S&P Global
Market Intelligence

Chubb Limited NYSE:CB

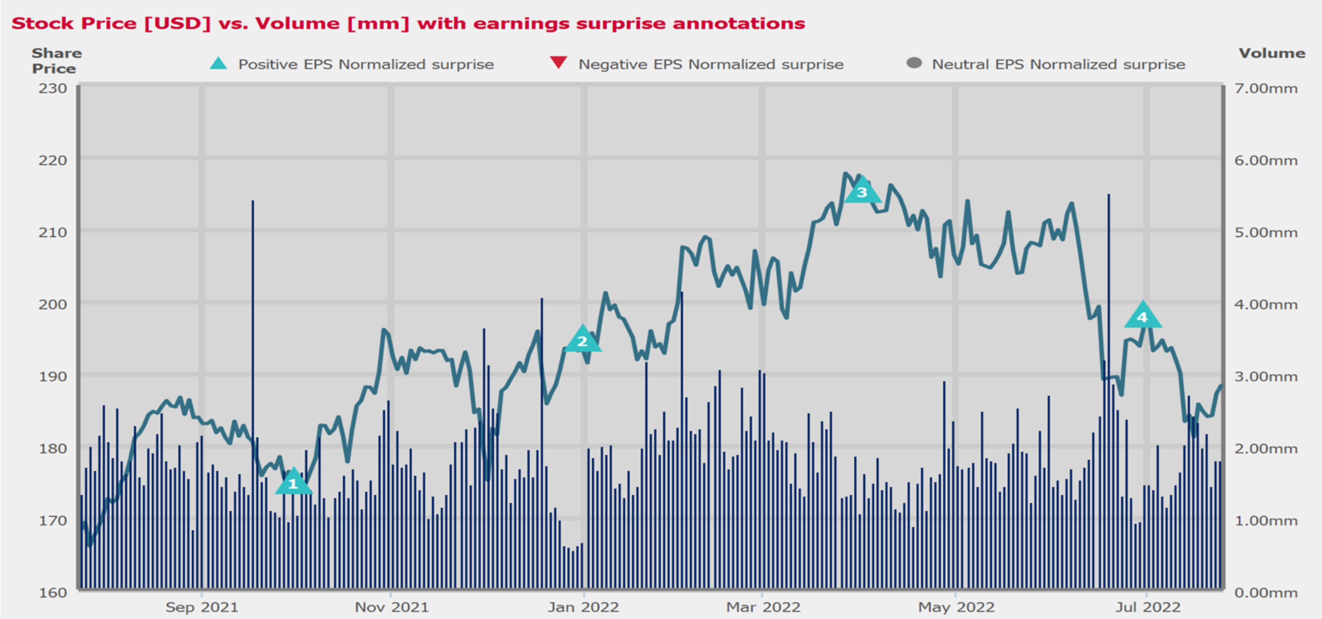
FQ2 2022 Earnings Call Transcripts

Wednesday, July 27, 2022 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.63	4.20	15.70	3.69	15.43	NA
Revenue (mm)	9734.17	9731.00	(0.03 %)	10770.17	37725.55	NA

Currency: USD
Consensus as of Jul-27-2022 4:40 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	2.25	2.64	1 17.33 %
FQ4 2021	3.28	3.81	2 16.16 %
FQ1 2022	3.48	3.82	3 9.77 %
FQ2 2022	3.63	4.20	4 15.70 %

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EXECUTIVES

Evan G. Greenberg
Executive Chairman & CEO

Karen L. Beyer
Senior Vice President of Investor Relations

Peter C. Enns
Executive VP & CFO

Timothy Alan Boroughs
Executive VP & Chief Investment Officer of Chubb Group

ANALYSTS

Alexander Scott
Goldman Sachs Group, Inc., 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 Wayne Phillips
Morgan Stanley, Research Division

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Chubb Limited Second Quarter 2022 Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

For opening remarks and introduction, I would like to turn the call over to Karen Beyer. Please go ahead, ma'am.

Karen L. Beyer
Senior Vice President of Investor Relations

Thank you and welcome to our June 30, 2022, second quarter 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 at investors.chubb.com, for more information on factors that could affect these matters.

We will also refer today to non-GAAP measures -- 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 would like to introduce our speakers. First, we have Evan Greenberg, Chairman and Chief Executive Officer; followed by Peter Enns, our Chief Financial Officer. And then we'll take your questions. Also with us to assist with your questions are several members of our management team.

And now it's my pleasure to turn the call over to Evan.

Evan G. Greenberg
Executive Chairman & CEO

Good morning. We had a very strong quarter with record operating income driven by outstanding underwriting and investment results as well as double-digit, constant dollar P&C premium growth. Pricing was strong and exceeded loss costs in commercial lines, even as we increased the inflation factors we are using in our loss ratios in anticipation of future increases to loss cost.

Meanwhile, growth in our consumer businesses continued to accelerate. Core operating income in the quarter was a record $1.8 billion or $4.20 per share, up 16% over prior year. For the year, we have produced over $8 per share, up nearly 31%.

Our second quarter underwriting results were simply lights out: $1.4 billion of underwriting income, which was up 21% over prior, with a published combined ratio of 84%, both record results; catastrophe losses in the quarter were reasonably right -- light relative to our expected losses and virtually flat with last year's second quarter; the P&C current accident year combined ratio, excluding cats, was 83.5%, a nearly 2-point improvement over prior year.

On the other side of the balance sheet, adjusted net investment income was a record $950 million for the quarter. As you know, we are predominantly a buy-and-hold fixed-income investor. Given rising interest rates and widening spreads, investment income is and will continue to rise.

Our reinvestment rate is now averaging 4.7% against a portfolio yield of 3.2%. We've begun to thoughtfully and meaningfully accelerate the turnover of our portfolio in a targeted manner so that we can put cash to work more quickly at higher yields.

Spreads have moved to more historical averages among the various fixed-income classes. And the wind-down of QE could create more volatility and put more pressure on spreads in the future, which would benefit us. Peter will have more to say about these and other financial items.

As you saw, we completed the acquisition of the Cigna business. As we had previously announced, the addition of Cigna's A&H and life business in Asia will be immediately accretive to core operating income per share and ROE. We have spent the past 6 to 8 months planning the integration to generate the revenue and earning power the combination of our businesses together in each country should achieve. We are off to a rapid start and are beginning to execute.

Having just come back from Asia and met with the teams in Korea and Thailand, morale among our new and existing colleagues is quite high, and there's a great sense of optimism in what the future holds for our business in the region. Our Cigna colleagues who are joining us, starting leadership, are a great fit with Chubb and our culture.

Now turning to growth in the rate environment. Total P&C premiums globally increased 9% in the quarter on a published basis or 11% in constant dollars, with commercial up 12% and consumer up 8%. Growth in the quarter remains broad based with contributions from virtually all commercial businesses globally, from large corporate to middle market to small, from traditional to specialty, and most all regions of the world. Commercial P&C premiums for North America were up 12.5% or 8.7% excluding agriculture. While in Overseas General, commercial lines grew 13% in constant dollar. And we then scrub 6 points of FX to arrive at the published result.

Agriculture premiums were up 44% in the quarter driven overwhelmingly by crop insurance growth. Commodity prices plus growth in market share produced this result. Looking forward, we will have a very strong crop insurance revenue growth in the third quarter as well.

In terms of the Commercial P&C rate environment, market conditions overall remained favorable, while the level of rate increases is moderating. The vast majority of our portfolio is achieving favorable risk-adjusted returns, and additional rate is therefore required primarily to keep pace with loss costs, which are hardly benign.

The rate environment is naturally becoming a bit more competitive, particularly in certain casualty-related classes as more carriers seek to now grow. The market is reasonably disciplined, and I expect it will remain so given not only the specter of loss cost inflation, but the presence of other risk exposures such as climate change, the war in Ukraine, the litigation environment, cyber and the overall cost of reinsurance. Plenty of reminders to managements to get paid for the exposure underwritten.

In the quarter in North America, total Commercial P&C premiums, excluding agriculture, grew 8.7%. Growth this quarter in commercial lines was led by our Major Accounts & Specialty Division, which grew about 10.5%, followed by our middle market and small commercial business, which grew about 6.5%. Renewal retention for our retail commercial businesses was a very strong 101% on a premium basis.

Overall rates increased in North America commercial lines 7%, while total pricing, which includes rate and exposure, increased over 10.5%. Remember, most but not all of the exposure change helps to ameliorate loss costs.

In major accounts, which serves the largest companies in America, rates increased over 8% with pricing up 11.6%. General casualty rates were up nearly 13% and varied by class of casualty. While risk management-related comp in GL were up about 4%. Property rates were up around 9% and financial lines rates were up nearly 7.5%.

In our E&S wholesale business, rates increased by just under 10% with pricing up over 14%. Property rates were up over 13%. Casualty was up 8.5% and financial lines rates were up 9.5%.

In our middle market business, rates increased nearly 7%, excluding comp, with pricing up about 9%. Rates were -- for property were up 5%. Casualty rates were up over 7%. And comp rates were down 4.3%. However, comp pricing was up over 5% when taking into account exposure change. And finally, financial lines rates were up over 10%.

Turning to loss costs for a minute. We increased our loss cost trends in North America to 6.5% in anticipation of rising costs, meaning the actual trends we are observing at this time are lower. Again, the 6.5% is compared to pricing that was up over 10.5%.

In general, we are trending loss costs for short-tail classes close to 7%, up from 6.5% last quarter. In long-tail, excluding workers' comp, we're trending at 6.5%, up from 6%. And our first-dollar comp book is trending between 4% and 4.5%. These trend factors are contemplated in both our pricing and in our accident year loss picks in the quarter.

Turning to our international general insurance operations. Retail Commercial P&C premiums grew 12.5% in constant dollars, while our London wholesale business grew over 10%. Retail commercial growth varied by region, with premiums up 14% in Asia Pacific, followed by growth of over 13% in Latin America. Our U.K. and Europe division was up nearly 12%. Internationally, like in the U.S., we continued to achieve improved rate-to-exposure across our commercial portfolio.

In our international business, rates increased in the quarter about 9.5%, while we estimate pricing was up about 12%. Rates varied by class and by region as well as country within region. Outside North America, we are currently trending loss costs at about 6.5%, up from 4%, though that varies by class of business and country. Loss cost factors we are using for short-tail are now running over 7. And in long-tail, we're trending at about 6. Again, these factors are contemplated in both our pricing and in our accident year loss in the quarter and, like in North America, are higher than actual observed trends.

International consumer lines growth in the quarter continued to pick up momentum as premiums increased over 12%, though FX then scrubbed about 7.5 points off the growth. Premiums in our international A&H business grew over 12% in constant dollar, with Latin America up over 19% and Asia Pacific up 13%, while our international personal lines grew 12%.

Net premiums in our North America high net worth personal lines business were up 4.7% on the back of record new business activity. Our true high net worth client segment grew 12%, while overall retention was very strong at nearly 98%.

In our homeowners business, we achieved pricing of about 10%, while the homeowners loss cost trend is running about 10% as well.

To sum it all up, we had simply an excellent quarter. And as I look ahead, I am mindful of the world and the conditions in which we operate, including inflation, the specter of recession, the war and energy and food security problems globally.

With all that, we have a lot of broad-based momentum and earning power in our organization that gives me confidence. Commercial P&C growth and pricing are favorable, our consumer lines business growth is accelerating, our life company revenue and earnings will accelerate with the addition of the Cigna business in Asia. Asia is now a $7.5 billion region for our company. Our underwriting margins are excellent, and our investment income will grow nicely due to rising rates and strong cash flow. We are well positioned for continued excellent EPS growth well into the future.

I'll turn the call over to Peter, and then we'll come back and take your questions.

Peter C. Enns
Executive VP & CFO

Good morning, everyone. As you just heard from Evan, we had another excellent quarter. In addition to the record results, we ended the second quarter in a position of exceptional financial strength. Our strong underlying performance produced operating cash flow of $2.7 billion for the quarter and $5.2 billion for the first 6 months.

Our balance sheet remains strong. We have $68 billion in total capital. We continue to remain extremely liquid with cash and short-term investments of $10.6 billion at quarter end or $5.2 billion after accounting for the cash that was paid on July 1 for the Cigna deal.

Among the capital-related actions in the quarter, we returned $1.5 billion to shareholders, including $1.1 billion in share repurchases and $348 million in dividends. Through the 6 months ended June 30, we have returned $2.8 billion to shareholders.

The current quarter included after-tax realized mark-to-market losses on our private and public equities of $489 million compared to gains of $794 million last year. Also included are after-tax losses on sales of fixed maturities of $279 million, in part to advance our portfolio turnover strategy.

Book and tangible book value per share decreased 7.7% and 11.6%, respectively, from last quarter driven by the continuing impact of rising interest rates on our investment portfolio and unfavorable foreign currency movements.

Net realized and unrealized losses for the quarter were $5.4 billion after tax.

In the quarter, adjusted net investment income of $950 million was above the top end of our estimated range and benefited from higher interest income from floating-rate securities and higher reinvestment yields resulting from portfolio turnover in this more attractive interest rate environment. We are remaining consistent and conservative in our investment strategy with 82% of our fixed-income portfolio rated investment grade, and we intend to maintain our historical allocation across investment assets.

As Evan noted, with rising rates, our portfolio's reinvestment rate has increased year-to-date from 2.3% in December to 4.7% at June 30. Our current book yield is 3.2% versus 3% in the first quarter. As a reminder, every 100 basis point increase in our investment yield generates approximately $1.2 billion pretax of net investment income.

Updating our quarterly guidance, we now anticipate adjusted net investment income over the next quarter to be in the range of $980 million to $1 billion. And we expect the quality of this income to be high as the vast majority of it will be predictable yield-oriented income and very little from more volatile sources like PE distributions and call premiums.

Our reported ROE for the quarter was 9%, and our core operating return on tangible equity was 18.6%. Our core operating ROE was 12.4%.

Pretax catastrophe losses for the quarter were $291 million from weather-related events globally with approximately 79% in the U.S. and 21% internationally. We had favorable prior period development of $247 million pretax in the quarter, split approximately 1/3 in long-tail lines, principally from accident years 2017 and prior, and 2/3 in short-tail lines. The current period included a charge for molestation claims related to reviver statutes of $155 million. Our paid-to-incurred ratio for the quarter was 83%.

Our core operating effect tax rate for the quarter was 17.7%, which is slightly above the high end of our previously guided 2022 annual range of 15.5% to 17.5%. This was due primarily to growth in higher-tax jurisdictions and the negative impact of adverse market conditions on assets supporting certain employee benefit programs. With an updated forecast of income jurisdiction, along with the closing of the acquisition of Cigna's business, we now expect our annual core operating effective tax rate for the full year 2022 to be in the range of 16.5% to 18.5%.

As you saw, we completed the purchase of Cigna's A&H and life businesses in Asia. Our expectations regarding the earnings and expense synergies from Cigna remain consistent with or better than previous disclosures. As a reminder, we reported an expected $450 million of core operating income, assuming a close date of January 1, 2022. With the acquisition completed July 1, we will have a full quarter of earnings in the third quarter. We now expect expense synergies to reach a run rate of about $100 million pretax, which is higher than our initial estimate. To achieve the run rate savings, we expect onetime integration costs over the next 2 years to be about $140 million.

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

Karen L. Beyer
Senior Vice President of Investor Relations
Thank you. At this point, we will be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] We take our first question from Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Congrats on a solid quarter again, guys. First question is on -- particularly around accident years '20 and '21 with the nuances from COVID. So Evan, any concerns there of more higher-than-average, I guess, late reported claims coming in down the pipe later than you otherwise would expect for these two accident years?

Evan G. Greenberg
Executive Chairman & CEO

I'm sorry, accident year 2020 but related to what again?

Michael Wayne Phillips
Morgan Stanley, Research Division

Yes, those two accident years because of COVID may be impacting late reported claims. And so are you -- or do you have any concerns that, that might be -- we might be seeing some more claims reported later than otherwise would be the case for those 2 years?

Evan G. Greenberg
Executive Chairman & CEO

No, no. Not at all.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay.

Evan G. Greenberg
Executive Chairman & CEO

I'll remind you, quite the opposite. When we booked the '20 and '21 accident years, we imagined that those years would remain on trend as we trend years forward with inflation costs, et cetera. We didn't -- we just expected that the reporting pattern of claims, and therefore the payments of claims, might come later. But that those accident years would behave reasonably normally, we just didn't come off trend. So our reserves reflect all of that. I've been saying that for the last couple of years.

Michael Wayne Phillips
Morgan Stanley, Research Division

Yes. Okay. And then just a particular question on the segments, if I could. In Overseas General, I guess their production in Europe seems to be down a bit, and I just wondered if there's any particular nuances there in the quarter. Or maybe just some outlook in Europe for Overseas General?

Evan G. Greenberg
Executive Chairman & CEO

Yes, Europe grew -- I'm sorry, we might see it a little different. Europe grew 12% on a constant dollar basis. You then have foreign exchange, of course, the impact of the euro and the pound. But the underlying health and growth, very strong.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. So underlying is still strong in Europe and more just FX impact there as well?

Evan G. Greenberg
Executive Chairman & CEO

Yes, you can -- and by the way, you could see it all in the supplement. Look on the Overseas General page. I can't recall the page number, but you can look in the lower left-hand corner and you'll see by region growth. I can't remember kids' birthdays, but I can remember stuff like that.

Operator

We're moving forward to David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just a question on North America commercial. The underlying loss ratio there, very strong improvement. Was most of that pricing coming in above the new loss trend assumption? Or was there anything else in there related to structured transactions or noncap property losses that impacted that ratio?

Evan G. Greenberg
Executive Chairman & CEO

Yes. And remember, you're looking on an earned basis, not a written basis. So I just want to give you a nuance that when you talk about coming in above the new loss cost trends and all of that, this is the earned, not the written we're talking about when you get to loss ratio.

And it's broad based. It's across most -- all product lines contributed to the improvement. And the difference in structured transactions -- its impact was really de minimis, tiny. This was just broad-based improvement of rate that exceeded trend across our portfolio and as it earns in.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And then, I guess, just maybe -- hoping maybe to get -- and thanks for the color on the loss ratio -- or, I'm sorry, on the loss cost trend changes. I was just wondering on the long-tail lines, changes in both North America and in Overseas General. Was there anything specific in the environment outside of just general inflation in the environment such as court reopenings? Or any sort of -- anything you're seeing in the legal environment that led to that change?

Evan G. Greenberg
Executive Chairman & CEO

No. None. Just our judgment around the general loss cost environment, both the trend we have observed, been observing in legal and in nonlegal. And then you have inflation in wages and medical costs and all of the inputs that would go into this. And again, it's not the -- it's not what we're observing today, but we're just looking ahead and trying -- and anticipating and staying on top of it.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. And a follow-up, I guess, is, is it a wide difference between what you're observing and what the new trend is? Or any sort of quantification on that, on how big the difference is between observed and actual -- or, I'm sorry, actual and projected?

Evan G. Greenberg
Executive Chairman & CEO

It really varies by line of business. And you have both frequency and severity inputs into loss cost trends in any one line of business, and it does just vary. So -- but overall, what I'm -- for proprietary reasons, I'm not going to go into the actual that we are experiencing, but I'm giving you what we're using this trend, which is, I think, better than you're getting anywhere else.

Operator

We take our next question from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Evan, I was hoping to get some forward view just on the pricing environment, right? You guys said loss trend around 6.5%. The disclosure you gave on your pricing, right, is still above that trend level. And you pointed to concerns about inflation. We also have to deal with courts reopening, Ukraine, right? You listed things that you guys are concerned about. As you think out, how long do you think the pricing momentum and rate can stay on top of that loss trend?

Evan G. Greenberg
Executive Chairman & CEO

Well, look, Elyse, if I had a perfect crystal ball, I wouldn't be in this business. I'd go do something else. I can't predict the future. But my sense when I look at the tone of the market and the kind of indicators my colleagues look at and that I look at, the market I think there -- and I said it in my commentary. I think the market is, on one hand, becoming more competitive as companies rationally want to grow in what is an adequately rated environment. On the other hand, I see the -- or it can have a sense of the kind of reactions companies are having themselves to loss cost and inflation. It's very transparent -- reasonably transparent in pricing, in values selected in short-tail classes that they apply price against: so inflation factors and property values, et cetera.

And the market is reasonably -- is rational to me at this time, and -- even though it's becoming more competitive. And rates naturally, like in anything else, they -- trees just don't grow to the sky. And so they've achieved adequacy in most all of our portfolio, so rates need to -- fundamentally, rate and exposure together, pricing needs to keep pace with that. And I see the market at this time rational that way.

And I don't see signs that it's going the other way. I see rates people are charging are reasonably -- should -- ought to produce reasonable results. On the margin, there's -- there are people doing dumb things. And you see it, but it's anecdotal. And you always see dumb things. So I feel reasonably confident, but that's as far as I can give you.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

That's helpful. And then now that you guys have closed on the Cigna deal, do you have a sense -- can we get a sense of what the excess capital impact on your ROE is following that transaction?

Evan G. Greenberg
Executive Chairman & CEO

Elyse, we're not going to update it every bloody quarter. It doesn't move around that much. We gave you -- in the first quarter, we gave you a number. We also said that it contemplated the Cigna deal.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then one last one. Did you guys release any COVID reserves this quarter? I don't think you called that out, Peter.

Peter C. Enns
Executive VP & CFO

No.

Operator

We take our next question from Greg Peters with Raymond James.

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

I guess I'm going to pivot to the investment income commentary. Evan, in your comments, you talked about being largely a hold-to-maturity investor or having that strategy. And then you also highlighted the sale of some fixed-maturity securities to take advantage of the new yields. You talked about the book yield being at 3.2%.

If I were to infer from your commentary, it sounds like you might be accelerating the sales and shifting your strategy from the hold-to-maturity to more like a trading just to upgrade on the yields. But I want to put words in your mouth. Maybe you can give us some color on that.

Evan G. Greenberg
Executive Chairman & CEO

I'm going to turn it over to Tim Boroughs in a second and Peter. But I want to straighten out one thing in your mind that I've also read that 1 or 2 of you wrote.

Held to maturity, if you're going to use that term, is a very specific accounting -- GAAP accounting term. And there are rules around it. If you have something in the held-to-maturity portfolio, which we have a held-to-maturity portfolio, that is a security that, as designated, will not be sold. And you can only sell it under very prescriptive circumstances, i.e., an impairment, avoiding and around managing impairment. And I'm looking at my Chief Accounting Officer who's surprised. I can recall those rules. But that's held to maturity.

We're a buy-and-hold portfolio predominantly. What that says is our intention, all things being equal, is we hold to maturity, but we have the ability to trade.

And by the way, we do trade and -- to take advantage of yields. But overall, the portfolio is held. And so losses will amortize back to par over time. And that's the overall portfolio statement.

Now about where we are beyond that, I'm going to turn it over to Tim and Peter.

Timothy Alan Boroughs
Executive VP & Chief Investment Officer of Chubb Group

Yes, this is Tim, Tim Boroughs. In this environment, with rates rising, first of all, as Evan and Peter mentioned, we have a gap of about 150 basis points between our book and market yield. And this is like Nirvana for bond investors. We're happy campers, right? As new cash flow and maturities come in, for the first time in almost 10 years, we're actually picking up yield. So that's a good thing.

I think in this environment, we're going to focus -- I want to emphasize, we're going to focus on risk-adjusted returns. We're not going to reach for yield and will remain -- we're going to maintain a very high-quality bias.

When we talk about accelerating the turnover, as Evan emphasized, this is going to take place in the same sectors for which those securities are sold. So these tactical moves are incorporated in the investment income guidance that Peter provided, and they're not going to have any material impact on the average credit quality of the portfolio. And obviously, they're going to help to accelerate the rise in book yield.

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

Got it. I guess just as a follow-up on that answer, just trying to understand the magnitude and the timing. I'm not sure you're prepared to give us much on that, but I had to throw it out there as a duty. Can you give us some sense of the magnitude you're talking about?

Timothy Alan Boroughs
Executive VP & Chief Investment Officer of Chubb Group

I would say, as I said, anything that we now contemplate is incorporated in the guidance that Peter gave.

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

Got it.

Timothy Alan Boroughs

Executive VP & Chief Investment Officer of Chubb Group

And the preponderance of the increase in the guidance, Greg, comes from net interest income. So I think that's the point.

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

Got it. Okay. My second question...

Evan G. Greenberg
Executive Chairman & CEO

The only other thing I will add is it'll continue to accelerate from there.

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

All right. The second question will be on Cigna and Asia. We've observed some other large public companies in the insurance market, either accident health, supplemental health, struggle to generate growth in Asia in the last several quarters, if not the last couple of years. So you've talked about the return factor for the Cigna transaction. Can you talk about how you think about growth of that business over the intermediate term?

Evan G. Greenberg
Executive Chairman & CEO

Yes. First of all, I think what we just told you is, is our A&H business, which is not a small business in Asia, the Chubb A&H business is close to a $1 billion business. That business grew a healthy double digit in the second quarter. We just gave you that number. So let me start with that perspective.

And secondly, our strategy for Cigna-Chubb together, the value creation is going to come from two things. The efficiencies/expense are just one part. That's not the interesting part to make, it's the ability to create revenue, and therefore earnings growth, from the combination of the two companies. And it's the -- it's -- we're the only company I know of in Asia that has a unified life and nonlife joint approach that is going to together -- and it's a country-by-country strategy, pretty granular to how we're going to accelerate growth faster than either one would have been standalone.

The combined companies, the customer -- remember, these are direct marketing companies. And the customer database of each together is an asset for cross-sell. The ability to approach and to develop a new product approach of unified life and nonlife products which will be unique in the marketplace, and we're already planning, is another source. Our ability to approach more sponsors and get more share of marketing space because of our life and nonlife together.

So our plans are whatever each one was naturally growing, the growth is going to accelerate. And it takes a little time. We'll see it in a modest way in '23. We're going to see much more in '24 and '25 as we go out.

And finally, beyond what has been predominantly telemarketing and independent agent in the Cigna side, like with the Chubb side, a greater emphasis on the mixing and matching now, which is the Asia trend, of digital and telemarketing.

So it's -- this goes across Korea, Thailand, Taiwan in particular, and, to a degree, Hong Kong. And I just came back from the region, and plans are granular and people are off to the races in execution. So there you go.

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

There was some feedback at the beginning of your comments. And maybe the moderator has the mic open. It wasn't on my end. Just FYI.

Evan G. Greenberg
Executive Chairman & CEO

Yes, I think there are some window washers actually outside my window, which really you can't make this stuff up.

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

Perfect timing on that, Evan.

Evan G. Greenberg
Executive Chairman & CEO

Oh, I didn't know. If I was garbled, you just tell me what I didn't get and I'll give it to you.

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

No, no, I heard you fine. I just heard the window washers in the background, and I didn't know if that was the moderator that had...

Evan G. Greenberg
Executive Chairman & CEO

Yes, yes, I mean, I got you. You just can't get any respect around here. Okay.

Operator

We take our next question from Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I guess my first question, I don't think you mentioned any Russia- or Ukraine-related losses. Are you seeing any of those and they're just not large enough to call out? Or are you just waiting to see kind of how this situation develops before putting up along?

Evan G. Greenberg
Executive Chairman & CEO

They're not large enough to call out. Year-to-date, they're just -- it's a de minimis amount. And that's losses that we have enough information to judge as incurred and put a dollar amount. Of course, we have more exposure than that, that we're watching and observing, but I'm comfortable that our loss picks will contemplate those.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. And then with regards to raising the loss trends, it seems to me -- and I don't know this for a fact, but it seems to me like you're actually ahead of a lot of your peers with raising the trends to where you took them to. Does that challenge your ability to grow at the piece that you want to grow?

Evan G. Greenberg
Executive Chairman & CEO

Well, first of all, I don't know what my peers are raising their loss trends to. So I don't know. And I don't know that they're not raising them and have them in the same levels. So I can't speculate that way.

What I do know is on -- no different than any other period we've ever been in. We're going to charge what we think is the right rate to produce a reasonable risk-adjusted return. If we can't get paid, we don't write the business. Do I feel like that's going to put me at a competitive disadvantage? Not at this point in the cycle, I don't see it.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Got it.

Evan G. Greenberg
Executive Chairman & CEO

As you go forward and things become competitive again, when and if it happens in the future, then of course, I'll trade growth all day long to be sure that underwriting continues to grow book value. I have not changed in 45 years.

Operator

We take our next question from Meyer Shields with KBW.

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

Two quick questions. First, Evan, in your prepared comments, you mentioned food and energy and security. And I was hoping you can give us a little bit more commentary on maybe the regions where that represents underwriting risk.

Evan G. Greenberg
Executive Chairman & CEO

Well, I don't know that it presents an exact underwriting risk. It's not a one-for-one direct relationship, but it all feeds the backdrop of the environment we're in, whether it is inflation, whether it is recession because how it impacts people, whether it is social and political strains that lead to instability, whether it is the political strains that lead to geopolitical instability.

You have to consider all that. It's the -- it's part of the -- it all feeds into the background noise and of the risk environment. And so you got to put a broader lens on it when you start, and then you come down to the very specific correlations when you're thinking about individual risk.

And I was bringing it also in context of that it's hardly that we're pollyannish when we're bullish about the future of the company. And as we look forward, we're bullish about the things we can control and that we see in our sites. We try to put all that and remain bullish in context of the external environment as we see it today. And that's my point.

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

No, understood. That's very helpful. A second question. Just in terms of the reserving process for recent accident years, how much of the increased cost trend that you talked about is -- shows up on your -- the current valuation of those accident year reserves?

Evan G. Greenberg
Executive Chairman & CEO

Can you repeat that? I'm a little -- I'm not sure I got exactly what you said.

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

Yes. No, that's the -- I garbled it a little bit. You talked about including the newer loss trend in pricing and accident year results. Does the reserving process also tweak up accident year 2021 when a line's loss trends are raised?

Evan G. Greenberg
Executive Chairman & CEO

Well, as we do individual reserve studies on each line of business, everything comes to play. So you first start with, how is it performing against frequency and severity, et cetera, against what you expected when you put it up? And also your future loss cost on that accident year, what are the trends you used versus your view of trends today? So all of it gets mixed into an analysis when you're looking at the study of any one cohort of business as we review them.

I say it to you that way because you can't spike one thing out and then use some simplistic way to imagine because you're trying to go to adequacy versus inadequacy or any of that, and I'm trying to pierce through to that thought, if you're following me.

Operator

We take our next question from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two of them here for you. First one, hopefully pretty quick, for Peter. I'm just curious, FX had a little bit of a headwind here from an earnings perspective also. Should we expect something similar here in the third quarter given where FX rates are?

Peter C. Enns
Executive VP & CFO

Very hard to say, Brian, just because of the volatility around it. We obviously have a substantial international operation. You saw that in the revenue and the operating income numbers. I really can't judge. We don't hedge the operating businesses for FX. So what happens, happens. We do, do some hedging around debt and some of the other aspects.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then, Evan, I was hoping we'd dig in a little bit into the whole loss trend situation you were talking about and the increase here. Is there any specific area that you're more concerned about? I mean if I think about it, there's been conversations about medical cost inflation ticking up, tort inflation as the court systems reopen. Any kind of signs that you're seeing that you say, wow, this is an area that we're concerned about and why we increased our trend assumption more?

Evan G. Greenberg
Executive Chairman & CEO

Brian, I'll repeat myself. We're not seeing -- across our business, it's -- we're not seeing the trends that we're actually using -- we're anticipating and increased those in anticipation of future because our business -- the insurance business classically lags. And rather than be lagging and get caught, we try to -- we've all been through this a number of times in inflationary periods. And so it's to anticipate ahead.

And you know what? There are no areas that concern me. I don't think of it that way. We're just vigilant about everything. Or we try to be.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. So does that mean that your business today, you would kind of view as rate adequate, but you still want to kind of be careful about what's going forward?

Evan G. Greenberg
Executive Chairman & CEO

And I said it in the commentary, and I know you listened, that our -- that the rates we're charging -- our business is -- the vast majority of it is achieving an adequate risk-adjusted return. And that means that pricing and rate is adequate. Now you need -- what you really need in particular, and it's not true of the whole portfolio, but the vast majority, you need rate that will keep pace with loss cost. We're anticipating about loss cost, not trying to anticipate and not simply use lagging of what we see because what we see is a combination of frequency and severity, and it varies by line. And that is a bit of a lagging indicator.

Operator

We take our next question from Tracy Benguigui from Barclays.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Could you walk us through your process of setting combined ratio target to your underwriters? I'm thinking it's some derivative of ROE. So when you're coming up with these targets, are you basing that on new money yields or portfolio yields?

Evan G. Greenberg
Executive Chairman & CEO

The portfolio takes a long time to turn over. So you know what? It's based on portfolio. And I'm not going to go through it, no.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. Got it. All right. No, that's very helpful. I mean this is where I was going with it. According to broker pricing surveys, in your own book, you called out deceleration in casualty-related classes. So I was just trying to get a sense if part of the equation of casualty deceleration is because maybe others are pricing based on new money yields and they're weighing more in future investment income. But it sounds like you're taking a more measured approach, looking at the portfolio yields. Is that fair?

Evan G. Greenberg
Executive Chairman & CEO

No. I think you're way overseeing this. I think that's an academic approach, not a practitioner's approach. If you think the marketplace today is pricing underwriters and the day-to-day trades are pricing based upon some view of combined ratios where it's been calculated with new money versus portfolio yield, let me disabuse you of that. It is not that finally or I'm disciplined in the way that the marketplace actually works in pricing.

And how long it takes for others to review portfolios, see results, make judgments, then have that passed down to the trading level of how does it impact how we see rates, well, that's a ways out there, and it doesn't really work in that buttoned-up way in most of the world -- the vast majority of the world of insurance.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Okay. Based on some conversations I've had, it sounds like a mix by others. But you guys are definitely thinking about it, I think, in the right way given everything that you just mentioned. So I appreciate you providing that color.

Evan G. Greenberg
Executive Chairman & CEO

Well, it's interesting. People say one thing and then you observe something else. But anyway.

Operator

We take our next question from Alex Scott with Goldman Sachs.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

First one I had was on personal lines. The underwriting has been holding up quite well relative to what we're seeing across the industry. So I was just interested if you could provide any color on what you're doing that's allowed that to happen and if the maybe better price adequacy than some of your peers have will allow you to pivot harder to growth.

Evan G. Greenberg
Executive Chairman & CEO

Well, first of all, we have a different kind of portfolio. We're not general market homeowners or auto, it's high net worth, as you know. And so it's a segment of the marketplace, number one.

Number two, look, we took a lot of pain in the last couple of years in adjusting how we price in the absolute rate we charge, in how we think about it by [parrel], how we think about it by territory. And that's never ending. But we had gotten -- the company in total had gotten behind a few years ago in overall pricing and price adequacy. And so we took pain in terms of growth for that.

And I -- my own sense -- and we've seen it in the high net worth category. It's not just rate but price, how you view the values of individual homes and the inflation factors you use, how you do that in fine arts and in other valuables within homes.

We've been very disciplined to adjust to inflation that has been running hot in that area for a while. Competition -- competitors have been slow to do that. And again, we gave up some business at times for that. I think it serves us well at this time, and we're just steady as she goes.

Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. Second question I had for you is on capital management. I know you guys just closed the Cigna deal, so maybe a little early for me to be asking this type of question. But at this environment, it seems like the returns are quite strong, you're generating a lot of capital. I was just interested if you could update us on capital deployment priorities.

Evan G. Greenberg
Executive Chairman & CEO

Capital deployment is steady as she goes. We will retain capital for both. We run a conservative balance sheet. We're in a balance sheet business. We're in a risk business. And we will retain capital for risk and volatility, and we will retain capital for growth opportunities, organic and inorganic. And the money doesn't burn a hole in our pocket, and we've been awfully good stewards of capital. I think our history shows that. No change to policy.

Peter C. Enns
Executive VP & CFO

Hello?

Evan G. Greenberg
Executive Chairman & CEO

We went blank.

Karen L. Beyer
Senior Vice President of Investor Relations

Yes. Okay. Well, thank you. At this point, we want to thank everyone for joining us today. If you have any follow-up questions, we'll be around to take your calls. Enjoy your day. Thank you.

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