S&P Capital IQ

CONTENTS

Chubb Limited NYSE:CB

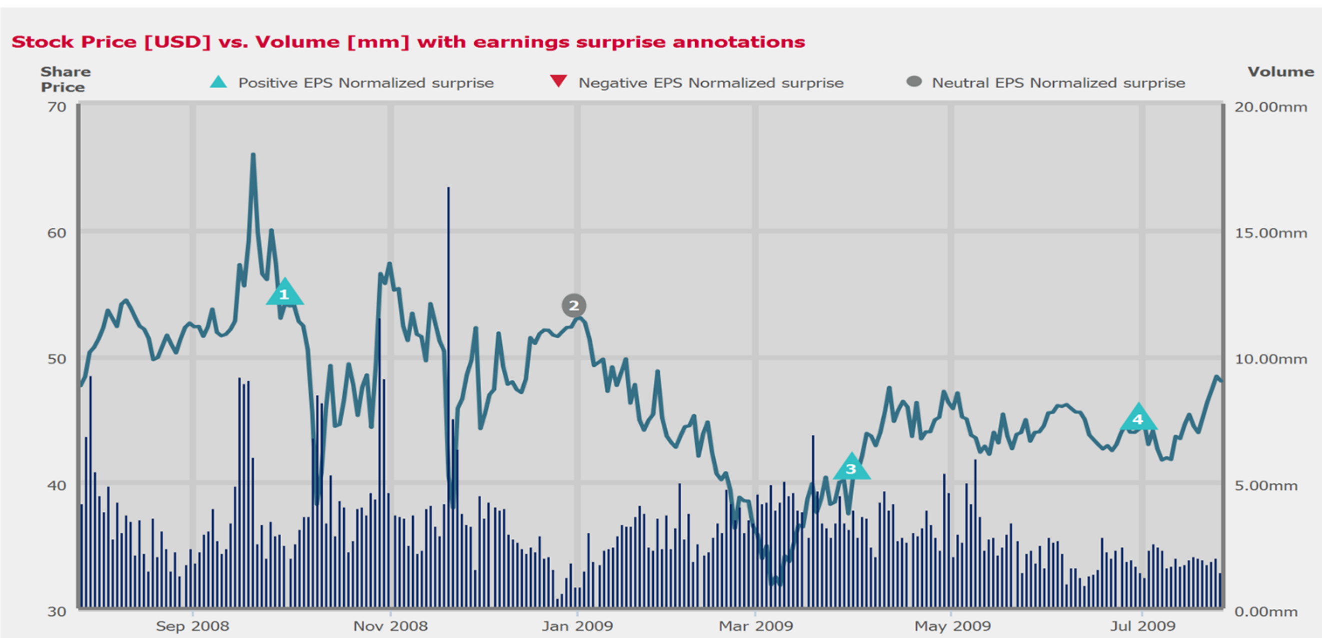
FQ3 2009 Earnings Call Transcripts

Wednesday, October 28, 2009 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2009-			-FQ4 2009-	-FY 2009-	-FY 2010-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.96	2.07	▲5.61	1.94	8.07	7.82
Revenue (mm)	3276.58	3155.00	▼(3.71 %)	3173.00	13389.30	13783.96

Currency: USD
Consensus as of Oct-28-2009 11:04 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2008	1.40	1.51	▲1 5.59 %
FQ4 2008	1.87	1.87	● 2 0.00 %
FQ1 2009	1.96	1.99	▲3 1.02 %
FQ2 2009	1.94	2.09	▲4 7.73 %

Call Participants

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Presentation

Operator

Good day, everyone and welcome to the ACE Limited Third Quarter 2009 Earnings Conference Call. [Operator Instructions] Now for opening remarks and introductions, I would like to turn the call over to Helen Wilson, Investor Relations. Please go ahead.

Helen Wilson

Thank you and welcome to the ACE Limited September 30, 2009 Third Quarter Earnings Conference Call. Our report today will contain forward-looking statements. These include statements relating to our financial outlook and guidance, business strategy and practices, competition, growth prospects, investment and use of capital, general economic and insurance industry condition, pricing and exposures, losses and reserves, all of which are subject to risks and uncertainties. Actual results may differ materially. Please refer to our most recent SEC filings, as well as our earnings press release and financial supplement which are available on our website for more information on factors that could affect these matters. This call is being webcast live and will be available for replay for one month.

All remarks made during the call are current at the time of the call and will not be updated to reflect subsequent material development.

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. With us to assist with your questions are several members of our management team. Now it's my pleasure to turn the call over to Evan.

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

Good morning. As you can see by our release, we had an excellent in the third quarter contributing to what we believe is a very good nine months. After-tax operating income was up 39% year-on-year in the quarter and up 6% year-to-date. Our P&C combined ratio for the quarter was 88.1% and we benefited from relatively light cat losses, as well as prior period reserve development coming almost entirely from casualty reserve releases related to '05 and prior. Excluding cat, the current accident year combined for the quarter was 93.3% bringing the year-to-date to 91.4%, a very good performance that points to the strength of our fundamental business. Our ROE for the quarter in the year was 16% and 17%, respectively, an excellent return on capital.

Book value grew 13% in the quarter continuing last quarter's trend and is now up 30% year-to-date. Tangible book value was up even more, almost 40% for the nine months. Both book value and tangible book are at an all-time high, and Phil will provide more details on our balance sheet a little later.

Interest rates are low and that puts pressure on investment income growth. However, our positive cash flow and consequent growth in invested assets and portfolio repositioning helped ameliorate that somewhat. Net investment income for the period was essentially flat with last quarter, and Phil will also speak more about our investment income in a little bit.

Our P&C net written premiums were down about 4% on a reported basis, with foreign exchange again having a significant impact on year-over-year growth. Excluding FX, P&C net written premiums were essentially flat with the prior year. FX should begin to have a positive effect on growth beginning in the fourth quarter given the weakening of the dollar.

By the nature of some of our businesses, growth can be volatile quarter-to-quarter but more stable when viewed over a longer period of time. For example, our crop insurance premiums were down 30% in the quarter versus last year. That an impact Of 3% on our overall P&C net premium growth and 6% on our North American growth rate. And it's mainly due to base commodity prices coming down from last year's high levels. We have a very strong pipeline of business opportunities broadly across the organization and it include some large transactions. We expect meaningfully stronger growth in the fourth quarter regardless of foreign exchange.

Our growth was also impacted by recession-related declines in exposure in both P&C and A&H. In the third quarter for our business globally, we estimate recession had at least a four to five point impact on our premium revenue growth.

Turning to market condition, the trend we saw all year continued into the third quarter. Though with the apparent stabilization of the economy, rapid recovery of financial markets and industry capital base, coupled with a lack of cat there has been a shift in tone during the quarter towards a more competitive market. Overall, pricing on the business we wrote, new and renewal was up 2% for the quarter globally. Pricing was better for the business we wrote in July than in September.

Our revenue growth followed a few broad themes this quarter. Stripping away the impact of FX and recession, we continued to benefit from a flight to capability in balance sheet, especially in those lines of business where risk layers were more than price matters and from those clients seeking to diversify the risks. We also gained business in lines and areas in which we have invested and continue to see reasonable underwriting margin.

And finally, we have benefited from growth in those areas of the market that have and are experiencing underwriting losses and where prices have risen. These include areas such as financial institution professional liability, political risk trade credit, offshore and onshore energy, property cat and aviation. Again, as we have seen all year, reinsurance business was firmer than insurance and in insurance, retail was better than wholesale. On the other hand, these positives were offset by areas that are shrinking due to what we believe is irrational competition.

Let me provide some more color beginning with our Reinsurance business. Global Re continued to experience good growth in the third quarter with net premiums up 18% over prior. Global Re benefited from the size and strength of our balance sheet with increased share on treaties we like. We also grew as a result of companies purchasing additional reinsurance due to their capital needs. Reinsurance business activity in the third quarter is traditionally light other than the July 1 renewal period. Property cat rate increases for July held at essentially the same level as in Q2, up about 10% for U.S. programs, 5% for international. Casualty pricing remained flat to slightly up consistent with the previous quarter.

Turning to the Insurance side. On a constant dollar basis, our global retail P&C business, that's ACE U.S.A. and ACE International grew 3.7%. While our London and U.S. wholesale business shrank 16%. In North America, retail net written premiums increased 2.5 points with specialty casualty lines generally growing and short tails shrinking. Overall rates in U.S. retail were up 3.5% in the quarter. Our renewal retention rate on a premium basis was also up from the same quarter last year and stood at about 87.5%.

Lines such as D&O, E&O, excess casualty, environmental and energy-related casualty all experienced reasonable double-digit growth. We have invested considerable resources in a number of these areas throughout the year and are seeing the fruits of our investment. Our risk-management premiums were down mid-single digits in the quarter, while a number of other business lines shrank due to competition, the impact of recession or underwriting actions we took to correct loss ratio issues. These include U.S. large account property, commercial and inland Marine, onshore energy and construction.

For U.S. Wholesale business, our premiums excluding crop were down 11%. However, rates for our portfolio were up 7% overall. Casualty up 6%, property up 8.5%. On the other hand, our retention rate was down continue to suffer [ph]. Competition continued unabated in E&S casualty and professional lines.

Now turning to the international. For international P&C, excluding A&H, retail net premiums in constant dollar were up 5% driven by classes, where again, more than price matters, such as financial lines and casualty. Rates overall in international P&C were up 1% in the quarter and all lines and regions were in a pretty tight range. Pricing range from up two to down two. We experienced double-digit growth in net written premiums in a number of countries, including the U.K., Brazil, Mexico and Australia. Whereas for the balance of our Asia-Pacific region, P&C premiums were flat for the quarter and pricing remains competitive.

For international wholesale premiums in constant dollars, we're down 3% as the London subscription market environment remain quite competitive. Rates on our portfolio were up 8%, driven substantially by property, energy, Marine and financial institution pricing. And while it is an early read and substantially a fourth quarter event, airline prices at this moment look to be up about 20% so far.

We have a number of other newer businesses that are doing quite well and beginning to contribute to our results. Our ACE Private Risk Services business for example, was started about two years ago to serve affluent and high net worth personal lines customers in the U.S. The business is projected to produce a couple of hundred million dollars in premium this year and it is earning an underwriting profit.

Our International Life Insurance business, which is focused predominantly on emerging markets is coming along and I want to provide you a few examples. In China, premiums in our life JV with Huatai Insurance Company are up 76% year-over-year. We now have over 15,000 agents operating in over 100 office locations. Based on total premium, this JV is currently ranked among the top three foreign-invested life insurance companies in China.

In Vietnam, premiums in our wholly-owned life insurance company are up 30% year-to-date. Established in '05, ACE Life Vietnam now ranks third in the market based on first year premium. And in Latin America, our life insurance premiums are up 85% year-over-year. We're also building life insurance companies in other emerging markets such as Thailand and Indonesia, as well as parts of the Middle East.

Keep in mind, some of these increases are on a relatively low base but we're growing steadily and according to plan. Building life companies is a long-term strategy and requires patience. In aggregate excluding China, we expect to end the year with about 500 million booked in international life premiums and deposits.

Our A&H business continues to feel the impact of recession as I described on our last call. Driven by factors such as declines in global consumer spending, credit and travel, as well as reductions by employers and the benefits they provide to their employees like accident insurance. In constant dollar terms, our global A&H business was again essentially flat. Specifically our ACE International business was flat in constant dollars while our U.S. A&H business was up 7% and premiums that combined insurance in constant dollars were flat.

Given current forecast for global economic conditions, I expect our international A&H growth will be relatively flat into '10 and then pick up as the year progresses, particularly in Latin America and Asia. I also expect growth of the combined will improve and move into positive territory as '10 unfolds.

In closing, I want to make a few observations. First, not only were the financial results we produced in the quarter strong but we continued focusing our efforts on building our company's capabilities, expanding our product offerings, our underwriting and geographic presence, as well as special initiatives centered on certain customer segments and our distribution. We are dedicated to constantly improving ourselves. We are never as good as we can be.

Second, regardless of market conditions, our strategy and approach to underwriting and pricing do not change. We strive to be consistent in our approach. We might get less pay back for our effort in a softer market but that doesn't change how we do business or who we are. Moreover as I've said before, it's a big world out there and our global presence continues to identify profitable growth opportunities for us when other areas of the world are experiencing more challenging business conditions.

And finally, we are a growth company and we measure growth principally in terms of shareholder wealth creation as expressed by growth in book value. We never take our eyes off this goal. With that, I'll turn the call over to Phil and then we'll come back to take your questions.

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

Thanks, Evan. Good morning. Our balance sheet continues to grow stronger. Shareholders equity increased by $2.2 billion for the quarter, our operating cash flow was over a $1 billion and our cash and invested assets grew to almost $47 billion. $2 billion of that growth came from appreciation in market values.

Net realized and unrealized gains before tax from our investment portfolio were $2 billion. Overall, our portfolio has increased by $6.2 billion since year end and is now on a cumulative unrealized gain position.

Included in our net realized and unrealized gains, are two losses related to improvement in credit markets. The first, for about $130 million is related to the fair value of our GMIB liability and resulted from the requirement to increase our liability following an improvement in our own credit spreads.

The second, of about $40 million, was similar and resulted from our investment in AGO. It represents our share of the increase in their liabilities resulting from the improvement of their own credit spreads.

AGO's recent share issuance diluted our ownership to 12%. Going forward, we will account for our investment in AGO consistent with other equity securities where we don't have significant influence. Changes in this market value will be treated as unrealized gains and losses and we will no longer pick up our share of their income in our operations.

Our investment portfolio continues to be predominately invested in publicly traded, investment grade fixed income securities and it's well diversified across geographies, sectors and issues [ph]. The average credit rating is AA with over half invested in AAA securities. The duration of the portfolio is 3.6 years.

Investment income for the quarter was $511 million, about flat with last year adjusted for foreign exchange. It was modestly lower than we previously expected due to falling reinvestment rates during the quarter. The average yield on our invested assets is 4.7%. New money rates are 3.25% to 4% if we invest funds in a similar distribution to our existing portfolio.

Net loss reserves increased about $340 million for the quarter and $920 million, year-to-date. Our paid to incurred ratio was 92% for the quarter and 94% year-to-date. Cat net losses totaled $45 million and as Evan said, we had positive prior period development in the quarter of $200 million, which related primarily to log-tail lines. About 2/3 of the development was from years 2004 and prior, the balance was from 2005.

Financial flexibility at the holding company level remained strong given our operating companies dividend capacity and low levels of debt refinancing needs over the next five years. Our debt to total capital leverage ratio of 15.6% continues to be conservative relative to our current rating level and our reinsurance leverage is down to 73%. Helen?

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

Question and Answer

Operator

[Operator Instructions] We'll take the first question from Jay Gelb from Barclays Capital.

Jay H. Gelb
Barclays PLC, Research Division

In terms of the outlook for I believe the way you put it is meaningfully stronger revenue growth for the quarter regardless of foreign exchange. Can you quantify that for us and what do you think the tailwind from FX will be in the fourth quarter?

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

Jay, I'm going to give you an unsatisfying answer. No, we will not quantify that for you. We've just given you a directional kind of forward-looking statement. That's it. We expect it's fairly broad-based and I think my commentary, it stands. That's the amount of color we'll put around it. Foreign exchange, I think you can kind of measure that for yourselves. Just look at what the basket of currencies look like relative to the dollar last year in the fourth quarter particularly the euro, the pound, the yen and the Aussie dollar, and the Brazilian real and I think that gives you a pretty good indication it will have. That by itself will have a meaningful impact but my comment was FX aside.

Jay H. Gelb
Barclays PLC, Research Division

And then on P&C pricing. Overall P&C pricing I believe you said up 2% in the third quarter versus up 4% in the second. What are you seeing so far in the fourth quarter?

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

I don't have numbers for the fourth quarter right now. Remember, the fourth quarter begins with the month of October and we're still in October. So I don't have it at the moment. It bounces around month-to-month. Frankly, what we notice is there is no real consistency in each month and it is a little erratic because your measuring small percentage points. It doesn't take a lot to deviate.

Jay H. Gelb
Barclays PLC, Research Division

Can I approach it from a sort of a forward-looking perspective. Based on what you're seeing in the market today, do you anticipate that, that trend could continue to slow?

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

As I said, when you look at the growth in the industry, is capital based. When you look at the lack of cats and therefore how everyone feels like a genius in underwriting because they have now gotten the benefit of low cats in current income. I think that sets the table for softer market conditions. As a said, we saw that in the third quarter, and I don't see a lot of reason why won't see it in the fourth quarter. The fact is, as well people would like the business to turn on the income statement, this industry generally turns on the balance sheet. Though you can get some sort of shorter-term movements in pricing from people feeling income statement-related pressures. But a more enduring turn in any cycle is driven by the balance sheet. Balance sheet is in a pretty good shape for the industry.

Operator

And now we'll move to a question from Paul Newsome, Sandler O'Neill and Partners.

J. Paul Newsome
Sandler O'Neill

The losses that you mentioned related to the fair value, are those the realized losses that were booked to the Life segment?

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

Yes, that's right.

J. Paul Newsome
Sandler O'Neill

They're both in that same segment?

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

No, I'm sorry the AGO losses in the Corporate segment and the GMIB loss is in the Life segment.

J. Paul Newsome
Sandler O'Neill

And the rest of that loss in the Life segment is just what?

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

It relates to other elements principally interest rates on the GMIBs.

J. Paul Newsome
Sandler O'Neill

And I'd like to revisit Jay's question about the fourth quarter. I don't want you to quantify it, but can you at least qualify as to why you think the fourth quarter will be as strong as it simply a matter of looking at your own pipeline, or is there something in the comparable quarters that you're thinking about that actually depressed the revenue line?

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

That's why I tried to give you a little sense that particularly a company like us. You measure revenue simply quarter by quarter. It's a short period, and it can be a bit erratic quarter-on-quarter. It's more stable looking at the trend over a longer period. So for instance, I gave you the sense of third quarter this year versus last year. Last year had the benefit of a better crop writing [ph] (42:01) and you adjust for that. We don't see that kind of same adjustment prior year versus current year in the fourth quarter. And secondly, I have the insight of seeing what the divisions are projecting for the fourth quarter across all their lines of business. That's -- my colleagues are fairly good at projecting, and that's what it comes out to. Thus, the statement that I think the third...

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

It is not indicative of the fourth.

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

And that's what I was trying to say.

Operator

Now moving on to Matthew Heimermann with JPMorgan.

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

On the Overseas General segment, I realized that the loss ratios is x development and cat tend to bounce around. But is there anything specific that affected the ratio in that quarter? And I'm just being curious as well looking forward with the A&H having at least FX adjusted decline, is that having any impact on the loss ratio as well?

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

A little bit. Not a lot. What happens, you saw it last year, you see it this year. There's some seasonality impact in international. Much of the time, not every year. But much of the time, third quarter is a little higher and one of the reasons we do a true up of our PEG loss ratios. You have six months to look at, and we true up the year in the third quarter. So that can have some impact and so you see the '09 year-to-date at a 92, that's current accident year x cat versus last year, I believe at 90. A&H has to some impact on that and so does P&C. It's mixed. In the A&H, as I said last quarter, it's running an excellent margin but it's running a little lower margin. We've had some recession related losses, claimed losses in certain territories. We have addressed them but they're reflected in the PEG and that's transient. We've had on newer campaigns, a little lower margin. Because of response in conversion rates being lower but still a very good result and so that mix is in there. On the other side of the coin, A&H is less of the total premium because P&C grew a little faster. And so the A&H has less of the total it has, it has a lower combined ratio than the P&C does. It has a lower loss ratio, higher expense ratio when you think of that.

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

The other question I had for Phil was just I guess, I thought we might see and I recognized short rates are still low and obviously with spreads coming in, reinvestments rates change pretty dramatically started the quarter versus the end of the quarter. But with the expansion and kind of risk appetite in the first half of the year, I thought we might see a little bit more impact on yields. Was that just me maybe being too optimistic or is there other things that are affecting that in the quarter?

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

We said in our last quarter call that we expected a run rate of about 5.25% for the second half of the year and we had it in our minds that, that would be 5.20% for the third and 5.30% right with an average of 5.25 and if you look at the quarter, we were at 5.11%. There was also a small reclass of $4 million to $5 million where we moved our income on private equity funds where we own more than 3%. We reclass that then into other incomes. So really, you're talking about 5 15, 5 16 to 5 20 and that was really just a decline in the yields.

Operator

And we're now moving to a question from Mark Dwelle, RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

You said on your opening remarks you commented that pricing seem to be stronger in July relative to September. Was that comment general to the U.S. market or maybe the North America market more accurately? Or was that a global oriented comment?

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

It was a global oriented comment.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

And would you extend that commentary to both reinsurance and insurance, or just on the insurance side?.

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

More to insurance than reinsurance.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Related to the Accident Health business, as things have begun to crystallize a little bit more with healthcare reform, are there any particular concerns or risks that you see for that business from what's kind of emerging politically?

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

You know, not particularly. I think we added up there could be about $20 million to $50 million, and I think it was closer to $20 million, don't hold me to the number, of premium that could impacted by this, I think it's in the student health line. So really de minimis. On the other side, you guys have asked me more than once and I think it's a good question. With the Combined business be impacted by healthcare. I don't know in the transition to healthcare whether it have any impact or not. I have no way of knowing in the short-term transient period. But I do know in longer term, it should have no impact because some of our healthiest markets, our biggest markets, Canada, the U.K. and Australia. Big markets for the combined and New Zealand. Those are all nationalized healthcare markets.

Operator

We'll now move to a question from Alan Strauss [ph] with Omega Investments.

Analyst

I was just curious, with your debt to capital at 15.6% and you're generating tremendous amount of cash flow, What are your thoughts on share repurchase and return of capital to shareholders?

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

Our thoughts remains the same. We think we are good stewards of capital. We will put capital to use well. We have capital for bad things that can occur, risk, and the world is full of risk. Just six months ago, I don't think anybody would have raised that question, when the industry and only six months ago, was under significant capital pressure. And if you look at the transient nature of things, anybody who can really read the global economy and economic and prognosticate about the future economic conditions, it is likely borders on insanity at the moment. No one knows with any certainty. At the same time, we're in the risk of business and things can happen. It's just a moment away that a cat or a major event can occur. And at the same time, given what we've gone through over the last year, there is opportunity that will unfold in the future and our minds are on that. Taking advantage of the weakness of others in broadly speaking. So we do not have any plans as we look forward to engage in share repurchase.

Analyst

Just how do you balance any acquisition versus your own stock price trading at close to book value?

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

Well, I guess you're assuming that a certain price for the target when you ask that question. I mean it's not like given ACE's price to book, I don't think it's because of some weakness in ACE. I think it's an overall view of the financial industry or insurance generally. ACE trades right up there pretty close to the top of the tree in price-to-book. Varies day-to-day, but generally speaking, I'd assume any targets that we would look at would be priced using the same measures.

Operator

Terry Shu with Pioneer Investments has the next question.

Terry Shu
Pioneer Investments

Evan, back on pricing again when you commented on the environment that September was worse than July. However, you talked about all the rate increases that have achieved in your own book. Would you say that the business written by ACE in the quarter or in September is better priced? So if you can distinguish between your book and the rest of the industry.

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

When I spoke of pricing, I was clear it was ACE's pricing, Terry. And so I said the prices we achieved and we're only going to write business if we think it's going to produce an underwriting profit.

Terry Shu
Pioneer Investments

So the business that you wrote even though it's well priced is not as good as the business you wrote in July? Is that what you meant? I'm still a little con...

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

What I said was, the price we had -- the rate increase, [indiscernible] to rate, I said the rate increase we achieved in July on our portfolio greater than the increase we were able to receive on the business in September.

Terry Shu
Pioneer Investments

Net net you we're still able to achieve rate increases in the third quarter or in September. However, relative to your views on loss cost trends and such, it was not as good as what you did in July. Is that sort of the bottom line?

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

Yes, but I didn't make a comment about loss costs or any of that. I didn't speak to margin or any of that. What I spoke to simply was rate.

Terry Shu
Pioneer Investments

Can you talk about then profitability and rate adequacy? Are the margins on the business that you're getting now are somewhat less favorable? So as we look out into 2010 there will be some margin pressure based on your views of claim trends? Or how you're setting your accident-year loss ratios?

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

You know first of all, I would like to make two comments. Number one, that's probably as far as I would go. Number one, in thinking about '10 in aggregate phrase, you have to know what mix of business is, and the mix by line and that changes then. Number two, of course margins are under pressure. How could it not be, when you see rates moving less than you would imagine trend and loss to be. Rate is not keeping pace with trend. That's clear. I mean, that's for the whole industry, clearly. And you also see that we are shedding business in some areas and growing in others. And when we think the business will not earn an underwriting profit, we're shedding it. And we think that it will earn a reasonable underwriting profit, we're growing it, and that's it.

Terry Shu
Pioneer Investments

Can you talk about frequency and severity trends?

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

That's a question, not a comment.

Terry Shu
Pioneer Investments

That's a question, right.

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

What would you like me to say about frequency and severity?

Terry Shu
Pioneer Investments

Your current views, I assume that frequency remains pretty benign. Do you see any uptick anywhere?

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

Ask that way, Terry. I'm sure I could find a place that I -- I'm sure there are places around the world where I am seeing some increase in frequency particularly when we saw A&H recession related claims. But generally speaking, we are not seeing an uptick in frequency. It is more severity driven. But I'll tell you what, hardly do we use a rearview mirror look of loss trends to simply project the future.

Operator

And now we'll take a question from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

First one, looking at the overseas operations. It looks like the session rates continue to kind of move up. Is there anything happening there, additional reinsurance buys, the mix of business? And should we continue to see that here going forward?

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

No, we wrote a couple of large accounts in particular in the quarter that were large global accounts that distorted the net to gross.

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

Had low retentions.

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

Yes. They are larger global accounts that have a lot of fronting with them.

Brian Robert Meredith
UBS Investment Bank, Research Division

So one-time kind of item. And the second question, Evan, you talked about your International Life operations and I guess my question is, there is a lot of interesting properties now that become available in the International Life Insurance area, what's your kind of your interest level or appetite in looking at those? And would ACE be interested at all?

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

We look. Yes, we look. And our interest, it's really very much individual property specific. We know countries and territories and areas of life where we would like to expand, and to the extent that it is -- the price reflects an enhancement to our current strategy and achieves a favorable return to our shareholders. And it's for not a price that is outsize relative to ACE's total market capital, we will look and we are -- and we could have an interest.

Operator

And now we'll take a question from Jay Cohen, Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

You talked about, in the U.S. Retail business, growth in certain casualty lines, E&O, D&O, excess casualty. We still do hear complaints about pricing in those lines of business. I'm assuming your submission rate has gone up quite a bit. If you can talk about that what's happened to your submissions and then your hit ratio, what that looks like that might put some color around that growth.

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

Yes. There are guys out there. I'm going to turn this over to Brian to speak about this, but the only thing I'm going to add is, he'll speak about some numbers but there are some cowboys out there. There are guys right in this and what we think pretty nuts terms. It's not completely [indiscernible] (58:51). Brian, you want to add something?

Brian Edward Dowd
Executive of Office of The Chairman

First of all, our submission activity is robust in North America. The retail operation activity grew over 30% on a year-over-year basis. Wholesale was up 5% for the total shop and prior services [ph] was up 98%. Reflection over the last couple of years, we have invested a lot in a regional distribution platform throughout the company. So we're clearly seeing a lot more submissions. The retail side of the quote activity is also up about 40%. So the submissions were up and we're quoting more of the business. This is for the entire North America not just professional liability. We're seeing a lot more activity, we're quoting more activity but obviously, you start to see changes in how much you pick up. So we're only picking up an extra 3 percentage points in the business. So you're not -- we're seeing a lot more, we're quoting a lot more but the stuff that actually hits our radar and we're able to find. Obviously, doesn't keep pace with how much we are quoting and how much we're seeing. So we're seeing an awful lot of activity in all those spots. And frankly, where we're growing is the areas where we still see the biggest margin and where there this change to service capability and quality you talked about. Evan has talked about in the past, where there is a change in who the lead markets are, who has the infrastructure to compete. So our growth tends to be in all those lines where there is a mix of insurance and service capability when the clients need a carrier that can do both. Frankly in the wholesale side, we're seeing little bit of the opposite. We're seeing more submissions but all of our issues are dropping dramatically as the pricing is just too competitive in that area. I don't know if that helps.

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

In professional lines, the submission activity is up about 19%. And we're binding about 14% of what we quote.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And that 14%, has that changed much over the years?

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

Yes, it's down. Over the last couple of years, it's dropped to almost half.

Operator

We'll now move to a question from Vinay Misquith with Crédit Suisse.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

On the acquisition front, if you could give us some color on whether you're more focused on P&C versus Life, and if you could give us a sense for U.S. versus non-U.S.?

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

I'm going to answer one of those. We're more P&C biased. I think I said it on the last call we're closer to home. And international versus domestic, there is no particular bias.

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

I am not going to comment anymore on M&A.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

The second question was on margins and looking at the Accident margins for the P&C segment x Life, for the first nine months of this year they were flat 62.3% this year versus the same number last year. Just curious, given where your pricing is low-single digits, were the last cost trends pretty favorable that left margins flattish this year versus last year?

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

It's a couple of things. No. It's two things. One, last year had some large losses in and outside the peg that distorted last year upwards. Number two, we have seen positive development on our business last year and this year. And so that kind of -- has an ameliorating impact because you're starting point drops. But hardly are we changing our loss cost trends of how we see the future.

Operator

We will now move to a question from David Small with JPMorgan.

David Small
Bear Stearns

Just one thing to clarify from your earlier comment, you mentioned you're growing in political risk and trade credit. Political risks has been used as a very broad term recently. I was hoping you could kind of clarify what was in political risk you're growing?

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

Yes, that's why I distinguished political risk and trade credit. So for us, David, I'm not trying to be smart about this but we don't include trade credit under political risk. Political risk is truly that. It's mostly project oriented and it is the confiscation, ex-appropriation, nationalization of a project that could affect debt holders or equity. It would include currency and convertibility as a parallel in there. It could include contract repudiation or contract frustration by a sovereign entity.

David Small
Bear Stearns

You haven't expanded what you've traditionally done?

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

No, political risk, says no. And in fact, if anything we've been able to be a bit more conservative, but we think our business has been -- I'm not going to comment on others but our business is stable through the period. I think our guys has just done an excellent job. We remain conservative in this period. And I am speaking about since the recession and economic financial stress began. We've continued to earn a profit. I think that's just fabulous and at the same, the market overall has experienced quite an increase in loss activity and I think it's causing a number of people to pull in their horns, the market has tightened. We see it is a kind of a hard market opportunity at the moment.

David Small
Bear Stearns

And just my second question is for Phil. In the last conference call, you gave a number regarding the run rate for investment income. Can you just give us an update on that as a quote or should we still use the same number from the second quarter?

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

I would say that we expect to be pretty flat quarter-on-quarter from where we are now into the fourth quarter.

David Small
Bear Stearns

During yesterday's call, Liberty Mutual has an interesting commentary, I'm not sure if you had a chance to hear it regarding the industry.

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

He is a good leader and he usually has interesting commentary.

David Small
Bear Stearns

So would you agree with his comments around the industry coming out of a bar?

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

Go ahead and well, as I said he has his own way of creating metaphor. Ask me this each one specifically and I'll tell you if I agree. I'm not a drinker, so I don't frequent bars. I've left that to my younger years. But go ahead and ask me the question.

David Small
Bear Stearns

Overall whether the industry -- I guess the question is more do you think the overall now the industry's being responsible in terms of pricing?

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

No, I think the industry, we have cycles, and the cycles haven't gone away. And I think the industry -- I've been clearing my own mind. It's our own judgment. And I believe, I know that everyone doesn't see it the same. I believe the industry overall has booked '08 accident year deficiently. And I believe the industry is booking '09 deficiently. And I believe the industry overall is underpricing its product.

Operator

[Operator Instructions] We will now move to Thomas Mitchell with Miller Tabak.

Thomas Mitchell
Miller Tabak

I was wondering when you look at the sort of potential opportunity in a market for Property and Casualty Insurance now, I've always had this theory that the propensity to insure should in theory has a sort of a natural level and that then the follow on. If we think of North America as sort of having achieved whatever the maximum natural level of propensity to insure is, of all the goods and services that can be insured. What kind of comparative opportunity would be available in places like Brazil, China or East Asia generally? And I'm just wondering how you look at that?

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

As the economies developed, business develops, middle class develops and their propensity to insure grows because they have a, more to lose and b, more ways to lose it. Because legal system evolves, shareholder rights is developing, environmental liabilities is developing, product liability develops, consumerism develops, along with the middle class, and with a growing business community. And their absolute values are increasing as their economy is increasing. Its physical values. They are creating more asset and they are requiring more asset. And so one way to look at it is, the insurance values to GDP which we look at. The insurance premiums I should say to GDP. And then look at the growth in GDP and I think that's where the pie, there's many markets where the pie is expanding. On the other side of the coin, you don't want to be pollyannish about it because you have different kind of risks. And there is volatility in developing markets and emerging markets, and that volatility means risk. And so it doesn't all go in a smooth line and it isn't all without a price to pay if you get it wrong, or even if you get it right. Did that help you?

Operator

And now we'll hear a question from Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital

I guess about a year ago this time, you sent a message that no price declines are going to be accepted at ACE pending approval by upper management. I'm wondering a, if that is still in place and b, if that is still feasible given the direction pricing seems to be headed in the market? Can you toe that line or you just have to lose too much business to toe that line?

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

Ian, as I am making the statement I am looking at John Keogh and Brian Dowd, we're ultimately -- the only guy I don't have in front of me is Jacques Bonneau, I know Jacques. Both of those guys are looking at me and saying yes that rule remains in effect. And it isn't that we won't give a price reduction but it will go through a management process to make sure that price, that reduction in price, which will be modest when we have to give it, it reflects a price that is still going to earn a reasonable return on that account. And if not, we will walk away from the business. And if you wonder about shrinking, I gave you some numbers about shrinking. Once upon a time, we wrote $600 million of E&S casualty. That will be down to $50 million this year. So we don't have a problem with that. Our Global Re business is growing right at the moment. But that was $1.5 billion business. We took down a $900 million and I could go on. We are not afraid to do that.

Ian Gutterman
Adage Capital

My other question is, I think a follow-up from last quarter on the investment portfolio. It looks like all the growth in invested assets was in the A and below, which I assume is mostly market depreciation, but I was wondering if new purchases in the quarter continued to go towards the lower credit quality or has that changed?

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

It has changed. We did move out of short tail a little bit. About $200 million we move out of short tail. But we put about $500 million of the cash flow that we had into corporates, high-grade corporates. We put $100 million in the high-yield, but you know modest. And the rest was all in high grade.

Ian Gutterman
Adage Capital

And do you feel just given the movement in spread, does it makes sense to start cashing in some of the successful bets you made in the lower credit quality?

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

We don't see any important tactical moves coming up in the near future.

Ian Gutterman
Adage Capital

And then Phil, can you just quickly talk a little bit about the GMIB marketing. I understand that the your CDS [ph] influences the marks. But to be honest, I don't remember that being a big benefit on the way down last year.

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

It was. And it affected us but over a longer period of time. It wasn't really too noticeable in any one period. But the spreads snapped back so quickly that it just happened to have a big impact on this period.

Ian Gutterman
Adage Capital

So I guess what I'm confused about is -- just big picture, you have losses, total for '08 again, realized losses in '08 and you're having realized losses year-to-date in '09. I would have thought net of all these things that moved that '09 would have reversed a good part of '08 and it doesn't seem that's happened.

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

Right, and it won't. It's only because of this anomaly right in this quarter. As I said the credit spreads came back. Also interest rates drop that contributed to it.

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

Ian, something else to keep in mind. On the derivative portion of these, that's more interest rate driven. So that's the realized side of it . The equity market more shows up in the operating side. In the DB side. Make sense to you?

Ian Gutterman
Adage Capital

So possibly when we get to year end or the next time you look at that reserve and maybe we're early in the year people are asking about increasing the reserve maybe that the next step has actually decrease the reserve?

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

It's a long-term business. You measure it over a long-term period of time. So I certainly wouldn't commit to any timeframes about any of that. What we would tell you is sure with equity market recoveries, the reserve, the GAAP reserve on the operating side is in good shape. But you know, you tell me equity markets in the future and this and that and who the heck knows. Interest rates have just come into such a low. All the spreads have come way, way in and we all understand why. And liquidity and stimulus and all of that trying to prop up the economy for so many reasons. Where is that going over the longer term? You know that trend. So that part you'd expect over the longer term there's only one direction. We can't tell you quarter to quarter what's going to happen but over the longer term, that will impact that fair valuing on which is the IB related, where as the SOP is more the equity market related.

Operator

And we'll now take our final question today from Paul Newsome from Sandler O'Neill Partners.

J. Paul Newsome
Sandler O'Neill

We had a couple of -- it appears with Asbestos charges and I was wondering if one, you could remind us what your normal view process? And then as well as just comment if you're seeing some of the same problems that they had? One was talking about increase defense cost and the other like Liberty was talking about an Armstrong charge but I would imagine that's not -- that should be old news. Do you have any thoughts or comments? That would be great.

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

First of all it's a fourth quarter item for us. If you recall, we do our deepest dive every two years and as in parallel, as does an actuarial firm retained by state of Pennsylvania. We did that last year, and then we roll forward ourselves and update each year, we take a look at more of a top-down than a bottom-up. I have no information at hand to tell me anything at the moment. The guys are in the middle of their review. I think most of the activity that you see insurance company to insurance company on Asbestos is really individual case related and case driven. So it's everybody's portfolio driven. I wouldn't infer one company to the next.

Operator

Now we'll conclude today's question-and-answer session. I'll turn the call back to your host for closing remarks.

Helen Wilson

Thank you for joining us this morning. We look forward to speaking with you again at the end of next quarter. Thank you and good day.

Operator
And with that, that will conclude today's conference. We do thank you for your participation. Everyone have a wonderful day.