S&P Capital IQ

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Chubb Limited NYSE:CB

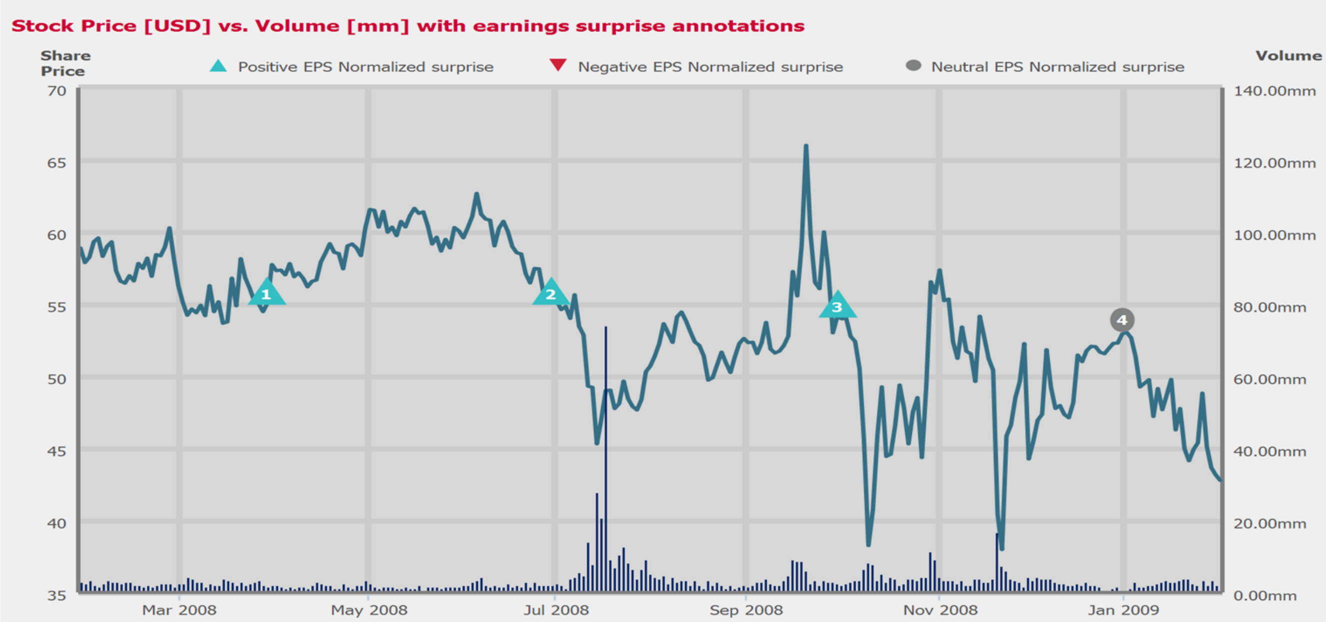
FQ1 2009 Earnings Call Transcripts

Wednesday, April 29, 2009 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2009-			-FQ2 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.96	1.99	▲1.02	2.01	7.58	7.89
Revenue (mm)	3433.46	3424.00	▼(0.28 %)	3678.27	14041.38	14931.28

Currency: USD
Consensus as of Apr-29-2009 9:04 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2008	1.92	2.16	▲12.50 %
FQ2 2008	1.90	2.18	▲14.74 %
FQ3 2008	1.40	1.51	▲5.59 %
FQ4 2008	1.87	1.87	●0.00 %

Call Participants

EXECUTIVES

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Executive of Office of The Chairman

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

Helen M. Wilson

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Timothy Alan Boroughs
Chief Investment Officer, EVP, Chief Investment Officer of Chubb Group and EVP of Chubb Group

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Mark Lane
William Blair & Company L.L.C., Research Division

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Thomas Mitchell
Miller Tabak

Presentation

Operator

Good day and welcome to ACE Limited First Quarter 2009 Earnings Conference Call. [Operator Instructions] For opening remarks and introduction, I would like to turn the call over to Helen Wilson, Investor Relations. Please go ahead, ma'am.

Helen M. Wilson

Thank you and welcome to the ACE Limited March 31, 2009 First 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, competition, gross prospects, investments and use of capital, general economic and insurance industry conditions, our stock price in the capital markets, pricing 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 in 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 would like to introduce our speakers. First, we have Evan Greenberg, Chairman and Chief Executive Officer; Philip Bancroft, Chief Financial Officer; and Tim Boroughs, our Chief Investment Officer, then we'll take your questions. Also with us to assist with your questions are several members of our management team. And 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 a very good first quarter, a strong start to 2009. Overall, our company is in good shape and our performance was steady. We are of course operating in a deep global recession and the financial markets remain difficult, that means a challenging environment for all businesses including insurers. There was some improvement in both debt and equity market conditions in the latter part of the quarter and time will tell if this improvement particularly in equity markets is transient. That depends on the future state of the U.S. and global economy which in my judgment is in turn dependent to a large degree on the health of bank balance sheets and financial markets particularly in the U.S. and Europe.

ACE's financial results in the quarter on both the operating and net income basis were quite good with all divisions of the company making a positive contributions to results. After-tax operating income in the quarter was 669 million or $1.99 per share while net income in the period was 567 million. Book value grew in the quarter, up about 2%. We continue to be impacted though to a much lesser degree by credit spreads in equity prices. Our P&C combined ratio for the quarter was 87½, simply an excellent result. We benefited modestly from prior period development, short-tail related and this includes the prior year crop insurance adjustment that was positive but much less so than '08's first quarter.

While there were a number of natural catastrophes in the first quarter around the globe, our cap losses were within expectations at approximately 36 million after tax. Net investment income was up modestly over prior year but below fourth quarter. Investment income was impacted by both a more defensive investment posture adopted in the fourth quarter and foreign exchange, so when Tim Boroughs, our Chief Investment Officer, will speak more about that.

Let me simply say, we are adjusting the tactics around our investment strategy again, having gained a bit more visibility and we'll be putting to work in the second quarter much of the cash built-up by our portfolio managers. Our balance sheet is in good shape and in my judgment, our capital position is strong. Our return on equity was about 18.4%.

I want to make a few comments about growth, pricing and the market environment. Total company net written premiums were up 9% and adjusting to the negative impact to foreign exchange we're up approximately 15%, a pretty good performance given global recession and pricing conditions. Keep in mind, we continued to benefit from the Combined Insurance acquisition which, again, improved our growth rate this quarter.

Our P&C businesses both insurance and reinsurance grew in the period. This was the first time our global P&C reinsurance business has grown since 2006, with net premiums up 4% over prior year. In fact, on a three year [ph] basis, our reinsurance premiums were up 23% year-to-date through April and this will show up in future quarter growth rates. For reinsurance, growth was due to a combination of firming prices, particularly in the North American and Bermuda markets, as well as companies purchasing additional reinsurance due to capital management requirements.

In the U.S., we saw rates for most lines and particularly risk property move up about five to 10%. In Bermuda, we also saw prices improve with cap related lines up seven and a half to 15% for U.S. business and flat to up seven and a half for international business. CAT reinsurance pricing is continuing to firm. And in the second quarter so far, we're seeing prices up 20 to 30%. One clear trend across the world that benefited our Global Re business is counterparty security. It is clearly more important to clients and as a result, ACE is definitely benefiting with stronger signings and increased line size.

Turning to the insurance side, P&C pricing during the quarter was generally in line or better than what we contemplated in our '09 plans. As I said last quarter and it still holds true, rates overall are firming and faster in reinsurance than insurance. In many classes of insurance, rates are flat to up and where prices are declining, they're doing so at a slower rate.

The balance of first quarter insurance pricing was essentially unchanged from what we reported for January 1. Although in April, we have seen some further tightening in selected classes such as energy, CAT-exposed property and certain areas of professional lines. In general, the larger the risk, the firmer the pricing.

Primary or first excess layers are generally firmer than excess layers. It is clear in lines and layers where it's about more than simply capacity, where clients are seeking the service, expertise, balance sheet and presence of a company like ours, prices are firmer. We are definitely experiencing in our retail business a positive benefit from flight to both capability and safety. And that is showing up in growth rates and certain lines particularly casualty related.

At the moment, there are countervailing forces at work in the marketplace. Some bode towards continued firming. Others keep prices from firming more rapidly and in fact, fuel competition.

On the demand side, client exposures are down due to recession and that means less pressure on capital to exposure. Further, because of economic conditions, buyers have less ability to pay for increases and are seeking cheaper alternatives or any alternatives but a price increase. Many are willing to place their businesses with lower-rated cheaper capacity. So demand is down.

On the supply side, one large damaged company and smaller newer companies simply in search of market share are willing to cut price. However, the fundamental truths that portend to continue firming, remains. I include in that current industry underwriting and investment results, weaker though adequate balance sheets and a firming reinsurance market.

In sum, I do believe rates will continue to firm as time goes along. How fast, what lines and where, I cannot predict with certainty but we are patient. And as they do, we will gain share and that equals growth. In the meantime, again, recession is impacting exposures and clients insurance budgets and this along with foreign exchange will continue to place pressure on premium growth rates.

Let me provide a bit more color around P&C growth and pricing. Our P&C net written premiums grew 1% on a reported basis. While on a constant dollar basis, they grew 7%. On a constant dollar, our global retail P&C business, that's ACE USA and ACE International, grew 5%. While our London and U.S. wholesale business excluding crop Insurance, buy shrank 15%. Wholesale remains more competitive than retail.

Let me dig a little deeper into the divisions. In North America, net written premiums increased 2.5%. Retail was up about three with long tailwinds growing and short-tail shrinking. New business was up 20% while renewals were down about four, much of that exposure related due to recession though also due to our pricing discipline. Our renewal retention rate is about 88%. We are able to secure our prices more often on casualty business, again than short-tail lines. And that's the flight to capability and safety element. Our specialty casualty lines including excess casualty construction ramps and environmental grew about 7%. Our risk management business was up 4%. Our professional lines including financial institutions grew 24% and our medical professional was up 12%.

Overall rates in U.S. retail were up about 3% in the quarter. For U.S. wholesale premiums were up 29% but excluding crop, premiums were down 16. Rates were up 3.5% overall with casualty and property up four and six and a half respectively. Competition continued unabated in ENS [ph] casualty and we deliberately shrunk our property portfolio freeing up aggregate for a firmer rate environment later in the year.

For international P&C, retail premiums in constant dollars were up 5%. New is up about seven and a half and renewal retention was 77%. Rates overall in international P&C were up modestly by 1% in the quarter and all lines in regions were in a pretty tight range with pricing varying from up three to sort of down one and also was flat. Except for Continental Europe, market tone is improving and pricing firming. One or two large damaged players continue to be the exception.

For international wholesale, premiums in constant dollars were down 14%, as we strove to attain price in a continuing competitive London-subscription market environment. Our rates were up 9%, driven by property, energy, marine and professional lines.

Before turning it over to Phil, I'd like to repeat a few comments I made last quarter about our political risk and trade credit business as we continue to get a number of questions about our exposure, given global economic conditions. Trade credit continues to run in line with our expectations. There is nothing that we have seen to date that is outside of our expectations or loss of the business, also true of the political risk business. We have what we consider to be reasonable levels of exposure in many of the countries that are in the news and that you might be concerned about. We approach this business conservatively and have stuck to the fundamentals. We have no claims of any size reported or pending at this moment. We have a situation watch list and we are constantly reviewing our portfolio exposure.

Again as I mentioned on the last call, our exposures have been declining in hotspot countries. We hold reserves for this business and reinsurance for the portfolio and results are tracking with or better than our expectations. Of course, we expect a certain level of loss activity. After all, we are in the risk business but we're not concerned with our exposure. Frankly, I just don't see a problem on the horizon in political risk. I hope that helps. We're planning to record a web presentation on this subject to educate you further and it will be available in the next 30 to 45 days.

In closing, I am quite confident about ACE's prospects in both the near and long-term given our capabilities, our balance sheet, our people and our single-minded focus on staying true to underwriting integrity. We are gaining in the marketplace, acquiring talent and growing our presence, particularly in specialty classes. It's a long race and we're patient in strategy and impatient in execution.

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

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

Thanks, Evan. Good morning. Market volatility continued throughout the first quarter. In spite of this, our balance sheet and capital position remain very strong. Our cash and invested assets grew by 500 million. Our reinsurance leverage dropped to about 93% and our tangible book value increased 2% on a per share basis.

Net realized, unrealized losses from our investment portfolio were 305 million after tax. Included are 192 million of losses for securities deemed other than temporarily impaired. 27 million of these were due to actual credit losses, the balance was all pricing related. For the unrealized losses on our fixed-income investment portfolio, we believe our strong liquidity and continuing positive cash flow support our view that will hold our highly-rated investments until they recover their value as they approach maturity.

Our global equity holdings, representing about 2% of our portfolio, are actively managed and are highly diversified. Since quarter end, the portfolio has recovered in value by 450 to $500 million.

New guidance was issued by the FASB this month, related to both mark-to-market accounting and OTTI. We plan to adopt this guidance in the second quarter, although we don't expect a significant impact on our book value principally because we don't believe the valuation aspects of the guidance will apply to the types of high-quality assets on our portfolio.

I'll ask Tim Boroughs, our Chief Investment Officer, to talk about the movement in our investment income for the quarter in just a moment.

Our net loss reserves increased about 100 million during the quarter after adjusting for foreign exchange. Our cash flow of about 560 million was below our recent run rate but within our expectations. It was lower primarily because of payments relating to CAT losses and a few other individual large loss payments and higher tax payments.

We provided disclosure on our supplement on our debt maturity profile and bank credit facilities. You'll see that we have minimal debt refinancing needs over the next five years. Our LOC revolving credit facilities were executed in 2007 for a five-year period. The LOC facilities are principally used for collateral requirements relating to our reinsurance business in Bermuda.

As of March 31, we ventured into securities lending agreements totaling approximately 1.4 billion. The proceeds from these agreements are invested in prime, short-term money market funds. We do not use commercial paper or any other short-term securities to finance our operations.

With that, I'll turn the call over to Tim.

Timothy Alan Boroughs
Chief Investment Officer, EVP, Chief Investment Officer of Chubb Group and EVP of Chubb Group

Thanks, Phil. Net investment income is up 3% from last year's first quarter and approximately 4% lower than last quarter. Foreign exchange, lower yields on short-term securities and a tactical shift in our asset allocation all contributed to the quarter's decline in investment income.

Although our portfolio is conservative and has served us well throughout the recent turmoil, we took additional measures to support our balance sheet strength. One consequence of these measures has been a deliberate increase in our cash and shorter term investments which has put downward pressure on our book yield. But now that many sectors of the credit markets have begun to stabilize, we are redeploying that cash into high-grade fixed income securities. Overtime, this tactical shift should lead to an improvement in both book yield and investment income.

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

Helen M. Wilson
Thank you, Tim. At this point, we'll be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Jay Gelb with Barclays Capital.

Jay H. Gelb
Barclays PLC, Research Division

Evan, you pointed out some countervailing factors with regard to premium growth, can you give us a sense when you think we could see some sequential improvement in that growth rate?

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

Jay, I don't have a great crystal ball. I think the problem you have three factors. Clearly, you have foreign exchange rates. Now on a year-on-year comparison, if rates stay where they are and the dollar doesn't weaken, which you take your guess on that, then the impact of that really lasts through the third quarter. Fourth quarter, as you recall the dollar -- there had been a huge flight to quality in the safety in the dollar last year. And so it's soared in the fourth quarter. So that's one thing. Recession and the impact of recession, you tell me. My own judgment, the balance of this year will be negative growth. And sometime in '10 or late '09, you'll see a bottoming and a slow recovery so that has an impact. And then the balance has to do with pricing within the insurance markets. I mean those are the things I think about. And I can't guess with any certainty when you'll see that sequential change.

Jay H. Gelb
Barclays PLC, Research Division

That's fair. If you could just give us a bit more color on the pace of reserve releases, they slowed quite a bit on a linked quarter basis. Is that something we should think about as a run rate going forward? And maybe you can talk about why they were slow in the first quarter than in some of the previous quarters?

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

Well, we don't manage our reserves that way. We look at our reserves all the time for adequacy. And we do different studies of different parts of our book at different times of the year. Most of our reserve studies are -- the predominant number of them is done really during the second and third quarter. Some done during the fourth and the first that generally are lighter quarter for those studies. And whatever you see is just a consequence of those studies. And if they show that we're either holding too little or that reserves have reached the point of where they appear redundant and we're comfortable with the results that they're saying, then we take an action. So the only thing you're seeing is a result of our own reserve management in that way.

Jay H. Gelb
Barclays PLC, Research Division

Which is something in the back half of the year that caused the reserves releases to be more significant than have been previously?

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

The back half of last year?

Jay H. Gelb
Barclays PLC, Research Division

Correct.

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

Well, I think you saw second quarter, you saw third quarter, where we really -- that was, I think that was the largest amount that was due to really the all the casualty studies that we do in those quarters. And more of the casualty is studied as the year goes along.

Operator

Our next question comes from Mark Lane with William and (sic) Blair & Company.

Mark Lane
William Blair & Company L.L.C., Research Division

Phil or Evan, regarding accident year loss ratios, I mean it seems like in all three major segments that your loss ratio excluding CAT losses in prior period development is actually down from the full year 2008, what are some of the factors?

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

We'll answer that question. First of all, it's not all three, it's two. It's in North America and its in Global Re but AOG is not. In North America, last year we had a lot in the first quarter. We had a lot of energy and large property losses, just a series of them. So last year was unusually high in North America. Secondly, we did have a reserve adjustment and claim adjustment expense in the first quarter this year where we just had too much claim adjustment expense, we felt. And that was a benefit in current accident year so that caused the swing in North America, one period to the next, if you're following me. And in Global Re, it's simply a change of mix of business, less casualty, more property this year. And property-oriented and short-tail lines and that runs a lower loss ratio as that mix came through on the earned.

Mark Lane
William Blair & Company L.L.C., Research Division

I'm also looking at the first quarter versus all of 2008 given that in the fourth quarter last year you said that you adjusted loss ratios up for earlier in the year so I'm not sure the first quarter of last year's a good comparison.

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

Well, I think it is. I think that's how you do it. Other than that you're running in to all kinds of seasonality and mix and other issues. So I don't do, I don't look at it the way you do that way. I don't look on the sequential. When it comes to loss ratio, it's much truer when you looking on a year-on-year comparison.

Mark Lane
William Blair & Company L.L.C., Research Division

Second question is regarding the life reinsurance business, so can you talk about the factors that kept the benefit, the losses down relative to last year, the policy benefit levels under $100 million given the stock market was down over 10% in the first quarter?

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

Two things happened. One, the interest rates were up and that had an important impact. And then as we look at the underlying policyholder funds, they performed better than we had anticipated. In addition to that, we had a gain of about $25 million on our hedge program. So that altogether contributed to the results.

Operator

Our next question comes from Matthew Heimermann with J.P. Morgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Just with respect to the potential strategic shift in the investment portfolio as the year rolls on, what type of yield pickup are we talking about once that is fully implemented?

Timothy Alan Boroughs
Chief Investment Officer, EVP, Chief Investment Officer of Chubb Group and EVP of Chubb Group

So, Matt, cost of holding cash is probably the highest it's been on our lifetime, right? Zero. So I mean if you go back as recently as the fall, our short term investments were about 7%, 6 7% of the portfolio. They were 10% on March 31. So even if you just take several points of that out on a $40 billion portfolio, you're talking about a billion to a billion and a half going from what is potentially zero into may be a blended rate of 5% where you have high grade corporate six and half to seven and agency mortgages at four. So we're thinking in those terms.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Evan, can you just -- I probably could back in to this space [ph] on some of the numbers you gave earlier but just with respect to the crop business, obviously, commodity prices are down versus last year, can you talk about what that book is going to look like for you in terms of size?

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

You ask the question I didn't think you're going to ask. In terms of size -- Brian, you want to take a stab at that?

Brian Edward Dowd
Executive of Office of The Chairman

Sure. I think you're going to see some differences. First of all, the first quarter crop this year will be a lot larger than 2008 because actually when our weak prices were higher in 2009 than they were in 2008 so the first quarter is actually larger year-over-year comparison. The second and third quarters, you'll probably see between a 10 and 50% decrease in premium because of the commodity prices for both corn and soyabean, the base prices year-over-year will be down about 20, 25%. So we expect to pick up a little bit of share but the price will [indiscernible] that. So I would guess you would see second or third quarter premium down.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

And then just in round numbers, am I right that crop in total last year, was that about 7% of the portfolio, the non-life portfolio?

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

In percentage, we'd have to go work out premium. We could tell you dollars, roughly. Are you talking gross or net?

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

You can give me whichever you want. I can work through the rest...

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

Just the gross is so much larger than net. Let us come back to you in a while -- and just announce, Matt, here is the number.

Operator

Our next question comes from Thomas Mitchell with Miller Tabak.

Thomas Mitchell
Miller Tabak

In this somewhat interesting and turbulent environment, I'm wondering what you're thinking might be or your thinking process might be about the opportunities to grow your business by aggressively going after people and particulars specialty underwriting capabilities as opposed to possibly the opportunities that exist to buy large books of business in the market place with there being so many distressed owners of property and casualty business is needing to raise capital.

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

Well, I'll answer your question way it was asked, I think. Look, we're constantly expanding our capabilities in all our businesses where we see opportunity. In the specialty classes and even some of the more traditional classes, we have brought on quite a number of people globally. In North America is where we brought the greatest number. But we have brought them on globally and particularly in specialty casualty-related classes and in particular, we haven't slowed down in investing in our company that way. We're more discriminating because of the environment but we have continued to do that. So we're not on the back foot in that regard. As far as books of business, its one thing to think about buying a total company and another thing think about buying the book of business. And while we'll look at everything that comes across, we're not leasing people. We haven't at this point noticed any books of business that have been for sale that are of interest to our company.

Operator

Our next call comes from Paul Newsome with Sandler O'Neill & Partners.

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

I was wondering if you had any thoughts on the speculation that ACE and perhaps some of the other Bermudians are increasingly hesitant if not refusing to write in excess of some of the more troubled companies particularly the company that may not be named. We'll just call it Voldemort, for short.

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

Look, we tried to be unemotional and just flat about this. And I don't think it's a Bermudian. I think, frankly, you want to put a wider lens on that, it's all insurers and all major insurers have all taken or are all taking rational approaches, I think, to protect their balance sheets and protect their exposure. We're not going to write behind any insurer where we worry about operational risk or we worry about balance sheet risk. And then -- so therefore, it could prejudice and add exposure to our layer, if we're writing excess. And hardly are we going to end up writing somebody's casualty or their property and finding at the same time we were financial guarantee behind the primary layers. That will not happen. And we're also not going to write behind any insurer where we don't have confidence in their ability to manage the business and handle the claims properly because, again, that can prejudice our layer. So, that's just -- to us, that's just rational fundamental, good risk management. And so take it as that.

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

Is that been a major or minor factor in some of the lines that you've shrunken of late?

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

No but it contributes. Just if you have -- it's hard to parse the pieces but that's not a major factor but it's a factor, along with all of the other conservative behavior that we're trying to exhibit in terms of underwriting and risk management discipline. You're constantly asked every day to do things that you know will impact either the balance sheet or the performance of your underwriting and that's just another one of those factors -- crop was 6% of our net earned premium for P&C. And it was 11% of North America's net earned premium, Matthew Heinemann.

Operator

Our next question comes from Vinay Misquith with Credit Suisse.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

What do you think will be the impact of the swine flu outbreak on your business?

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

I don't know. Does the world just have a couple of hundred cases or does it end up with millions of cases? You tell me the scenario. And I'm not trying to be cute about it but right now if it's what it is, there is no impact whatsoever. So let's answer it slightly differently. Let's say that since SARS and the bird flu, we have in our enterprise risk management activities, dimensioned and tried to manage our exposures across all lines of business on a global basis and we continue to do that since those events. And so, we try to keep a sense of, in an extreme event, what our aggregate exposures could look like in absolute terms and relative to percentage of capital except for just like you've managed in CAT. So we imagined a repeat of the 1918, where at that time 50 million people were killed. We also look at events like the 1950s that were very severe flu pandemics but not as severe as 1918. And from everything we can tell on that, we're comfortable with our exposures. Now, this is just evolving, just beginning and who knows where it's going. I can tell you we're also -- we do have a plan in place for disaster recovery in all of our facilities around the world of how we would manage in a business interruption setting where you did have a global pandemic of significant portions. And those are in place and people are on alert to implement those protocols. And that's about the best answer I can give you.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

And I presume that would happen mostly in the life insurance segment, correct?

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

Probably more in our accident and health. I'm comfortable with our -- life would be small. I'm comfortable with property. We know our exposures and frankly, ACE is taking a very conservative position of how much we would offer in terms of business interruption from properties that are denied access. We have been very diligent about that and how much appetite we have for it. We know in workers comp and we've forgone writings. Brian and his team have in areas where, for instance, hospitals where they want you to give even [ph] aggregate covers. We won't do that. So we've really been conservative to limit our exposures.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

The second question is on your purchase of reinsurance, we saw that came down this quarter, what's your expectation of that in the future?

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

I think you got to be careful of that. We didn't -- that's jittery and it goes to mix of business. So depending on what kind of crop adjustment for instance you have in a period, that can play with your net to gross. Different lines of business, if we've written more risk management or more lost portfolio transfers that plays with your mix of -- that places your net to gross in the quarter. You also have AOG. The mix between AOG and North America and there the net to gross is different in that total P&C impacts you have. You got to be careful. There hasn't been any serious change in our reinsurance purchasing philosophy and we haven't had a change really of any consequence on our net retentions.

Operator

Our next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

What was the impact of the Combined Insurance on the overseas general premium growth this quarter? So this will be the last quarter they will have that year-over-year comparison, right?

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

Yes, we'll get that for you. Go on.

Brian Robert Meredith
UBS Investment Bank, Research Division

Given that you've moved a little bit more towards some of the property reinsurance lines, Evan, what are your P&Ls look like going into when season [ph] you typically provided them in your 10-K? How much do you think they're going to be GAAP [ph] going into this one season?

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

No. They're well within our -- we have very clear guidelines about all that and we won't violate any of that. We watch it very closely. And the only reason you'd see Global Re increase its writings is because of what we allocated to them, they just had headroom. And at the same time, there are some areas, if you heard me, that we kind of shrank in the quarter also because we think we'll save some appetite for pricing firming.

Brian Robert Meredith
UBS Investment Bank, Research Division

One quick one for Tim, it looks like -- maybe this is just market value but it looked like you increased your allocation to high yields corporates in the quarter, is that true? And if so, what's the strategy there?

Timothy Alan Boroughs
Chief Investment Officer, EVP, Chief Investment Officer of Chubb Group and EVP of Chubb Group

We did not. It was probably market value change.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just market value change of a couple of hundred million dollars?

Timothy Alan Boroughs
Chief Investment Officer, EVP, Chief Investment Officer of Chubb Group and EVP of Chubb Group

Yes.

Operator

Our next question comes from Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

Can you clarify the P&C net premiums you said was up 7% at constant currency, retail up five, wholesale down 15, so all of that more than seven to get an overall seven, what did I miss?

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

Say that again?

Ian Gutterman
Adage Capital Management, L.P.

You said -- in your prepared comments, you said that P&C net premium was up 7% constant currency with retail up five and wholesale X [ph] crop down 15. So nothing was up more than seven and the total was seven. So something was -- there's a piece of that [indiscernible] sales that weight [ph] more than seven, I wonder what it was.

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

Hey, Ian, you got [indiscernible] crop.

Ian Gutterman
Adage Capital Management, L.P.

Well, how much is crop up is I guess what I'm asking?

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

22.

Ian Gutterman
Adage Capital Management, L.P.

Can you give us an update on the acquisition you did in the high net worth personal [ph] line just so I would think there will be a lot of opportunity there given, I assume, AIG is in a very friendly retail name that might not be very easy pitch for an agent to put that business in play.

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

Ian, I'm going to let Brian comment a little but it's going along well. And -- but you named them as long as somebody wants to offer Costco prices or a Tiffany product, that's going to give you a little headwind and what you're right. Brian, you want to add to that?

Brian Edward Dowd
Executive of Office of The Chairman

I would just add that certainly the acquisition is going along probably a little bit better than planned but, remember, we started out with just 15 states. So it is a state-by-state roll out where we have to file and get all the approvals done. And we're up to about I think 8 0 [ph] now they have our full products and all that. So it is a several-year project to get throughout the whole country. So, it's on tack but our plans are modest and it's on target.

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

Ian, we'll take the wraps off and highlight it a little more and give an update in a couple of quarters as we have a little more maturity going on. It's picking up steam.

Ian Gutterman
Adage Capital Management, L.P.

Okay, that's alright. I was just speculating that their brand might be damaged more in retail line than a commercial line, I thought that as far as I'm thinking about. Can you give us an update on the combined side, just the new sales initiatives that you've been working on and so forth? How those are going?

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

Yes, I'm glad you asked that question. First of all, our initiatives are in two parts, revenue and expense. Expense is efficiencies are on track and in fact ahead of what we envisioned. We're doing better that way. So it is really gaining and showing on the bottom line there. On the initiatives side, for growth, that is fundamentally on track. And what I [ph] says the new sales model, as we continue to roll it out, the productivity among agents who have been in areas where we have rolled it out are continue to be very impressive. And that's very good. What we do find though is when we roll it out, there is a disruption, a lull between going from the new -- to be old going to the new. So you suffer a little and then you overcome that period and growth and that territory really picks up. We're suffering from the recession in gross. So the new initiative is all on track. And I expect, and just to finish that thought, now I'll come to recession, is on track. And we expect it'll be throughout the United States over the next two months. And it will be mature and on a run rate that will show growth in the United States, first time in quite some time between the end of the year and early '10. And then we're beginning to roll that out now into the other major matured territories as the year goes along, namely the UK and Australia, later in the year. So that's good and we're encouraged by what we see. But again, as I've cautioned all along, that takes time and to really show in numbers. On the other side, recession is impacting the combined sales overall are down and lapse rates have ticked up, not materially but modestly about 0.5%. And we're putting more conservation action in place and I think that's as transient. On the other side of the coin, recruiting new and quality agents as we roll out the new plan, well that gives us a little wind at our back because, boy, they're a heck of a lot more available in the job market today.

Ian Gutterman
Adage Capital Management, L.P.

And so net-net is the drive from the economy less and equal or greater than to benefit from the new sales model, in the short-term at least.

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

Net-net? The recession -- because the new sales model is just hasn't been rolled out completely and that takes time to roll it out across the country. It's only in part of the country. You change an old culture like combined, carefully. The [ph] caution that from the beginning. So recession, no, we've more than offset -- is a negative that is not overcome by the rest. So revenue is down from what we've projected. On the other hand, income is essentially on track and it's been ahead of plan since we bought it and that's because of the efficiency initiatives we put in place.

Ian Gutterman
Adage Capital Management, L.P.

And then just lastly, economic impact on your international A&H business, the core A&H business?

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

Yes, good question. It's impacting it. Growth was slowed substantially. And remember something about both the international A&H and Combined international, both of them suffer from foreign exchange. So we can't do anything about that. I'm going to give you some numbers on the international A&H in currency so you'll get a sense. And what's impacting it in a major way as a headline, is travel is way down and certain countries where we do a lot of travel insurance, there is a negative impact because people not traveling, they are not going to buy travel insurance. And so that's a temporary but it's a phenomenon. And secondly, because, and I said this in earlier quarters, that we do sell to a lot of bank customers and credit-related customer basis. And so with credit down around the world, that impacts it. But in a lot of places, we're still growing pretty well. So overall, this what happened: Asia-Pac grew around 7% in the quarter; Latin America grew about 10%; Europe still grew by about 4%; and Japan was down about 8%. I expect that to turnaround so overall A&H growth was about 3% in the quarter. I expect that international should pick up and be modestly better in the second quarter and will continue as the year goes along to improve.

Operator

Our next question is from Matthew Heimermann with J.P. Morgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

One follow up which was just -- it seem like a lot people were hesitant to move business following some of the financial distress last fall. Kind of this, this mentality that people don't want to move to the next blowup at least that's was the sense I was getting from risk managers. Do you think that if we do get some stabilization, and I know you're talking about the fact that people have less financial flexibility and might be looking for deals, but do you expect to see shopping, so to speak, increase if we do get some stabilization in the macro?

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

I think shopping has not decreased. Shopping is very intense. You have to distinguish though between window shopping and actually buying. And shopping is always a euphemism for, "I'm looking for a cheaper price," and so it's kind of yelling "boo" to the current carrier. And some -- and we know if the only thing you have to offer is price, there's some guys who are just -- they're irrationally offering cheap prices to keep the business. And risk managers are -- it depends on the risk manager, it depends on the line of business, shorter-tail business they're willing to take more risk than in longer-tail business because they say, well if it's a counterparty credit problem or are they really get distressed, you know what I'll be in and out relatively quickly. So you know that's kind of the calculus that's going on.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

With respect to actually moving carriers than x [ph], the window shopping, would you expect that on the long-tail side that you might actually see more movement between carriers once we...

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

Did you -- you heard the numbers I gave about certain lines of business, where ACE's growth rates are, I think, quite impressive. And that's because of that flight to capability or that flight to safety. And we're winning a lot more first primary or first excess and that is, people moving their business.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Just trying to get a feel for what inning we were in, so...

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

Well, I think the inning -- you have to distinguish a couple of things. First of all, don't just think that in the early inning it was simply about bankruptcy or no bankruptcy. Now as you go along, it's not simply just about bankruptcy, it's about capability and an excellent operating and underwriting environment or a damaged insurance carrier you're doing business with. And I'm not speaking about any one, just in general in that class of carrier. And I think that more and more is features in thinking of risk managers and that will be some of the more enduring part of the trend.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Do you think that the end of this process will be kind of a, what, late inning, so to speak, it'll be the capitulation of some of those distressed carriers themselves if their balance sheets are in fact smaller than at some point they actually have to kick business out?

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

I think what ends up happening at some point, underwriting, you can only -- if you have underwriting behavior that is going to generate underwriting losses, they eventually appear. Now how long the work eventually takes, I cannot predict. We all know it can be shorter, it can be longer but, in this period, given all the changes that have occurred since our banes, you certainly can't kid yourself the same way you could in the 90s. And it will show faster. And I think that's when companies are forced to take very severe action and rating agencies get involved, et cetera. And whether it's a voluntary capitulation or it's a forced one, eventually it comes home and you either have to kick out business or you have to raise prices substantially to make up for your losses.

Operator

Our next question is from Everett Gong with Riversource Investments.

Everett Gong

On the insurance side, I think you've mentioned that you're seeing more attractive terms in the primary and lower layers versus excess, I'm just curious if that's pretty much across all insurance lines or is it more some versus others?

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

More versus others? More...

Everett Gong

In other words, are you seeing that phenomenon across all facet of insurance lines or is it some lines more so than others?

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

I know, I think I heard you. More long-tail lines than short-tail lines and it's more commercial, large commercial. We don't play in the small commercial business. So if you're asking about areas where we don't participate, I can't really comment on those. But in the businesses where we participate, it's more on the long-tail lines that it is on the short-tail lines. And it's more important the bigger the account.

Operator

Our next question comes from Thomas Mitchell with Miller Tabak.

Thomas Mitchell
Miller Tabak

I know that this has been discussed at points in the past but now that it looks like the Democrats are going to have a solid possibly filibuster-proof majority in the Senate as well as a big majority in the House and since Mr. Obama was a sponsor when he was in the Senate of various concepts of fighting tax havens, changing the law on tax havens, I'm wondering what your perspective is on the outlook? And whether or not Switzerland will or will not end up being designated as a tax haven if new legislation gets some traction.

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

First of all, I think as you notice from the G-20, you have to really distinguish, I think, between emotion and theater within Congress and reality. Number one at the G-20, it was agreed that really the ones who will dub tax havens were not is the IMF. And that the IMF will publish a list of that. And they in fact have and they now have on their list, let's see, they have black, gray and white. Switzerland falls into the gray pending implementation of a law that really surrounds -- and all of this is about tax invasion for tax evasion, for individuals and greater disclosures so that countries one to the other can find their tax invaders. And the noise is all-around that. And Switzerland is working to implement a law that will satisfy IMF and others' requirements and so there you go. On the other side -- and that's where Congress is aiming most of their effort to do with the notion of tax evasion and offshore centers. The notion about insurance, so let's get specific to insurance, and by the way when Congress pass laws that step on current tax treaties and violate them, well unlikely that's not their track record. And current legislation that has been kicking around related to insurance clearly violates treaties. And there's been opinions out on that and I don't believe that Bacchus and others will easily pass anything that will go in that direction.

Operator

We have time for one more question that will come from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

One of the big advantages that I think AIG had was the amount of limits they could actually put out there per county [ph], I guess. I know you've increased your limits in certain lines business, what's your kind of view here going forward as far as increase in limits to your [ph] the capacity increased limits? And how do you kind of think about that?

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

Well, I think about it this way, if I like the pricing environment, we'll have the appetite to take more and to put in place reinsurance treaties that would increase our capacity. But given the current pricing environments and the terms, we're happy with both our retentions and with the gross amounts that we offer.

Brian Robert Meredith
UBS Investment Bank, Research Division

So increasing limits would necessarily think [ph] increase your ability to pick up market share right now?

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

Modestly. And it wouldn't increase -- and if you just increase your gross limit, what are you going to make, a little bit of override for the counterparty exposure? That doesn't make a lot of sense. Also remember, there's a trend that's occurring in the marketplace. And that is, clients and brokers are reticent to put too much limit with any one carrier. They see that lesson from, you said, AIG, from AIG. And there was too much concentration. And so they're going out of their way to go the other way. That's the trend in the market.

Helen M. 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.

Operator

That does conclude our call. Thank you for your participation.