S&P Global
Market Intelligence

Chubb Limited NYSE:CB

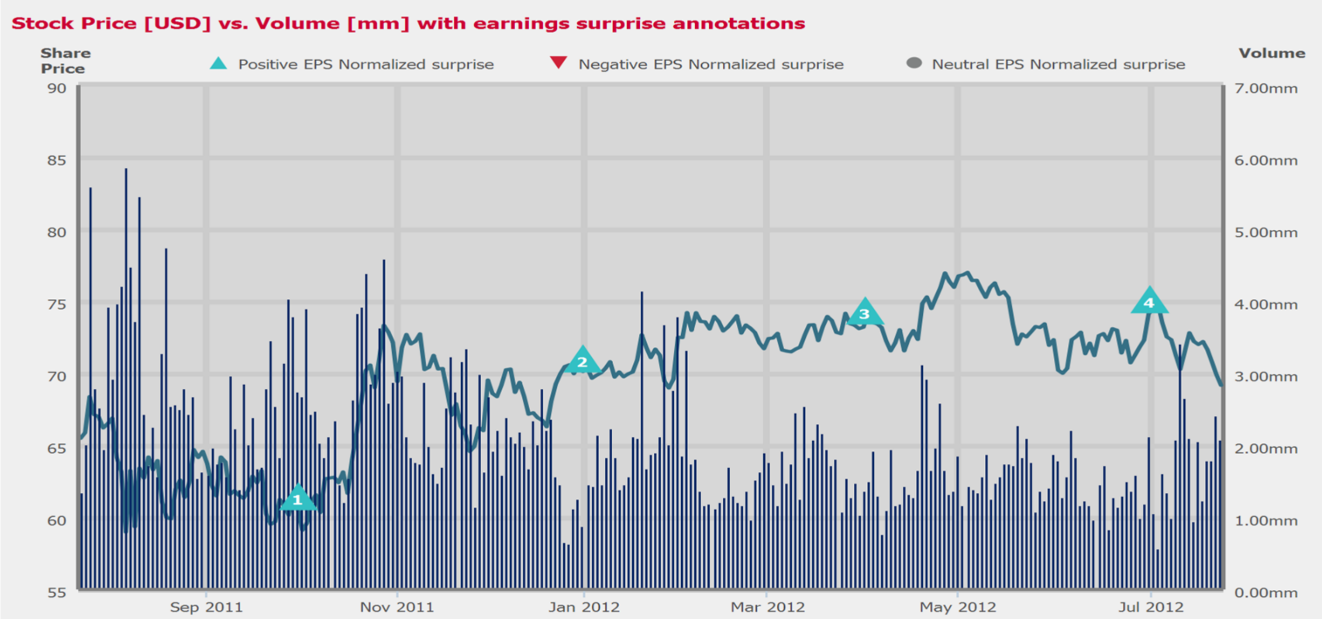
FQ3 2012 Earnings Call Transcripts

Wednesday, October 24, 2012 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2012-			-FQ4 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.83	2.01	▲9.84	1.87	8.03	7.88
Revenue (mm)	4206.63	4716.00	▲12.11	3471.57	14839.97	15334.07

Currency: USD
Consensus as of Oct-24-2012 1:28 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2011	1.77	2.22	▲1 25.42 %
FQ4 2011	1.79	1.94	▲2 8.38 %
FQ1 2012	1.87	2.05	▲3 9.63 %
FQ2 2012	1.90	2.17	▲4 14.21 %

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EXECUTIVES

Brian Edward Dowd
Executive of Office of The Chairman

Evan G. Greenberg
Chairman, President & CEO

Helen Wilson

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Vice Chairman and President of North America Major Accounts & Specialty Insurance

Philip V. Bancroft
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Michael Steven Nannizzi
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Michael Zaremski
Crédit Suisse AG, Research Division

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Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Presentation

Operator

Good day and welcome to the ACE Limited Third Quarter 2012 Earnings Conference Call. [Operator Instructions] 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, 2012 third quarter earnings conference call. Our report today will contain forward-looking statements. These include statements relating to company performance, guidance, premium growth, impact of catastrophes and droughts, pricing and insurance market conditions, and acquisitions that have yet to close, 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 the webcast replay will be available 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 developments.

Now, I'd like to introduce our speakers. First, we have Evan Greenberg, Chairman and Chief Executive Officer, followed by Phil Bancroft, our Chief Financial Officer. Then, we'll take your questions. Also, with us to assist with your questions are several members of our management team.

Now, it's my pleasure to turn the call over to Evan.

Evan G. Greenberg
Chairman, President & CEO

Good morning. As you could see from the numbers, ACE had a very good third quarter which contributed to an excellent 9-month result. In spite of a difficult crop season, we produced strong earnings with excellent contributions from underwriting and very good contributions from investment income.

Book value growth was outstanding. Strategically we closed on one acquisition and announced 2 others that will strengthen our presence and capabilities in 2 of the largest economies in the world. And our premium revenue growth continued to benefit from a favorable P&C pricing environment in North America. All in all, a good and exciting quarter for ACE.

After-tax operating income for the quarter was $688 million or $2.01 per share. The negative impact on our per share earnings from crop insurance is $0.28. Book value grew 4.7% in the quarter and is up nearly 11% for the year. Our operating ROE for the quarter was 11.5%.

We had strong underwriting results with positive contributions from all divisions, except agriculture, as demonstrated by a P&C combined ratio of 92%. We benefited from both good current accident year experience and strong positive prior period reserve development. The current accident year combined ratio was 97.7% and excluding the impact of crop insurance and catastrophe losses which relate this quarter is 90.5. The underlying underwriting strength of our business is simply excellent.

On the subject of crop insurance and the severe drought conditions experienced in the U.S. this year, the worst since 1988, we said last quarter that our estimated worst-case loss for the balance of the year was approximately $200 million after-tax, in addition to the $68 million we had estimated in the second quarter for a total potential impact of $268 million. With the ‘012 crop season moving towards a conclusion, we now estimate full-year operating income for this business to be reduced by $195 million. Phil will have more to say on crop insurance in his comments.

All in, on a 9-month basis, ACE has performed exceptionally well. Our year-to-date combined ratio is 90.2% versus 95.3% prior year, and we've earned $2.13 billion in after-tax operating income compared with $1.68 billion last year, up 27%.

In the quarter, we closed on one acquisition and announced 2 others. First, we completed the acquisition of 80% of Asuransi Jaya Proteksi in Indonesia, one of that country's top 10 general insurers and a leader in personal lines. We expect to own the balance of the company shortly.

Our P&C business in Indonesia was quite small. This acquisition provides us with a significant brand and physical presence in the country and expands our capability by adding personal lines and a network of about 30 branches. Our existing business, which is fundamentally commercial lines, is Jakarta-based. The addition of JaPro also complements our growing life presence of over 3000 agents and 12 offices.

Last month we announced that we will acquire Fianzas Monterrey, the second largest surety company in Mexico and the third largest in Latin America. With 25 branch offices and a network of 600 independent agents throughout Mexico, FM is recognized for its technical excellence. These are sophisticated surety underwriters with a long track record of excellent results, an impressive management team and modern systems. In addition to enhancing our global franchise in surety, FM adds significantly to ACE Seguros, our existing commercial lines and A&H business in Mexico, which currently writes about $215 million in premiums annually.

And last week we announced that we will acquire ABA Seguros, Mexico's fourth-largest auto insurance company. ABA is a well-established well recognized brand in Mexico with nearly 2000 independent agents and over 30 branch offices. The company also distributes its products through a network of auto dealerships and banks, as well as a growing direct marketing channel. A premier personal lines and agency company, ABA further diversifies our presence and capability in Mexico with auto, homeowners and small business coverages.

With the addition of FM and ABA, our business in Mexico will be well-balanced between commercial and personal lines. They expand our overall presence in Latin America with '012 net premiums in the region growing from approximately $1.5 billion pre-acquisition to over $2 billion. These 3 transactions better position ACE for the future by further enhancing our presence and capabilities into relatively fast-growing countries of the world -- both are large democracies with significant natural resources and young populations. For example, Indonesia is a population of 250 million people with an average age under 30 years and an economy growing over 6% annually. Mexico, which has a population of 115 million people, about half of which is under age 27, is the 12th largest economy in the world.

Both countries have embraced market-oriented principles. While there are no guarantees over the next 3, 5 and 10 years, wealth creation in Indonesia and Mexico should be superior with a strong emerging middle class and a growing large and small business community. We are spending over $1.25 billion on these transactions, and I believe they will be accretive to our shareholders, particularly our long-term shareholders. They will be accretive to earnings in the first year and we expect will meet or exceed our long-term ROE target of 15% in a reasonably short period of time, about 2 to 3 years.

In addition, we expect the closing or shortly thereafter dividends from surplus capital in excess of $320 million, which will reduce our net investments in the 2 Mexican transactions. Again, we are positioning ourselves for the immediate and long-term future. Globally we have the geographic presence, the local management and technical capabilities, the global product capabilities and the balance sheet to take advantage of opportunities as they present themselves in the growth regions of the world. These acquisitions are examples of that.

As this company's capabilities continue to evolve, our strategic options are, in fact, accelerating and I am excited about the future for this company.

I'd like to now talk about ACE's premium revenue growth in the quarter and the market environment. ACE's total net -- company net premiums in the quarter grew 8.6% or 11.1% adjusting for the impact of foreign exchange. We had outstanding double-digit revenue growth in North America, and excluding the impact of FX in Asia and Latin America.

Let me give you some more details beginning with North America. In the quarter, North America grew 15%, an outstanding result. If we exclude agriculture insurance, North American net premiums were up 20%. We had excellent growth in commercial P&C both retail and wholesale with net premiums growing 27% in our retail business and 8% in our E&S or wholesale business.

Net premiums in our private risk personal lines business were up 17%. Growth in our retail commercial business was led by primary risk management, up 92% where we wrote a particularly large new account. Some of the other product lines where we saw our best growth include property up 30%, energy up 22% and retail general and specialty casualty lines of business and aggregate up 12%.

Overall North American pricing was up 3.6% in the quarter. We continued to achieve broad based price increases in many of our retail commercial classes led by risk management, which was up 5%, excess casualty up 9.5%, property up 5% and energy up 9.5%.

On the E&S side, the casualty-related market needs rate, the combined ratio for the market is simply high. In the quarter, we achieved favorable pricing of 12.5% in general casualty, 6% in professional lines and 7% in property. We expect the pattern of price increases in the U.S. will continue for the foreseeable future with highly stressed casualty related lines receiving significant but orderly levels of price increases and less severely stressed casualty lines up modest single digits or flat and property pricing flattening out.

However, remember, it's a big and messy market and there are pockets of competition where prices continue to be under pressure. As I have said in previous quarters, in my mind, this is an ROE driven pricing correction, being driven primarily by larger, more sophisticated and responsible underwriters.

In our international operations, net premiums in our global retail business, ACE International grew 8% in local currency while our London-based E&S business, ACE Global Markets grew 3%. Asia and Latin America were again the standouts and in constant dollars were up 10% and 18% respectively with strong contributions from P&C A&H and personal lines.

In spite of economic conditions on the continent of Europe, we grew 6% and in the UK we were essentially flat due to market conditions. Globally, pricing was the same as the second quarter with rates up about 1% in retail and up 3% in wholesale.

Internationally, we’re not seeing the same pattern of pricing improvement as in the U.S. The international market does not have the same structure as the U.S. and pricing is driven more by simply supply and demand. And in this case, supply outweighs demand. Therefore we’re seeing relatively flat rates. John Keogh and John Lupica are with me and can provide further color on market conditions and pricing trends globally.

Turning to other divisions, our international personal lines business was up 17% with strong double-digit performance in Asia, Latin America and Europe. Growth in our personal accident business continued to improve with both international and North American A&H net premiums growing 8%. Latin America led the way this quarter with net premiums growing 16% while Asia due to a few negative one-time items grew 7%.

Growth in our combined insurance operation, as I said last quarter, would be neutral by year-end and in fact, this quarter it was flat. I expect our A&H premium growth to continue to improve as we go through the fourth quarter and beyond into ‘013.

Our global Re business had a terrific quarter with net premiums up 22% over last year. The growth came primarily from the U.S. division which was up 28% and benefited from a large portfolio transaction. Excluding that transaction, global Re grew 7%.

In summary, we had a strong third quarter, and we're optimistic about our growth prospects despite the macroeconomic and geopolitical challenges facing us globally. We have a clear strategic direction, significant and growing presence and capabilities and the confidence in our ability to execute. We are taking advantage of the favorable P&C pricing trends in North America and deploying our capital thoughtfully and prudently in those parts of the world that hold future promise.

Before I turn the call over to Phil, I want to say a few words about an issue that frankly impacts every single one of us and that we should all be focusing on. There is no greater challenge facing our nation in my judgment than our fiscal crisis and our $16 trillion in debt. This is something that all of us as Americans should be concerned about, whether you're worried about your country, your family or your company.

The math could not be any clearer. The government takes in approximately $2.4 trillion in revenue annually and spends $3.5 trillion. 40% to 50% annual deficits amounting to $1.1 trillion or more are not sustainable. The debt is suffocating our economy, sapping confidence and killing jobs, because the government is competing for dollars that otherwise would be invested in the economy.

The private sector, including business community leadership, is fed up with the inability of political leaders to make the tough decisions to address our debt now. What we need is presidential and Congressional leadership and a clear bipartisan plan that provides certainty about future fiscal discipline that should be coupled with immediate actions that stimulate and encourage private sector growth, increase business competitiveness, in turn bring down unemployment.

Fiscal consolidation must include spending cuts and revenue increases. This means tax reform that broadens the base and encourages economic activity and yes, raises more revenue. It also means comprehensive reforms of entitlement programs, including social security and health care that addresses the cost side. A pro-growth debt reduction plan that considers both taxes and spending will require politicians to exhibit real leadership, and the time for action is now and you should all be involved.

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

Philip V. Bancroft
Executive VP & CFO

Thank you, Evan. We ended the quarter with a very strong balance sheet and capital position. For the quarter, cash and invested assets grew by $2.2 billion to $60.5 billion. Tangible book value per share grew 4.7% in the quarter and is up 11.6% for the year. Total capital now stands at over $32 billion. Operating cash flow was strong at $1.6 billion.

Net realized and unrealized gains were $700 million pre-tax, including a $760 million gain from the investment portfolio offset by a $60 million realized loss from our variable annuity reinsurance portfolio. Investment income was $533 million for the quarter and was in line with our expectation. Our current book yield is 3.8%. Current new money rates are 2.2% if we invested in a similar distribution to our existing portfolio.

We estimate the current quarterly investment income run rate will be approximately $525 million with some marginal variability up or down. In the quarter we took a charge of $147 million pre-tax or $97 million after-tax related to crop insurance. The charge produces a net combined ratio for crop insurance of 114% for the third quarter and contemplates combined ratio for the fourth quarter and full year up about 100% and 104% respectively.

The full year underwriting loss is expected to be approximately $70 million. The after-tax operating loss is $50 million. Our net loss reserves were up $1.2 billion in the quarter. During the quarter, we had positive prior period development of $175 million after-tax, primarily from long-tail lines and principally from accident years 2007 and prior.

After-tax cat losses were $40 million for the quarter. Our paid to incurred ratio of 68% is below our normal run rate, primarily due to the impact of crop. Excluding crop and prior period, the paid to incurred ratio was 83%. Our press release issued last night included our updated guidance for 2012. Our range is now $7.73 to $8.03 in after-tax operating income per share for the year. We are simply adjusting our original 2012 guidance to the actual 9 months results and fourth quarter crop insurance results.

First, the update reflects the positive prior period reserve development and lower than planned cat losses recorded in the first 3 quarters of $1.60 per share. Second, the update includes a reduction of $0.57

per share after tax relating to our crop insurance business, increase from our second-quarter guidance estimate of $0.19 per share after tax.

As Evan said earlier, the company now expects full-year operating income to be reduced by $195 million or approximately $73 million less than the estimated worst-case scenario of $268 million. No net profit or loss is expected on this business in the fourth quarter. Finally, the update includes estimated catastrophe losses of $100 million after-tax for the fourth quarter. Guidance for the balance of the year is for the current accident year only.

We've given several numbers relating to the impact of crop on the quarter and on our guidance. In summary, all on an after-tax basis we had a loss in the quarter of $97 million from crop, and we expect no profit or loss in the fourth quarter. Our first half profit of $47 million brings our estimated after-tax loss for the year to $50 million. Our original guidance for the year included an estimated profit of $145 million. This means we have reduced the estimated profit by $195 million, again bringing our crop loss for the year to an estimated $50 million loss. Of course, subject to change as we close out the crop season.

With that, I'll turn the call back to Helen.

Helen Wilson
Thank you, Phil. At this time we will be happy to take your questions.

Question and Answer

Operator

[Operator Instructions] We'll go first to Matt Heimermann at JPMorgan.

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

Couple of questions, first just obviously a lot of moving pieces in the underlying combined ratio this quarter. And just wondering if you kind of put those into context relative to maybe first half and then how you think about things prospectively?

Evan G. Greenberg
Chairman, President & CEO

Matt, just in general I think the underlying combined ratio, you exclude -- if you take out noise of prior period of cat of the crop and so you're really trying to look at current accident year I assume, though I think prior period is darn strong and speaks good reserves and good prudent management of the business and the strength of our business from prior years as it emerges. But the current accident year, in the quarter the loss ratio was around 59 and change. The expense ratio even when you adjust for taken out crop was below prior year by about a full point. I think the underlying health of the business is excellent. And I think the mix is very good and I think we are booking our loss ratios as we always have. Conservative underwriters, we write a lot of global business, write a lot of casualty business and I think we're just -- we're not aggressive folks. And I think I feel darn good about that current accident year, and I think you ought to as well. We're receiving pricing. It varies by line, whether it exceeds trend or not. There isn't just one statement about that. And we will see what trend is over time. No one can predict that with any certainty about inflation, particularly in long-tail casualty lines, particularly when you think about medical. But obviously price increases as they earn their way through have an ameliorating impact. I believe you see some of that in there and I believe it shows up as time goes on.

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

And just following up on that, I mean, one, you're getting rate in some areas, it seems like you're trying grow obviously areas where you are feeling better about ROE. Is it fair to think about businesses, whether you're talking international P&C or A&H where maybe there is not explicit price increases that the growth there actually will keep -- your growth is kind of significant enough that even with -- even though those aren't businesses with pricing leverage per se, you might have as much earnings pick-up there as you do in some businesses where there is pricing leverage?

Evan G. Greenberg
Chairman, President & CEO

Of course, of course and different businesses some -- different businesses, every business has a different ROE characteristic and some of our businesses, many of them have quite good ROEs. And that's how you get to that 11.5% even with crop and the noise. So yes, it isn't simply about -- your first statement is correct. You want to grow more where you see an improving ROE and an acceptable ROE. And I think we have the insight on underwriting to do that. Though we're constantly improving ourselves and we're focused on growing those areas where despite pricing ROEs are good.

Operator

We'll go next to Jay Gelb at Barclays.

Jay H. Gelb
Barclays Bank PLC, Research Division

Evan, I wanted to focus it on that comment in terms of ACE's accelerating its strategic options, can you drill in all in all in terms of what that means?

Evan G. Greenberg
Chairman, President & CEO

Yes, I'll try to add a little more color, just say it another way because I think I said as clearly as I can. As ACE has deepened our geographic presence, as we've deepened our capability in those geographies in terms of product line, insight and underwriting capability, in terms of management and systems, we can take on more. And we see more opportunities in those geographies. And as we have strengthened our global capabilities from head office down in product lines and are maturing those in different areas, whether it is personal lines, whether it is A&H, whether it's life, whether it's surety, whether it's commercial, other areas of commercial P&C, to aid our geographies around the globe, and when you add to that the strength of our balance sheet and the flexibility we have to take advantage whether it's organic or acquisition, I just feel and from what I see that our options for growth and opportunity actually are not static. They're simply accelerating. And an example of that is what you just saw this quarter. We took advantage of surety. And then on the other side, we took advantage of it in personal lines. Well, I have to tell you, we are pretty prudent people. We would not have done that if we didn't feel. We really have the insight and the expertise from the local to the global to manage that. It's one thing to purchase something, it's another thing to understand it and manage it, make it better. And I feel very confident on the ground about that. And that has just really struck me.

Jay H. Gelb
Barclays Bank PLC, Research Division

And then 2 quick follow-ups for Phil. First in North America P&C, the net to gross premiums level has increased from the mid-60s year-over-year and then quarter over quarter now to 76%. Is that the right level going forward? And then I have another follow up.

Philip V. Bancroft
Executive VP & CFO

That's been affected by the crop adjustment primarily. That was about 5 points of it. And then as we talked about that risk management contract, that contributed another couple points.

Jay H. Gelb
Barclays Bank PLC, Research Division

So mid to high 60s net to gross is probably the right level to think about it.

Philip V. Bancroft
Executive VP & CFO

I think that's fair.

Evan G. Greenberg
Chairman, President & CEO

I think high 60s. Remember, the risk management contract is not a one-time contract. So as you go forward, that's going to keep repeating. We just -- we have a new large client. Thank you very much for buying ACE.

Jay H. Gelb
Barclays Bank PLC, Research Division

And then separately on the investment portfolio, ACE has among the property casualty companies we follow has among the highest high yield fixed income allocation as a portion of the investment portfolio. Given with spread at record lows and high yield prices to record highs now, I am just wondering if they should take some profits there.

Philip V. Bancroft

Executive VP & CFO

Look, we established our exposure to high yield bonds over the last several years at a time when we thought both interest rates and credit spreads were very attractive. And as a result, the average coupon on our holdings right now is 7% compared with the current market yield of about 5.5%. And the portfolios in the unrealized gain position of about 400. As you know, our strategy has been to target to be BB or upper tier at the sector and we are maintaining a higher degree of diversity and liquidity. We have over 700 individual holdings. We're very comfortable with where we are. While credit spreads have narrowed to maybe the historical averages, we expect the credit fundamentals to be pretty positive and the default rates to be benign. And we have a specific set of guidelines for this asset class and we wouldn't expect any future increase in our exposure.

Evan G. Greenberg
Chairman, President & CEO

Your question about harvesting, that's not our play. And we will continue to receive the coupons that are on that business that as Phil said are running 7% range in aggregate. And we will trade individually as we see either credit -- for either credit reasons or as we make some individual market decision but not on a wholesale portfolio business.

Operator

We'll go next to Mike Zaremski at Credit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

Evan, did I catch your pricing remarks correctly in that overall pricing in the U.S. was plus 3.6% which would compare to 4.7% last quarter? And if so, why are you confident pricing will move higher in the coming quarter?

Evan G. Greenberg
Chairman, President & CEO

Well, first of all, I didn't say higher. I said the trend of pricing as I see right now, the kind of pattern of pricing will continue. The 4.7 and 3.6, 2 things about that, where you say, well looks like it's down. Yes, but property has been such a large driver on our book and we're getting rate on rate right now in property. And property cat pricing is quite robust, quite good. So it's actually rational that property pricing begin to level off that way and receiving price on price to us is encouraging, and an encouraging sign. Excluding that when I kind of look cohort by cohort of the individual lines of business, the price we received in the second quarter and the price we received in the third quarter, the price increases are either the same or are up. And that is across most individual casualty lines. Remember, ACE does not write. It's not a player in the risk transfer traditional workers comp business. We have an access workers comp business and that complements our risk management business, that's risk transfer and their prices were up almost 10%.

Michael Zaremski
Crédit Suisse AG, Research Division

But you said those pricing levels are exceeding loss cost trends.

Evan G. Greenberg
Chairman, President & CEO

I said - no, I didn't. I said it. It depends on the line of business. And it depends on first of all, what you pick for loss cost trend and how optimistic are you. And secondly, because remember, longer tail business you've got to imagine you're looking out well past the next 2 to 3 years where you might imagine low inflation for the next few years. What percentage of long tail that you write or the claims actually going to be paid, an awful lot of the claims, the vast majority are paid in durations past the 2 years or 3 years. And so -- and you look at medical inflation.

So it varies by line of business whether in fact, in our judgment price increases are exceeding loss cost trend. But regardless price increases are ameliorating some pressure on loss ratios. Period.

Michael Zaremski
Crédit Suisse AG, Research Division

That does make sense. And lastly, I am hoping to flush out a couple of things in regard to crop insurance. Expect no profit or loss in 4Q, is that just the multi-peril crop book or the entire ag book and what level of premium volumes are you expecting to book in 4Q?

Evan G. Greenberg
Chairman, President & CEO

Well, we are not giving premium estimates for Q4, but it is the crop book that Phil was referring to in the 100% combined ratio. The balance of our ag book is not very big and I certainly expect it should earn a profit.

Michael Zaremski
Crédit Suisse AG, Research Division

And lastly have ACE's views on the economics of crop insurance changed at all in recent quarters? And I guess what I am getting at is your desire -- do you have a desire to maintain and/or grow market share in the 2013 crop season? Thanks.

Evan G. Greenberg
Chairman, President & CEO

I'm going to let Brian Dowd answer that question.

Brian Edward Dowd
Executive of Office of The Chairman

Hey, Mike. I would say obviously we've been in this business for a long time. So we do a lot of long term averages, we have probably more days in business than the other business we have. Do we think the long term business has changed? I would say no. It's kind of the business and every year after year, you have to take advantage -- of sometimes the competitive landscape changes and frankly we don't know how it's going to change in that area. It's too early to announce, and everyone hasn't finalized results. And the truth is we are a long term player in this business and I would expect we would put a similar amount of emphasis on to make sure that we have the share.

Evan G. Greenberg
Chairman, President & CEO

I don't see the economics changing. It's just on the margin from one crop year to next. Remember this is more technically priced business. Like a cat, they use kind of 10-year average pricing to figure frequency and average severity though that has a lot to do with crop prices but to figure yield losses. And so that's a good one. We're steady as she goes. We like the business.

Operator

And we'll move next to Vinay Misquith at Evercore Partners.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Just wanted to drill down a little bit into the growth, so this quarter, gross premiums grew about 2% and net premiums grew significantly higher because of higher retention. Evan, do you see some opportunities because pricing is improving slightly that you can keep more business net and that's how you can grow your premiums?

Evan G. Greenberg
Chairman, President & CEO

No. Vinay, I think you're missing it because I think if you take out crop, crop impacted the gross premium about 5 points -- the net about 5 points. But it impacted the gross as well little bit. And so I think there's some impact that way. Mix of business has a lot to do. Yes, we increased retentions to a degree. But that's not the big impact to me. The big impact across-the-board is the writing of business that happens that naturally have a higher net retention to it. Our international business has higher net retention. When I look under the covers within the U.S. businesses, the businesses that grew happened to have a higher net retention. So retention has a couple of points impact on all of this. But the balance of it is growing in lines that happen to have a higher net.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

And secondly, on the margins, we've seen margins improve year-over-year this quarter and yet pricing as you said may or may not be higher than loss cost trends. Do you think that even for the future that your business mix change is helping you to get higher margins because you’re growing in business with higher margins?

Evan G. Greenberg
Chairman, President & CEO

Combination of things, I mean, the street, when you guys ask questions about all this, you’re really just that -- the only lever really to pull, it’s one-dimensional thinking, is pricing. But what you're missing is risk selection. And the fact is as prices move, if you're an insightful underwriter, if you're diligent and you’re a good portfolio management and you have the data to go along with it, then your risk selection more risks meet your target pricing. And that is a big driver in all of this. And so -- and when you look at some of the classes don't think the 3.6 simply, as I told property weighs on that etcetera. I gave you a number of classes that are getting priced significantly in excess of that within those cohorts if you can select the better risk as you imagine it to be, as your portfolio underwriting tells you that, then you’re going to get greater growth opportunity in that class. And that’s the point.

Operator

We’ll go next to Gregory Locraft at Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

Evan, I was worried you were getting ready to run for Congress in your opening comments. So I wanted to -- I am thrilled you guys did some -- took some action in the M&A front but I wanted to -- we sort of tested our Spanish skills and going into the things you purchased in Mexico. And from what we can tell it looks like -- it looks you’re paying about 3x book value for businesses that are earning in ABA’s case an average ROE of 18% the last 3 years, and in Fianzas case an average ROE of 35% the last 3 years. Is our math and directionally, are these numbers correct or are our translation skills erroneous?

Evan G. Greenberg
Chairman, President & CEO

Your translation skills are just fine. But you are looking at statutory filing. And so we actually paid about 2x book. So you have to look at GAAP, you can’t look at stat to come to the numbers. So you're right, we paid more but we paid more like 2x book. And to me in a growth business, in a growth economy where there is superior short medium and long-term opportunity, I square the circle that yes, paying that for that presence and for that brand and all of that of 2x, I look at the ROEs and I square that circle with the comments I gave you back about what we expect for the ROEs in a short period of time.

Gregory Locraft
Morgan Stanley, Research Division

And I guess then to -- if we were looking at -- if we were to obviously look at, take that 2x book, that would effectively cut the ROEs that I mentioned by a 1/3 and still obviously puts the deals easily above a 15 blended?

Evan G. Greenberg
Chairman, President & CEO

And remember it's not blended. I didn't say blended. I said each deal. You don't know each deal. So you don't know the -- you don't know where we can create wealth and bring some benefit of ACE to bear in these that helps to improve. So while we gave away some of the upside, we will still on these deals with those numbers I gave you are for each deal. And also I try not to give it to you in some pollyannaish way like -- you know, look, 5 or 10 years from now it'll be -- and who knows. No, we're practical guys. In a short period of time so we are execution oriented about that.

Gregory Locraft
Morgan Stanley, Research Division

And sort of as I look at it, you guys have earned about $1.9 billion net income year-to-date, you have paid 600-ish in a dividend year-to-date. So you've got -- I mean $1.3 billion that you're spending is effectively cash you've earned the last 9 months that if it went into your investment portfolio would earn you next to nothing. And now you've found a 15 plus rate of return, is the logic all there exactly how you think about it or is there something missing?

Evan G. Greenberg
Chairman, President & CEO

I don't think you're missing anything. I think you got the right logic and remember this if it's managed right on these, the return is ultimately infinite. It keeps on giving to you. And if we'd done a buyback with that which is the next question that someone will compare it to, that's one-time gratification. And I get that. And so with the point of our life, we think this was the right way to do it. The one thing, which I think Phil could give you a little more color on is you can't translate that the $1.9 billion now all goes to -- all of a sudden net capital generation.

Philip V. Bancroft
Executive VP & CFO

Right, part of that obviously gets absorbed into additional capital charges for the business that we put on the books right? So our growth absorbs capital, it's not one for one.

Gregory Locraft
Morgan Stanley, Research Division

And just the last one again on the M&A side, it's been a couple years since you sort -- since your investor day when you kind of laid out your goals, Evan, strategically to grow the business footprint in Asia, LatAm from 16% to 30% and in personal lines from 4% to 20%. Can you sort of update us? I mean where are we on the trajectory and has anything shifted over the last couple of years because obviously these deals are going to help you get there?

Evan G. Greenberg
Chairman, President & CEO

Well, first of all, when I look at the 4% to 20%, when you say 4% to 20% my natural reflexive is to look at Juan Andrade who is sitting right here and he is a great executive and he is driving our personal lines growth globally in partnership with our general management in each of the territories. Yes. of course these acquisitions, we're on track, I believe to achieve our objective of geographic and product mix over time. So I think we're heading right in that right direction. The only thing I am going to say to you that I am going to end to what you said Greg is that beyond these acquisitions, remember at the same time our U.S. personal lines grew 14% in the quarter and our international personal lines grew 17% in the quarter. So organic growth and with the presence we're building out is just -- is doing quite well. And now this just helps -- this now complements it, and we've been building out the infrastructure as I said earlier of people and capabilities to be able to safely manage this kind of development and growth, be it organic or acquisition.

Operator

We'll go next to Josh Stirling at Sanford Bernstein.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

I'd love to follow up on some commentary around acquisitions. Obviously you guys have made a substantial progress on diversifying globally. I think you've done at least nine deals by my count in the past 5 years, all of them and apparently in sort of strategy to basically avoid some of the excesses of the soft market here in the United States by growing in these diversifying lines globally and other more attractive player [ph] lines. The question would be though, with the environment shifting, pricing improving and the core U.S. markets improving, should we think about your acquisition appetite rebalancing? Will you be continuing to focus primarily in adding global capabilities, foreign, local companies or do you think you will sit back and play the cycle turn and make some acquisitions here and there historic North American core markets?

Evan G. Greenberg
Chairman, President & CEO

Josh, stay tuned. We'll see. We're not -- we've never shifted away from the United States. We shoot the birds as they go by and we're looking at them all over the world. And we are kind of agnostic about the territory that way. And so if we see something that, that complements what we're attempting to do organically and needs our capabilities and is the right kind of property and the pricing means good returns to our shareholders, then we will pull that trigger.

Josh Stirling
Sanford C. Bernstein & Co., LLC., Research Division

Love to ask one more specific follow up on acquisition strategy and thinking over the past deals you've clearly been a cash buyer pursuing smaller deals. I am wondering in what scenarios we should consider that you might pursue using stock in order to pursue something much larger?

Philip V. Bancroft
Executive VP & CFO

So it has to be much larger. And you think long and hard about doing anything like that. We wouldn't do something simply for the sake of size. That's our play and we certainly would want to do something anything of size that would kill our growth trajectory. And it's got to be a great return to shareholders, so boy, you're going to see stock forward, you'd better be certain of your numbers in the accretion. We are thoughtful and we are cautious and we're not an acquisition machine. Not this company.

We grow -- our first priority and bias is to grow organically. We are day-to-day operators. And acquisition is just to complement that. That's just -- just when they happen though they show more visibility to everyone. And so it's more noticeable. But you look at ACE's growth and it's been very balanced between organic growth and acquisition.

Operator

We'll go next to Michael Nannizzi at Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just one follow-up on the crop business, so is your expectation then kind of next year that the economics haven't changed meaningfully in that you're sort of 88% or mid to high 80s combined ratio and crop will again hold next year? And just one follow-up.

Evan G. Greenberg
Chairman, President & CEO

The way it fundamentally works is if you take it in a 10-year average this year we will go into that average and you'll just roll it forward that way. And now you've got to take crop mix and territory mix. And you've got to take the stop loss cost, all that good stuff. And when you mix it all in, that's how you roll forward from what was your original estimate for the current year.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

But do you expect that private reinsurers are going to change? I mean, that’s the piece that’s maybe not mandated so specifically, I would assume in that the private market reinsurers might change the price that they expect to get paid for the risk that they’re taking or is that not really relevant?

Evan G. Greenberg
Chairman, President & CEO

It will be interesting and we will see. But I would tell you one thing. If they look back on anybody who’s participated over this -- in this business over a long period of time, these guys would make good money in that business. And I’d expect they take very good notice of that when they come to talk about reinsurance pricing. And there's plenty of new capital in the reinsurance market today.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

And then maybe a Phil question, the expense ratio looked like obviously North America was different and certainly crops didn’t have an impact there. But when we look at -- I look at the other segments like Re in overseas and the one big transaction in Re it sounds like as well. But the trends actually look a bit lower there, I’m just trying to get an idea, is there anything to change there? Is there a seasonal element that I am just not picking up on or did something change as far as the underlying economics?

Philip V. Bancroft
Executive VP & CFO

Now there is nothing significant change. As we said in global Re business of the healthy T [ph] that Evan mentioned was crop in North America. If you include all of those, so our overall P&C expense ratio is down about a point.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

One last one, investment income you mentioned $525 million run rate. How does that work just given the duration of your portfolio? Is that a -- are you assuming that new dollars coming into the portfolio at a lower yield will offset that reinvestment risk on the dollars that stay in there or is that kind of how you get to your $525 million? Or is there potential as you mix and lower yield, that $525 million could kind of not be a stair step or not be flat during the year? And thank you for your answers.

Philip V. Bancroft
Executive VP & CFO

Two things are happening. Obviously we have new cash flow that we invest and we have the portfolio rolling over. So both of those will be at a lower new money rate. But the higher cash flow would produce additional investment income offset by the lower yield on that cash flow and the rollover from portfolio. So we go through that exercise estimate our turnover based on our existing portfolio and our view is that, that’s about the run rate. I think we’ve got a pretty good track record of estimating that.

Operator

We’ll go next to Brian Meredith at UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just a couple of quick questions here for you. First, Evan, I am curious with specifics that’s coming up here the possibility that if when tax rate goes up, any thoughts about a special dividend or any kind of thoughts about a change, potential change in your dividend philosophy?

Evan G. Greenberg
Chairman, President & CEO

Brian, no.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay, simple answer. And the second one, I am just curious going back to the M&A and just kind of get your thoughts on this, the transactions that we’ve seen recently in Mexico, are these just happened to come at this time because they are opportunistic big willing seller or do you see out there maybe an increase in activity and willingness of companies to actually sell? I know that was an issue for a long time.

Evan G. Greenberg
Chairman, President & CEO

I think it’s opportunistic. I think we’re -- it starts with I think we have a knowledge -- a pretty good knowledge of geographies around the world and our view of each country. And Mexico is of particular interest to us, I think close to obsess with Brazil and we've been there quite a while. We were there earlier and expanding earlier and as everyone has come in, I don’t think they have focused to the degree looking -- most are lagging, not leading and how they see things. And our bet is Mexico over the next decade is going to produce superior economic results to most others and in Latin America or south of the U.S. border may be superior in the region. And so we've had our attention, our focus on Mexico. I can tell you that ABA while it was opportunistic that Ally came to sell it. I've been knocking on their door for 3 to 4 years to talk about it. So it's been on my radar screen for a long time. I've been talking to New York Life about FM for about 2 to 3 years now. And would they be interested in selling? So that they came to sell these things now and make their minds about it, that’s just timing. But guess what, both of them have been on our radar screen a long time.

Brian Robert Meredith
UBS Investment Bank, Research Division

And just one question about the Mexican acquisition, do you view that as a kind of plan now to potentially move down further into Central America with that platform? Is that possible?

Evan G. Greenberg
Chairman, President & CEO

We’re already active in Central America and these acquisitions will only help further that presence.

Operator

We’ll move next to Paul Newsome at Sandler O'Neill.

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

Back to the acquisitions, how important is cross-selling new products into these distributions to making the financial results for you guys?

Evan G. Greenberg
Chairman, President & CEO

It’s not. According to us, to do it. But it’s not a big driver in our ROE projections. But we think that’s harder to do and it takes time and I think a lot of guys overestimate that. And from our own experience, it’s very realistic, very doable, but it takes time. And the projections I gave I am not including them.

Jon Paul Newsome

Sandler O'Neill + Partners, L.P.

And should we be thinking of these units as places where you're going to be putting capital over time or is it you make the acquisition and that moves on from there?

Evan G. Greenberg
Chairman, President & CEO

It depends on their growth. I hope to have to put some capital. And depending on the growth trajectory you pick, they may require more capital. And we understand that of course.

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

But there is no explicit talk that the growth is going to require capital from some other sources?

Evan G. Greenberg
Chairman, President & CEO

Anything we just gave is our ROE numbers contemplate all of that.

Operator

And we'll go next to Thomas Mitchell at Miller Tabak.

Thomas Spikes Mitchell
Miller Tabak + Co., LLC, Research Division

Over time, I was sort of struck by the comment about the populations and age cohorts in Indonesia and Mexico. There has occasionally been a really high correlation between having a young population and having political instability. And I'm wondering how many -- if you have an opinion, what other markets around the world have that combination of let's say a rising labor force that looks forward to being able to do more and more that also has a political framework that you can see as being stable for the length of time that you might want to invest, that is for 20 or 30 years.

Evan G. Greenberg
Chairman, President & CEO

Well, first of all, I am not getting into a 20 to 30 year discussion. I think that's not practical. But secondly, we won't dwell on the stump on this call. I'll be happy to talk about this over a drink some time. But you know what, Mexico and Indonesia are both democracies and with young populations. And I think your comment is really referring to dictatorships or totalitarian regimes, repressive regimes with young populations and that because of globalization and their access to technology and information that they learn -- but they don't -- young people learn that they don't have the same opportunities as young people in other parts of the world and they want them. That's hardly true of Mexico and Indonesia today.

Operator

We'll go next to Ian Gutterman at Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

Hi Evan, I might write you in for president and we will see. But first just to clarify Brian's question on ABA's platform potential. When you bought this, did you buy it solely on your view of what you could do with the existing property in Mexico and improve it or was there some consideration that, that one could expand this further and I don't know enough of their brand, is this a strong enough brand that you could expand further south?

Evan G. Greenberg
Chairman, President & CEO

We didn't imagine ABA expanding further south, though there is optionality of what else we could do with ABA's capabilities, whether it is ABA or other entities of ACE taking advantage of ABA's capabilities. It's really what we can do to support ABA that is already a very good company and brand in Mexico. To keep doing what they're doing because we have a lot of respect for them and to improve what they are doing by bringing to them capabilities that they just don't have access to or knowledge of, because they are only in the Mexican marketplace and we can bring that inside capabilities to help them do better.

Ian Gutterman
Adage Capital Management, L.P.

And then my other question back to pricing, can you talk about is there a difference -- I feel a lot of times we talk about pricing in wholesale or pricing in casualty, but I assume it's a lot more -- there is a lot more underneath in that right. What kind of differences there in price when we talk about wholesale for things that are Bermuda subscription markets where everyone gets a piece in their sense of capacity versus lines where you have more control and you are facing more limited players like in large global placements or some of the niche type businesses? Are there distinctions there or is it really kind of wholesalers all going after the same for property no matter what the channel is?

Evan G. Greenberg
Chairman, President & CEO

No, it's very market specific difference. So interesting and I am going to ask John Lupica to comment on it. But one thing I am just going to put in your mind before he does is to keep -- and set the stage for that is to keep -- in order to understand this, the casualty pricing that we've gotten, we've gotten on some of our most robust pricing in a ACE Bermuda. It's nature of the risk they are writing and the kind of risk they are writing and the limits of capacity we're putting out. And the appetite of that client for limit of capacity and then the E&S gets more stressed out than the retail does. John, do you want to...

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

Sure, that's -- when we look at our retail business we're absolutely getting a composite rate of about 3% and as you pointed when you look at our risk management business to our platform really makes the difference. We've seen more stability and pretty good pricing and as Evan reported that was up 4.9% which is a big increase for that book. And on the casualty side, there is a difference between retail and wholesale. Our casualty book is getting about a 6% rate increase and our wholesaler E&S or Westchester company did about 12%, and that varies between primary and high excess and umbrella. But that's absolutely a great compromise of the business for us. And even when you're getting down to our Bermuda where capacity is a differentiator for rates, and we do have some of the bigger energy levers on the casualty market get about 9.5 points down there. So there is no question there is a spread in terms of our ability to get rate bids on the platform and the trading environment that we are in. We are even seeing it on the D&O line where retail is a plus 2 and wholesale is a plus 6 for D&O. This is the business we're running for that market.

Evan G. Greenberg
Chairman, President & CEO

And you take -- where we might write more primary professional D&O will work more lead and there, there is far more -- we're getting much better rate of 7% whereas the excess players in that might be getting 2%. Then you've got a triage it to step further and say, are you talking about site A only, or are you talking about A, B, C?

Ian Gutterman
Adage Capital Management, L.P.

Okay. I guess where I am going with is it sounds like then that there is evidence that your platform is able to get more pricing than what we call a generic wholesale platform for company ABC in Bermuda, that's doing more generic subscription business and is finding a lot more capacity. What you -- how you differentiate yourself is starting to pay off more than it has maybe in recent times? Is that fair?

Evan G. Greenberg
Chairman, President & CEO

I would say within each of the markets, whether it is U.S. E&S versus Bermuda E&S versus U.S. retail, we are undifferentiated brand and market in each one of those. We're major market player in each of those. We've been around a long time and we have broader capabilities that many do. You come into Bermuda, we've had those clients for years and years and years. We write -- we swing a pretty big stake in capacity. We're not the only ones swinging in that size, but we've got a balance sheet, and we have a knowledge of those industries those guys are in and they also want some continuity. And so that just -- we are well established in that. And when you come into Bermuda we're writing casualty as well as professional lines, as well as property and a number of players, they might be simply casualty player, or simply a property player. And they may not have the depths and experience and knowledge and they write access behind a player like at us.

Operator

Now we have time for one more question from Josh Shanker at Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Apologies I did join the call late but I looked through the transcript, but I am going to let you talk about expense ratio, it all looked very good during the quarter. I am wondering if you have any comments on that.

Evan G. Greenberg
Chairman, President & CEO

We did talk about it.

Joshua David Shanker
Deutsche Bank AG, Research Division

I apologize, I will read it up then.

Evan G. Greenberg
Chairman, President & CEO

Okay. Phil is ready, he will answer your questions.

Philip V. Bancroft
Executive VP & CFO

It's principally improved as a result of our crop. Even without crop, our expense ratio is down year-over-year.

Evan G. Greenberg
Chairman, President & CEO

Josh, our expense ratio ex crop is down a point. We consider it really a great improvement so far when you take away crop.

Operator

And that does conclude today's question-and-answer session. I will turn the conference back over to management for any closing remarks.

Helen Wilson

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

Operator

And that does conclude today's conference. Again, thank you for your participation.