S&P Capital IQ

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Chubb Limited NYSE:CB

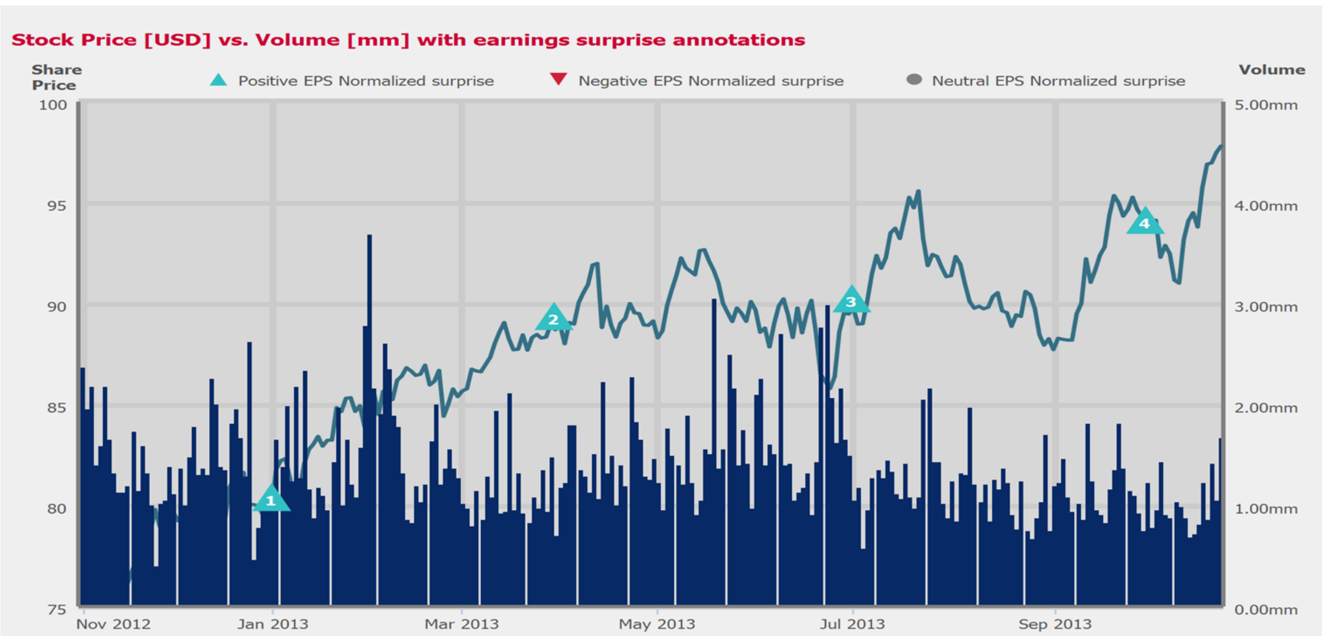
FQ4 2013 Earnings Call Transcripts

Wednesday, January 29, 2014 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2013-			-FQ1 2014-	-FY 2013-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	2.02	2.39	▲18.32	2.07	8.97	9.35
Revenue (mm)	3401.45	3712.00	▲9.13	3582.57	14736.08	15053.00

Currency: USD
Consensus as of Jan-29-2014 1:04 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2012	1.27	1.43	▲1 12.60 %
FQ1 2013	1.93	2.17	▲2 12.44 %
FQ2 2013	1.95	2.29	▲3 17.44 %
FQ3 2013	2.23	2.49	▲4 11.66 %

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Helen Wilson

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Presentation

Operator

Good day, and welcome to ACE Limited Fourth Quarter Year End 2013 Earnings Conference Call. Today's call is being recorded. [Operator Instructions] And now for opening remarks and introduction, I would like to turn the call over to Helen Wilson, Investor Relations. Please go ahead.

Helen Wilson

Thank you, and welcome to the ACE Limited December 31, 2013, Fourth Quarter and Year End Earnings Conference Call. Our report today will contain forward-looking statements. These include statements relating to company and investment performance, pricing and insurance market conditions, and potential acquisition, including our recently announced expected acquisition in Thailand, 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 supplements, 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. ACE had an excellent fourth quarter that contributed to a record year. All divisions of the company made a positive contribution to our results that were highlighted by both strong premium revenue and underwriting income growth globally. The outstanding underwriting performance benefited from both good current accident year margins and margin improvement, as well as low catastrophe losses and strong positive reserve development.

After-tax operating income for the quarter was $824 million, or $2.39 per share, up 67%. And the P&C combined ratio in the quarter was 89.3%. For the year, net operating income was $9.35 per share, or over $3.2 billion of operating earnings, up 23% from 2012, and records for our company.

Our P&C combined ratio for the year was 88%, resulting in $1.8 billion of underwriting income, which was up over 110%, simply outstanding. ACE's strong current accident year underwriting has been at the heart of our great calendar year underwriting results. The current accident year combined ratio, excluding cats, was 90% for the year, almost 3 points better than prior. The current accident year results reflect our premium revenue growth globally, a more favorable pricing environment in North America, continued margin improvement globally in many of our businesses as a result of portfolio mix efforts, and product mix. And finally, our current accident year combined ratio benefits from excellent expense control, another hallmark of our company.

To break it down a step further, our current accident year results, excluding cats for global P&C, which excludes agriculture, was 89.4% for the year; and our combined ratio for ag was 95%. Ag ran 105% in the fourth quarter, which was worse than we projected, due to significantly lower corn yields in Iowa, Missouri and Southern Minnesota.

Net investment income was quite strong in the quarter and a bit better than we anticipated. For the year, given our strong cash flow, net investment income of $2.1 billion was down less than 2%, a good result given the continued pressure from ultralow interest rates. Phil will have more to say about the quarter and the year.

Our earnings led to an excellent operating ROE of over 12% for both the quarter and the year. Our shared book value grew 5% for the year, or 11% if you exclude the unrealized losses from our investment portfolio as interest rates rose. I look at adjusted book value growth because we are fundamentally a long-term buy-and-hold investor. So the mark is a timing question. At nearly $29 billion at December 31, our book value was doubled in the last 5 years and tripled in the last 10.

Turning to growth. P&C net premiums written in the quarter grew nearly 20% on a constant dollar basis, with growth coming from a majority percentage of product lines and all regions. And this -- as this earns its way in, it will be a source of future earnings. For the year, P&C net premiums increased about 8% in constant dollars, or 11%, excluding agriculture.

Let me add a bit more insight and break down the P&C growth by area. For the year, our commercial and specialty businesses generated growth of 10% globally, with contributions from every region. U.S. retail and wholesale grew 11% and 13%, respectively. Internationally, retail commercial P&C was up 10%. Latin America led the way with commercial P&C net premium growth of over 20% in constant dollars, followed by solid single-digit growth in Asia, Europe and Japan. Growth in our London-based E&S business, which saw more competition during the year, was modest at 2%.

Net premiums for our agriculture business were down 12.5% for the year and were in line with our expectations. The decline was due primarily to an increase in the amount of crop reinsurance we purchased.

For the year, our A&H business grew 5% globally in constant dollars, with international up 10%. Premiums for our combined insurance business were down 2%. For our core combined business, as I reported last quarter, agent manpower counts in North America are way up, and so were new sales. And those factors will translate into net premium growth at the combined.

Net premiums written for personal lines were up 40% in constant dollars in 2013, or 11.5%, excluding the contribution from our acquisitions, particularly in Mexico. We have done a good job to-date of integrating these companies, and they have been accretive to our earnings in their first year. We are taking them more valuable by combining their impressive talent and local product and market expertise with our global underwriting and analytics capability, and our distribution management capabilities, and our broad product portfolio. Our personal lines business is poised to continue with substantial growth globally.

Our international life insurance business, which is focused primarily in Asia and secondarily on Latin America, had a reasonably good year. Premium production grew 18.5% in constant dollars.

Lastly, our Global Reinsurance business had an excellent year, with a combined ratio below 66% and underwriting income up over 45%, due primarily to low catastrophe losses and good results from the core P&C book. Net premiums declined 3%, as we maintained underwriting discipline in the phase of flat to declining rates and increasing competition as the year progressed.

Given the soft conditions in the reinsurance market, which is a wash in capital, Global Re is not going to be the place where ACE expects to achieve near-term growth, as we are fully prepared to shed further volume, as necessary, in order to maintain an underwriting profit. We take great pride in the underwriting discipline of our reinsurance colleagues. We applaud them and we reward them for it.

By the way, on the other side of the coin, ACE is a substantial buyer of reinsurance, one of the largest in the world. And our risk appetite has not changed. It remains steady. We pride ourselves on the long-term relationships and the money we have made for reinsurers over the years. We are a sought-after cedent. The softening reinsurance market benefits ACE in terms of pricing and improved terms, and that will positively impact our future financial results.

Looking forward, we are off to a great start in January where pricing was similar to the fourth quarter. Remembering, of course, that we are in a risk business, I expect we will have a good year in '14 from a revenue growth perspective as we continue to take advantage of the many growth opportunities we see around the globe, including right here in the U.S.

I want to say a few words about the current pricing environment. Our commercial P&C business in the U.S. continued to benefit from a positive price environment with another quarter of rate-on-rate increases. Overall, North American pricing, both wholesale and retail, was up 3% in the quarter.

General and specialty casualty-related pricing strengthened in the quarter, up nearly 4.5% compared to an average 3.5% year-to-date. Large account risk management-related casualty pricing was up 4.3% versus 4.8% for the year. Management and professional lines pricing was up about 3.5% in the quarter, the same as it's been for the year. On the other hand, the rating of increase for property-related pricing continued to flatten in the quarter, up about 0.5% versus an average of 3.5% increase for the year.

In our U.S. retail business, new business writings grew 6.5% year-on-year; and our renewal retention rate, as measured by premium, was 100% in the quarter. On the North American wholesale side of our business, new business was up 22%.

Internationally, the retail commercial P&C environment is competitive, but remains stable. In total, rates were down 2% in the quarter versus 1% for the year. Rate decreases varied between 1% and 3%, depending on line of business and territory. The U.K., Latin America and Asia are competitive, while the Continent is reasonably stable. And in fact, we secured rate increases on the Continent for certain classes, such as property and professional lines.

Let me add a comment here. Strategy for ACE is not simply about achieving more rate and improving margin. It's about using underwriting and marketing to achieve growth where risk-adjusted underwriting margins are favorable, and then on the other side of the coin, achieving better terms or shrinking where they are not. John Keogh and John Lupica can provide further color on market conditions and pricing trends.

Earlier this month, shareholders approved a 24% increase in the common stock dividend. Raising the dividend, this amount is consistent with our long-term commitment to a strong dividend with a target payout ratio of approximately 30% of operating earnings. Our dividend has increased 80% since the beginning of '12.

As all of you know, we also announced in the quarter a plan to target the repurchase of up to 1.5 billion of our shares in '14. The buybacks are not a change in strategy or our view opportunity. We have simply reached a point, all things being equal, where we have built up sufficient capital flexibility for both opportunity and risk that we can return additional capital surplus we generate in '14 via share repurchase, without impacting our growth capability. We will continue to capture organic growth where the returns are attractive, while pursuing acquisitions opportunistically to complement our growth strategies.

To that point, as you all saw, we announced earlier this month plans for a small but strategically meaningful acquisition in Thailand. We plan to acquire a 60.9% stake of Siam Commercial Samaggi Insurance, a writer of auto, small commercial and personal accident insurance. Samaggi is well established with excellent distribution, including its 12 branches and 1,000 independent agents and a close commercial relationships with Siam Commercial Bank, one of the country’s most venerable financial institutions. The addition will complement our existing commercial P&C, A&H and Life businesses in that country. After we close on this transaction, we hope sometime in the second quarter, we plan a tender offer for the remaining 39.1% for total transaction cost of approximately $185 million.

In summary, ACE's financial results for the quarter, and much more importantly, the full year, distinguished our company. We performed well as measured by operating and net income, combined ratio, book value and premium revenue growth, and of course, ROE. We finished the year more diversified in terms of product and geography, increasing our presence in areas such as the U.S., Asia and Latin America, that present opportunity for future growth. And of course, our balance sheet is in excellent shape. We are, in fact, well positioned for an excellent '14 and beyond.

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. We had an excellent quarter and record year. Full year net income was $3.8 billion or $10.92 per share. Tangible book value per share grew 3% for the quarter and 4% for the year. If we exclude the impact of our acquisitions, tangible book value per share grew 6.7% for the year, whereas, if we just exclude the unrealized losses from the investment portfolio, it grew 11.8%. Our cash and invested assets grew to $61.5 billion, and cash flow was $1.3 billion for the quarter and $4 billion for the year. Our balance sheet risk profile remains extremely strong.

Net realized and unrealized losses pretax were $21 million for the quarter, and principally comprise losses in our investment portfolio of $151 million, foreign exchange losses of $16 million, and gains in our VA reinsurance portfolio of $149 million, which included a $92 million realized gain from an out-of-period adjustment for an error in a third-party market valuation model.

Investment income for the quarter was $557 million. This was better than anticipated, principally due to higher private equity and other distributions, and slower prepayments in our agency mortgage portfolio, which have a higher yield than current new money rates. Current new money rates are 3%, if reinvested in a similar distribution, and our current book yield is 3.8%. We estimate that the current quarterly investment income run rate is approximately $540 million, which is subject to variability and portfolio rates, private equity distributions and foreign exchange. Our net loss reserves were up $508 million, or 2%, for the year, adjusted for foreign exchange. The paid-to-incurred ratio was 96% for the year, or 85% on a normalized basis, which takes into account cat loss activity, prior period development and crop loss activity.

During the quarter, we strengthened reserves in the Brandywine run-off operation by $91 million pretax. The reserve increase, principally relating to asbestos, is driven primarily by settlements of a few accounts and incurred development in our assumed reinsurance book.

Our portfolio of accounts remains reasonably stable both with respect to frequency and severity. We have seen no real changes in the asbestos strength environment.

The brand new line strengthening was more than offset by $213 million of positive prior period development, principally from short-tail lines, primarily from 2009 and subsequent accident years. Cat losses were $31 million after tax in the quarter from worldwide weather events.

A&H net premiums written were up 4.7% in constant dollars compared to last year's quarter. Operating income was down 7%. Excluding nonrecurring tax items, A&H operating income is up 3.8%. Our tax rate for the quarter of 9.2% was favorably impacted by the split of PPD and cats between taxable and low tax jurisdictions and a onetime tax benefit in the quarter. We believe a reasonable current accident year run rate for tax is in a range of 13% to 15%.

We have repurchased approximately $160 million of our shares since the November announcement of our plan to repurchase up to 1.5 billion.

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 next question from Amit Kumar with Macquarie Capital.

Amit Kumar
Macquarie Research

The first question is a follow-up on the discussion on risk-adjusted margins in your opening remarks. In terms of loss cost trends in North America commercial lines, are there any lines which might be witnessing meaningful -- more pressure, I guess, compared to maybe 6 months ago in terms of loss cost trends?

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

I'm just thinking for a moment before answering that, but no. A one-word answer: No, not really.

Amit Kumar
Macquarie Research

And I guess, related that would be any change in the competitive pressure?

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

Well, competitive pressure, it really varies by lines of business. You can't generalize about that. Where margins improve and become more adequate, heads-up underwriters compete more for that business. That's just natural. And you see that. On the other side of the coin, when people are suffering under -- competitors are suffering because rates are inadequate and -- or loss costs are rising more than pricing and there is a deterioration, then usually you'll see more of a pullback in that class and more adjustment to pricing. So it varies.

Amit Kumar
Macquarie Research

Got it. The only other question I have is, I guess, the follow-up on your comment.

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

The one thing I would say that, it's hardly that the market is not -- the market is a competitive marketplace. That's all there is to it.

Amit Kumar
Macquarie Research

Yes. I guess what I was trying to ask is, are you seeing some competitors being much more aggressive based on their capital position than what you might have seen in 2013?

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

No, no.

Amit Kumar
Macquarie Research

Okay, that's helpful. The other question was on the reinsurance purchase comment. Would it be fair to say that you might look to consolidate your U.S. and international cat treaties when they renew at July 1?

Evan G. Greenberg

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

Stay tuned. Are you in the reinsurance broking business now?

Amit Kumar
Macquarie Research

No, no. Maybe I should be.

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

I don't know, buddy.

Operator

We'll take our next question from Mike Zaremski with Crédit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

So I guess, the first question on operating leverage. Top-line growth has been outpacing expense growth for a little while now. Should we expect that dynamic to continue into 2014?

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

That's going to vary by area, by mix of business. But overall, that's thematically correct.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. And I guess, next. If I look at -- I guess, it's related to Amit's a little bit. Top-line growth seems to be -- to have accelerated a little bit. And I think some of that's due to, on a net basis, due to lower seeding levels. So I guess, how should we think about the top-line growth rate in 2014? Maybe overlay that, potentially, should we expect the seeding levels to continue following as well maybe back to their historical average seeding levels?

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

First of all, whatever is to be judged by about '14, that'll be your business. We're not giving guidance. So I'm not trying to work on your worksheet here. But we have not changed our risk appetite, as I said. And so, therefore, our net-to-gross remains pretty steady. It varies depending on mix of business. So if certain lines of business that have a higher net retention to them grow faster, then the overall net-to-gross will be a higher net as a percentage. But within each cohort, each line of business, our risk appetite is steady.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. And just a final follow-up to that question then is, is some of the recent acquisitions impacting 4Q potentially?

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

Impacting the fourth quarter results?

Michael Zaremski
Crédit Suisse AG, Research Division

Growth rates. Correct.

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

In terms of retention or overall or...

Michael Zaremski
Crédit Suisse AG, Research Division

Premiums written, maybe I'm missing that dynamic in terms of the upward growth trajectory.

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

Well, of course, they do. Mexico impacts our growth. As I said, our personal lines business grew 40%. But if you take out the impact of acquisition, it grew 11%. That's giving you a sense of it. And then for our total international, Phil?

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

AOG in total, as reported, grew 15.1%; excluding acquisitions, it grew 8.8%.

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

So acquisitions impacted the growth, of course. And they are a -- they do impact the net in that case, as well -- the net-to-gross, because there is more personal lines, which is a higher-retention line. So that's one of the dynamics.

Operator

We'll take our next question from Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just a couple of questions on the crop book. So I know you retained less this year versus last year, purchased a bit more reinsurance. Do you expect to repeat either this year's version of how much you retained, or last year's? I think you had said at one point that you expect to kind of revert back to '12-type level. I'm just trying to understand is this a business that you're going to either grow more and seed more or go back to your prior-level recessions?

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

Michael, I think our reinsurance purchases most likely in '14 will be very similar to what they were in '13. As far as third-party private reinsurance is concerned, we've purchased both quota share and XOL. I'd expect that to repeat. Our sessions with the government can vary on the margin, though that also depends on loss-making or not-loss-making state, crop or year.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

And then on the development, could you -- Phil, could you specify a little bit in terms of what lines broadly drove the favorable development this quarter?

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

Well, I did say it was principally short-tail losses. But if you put the Brandywine aside, it was principally short-tail lines for 2009 and subsequent. And we'll give you the detail of the lines in the 10-K.

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

Got. I mean, I was just thinking like -- I mean, short-tail, I was thinking... I'm sure I'm not thinking about this right. But I would think that really recent accident short-tail lines -- your short-tail lines would be the ones that would be developing just because they probably would have already developed, the '09 year's probably would have already developed by now.

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

Michael, I think the thing you have to keep in mind is, first of all, the development comes from where we drew our reserve studies in the quarter. And our reserve studies occur all year long. We don't study all reserves every quarter for -- in actually a deep dive way. And so these are the results of the deep dive, so more short-tail is reviewed in the quarter than long-tail. And that's why it's more short-tail versus long-tail related. And development, when you're thinking, well, you think most of it is more recent than '09, et cetera, it depends where it's coming from. Wholesale business, for instance, where you're writing on a policy, your basis, a year of account basis, that accounting and development of that can take longer than, say, a primary retail book. So if you're a prudent underwriter, there's going to be a different development pattern even for short-tail than -- and it's not all created equal.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And then just one last one on that maybe. On that -- you talked about the reinsurance markets. I mean, do you... Obviously, there are a lot of players that write reinsurance and also insurance, it's primarily to broker, intermediate markets. I mean, do you think -- is there any possibility of the conditions that you are seeing manifest on the reinsurance side rolling into the insurance markets? Or do you feel like, for a host of reasons that, that's not something that will manifest soon?

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

Who knows? It's a -- I can't speculate about that or where or when and what. But thematically, look, of course, reinsurance becomes competitive and that's -- it's almost like arms dealers. That feeds the primary side of the business as reinsurers are hungry, and that generally leads to a more competitive marketplace on the insurance side. And if that occurs, we are fully prepared for that. I have absolute confidence in our ability to outperform in an environment like that. We're global and the whole world won't behave same way. We got a lot of lines of business that are not subject to cycle. We're in growth areas of the world where, in fact, exposures are growing. We're in areas of commercial P&C that require distribution to reach customer bases and are in areas that are not subject to the same kind of cycle movement. So for a host of reasons -- and then when I look at our commercial business, our insights and portfolio management of how to distinguish in -- among cohorts of risk in both pricing and terms, ACE will outperform. When it happens, bring it on.

Operator

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

Jay H. Gelb
Barclays PLC, Research Division

With regard to the accident year combined ratio x cat, I mean, you sound pretty constructive on the outlook for 2014, including the top-line growth. So I'm just thinking directionally should we expect that important metric to improve again in 2014?

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

Jay, I'm not guiding that way. I'm not going to give direction that way. The only thing I can say -- I'll just repeat one thing I did say. It's not about if -- A lot of the discussion I listened to is so obsessed simply about margins. And I get that when it's speaking to companies that aren't growing. So the only source of earnings stability is through margin improvement. I got that. ACE is a growth company, growing in many areas and with a lot of opportunity. Margins are good. I mean, look at the underwriting margins. They are decent. Now, it's not all classes, and so we're underwriting margins. We judge them to be a good risk-adjusted return. We view that as an opportunity. And it is our job to ferret out that opportunity for growth. Where we see underwriting margins are not decent, it's to do what we always do: either achieve terms, including price, that will secure a reasonable risk adjusted return, or shrink that business. And that's how we're planning.

Jay H. Gelb
Barclays PLC, Research Division

Okay. Switching gears on the share buyback authorization, is that just for 2014 or should we consider this something we should anticipate in future years as well? Because when Phil mentioned that 30% target payout ratio for the dividend basically backs into around a 50% use of operating income for the buyback. So I just want to see if I'm thinking about that the right way?

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

I don't think -- I think I won't comment on the 50%. But the share buyback is a '14-only. And when we get to the end of '14, we will speak about capital management for '15. And that is going to depend on our capital flexibility at the time, what did we -- and combined with how we see the environment going forward. Right now, we have plenty of firepower and flexibility, and we didn't need to continue to increase that. So there is plenty to do exactly -- to execute strategy exactly the way we have been. Anything surplus that we generate, we can afford in '14 to return that. All things being equal, if something -- if we find a great growth opportunity that uses capital that would be our preferred way to use it. The secondary option is when we can't put it to work, then we will return to shareholders.

Jay H. Gelb
Barclays PLC, Research Division

All right. So just to clarify on that point, Evan, you're not -- what you're saying is that the $1.5 billion authorization for this year, that's a decision based on the expected capital generation, but you're also leaving the door open for that to continue. You're not saying, that this is a onetime deal?

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

That's exactly correct.

Operator

We'll take our next question from Greg Locraft with Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

Wanted to just pursue the last -- what Jay was just talking about -- on the capital deployment side. I think that the way all of us are modeling ACE or many of us are modeling ACE, we are unable to model for M&A. So therefore, there's this future growth optionality in your company where we're not modeling it appropriately in the out years. And so what I feel like we should be doing is we actually should be dropping -- we should continue the buyback in perpetuity. Because that's the only -- what you've effectively done in the fourth quarter is you've said we have enough excess capital to do what we want to do. And again, all else being equal, in other words, static world, which we know won't be, the only way to model a company appropriately is to continue to take the excess and put it through buyback. Is my philosophy meshing with yours? And that still leaves the ability to M&A. And if you do M&A, then we pull in the buyback in whatever year.

Evan G. Greenberg

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

Greg, we have to each leave in our own hell. So you have to do what you think as you're going to model the company and we have to do we think. I can't answer that question for you of how you should imagine the future beyond that. The only thing I can tell you is buybacks are not our first choice. Our first choice is to grow book value through growing the company and deploying. And if in fact we find the surplus, we use the surplus capital or a portion of the surplus capital, we will likely generate that back, retain that, an amount to come back to where we are. And if we find opportunities, which we're always on the hunt for organically or through acquisition to deploy that capital at a rate of return favorable to shareholders, we will do that as opposed to a buyback. And yes, you can't see it. We can't project the unknowable. But you're right, the world is not static. And it's dynamic, and it's just a matter of timing, generally. Got to be patient if you're not going make a mistake.

Gregory Locraft
Morgan Stanley, Research Division

Yes. Great. It's just the change in philosophy was the news in the quarter. And again, you've now said, I feel like you've said to the world, we have plenty and we're going to give back the excess from....

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

Yes, to the extent we used the plenty then there you go.

Gregory Locraft
Morgan Stanley, Research Division

Okay, great. And then last, on capital deployment as well. How did you get the 30% as the right payout ratio for the dividend? Why not 20%? Why not 40%? How did you set that level?

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

Well, we studied, and we studied an awful lot of -- we over-obsess around here. We studied -- what our payout ratios of companies and they vary between 30% and 70% on average depending on whether you're a growth company or you're a value company, based on whether you're a balance sheet company or you're more of a cash flow company. And so based on the study of that, we figured it is -- what we arrived at, it's 30%, was a good balance between a good payout ratio and dividend to shareholders, while at the same time, we're in a risk business, flexibility so that we feel that, that dividend rate is protected, even in down years, if you have bad loss-making years, because you want your dividend to be steady and not hurting our optionality for growth.

Operator

We'll take our next question from Vinay -- Vinay Misquith with Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

The first question is on the future margins. And I know you answered Jay a little while back. But you guys did a good job, last year -- that's in '13 of increasing margins quite significantly by lowering the expense ratio and through business mix. Should we expect some of those elements to also play out in '14?

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

We continue to strive to improve the efficiency of the company. So I'm not going to give you a point estimate, but what I'm going to tell you is that thematically, on one hand, we strive to improve and grow expenses at a rate slower than we grow revenue. On the other side, we continue to invest in the company. And finally, we write -- it depends on mix of businesses, we write businesses that will have a higher expense ratio and a lower loss ratio that have very favorable underwriting margins. And we have a mix of those, some have good margins and there are higher loss ratio, lower expense, and as I said the other way around. So it's going to depend on how that comes out. I'm not going to thematically, though, give you a -- the "expense ratio is going to continue to drop in '14" answer.

Vinay Gerard Misquith
Evercore ISI, Research Division

A follow-up to growth. I mean, your growth is very, very strong this -- last year. Now that the market's getting just a tad more competitive, especially in the U.S., should we expect the gross -- top line growth to slow in '14 versus '13?

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

Vinay, we are not guiding revenue growth numbers for next year. It's not happening. The only thing I will say, that I did say, ACE has grown, has outpaced the industry in growth rate, both on a global basis and in the U.S. by itself. I expect that ACE in '14 will continue to outpace the industry's growth rate.

Operator

We'll take our next question from Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

You had 2 years in a row of unfortunate experience compared to history in the crop business. Can you help me think about normalize premium volumes for the second half of 2014? Not really looking for guidance, but of course, there are so many adjustments in the last 2 years, I could use a little help there.

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

Well, no, not really. What I'll tell you is this, premium for the year is -- really is dependent an awful lot on what commodity prices are. Our exposures are pretty steady. They've grown a little bit. I don't expect dramatic growth, meaningful growth, in exposure. So what will affect premium growth is primarily -- or premium levels, primarily commodity prices. Right now, commodity prices for when you would price insurance contracts at the moment are lower than they were in '13 when we priced. And so all things being equal, that would bring premiums down. I would not confuse that with underwriting income abilities. That would be number one. Number two, what you look at in the second half of the year, in particular, in the fourth quarter, is premium adjustments that have to do a lot with the loss or gain sharing with the government based on how each individual state and crops loss experience comes out. And that is very state-specific, very crop-specific, it's experience driven. And so there is no way I can speculate on how you should imagine that for the future, except to tell you the way I imagine it is I would think about commodity prices for premium, on one hand. And when I think about underwriting, I think about a long-term historic average because we don't use 1 or 2 years, though the most recent years go into the average as we compute on what we think would be next year's combined ratio. And on that basis, it's roughly, it's in the same range as we imagined when we entered '13. I think that's more than you asked me.

Joshua David Shanker
Deutsche Bank AG, Research Division

Yes. It makes sense, which we saw high seed in 3Q and a low seed in 4Q this past year, and the year before we saw a low seed in 3Q and a high seed in 4Q.

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

You just got it backwards, but that's okay.

Joshua David Shanker

Deutsche Bank AG, Research Division

You're not understanding my point. I'm just trying to understand how that tend to imports [ph].

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

We'll take it -- now you're just down to worksheet, that we'll take offline. Phil -- you can call Phil and he'll talk to you about that.

Operator

We'll take our next question from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here for you. And the first one, I'm just curious, could you give us your thoughts on kind of the economic environment, Latin America, and what could that potentially impact. Could you think that potentially have on your A&H business and personalized business down there?

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

Yes. The theme of Latin America right now that I see is about the same as we had in '13, maybe a little better. It's very country dependent, country-specific. And what I mean by that is, I expect Mexico's economic growth to actually improve in '14 versus '13. It will be in that 3.4% to 3.5% range is what's projected, whereas '13 was much more tepid. Colombian's growth rate will continue reasonably well. I don't see a lot of change there. Chile and Peru will do reasonably well. So the Andean and Mexico, I think, reasonably stable. I don't see economic activity impacting our business versus '13, better or worse, except may be in Mexico where I expect it to be better. On the other side of the coin, Brazil is underperforming. Yes, it's got a current account deficit, as do a number of large emerging market countries. It has failed to implement reforms that would stimulate growth in the country. It is more protectionist. We experienced this throughout '13. And I expect that to continue in '14. And I don't see a lot of change at this moment maybe on the margin to our growth rates in Brazil in '14 versus '13.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then just one other -- just quick question on the agriculture business, any thoughts on the impact of the farm bill?

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

Well, the farm bill actually -- remember something about agriculture insurance that I just want you to keep in mind. It doesn't rely on the farm bill for authorization. It's a simple, it's a separate, permanent law. It didn't need to be reauthorized. However, what the farm bill did do is, it eliminated direct subsidies to farmers, roughly, I think it's about $5 billion. And it actually puts more reliance on crop insurance as the centerpiece of government support to the agriculture industry. They actually strengthened crop insurance on offerings in areas in the bill.

Brian Robert Meredith
UBS Investment Bank, Research Division

So that could be somewhat of an offset to the lower commodity prices?

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

No, I don't expect to see that, no. And listen, but the reason that, for all of you, the reason that we break out crop when we show you revenue growth from the balance of our business is the balance of our business, you're using revenue growth as a proxy for exposure growth, growth of the company and market share in areas around the world and its presence. And crop is different than all that. We have a steady market share. We have a steady exposure to the business. And it's commodity prices that fundamentally are the biggest driver of increase or decrease to revenue. And by the way, it's a head fake if you're using that to try to determine what the underwriting profit will be on the business. It's not. So in many ways, not in all ways, but in many ways, premium revenue growth in crop is just a -- it's just a head fake, growth or decrease.

Operator

We'll take our next question from Thomas Mitchell with Miller Tabak.

Thomas Spikes Mitchell
Miller Tabak + Co., LLC, Research Division

A couple of things. The first is, the area of man-made catastrophes, whether it's something like credit cards being hacked. Or let's say Amazon starts using drones to make deliveries and they crash into gas terminals or something. In the sense of technology-driven, man-made catastrophes, is this an area that becomes a specialty for an underwriter in that, the customer who will actually -- is either now paying for or it seems likely to be paying for in another 2 years or so?

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

First of all, Tom, the way you couched it, you sound like a Luddite. But look, to answer your question directly, yes, the answer is yes. I don't know about your 2-year timeframe. And in fact, people are buying today, cyber risk insurance is growing. Society continues to evolve. Science, law, regulation, all drives -- and other factors all drive exposure changes to society. And exposure growth in new areas exposes clients to potential loss. And for insurance to remain relevant, you have to be able to offer protection in areas where exposure is growing. And good underwriters are constantly innovating. You can't do it in a mindless way though. We have limitations to begin with our balance sheet, you can only take exposure to the extent of your balance sheet. And then you can only take exposure to the extent you actually understand the risk that is creating the exposure. And you can structure it and you can price it, and then you can transfer it. And, so that's a process. For thoughtful underwriters, that's a process, and it evolves over time just as these exposures do. And sure, we're looking at all those, maybe with the exception of we're not looking to drone delivery at the moment. But stand by, I think it's terrific. We'll be delivering our home owners policies to high net worth customers that way in the future. Your drone will be there.

Thomas Spikes Mitchell
Miller Tabak + Co., LLC, Research Division

The other question I have is that it seems like, in that maybe just the sort of tone, that the Asian Life insurance business is adequate. But it would seem that being a higher growth area of the world in terms of GDP and the possibilities that we should be seeing -- increasing populations of people who have more reason to be covered by life insurance. Is 15% to 20% really as much as we should be looking for, or it should have be closer to something like 25%?

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

Well, first of all, I'm not going to guide the future. But what I'm going to tell you is it grew overall our international Life business, which included Asia, grew at 18.5%. And I characterize that as reasonably good growth. My colleagues know that to get a -- to take off the qualifier reasonable, I obviously expected something a little different. The Asia business, in that 18.5%, grew at a faster rate.

Operator

We'll take our next question from Ian Gutterman [ph] with Bank of America.

Unknown Analyst

First, Phil, on the investment income run rate of $540 million, that was up I think from the $525 million last quarter. I just -- curious what drove the change? I guess, I would've thought the buyback thing -- they might have brought it down a little bit.

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

Well, it is new money. And we're seeing, as I said, our mortgages are persisting, the prepayments in the mortgages are extending the duration, and they have a higher yield than new money rates. And in general, we've had a slight uptick in interest rates. So those 3 things together are making us believe $540 million is the right run rate.

Unknown Analyst

Got it. And then, I had some different questions on crop. Evan, I was a little surprised, you said the reinsurance purchase would be similar to last year. Just given your comments last quarter that the lower prices for corn means there's essentially less risk this year versus last year because it's starting at a lower point. I would've thought that would've opened up the opportunity to opportunistically cut back your quota share and keep more that for yourself if you think there's less price risk in this year's crop?

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

First of all, Ian, we don't speculate. We don't use reinsurance to speculate. We make rational risk appetite decisions versus the terms we're offered for reinsurance. And that's as far as I'm really going to go on that. But it's rational and I wouldn't be surprised on a risk reward basis. It's my answer.

Unknown Analyst

Got it. And then -- can you -- is the winter wheat a meaningful portion of your crop book, and any concerns about the harsh weather?

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

No, it's not a meaningful portion. And about the harsh weather, I think Brian Dowd will give you the most eloquent answer on that.

Brian Edward Dowd
Executive of Office of The Chairman

I think it's too early to really make any view on what -- how winter wheat will turnout. What we know is most of the crop got planted timely. It emerged and is now dormant, right? So there is certainly areas where we would like it to be able to moister than it is right now. But you're at the stage where winter wheat is essentially dormant and the next few months will determine what the ultimate yields look like, but most of the crop got planted in a timely fashion.

Unknown Analyst

Got it, great. And then, I think my last one since we're getting late is, Evan, any thoughts on Turkey and just -- or maybe just a quick refresher, I know, when these things happen people worry about the local risk. May be a refresher on what exactly you do in political risk in places like Turkey? And I can't remember, if Argentina is meaningful or not but why we shouldn't hopefully have to worry too much about that?

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

Yes. I'm not worried in Turkey about confiscation or ex-appropriation or nationalization of foreign businesses. That is hardly the history of Turkey. Turkey is a country of laws, of a market-based economy, of relative political stability. They have recently strong institutions. And when it comes to currency exposure, which would be the other, that would be about where you can't exchange the currency, where in fact it is not available to be exchanged. And if we have any exposure to currency inconvertibility, which is what they call the coverage, I mean, it always has long deductible waiting periods on it, 6 months, 3 months, 1 year. And so no, I do not have concerns when it comes to political risk. I'm always vigilant. But I don't have concerns. And remember, we don't write general bond issues or any of that, that's what we are ensuring.

Operator

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

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

Two quick ones if I can. One, can you walk us through the negative expense ratio in North American agriculture?

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

It's due to profit and loss sharing with the government is, in essence, how we're still -- if you want to talk for a moment about it. But we can take you offline on a worksheet of -- and give you a little more tutorial of how it works.

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

All I have is that -- to your point, it's just a true-up of the full year has been a profit permission commission cost for the results of the year.

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

And it comes through the expense line when the government makes us whole, both for our -- we don't make money on the operating expense. They make us -- they don't even make us whole, but they pay a large portion of the OpEx, and that comes through in a reimbursement to us; because other than that, we collect a peer rate, just for losses. And then you got the true-up of profit and loss.

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

Okay. That's helpful. I'll follow-up for, I guess, the worksheet issue. Second question, I don't want to overread into what you're saying. But if loss cost inflation remained basically stable, then the only reason that the favorable development was focused on short-tail lines is simply because the reserve review for longer-tail lines wasn't done in 4Q?

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

Correct.

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

I'm sorry, what was that?

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

I said correct.

Meyer Shields

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

Okay. What is the timing for that? Is that something that you disclosed?

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

We do them all during the year. They -- we don't give a schedule of any of that. It depends on the division. North America does some of it throughout the year, but more predominately in the second and third quarter, and they do some in the first. And then AOG has different timing depending on line of business, and Global Re has different timing depending on line of business.

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

I think an important thing to note is that we are consistent every year in what we do in what quarter.

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

Yes, our studies -- we study -- they -- it's been with of our actuaries and timing the data and all of that. And we have the same schedule every year.

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple of questions, I guess for Phil. The first is, Phil, you suggested there was some discrete tax benefit at the operating level?

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

I think, you can talk to this, Phil.

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

Yes, we had about $15 million of onetime benefits, $10 million of it was in the Life division and the rest was in P&C.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Great, that's helpful. And then secondly, if you could just describe the out of period adjustment on the Life reinsurance business, what exactly that related do?

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

Yes. So in the fourth quarter, we've found a mistake in the way our third party market valuation model that we used to set up our liability, if you will, for the VA mark. And it was just misusing the rate -- interest rate inputs that we put into the model. Of course, the higher fair value liability was necessary and we took the adjustment on the fourth quarter.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Did that cause you to reflect on other valuation models that you use? Or is it this kind of a onetime thing?

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

Well, it is a onetime thing. Although we have a program in place to evaluate both third party and internally developed models throughout the company.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay.

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

And Jay, what's clear is any time, we find something like that, then we also reflect on whether our controls in place to assess and look at mistakes that could have been made. And see if that -- we learn from that is that something we should know that would cause us to tighten our procedures, to adjust them, et cetera. So we reflect that way on it.

Helen Wilson

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

Operator

We'll take our final question from Charles Sebaski with BMO Capital Markets.

Charles Sebaski

I just had a thought or question, Evan, about conceptually growth in emerging markets and probably more so in Mexico and Latin America. What do you think is more important for your growth potential? Would it be exposure growth with GDP or insurance penetration in these markets?

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

I would tell you that it is in fact both. And that's how I actually think about exposure growth. GDP growth increases exposure, because let's talk about what creates GDP growth. If it's business activity, that is more businesses growing, and it's more businesses as a cohort, and it is more business growth of the existing businesses; that increases exposure and that increases availability of insurance exposure, number one. Number two, economic activity increases wealth, generally, among a broad segment of the population, more poor emerge to the middle-class, more middle-class move up the ladder, contrary to some of the speaking that I listen to among politicians. And that creates exposure growth. So automobiles in Mexico, they manufacture more autos and they sell more autos. Well, that's economic growth. And guess what, who's buying those autos? That's because the emerging middle-class is growing, and they're buying a car. And so that increases more opportunity for insurance. More growth of business, more trade and goods and services, more marine, more casualty, more companies raising capital, more public markets. Therefore, more D&O, more people visiting doctors, more lawyers active because of more rule of law, because the more economy that grows, the more people want certainty of property rights, and E&O grows. And so there you go. And by the way, they've all got to house themselves either for commercial activity or for residential means, and so construction. And then if you are a heads-up government, you're creating more infrastructure, less regulation to support all that. And you get real economic growth. Somebody tell that to Washington.

Charles Sebaski

So outside where we might think about growth potential in a mature market as GDP being a metric. This coupled with GDP and then exposure, so, I mean, is it a 2x GDP when you incorporate penetration.

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

I don't know how you mathematically do that. It really varies by country. But what is true is as economic -- as economies grow and they emerge and move up the scale, insurance penetration increases. So you get both.

Helen Wilson

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

Operator

That does conclude today's conference. We appreciate your participation. You may now disconnect.