S&P Capital IQ

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Chubb Limited NYSE:CB

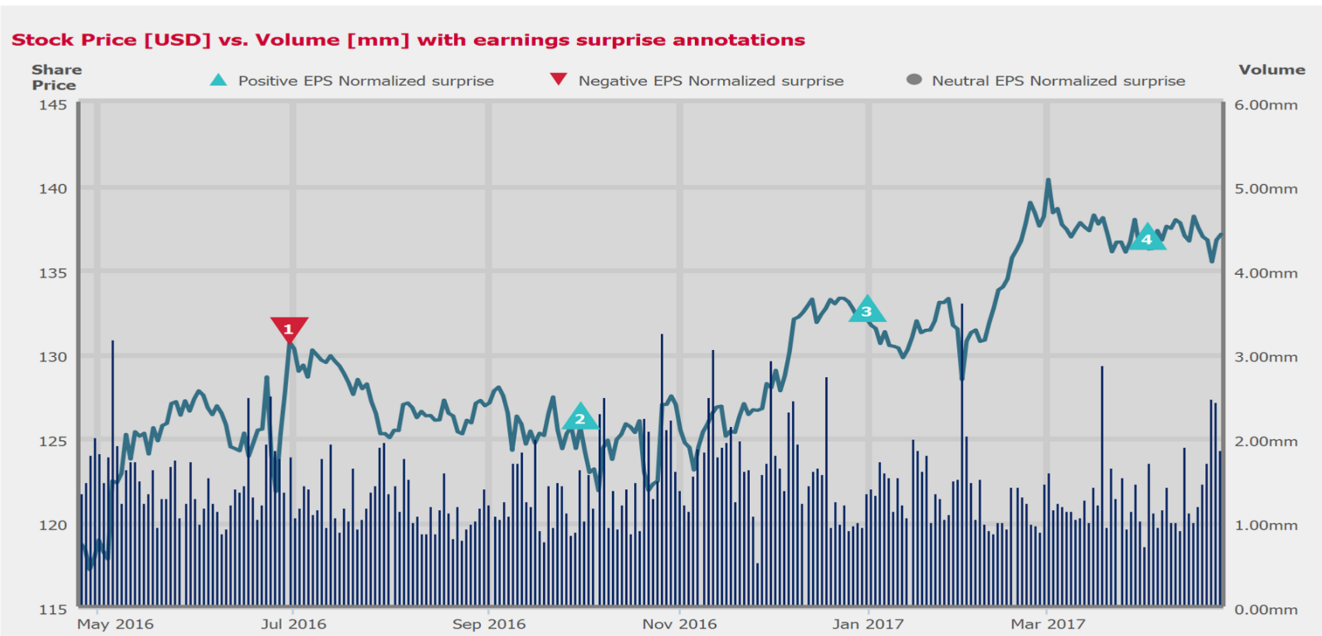
FQ2 2017 Earnings Call Transcripts

Wednesday, July 26, 2017 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.49	2.50	0.40	2.69	10.30	10.82
Revenue (mm)	7057.25	7058.00	0.01	7266.73	27656.02	28466.66

Currency: USD
Consensus as of Jul-26-2017 12:37 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2016	2.32	2.25	(3.02 %)
FQ3 2016	2.58	2.88	11.63 %
FQ4 2016	2.41	2.72	12.86 %
FQ1 2017	2.41	2.48	2.90 %

Call Participants

EXECUTIVES

Evan G. Greenberg
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Vice Chairman and President of North America Major Accounts & Specialty Insurance

Paul J. Krump
Executive Vice President and President of Personal Lines & Claims

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Morgan Stanley, Research Division

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Presentation

Operator

Good day, everyone. Welcome to the Chubb Limited Second Quarter 2017 Earnings Conference Call. Today's call is being recorded. [Operator Instructions] For opening remarks and introductions, I'd like to turn the conference over to Helen Wilson, Investor Relations. Please go ahead.

Helen Wilson
Senior Vice President of Investor Relations

Thank you, and welcome to our June 30, 2017, second quarter earnings conference call.

Our report today will contain forward-looking statements, including statements relating to company performance, investment income, pricing and business mix, economic and market conditions and integration of the Chubb Corporation acquisitions and potential synergies and expense savings.

All of these are subject to risks and uncertainties and actual results may differ materially. Please refer to our most recent SEC filings and earnings press release and financial supplements, which are available on our website at investors.chubb.com for more information on factors that could affect these matters.

We will also refer today to non-GAAP financial measures. Reconciliations of these non-GAAP financial measures to the most direct comparable GAAP measures and related information are provided in our earnings press release and financial supplement, which are available at investors.chubb.com.

In particular, all references to 2016 underwriting results will be on an as-if basis, which excludes the impact of purchase accounting adjustments related to the merger. 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. Chubb had a very good quarter. We produced strong earnings that were driven by world-class underwriting and record investment income. After-tax operating income for the quarter was $1.2 billion or $2.50 per share compared to $2.25 per share prior year, up 11%. For the 6 months of this year, operating income was up 13% from 2016.

Our combined ratio for the quarter was simply excellent, 88% compared to 90.2% last year. It benefited from a substantial improvement in the expense ratio of about 1.5 points as well as lower catastrophe losses. Total P&C underwriting income of $808 million was up 20%. The current accident year combined ratio excluding catastrophe losses for the quarter was outstanding at 87.5, again almost 1.5 points better than last year, driven by integration-related expense savings that benefited both the expense ratio and the loss ratio. Those savings plus a loss adjustment expense reserve release mitigated a rise in the underlying current accident year loss ratio of 1.2 points. Given market conditions and the fact that we are in a multiyear soft insurance market, these results are truly distinguishing and clearly demonstrate the benefits of our global capabilities, our portfolio construction and underwriting management, hallmarks of our company. They also speak to the quality and talent of my outstanding colleagues around the world, our culture of excellence and craftsmanship at all levels of the organization.

Net investment income for the quarter was a record $855 million, above the guidance we gave you last quarter and up about 5% over prior year. Philip will explain why we exceeded recent guidance.

Chubb's strong earnings produced a good operating ROE of about 10% for the quarter while for the 6 months period, per share book and tangible book value have grown 4.4% and 7.6%, respectively and they have increased about 12.5% and 20% since the merger closing in January of last year. Phil will have more to say about investment income, book value, cats and prior period reserve development.

The commercial P&C market is, with a few exceptions, soft globally though conditions vary depending on territory, line of business and size of risk. Most areas of the commercial P&C market are soft and highly competitive as many companies reach for growth. As noted in prior quarters, large account business, particularly shared and layered, remains very competitive though pricing may be beginning to bottom. On the other hand, middle market business with the exception of commercial auto continues to grow more competitive by the quarter. Wholesale remains more competitive than retail particularly in short-tail lines. In wholesale, certain stressed casualty classes are beginning to get rate, not enough to produce adequate returns but nonetheless, improvement.

Globally, new business has been hard to come by in what simply can be described as a hungry market. Competitive new business conditions are ameliorated for us to some degree when it's about more than rate and we bring the power of the organization to bear for a client or producer. In the quarter, 11% of North America retail commercial's P&C's new business, and 6% of our international new business came from cross-selling and the power of the organization.

Also, our total capabilities in terms of product, service reputation, ability to serve many different types of insurance customers, our deep distribution capability and extensive geographic reach means our optionality or ability to capitalize on opportunity is exceptional and will only improve with time. I will point to a few examples later.

With that as backdrop, the good news is, that for the business we wrote, the trend for pricing improved. Rates were essentially flat, or the rate of decline slowed in comparison to recent quarters, and in some stressed classes, we were able to achieve rate, such as U.S. commercial auto, Australian property and D&O, Mexican auto, where we were a large player and U.S. E&S casualty. In U.S. D&O, a class that needs rate, as we noted on our last call, pricing for the business we wrote went flat. As we projected, revenue growth for the quarter continued to trend better on both a published basis and when adjusted for merger noise. In fact, this was our best quarter since the merger in terms of growth. However, with the exception of our risk management business, which had nice growth and continued to benefit from a flight to quality and capability, we wrote less new business, trading new business growth for better terms. When we lost price -- business for price, we weren't losing by a few points.

Our overall renewal retention in the quarter was steady and that was true among the various lines of business with the exception of one, that we've discussed before, which is North America Property and Casualty coverage for real estate-related risks, a tough class where Chubb has been a leader.

For the quarter, P&C net premiums written globally were flat in constant dollars. Foreign exchange had about 0.5 percentage point impact. Adjusted for merger-related underwriting actions and reinsurance, P&C net premiums were up over 2.5%. As a reminder, the impact from these merger-related items has and will continue to ameliorate as we move through the year. Rate movement for the business we wrote in the quarter varied by territory and market segment. Renewal rates were down about 0.5% in our U.S. middle market business with exposure change a positive 1%. In our U.S. major accounts business, renewal pricing was down about 0.5%, and exposure change was an additional negative 0.5%.

In our international retail commercial P&C business, pricing was down 1%. Again, overall, these were the best rate results we've seen in quite a few quarters for the business we wrote. By major class of business beginning with North America, retail general and specialty casualty related pricing was down about 0.5%. Financial lines pricing was down about 0.5% with D&O flat and property-related pricing was down 1%. Internationally, general and specialty casualty related pricing was down 2%. Financial lines pricing was flat, and property related pricing was down 3%.

The U.K. commercial P&C market remains highly competitive but overall we achieved better pricing with rates mostly flat. The continent of Europe on the other hand became marginally more competitive. In Australia, we achieved meaningful rate in property and D&O, a rational sign for what is a very competitive market. The balance of Asia and most of Latin America largely remains status quo in terms of pricing trends.

Now with that as context, let me give you some more detail on revenue results for the quarter. In our North America commercial P&C business, net premiums were down 1.3%. Normalizing for merger-related underwriting, net premiums were up about 1.5% and the renewal retention ratio for retail was at 88%. Overall, new business writings for North America commercial lines were up about 3.5% over second quarter '16. Again with the exception of risk management, we wrote less new business than prior year, a trade we're not happy to make but we'll take all day long to secure adequate underwriting terms.

In our North America Personal Lines business, net premiums written were up 2%. Excluding the 6-point impact of additional reinsurance, growth was 8%. Rates were up 2%, and exposure change added 3%. Retention remains very strong at about 95%.

Turning to our Overseas General Insurance operations. Net premiums written for international retail P&C business were up about 1.25% in the quarter in constant dollars, and over 3% excluding underwriting actions. As a few highlights, Asia Pac -- Asia-Pacific commercial P&C business was up 9% on the back of Australia and New Zealand. Japan P&C was up 12%. Latin America, A&H was up 11.5%, and international Personal Lines were up over 9%. Mexico continues to be a bright spot for us, up strong double digits overall for the quarter. John Keogh, John Lupica, Paul Krump and Juan Andrade can provide further color on the quarter, including current market conditions and pricing trends.

We are in good shape with the remainder of our integration activity. Operationally and financially, all areas of integration are on track or ahead of schedule. As you saw in the press release, we've now increased the total annualized run rate savings we will achieve by the end of '18 to $875 million, up from $800 million which is up from the original $650 million when we announced the merger. These savings are directly contributing to our margins in the face of declining rates and continuing loss cost trends while giving us room to invest in our competitive profile, including our technology, our talent, new lines of business and future operating efficiency. We are investing substantial sums, talent and time in positioning this company to be a leader in a digital age because the economy globally is digitizing. This includes our organization structure, cycle times have changed, expertise and skill sets of our people, data and analytics, robotics, the front-end customer experience to the customer back-end claims experience and the very definition of the products we sell. This is not just strategy. We are quietly executing.

In closing, we are operating in a highly competitive P&C market and navigating it well. There is no other company better diversified and positioned with the breadth of capabilities, culture, talent, broad distribution and presence around the world that we have today at Chubb. We have built and are building a revenue machine governed however, by our underwriting discipline, and it gives us great confidence and optionality in uncertain times and makes us more relevant to our customers and business partners. The entire organization is intently focused on execution, and we are optimistic about our ability to continue to outperform.

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

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

Thank you, Evan. Chubb's overall financial position grew stronger in the quarter as we continued to generate substantial capital and positive cash flow. We have a very strong balance sheet to support our business around the globe with total capital exceeding $63 billion. We grew our tangible book value per share by 4.3% in the quarter. Concerning tangible book value per share growth, you will remember that at the close of our merger, the initial dilution to our tangible book value per share was 29%. Since then, we have reduced that dilution to about 10%.

Among the capital-related actions in the quarter, we returned $667 million to shareholders, including $332 million in dividends and $335 million in shares repurchased. Year-to-date through June 30, our share repurchases have totaled $475 million.

Investment income of $855 million was a record and was $20 million higher than our expectations. Half of that increase was due to higher-than-estimated private equity distributions, and the other half from increased call activity in our corporate bond portfolio.

Net realized and unrealized gains for the quarter were $747 million pretax and include a $588 million gain from the investment portfolio, primarily from decreases in interest rates and gains from our private equity portfolio. We also had a $116 million gain from FX and an $80 million gain in our variable annuity reinsurance portfolio. Net loss reserves increased $226 million for the quarter. The paid-to- incurred ratio in the quarter was 99%. Adjusting for cat losses and prior period development, the ratio was 95%.

We had positive prior period development in the quarter of $170 million pretax or $144 million after-tax. This included $43 million pretax of adverse development related to our run-off non-A&E casualty exposures which is included in corporate, and $57 million pretax favorable development relating to our industrial accident workers' compensation coverage from the 2016 accident year. The remaining favorable development was split 40% long-tail lines principally from the 2012 and prior accident years and 60% short-tail lines.

Our catastrophe losses in the quarter were $200 million or $152 million after-tax compared to $390 million or $311 million after-tax in the prior year. Catastrophe losses this quarter were primarily from U.S. weather-related events.

Integration realized and annualized run rate savings are ahead of expectation. Total incremental integration-related savings realized in the quarter were $105 million, leading to total inception-to-date realized savings of $554 million. On an annualized run rate basis, savings through June are $775 million. As Evan noted, we now expect to achieve annualized run rate savings of $875 million by the end of 2018, up from our prior estimate of $800 million. We are also expecting integration and merger-related expenses to be $903 million, up from our prior estimate of $809 million.

As we disclosed in our press release, the benefit of these integration-related savings is reflected in our combined ratio. Our combined ratio in the quarter reflected the incremental impact of integration-related savings of $104 million, a $45 million benefit related to the harmonization of the company's pension and retiree health care plans and the release of loss adjustment expense reserves of $30 million. These favorable items were partially offset by increased spending to support growth and the impact of salary increases and inflation.

We noted in the fourth quarter 2016 that we expect the incremental annualized impact of our U.S. retirement plan harmonization to be approximately $100 million pretax. Through 6 months, we have realized $80 million. The remaining $20 million is expected to be recognized in the second half of 2017.

The operating income tax rate for the quarter is 16% which is at the low end of our expected range, principally due to a higher level of catastrophe losses occurring in the U.S. We expect our annual effective tax rate to remain within the 16% to 18% range for the remainder of the year. I'll turn the call back to Helen.

Helen Wilson
Senior Vice President of Investor Relations
Thank you. At this point, we'll be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] Will go first to Ryan Tunis, Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

I guess my first question was just thinking about these merger-related underwriting actions and reinsurance. I guess at this point that's a pretty substantial number, and I guess the way we see it, it -- so far it feels like it's only shown up in the form of lower net written premium. I'm wondering if that's the right interpretation or there's other places that we're seeing it, whether it's, like, was the cat load lower this quarter than it would have been had you not done that? Is there a meaningful free-up in capital, or is it actually serving as a pretty major tailwind on like the expense ratio and the loss ratio? Just any help on that would be useful.

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

Yes. Well, first of all, you wouldn't be able to see it in the cat load because we don't give guidance, so you don't actually know what our cat load is. But as an example, we have told you this before, first of all, you get the annualized impact of reinsurance, it has to run its course. So we bought a quota share treaty last year, Northeast quota share. It's also in our Qs and Ks. And we bought that and we were very clear in the -- I'm giving you one example, in the third quarter last year, that the trade-off of premium versus buying straight cat excess on a risk-reward basis made much more sense to us, and that did lower our cat profile as one example. Secondly, merger-related underwriting actions both for concentration exposure on a per-risk or a cat basis as well as portfolios that haven't met our underwriting standards of making a reasonable underwriting return. When you look at the accident year loss ratio, it is benefiting and that it is in fact flat year-on-year. That's illogical when you think about rate and trend; mathematically, not possible if you're mathematically [honest]. However, what ameliorates that? What ameliorates it is expense savings and also underwriting actions that we have taken merger-related that helped to ameliorate that. I hope that answers your questions.

Ryan James Tunis
Crédit Suisse AG, Research Division

No, that's helpful. And then I guess my follow-up is just on the, on some of the commentary about the competitive environment. I think you said shared and layered remains competitive though pricing is beginning to bottom. On the other hand, middle market is becoming more competitive. I guess at this point in the cycle, what do you think is driving the dichotomy, and what do you think it's going to take for the middle market in particular, I guess to reach a bottom and the new business to become more attractive?

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

Yes. Well, large account and shared and layered has been competitive for longer. I mean, there has been both rate and trend, that's been grinding on for a few years, between the wholesale market feeding it and the direct retail market and reinsurers. All participants have been involved in the competitive environment there and it has been going on. At some point, what happens? Losses start coming in, broader terms and conditions, they start catching up to pricing and combined ratios rise, you see it. It's not hiding it [today]. And that eventually, it causes rates to begin to flatten out, not necessarily in a place that's adequate, but the first thing you have to do is start flattening out. So the market wears itself out at some point. And in the middle market, the middle market is always more orderly than the large account, particularly shared and layered. And that began like, that has just only begun in the last number of quarters to become more competitive where companies are trying to reach for growth. Economic growth is reasonably slow and companies are reaching for more growth because they don't have another way to go in juicing EPS. And that will go for a little while, is my sense. I don't see a catalyst except that -- really combined ratios, underwriting cash flow. So Ryan, I can't forecast the future, I don't sit with a crystal ball but my sense is, it's more competitive, and it will remain that way for a little while.

Operator

Our next version comes from Elyse Greenspan, Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on premium growth. I appreciate all the color in terms of the merger and reinsurance. Evan, you mentioned obviously the increased reinsurance took place last year starting in the third quarter. So when we kind of tie together your commentary about the market and how you see the business, are we reaching the point where in the third quarter of this year on like on an ex-currency basis, we should start to see your growth in net premiums, Evan?

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

You know we don't give forward guidance but I don't see a reason why the trend that we're seeing in our underlying growth doesn't continue and merger-related underwriting actions will continue to ameliorate as the year goes along. And you are correct, there was a large -- last year, not only did we buy it, we did also did an unearned premium transfer that also impacted net written premium level. So you are correct, there was more penalty last year.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay great. And then in terms of revenue synergies, first off, if we could just get the number for the quarter. And then second, Evan, I know in the past, you had kind of tied your long-term view just to kind of give a ballpark figure to at least being equal to the level of expense saves for the deal in terms of revenue synergies. As the expense saves have been increased, has your view on revenue synergies also increased? And if you can just talk high-level about the revenue synergies that have come about to date compared to your expectations?

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

Yes. And remember, I, what I spoke to was a -- and I don't have my exact words in front of me, but that they would -- that we'd have revenue -- we'd have expense saves that translated to operating income and that we'd have income from additional revenue opportunities that would approach some portion of, either equal or within a range. I haven't changed my view on the revenue side. We haven't really updated that frankly to look forward in the next 2 years or 3 years at that. All things being equal, the revenue synergies that we have projected remain on track. We're growing the small commercial business. We said that would take years to occur. That is happening. We said that we would gain in middle market around the globe and small commercial around the globe. That is on track. We are -- we have been planting the seeds for that and placing and building operations in targeted markets around the world that will feed that growth. We said cross-selling and by -- really more than cross-selling, the strength of the organization, bringing more product to the distribution in North America's vast middle-market capability that we have at Chubb, and that is happening. We are driving that and we can measure that, whether it is cyber insurance, environmental liability, specialty casualty, international coverages for middle-market companies, we are seeing that. We can measure that. And on the other side of the coin, the governor in all of it for us is underwriting because it's a soft market with a lot of headwinds, and that's what governs it the other way. Sometimes you get more joy for the effort, sometimes you get less, we stay steady. And I told you that 11% of new business and 6% of new business and I think, Phil...

Philip V. Bancroft

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

We have for the quarter $110 million of gross written premiums that relates to synergies.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, perfect. And one last question, can you just give a little bit of color on what drove the adverse development within your North America Personal Lines segment in the quarter?

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

Yes, I'm going to give that to Paul Krump, who was waiting for you to ask that question.

Paul J. Krump
Executive Vice President and President of Personal Lines & Claims

Good morning, Elise. Thank you, Evan. Let me unpack this a little bit for you, Elyse. The second quarter PPD amount reflects unfavorable loss development from a combination of prior period cats, rec marine and auto liability. Let me just dispose of rec marine quickly because that was 1 single claim. When you think about a cat, that was about 1/3 of the amount, and a 1/3 was coming from auto liability. Recall, Elyse, that we brought together legacy ACE, Fireman's Funds and Chubb. And in doing so, we have integrated the reserving processes for all 3 companies and we've also then brought together far more credible data than we previously had available for automobile, and that data's caused us to increase our expectations slightly on some portions of the book. Recall, though, that this is over several actions -- years and just about 1/3 of the amount of the PPD is related to the auto, so it's very much a de minimis amount. And I think it's important to note that, that data has informed our PEGs, our thinking about pricing and our underwriting moving forward.

Operator

We'll go next to Kai Pan, Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First question on the cost savings target. Were the -- can you talk more about where the $75 million additional costs have been coming from and how much you plan to reinvest in the business, how much do you think can flow through the bottom line?

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

Yes, well, you're already seeing it flow through the bottom line substantially. And so, and we are investing in the business as I gave you on the commentary. Where it comes from is spread broadly across the organization. It's fundamentally not in the underwriting units or in sales and marketing. It's more in support operations and it is personnel costs related, it's outside services related, it is IT-related, and it's to some degree, real estate-related.

Kai Pan
Morgan Stanley, Research Division

Okay. Then my second question, a follow-up on the reserves. Outside of personal line in the North American commercial business also see a year-on-year slowing down in terms of reserve releases, just wonder if you can provide additional sort of color on that.

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

Yes. It was a positive reserve release, which speaks to strength of our reserves. Our prior period reserve development has variability, it varies by quarter. It depends on the reserves studies that we do in the quarter and which we do -- we study all major lines through the year. And quarter-to-quarter though, there's variability. It depends on what you did study. Again our reserves are strong. The first quarter, I'll remind you, was essentially flat with the prior year, I think it was down $10 million or $15 million. I can't predict the future. I don't know future trends, frequency and severity versus the input we use to create our reserves in any given line of business. But again, what I'm very comfortable with is our reserves are quite strong.

Kai Pan
Morgan Stanley, Research Division

If I may, just one quick one. A favorable release in unallocated claim handling expense contributed to the loss ratio improvement of 1 point, is that one-off?

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

Well, it can be. Yes, we study it every year or more than once a year, we look at what we have put away for future claim development. And so like any other reserve, we study that, and this quarter, the actual projected and -- what we've seen as trend versus what we are holding in reserve resulted in a release. I can tell you last year, when we did second quarter review, we also had a reserve release then on unallocated loss adjustment expense. I can't pretend to predict the future of that. It's not like, well, it's just this -- you're going to harvest the reserve release in [UA areas]. You don't know this. You can't project it.

Operator

Our next question comes from Jay Gelb, Barclays.

Jay H. Gelb
Barclays PLC, Research Division

I was hoping you could comment on the recent favorable trend that's been identified in the slowdown in the number of lawsuits being filed in state courts, and whether that would have a positive trend on Chubb's loss cost inflation.

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

We've seen the same thing, that it slowed -- we've read the same headlines you read, we see that out there. We haven't noticed it particularly in our casualty loss cost development. Though, I can say that in general casualty in particular, reserve releases have come from trends lower than we projected. So that is a fact. On the other hand, when you look at litigation related to directors and officers, there is no improvement in that area and in fact, frequency and severity have worsened. The article that you read referred to general litigation of nuisance suits and others in that where Americans would freely reach for a legal remedy for any misfortune that came to them, and that there is a decline in that. That you don't see in directors and officers.

Jay H. Gelb
Barclays PLC, Research Division

And then more broadly, given all the back-and-forth we're having, we're seeing from the administration on various topics, I thought you could help us out by updating us on your views around tax and trade.

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

You want to get me in trouble, don't you? My views remain as they were. For our country and for our economy to reach its full potential, which it is not right now, we need tax reform, we need infrastructure. The state of infrastructure in our country is shameful, and it's a competitive disadvantage and we are somehow lackadaisical about that. And I can tell you, I travel around the world, you go to China, you go to other countries that are growing their economies and will grow their economies more rapidly than us, their infrastructure is far superior, that is a fact. Regulation, deregulating is so important. But an awful lot of this requires legislation, and we need an administration that is focused, that is working with Congress. And we need a Congress that comes together to address these issues of our country. There is just no doubt about it. When it comes to trade, I stand firm. Our country has benefited substantially, in particular, NAFTA, and it is a competitive advantage to our country and that agreement is up for negotiation right now to modernize it. And I am hopeful and I believe there are so many in the administration who understand that it is important for us to modernize it and to recognize the benefits to our citizens of all 3 countries gain, who are parties to NAFTA, from NAFTA. It makes a competitive North America in a global marketplace.

Operator

We'll go next to Sarah DeWitt, JPMorgan.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

I wanted to ask a question on the agriculture business. How's the year looking in that business, it seems like growth conditions are worsening, though any color you can give on what's going on there would be helpful.

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

I will. You're -- I'm going to turn it over to father -- to farmer John Lupica. But you're obsessing about, in that about the Western part of the corn belt, not the eastern part.

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

Yes, Sarah, thanks. It's John. Yes, our early focus this year was on winter wheat and the growing conditions for the spring crops that you mentioned. Right now, the winter wheat appears to be in line with our expectations which is good news, and then the planting acreage may have dropped a little bit, but we expect that to show itself when we see the final revenue come out from the spring crops. And as for the spring crops, as you know, we're in the midst of the growing season now, so we don't have final, final look at it. The weather was a bit early in the -- wet early in the season, but later in the summer, we're witnessing the Western corn belt get high -- hot and dry, so we're watching that. And we can certainly use some rain out West. The eastern corn belt is doing terrific, and that looks to be in better shape. So right now, we're watching the patterns. There's nothing out there that leads us to believe that we wouldn't have anything but an average year. But I'd just remind, you last year was just one of the best we'd ever seen in this business.

Operator

We'll go next to Ian Gutterman, Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

If I could start with Phil, with just a follow-up on the ULAE. First, did that $30 million show up in PPD or is it just in the regular loss ratio? And then secondly, was it concentrated in any one line, or was it spread across all of the different segments?

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

First of all, we consider that current accident year, it's not in PPD. Paul, would you say there was any concentration?

Paul J. Krump

Executive Vice President and President of Personal Lines & Claims

By segment, North American commercial.

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

Yes. North American commercial but let's leave it at that.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, makes sense. I guess, Evan, on Personal Lines growth, the 8% sort of adjusted it, is a pretty strong result. It obviously it sounds like a decent product that has rate and exposure, but it seems like there's some -- maybe accelerating unit growth as well. Can you just talk about what's driving that? It's obviously a tough time at least on the auto side. I know it's a smaller part of the book, but for peers, just -- are you finding opportunities to take business from people or is it mostly the home driving it? I was just curious.

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

Well, first, I'd say this to you. Our auto book is not a huge book, we're not a general auto market writer. And we are earning an underwriting profit in automobile -- that's [respected]. The growth -- we had unit growth in the quarter. We wrote double digit number of new policies. Some of that is multiple policies on a customer, and so we'd say high-single thousands, wouldn't it? Single thousands of new policy count. We're trying to get a handle, better data on assigned policies back to customers in aggregate and making sure we have that exactly right, so I don't want to misspeak about that. But we are getting growth. And it is coming -- our growth is coming in all 3 areas. We're getting it from the mass affluent. We're getting it from the higher segments of high net worth, all the way up to very high net worth. Both number of customers but as well, their own exposures grow as they acquire more assets, homes, et cetera and we're upselling there. I'm pleased with the progress we're making in Personal Lines. I can tell you, as you get it, it's like talking about small commercial, it comes in small bites, it takes a long time to effect change that really shows in numbers in a significant way. And I like the way our marketing and sales is organized in our field operations. I like how we're being able to now begin to target county by county of the United States, where our target market is and beginning to put in place capabilities and sales, an agent process to be able to target those customers to go after. That's not a 6-month project. That's a multiyear project to really show itself, but we're doing that. I like what's going on in our branding. I like what's going on in our new product capabilities as we roll out coverages in farm and ranch, in cyber, and directors and officers' liability, not for profit in a better way. I like what we're doing in our service and underwriting. There's a very high net worth in being able to underwrite them between admitted and E&S and global in a better way and we can do even better. The game plan we've put in place, if anything, we're just crystallizing our focus on it. We're operationalizing better. We have more talent that we brought in to high net worth from both inside and outside the organization. We've restructured so that we can get a better focus on individual markets and as well speed of how we make change. But at the same time, to file product, state-by-state, rate and product changes and system changes take time. I love the future ahead of us in that line of business.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. And if I could ask a quick one on commercial. Just -- you sounded a little bit, I don't know, if optimism is the right word, but certainly less pessimistic on where rates are. Is it fair to say though that even if this is a sign of a bottom, we're still trailing loss trends, so if I'm -- I'm not trying to ask for guidance, obviously -- but if I'm looking ahead beyond this year, there's still probably pressure on accident year margins before any improvements you can make from mix or other changes?

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

Absolutely, Ian. Look, I'd say this. What we saw in pricing, I don't know if one robin makes a spring. So I can't tell, number one. Number two -- but you know, look, I recognize it for what it is and it's better than we've seen on our book in a number of quarters, number one. Number two, it was on our book of business and the business we're not writing, new or that we're losing, I said it in the commentary, and I'm going to underline it, we're not losing for a couple of points. And so it is a hungry market out there. When we look at terms and conditions, we lose for terms and conditions that we find -- it'll go across the board that make us shake our heads that are just plain old irresponsible or dumb. And so we see the market continuing. On the other hand, we do even see in the market generally, pricing, in a number of classes, bottoming but it's at a level that absolutely will not earn an underwriting profit.

Operator

We'll go next to Paul Newsome, Sandler O'Neill.

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

With exposure seeming to be improving broadly, how do you think we should think about the portion of exposure increases in your book of business that acts like rate versus that which is actual exposure increases? I'm just trying to think about the impact...

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

I know what you're saying. But Paul, I'm curious, where do you see exposure improving?

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

Maybe it's my hope that the economy improves in the U.S.

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

Okay. I -- but be careful, don't wish cat here because I'm not sure you're seeing it. I don't see exposure growth improving. I see it flat and in some cases, down actually, than what we saw say a year ago. I think the economy is solid but I don't think it's exciting, just kind of ticking along. The way to think about that is -- there's an element and it varies by line of the business. Exposure growth, for instance in Personal Lines, a portion of the exposure growth does subsidize rate, and a portion of the exposure growth is truly just a one-for-one trade-off. In commercial lines, it's a mix also. To be able to tease that out to you and give you a rule of thumb or point estimate, I can't do it. But you are correct about the elements. I realize it's not a satisfactory mathematical answer to you, but you're not onto the wrong.

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

I can only ask.

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

Of course you can and I can only try to answer.

Operator

We'll go next to Brian Meredith, UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two quick questions here. First one, I was just curious, was there any favorable or unfavorable impact from currency on operating earnings this quarter? And what is -- what do you think it's going to look like here going forward given some of the weakness in the dollar?

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

It was minimal, it was about $4 million on operating earnings.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. And as we look at where we are today, is there benefit?

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

I don't think there'd be any substantial benefit. Let's see what happens.

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

It depends. Sell us the currency, give us the basket, and we'll have a better idea but it's bouncing around.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then second question, I'm just curious, we're hearing more and more talk about distribution changes going on in U.S. on the small commercial side and people planning for it. When you look at the small commercial business and your entrée into it, are you planning on or your thoughts on a direct distribution capability?

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

Change is coming. I listen to a lot of loud talk [days] as I tried to say in my commentary, we're doing an awful lot. But we're going about it quietly. I think results better speak than a lot of loud chatter. And I do think some of the talk is ahead of the reality at the moment. But with that said, change is coming and we're not alone as, in terms of carriers improving their capabilities, because of what technology brings that will lead that change. It's around data, it's around straight-through process -- it's around data that improves the customer experience, while at the same time improving your ability to select risk and to do it quickly, ID in seconds, and to be able to then straight-through process. It's claims on the other end, on certain cohort of claims, that can be settled the same way. These capabilities will improve the intermediary's ability to sell and service the business at a lower cost. Take some cost out, it will feed the process. But at the same time, those same capabilities will be delivered through new kinds of intermediaries. That [contact] of where customers, potential customers are buying other services and products. And it's natural that at that time, they consider insurance. You're licensing your business, your small business. You're setting up the accounting and financing of your small business. It's a time that you will consider insurance as an example. There'll be many like that. You're talking out a loan for your business. And technology enables those other forms of distribution. The customer will buy it from a desktop, the customer will buy it from a mobile device. They'll buy it anytime, anywhere and they'll service it anytime, anywhere. This is not futuristic in the sense of measuring it in years from now. It's on our doorstep. This is the next -- this is the next 2 years or shorter. It will be iterative, it will only get better and better and better. There won't be one winner. There'll be a number of them.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. So you see aggregators continue to kind of gain share here or at least have success in the U.S?

Evan G. Greenberg

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

Define aggregator to me.

Brian Robert Meredith
UBS Investment Bank, Research Division

I mean something like a confused.com in the U.K. and the Personal Lines side perhaps something here in the U.S, just seems like it hasn't really caught traction here in the U.S.

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

Well, maybe. I can see single-source distribution with other financial services. I can see those who offer multiple choice. For those who simply want to shop insurance. I'm agnostic. I don't see any one of them as winners. I see multiple winners because I don't think there's one kind of consumer out there, one kind of buying behavior out there. And I think there are going to be other compelling options for you to use in terms of buying that you haven't had as a choice now, to date. That's what I'd say.

Operator

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

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I just want to get an update on the life insurance business. It looks like both the earnings contribution and the revenue growth is slowing there and I'm wondering if you can talk about what's happening.

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

Yes. The VA business, our run-off variable annuity business, we told you earlier, I think it was in the fourth quarter, that we adjusted our model and took our earnings -- and as a result, put up our reserve that took down our earnings quarter on -- because it's year-on-year -- so quarter-on-quarter runs about $15 million to $16 million a quarter, is coming off because of that change, right. And then our international life business is actually growing.

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

Jay, what I would is if you look at Page 18 in the supplement, you'll see that while the gap premium is down, 3%, 3.5%, the overall production in the quarter is up 8%, if you include deposits and it's up 14% over the 6 months. So we're starting to see strong growth in production for the overall international life book.

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

And we said, we would look at production more than gap premium, because of the kind of fad product that's being sold.

Operator

Our last question comes from Meyer Shields, KBW.

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

Evan, can you compare the mix of business within reinsurance now to what it was 2 years or 3 years ago? Is that changing?

Evan G. Greenberg

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

Say that again, Meyer?

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

I'm wondering whether -- obviously the premium volumes in global reinsurance are coming down. Is the mix also shifting?

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

Wow. I'm just tried to edit add it up before I give you a complete answer because everything has been coming down. Casualty is down, risk property is down, cat has been down. The mix is probably pretty steady. Maybe it biases a little more towards the risk lines than the cat lines.

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

And then finally, can we get a quick explanation of what drove the adverse development in the corporate segment?

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

It's the runoff business. The Brandywine run-off business is in the corporate segment. So it was the business that was put into Brandywine, at about 1995, there's a number of casualty lines where we had development.

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

It's not new. We don't have a runoff division that we sort of put things we don't like. This is the Brandywine runoff and also Chubb had as well runoff A&E. And this is, we studied the loans -- what we call LTE, it's other than asbestos environmental which are third and fourth quarter. This is the other lines that would be like sexual molestation, et cetera, and it's the runoff of that and that's where a charge was taken.

Helen Wilson
Senior Vice President of Investor Relations
All right. Thank you, everyone for your time and attention this morning. We look forward to speaking with you again at the end of the next quarter. Thank you, and good day.