S&P Global
Market Intelligence

Chubb Limited NYSE:CB

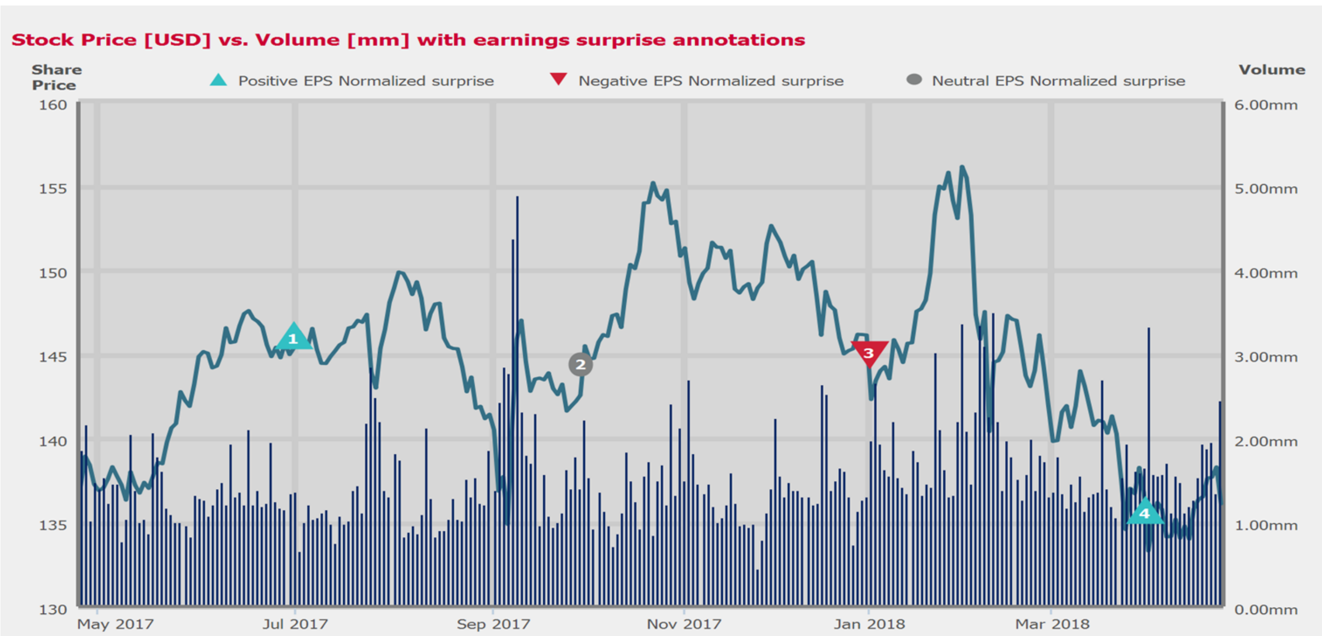
FQ2 2018 Earnings Call Transcripts

Wednesday, July 25, 2018 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2018-			-FQ3 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.62	2.68	2.29	2.66	10.46	11.29
Revenue (mm)	7304.62	7450.00	1.99	7646.60	29201.00	29776.43

Currency: USD
Consensus as of Jul-25-2018 10:34 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	2.49	2.50	0.40 %
FQ3 2017	(0.22)	(0.13)	NM
FQ4 2017	2.30	2.28	(0.87 %)
FQ1 2018	2.26	2.34	3.54 %

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Call Participants

EXECUTIVES

Evan G. Greenberg
Chairman, President & CEO

Helen M. Wilson
Senior Vice President, Investor Relations

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Executive VP & CFO

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Jay Adam Cohen
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Kai Pan
Morgan Stanley, Research Division

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

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Presentation

Operator

Good day, and welcome to Chubb Limited's Second Quarter 2018 Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

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

Helen M. Wilson
Senior Vice President, Investor Relations

Thank you, and welcome to our June 30, 2018, second quarter earnings conference call. Our report today will contain forward-looking statements, including statements relating to company performance and growth, pricing and business mix, digital and distribution initiatives and economic and market conditions, all of which are subject to risks and uncertainties. Actual results may differ materially.

Please see our most recent SEC filings, earnings press release and financial supplement, 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 which to the most direct comparable GAAP measures and related details are provided in our earnings press release and financial supplement.

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, President & CEO

Good morning. Chubb had a very good second quarter, with core operating income of $2.68 per share, up over 7% from prior year.

Our results were driven by excellent underwriting and investment results. We produced strong premium revenue growth globally, with contributions emerging from a number of our growth initiatives.

At the same time, rates continued to firm in a number of important property and casualty related product lines.

P&C underwriting income of $824 million benefited from contributions, from current accident year results and positive prior year reserve releases.

Both our P&C combined ratio of 88.4% and our current accident year combined excluding cats of 88.1%, were excellent. Year-over-year cat losses were about flat.

On the back of strong cash flow, net investment income of $890 million was up 4%.

Book and tangible book per share were essentially flat in the quarter, impacted by the mark from a rise in interest rates and foreign exchange.

Excluding the impact of interest rates on the mark, which given we're a buy-and-hold investor, will eventually amortize back to us over approximately a 4-year period, book and tangible were up about 0.7% and 2% respectively.

Our annualized core operating ROE in the second quarter was 9.8%.

Phil will have more to say about investment income, book value, cats and prior period development.

Turning to growth and market conditions. For the company overall, P&C net premium revenue growth was 5.6% for the quarter or 6.1% excluding agriculture, with foreign exchange having a 1.5% benefit.

A number of growth-related initiatives that are only possible because of the capabilities created by today's Chubb contributed to our growth this quarter and I will elaborate a bit as I go on.

Commercial P&C pricing for the business we wrote continued to improve in the U.S. and certain territories outside the U.S.

In North America, for example, rates overall were up 3% versus 1.9% last quarter and 1% in the fourth quarter. So the direction and momentum in price firming that we've been seeing now for several quarters continued.

At the same time, our renewal retention rates were simply outstanding. In fact, across our entire North America commercial and personal P&C franchise, renewal retention is measured by premium, was over 95%, recognition of the quality and the compelling nature of Chubb.

In our U.S. Major Accounts retail and E&S wholesale division, premiums were up almost 4%. Excluding merger-related underwriting actions, which are concentrated here, net premiums were up 6%.

As I noted last quarter, merger-related actions are now mostly behind us and of the approximately $150 million, over 60% have already occurred.

For Major Accounts, our renewal retention in the quarter was over 96%, while new business was up 29%.

Let me give you some examples of both rate and its movement during the quarter in Major Accounts.

Again, for the business we wrote, rates overall were up 5.2%. That compares to 1.9% for the first quarter and 1% in the fourth quarter. Property rates in Major Accounts were up 21.5%. Casualty rates and risk management primary casualty were up 1%, while in U.S. exposed general and specialty casualty, rates were up about 5%.

Rates for Major Accounts Professional Lines were up approximately 2%, with primary and first excess D&O up 2.6%, so moving in the right direction.

For perspective, of our total U.S. Professional Lines book, which overall runs quite well, 15% represents those areas that are stressed and require corrective actions, which we have been taking, namely certain areas of public D&O and certain classes of professional liability for financial institutions, the balance or 85% of the book runs well.

Now let's turn to our North American middle market and small commercial business, where net premiums were up almost 4.5% and new business was up 26%, the best growth we've seen from this business since early '16.

In middle market and small commercial, about 1/4 of the new business came from growth initiatives put in place since the merger.

In middle market, premium revenue growth. Premium revenue grew about 3.5%. Overall renewal retention was 90%, a full 2 points better than prior quarter.

Middle market P&C rates overall, excluding comp, were up 1.7% and exposure growth added an additional 1.2%.

Property rates were up about 1.5%. Casualty related rates were up about 3%, while package was flat.

Comp rates were down 4.1 points, while comp related exposure was up about 4 points. So the net impact for middle market comp was essentially flat.

Middle market Professional Lines rates were up, with public D&O up 6.3% and private not-for-profit D&O up over 2%.

In middle market, rates in the quarter, with the exception of comp, were the strongest we have achieved in several years, continuing a positive trend.

Growth in our U.S. small commercial business continued to accelerate in the quarter, albeit from a relatively small base. Net premiums were up 27%. Based on the growth velocity over the last few quarters, we expect this business by year-end to have an annual run rate of over $400 million in premium. Over the next 3 to 5 years, it should be in the multi-billion dollar range. And importantly, you wouldn't be seeing that revenue if it wasn't for today's Chubb.

In our North America Personal Lines business, net premiums were up 6.4% in the quarter. Adjusting for an accounting policy action, growth was closer to 3%.

Retention remained very strong at over 96%. We continued to secure a better mix of business in Personal Lines, with new business and renewals skewing towards true high net worth or affluent customers, as opposed to the mass affluent, which is our target customer given the richness of our coverage and services.

We are investing to digitally enable the customer service experience in this business. For example, we introduced a mobile app that gives clients access to a variety of digitized services, including insurance ID cards; the ability to contact their agent; notifications that alert them of approaching weather events such as wildfires and hurricanes, so they can take advantage of our prevention and defense services; and an innovative Chubb at the Wheel function that tracks driver behavior and helps clients, particularly teens, be better, safer drivers. We're introducing additional functionality to the app every few months and this will become even more exciting over time.

Another dimension is our digital marketing to grow our Personal Lines business by penetrating territories where we are underrepresented. We target customers who are underserviced by mass-market carriers.

We have digital marketing initiatives underway to attract prospects to Chubb and to independent agents and brokers to help them build their business with leads and improve their service capabilities.

These are all good examples of the company investing to distinguish itself in the marketplace.

Turning to our Overseas General Insurance operations. Net premiums written for our international retail business were up 10.7% or 6% in constant dollars.

As I mentioned last quarter, our growth rate outside the U.S. is increasing and should continue to do so as the year goes along.

Asia Pacific and Latin America both grew over 11% in the quarter, with foreign exchange contributing another 3% to 5%, while the Continent was up over 3% and U.K., Ireland was flat.

Net premiums for our international, middle market and small commercial business, which is a major initiative given our capabilities today, grew 7% in the quarter in constant dollars, on a base that's now about $700 million.

Expanded distribution and product, industry expertise and technology capabilities are just some of the complementary strengths that we brought together to grow this business, which is really beginning to take hold and should continue to gain momentum.

Growth in particular is being driven by our business in Asia and Latin America, the key focus regions for us, where net premiums were up 15% in the quarter.

International A&H premiums were up 6.5% in constant dollars, driven by 11% growth in Asia Pac, while international Personal Lines growth was up 10%, driven by a standout performance in Latin America, with growth of 25%.

Speaking of Latin America, in the quarter, we announced a long-term distribution agreement with Citibanamex, a leading financial institution in Mexico. Under this long-term agreement, together we will distribute, on an exclusive basis to their customers, Chubb's non-life insurance products to 1,500 branches and a variety of digital and direct marketing channels.

The agreement encompasses a broad variety of Personal and Commercial P&C coverages to the bank's 12 million individual customers and 400,000 small to medium enterprises. This is another example of an important business partnership made possible because of our growing digital capabilities, which were a key consideration for Citi during their due diligence of us.

As for pricing conditions outside the U.S., rates in our international retail and London wholesale businesses varied by line and region, and by country within region.

Overall rates were up 4%, with property up 8%, Financial Lines up 6% and casualty and marine flat.

In total, our global A&H business had an excellent quarter, with net premiums up nearly 9% or 6.1% in constant dollars.

In addition to the strong contribution from international that I just mentioned, A&H net premiums grew about 8.5% in North America.

Meanwhile, in our Asia-focused international life insurance business, net premiums and deposits were up 19% in the quarter. And importantly, earnings grew about 170% to $25 million.

John Keogh, Paul Krump, Juan Andrade and Ed Clancy can provide further color on the quarter, including current market conditions and pricing trends.

In closing, we are achieving improved premium revenue growth in many of our businesses around the world, several of which wouldn't have been possible but for an organization that was created with so many complementary capabilities. We're continuing to achieve positive rate change momentum in a number of businesses, which is important so that we earn an adequate risk-adjusted rate of return.

Lastly, our digital capabilities are advancing in many corners of the world, and we're making steady and substantial progress, from signing major distribution agreements to digitally enhancing customer service to reimagining product and customer experience. The scale and the capabilities of Chubb have made our digital efforts, including the level of investment, possible.

In sum, our organization is running on all cylinders and we're optimistic about our ability to continue to perform at a high level.

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

Philip V. Bancroft
Executive VP & CFO

Thank you, Evan. Our balance sheet and overall financial position remains strong, with total capital of $64 billion.

Operating cash flow in the quarter was very strong, totaling $1.65 billion.

Among the capital-related actions in the quarter, we returned $663 million to shareholders, including $339 million in dividends and $324 million in share repurchases.

Through July 24, we have repurchased $361 million at an average price of about $132 per share.

During the quarter, we also redeemed $1 billion of hybrid securities in April and we repaid $600 million of senior debt that matured in May.

Net investment income for the quarter was $890 million, slightly above our expected range due to the higher private equity distributions.

Our expected quarterly investment income run rate remains in the range of $875 million to $885 million, with an upward trend as the year continues.

Book value per share was essentially unchanged and tangible book value per share increased 0.5% in the quarter. Both were negatively impacted by foreign exchange losses and unrealized losses on the investment portfolio caused by rising interest rates.

Foreign exchange had a $457 million after-tax negative impact on book value and a 290 -- $200 million after-tax negative impact on tangible book value.

Realized and unrealized losses on the investment portfolio were $407 million after-tax.

Pretax net catastrophe losses for the quarter were $211 million, principally from U.S. weather-related events and were in line with our expected level for the quarter.

We had positive prior period development in the quarter of $191 million pretax or $158 million after-tax. This included $236 million of pretax favorable development, $200 million of which was split approximately 70% from long-tail lines, principally for 2000 and prior -- 2014 and prior accident years, and 30% from short-tail lines, with another $36 million related to the 2017 cat events.

The favorable development was offset by $45 million of pretax adverse development related to our runoff non-A&E casualty exposures, which are included in corporate.

Net loss reserves increased about $200 million in the quarter adjusting for foreign exchange.

The paid-to-incurred ratio was 97% in the quarter. Adjusting for PPD, cat losses and agriculture, the ratio was 91%. Our P&C current accident year combined ratio, excluding cats, increased 60 basis points to 88.1%, due in part to a year-over-year increase in certain large structured transactions in our North America commercial insurance business, which increased the loss ratio 1 percentage point and decreased the expense ratio 70 basis points.

Our core operating effective tax rate for the quarter was 14.8%.

As a reminder, our annual 13% to 15% range reflects the variability of where catastrophe losses and prior period development occurs.

We continue to expect our annual effective tax rate to be in the range of 13% to 15%.

I'll turn the call back over to Helen.

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

Question and Answer

Operator

[Operator Instructions] Our first question today comes from Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

So first question on the -- just following up on the Professional Lines, if my number is correct, you have about 10% of your overall premiums in U.S. professional and surety. You said about 15% of in distressed areas, so overall impact probably is less than 2% of your portfolio. I just wonder if that math is correct. And then how do you feel the overall rising, in terms of rising social inflation, impact your loss PEG as well as the action you're taking to mitigate them?

Evan G. Greenberg
Chairman, President & CEO

Yes, so Kai, first of all, I'm not sure I quite got everything you said because you said surety and mentioned surety and profession -- our Professional Lines book is made up of substantially E&O, D&O, our cyber business is within there, we have surety. The -- and surety, by the way, is a separate line for us from Professional Lines. So I don't know what you're mixing together and so that's -- all that math, we're going to take it offline. When it comes to the question of the -- which I was really making the point, that I hear all this about other liability claims made and conflating it to D&O, and when we have talked about D&O and public D&O and some of the issues around it, what I thought was important was to put it all in perspective for everyone, that number one, the part we're talking about is a -- is 15% of our Professional Lines business. By the way, other liability claims made is made up of a whole lot more than Professional Lines. You have environmental liability within there and a number of other lines as well go in there. So I was really trying to create perspective. On your question, our loss PEGs and our loss ratios that we select and that we book, they reflect the environment as we see the environment to be. So if there is -- are trends in the environment around what you're calling social inflation, which is an interesting euphemism to me, all of that is reflected in the loss PEGs that we have right now and in the loss ratios that we book. Our underwriting actions that we have been taking, that relate around portfolio management as well as pricing, have been underway for some time and -- within that business and they continued, period.

Kai Pan
Morgan Stanley, Research Division

That's great. I was referring to in the merger, like, slide deck, you combined U.S. Professional Lines and surety as 10% of your overall premiums, so you didn't break down what is exactly U.S. Professional Lines, that's the point I'm trying to make.

Evan G. Greenberg
Chairman, President & CEO

Surety is not within our Professional Lines number.

Kai Pan
Morgan Stanley, Research Division

Okay, great. Then my second question is on the year-over-year increase, about 130 basis points underlying in combined ratio in North American Commercial P&C. About 70 basis points coming from those large structure transactions. I was hoping you can explain it a bit what are those? And will the impact be like sustainable for the next 3 more quarters? And also, the rest 60 basis point deterioration, what is behind those? Are those non-cat losses or other factors?

Evan G. Greenberg
Chairman, President & CEO

Well, the 60 basis points, I mean, first of all, let me take that part first and then I want to talk about the rest of it. The combined ratio that we run is simply world-class, it's outstanding. And at the same time, you know what the rate environment is, you know what loss cost trends are and you have a sense of that. And so it's just straight math, that we're -- that you have to raise your loss ratios in areas where you're not getting rate and where loss cost trends and loss ratio continues to rise. But the margins are extremely healthy, so when I look at the 0.6% in that, I think it's pretty good, especially given the work we do around underwriting and mix change and growing other areas more quickly, that have a -- an interesting combined ratio signature to them, to mitigate and keep it to a modest level like that. When it comes to the large transaction, let me put this in perspective for everybody. Part of Major Accounts, which is our risk management business -- within Major Accounts is our risk management business. We are the largest provider of services to large corporations that self-insure their comp and casualty exposures. We provide substantial risk transfer excess coverages and all of the surfaces around the self-funded portions. It's complex and it's a large business. We're the best at it and have been in it for many years. It's a core part of our franchise. By its nature, it has always had elements of lumpiness, think about it. On one hand, large accounts, which renew periodically with large premiums, we have good persistency, but you win some, you lose some now and again. By its nature, accounts also -- this business also has and these accounts have, one-off transactions. We write these just about every quarter. Some quarters they're bigger than others. This quarter, we wrote more than usual because of a larger transaction and that's what we disclosed. And by the way, we disclosed it only for the purpose of telling you the impact on loss ratio and expense ratio in the quarter. Otherwise, we wouldn't have mentioned it, simply because it's part of what we normally do and write, period.

Operator

Our next question today comes from Elyse Greenspan of Wells Fargo Securities.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question. I appreciate all the disclosure on the pricing environment. As we think forward from here and in the third quarter, we start to annualize when we really started to see pricing momentum on the Commercial Lines side next year. I guess I'm just curious for some of your thoughts on, if we don't have a large cat year this year and in addition, if interest rates continue to rise, do you think that pricing momentum can continue to improve from the improved levels that you even -- that you guys saw in the second quarter?

Evan G. Greenberg
Chairman, President & CEO

Elyse, first of all, pricing didn't begin to move till the fourth quarter. It really wasn't the third quarter. It was very, very modest in the third quarter. It was fourth quarter, so I think that's the first point I'd make. Secondly, look, I'm going to speak in a rational way and markets aren't always rational. Pricing -- the pricing trend we see should continue and we will continue to, as a core part of our strategy for Chubb's business, to push on that. Understand that the market remains competitive and where it's about capacity, which is a lot of the market and a lot of the players who talk, pricing is not very interesting, it's stable to slightly up or down. But so much of the business -- so much of what Chubb does is about more than capacity. They engage with Chubb because of capabilities and service quality. And then we also have substantial portions of our business that are not subject to the same cycle -- commercial cycle. In my mind, we're going to continue to insist on achieving price that is adequate to achieve a reasonable risk-adjusted return, in those classes where we need to. And I think we're doing a pretty good job of it, and I don't see, at the moment, that ameliorating.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then in terms of inflation, we've also heard some discussion about tariffs and international issues potentially leading to higher inflation as well. What's your, just, view on that front as well?

Evan G. Greenberg

Chairman, President & CEO

Well, tariffs are a complex subject, they have an interesting timing to them. I mean, first of all, many are -- many as you know, right now, are reporting earnings and people are saying already, "Wow, I don't see any impact of the tariffs." So many goods and -- are purchased and contracts are signed so long in advance. And so to find its way into the stream of commerce, into the pipeline in a meaningful way, takes time, number one. Number two, what is the actual dollar amount of tariffs today relative -- versus what's being talked about, relative to the size of the economy and relative to the size of exports and imports, it's not a large percentage. And it is on goods, mostly on goods. So the inflation impact, if it's going to occur, should be relatively modest, will occur over time and let's see what happens in trade overall. The tariffs aren't for the purpose of simply tariffs for their own sake. They're part of a strategy to achieve what the President would say is more fair and balanced trade. We'll see what kind of outcome that leads to.

Operator

We will now take a question from Greg Peters of Raymond James.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

In your opening comments, you talked about operating cash flow and if we look at the consolidated financial highlights table for the first half of the year '18, it looks like operating cash flow is up 33%. Perhaps you could provide a little more color behind that?

Philip V. Bancroft
Executive VP & CFO

Yes, I would say there's a couple of things. We had very strong cash flow from underwriting as part of our operating cash flow and there were a lower level of tax payment. It's just the timing, but the tax payments were down substantially, which contributed substantially to the higher cash flow in the period.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

So looking at that same table, Philip, the combined ratio was actually up for the 6 months 2018 versus 2017. You said the underwriting is better and...

Evan G. Greenberg
Chairman, President & CEO

Do not mix up incurred loss and paid loss.

Philip V. Bancroft
Executive VP & CFO

Right. So it really is on a cash basis.

Evan G. Greenberg
Chairman, President & CEO

We can take that offline if you want to get into accounting.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Yes. No, no, no, that's fair. You talked a little bit about the digital efforts, both in your press release and your commentary, and there's a lot in the marketplace around emerging technology ideas, around distribution, potential AI, and I was wondering if you could just give us an update on how you're approaching your global IT budget this year versus last year? And what your view is on all these emerging distribution ideas that are coming into the marketplace?

Evan G. Greenberg

Chairman, President & CEO

Well, I'll give you what we've said publicly. We spend about $1 billion a year on IT and that's a substantial amount of money. A very substantial -- a large portion of that is in new development and both in terms of improving legacy technology, in terms of infrastructure, they're cloud-enabled, and anytime, anywhere access and processing. And in terms of new front-end capabilities, including marketing, sales, analytics, data scraping, all of the things that would go into API development, all the things that would go into connecting externally, both with platforms and directly to consumer and to enable the customer experience, because it's all about the customers. We are doing that on a global scale, we're doing it in Asia, Latin America and the U.S., predominantly. And that is -- we're in -- we've been working at it for a number of years and it is all part of digitizing this organization so that it is -- it thrives in a digital age period, just like anything has to thrive in a digital age. Including you as an individual, if you remain analog, you are history.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Got it. And just as a follow-up to that point. When I think about what you guys have spent in terms of stuff around the mobile technology, do you think that's going to be more relevant in Personal Lines and Commercial Lines? Or do you think mobile technology is going to have a role in the Commercial Lines business?

Evan G. Greenberg
Chairman, President & CEO

Well, it already does in the Commercial Lines business. It is personal, it is small commercial, it is micro commercial and it's moving up into the middle market. And whereas large account business is more about the anytime, anywhere servicing of the business, and engineering, which is important to all the constituents, from individual to large corporate, that will be revolutionized over time with IoT capabilities that are installed fundamentally everywhere, from a building to goods and transit, to your home.

Operator

We will now take a question from Yaron Kinar of Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

My first question relates to the North America commercial business. So I think you had answered Kai's question about the other factors driving the accident year loss ratio up. Do you think with the rate increases that you've achieved so far and what you see in the pipeline, is -- are loss cost trends being more offset now by these rate increases? Should we see less of a pressure point coming from the loss cost trends?

Evan G. Greenberg
Chairman, President & CEO

It's going to vary by line of business, and it's all about casualty related lines. And it will vary by line. In some lines, I think the rate of increase is enough to keep pace with loss cost trends. I think in some other areas, it's not. And in some of those, underwriting actions and how we manage portfolio will help to balance that out and in some, it won't. So it's a combination, it's a mixed bag. You can't simply generalize.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And if you had a crystal ball that you'd be wanting to share with us -- okay, okay. And going to the professional liability line for a second...

Evan G. Greenberg
Chairman, President & CEO

If I had a crystal ball, I wouldn't be doing this.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Well, you may be doing this and enjoying it even more.

Evan G. Greenberg
Chairman, President & CEO

It could be that, too.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Going to the professional liability block for a second. So you said that about 15% of it required some corrective action right now. How does that compare to where that block was a year ago and based on the data you have in front of you today, do you expect that 15% to increase or decrease, stay relatively the same over the next year?

Evan G. Greenberg
Chairman, President & CEO

We expect it to decrease and it -- how I compare a year ago to today, slightly down. And I expect next year it will be lower.

Operator

We'll now take a question from Jay Gelb of Barclays.

Jay H. Gelb
Barclays Bank PLC, Research Division

I was hoping to focus on a couple of emerging issues. The first one is on the Japan floods, which seem to be among the worst on record. Just trying to think about what the insurance and reinsurance exposure might be for Chubb there?

Evan G. Greenberg
Chairman, President & CEO

Right. Look, it's still emerging and we don't know with certainty, but we don't expect it to be a significant event in Chubb.

Jay H. Gelb
Barclays Bank PLC, Research Division

Okay, that's helpful. And then potentially, a tougher one...

Evan G. Greenberg
Chairman, President & CEO

From what I know so far, relatively modest.

Jay H. Gelb
Barclays Bank PLC, Research Division

I appreciate that. An emerging area of asbestos risk appears to be coming from talc exposure, including J&J having a nearly $5 billion judgment against it within the past few weeks. I'd like your perspective on whether you think this is a new area of potential, asbestos risk, for the industry and perhaps what it can mean for Chubb?

Evan G. Greenberg
Chairman, President & CEO

First, Jay, let me ask you a question. Did your mother use baby powder on you when you were little?

Unknown Executive

Getting very personal here.

Jay H. Gelb
Barclays Bank PLC, Research Division

I'm not a [indiscernible].

Evan G. Greenberg
Chairman, President & CEO

Look, it -- asbestos. Asbestos has had -- there have been new targets of cohorts of business every few years. So that's not a new trend, a new thing to the industry, number one. You look at -- it could have been Congolian manufacturers who made floor tiles, it was those who made motors and small motors, as you know, and so it was determined they had asbestos. So this gets a headline because it's big, it's baby powder. There is science right now, is facts, as it would seem that are both sides. So who knows? And I'm not going to speculate about it. We see what you see and read what you read and we'll just see how the facts emerge, but there wasn't -- in the grand theme, when I think around as asbestos, that did not startle me. And by the way, this is about baby powder, it's been around. This is not like it just came up in the last few months. This has been out there for a reasonably long period of time.

Jay H. Gelb
Barclays Bank PLC, Research Division

Okay. So it doesn't sound like this issue is something that's keeping you up at night?

Evan G. Greenberg
Chairman, President & CEO

No, I got -- my brain -- it -- no, it's -- that's crowded out with a lot of other things.

Jay H. Gelb
Barclays Bank PLC, Research Division

Okay. All right, my final question. If I think about how Chubb has done kind of a soft quantification of excess capital. I'm coming up with $4 billion to $5 billion of excess capital. Should we think about how that might get deployed over some period of time if acquisition opportunities aren't available?

Evan G. Greenberg
Chairman, President & CEO

There will be -- there are organic growth opportunities, there -- we're in the risk business. There is -- there are acquisitions to complement what we do organically and we are patient and if we have surplus capital at a point that we -- that is beyond what we and our board feel is prudent to have for both risk and to grow the company, then we will return it to shareholders in some form. And I think you see that since the beginning of the second quarter, we've bought back approximately $360 million worth of shares. And I might say, the price of about $132 and had we bought back in the first quarter, it would've been at a higher price.

Operator

We now move to Jay Cohen of Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I had a question on the Life earnings. We've had top line growth for some time. This quarter, we actually saw the earnings begin to pick up pretty noticeably. I'm wondering really what's behind that?

Evan G. Greenberg
Chairman, President & CEO

Well, I'm going to -- I just want to give an overarching on that and then I'll let Phil add to that. We have grown this business fundamentally from dust and we've been saying for some time that by the nature of the Life business when you're growing it, particularly agency business, you're growing distribution and you're growing the premium pretty rapidly and by its nature, the way the economics work in that business, you're plowing back in and until it reaches -- your in-force reaches a certain scale. That, the earnings from the in-force begin to emerge and that overwhelms, begins to overwhelm what you're plowing back in to keep growing the business. And so we said that it would hit -- it was hitting a point of maturity and that you'd begin to see earnings emerge. And that is exactly what is taking place. It didn't surprise us. Phil, go ahead.

Philip V. Bancroft
Executive VP & CFO

The only thing I'd add to that is that we had the very strong growth in Asia Pac and we saw higher investment income because we've begun to grow the assets under management. So I think the point that Evan makes, together with that, is what's creating the growth. In addition, our combined North America group also has some earnings momentum.

Evan G. Greenberg
Chairman, President & CEO

But what I mentioned in my commentary was the international Life business.

Philip V. Bancroft
Executive VP & CFO

Yes, I'm talking about the overall Life.

Evan G. Greenberg
Chairman, President & CEO

Yes.

Operator

We now take a question from Paul Newsome of Sandler O'Neill.

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

A couple of questions. One, I wanted to briefly revisit the sort of sustainability in price increases. I think in the first quarter, Chubb was suggesting that sort of month by month, you were seeing modest acceleration and that gave us a lot of confidence that as we get into the second quarter, we'd see even more. Has that sort of month-by-month improvement in the pricing environment continued through the second quarter?

Philip V. Bancroft
Executive VP & CFO

Yes, well, June was the best month of the quarter.

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

So that's good news. And then my second question is a little bit more broad. I've got some smaller companies and such that are arguing that technology has changed such that a lot of the outsourced technology is just as good as the larger companies can produce on their own. Which suggests that for companies -- for the bigger companies, the benefits of scale have reduced because of changes in the technology over time. Do you think that, that's true, or have any view on the topic?

Evan G. Greenberg
Chairman, President & CEO

Well, yes. First of all, whatever -- whether you build the technology or you buy it, and most of it, you're buying. But you're not buying like simply something ready-made out of a box. You're buying different components of technology that you're putting together to make them work. And by the way, whether you build it or you buy it, it costs money. And so how much do you have that you can afford to spend? And by the way, on what scale can you do it? Across many geographies? How many customer areas and product areas can you do it? And then, data. Who's got data? And by the way, your ability to acquire data and your ability to, again, tools, put in place tools that can help you gain insight into that data. I think, well, if you don't have scale, sure you have a strategy, and sure you can thrive, whether it's analogue or it's digital, but you get to a certain size, I'll tell you what, scale matters.

Operator

We will now take a question from Ian Gutterman of Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

A couple of mine were asked, but let's go to some other ones. Evan, the Citi deal you mentioned in Mexico, can you just give us -- I know you mentioned the number of branches and so forth, but can you give us some perspective? Will this be one of your top 3 relationships in Mexico or some other way to give us a sense of the magnitude of this?

Evan G. Greenberg
Chairman, President & CEO

Well, I can tell you pretty clearly it's our largest single relationship in Mexico. Ian, the way to put it, Chubb is the second largest non-life writer now in Mexico. We were #7 only a few years ago. We have a, what continues to be good growth business and with -- that is stable with good combined ratios. It's an agency-driven business and brokerage and direct marketing. We have like 62 branches across the country. We have thousands of agents and that's the predominant source of the business. Now what we've added is a substantial relationship that will complement that. Open up a whole new channels of opportunity for us. With our product set, we're the second-largest auto writer in the country. As an example, they have many auto customers. We write small commercial; we write surety; we write accident and health; we write middle market commercial. All of that will now also be offered through their branches and through digital and direct marketing to their customers. So it adds another dimension to what is a great business.

Ian Gutterman
Balyasny Asset Management L.P.

That sounds great. And is there opportunity to do something similar on the A&H side? Obviously, a lot of it's direct marketed as well? Or is that a different channel? Or is there opportunity to do that over time, too?

Evan G. Greenberg
Chairman, President & CEO

In the Citibanamex?

Ian Gutterman
Balyasny Asset Management L.P.

Yes.

Evan G. Greenberg
Chairman, President & CEO

Oh, it includes all of our accident and health. That'll be distributed -- that's distributed digitally. That's distributed on -- with digital, most digital, by the way, you start the transactions digitally and in many instances, you complete them with a phone call, with a phone, they want to talk, whether it's small commercial, or it's whatever. So you're mixing and matching direct channels plus through their branches. So all of our accident and health is a -- is actually a core product area in the strategy with Citibanamex.

Ian Gutterman
Balyasny Asset Management L.P.

Perfect, perfect. And then just one on the large account business, the Major Accounts. And I guess normally, I'd be very happy to hear very high retention, very strong new business. I guess my one question is if we could dive a little deeper and just sort of where that's coming from. I guess my concern is, given emerging loss transit and liability and to some extent, professional, maybe I can make a case that large accounts, and just given some of the outsized jury awards and stuff we're seeing, maybe it's not -- maybe it's a good time to frankly, be pruning a large account book and being a little bit more careful on who you're willing to insure at this point. Can you give us some sense of how you're managing that with still being able to grow and keep high retention?

Evan G. Greenberg
Chairman, President & CEO

I think you're conflating a whole bunch of different things in there. Casualty loss trends have been behaving pretty well. You and Paul O'Connell could give a little bit on that, but what we see is frequency trends have actually been down and severity trends have been reasonably modest. So we haven't seen some pickup in -- adversely, in casualty. We have -- we talk about -- and have talked about public D&O and I'll just put that to the side. The one thing you should know, and remember, what I said is this quarter, this quarter. In our U.S. exposed large account casualty, we got 5 points of rate. We're pressing on rate and terms. By the way, you write excess casualty and large account business, it's about attachment point, and all the terms, it's much or more, than it is about simply price and rate. We're underwriters. We measure this all the time and we have a -- with all that said, in our underwriting discipline, by the way, we're presented an awful lot of business to write, but we just don't win, we don't have a chance to win because of terms and rate. You offer me a book of business that I know versus a business I don't know, so renewal retention. The customer I know, that I have on the books, is the better customer.

Ian Gutterman
Balyasny Asset Management L.P.

For sure. I guess my premise was, it seems like we're seeing social inflation start to pick up, I guess.

Evan G. Greenberg
Chairman, President & CEO

Look, Ian, if we don't like the rate, if we can't make an underwriting profit and we don't like the rate, we're walking away.

Ian Gutterman
Balyasny Asset Management L.P.

Of course, absolutely. I was just thinking more -- the reason I was asking more on the large account size was it seems like we're seeing a pickup in, sort of, 9-figure jury awards nationwide. And again, I know a lot of it's anecdotal, but it does seem that there's a pickup and I would have thought large account would be the place where there'd be the most concern, just because of the limits involved for small to mid?

Evan G. Greenberg
Chairman, President & CEO

We're not -- what you're seeing anecdotally, we're not seeing on a portfolio basis. And we write large, and I'm trying to relate to it, we write large limit -- high limit excess out of Bermuda and that's behaving reasonably well, and though it has a long-tail. We're writing, in our U.S. casualty business, in our excess, in particular, because you're not talking primary now, we write within the first $100 million of limit. And typically, we're putting out $15 million to $25 million net, so you don't have huge limits exposed to those great one-offs. And then, by the way, what you see as a jury award and what you see as ultimate settlement, keep it -- keep that in mind, too.

Operator

We will now take a question from Meyer Shields of KBW.

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

Just a brief question. Administrative expenses on a year-over-year basis grew more than the first quarter, and I was hoping that you could talk a little bit about what's driving that?

Philip V. Bancroft
Executive VP & CFO

Nothing. Nothing in particular. Just normal operations and then I assume you adjusted for foreign exchange when you did that.

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

Yes, to the best of my ability. Okay. Second question. Can you talk a little bit about workers' compensation in the United States? I mean, we're seeing rate decreases, but generally improving profitability. So I was just hoping for some insights in terms of, like, the macro picture?

Evan G. Greenberg
Chairman, President & CEO

Well, the macro picture, you have record low unemployment, which actually can play, cut both ways on workers' comp. You have less experienced workers on the job, so you have to be careful. We've been seeing frequency -- up until now, frequency of losses were down, severity has been reasonably tame and so overall, loss cost trends have been good in comp. I think you have to -- in my own mind, the market is reacting to that, the insurers, and comp has become more competitive. And I think you have to be careful that you're not too aggressive, you overshoot your mark. That's the bigger picture for me.

Helen M. Wilson
Senior Vice President, Investor Relations

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

Operator

We will take this question from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just a couple of quick ones here for you. First, crop or agricultural insurance, domestic in the U.S., obviously, a big drop in corn prices, soybeans prices, given the tariffs. How far away from the kind of threshold are we where we're going to see some loss in that business or profitability to be meaningfully impacted?

Evan G. Greenberg
Chairman, President & CEO

Yes, Brian, I'll make 2 comments. First, the condition of the crop, and I can speak to Chubb's book only, given our -- where I know our concentrations are. The corn crop -- it's too early on soybeans -- the corn crop, which is our #1 crop, is in good a condition as, or better, than last year and the last 5-year average. Number two, the price drop, corn was at $3.66, I believe, yesterday. I don't watch this too closely. And I think February contracts were like, when we priced, were like in the $3.80 range. So it's within deductibles. So you're not at that threshold, as you'd say. When you look at soybeans, the average that farmers buy on our book is about 20% deductible. Corn, they buy a little less, closer to 15%. And you're -- you -- at this moment, where soybeans was, which was $8 and change, you're within -- you're right around or within the deductible.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great, that's helpful. And then just 2 numbers questions for Phil. So other income looked a little odd this quarter. Anything unusual there? And then also on interest expense, same question.

Philip V. Bancroft
Executive VP & CFO

Yes, so on other income, we had higher-than-expected PE income, where we own greater than 3%. So when we have a partial ownership that's bigger than 3%, we include that in other income and that was higher than we expected. We also had higher income on our Huatai investment, our insurance investment in China. And then last year, we had a one-off capital charge in Switzerland. And all that drove the change year-to-year in other income. And then with interest expense, as we've said in the past, we have interest expense that includes both fixed and variable components. And the higher-than-expected expense in this quarter related to the variable component. We had more interest expense paid on collateral that we hold for clients and we also had a higher usage of various facilities that we use to manage our cash around the world.

Brian Robert Meredith
UBS Investment Bank, Research Division

So is that $177 million number a good run rate number or is there...?

Philip V. Bancroft
Executive VP & CFO

I would use a range of $170 million to $175 million.

Helen M. Wilson
Senior Vice President, Investor Relations

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

Operator
Ladies and gentlemen, this will conclude today's conference call. Thank you for your participation. You may now disconnect.