Chubb Limited NYSE:CB

Earnings Call

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Call Participants

EXECUTIVES

Evan G. Greenberg
Executive Chairman & CEO

Karen L. Beyer
Senior Vice President of Investor Relations

Peter C. Enns
Executive VP & CFO

ANALYSTS

Andrew Scott Kligerman
TD Cowen, Research Division

Brian Robert Meredith
UBS Investment Bank, Research Division

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

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

Michael David Zaremski
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Taylor Alexander Scott
Barclays Bank PLC, Research Division

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Operator

Thank you for standing by, and welcome to the Chubb Limited Fourth Quarter 2024 Earnings Conference Call. [Operator Instructions] Thank you.

I'd now like to turn the call over to Karen Beyer, Senior Vice President, Investor Relations. You may begin.

Karen L. Beyer
Senior Vice President of Investor Relations

Thank you, and welcome, everyone, to our December 31, 2024, fourth quarter and year-end earnings conference call.

Our report today will contain forward-looking statements, including statements relating to company performance, pricing and business mix, growth opportunities and economic and market conditions, which are subject to risks and uncertainties, and actual results may differ materially. Please see our recent SEC filings, earnings release and financial supplement, which are available on our website site 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 Peter Enns, our Chief Financial Officer. Then we'll take your questions. Also with us to assist with your questions this morning are several members of our management team.

It is my pleasure to turn the call over to Evan.

Evan G. Greenberg
Executive Chairman & CEO

Good morning. Before I begin, I want to take a moment to speak about the terrible tragedy surrounding the California wildfires, the lives lost and tremendous loss of property, a major disaster still unfolding. Our job and the role we play in society is to support our policyholders.

Our colleagues have been on the ground, supported by Chubb colleagues throughout the U.S., endeavoring to assist those clients who have lost property, been displaced from their homes and businesses and had their lives severely disrupted. While it doesn't erase the enormous difficulty they have and will continue to experience, we're doing all we can in small and big ways to ease their burden. Our thoughts are with those who have suffered, and our gratitude goes to those firefighters and emergency workers who served tirelessly.

From a financial perspective, our current estimate of the cost of supporting our customers and helping them recover and rebuild from their catastrophe is $1.5 billion net pretax and is a first quarter 2025 event.

Now turning to our results for the fourth quarter '24, which you have all seen, we had a great quarter which contributed to an outstanding year, in fact, the best in our company's history. For the quarter, record P&C underwriting income with a world-class combined ratio of 85.7%, together with another quarter of record investment income, led to core operating income of $2.5 billion.

Operating earnings were up 9.4% on a pretax basis or 10.5% per share, though after tax, they were distorted by the onetime tax benefit we received last year. Looking through that, operating income was up over 7.5% after tax.

Global P&C premium revenue, which excludes Agriculture, grew 6.7% in the quarter, with good contributions from our P&C businesses globally, both North America and Overseas General. Premiums in our Life Insurance division grew 8.5% constant dollar.

For the year, we generated operating income of $9.1 billion, up 11.5% adjusted for the one-time tax benefit, and 13% on a per share basis. Looking more broadly, over the past 3 years, core operating income has grown over 65% and is nearly double the amount from pre-COVID 2019.

All 3 major sources of income for our company produced record results last year. P&C underwriting income of $5.9 billion was up over 7% with a published combined ratio of 86.6%. Adjusted net investment income grew 19.3% to $6.4 billion. And Life Insurance income topped $1 billion.

For the year, we grew Global P&C premiums 9.9% and life premiums 18.5% in constant dollar. Shareholder returns were strong. Our core operating ROE was about 14%, and our return on tangible equity was 21.6%. Per-share book and tangible book value grew 8.8% and 14.1%, respectively.

Our results, top and bottom line, continue to demonstrate the broad and diversified nature of the company and the consistency of contributions from our businesses around the world, North America, Asia, Europe, Latin America, both commercial and consumer. As we look forward to 2025, we have good momentum and are optimistic about the year ahead, both top and bottom line, CAT losses and FX notwithstanding.

Returning to the quarter, our underwriting performance was outstanding while absorbing a more normal level of CAT losses. P&C underwriting income was $1.6 billion. And the current accident year combined ratio, excluding CATs, was 82.2%, more than 2 points better than prior year and also a record result.

Our prior year's reserve development in the quarter and for the year was $213 million and $856 million, respectively, and speaks to the strength of reserves and conservative nature of our loss reserving practices.

On the asset side, we're investment managers, our other business, and we added another excellent quarter in terms of performance. Our invested asset now stands at $151 billion, and it will continue to grow. For the quarter, adjusted net investment income was a record $1.7 billion, up 13.7%. Our fixed income portfolio yield is 5% versus 4.8% a year ago, and our current new money rate is averaging 5.6%. Peter will have more to say about financial items.

Turning to growth, pricing and the rate environment. Again, Global P&C premiums increased 6.7% in the quarter, with commercial up 6.4% and consumer up 7.5%. All regions of the world contributed favorably. Life premiums grew 8.5%.

In terms of the Commercial P&C rate environment, market trends or themes were consistent with those in the previous quarter. Property has grown more competitive in large accounts, shared and layered and E&S, while pricing is favorable. Casualty is stable or firming, depending on the class, and overall pricing is ahead of loss cost trend. And financial lines, particularly D&O and employment practices liability is where more competition is reaching for market share at the expense of current accident year underwriting margin.

Overall, market conditions are favorable, and we see good growth opportunity for over 80% of our Global P&C business, commercial and consumer, as well as for our life business; North American Overseas General, Asia, Europe and Latin America, each with many areas of favorable growth opportunity; our middle market and small commercial businesses globally; our U.S. E&S business; our U.S. high net worth business; global A&H and life; international personal lines; our digital business; and specialty businesses such as our growing Climate+ business.

Now turning to the quarter, let me give you some more color by division. Beginning with North America, premiums, excluding agriculture, were up 6.3% and consisted of 10% growth in personal insurance and 5.1% growth in commercial, with P&C lines up 7.2% and financial lines down 2.9%. We had another strong quarter for new business, up over 22% versus prior year. And our renewal retention on a policy count basis was 90.4%. These again speak to the reasonably disciplined tone of the market and our excellent operating performance.

Premiums in our major account and specialty division increased 4.6%, with P&C up 5.8% and financial lines down 1.7%. Within major and specialty, our Westchester E&S business grew 8%. Premiums in our middle market division increased 6.2%, with P&C up 10% and financial lines down 5%.

Pricing for property and casualty, excluding financial lines and comp, was up 9.9%, with rates up 8.2% and exposure change of 1.6%. Financial lines pricing was down 3.3% with rates down 3.6%. In workers' comp, which includes both primary comp and large account risk management, pricing was up 4.7%, with rates up 2.5% and exposure up 2.1%.

Breaking down P&C pricing further, property pricing was up 6.9%, with rates up 3.5% and exposure change of 3.3%. Casualty pricing in North America was up 12.7%, with rates up 11.8% and exposure up 0.8%. Loss costs in North America remained stable, no change and in line with what we contemplate in our loss picks.

Our North America Commercial lines business ran an amazing 83.9% published combined ratio for the year, again, an amazing result. In Agriculture, where we are the market leader, our crop underwriting results this quarter were excellent, and we finished the year with $354 million in underwriting profit. Premiums were down from prior year due to lower commodity prices and the formulas for risk sharing with the government.

On the consumer side of North America, our high net worth personal lines business had another outstanding quarter with premium growth of 10%, including new business growth of 34%. Premiums in our true high net worth segments, a group that seeks our brand for the differentiated coverage and service we are known for, grew 17.6%. Our homeowners pricing was up over 12% in the quarter and ahead of loss cost trend, which remains steady. For the year, we ran an outstanding 83.6% combined ratio in our high net worth personal lines business.

Turning to our international general insurance operations. Premiums in the quarter for our retail business were up 7.7%, with commercial lines up 10.3% and consumer up 4.7%. From a region of the world perspective, Asia Pac led the way with premiums up 12.2%. Europe grew 8.2%, including growth of 12% on the continent. Latin America grew just 2.5% and was impacted by foreign exchange. If you adjust for that, Latin America was up 11.5% in constant dollars.

In our international retail commercial business, P&C pricing was up 3.7%, and financial lines pricing was down more than 6%. Premiums in our London wholesale business were essentially flat. They were up 1.1% with prices down 4% as the London market continued to grow more competitive. For the year, our Overseas General business ran an excellent 86.4% combined ratio.

Our Global Reinsurance business had a strong quarter with premium growth of about 20% and finished the year with premiums up 32% and a combined ratio of 85.9%, reflecting a more disciplined reinsurance market, both property and pockets of casualty.

In our International Life business, which is fundamentally Asia, premiums and deposits were up over 26% in constant dollar. And combined insurance company, our U.S. worksite business grew 17.8%. Our Life division finished the year with pretax income of $1.1 billion, which was ahead of what we originally projected for the year. We have good momentum in our Life business, which continues to build.

In summary, we had a great quarter and a great year. While we're in the risk business and there's plenty of uncertainty in the world, we're confident in our ability to continue growing operating earnings and EPS at a double-digit rate, CATs and FX notwithstanding. Our earnings growth will come from 3 sources: P&C underwriting, investment income and life income.

Now I'll turn the call back over to Peter.

Peter C. Enns
Executive VP & CFO

Thank you, Evan, and good morning. As you just heard, we concluded the year with another strong quarter, contributing to record full year results across our 3 primary sources of earnings. Our balance sheet finished the year in an exceptionally strong position with book value of $64 billion and total invested assets of $151 billion.

The quarter and full year produced adjusted operating cash flow of $4.2 billion and a record $15.9 billion, respectively. It's also worth noting that during the quarter, A.M. Best affirmed our company's rating and stable outlook. And in January, S&P affirmed our rating and stable outlook.

During the quarter, we returned $1.1 billion of capital to shareholders, including $725 million in share repurchases and $367 million in dividends. We returned $3.5 billion in total for the year, including $2 billion in share repurchases and $1.5 billion in dividends, which represented approximately 38% of our full year core operating earnings. The average share price on repurchases for the year was $269.23.

Book value for the quarter and the year was adversely impacted by unrealized mark-to-market losses on our high-quality fixed income portfolio due to interest rate changes, which we expect to amortize back to par over time, as well as foreign exchange losses. Book and tangible book value per share, excluding AOCI, grew 2.9% and 4.3%, respectively, for the quarter; and 10.8% and 15.4%, respectively, for the year.

Our core operating return on tangible equity for the quarter and year was 22% and 21.6%, respectively, while our core operating ROE for the quarter and year was 14.3% and 13.9%.

Turning to investments. Our A-rated portfolio, which now has an average book yield of 5%, produced adjusted net investment income of $1.69 billion, which included approximately $25 million of higher-than-normal income from private equity. We expect our quarterly adjusted net investment income to have a run rate between $1.67 billion and $1.75 billion over the next 6 months.

Regarding underwriting results, the quarter included pretax catastrophe losses of $607 million, of which $309 million was from Hurricane Milton and $140 million from Hurricane Helene. The remaining balance was principally from weather-related events, split 31% in the U.S. and 69% internationally.

Prior period development in the quarter in our active companies was a favorable $352 million pretax with favorable developments split 17% in long-tail lines, primarily from general casualty, and 83% from short-tail lines, primarily from property and agriculture. Our corporate runoff portfolio had adverse development of $139 million, primarily asbestos-related. Our paid-to-incurred ratio for the year was 83%.

Our core effective tax rate was 18.2% for the quarter and 17.5% for the year, which are below our previously guided range due to shifts in mix of income. We expect our annual core operating effective tax rate for 2025 to be in the range of 19% to 19.5%, including the transition cash tax benefit provided on the adoption of the new Bermuda income tax.

I'll now turn the call back over to Karen.

Karen L. Beyer
Senior Vice President of Investor Relations
Thank you. And at this point, we'll be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here for Evan, I'm wondering if you could dig into a little bit the Cal fire loss estimate that you've given out there. Does it include assessment, subrogation, kind of ground up? Maybe give us a little context on kind of how we should be thinking about the $1.5 billion number.

Evan G. Greenberg
Executive Chairman & CEO

Yes. First of all, it's a ground-up number. It's our own losses. We don't go off of what we imagine as a total industry wildfire loss in the market share or any -- this is our number and that our adjusters on the ground have been able to estimate property by property. It does include an assessment for our projection of an assessment from the Fair Plan, and we don't take credit in ours for subrogation.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. And then my second question, Evan, I'm just curious, looking at 2025, I mean you're still getting some solid growth in commercial lines, call it, mid to high single-digit organic growth here in premium. But if you think of 2025, is that kind of a good number to target organically? And then is this kind of the period that we're looking at that maybe it's -- you should start looking a little bit more at inorganic growth opportunities?

Evan G. Greenberg
Executive Chairman & CEO

I love you, Brian. Yes, I don't give -- we don't give guidance and forward-looking. But your first statement, your logic sounds pretty decent to me. I didn't say it, you said it. And as for inorganic growth, money is not burning a hole in our pocket. And as you know, it's opportunistic and it's in support of our organic strategies, and it's got to be the right thing at the right price. And so we're always looking.

Operator

Your next question comes from the line of David Motemaden from Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I had a question on the -- for Peter and Evan, on the favorable long-tail reserve development, the 17% of the $350 million or so on the active companies. It sounds like that was driven by general casualty. That's a bit of a change versus what you guys have experienced over the last several quarters. So I'm wondering if you could elaborate on the favorable development that you're seeing there because that's quite different than what you and others have been reporting. And any clarity on what sort of accident years it's coming from too would be helpful.

Evan G. Greenberg
Executive Chairman & CEO

Well, I'm going to correct your mental model to begin with. Our casualty, we study different portfolios in casualty each quarter. Some casualty portfolios, we have taken reserve strengthening. Some portfolios, we've taken no action. Some portfolios, we've had reserve releases. And there has not been a consistency per quarter, except the consistency is the portfolios we study each quarter. And so the cohort of casualty we studied this quarter had favorable development given the reserve strength in that portfolio.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Helpful. And then maybe, obviously, strong results in North America Commercial. That included a little bit of a headwind from the structured transactions, too. Could you -- of that 40 basis point headwind, could you just help me think about the impact that had on the loss ratio and how we should think about the durability of that loss ratio going forward?

Evan G. Greenberg
Executive Chairman & CEO

You're saying on structured transaction, what's its impact in the quarter on loss ratio?

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Yes.

Evan G. Greenberg
Executive Chairman & CEO

Structured transactions typically run off [favorable]. We're not -- we don't break down the pieces and going to give you each -- the component of that exactly. But they -- what you should know is they run a higher loss ratio than the average portfolio does.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Okay.

Evan G. Greenberg
Executive Chairman & CEO

David, does that help you?

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Yes. Yes, that does help. I mean I guess you guys had given the 40 basis points just on the total combined ratio. I guess I can just use that sort of as like a placeholder for what sort of impact that may have had on the -- maybe a little bit bigger on the loss ratio, maybe up...

Evan G. Greenberg
Executive Chairman & CEO

I don't have -- we don't have it in hand, but it's probably -- it's in the range, okay?

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Understood. That's helpful.

Evan G. Greenberg
Executive Chairman & CEO

Look, we're talking basis points, so it's easy for me to tell you you're in the range. I mean it could be 10 basis points up or down. But we'll take it offline with you and help you with that.

Operator

Your next question comes from the line of Gregory Peters from Raymond James.

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

And Evan, in response to Brian's question, you said you love him. I don't recall you ever saying you love a sell-side analyst. So the new year is definitely starting off good for us.

Evan G. Greenberg
Executive Chairman & CEO

Don't mess it up, Greg.

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

All right. So I'm sure I can. That's -- anyway, in your press release, you say you're growing operating earnings and EPS at a double-digit rate. You talked about the 3 buckets, PC, investment income and life insurance. So maybe you can, from a big-picture perspective, unpack life insurance and talk about where you see the growth coming next year or this year, I should say, '25, and how it might compare with how the growth came out for '24.

Evan G. Greenberg
Executive Chairman & CEO

Yes. There was a lot of consolidation impact on the life income in the '23 year and a little bit of noise in '24. There was onetime stuff in '23. And so to look through the underlying growth rate of that, it produced a really solid double-digit growth rate in income. When I look through it, it was in that 12% to 14% range. When I look forward, I see that continuing and even strengthening a bit.

We have good momentum, and it's obviously Asia. And it's both North Asia and it's Southeast Asia. Our business in Korea, while the revenue growth is not overly exciting, the margin of that business continues to expand and our overall income is growing. It's a ballast of the business. It's supported by then faster countries that are growing much more quickly: Hong Kong, Taiwan, China now growing more quickly for us. And each of those producing improved margin and, therefore, faster income growth. Southeast Asia with Vietnam and Thailand, they had slower growth this past year, and they're accelerating as we go forward.

And finally, we have 2 other businesses in Indonesia and in New Zealand that are good businesses, picking up momentum. It's in direct response marketing. It's in agency. And over 60% of the business, about 70% of it is really accident and health and risk-based type products. And the rest is very conservatively structured savings-related products because people in Asia, you have 2 themes: you have an aging population in the north that requires a certain kind of savings and health-related products; And then you have people in Southeast Asia with a younger population, family oriented, there are no social safety nets. And so they rely on these kinds of products much more than they do in other parts of the world.

And I'll remind you, unlike many regions of the world, these parts of Asia are growing, particularly Southeast Asia. The economic growth is multiples of what we're seeing in the West, and that just means a rising middle class.

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

Thanks for the perspective and detail. I guess pivoting to the other bucket, which is PC. It seems like the broader market is producing some pretty good results relative to longer-term averages. And we're hearing about increased competition across a broader set of lines of business. Even you in your comments talked about financial lines. So maybe you could spend some -- a minute and give us some perspective on how you think where we are in the cycle and how Chubb is going to be positioned to come out of it.

Evan G. Greenberg
Executive Chairman & CEO

Yes. It goes to my comment about 80% of the business growth and where you, therefore, see the pockets of competition. As a backdrop and in the way you think about cycles, and I've been thinking about this for a while, we're in a more inflationary period in the insurance industry, and it's a prolonged one, than we have seen in a very long time. We went through decades of really relatively low inflation; on the short-tail class side, virtually pretty flat. And on the long-tail side, there's always been pockets, but it was running at a lower level.

We're in a period of sustained inflation. So to just stay in place, rates have to move. It doesn't mean margins improve if they just keep pace with loss cost. So a certain amount of industry growth is just to reflect inflation.

The competition, it's increasing in shared and large account business. So first, large account will grow more slowly because you have a couple of lines of business where competition increases, property, shared and layered property, but it's well priced. And it doesn't mean that there's a decrease in margin. It means that to retain business, you become a bit more competitive, it's harder to grow, more want that business.

So you're not going to see growth, but you're going to see good results from all, we're imagining, as we go forward. E&S property, same thing. Financial lines in large account, same thing. And then primary casualty is not a real growth business, but it's a ballast that supports growth of many other lines for large accounts. So large account, not so much.

In middle market and small commercial, growth opportunity. And it's a growth opportunity across many segments. And by the way, there's certain secular change taking place in that business. And by the way, it's not simply in the United States; it's global. And then the consumer lines business, from high net worth to personal lines outside the United States to our accident and health businesses, particularly with middle class in Asia and in Latin America on both the life side and the non-life side. When I add it all up, that -- anyway, does that give you a sense?

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

Yes, it does. What do you mean by the secular change comment?

Evan G. Greenberg
Executive Chairman & CEO

When you -- particularly in middle market in the United States, I'll take that as an example. With all of the change in climate and CAT activity and with the change in the legal environment around the trial bar and social inflation, regional and mutuals have a harder time. They're not equipped with the data, with the balance sheet, with the depth of business and reinsurance relationships to be able to -- and with the technology to be able to compete the same way. And that, over time, is shifting market share, and it's shifting and it advantages a few larger players.

Operator

Your next question comes from the line of Meyer Shields from KBW.

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

First, I was hoping you can walk us through any changes to your reinsurance purchasing at January 1?

Evan G. Greenberg
Executive Chairman & CEO

None.

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

Okay. That's pretty easy. Second, I don't know if this is significant, but there's a little bit of uptick...

Evan G. Greenberg
Executive Chairman & CEO

Yes, there's nothing to [indiscernible].

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

No, that's fine, makes writing the note easier. There's a little bit of an uptick in administrative expenses in North America Commercial, and I was hoping you could walk us through that. I don't know if it's incentive compensation or something else?

Evan G. Greenberg
Executive Chairman & CEO

A little uptick in what in North America?

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

The admin expenses.

Evan G. Greenberg
Executive Chairman & CEO

No, it's just -- oh my God, it's 0.1%. It's just noise. Meyer, there's no...

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

Okay. I'm sorry, go ahead.

Evan G. Greenberg
Executive Chairman & CEO

[indiscernible].

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

Yes, I was looking for dollars, not the percentage.

Evan G. Greenberg
Executive Chairman & CEO

No, it's just -- no, nothing. It's just variability in the quarter. There's not a trend in that.

Operator

Your next question comes from the line of Mike Zaremski from BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

First is a follow-up to your insights about the secular change in the U.S. middle market space. So if I think through your comments in the past, Evan, you've said that Chubb has aspirations to move more down market, and your definition of mid-market or small market might be also different than some of the peers. But just curious if you're painting a picture that Chubb's competitive advantages are growing versus some of its peers, would you still have aspirations to kind of do inorganic things in the small mid-market space in the U.S. or less so as time goes on?

Evan G. Greenberg
Executive Chairman & CEO

Our focus is on organic SME, small and middle market, and it's organic. And that is our focus and has been our focus. Anything that's inorganic is simply opportunistic, and that's not our focus. It's opportunistic.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. And lastly, switching gears. On the investment portfolio, there's been a bit of an increase in equities over the last couple of quarters, we're up to about $9 billion. I don't know, just anything changing there in terms of kind of over the next year, you expect to see different mix shift in the investment portfolio?

Peter C. Enns
Executive VP & CFO

Mike, it's Peter. First off, that specific $5 billion shift relates to us actually moving about $5 million of investment-grade corporates into a fund for, call it, investment efficiency purposes between different entities. The underlying is still investment-grade fixed income, but because of GAAP, we have to show it as equity. So there's no underlying change in that.

In terms of the going forward, we've spoken about our strategy. You'll see it in the investor presentation that there'll be a change in investment allocation, a slight change, which we put out there in that investor deck.

Operator

Your next question comes from the line of Andrew Kligerman from TD Cowen.

Andrew Scott Kligerman
TD Cowen, Research Division

So Evan, in casualty lines, you mentioned the 12% rate increases in North America. That sounds really solid. But in reinsurance, you said there were pockets of strength. And I'm hearing overall in reinsurance casualty, there's a lot of softness going on. So one, why the disconnect? And two, what are those pockets of weakness in casualty reinsurance?

Evan G. Greenberg
Executive Chairman & CEO

No, I said there's pockets of opportunity in reinsurance casualty. You have to be very selective. And I'm not going to go into more detail than that. But let's be clear, we have not been significant, by any means, reinsurance casualty writers. And in fact, we shrank and shrank and shrank over quite a number of years because we didn't see the market producing an underwriting profit. And we see select -- the market is stressed in reinsurance casualty. And we see selective pockets, I'm not going to overstate it. Relative to Chubb, it's not big money.

Andrew Scott Kligerman
TD Cowen, Research Division

Got it. And then with regard to the financial lines...

Evan G. Greenberg
Executive Chairman & CEO

And we have this opportunistic trades pipeline.

Andrew Scott Kligerman
TD Cowen, Research Division

Got it. And then with regard to financial lines, it looks like that's the area where you're seeing premiums decline across the board. It's been about 3 years now of continuous decline, particularly in public D&O. What is it that players like about it that they continue to go after it and you just don't think it's good business in this -- at this point?

Evan G. Greenberg
Executive Chairman & CEO

Well, we love the business; it's the pricing. And look, during the pandemic, there was a significant drop-off in securities class actions and in other forms of loss, let's call it employment practices liability during the financial crisis. And so those years are producing favorable results. And the head fake around it, which is why I use the words current accident year, is in terms of loss, the number of securities class actions, the frequency of loss is reverting back to the mean. And in some areas, like employment practices, in fact, frequency of loss is increasing pretty quickly. Severity of loss continues to trend.

And so I think what they don't see or they ignore is what's coming about current accident year margins and pressure. We know this. We have a big book of this business, and Chubb is a leader in this business across classes. And so we're patient, and we know how to ebb and flow in that period. So it doesn't -- it's not something you like looking at, but on the other hand, we've got plenty of other tables to play.

Operator

Your next question comes from the line of Alex Scott from Barclays.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

First one I had for you all is on sort of the fallout from what we're going to see in California from the wildfires. And I guess, specifically, what will your approach be to the market going forward? Will you have to make any changes in the way you approach that market? And just interested in any thoughts you have on what needs to be done to make -- to sort of stabilize the insurance market there.

Evan G. Greenberg
Executive Chairman & CEO

Yes. Thank you for that question. Look, California is a difficult market for insurance companies, and it has only become more difficult over time. The state, along with the pressure it receives from consumer advocacy groups, suppresses the ability to charge a fair price for the risk and tailor coverages to improve availability and affordability of insurance for the citizens of the state. Insurers are unable to generate a reasonable risk-adjusted return commensurate with the risk of ensuring natural perils, such as wildfire, and the cost in California associated with reconstruction following a disaster.

This suppression of pricing signals, which are rising, encourages more risk-taking by individuals and businesses as to where they choose to live or work, and it encourages less risk management or loss mitigation activity. And they're part as well by federal, state and local governments. We all have a hand in loss mitigation activity that actually is occurring or not occurring. In a word, economics incent behaviors, and California is impacting those economic signals.

As insurers have reduced their exposures in the state, the state has offered more underpriced coverage through its own insurer of last resort. Frankly, it's an unsustainable model. And one way or the other, the citizens of the state paid a price for coverage. California is not alone in this regard, but it certainly stands out. We've been shrinking our exposure in California for some time. For example, in the area where the wildfires occurred, our exposure has been reduced by over 50%. We're not going to write insurance where we cannot achieve a reasonable risk-adjusted return for taking the risk.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

That's really helpful. And then maybe just a follow-on question to that. Would you expect what's going on in California and sort of the fallout from that to affect property pricing more broadly? I mean it seems like the world is becoming a riskier place. And certainly, price adequacy seem pretty good in property and other areas. But will this be enough to change thinking, whether at the primary or reinsurance level in your view?

Evan G. Greenberg
Executive Chairman & CEO

It's too early to tell. I don't know yet. As the loss -- the magnitude of this loss emerges and grows, more of it begins to find its way to reinsurance balance sheets and to other balance sheets. And that's going to be the question is, what is the ultimate size of the loss and where does it end up? And that will give us -- that will determine whether it has a broader impact on overall property pricing, which, in my judgment, overall is adequate. And this is a reminder of why the industry needs to maintain pricing adequacy.

Operator

Your next question comes from the line of Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, can you guys provide, I guess, what the current excess capital drag on your ROE is?

Evan G. Greenberg
Executive Chairman & CEO

I'm sorry, on the...

Peter C. Enns
Executive VP & CFO

The current excess capital ROE drag. Yes, we haven't disclosed that in a while, Elyse. And again, how we're thinking about things, consistent with what we talked about in our investor presentation, is looking at our capital as also a source of investment as we gradually and incrementally increase our asset allocation towards alts. That's just starting.

So I'll say right now, looking at the year behind us, it would be in a range similar to, call it, a year ago that we discussed and people backward computed. So it was in the range of ROE looking backwards of around 2% on ROE and 6% on ROTE.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

That's helpful. And then my second question, you provided tax guidance. And I think you had said, right, that it considers some transition cash tax benefit from Bermuda. I had also thought that there was some -- the potential, right, for some reversals of the DTAs that were set up. So I'm assuming -- I think that might not take place this year, but might be a couple of years out. Are you guys just assuming there's no change in the DTA structure of what was set up a year ago?

Peter C. Enns
Executive VP & CFO

So yes, Elyse, from an accounting perspective, it's based on Bermuda law, and Bermuda law isn't expected to change. I mean if it changes, we'd have to look at it. OECD came out with some administrative guidance a couple of weeks ago that has to be reviewed and see how it applies. As you may have seen, the new administration has come through with saying they're not going to participate in the global minimum tax of OECD and are advocating on that basis.

So we have a sense of where -- we have a very clear sense of where we are for '25 and '26. And one thing we know is, longer term, it's very uncertain, particularly with the new administration along with China, India and some other very large countries not being involved at all as well.

Evan G. Greenberg
Executive Chairman & CEO

I know it involves Swiss law.

Peter C. Enns
Executive VP & CFO

And Swiss law, yes.

Evan G. Greenberg
Executive Chairman & CEO

Yes, it's messy.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then I'll throw one in for Evan, right? You guys have been talking about competition in financial lines, right, for some time and, obviously, pulled back there. Do you -- what do you think it takes, I guess, for things to get better there? Or is there something -- are you not expecting conditions, I guess, to change at any point kind of in the near term?

Evan G. Greenberg
Executive Chairman & CEO

I think as losses emerge and it renormalizes, that will be an ameliorating factor.

Operator

Your next question comes from the line of Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Evan, at the risk of maybe changing your sentiment around the sell-side analyst here so quickly, I do want to go back to something I asked last quarter with regards to North America Commercial premium growth, which was 2% on a gross premium basis. I'm just trying to reconcile that with the pricing environment, which is -- seems to be ahead of that, and the opportunities that you're seeing and the appetite that you have. Maybe you can walk us through the puts and takes there.

Evan G. Greenberg
Executive Chairman & CEO

I'm not sure what you're -- can you be more clear?

Yaron Joseph Kinar
Jefferies LLC, Research Division

Sure. So your premium growth -- gross premium growth was 2%. I think the pricing environment in North America P&C, if we take the bits and pieces of the pricing that you offered, is north of that. I think it's also the loss trend that was...

Evan G. Greenberg
Executive Chairman & CEO

I think you have to start with net premium growth, not gross premium growth. Net premium growth...

Yaron Joseph Kinar
Jefferies LLC, Research Division

Why would that be?

Evan G. Greenberg
Executive Chairman & CEO

Well, because net -- gross premium growth has too many distortions of transactions that we do that, frankly, distort that number, large transactions, where it may be a self-insured program or it's a structured program. And so gross has puts and calls based on the premium flows with our clients.

If you get to a middle market business, it's more steady. But when you have large account and then you have a gross line even in the E&S business, where client -- that's what makes a lot of noise and a lot of difference. You're never going to get there. You have to start at net premium. Now I can just tell you that, and I'm giving you that as an explanation, not as -- because there's nothing to debate in that [matter].

Yaron Joseph Kinar
Jefferies LLC, Research Division

Fair enough. And if we take the net premiums growth, which was 5% versus roughly 7% pricing?

Evan G. Greenberg
Executive Chairman & CEO

Well, it's a mix -- there's a mix of business, there is a retention. It doesn't translate directly. It never does. I mean you start with a retention rate, you then have to add new business. You have to do it line by line and the mix of it. And so you'll hear overall pricing, but now take overall pricing and you have to adjust for the mix of business. When you're trying to translate to revenue -- if you want offline, we will give you a simple math lesson of that and take you through it.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Great. I'm always...

Evan G. Greenberg
Executive Chairman & CEO

I don't mean a lesson in a bad way. I mean we'll take you through and give you some -- maybe another way to help you think about it.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Great. Always eager to learn.

Operator

And that concludes our question-and-answer session. I will now turn the call back over to Karen Beyer for closing remarks.

Karen L. Beyer
Senior Vice President of Investor Relations

Thank you, everyone, for joining us today. And if you have any follow-up questions, we'll be around to take your call. Enjoy the day. Thank you.

Operator
This concludes today's conference call. Thank you for your participation. You may now disconnect.