some kind of a permanent impairment in the value that we carry AGO at. And at this point we don't see that. We think the underlying fundamentals of the company are such that we would expect to recover our investment and so temporary drop in the stock price won't have any impact on our financial statements.

Josh Smith
TIAA-CREF

Right, okay, good. And second question is lots of the brokers are talking about softer market getting more commissions from client, have seen your expense ratio tick up and you did explain most of it by Combined and shifting to A&H. Are you seeing brokers asking for higher commissions?

Evan Greenberg

My whole career I have seen brokers ask for higher commission.

Josh Smith
TIAA-CREF

Are they getting?

Evan Greenberg

A soft market or hard market I am trying to be overly humorous there, but that's the nature of the critter. And yeah, there is -- in any soft market as prices decline, where brokers revenue is tied and

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the commission percentage directly to premium and they see their revenue decline and there’s always pressure to increase commissions, but we haven’t seen a meaningful change in our commission ratio and any within most lines of business. There are some lines in the middle market in particular where we like the pricing and where there’s a little more commission pressure, but through the most part, I would say it’s pretty well behaved.

Josh Smith
TIAA-CREF

Great. And then just one last quick one, I mean, Susan asked about buying a traditional reinsurance operation. You have expressed interest in buying life and life-like operations. If there a profit like that out there, would that be something you would look at, a Life Reinsurance operation?

Evan Greenberg

You know, I know where you are going. No comment. We do look at everything, but I don’t mind telling you in our game plan, we are far more interested in Life Insurance than we do in Life Reinsurance from an acquisition perspective.

Josh Smith
TIAA-CREF

Thanks a lot.

Operator

We go next to Brian Meredith with UBS.

Brian Meredith
UBS

Yeah, good morning, thanks. A couple quick number questions. First, I was wondering if you could tell us what was the accretion for Combined in the quarter, what was the earnings impact of it?

Evan Greenberg

It was about $0.09.

Brian Meredith
UBS

$0.09, great. And then, on the revenue side for Combined, was there a portfolio that came in that maybe inflated the written in earned premium for the quarter?

Evan Greenberg

No.

Brian Meredith
UBS

No, so, that is kind of a good run rate number? Or is it seasonality?

Evan Greenberg

No, it’s a pretty good run rate number.

Brian Meredith
UBS

Okay. And then -- so interest expense -- is there a decent run rate we can kind of think of here going forward?

Phil Bancroft

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Yes, I'd use - my thought is around an increase over the history of about $18 million, with the initial financing that we did for Combined and remember we also did a financing, take out the professional preferred, and that wasn't in investment income, right? It was a dividend. So, that would be just a direct increase in interest expense and a reduction of those dividends. So, overall in the $18 million range.

Brian Meredith
UBS

Great, thanks. And then last question. Evan, can you talk a little bit about how the Atlantic company's acquisition is going? Kind of plans there, what is going on in that area?

Evan Greenberg

It is going very, very well, it's right on track. The platform we acquired actually hit that word. The franchise that we acquired, systems, you know, it's very, very solid. There are good knowledgeable group, their underwriting is sound, their backroom operations and systems are very good and well positioned. We filed new product and throughout the country and are getting approvals. We have combined the parts and pieces that ACE brings to the table and specialties to build out their portfolio that's all coming together very well. We've added to the management team and added to the leadership with those very knowledgeable and high net worth area and they have integrated well into the operation. So, I have to tell you this is on track but it's a little like the Combined, you know, take something and it's a light switch, you turn it on and immediately things begin to happen if that was true then anybody could do this.

Like the Combined these policies are as much smaller premium, you're in the individual personal space and it takes time to build out that franchise and see the real power of it in your numbers. And we told you that from the beginning and we are on track to do that and over the next couple of years it will become quite interesting within our numbers.

Brian Meredith
UBS

I just figured there were some of the problems some of your competitors in the business are having and maybe there were a little more opportunities near term?

Evan Greenberg

Yes, there is a little bit of breath of wind at your back, and yeah, we are moving. They can always -- the US P&C market has thousands of competitors; when you've got a line of business like this where there is only three or four or five feels very good.

Brian Meredith
UBS

Thank you.

Evan Greenberg

You're welcome.

Operator

We'll go next to Paul Newman with Sandler O'Neill and Partners.

Paul Newman
Sandler O'Neill and Partners

Good morning and thank you for the call. I just wanted to ask if you are seeing at least a greater hit rate from brokers on particularly B accounts with companies like (inaudible) or others who are having some recent problems. Has that affected your business in any way, both positive or negative?

Evan Greenberg

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Well, it haven't affected our business negatively. And, you know, look, brokers have a job to do and clients have a job to do. They need to buy coverage, the right coverage and they need to buy it from a company that they believe will stand behind their obligation that's their judgment to make. And they are going to use all available information and if the company has weakness they are going to notice that's their job to notice that and make their judgments. And if there is a problem and any company has a problem and in the soft market that always happens, you got to know, we are going to take advantage of every opportunity that comes available.

Paul Newman
Sandler O'Neill and Partners

Obviously have you actually seen some of your submissions loans yet? Or has it just been kind of as you go?

Evan Greenberg

I'm going to ask -- to give you just a little color, I'm going to ask two of colleagues to just comment briefly. Brian?

Brian E. Dowd

You know, the areas where we have seen some uptick in both submission and buying behavior are the longer tail, particularly professional liability. I think we have seen people become a little bit more discriminate and who they place their professional liability with. So, I would say that probably would be the main area where we have seen from the upticks in the US.

John Keogh

I think similarly in the international, on the longer tail lines of business and particularly looking at who leads the program, I think this is more discretion in more decision, changing in that area then we saw a year ago.

Paul Newman
Sandler O'Neill and Partners

Great, thank you very much for the call.

Evan Greenberg

You're welcome.

Operator

[Operator Instructions]. We will go next to Josh Shanker with Citi.

Joshua Shanker

Thank you. My first question regards of the crop insurance business also in terms of thinking about of the losses that you have been pretty emphatic about you not having concern. One of your competitors on the reinsurance side suggested that they needed to reserve for such losses, would it just be geography that makes the difference between what you might have in your portfolio and what they might have? Or do you think there is more variables out there and maybe you can give us some clarifications?

Evan Greenberg

Well, the first thing I said you just, you know, I can't comment and I'm not going to try to do a comparison to another company. I don't what they have got, I know what we got. But, remember we're crop insurance and they are crop reinsurance, very different and most crop reinsurance generally it's written on a stop-loss basis or in excess of loss. So, I don't know what they are insuring, where it is, I really can't comment. If you want more color on the crop season, is that what you're interested in?

Joshua Shanker

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Or, I mean, look, any information you can give is wonderful given that you said it is reinsurance, that is actually why I am more surprised, given that you are crop insurance, I would assume insurers would have a loss before re-insurers would.

Evan Greenberg

No, not necessarily. Well, yeah, of course, but it depends on who they are reinsuring and where it is, it could be, you know, I can't speculate except that they may be doing a company, a small company that is very concentrated in one area and you don't know the terms of their reinsurance contract. So, I really can't speculate about that but I am very confident from the information we know today about ACE's position.

Joshua Shanker

Well, thanks. That is certainly sufficient for what I was asking. The other -

Evan Greenberg

If you want to know more about crop, I will tell you what I got farmer Brian Dowd here who really can go on and on about crop insurance. And we have a lot we can tell you.

Joshua Shanker

Well, Brian, if there's something you want to share, I will be happy to take it offline, but if there's something you want to share immediately, I always want to listen.

Evan Greenberg

Do you want to talk a little bit on that.

Brian E. Dowd

Nothing I would share and differentiate us from others, right. We have been in the crop business with our partner Rain and Hail for more than 25 years, right. And they are either the largest or second largest MGA/insurer in the business. And so they have been in it for a long, long time and unlike most crop insurers we are in every state and every product. So, we have diversity in both territory and product. So, when you see an event like this year that got a lot of press, that affected largely three Midwest states, you got to roll that into our total portfolio and remember there is stop-losses by state. So, if you're only in those three states you might a tougher year than someone who's across the country. The second thing that I would say is that the Midwest floods, while tragic, frankly after the water receded, we've actually had about a month of about as good of growing weather as you can possibly have. And in both Iowa, Illinois and Missouri, the crops have recovered and we are only about a week behind last year's growing cycle. So, Iowa, Missouri and Illinois frankly are in pretty good shape right now. So, we're pretty confident with our staff -- we have over 400 people, we visited virtually every farm that was affected and we feel pretty good about where we are in our loss analysis for this stage of the growing season.

Joshua Shanker

Okay, I appreciate the color. And quickly the other question regards, I know that people are asking a lot of question, I hope I can get one with differing on -- M&A. You know, we have seen a few transactions go down at fairly high price to books but the companies are trading at their peaks not anything specific but when you are looking at deals the investment bankers are bringing to you, do they still look expensive in general, have you seen things come down on price, our asking price for over the last let's call it nine months or so?

Evan Greenberg

In general when you just look at financial side of it, I think there is still some hopeful thinking in the pricing. I think it's -- pricing still has a reflection of the past and not a reality of the future. And, I'm sure that as time goes on the bid ask in general will narrow.

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Joshua Shanker

I will take it at that. Thank you very much.

Phil Bancroft

You're welcome.

Operator

For next question we return to Susan Spivak with Wachovia.

Susan Spivak
Wachovia

Hi, good morning, Evan. I realized that what we had yesterday that quake in California wasn't significant but I thought it might be a good opportunity for you to just share with us what's your potential exposure to a quake on the coast would be?

Evan Greenberg

Susan, right now, from what we know of this quake, we really haven't seen, its early days we haven't seen any losses. And, I don't expect at this moment from everything I know, I don't expect any material losses to emerge. And as far as our exposure, well, are you talking about one in a hundred event or one in 250 event, one in 500, what are you asking me?

Susan Spivak
Wachovia

Basically all three, whatever you could share with us Evan would be great.

Evan Greenberg

Let me see, do we discuss or we take this -- we might take this offline. Susan if you want to understand little more while there is no REG FD issue, we will talk to you a little more about it offline. We don't have the number just available in our heads right now.

Susan Spivak
Wachovia

Okay. The reason I am asking Evan is because when you look at some of the stat numbers, it comes up with a higher percentage that I know is misleading. So, it would just be great to be able to clarify that.

Evan Greenberg

What you do know regardless of peril, you know what our one in 100 and one in 250 appetite is, we talk about that. [Multiple Speakers] talked about that. And so, that fits, all perils fit within that. So, there is no out size here.

Susan Spivak
Wachovia

Okay, great. I'll follow that up with you offline.

Operator

There are no further questions at this time, I would like to turn the call over to Ms. Wilson for closing remarks.

Helen Wilson

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.

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Operator
Thank you that does conclude today's conference call. We thank you all for your participation, have a great day.

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