S&P Capital IQ

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Chubb Limited NYSE:CB

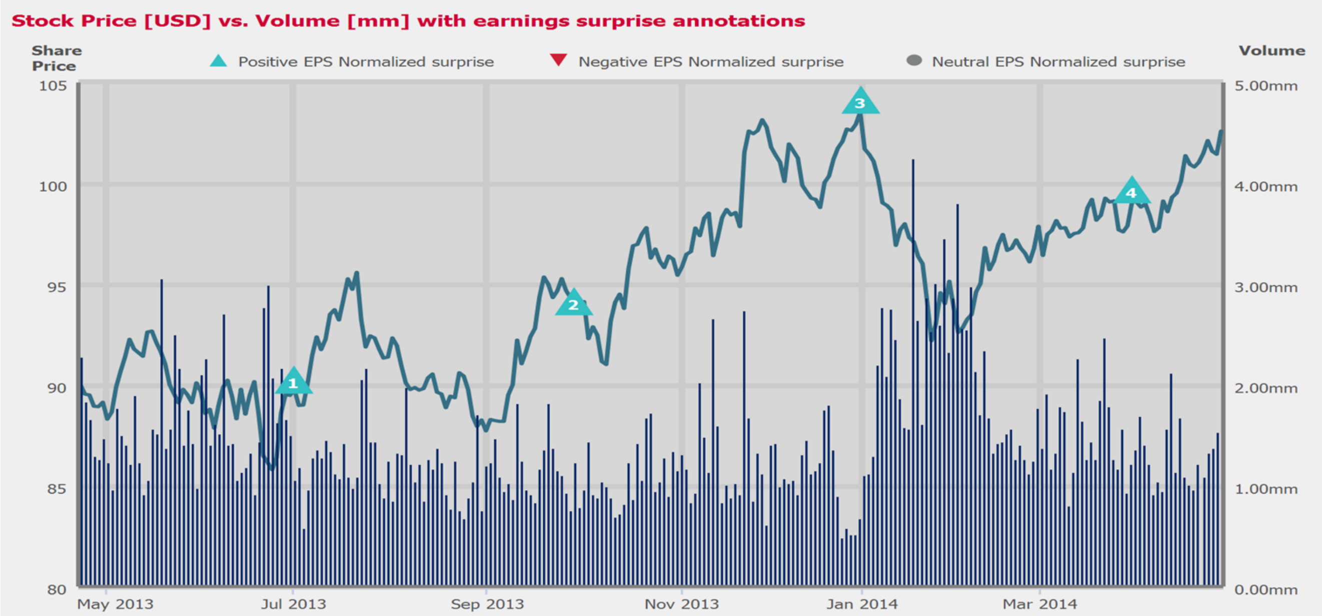
FQ2 2014 Earnings Call Transcripts

Wednesday, July 23, 2014 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2014-			-FQ3 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.23	2.42	▲8.52	2.21	9.03	9.24
Revenue (mm)	4049.00	4061.00	▲0.30	4346.22	15629.45	16659.30

Currency: USD
Consensus as of Jul-23-2014 1:03 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2013	1.95	2.29	▲17.44 %
FQ3 2013	2.23	2.49	▲11.66 %
FQ4 2013	2.02	2.39	▲18.32 %
FQ1 2014	2.14	2.27	▲6.07 %

Call Participants

EXECUTIVES

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

Helen Wilson

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

John W. Keogh
Chairman

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

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Clifford Gallant

Ian Gutterman
Balyasny Asset Management L.P.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Jay H. Gelb
Barclays PLC, Research Division

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

Kai Pan
Morgan Stanley, Research Division

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

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

Unknown Analyst

Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

Good day, and welcome to the ACE Limited Second Quarter 2014 Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

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

Helen Wilson

Thank you, and welcome to the ACE Limited June 30, 2014 Earnings Conference Call. Our report today will contain forward-looking statements, including statements relating to company performance, pricing and insurance market conditions and acquisitions, including our expected acquisition in Brazil, 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 1 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 due to turn the call over to Evan.

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

Good morning. ACE had an excellent second quarter. Our growth in earnings was, again, driven by both strong underwriting and investment income, while achieving good premium revenue growth globally. After-tax operating income for the quarter was $825 million, or $2.42 per share, up 5.7% versus last year's second quarter, which itself was an outstanding quarter.

Our annualized operating return on equity was nearly 12% for the quarter, while book value per share grew almost 4% and now stands at $90.19. We produced excellent underwriting results, marked by a P&C combined ratio of 87.5. P&C underwriting income of $478 million was up over 10%. The growth in underwriting income was, again, driven by current accident year CAT, x CATs as a result of growth in global P&C earned premium, which, again, excludes Agriculture, of 8.5% and improvement in underwriting margin. All divisions produced outstanding calendar year and current accident year combined ratios in the current quarter, with our Overseas General business, in particular, producing a standout improvement in results.

Growth and earnings was also driven by relatively strong net investment income of $556 million, up over 4% and a good result, given where interest rates are. Our strong cash flow has supported our investment income performance, so we'll have more to say about our investment portfolio, CAT losses and reserved development.

It was a busy quarter in terms of advancing our company strategically. As you saw earlier this month, we announced our intention to acquire the large corporate P&C business of Itaú Unibanco in Brazil for approximately $685 million. The addition of Itaú's business will significantly strengthen our franchise in Brazil, where a ACE already has a meaningful presence with 19 offices of P&C business that serves the large and midsize corporate clients and a significant A&H business. Itaú's corporate business is a real franchise in the large corporate space. It has broad national reach and extensive distribution relationships with more than 600 brokers. They have an impressive management and underwriting team and a disciplined, technically-oriented underwriting culture similar to ours. The combination will make us the largest commercial P&C insurer in Brazil, it brings a lot of talents that when combined with ours, makes us that much stronger. One plus one here equals much more than 2. We will improve their competitive profile and capability by providing more product for their clients and brokers and international capabilities to serve their corporate clients outside Brazil where many have growing exposures.

The addition of Itaú's business raises our profile significantly in Brazil with brokers and customers. In fact, we're injecting a lot more Brazilian DNA into ACE and becoming that much more local in terms of relationship and knowledge of how to do business in Brazil. That increased presence will not only aid the growth of our combined large commercial P&C business but also help us expand the balance of our businesses in the country, including small commercial, A&H, personal lines and life.

As important, this transaction, for me, is a chance to renew our relationship with the management of Itaú Unibanco, people I've known and done business with for many years and with whom we have a great deal of confidence. I'm confident these relationships will translate into additional business opportunity.

As we said in our announcement, we are paying 4x published book value and expect the transaction to be accretive to our earnings immediately. The price is equal to 13x Itaú's '15 earnings for a business where the average growth rate has been 22% over the past 3 years in a country where the insurance industry has been growing 10% and is projected to continue expanding. We expect the ROE in year 2 will exceed our cost to capital, and by year 3, the ROE will equal or projected ROE ACE Group's projected average ROE and increase from there. The cash-on-cash returns are significantly superior to that and very attractive.

Finally, there are potential capital and reinsurance efficiencies that may be realized. We'll look to close the transaction, subject to regulatory approval, early next year.

In the quarter, we also completed the tender offer for the balance of Samaggi Insurance in Thailand and now own over 93% of the general insurer, which will likely allow us to delist and integrate company with our existing operations sooner than we originally projected. As I said before, ACE Samaggi is a great fit to our existing business in Thailand, and we see even more potential there than when we first announced the acquisition. The addition of Samaggi increases our presence and our ability to grow throughout the country, given its branch office network and Siam Commercial Bank's retail branch system. The combined operation will turbocharge our ability to grow each of our focused areas of business: SME, Commercial P&C, A&H and Personal Lines. ACE is now the largest foreign-owned P&C insurer in Thailand.

Finally, in the quarter, as I'm sure you saw, S&P upgraded the financial strength ratings of our core operating insurance companies to AA.

Turning to revenue growth. Total P&C net premiums in the quarter grew 4.5% on a constant dollar basis and 7%, excluding Agriculture, what we call Global P&C, with strong double-digit contributions from Asia and Latin America and solid single-digit growth from North America and the continent of Europe.

In North America, P&C net premiums written, excluding Agriculture, were up 7%, an excellent performance and likely at least double the industry's growth rate. Growth was led by ACE Westchester and ACE Commercial Risk Services, our middle-market and small commercial specialty businesses, where net premiums were up 14% and 15%, respectively, followed by ACE U.S.A. and ACE Bermuda, our large account businesses, each with growth of about 5%.

Our high net worth personal lines business, ACE Private Risk Services, had net premium growth in the quarter of 8.5%.

Net premiums in our Agriculture division were down 14%, in line with our expectations and simply due to lower commodity prices versus prior year when individual insurance contracts were priced.

Internationally, net premiums rates international were up 11% in constant dollars. Asia and Latin America led the way, with growth of 19% and 18%, respectively. In Europe, growth on the continent was 6%, while the U.K. was 1%. Premiums in our London market base DNS business were down 1%.

In our Global A&H business, net premiums were up 5.5% in constant dollars. We had international growth of 11%, led by Asia-Pac, which was up 22% and Latin America where we grew 17%.

In combined insurances, direct agency business, which is the guts of the operation, net written premiums were flat in the quarter in constant dollars, with North America up 1%. Premiums for our global personal lines and small business division were up 20% in constant dollar.

For our Global Re business, premiums of the quarter declined 5%, in line with market conditions as we demonstrated good underwriting discipline. The reinsurance market is extremely competitive, with prices softening and terms and conditions broadening, which, on the flip side, benefits a major reinsurance buyer such as ACE.

Finally, our International Life Insurance business, which is focused overwhelmingly in Asia and Latin America, had a very good quarter, with net premiums written up almost 20% on a constant dollar basis.

As you can see, growth was well distributed across the company by territory, product line and customer segment. This is a reflection of the already broad, continued expansion and deepening of our business in key growth markets of the world from Asia and Latin America to right here in the United States. I want to provide just a few quick examples of this growth as a glimpse of what I mean by diversity of product, geography, customer and distribution.

In Mexico, as a top 4 insurer, our operations have broad capabilities. We underwrite commercial P&C for companies of all sizes. We're the #2 surety writer and one of the largest auto writers in the country. And we have a significant accident and health insurance business. Net written premiums were up 10% for the year. Today, ACE in Mexico has 76 offices and over 3,500 agents distributing our products.

In Malaysia, our agency-based ACE [indiscernible] operations grew 16% in the quarter and is up 20% for the year, with growth coming from auto, residential and SME small commercial business. We now have 24 branches and nearly 2,200 agents in Malaysia.

In Korea, net premiums in our direct marketing-driven A&H business are up 43% year-to-date. Our operation markets directly to consumers over television and through outbound telemarketing to credit card and affinity-based customers. We have over 1,800 telemarketers operating from 7 call centers in the country.

In Europe, net premiums for our Specialty Personal Lines business were up 34% in the quarter. This business is predominantly focused on products such as mobile phone handset replacement policies, marketed through partnerships with some of the continent's largest telecom companies. Globally, our Specialty Personal Lines business was up 25% for the quarter.

And lastly, here in the U.S., ACE Commercial Risk Services, which is focused on specialty products for the middle-market and small business customer distributed through retail brokers and agents, is quickly becoming a meaningful part of ACE. As I said earlier, net premiums were up 15% in the quarter and are up 14% year-to-date.

I now want to say just a few words about the current market environment for commercial insurance. In the U.S., casualty-related pricing continues to hold up quite well, and we continue to achieve rate in the quarter about equal to the pace achieved in the first quarter. I would characterize the casualty market as stable, whereas property rates declined and the rate of decline has accelerated. For our business in the U.S., casualty-related pricing was up 2.5%, again, essentially as good as we've seen year-to-date. And property-related pricing was down about 6.5%. As with the first quarter, our E&S and middle-market specialty businesses continued to secure the highest level of casualty-related rate increases.

For our larger account retail business, pricing for casualty-related primary, or lead layer excess business, remained stable, and we continue to achieve positive rate in aggregate, about as good as E&S. This is the business that requires more than capital and an underwriter to compete, and it is a significant amount of our business. As a general statement, competition is greatest when it's simply excess layer capacity placements.

My colleagues and I can provide further color on market conditions and pricing trends when we get to the Q&A.

As the year progresses, we expect the commercial P&C market to continue becoming more competitive, depending on the line of business and territory. However, as the commentary I gave you illustrates, we are seeing good growth and continued expansion of our business in the majority of markets in which we operate, both developed and developing. We are a large global company with a significant presence and capability to take advantage of growth opportunities that exist in so many parts of the world. To do this requires a deep and broad presence in product, distribution and underwriting know-how, something we have and continue to build. We also continue to make investments, including acquisitions that plant the seeds for long-term sustainable growth. As a result, I am very confident in our ability to outperform over any reasonable period of time.

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

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

Thank you, Evan. Tangible book value per share grew almost 4% and is up 7% for the year. Cash and invested assets grew $1.3 billion to $64.2 billion, and our shareholders' equity topped $30 billion. Cash flow was also strong at $846 million.

Investment income of $556 million was up over 4% in the quarter. Our strong cash flow has offset the impact of lower reinvestment rates and benefited our investment income. We expect this trend to generally continue.

For the past 12 months alone, our operating cash flow was $4.3 billion. Our current new money rate is 2.6% versus our current book yield of 3.7%. There are number of factors that impact the variability in investment income, including the level of interest rates, prepayments fees on our mortgages, call activity on our corporate bond portfolio, private equity distributions and foreign exchange. Therefore, we currently expect our quarterly investment income run rate to be $550 million.

Net realized and unrealized gains for the quarter were $523 million pretax, principally from our fixed income portfolio due to the decline in interest rates during the quarter. We remain in an unrealized gain position of over $2 billion after tax.

Our net loss reserves were up $300 million in the quarter, and our paid-to-incurred ratio was 90%.

Pretax catastrophe losses of $80 million were essentially flat with last year and came from 16 different worldwide weather events of various sizes. 60% were U.S. related and 40% were from outside the U.S. We had pretax positive prior-period development of $126 million, almost also flat with last year, with about 1/3 coming from long tail lines and 2/3 from short-tail lines. As Evan said, growth in underwriting income was driven by current accident year results, excluding CATs, and margin improvement.

Current accident year margin improvement came from our international operations as a result of better product and geographic mix, where margins improved 1.2 points and produced a current accident year combine ratio of 89.3%.

North America margins were flat year-on-year, with an excellent current accident year combined ratio of 87.3%.

For Global Re, the current accident year combined ratio was 75.4%, up from 70%, again, an excellent result.

Our Global P&C gross premiums written were up 3% for the quarter, while our net premiums written increased 7% on a constant dollar basis. This relationship resulted from the nonrenewal of a few accounts in the U.S. with little or no net retention. Normalizing for these, the growth of our gross written would be 5.1%, and our net-to-gross retention ratio would have been even with the prior year's quarter.

The acquisition ratio in our Agricultural segment is up 1.4 points, due principally to lower ceding commissions from one of our 1/4 share insurance contracts that we did not renew this year.

Total capital returned to shareholders during the quarter was $416 million, including $240 million of share repurchases and $220 million in dividends. Since we made the announcement of our repurchase plan in last year's fourth quarter, we have repurchased a total of $700 million through July 21. We are on track with our program to repurchase up to $1.5 billion.

I'll turn the call back to Helen.

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

Question and Answer

Operator

[Operator Instructions] And we'll take our first question from Jay Gelb with Barclays.

Jay H. Gelb
Barclays PLC, Research Division

Phil, just on the share buyback, it seems like you emphasized the up to $1.5 billion a share buyback. So should we be penciling in the $1.5 billion of buyback this year? Or is that potentially driven more in the direction of the bolt-on acquisitions?

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

I would just say that we've said up to, and that's what we meant. And we'll see how it goes through the remaining part of the year. But we've got $700 million of the $1.5 billion accomplished so far.

Jay H. Gelb
Barclays PLC, Research Division

I see. All right. Second point was on the life operating income. It seemed to dip in 2Q well below our projection. Just trying to get some perspective on that.

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

There's really 3 things going on in that. One is, of course, our VA business is running off, as you know. We also announced in the last quarter, for example, a onetime reserve benefit of about $6 million or $7 million. We also had a onetime reserve release in our U.S. operations of about $6 billion in the second quarter of last year. And then thirdly, we're continuing to make investments in that business, and they're not all capitalizable, right? So there is some GAAP strain we continue to grow.

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

The international -- this is Evan. The international life had growth in earnings in the quarter, but as I Phil said, it's the international life where we're continuing to make the investments for growth. And that dampened what could have been even stronger income growth.

Jay H. Gelb
Barclays PLC, Research Division

That's helpful. Just my final question is on the international aviation market. Given some of the significant losses, that market is seeing, both in the sort of traditional, as well as the war market, what's ACE's presence in aviation? And what are your expectations in terms of that market going forward?

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

We have a presence in the airline market. We have a presence in general aviation. It is a much reduced presence year-by-year over the last decade as that market has softened significantly. We're not one of the -- we're not -- we're a real player in it, but we're not one of the major markets. It is not a large line of business for ACE.

Operator

Our next question comes from Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi

Goldman Sachs Group Inc., Research Division

I just had a couple of questions on the Brazilian business, if I could. Just trying to understand a little bit about what the construction of that business was before you bought it in terms of how much was retained, how much was ceded and how you plan to run that business as it comes on to your book. I'm just trying to square some of your comments about the ROE in terms of whether or not you plan to allocate more equity. Anything on that from would helped us just as what we're thinking about both top line and allocated capital going forward.

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

I'm going to give you a general statement. I'm not going to give you any numbers. They -- it's a significantly gross-lined book of business, where they had much larger -- their net retention was reasonably low. ACE runs a higher net retention for risk than Itaú Unibanco did. There is an opportunity to recapture net premium to the extent that we think it's reasonably priced. So I think that gives you a sense of that there is that opportunity, though we're not -- as is our usual practice, we're not going into detail of that. You asked me something else there. What else did you want to know?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just in terms of capital. I mean are you going to cede business to your reinsurance sub? Or are you going to kind of push some capital down, just -- or move some capital over or something just so you can write more net business?

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

Imagine this. We already have substantial capital in Brazil because we already have a real presence there. We will be combining the 2 companies, which brings their capital base and our capital base together into one entity. We have freedom. There is also an ability to reinsure internally, and we have very good relationships with the reinsurers who are a large global purchaser that can benefit them as well in terms and conditions. And as I said in the commentary, we may actually have the opportunity to dividend capital.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Great. And then just really quickly, if I could, Phil. On the reinsurance expense ratio looks it was a little bit higher year-over-year. Just trying to understand there. Is that just higher ceding commissions? Or is there something more kind of onetime in nature that caused that to rise?

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

During the course of the fourth and -- fourth quarter of last year and first quarter of this year, we wrote some structure transactions that had higher acquisition costs, and those contracts now are earning in so you'll see a higher acquisition ratio.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay, the case would be that something that happened, but that's could or may not continue. I mean, are those structured transactions? Or should we assume that those are structured transactions that all else equal you expect will remain in place?

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

It's just as easy to think of it as a change in mix of business. So it's like you wrote more quota share than you wrote excess of loss.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it.

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

It just says it does bounce around to a degree. So to imagine an exact pattern going forward for you is a little more difficult in that line of business.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Yes, I mean, I guess, my question more to get to put a point on it, I was just wondering if conditions in the reinsurance market or such that ceding commissions are now higher or...

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

Oh, no. Look, ceding commissions are a bit higher. That is not what drove that, though. It's a mix of business change. We watch the gross commissions cohort-by-cohort very carefully.

Operator

And our next question comes from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First question is, could you give a little bit more color on the pricing, especially on the international side?

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

Sure. John Keogh?

John W. Keogh
Chairman

Sure. Internationally, I would say, on the retail business, pretty stable. You look back over the last 4 quarters, the rates internationally have been sort of 0 to down 2% quarter-by-quarter. This quarter, retail rates international down 1% by region. Our U.K. business achieved a 2% rate increase. The continent of Europe was flat. Latin America, that's where rates dropped 2%, and Asia was down 5%. Differently, though, than our retail, the one that wholesale market, we did see an increase in competition there, and we saw our rates drop 5% in the quarter in our London wholesale business.

Kai Pan
Morgan Stanley, Research Division

Great. So it looks like the margin improvements -- underlying margin improvements into overseas general is not coming from pricing. It's probably more from business mix?

John W. Keogh
Chairman

Yes. Let me get that, Kai. I guess, let me first start first by saying that when you look at our combined ratio this quarter of 89%, that's the combined, given the construct of our business internationally that we're happy with and one that where we're striving to achieve over the long haul. Already mentioned in a commentary by Phil, about half of the improvement you see in our margins for international comes from a change of mix of business so when you look at our P&C business versus our A&H business versus our personal lines, it's more commercial. The growth of the better combined ratio of business, and that mix over the last year you see earning through. So roughly half of our improvement comes from that change of mix earning through in the combined ratio this quarter. Secondly, even within those cohorts of business, as you can imagine, not every one of our portfolios in 54 countries around the globe are running at 89 combined, and there's always a handful of portfolios that aren't achieving that kind of combined for us. So the underwriting actions we've been taking on those portfolios over the last year, you're starting to see the result of that earn through in the loss ratio you're seeing this quarter. Thirdly, I'd say that's -- the investments we made in places like Mexico and Malaysia and Indonesia in the personal lines is more commercial. We like those businesses. When we bought them and said they were good businesses. We always felt that from an underwriting point of view, there was an opportunity for us to bring some capability and know-how to improve the underwriting margins on those businesses, and we're seeing that come through now in the combined ratio this quarter. And then lastly, expense ratio is better. And I think that's sort of simple, fundamental discipline in terms of how we think about investment and our expense spend. And so our expense growth has been a fraction of our revenue growth over last year, and you see that in the expense ratio improvement. So I hope that helps.

Kai Pan
Morgan Stanley, Research Division

Similar question on the sort of U.S. side in North America. You see the core margin flat year-over-year. I'm just wondering, is that because of pricing gain you had on these businesses is roughly in line with the loss costs trends? And do we expect that to going forward to be like that and keep at this level? Or you have a room for further improvements from here?

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

I'm going to let John Lupica, actually because it'll come up anyway on the call, give you more of a sense of the price changes we saw in North America in the quarter. But I'm going to answer your question. Listen, in '87, 3 combined ratio is world-class, and it hardly gets better than that. And it bounces around in that range and, overtime, it's going to rise, in fact. We achieved rate in some classes it equals trend. In some classes, it's ahead of trend the rate we received. And in some classes, it's below the rate the trend we received. Below trend. So trend is exceeding rate. All of our businesses we strive to earn an underwriting profit. So with that, John is going to give you a sense of what the rate change is.

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

Yes, Kai. I'll just give you a little more color on rate. As Evan had noted, we are seeing stability in our casualty rate, and we did get another quarter, where we saw our casualty business actually get single-digit rate increases, very similar to what we saw last quarter. As I run through my companies and you look at ACE USA retail, where we write a lot of our large commercial P&C business, our primary casualty lead layer programs were getting about 4% rate increase in the quarter, and that's pretty consistent with what we've been seeing year-to-date. And our general casualty business, as Evan had noted, we're getting about a 5% rate increase, and that's mixed around some of the lines of business. Our excess lines are getting 5%; our construction business is getting 10%; our environmental business is getting about 2%; and our foreign casualty business, we're getting about flat in terms of rate change. When you move into the specialty and professional lines, that book was up about 1.5% for the quarter, and as I've said in the past, it's still consistent. The primary market is getting more rate than the excess market, where capacity comes into play. We definitely saw the property market get a little softer. Property-related lines were down 5% in the large retail business. And in our new business, year-on-year was flat. We like the mix that we put on the book in terms of what we would call target and nontarget business. In our E&S space, we basically saw the same trend. Casualty was getting some of our better rates and very consistent with the first quarter and up 5%. Professional was up 4% and our property related lines was down about 6.9%, again, pretty consistent with Evan's earlier comments.

Operator

And next, we'll hear from Cliff Gallant with Nomura.

Clifford Gallant

I was wondering if you could expand on some of the comments you made at the beginning of the call. You're very enthusiastic about the acquisitions, but I was wondering if you could talk just a little more qualitatively about the general acquisition strategy. I mean, we can understand the math or projected accretion or dilution, but when we you did deals in places like Thailand and in Brazil, it just seems like it will be very hard to successfully execute on those deals long-term. And can you talk about why shareholders should feel confident that you can?

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

Yes. Long-term, we've been making acquisitions and for 8 or 9 years now. I think we have a track record on -- of successfully acquiring, integrating and improving both the acquired target and our own business in combination, number one. Number two, we actually are informed by all that we learn from each acquisition. This company learns. And we have quite a cookbook that we use literally. We call it the cookbook. It tells you in every single area of business that when we make an acquisition of how we go about integrating it. We try to behave like a machine in that regard in the execution. Number three, we are present in 55 countries around the world. We're not tourists in those regions in those countries or in the international business. We've been there for many, many years. Our home office, at the same time, is not a provincial location. We have a lot of internationalists who have deep knowledge and experience in all those regions of the world, in addition to our people locally on the ground who have a lot of knowledge and a lot of experience. So we don't make acquisitions as a way that sort of simply gives us the knowledge of how to do business in that territory. We're already present. And the acquisitions we make generally have been bolt-on size and smaller size that are quite manageable that we can integrate with businesses we already have in those countries. Next, the fact is, is that growth in the insurance industry, if you look at it around the world and look at the numbers, is coming significantly from the markets, where economies are growing, middle-class is expanding and business is developing. And those are mostly on areas of the world such as Asia and Latin America. That's where the predominant growth is coming from. And you want to grow, you grow where the opportunity is and where the need is the greatest. Of course, there is risk around this, as there is risk around any business. And by the way, if you're an analyst in the insurance business, and insurance is a risk business, and we believe that in the acquisitions we make, we get paid to take that risk. Everything never goes perfectly, and it isn't, which is my last point, and it's not about -- doesn't go perfectly because if you expect that, you're going to fail. You're going to have mistakes. You're going to have things that don't go as well as you expect, and it's how did you build yourselves to address those. The risk management capabilities here from enterprise risk management, to compliance to legal, to internal audit, to underwriting audit, to actuarial, all provide safeguards to an International Advisory Board that helps with connections and contacts when we need them. All of that is part of your thinking in building a business that you always want to keep safe, and I hope that gives you an answer.

Operator

And our next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick questions here for you. The first one, just quickly. With current futures down 25%, 26%, 27% so far this year, any impact you may expect here for the Ag business?

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

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So far, Brian, we make no call on it. Corn yield -- corn yields, crop yields are also projected to be up. That's what's driving price on one hand. And then you have deductibles. You have deductibles in product. You got yield that goes the other way as a hedge. You do have prices that come off. We have reinsurance. We have futures contracts that we use in hedging. And so over all, as we mix it right now, we're quite comfortable with the pegs that we continue to hold.

Brian Robert Meredith
UBS Investment Bank, Research Division

And then second question, I'm just curious. Could you talk about your exposure from a top line perspective, as well as maybe political risk and other potential losses that have -- the Russia, Ukraine situation?

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

Yes, no top line. We don't see any top line issues. We are a large political risk trade and credit writer. We understand our exposures quite well to do with Russia and the Ukraine. At the moment, we have no developing -- no development that is of any kind of alarming nature whatsoever to us. And frankly, when we look in and when we do run war games on political risk and trade credit over the years every year and imagine scenario planning to us of what could happen or occur as far as exposure in a book business like that, that has informed us and the kind our appetite for risk, and Russia-Ukraine fits right within that appetite.

Brian Robert Meredith
UBS Investment Bank, Research Division

What percentage of your business is in Russia and overseas?

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

Tiny. $20 million premium.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. So it's not much of...

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

And it's doing just -- and it's doing just fine.

Operator

And next, we'll hear from Vinay Misquith with Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

On the international business, you've done a great job of improving margins in this quarter as another example. Curious as to how much further you can drive margin up in terms of the accident year combined ratio extract, and also sort of the impact of, I think, flat to slightly lower pricing internationally.

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

We're not giving any forward views, Vinay, as you can imagine. Nice try, but I don't think I should say anymore.

Vinay Gerard Misquith

Evercore ISI, Research Division

Okay. And then on the Brazil acquisition, I believe you mentioned that it was 13x 2015 earnings. So we have a number for that. Will ACE also be recording certain goodwill amortization that will sort of limit the positive impact on the bottom line?

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

Yes, that's why I gave you a sense of ROE, okay? And you always have to be careful. When we announce acquisitions typically and you do it in a public company, for instance, that we would acquire, or where there's standalone statutory numbers, you could see what the earnings were. And many times, analysts make the mistake of just taking those earnings and rolling forward into our EPS for the following year. And you're exactly right. You have purchase accounting on vagaries that will impact the earnings in the first few years, and then that's offset by growth and other efficiencies you gain. So I tried to give you a sense of that -- we tried to give you a sense of, okay, here's how ROEs will play out over a couple of years. But it's going to be very difficult for you to simply build in an earnings number go forward, but it'll reveal itself quickly.

Operator

And next, we'll hear from Paul Newsome with Sandler O'Neill.

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

I was hoping you could talk a little bit about your reinsurance strategy. As a reinsurance purchaser, there's been some press reports that ACE was particularly aggressive or maybe changed their stance a little bit in the market, and I don't know if that's even true or not. But we'd love to have your reaction.

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

Yes. We read that in the local -- in that local rag that picked that up. We saw that. It's kind of the gossip mill, printed gossip mill for the business. So we saw a little grist for that. What do know about the reinsurance business? What you know is as a reinsurer, you'll always want to reinsure the best cedents, those who you think are the best underwriters who do a good job of -- in their fiduciary responsibility of producing a decent result for themselves, and that they don't just do it for themselves, they do it on a gross basis so that they protect the reinsurance partner as well. ACE has a good reputation and is well known that they. What you also know, if you're a reinsurer, the best cedents are also the toughest negotiators in purchasing reinsurance for the obvious reasons. They're professional. They understand the business. They think deeply about their transactions. And by the way, they're numerate in how they imagine a transaction and risk reward and what something is worth. So that's how -- that's interpreted as well ACE is a tough buyer of reinsurance. And somebody may want to use that characterization, but I haven't noticed that reinsurers have somehow lost their appetite for ACE's business, including those in the London market who like to grouse about it.

Vinay Gerard Misquith
Evercore ISI, Research Division

Right. So I guess the broader point, and tell me if I'm from wrong, is that ACE has long said that you are essentially a gross writer and happy to be there. That strategy has not changed at all?

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

We're not -- I don't see us as a gross writer. I think where you're saying gross line, to some extreme, where we would put out huge capacities and take very low net retentions. Look at our net-to-gross. We use reinsurance appropriately to increase our capacity to our insurer to require a certain limit of liability to be able to risk transfer to us. And number two, we use it to dampen volatility in our business. And we have not changed, whatsoever, our policy for buying reinsurance. It has not -- it doesn't change with the cycles that way, only on the margin.

Operator

And your next question comes from Jay Cohen with the Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Most of my questions have been answered. One other question. On the investment income. Can you talk about the contribution from alternative assets? Was it above a normalized level this quarter?

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

It was higher than we expected. We had estimated our income to be 5 40, and it turned out at 5 56, and the majority of that was from PE distributions. And we also had higher-than-expected co-premiums on corporate bonds that were called. So we're saying now the run rate we're expecting just sort on an ongoing basis was more normal distributions to be about 5 50.

Operator

And next, we'll hear from Meyer Shields with Keefe, Bruyette, & Woods.

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

On the structured transactions within Global Reinsurance. Does that also impact the accident year ex-cap loss ratio the same way it affects the expense ratio?

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

No, I don't think so. I think we saw a little bit of an increase in our loss ratio because, as Evan said, the mix of business. There was less property pack and more casualty that would drive -- just the mix would drive the loss ratio up.

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

Okay, fantastic. And I'm looking at the sort of consolidated results here. On the other income/expense, can you talk a little bit about what actually drives that quarter-by-quarter?

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

Yes. So if you look at Page 2 in the supplement, you'll see -- and for example, in this quarter, we had other expense of $26 million. Quarter before that, it was $23 million. It runs about that level, and it's principally the amortization of the intangibles from our acquisitions.

Operator

And next, we'll hear from Al Cupertino [ph] with Columbia Management.

Unknown Analyst

Actually Cliff asked my question, and Evan dealt with that.

Operator

Moving on, we'll hear from Thomas Mitchell from Miller Tabak.

Thomas Spikes Mitchell

Miller Tabak + Co., LLC, Research Division

I don't know if it's really relevant to ACE, but I was wondering if you had taken a look at the a court decision that had reinstated a $500 million judgment on a legacy Johns Manville claim relating to asbestos liabilities, and whether that affects you or if it affects the industry and the reserves of the industry.

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

Well, Tom, I can't speak for the industry. We did notice on that article that came out yesterday, that news, and we don't believe that has relevance for ACE, specifically.

Operator

And next, we'll hear from Ian Gutterman with the BAM.

Ian Gutterman
Balyasny Asset Management L.P.

I guess, I had one on North America and one on Brazil. In North America, you talked about that Commercial Risk Services business growing very nicely, I think, healthy double digits. I guess I'm just wondering, if you could talk about how sustainably you think it is going forward as we hear more of your competitors maybe not quite acting more aggressively, or at least talking about less [indiscernible] rate , starting to think more about growth. Do you anticipate, as we go forward, seeing more competition in sort of the -- those core North America spaces, where you're showing the growth that, that might make it harder to keep up this growth rate without having to cut price down in the next, say, 4 quarters?

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

Ian, here's what I'll say about that. The Commercial Risk Services is middle market business and lower middle market, in fact, going all the way down to micromarket through us. It takes a lot of work to get that business. You can get it a couple of ways. You can write programs, and anybody can come in and write someone's program business, and that can become very competitive. You can write line slips. Anybody can come in and give a pen to a producer, to an MG, to a wholesaler and put together line slips, and that part of the distribution can become very competitive. Another dimension of it is retail distribution. And to do that, you've got to have a lot of great presence. You have to build it over time patiently. It's agency-related. And to get that agency distribution, competition starts to fall off significantly. Finally, each of those cohorts, whether it is micro, whether is lower middle income, lower middle market, whether it's the middle market whether it's upper middle market, those are very distinct cohorts. And your knowledge of it, your product capability, your technology to distribute efficiently, and some of it is no-touch to be able to do it right. That takes time and insight to build, both from an underwriting and a technology point of view. So yes, competition can grow in any of these businesses, but it's not -- and in some of them, it can be instant. And as I just gave you an example, and in a whole bunch of it, no, it cannot be. And so -- and you can only see what we have done and the results of what we've done. No one can see the results of what we plan to do, or what we're just rolling out. And we've been working on this for quite a while and slowly and patiently building it, and we don't talk about it until it starts to produce and until we start to really see something meaningful. That's what you're seeing now. With that, I am confident that this business will continue to grow. Whether it grows at 15%, whether it grows at 8%, whether it grows at 20% or 25%, this business is going to keep on going.

Ian Gutterman
Balyasny Asset Management L.P.

Very, very helpful. Can you give us a rough sense of even how big that book is in total right now?

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

That book will approach -- that book is around $400 million, $500 million of business.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. And then under Brazil. Can you talk maybe just about the general underwriting environment down there? And I guess what I'm thinking about is, you have an economy that looks like it's headed towards a recession, maybe a tough one. You have inflation going the wrong way. Normally I think as stagflation being a difficult underwriting environment, right, loss costs are going the wrong way, and it's hard to get the consumer to pay a whole lot more when times are tough. So how do you navigate that environment? Or maybe the macro isn't necessarily affecting the insurance world yet?

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

Yes, sure. First of all, we don't make an acquisition or grow our businesses based on 12 or 24 months or a short-term, simply a short term view. However, with that said, I don't see Brazil in recession. I see Brazil with very slow growth. Brazil is nothing like Argentina. There is a stability to Brazil that is real. I mean, Brazil has a resilient, it has a deep economy. It has important areas structurally that -- of its economy that have real strengths. Its agriculture, its energy development sector. It's got a pretty deep financial industry, a large consumer market and a growing middle class. So Brazil has a lot going for it. What it has is lousy government policies and an inability to embrace another wave of deregulation. It has an important election coming in October, and hopefully, they do the right thing because that could be tremendous for growth in Brazil. It's an underinsured market, and you're seeing -- and significantly underinsured, and you're seeing a growing awareness and consciousness for insurance and in the business community, and that is developing. So I don't see that. Inflation is well more under control. Prices are very high in Brazil, and insurance rates reflect that, by the way. But inflation has been relatively tame in Brazil. You have nothing like a hyperinflation. So I actually don't feel bad about the country economically at the moment, though it's not overly exciting. I'm not concerned about that, and as far as inflation is reflected within the pricing and the reserving of the business.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. So it's not like we're heading toward a soft market in Brazil or something like that that we need to be concerned about?

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

Brazil insurance market is a soft market, okay? It has been for the last couple of years, so you got to know that. We make a decent underwriting profit. We have a good mix of business. We know the areas that are -- that really don't make money, and we stay away from them. Itaú Unibanco in the large corporate space, in spite of a soft pricing, has done very well. Its capabilities have just been superior to others in the market. And we're only going to improve those, and I think that has done a lot to help insulate that business. And they've got relationships with the largest, the largest of corporate in Brazil, that are very deep and go back a very long way. And I think that provides a resilience to this that'll help us ride through that short-term period.

Operator

We have no further questions. I'll turn the call back over to Helen for any additional or closing remarks.

Helen Wilson

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

Operator
Ladies and gentlemen, that does conclude today's conference. Thank you for your participation.