S&P Global
Market Intelligence

Chubb Limited NYSE:CB

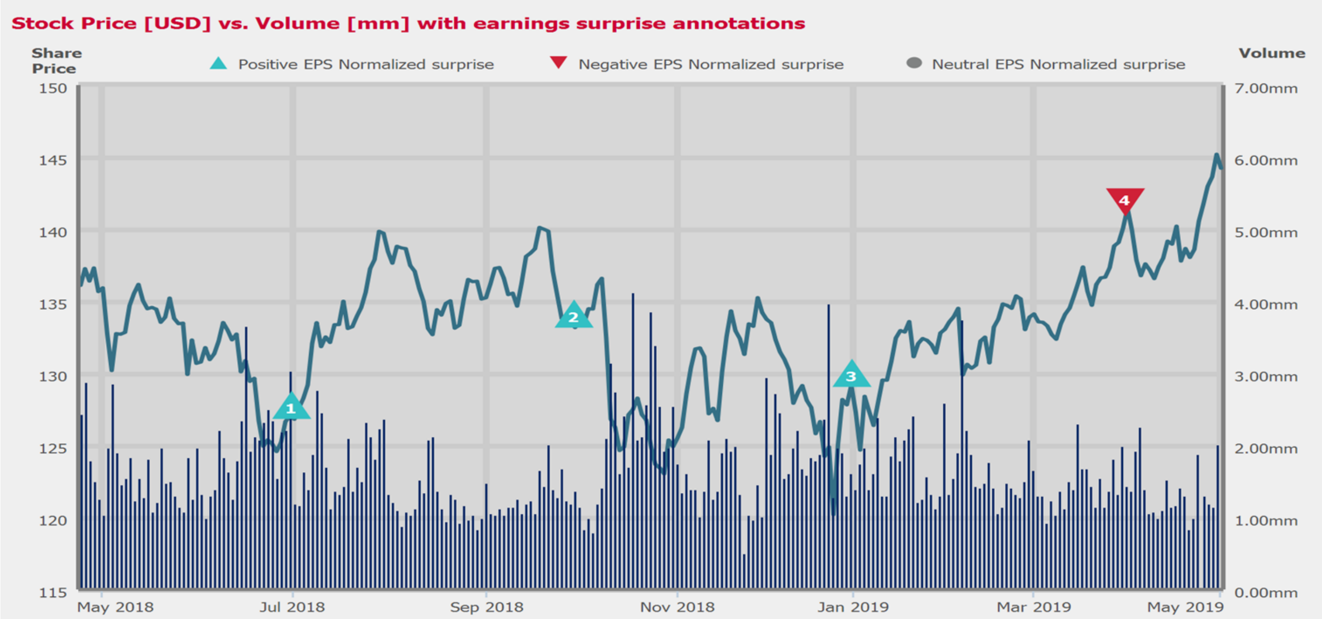
FQ1 2019 Earnings Call Transcripts

Wednesday, May 01, 2019 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.56	2.54	▼(0.78 %)	2.68	10.73	11.39
Revenue (mm)	6806.00	6734.00	▼(1.06 %)	7712.00	29233.65	30534.34

Currency: USD
Consensus as of May-01-2019 10:34 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	2.62	2.68	▲1 2.29 %
FQ3 2018	2.36	2.41	▲2 2.12 %
FQ4 2018	2.00	2.02	▲3 1.00 %
FQ1 2019	2.56	2.54	▼4 (0.78 %)

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EXECUTIVES

Evan G. Greenberg
Chairman & CEO

Karen L. Beyer
Senior Vice President of Investor Relations

Michael Smith
Senior Vice President & Global Claims Officer,

Philip V. Bancroft
EVP & CFO

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Jay H. Gelb
Barclays Bank PLC, Research Division

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Ryan James Tunis
Autonomous Research LLP

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Presentation

Operator

Good day, and welcome to the Chubb Limited First Quarter 2019 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 Karen Beyer, Senior Vice President Investor Relations. Please go ahead.

Karen L. Beyer
Senior Vice President of Investor Relations

Thank you, and good morning, everyone. Welcome to Chubb's March 31, 2019 First Quarter Earnings Conference Call.

Our report today will contain forward-looking statements, including statements relating to company performance and growth opportunities, pricing and business mix and economic and market conditions, which are subject to risk and uncertainty, and actual results may differ materially. See our recent SEC filings, earnings release and financial supplement, which are available on our website at investors.chubb.com for more information on factors that could affect these matters. We will also refer today to non-GAAP financial measures, reconciliations of which, to the most direct comparable GAAP measures and related details are provided in our earnings press release and financial supplement.

And now it's my pleasure to introduce our speakers this morning. First, we have Evan Greenberg, Chairman and Chief Executive Officer; followed by Phil Bancroft, our Chief Financial Officer. We'll then take your questions. Also, with us today, to assist with your questions, are several members of our management team.

And now I'll turn the call over to Evan.

Evan G. Greenberg
Chairman & CEO

Good morning. We had a very good first quarter highlighted by good underwriting results, strong premium revenue growth globally and the best pricing environment in U.S. and London wholesale market in maybe 5 years.

Core operating income of $2.54 per share was up 8.5% from prior year. Book and tangible book value per share were up 4.3% and about 7%, respectively, in the quarter. We reported a P&C combined ratio of 89.2%, which included 3.8 points of cat losses and favorable prior period reserve development of 3.1 points, $204 million pretax.

On a current accident at year basis, excluding cat, the P&C combined ratio was 88.5%, simply world-class. Phil have more to say about investment income, book value, cat, prior period reserve development.

P&C premium revenue growth in the quarter in constant dollars was quite strong, and frankly better than we anticipated in our plans for the quarter. Net premiums grew just over 5% while foreign exchange, given the strength of the dollar, then had a negative impact of 2.2 percentage points. During the quarter and through April, the pricing environment continued to improve with overall price change in North America on a written basis equal to loss cost trend. In addition to property, pricing improved throughout the quarter in many casualty-related areas, including general casualty, both primary and excess, and D&O and professional lines. Renewal price change, which includes both rate and exposure was up over 5%. Retention of our customers remained strong across all of our North America, commercial and personal P&C businesses with renewal retention as measured by premium of over 94%. In Major Accounts and specialty commercial excluding agriculture, premiums were up 4%. Renewal price change for major accounts was 4.8% with risk management pricing up 5%, excess casualty up 7% and property up nearly 9%. Public D&O rates increased 5.5%. In our Westchester E&S business, renewal pricing was up 8%.

Turning to our middle market and small commercial business in North America. Premiums overall were up about 6.5%, our strongest quarter in terms of growth since the merger. New business was up 13% and renewal retention in our middle-market business was over 91%. Middle-market pricing was up 3%. And excluding workers comp, it was up 4.2%. Again, that's the best we've seen in a number of years. The middle-market pricing for primary casualty, pricing was up about 7%. Excess umbrella was up 4.3% and D&O was up 9%. In our U.S. small commercial business, premium revenue continued its positive growth momentum with net premiums up over 40%.

In our North America Personal Lines business, net premiums written in the quarter were up 1%. Adjusted for the expanded quota share session we discussed last quarter, net premiums were up about 2.5%. Retention remained quite strong at over 96% with homeowners priced -- with homeowners, pricing was up over 8% in the quarter.

Turning to Overseas General Insurance operations. We had reasonable growth, which we expect to accelerate as the year moves along, particularly in Asia. Net premiums written for our international retail division were up 5.7% in constant dollar, and FX then had a negative impact of 5.8 percentage points. Growth was led by Latin America with premiums up almost 13% while premiums in Europe were up 4.2% and Asia was up 4% or 8% adjusting for a onetime positive item last year.

International growth in the quarter was driven by both commercial and consumer lines. Consumer lines were up 6%, Personal Lines were up 5% and driven by Latin America growth of 17.5% and A&H was up 5%, driven by double-digit growth in both Latin America and Japan. Net premiums for our London market wholesale business were up nearly 15% in the quarter in constant dollars.

As I noted last quarter, this business is growing again on the back of improved pricing after several years of shrinking. Pricing conditions in our international retail and London wholesale businesses varied by line and by country. Overall rates in our retail were up 2% while rates in London wholesale open market business were up over 8%. Property, up over 8%; Financial Lines, up 13%; and marine up about 6.5%; and finally, aviation up 18%.

John Keogh, John Lupica, Paul Krump and Juan Andrade can provide further color on the quarter including current market conditions and pricing trends.

Since the beginning of the year, we have completed a couple of important transactions that represent important opportunities, which will feed growth in the future. January, we entered into a 15-year exclusive distribution agreement with Banco de Chile, the largest bank based in that country. We will distribute life and general insurance products to their customers throughout their branches, telemarketing and digital channels. Banco de Chile has a long track record of successfully marketing insurance to its more than 2 million banking customers.

In March, we received approval to increase our ownership in Huatai Insurance Group, a holding company of P&C life and asset management subsidiaries. Huatai Group's insurance operations have more than 600 branches and 11 million customers. With our increased stake, Huatai Group became the first domestic Chinese financial services holding company to convert to a foreign-invested joint venture. Our increased ownership is an important milestone towards our future goal of majority ownership.

In closing, we're off to a good start to the year, achieving increased growth in many of our businesses globally and momentum continues to build, a benefit of our broadly diversified presence and capabilities. We are experiencing continued and even accelerated pricing increases.

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

Philip V. Bancroft
EVP & CFO

Thank you, Evan. We are starting out the year in an exceptionally strong financial position. We have a very strong balance sheet to support our business activities with total capital exceeding $65 billion. We also have $105 billion portfolio of cash and investments that's highly rated and liquid, and we generated operating cash flow of $1.3 billion in the quarter.

Among the capital-related actions in the quarter, we returned $702 million to shareholders, including $335 million in dividends and $367 million in share repurchases. Though yesterday, we repurchased shares for over $435 million at an average price of $134.17 per share. Since the Chubb acquisition, we have reduced our dilution on tangible book value per share from 29% to about 2.5%.

Our annualized core operating ROE was 9.2% and our annualized core before operating return on tangible equity was 15.1%. Net realized and unrealized gains for the quarter were $1.6 billion after-tax. There was a gain of $1.4 billion in the investment portfolio due to a decline in interest rates and a $50 million gain from our variable annuity portfolio primarily from the improvement in the equity markets. We also had a gain of $115 million from FX. The current quarter investment income of $882 million was within our previously communicated range.

We continue to expect our quarterly adjusted net investment income run rate to be in the range of $880 million to $890 million. As a reminder, as we discussed previously, we reduced the utilization of our cash liquidity program. On a basis of utilization comparable to last year's first quarter, our investment income would have been $902 million, $20 million higher than reported this quarter, and our interest expense would have been $165 million, also $20 million higher than reported in the quarter.

Pretax catastrophe losses for the quarter were $250 million, 90% from weather-related events in the U.S. and the balance from international events primarily in Australia. The catastrophe losses were about 20% higher than we expected, which was worth about $0.06 on our EPS.

We had favorable prior period development in the quarter of $240 million -- $204 million pretax or $161 million after-tax, which included $61 million pretax related to the 2018 crop year loss estimates. The remaining favorable development is split approximately 60% from short-tail lines and 40% long-tail primarily from accident years 2014 and prior. Net loss reserves increased $39 million or decreased $63 million on a constant dollar basis reflecting the impact of prior period development and catastrophe and crop insurance payments in the quarter.

Underlying reserves increased about $560 million. On a reported basis, the paid-to-incurred ratio was 98% for the quarter. After adjusting for the items noted previously, the paid-to-incurred ratio was 86%. Our core operating effective tax rate for the quarter was 14.7%, which is in line with our expected range of 14% to 16%.

I'll turn the call back over to Karen.

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

Question and Answer

Operator

[Operator Instructions] And we will take our first question from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question. Just, Evan, going back to some of your pricing and loss cost commentary from your prepared remarks. In North America specifically, you said that written rate is now equal to loss trend. In your annual letter that recently came out, you did say that pricing in the U.S. and some other markets is not keeping pace with loss trend. So is that something that we saw changed towards the end of the quarter and into April? If you could just expand on that? And then give us your view for the rate versus trend that you see over the balance of this year.

Evan G. Greenberg
Chairman & CEO

First of all, I'll answer your last part. I hardly -- if I had that insight, I wouldn't be doing this job if I could read the future that way, Elyse, I'd probably be in Vegas. But when I wrote my shareholder letter it was about the '18 year. And it wasn't about the first quarter of '19. And in '19, in fact, in the first quarter, in total, all lines aggregated. Rate on a written basis equaled loss cost trend. And that is a change. The rate of increase is accelerating in short-tail and long-tail lines in the United States and in London, wholesale in particular.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Does this feel like a market where -- when you think, obviously, you don't want to project going forward, but does this feel like we're starting to get into a market where we can think about seeing some underlying margin improvement given that you made a point of saying that things really improved as we got into April?

Evan G. Greenberg
Chairman & CEO

Well, I didn't say they really improved. I said they continued to improve. And I don't want to prognosticate the future. Frankly, Chubb runs a world-class combined ratio. And if we can continue to achieve rate that equals loss cost trend in areas that are adequately priced, that's brilliant. If we can achieve rate in excess of loss cost trend in those areas that need rate because margin is not adequate, that too is the objective. And we'll see how it plays out, whether it continues to accelerate. I like the tone of the market, I like what I see and what I feel. It's rational, and I see what appears to be continued forward momentum.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then a couple of just quick numbers questions...

Evan G. Greenberg
Chairman & CEO

And by the way, that's particularly in larger accounts -- in large account and in E&S business. Middle-market, I would make the same comment, but it is not at the same rate of change that I observe in large account and E&S. And that's as wholesome as I think I can be with you.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's very helpful. And then a couple of quick numbers questions for Phil. Can we get the FX impact on EPS in the quarter?

Philip V. Bancroft
EVP & CFO

Well, it was $23 million.

Evan G. Greenberg
Chairman & CEO

We gave it on the first page of the press release.

Philip V. Bancroft
EVP & CFO

$23 million -- that's on core operating income, and it was about $18 million on underwriting.

Evan G. Greenberg
Chairman & CEO

And the percentage points were right on the first page of the press release.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my last question. Phil, you said that net investment income and interest expense kind of had offsetting impacts of the $20 million. Is the Q1 interest expense the right way to think about using that number as a run rate?

Philip V. Bancroft
EVP & CFO

Yes. I would say that I would use the netted number, right? So the -- I would take $20 million out of the number that I gave for both investment income and for interest expense.

Evan G. Greenberg
Chairman & CEO

You'd add it to investment income, you take it away from interest expense.

Philip V. Bancroft
EVP & CFO

Interest income will come down to the range of $880 million to $890 million. And I'd take it out of interest expense.

Operator

And our next question will come from Jay Gelb from Barclays.

Jay H. Gelb
Barclays Bank PLC, Research Division

To the -- for the Chubb team, there's been a number of fairly significant aircraft, terrorism and likely ongoing cyber claims in the industry. Can you talk about how you manage those exposures? And maybe your typical net risk after reinsurance protection on those type of risks?

Evan G. Greenberg
Chairman & CEO

Well, you're talking about a variety of classes. And we don't talk about -- or I'm not sure we're going to answer much of your question. We don't talk about individual losses. And the net limits we retain per risk really vary by risk and by class of business, and that's not something we really disclose and talk much about. But it is all rolled up. All the experience related to loss events are all rolled up in that combined ratio you're looking at.

Jay H. Gelb
Barclays Bank PLC, Research Division

It's -- it would be fair to say though, Evan, right, that it's -- reinsurance is probably a significant risk mitigation factor in those type of exposures?

Evan G. Greenberg
Chairman & CEO

Not necessarily. You don't know what risks we're on. And so you're referring right now Boeing and then certain cyber events, and those are just individual insureds. And we're not -- and some of them we're on and some of them we have modest exposure. Some we have more exposure. It varies all to a lot. But I have to say this, there is nothing we see in losses occurring in the industry that gives us any pause about Chubb's underwriting of any of those risks. We do -- we're underwriters, so we do post-claim underwriting reviews. When we see losses come in, and we're in the business of losses. And what we really look for is are we proud of the underwriting. Do we think the judgments and the appetite were correct? And the pricing was, and the terms and conditions, and there's nothing in what we've seen that gives us pause.

Jay H. Gelb
Barclays Bank PLC, Research Division

I see. Okay. The broader question I had was. Clearly, there's some favorable momentum in primary commercial lines. If 2019 is not a major cat year, like we saw in the past 2 years, which I believe was the largest ever 2-year period for the industry in terms of catastrophe experience. Do you believe that this positive price momentum can persist if it's not a big cat year this year?

Evan G. Greenberg
Chairman & CEO

I do because -- look, time will tell. But I frankly do because this is becoming casualty-driven. And remember, casualty kills insurance companies not short-tail property. And casualty, you just -- all casualty related, so I'm using the term in a broad way with the exception of 1 or 2 classes, rate and loss cost trends have been going in the opposite direction. And loss cost trend, depending on the class and the jurisdiction, have worsened in some cases because there's more pressure because of the things that we know. And the industry is experiencing that. And I think many are just waking up to the results that are emerging for behaviors that have occurred over a number of years. So I think this is a rational reaction and I imagine it to continue.

Jay H. Gelb
Barclays Bank PLC, Research Division

Does that mean that for maybe some of your weaker positioned competitors that they haven't trued up what their underwriting reserve position might be, if it's going to be a casualty-driven turned?

Evan G. Greenberg
Chairman & CEO

Well, you'll have to ask them, I'm not -- I really can't speculate on that because I don't know what they know and don't know, specifically. If they all want to share their books with me, I'll tell you.

Operator

And our next question will come from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here for you. First one, I just noticed North America, a big increase in the amount of ceded reinsurance. Did you change reinsurance buying habits this year?

Evan G. Greenberg
Chairman & CEO

No. No, we didn't change. So that would just be idiosyncratic to the business in the quarter. So risk management or crop insurance adjustments or any of that.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. Okay. Excellent. And then, Evan, my second question...

Evan G. Greenberg
Chairman & CEO

And then you do know though on Personal Lines we increased the quota share. We expanded the quota share, as we told you last quarter, that has an impact on that line of business. It's not that material to the overall North America though.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Got you. I was looking more at your North American commercial operations. It was like 18.5% increase in ceded premium.

Evan G. Greenberg
Chairman & CEO

Yes. No, it's just -- that's just a timing quarter-to-quarter.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. Great. And then I'm just curious. Making a lot of continued investments in emerging growth areas, China, et cetera. What are the margins on that business like versus your kind of overall business? Is it better, worse? How should we think about that potentially over the long term impacting your numbers?

Evan G. Greenberg
Chairman & CEO

Yes. I think when you look at the -- it varies. When you look at something like Banco de Chile or Banamex or some of the major bank-related distribution agreements we have made, those are at the -- the kind of the business that produces is at the lower end of our combined ratio range. By the nature of the business, it's consumer business and small commercial and accident and health, et cetera. China -- and we're not consolidating China now. I hope that will occur in the medium term when we cross the majority ownership mark and we're in the midst of -- our activity in front of us is to acquire more ownership. We're engaged in that activity, though I can't give a precise timing. The life business is a fast-growing business and it is generating -- it is now turning the corner and beginning to generate positive GAAP earnings, and I believe the biggest opportunity in China is life insurance just given the macro. And we've got licenses, Huatai Life has licenses in all -- in fundamentally all the provinces. And the majority of those offices of 600 are life related, got 43,000 agents. Though, for China, that's small. I can imagine a company with 250,000 [could be] in years from now. The P&C business, we'll run a combined ratio that will produce an underwriting profit. And it will -- it won't be Chubb's average combined -- the average of Chubb's combined ratio. It will be on the higher end of the spectrum likely for a while. But that has -- that too has very good potential. And I think when I think of it in the early days right now as we -- when I say early days, the next few years, I imagine that when we consolidate, it'll be at least neutral to our ROE.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. And does that also go for the PICC relationship you have?

Evan G. Greenberg
Chairman & CEO

Well, the PICC relationship is different. That's a venture to where we're like really the international arm of the PICC for a Chinese business that's overseas. And we do the underwriting and the servicing and they do the marketing and relationship and sales side of it, and we share the business together. That's different.

Operator

And our next question comes from Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I kind of want to touch base -- a lot of comments on the rates and how they've changed and now we're at the point where, as you say, they're equal to loss cost trends. Kind of a follow-up, I guess, to Jay Gelb's question a second ago. Maybe you could spend a little more time talking -- help us understand the other side of the equation, the loss cost trends. You said they worsened this year. It's casualty-driven. And the rates and loss cost have been moving in the opposite direction, and now it's not the case. But can you talk a little bit more about what you see in the loss cost? Where are they worse and then maybe just more to the extent that they are worse this year versus last year?

Evan G. Greenberg
Chairman & CEO

I did not say they're worse this year than last year. So please listen to what I say and don't put words into my mouth.

Michael Wayne Phillips
Morgan Stanley, Research Division

No. Right. Loss cost trends had worsened I believe you said. I'm sorry. Okay?

Evan G. Greenberg
Chairman & CEO

No. No, I did not say they worsened. So, again, please you'll read the transcript and the question. I didn't say that. I said the overall loss cost is behaving. We haven't seen a deterioration in overall loss cost trend. I was speaking about there are specific classes and that it's a mixed bag of some behaving some not, some -- and when you wrap it all together, I don't see a deterioration in the overall. But I did say these rates have not kept pace with loss cost in a number of years. And that naturally, the math is pretty simple as to what that equals, it equals margin pressure. And -- or if you don't have margin pressure then I can guarantee you've got reserve pressure. And that the industry's response to that right now, I think, is rational. And I see it having lags based on all I know right now.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Thank you for that clarification. I appreciate it. I guess just a quick numbers question on the reserve side. Do you have any exposure to what -- I guess what Travelers had mentioned for that Child Victims Act in New York, and so were any reserve movements because of that?

Evan G. Greenberg
Chairman & CEO

No. Mike, you want to?

Michael Smith
Senior Vice President & Global Claims Officer,

Sure. Evan, you'll recall we recorded additional IBNR in the fourth quarter response to the difficult environment around molestation and abuse. That was not specifically related to the Child Victims Act, but it was in part a response in the trend in certain states to introduce revival legislation. By the way, I should also remind you, a large number of states don't constitutionally allow for such legislation. As to New York, specifically, it's a fluid situation, it's too early to predict the outcomes of any claims since the statute doesn't even take effect until August. So, therefore, it's really premature to talk about any potential impact.

Operator

And our next question comes from Jay Cohen of Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes. Just a quick one on the Overseas General business. The -- there was -- the development was very minimal in the quarter. I just didn't know if you had any exposure to spillover from events that occurred in 2018.

Evan G. Greenberg
Chairman & CEO

No. We did not, Jay. We don't actually review much in the way of reserves in Overseas General in the first quarter. It's a couple of regions, their short-tail business that we review in the quarter. And so you see that sometime just bounce around a bit. But nothing -- there was no development in the quarter. And we had no Jebi development, by the way, which is what everyone's trying to talk about.

Operator

And our next question comes from Yaron Kinar from Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

First question is around the normalized cat load. So I think you said that cats were about $20 million (sic) [20%] in excess of your expectations. I think that gets about 3.5% cat...

Evan G. Greenberg
Chairman & CEO

It was 20% more than our expectation.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

20%? Okay. I missed that. Okay. That's helpful. And is there a reason that you stopped offering the normalized cat load in the supplement?

Evan G. Greenberg
Chairman & CEO

The normalized -- oh, the ROE normalized cat load?

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Yes.

Philip V. Bancroft
EVP & CFO

We decided to put it into the commentary. There was no conscious...

Evan G. Greenberg
Chairman & CEO

Yes, there was nothing conscious -- we were -- there was no signal there that we -- yes. There was nothing like we were -- we have some change of philosophy or this or that. It was an item that we had put in particularly when there was elevated cats of significance where it was a real cat event quarter and we just didn't see it this quarter is that. That's all.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Fair. And given that the quarter was relatively a benign quarter from an industry perspective, from a cat load perspective. I guess I was just a little bit surprised to see the cat load being close to 4% for the quarter. Are you still comfortable with your longer-term guidance or targets of under 4% for the year?

Evan G. Greenberg
Chairman & CEO

Yes. We are. We really are. And when you think about how we do, which we've been quite transparent. And we think that the Street's estimates are a pretty good proxy for what is our own work on expected cat. And the way it's done. We model, obviously, the perils that have good models, hurricane and earthquake have reasonable models and we remodel our exposure based on that. And then on non-modeled, tornado activity and flood and the like, we look at long-term averages. We trend them, we adjust for our exposure, we adjust for reinsurance. And when you bake all that in, the Street's number is pretty good. When I look at the number over our "expected". And expected is a quarter. In a quarter, you're just going to have volatility around that. And by the way, on any annual basis, of course, you're going to have volatility. You're never -- it's so hard that you're going to hit the actual expected. You're either going to be under it a little bit, you're going to be over it a little bit. I mean it's -- that's just real world that in any quarter you're going to have a little volatility. Some of that was international related because we had Australia, and I don't think -- I'm not sure how you guys think about all that. And then the balance was just in the homeowners line and the winter storms that occurred, and that's about it. So it didn't fuss us at all as we looked at it. And it didn't have us reimagine cat losses on an expected basis.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. That's helpful. And then when I look to the expense ratio in Overseas General and Global Reinsurance, it seemed to go up a little bit. Is that just business mix shift? Is there an FX impact there? Could you maybe walk us through what drove the increase?

Evan G. Greenberg
Chairman & CEO

Yes. In Overseas General, very simple, last year, we had onetime items that benefited and they were all around pension and compensation and they were onetime. And that -- we had over-accrual and that came down. And you normalize for that in the expense ratio is flat.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And in Global Reinsurance?

Evan G. Greenberg
Chairman & CEO

Global reinsurance is a mix-of-business question.

Operator

And we'll take our next question from Meyer Shields with KBW.

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

When we're in an environment where rate increases are matching loss trends, is there an internal expectation that various underwriting efforts should translate into margin expansion because the external catalysts are neutral?

Evan G. Greenberg
Chairman & CEO

Very line specific where we -- where lines of business are more stressed or don't meet our combined ratio standards then there we drive for more rate, we drive for a change in terms and we reshape portfolio. And that is actively going on, Meyer.

Operator

And our next question will come from Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

Just following up on that question Meyer had. I mean there's clearly some lines where we're seeing a lot of rate, excess casualty, I think you said plus 7, then middle-market was just plus 3. I mean, Even, I guess I'm just curious, is the rate in the pricing even a good indicator of, on a line-by-line basis, what's happening with margins? Like for instance, are the lines that are getting plus 7 likely to see more margin improvement than the lines that are only getting plus 3? Or is that really just based on relative need?

Evan G. Greenberg
Chairman & CEO

It's all based on relative need. You can't translate it. We can but we don't -- we're not disclosing that and we don't go there.

Ryan James Tunis
Autonomous Research LLP

So what are some areas where you think that loss trend is -- I'm sorry, the rate is below loss trend? What are some lines that jump out to you?

Evan G. Greenberg
Chairman & CEO

Where rate remains below loss trend? A lot E&S casualty. It varies by line of business. But rate continues. And not below loss trend, it's actually above loss trend. I shouldn't say that, let me take that back. But it needs more rate because you look at the combined ratio starting point in those lines. I see the -- I see stressed lines right now. And the better way of saying it -- because I'm not going to give it to you by line in real specific detail. But I see stressed lines getting above loss cost trend. And it needs it, which helps to begin to improve the margin in that area. Now in many of those areas, we shrank and shrank substantially because that -- you could see it in our numbers. We've talked about it. Go back and how we talked about shrinking our Westchester business, our London E&S business, our reinsurance business, as examples, because of the competitive environment. And in those areas, some of them have classes where we see growth opportunity right now because rate is exceeding loss cost trend and it presents opportunity. Some rate is exceeding loss cost trend, we write a modest portfolio. And we're -- but it's still not adequate enough where we want to grow that business.

Ryan James Tunis
Autonomous Research LLP

That's helpful. And then, Evan, I know you don't want to prognosticate...

Evan G. Greenberg

Chairman & CEO

By the way, there are some lines where rate, frankly, is still not adequate relative to loss cost trend. And they're coming up but they're still not there yet.

Ryan James Tunis
Autonomous Research LLP

Got you. And again, I know you don't want to prognosticate on pricing. But I am curious how much -- how important is -- what's going on with reinsurance pricing, do you think, in terms of how much primary pricing can continue to improve? Is it such that -- there's reinsurance and what happens there, you think, tell most of the story? Or is it still a situation where you have enough primary companies where ROEs are inadequate and you think you could continue to have rate firming in primary while reinsurance stays sort of not so spectacular?

Evan G. Greenberg
Chairman & CEO

Right now this is primary-insurer driven. It's not reinsurance-market driven.

Operator

And we will take our final question from Mark Dwelle from RBC Capital Markets.

Mark Alan Dwelle
RBC Capital Markets, LLC, Research Division

Just a question related to the agriculture business with the various flooding and other events that we've seen so far. Does that likely have any impact on either the premium or potentially how you might think about losses this year?

Evan G. Greenberg
Chairman & CEO

No. Frankly, the -- let's take it in 2 pieces. The wet season, and how people think about late plantings and all of that. The planting season right now and the pace of it is really the same as last year. And you know how last year turned out. So it's very early days and -- but right now planting conditions are pretty good and improving.

And then on the loss side from flooding. Most of the flood -- most of that flooding occurred in floodplain areas. And from a loss point of view, therefore, it's -- when we look at our portfolio, it's really about late planting question. And as I said, we see the conditions about equal to last year.

Operator

And I'd like to now turn the call back over to Ms. Karen Beyer for any additional or closing remarks.

Karen L. Beyer
Senior Vice President of Investor Relations

Thank you, everyone, for joining us this morning. We look forward to speaking with you again next quarter. Have a great day.

Operator
And this concludes today's conference. Thank you for your participation, and you may now disconnect.