S&P Global
Market Intelligence

Chubb Limited NYSE:CB

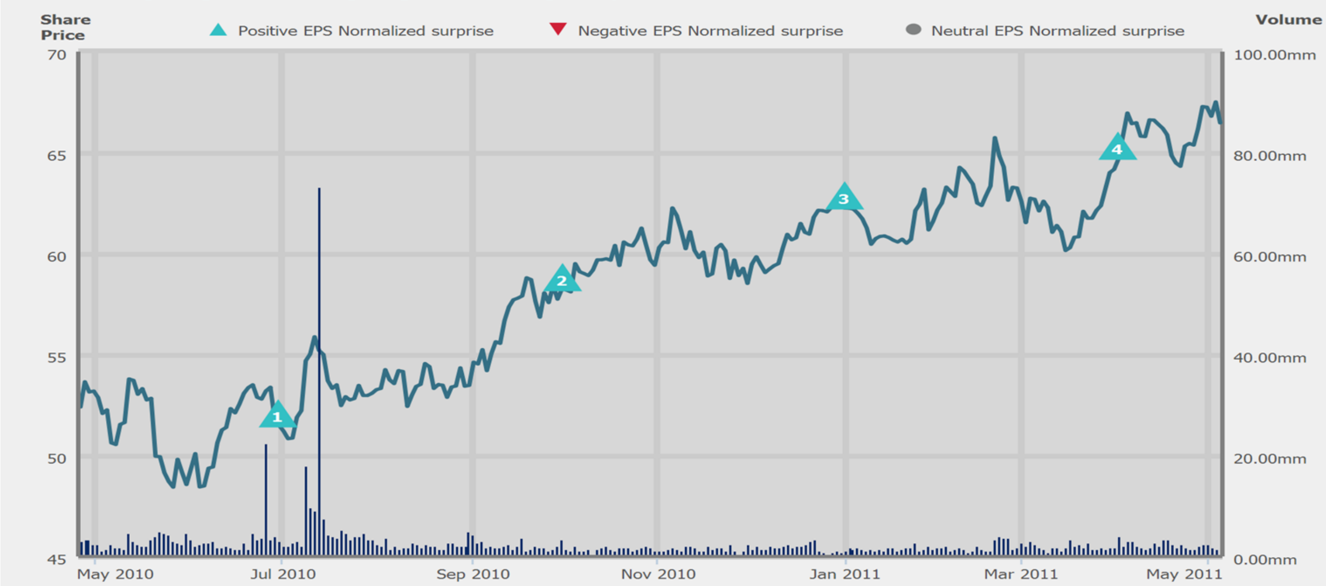
FQ2 2011 Earnings Call Transcripts

Wednesday, July 27, 2011 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2011-			-FQ3 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.63	2.01	▲23.31	1.75	6.27	7.40
Revenue (mm)	3800.80	3953.00	▲4.00	3622.33	14818.00	15259.00

Currency: USD
Consensus as of Jul-27-2011 1:10 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2010	1.83	2.01	▲1 9.84 %
FQ3 2010	1.81	2.01	▲2 11.05 %
FQ4 2010	1.83	2.05	▲3 12.02 %
FQ1 2011	0.67	0.79	▲4 17.91 %

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Evan G. Greenberg

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Philip V. Bancroft

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Presentation

Operator

Good day, and welcome to ACE Limited Second Quarter 2011 Earnings Conference Call. Today's call is being recorded. At the conclusion of today's prepared remarks, we will have a question-and-answer session. (Operator Instructions)

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

Helen M. Wilson

Thank you and welcome to the ACE Limited June 30, 2011 second quarter earnings conference call.

Our report today will contain forward-looking statements. These include statements relating to Company performance and guidance, recent corporate developments and acquisitions, ACE's business mix, economic outlook and insurance market conditions, all of which are subject to risks and uncertainties. Actual results may differ materially. Please refer to our most recent SEC filings as well as our earnings press release and financial supplement, which are available on our website for more information on factors that could affect these matters.

This call is being webcast live and will be available for replay for one month. All remarks made during the call are current at the time of the call and will not be updated to reflect subsequent material 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

Good morning. As you saw from the numbers, ACE had an excellent second quarter, in fact, for the first six months, given the extraordinary number in size of natural catastrophes, the competitive insurance market and sluggish economic conditions in developed markets are persistent and long-term strategy to build the global diversified company. And our use of capital have distinguished our results in terms of revenue growth, earnings, and risk management.

After-tax operating income for the quarter was $686 million or $2.01 people share. All divisions of the company made a positive contribution to the quarter's results. For the quarter, per share book value grew 3% and now stands at $71.36 and our ROE was about 12.5%.

The source in balance of our earnings in our judgment was simply outstanding. Underwriting income of $245 million contributed 36% in net operating income with balance contributions from both the current accident year and favorable reserve development.

Net investment income was up 10% in the quarter, reflecting both growth in our portfolio and a number of other favorable dynamics, which Phil will discuss. Our high-quality, conservatively managed investment portfolio continues to perform well and is generating substantial investment income.

Our P&C combined ratio was 92.6%, which included net catastrophe losses of just over $100 million, the vast majority of which came from the U.S. tornadoes and Mississippi flooding. We also had a reserve takedown from the first quarter cat estimates based on an updated view of those events. Our overall cat impact was reasonably modest given the severity of the U.S. cats in the quarter and again is a direct results of our global spread of business, lack of over concentration in any one business region or product line.

Our balance sheet is in great shape, with the capital position now exceeding $29 billion; vested assets have increased 7% during the year to more than $56 billion, which again speaks to future earning power.

I want to make a few comments about revenue growth, pricing, and the general insurance market environment. Total company P&C net premiums were up 15% in the quarter, with premiums up 21% in North America and up 14% in Overseas General. We benefitted in the quarter from a combination of our recent acquisitions, growth in our A&H and personal lines businesses globally and modestly improving exposure growth and better pricing in commercial P&C, particularly in a number of property and energy lines and certain causality classes.

Our long-term and patience strategy to pursue product and geographic diversification and invest for growth both organically and through acquisition is paying us back in terms of revenue growth and earnings.

This is clearly visible in the substantial contributions to our growth and net premiums written from areas such as crop insurance, which was up 400%, personal lines globally, which was up 42%, and internationally A&H up 20%, as well as, P&C in Asia and Latin America, which were up 27% and 13% respectively.

Foreign exchange benefited our overseas business by 5% to 10% depending on the currency where the business is located.

Our Life business also the beneficiary of recent investments experienced double-digit revenue growth, as well as growth and earnings. All of these businesses were major contributors to revenue and earnings in the quarter. We also saw positive exposure growth as a result, it gradually improving with sluggish economic growth in both the U.S. and Europe. Payroll, sales, and inventories are all growing though anemically. This contributed to our revenue growth as well.

Lastly, we benefited from better pricing both as a result of a modestly improving pricing environment and our continued disciplined approach to underwriting portfolio management. We saw single and double-digit price increases in certain classes of property business, such as such as single peril cat expose risks and large account property requiring significant cat capacity.

We also saw a double-digit price improvement in certain international marine and energy markets both of which have sustained large losses this year and are losing money for the industry. While we are seeing price increases in certain classes and this is an encouraging sign, it is not broad-based, in general we think the market is moving far more slowly than the fundamental say it should be. Not only in causality related classes of business, but also many of those property classes where we're getting rate.

For causality the good news is, that the floor under pricing has firmed and we’re clearly bouncing along the bottom. In my judgment, I believe we will continue to benefit from the three drivers of growth for the balance of the year.

Given our second quarter results and our momentum, it is frankly exceeding both the industry and our own plans, we're quite bullish about the second half of the year, remembering though that we're in the risk business and there is always the potential for unanticipated volatility. From where I sit today, we are quite confident about our prospects for double-digit revenue growth and our ability to meet or exceed our earnings projections in the second half of the year.

Turning to North America more specifically, growth primarily came from those P&C specialty lines I mentioned earlier, such as crop and high net worth personal lines, while retail, commercial P&C was down about 10% due mostly to underwriting discipline and the absence of any large one-off transactions this quarter compared to prior. New business was down by a third though renewal retention rates as measured by premium were the highest day of win for some time, benefiting from both rate and exposure change.

Prices for our entire renewal book were up on average for the first time in a long time, about 1%. We saw the biggest price increases in the property areas I referenced earlier ranging from 5% to 10%, but we also saw an improving trend in casualty pricing, again affirming floor. We saw a sequential price increases in our casualty book in June over May and May over April.

In our international Commercial P&C business retail net written premiums were up 20%, while wholesale was down one, both benefited from favorable foreign exchange. Market conditions varied widely by region; premiums were up double digit in Asia, Latin America, UK, Ireland and even on the Continent. In Australia, prices were up substantially for cat expose lines, as you would expect, but essentially flat in other property and casualty lines. A good example of an orderly but hardly rational market response to loss activity with overall pricing impacted by an abundance of capacity, chasing business.

For our international Commercial P&C renewal book, rates were up 2% overall. We have for example distressed property up 20 to 30, large cat expose multinational up 10, and our wholesale power book up about 20%. Renewal retention rates held steady, John Keogh and Brian Dowd are with me here and can provide further color on market conditions and pricing trends.

Our International A&H business continued its return to steady and improving growth, up 19% in the quarter with a 10% benefit for foreign exchange. Asia-Pacific and Latin America both produced excellent double-digit performance.

Operating income for International A&H was also well ahead of prior year, up 30%. By the way, income for all of A&H was up on the order of 23% as combined also contributed a double-digit increase in income, a really good performance.

A&H's underwriting results across the board were simply great in the quarter, a product focused underwriting and claims actions we have been taking over the past two years to improve our portfolio management.

Turning to reinsurance, while premiums is measured on an underwriting year basis shrank 2% mostly due to underwriting discipline. Global Re produced the combined ratio of 67.9% for the quarter benefiting from relatively modest cat losses and the reduction in their first quarter cat estimates. Again, in the context of this year's extraordinary level of natural catastrophe activity Global Re's combined ratio of 99.1% for the first six months is truly a testament to their risk management skills and conservative approach to underwriting.

In closing, we are optimistic about our growth prospects for the balance of the year. Ours is a winning strategy. We're growing our businesses and following a strategic path of diversification where we see opportunity around the globe while at the same time maintaining tight underwriting discipline and trading market share where we can't make an underwriting profit. Our recent acquisitions are paying us revenue and earnings dividends right now and we will continue to do so into the future.

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

Philip V. Bancroft

Thank you, Evan. We had a very strong quarter. Cash and invested assets grew by almost $2.2 billion to over $56 billion. Our tangible book value per share increased 3% and our operating cash flow was strong at over $1 billion.

Investment income was $569 million, up 10% over last year's quarter. This increase was stronger than we anticipated as our book yield stabilized despite the lower interest rate environment due to a slower rate of turnover in our portfolio. This was especially true for our mortgage portfolio where prepayments slowed significantly.

We also benefited from a positive impact from foreign exchange and distributions from our private equity portfolio. We expect our current quarterly run rate for investment income to be in the range of $550 million to $560 million. It's subject to variability in the portfolio turnover rates, PE distributions and FX.

Current new money rates are 3.4% if we invest in a similar distribution to our existing portfolio. Our current book yield is 4.3%.

As you can see on page 21 of the financial supplement, we've provided additional disclosure on our European debt holdings. We have no exposure to the sovereign debt of troubled European countries and our European corporate bond portfolio is highly rated. Our exposure to European banks is rated AA on average and totals $1.2 billion or 2% of our investment portfolio. Of that total, over $700 million is rated AA. Our operating cash flow include about $300 million of cash collateral we received related to a large one off transaction.

Our net loss reserves were up 2% for the quarter and are now up approximately $1 billion for the year. Our paid-to-incurred ratio was 83%. We had favorable prior period development of $146 million pre-tax, which is about flat with last year. Almost half of the development is short tail and the casualty development is predominantly from years ’06 and prior.

Cat losses were $101 million after-tax. The losses from second quarter cat events were $136 million and we had favorable development of $35 million from first quarter events principally, the Japanese earthquake and primarily in our reinsurance business.

Expense ratio was 29.7% down from 30.9% last year due primary to a changing mix of business especially crop. Our accident year combined ratio was up in line with rate and trend and again the impact of crop.

Our acquisition of the Hong Kong operations of New York Life closed on April 1 and it's been consolidated in the quarter. The operating income of our recent acquisitions of Rain and Hail, the Hong Kong and Korean life operations and the Malaysia P&C operation is in line with our expectations.

In our 2011 guidance discussed in the first quarter call, we said we expected operating income to range between $5.40 and $5.70 per share. Catastrophe losses included in that estimate were $693 million after-tax. Our operating income projections included in guidance remember were for current accident year results only and by definition did not include any estimate for prior period reserve development in future quarters.

In light of the level of first half catastrophic losses, prior period development, higher investment income and what we project as a slight improvement to current accident year underwriting for the balance of the year, we are increasing our guidance for the full year.

Operating income is now expected to range between $6 and $6.20 per share for the full year. This includes $544 million after tax in catastrophe losses for the first half plus $200 million after tax in catastrophe losses for the balance of the year. The guidance also includes $187 of after-tax favorable prior period development reflected in the first-half. There is no prior period development included in our guidance for the second half.

As announced last year, ACE plans to repurchase, during the balance of the year, enough common shares to offset the dilution from the incentive competition based increase in our share count.

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

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

Question and Answer

Operator

(Operator Instructions) And we will first hear from Keith Walsh with Citi.

Keith Walsh
Citigroup

Hey, good morning, everyone. First question for Brian or Evan just on crop, with the large second quarter losses, any impact there to the crop business, any losses that you're seeing there?

Evan G. Greenberg

Let me just take that and if we get deeper into it then I'm going to turn it over to Brian. The way we handle crops, our PEG loss ratio is based on an average, a long-term average loss ratio for the business. And that's what we've pegged in our business to date. The last few years, I might add, have run better than the long-term average. The weather events that we have seen to date have not caused any pressure on that - have not caused us to increase our loss ratio on that long-term historic that we are pegging now. We're mindful of weather conditions and our estimate, when we look at our estimate for the balance of the year, as we sit today, we see a modest impact potentially to that loss ratio in the second half of the year, and that's already been contemplated in our estimate.

Keith Walsh
Citigroup

Okay. And I think you've partially answered this, but for Phil, within the guidance that you're talking about $6.00 to $6.20, I think in September of last year you told us that $0.22 coming from Rain & Hail, is that still on tract to contribute that amount?

Philip V. Bancroft

Yes, we're on track. We see that, as I said in the commentary, we believe we're still on track with all the acquisitions.

Keith Walsh
Citigroup

Great. And then last one just for Evan, on some of the calls we've been hearing, some talk about loss costs trends starting to pick back up, and just any commentary you'd have around that would be helpful? Thanks.

Evan G. Greenberg

Well, as you know, we are not, as I said you many times, if you are in the P&C business and particularly you're in the casualty business, it's not a business for optimists. And we haven't believed that the past, there is any indication of the future and so we've maintained conservative PEGS, conservative estimates in our accident year PEGS. With that I'm going to ask Sean Ringsted, our Chief Actuary to answer your question about frequency and severity. But we don't see anything of a material nature at this moment. Sean?

Sean Ringsted

That's right, we're not seeing any material changes in claim frequency and severity. I mean perhaps frequency is up across-the-board a little, but it's moderated by increased exposures in the premium orders. But overall frequency remains relatively quite.

Evan G. Greenberg

Remember you can see a little increase in frequency as you see economic conditions improve.

Keith Walsh
Citigroup

Thanks a lot.

Evan G. Greenberg

You're welcome.

Operator

We'll take our next question from Jay Gelb with Barclays Capital.

Jay Gelb
Barclays Capital

Thanks. Good morning. Good morning, first question for Evan. Can you talk about what your thoughts are on the sustainability of rate improvement in the U.S. I understand that the rates typically saw the losses and the industry certainly had some large losses internationally and even in the U.S. in 2Q. But if we don't have a significant hurricane season this summer, to what extent you think the market could return to bit more aggressive competition?

Evan G. Greenberg

There is plenty of capital in the market. And overall balance sheet of the industry is not in bad shape, it is in reasonably descent shape. That's overall, it varies by company. And my senses is if you don't have an active season then that will be a negative to the current trend we see in short tail pricing of course.

And now with casualty, as I said, it's bouncing along the bottom. There is a firming floor and so you're seeing, you're able to get some price increase, but you're hardly able to write new business which speaks to the competitive market when business does comes to market. So it's bouncing along there, it's hardly a trend of a seriously firming market. But the first thing you have to do is find a floor before it, as it starts to reverse direction and move up, but prices in casualty that the market is securing overall hardily don't match trend and so it continues to erode. Current accident, you will put pressure on current accident year.

Jay Gelb
Barclays Capital

That makes sense. All right. And then my follow-up question is on the growth outlook. It seems like in the second quarter, a big contributor to the growth was higher net retentions, particularly in the North American business and to a lesser extent the Overseas General business that net the gross written premium. Is that due to a mix shift or what else is potentially driving that and will that also be the reason for faster net written premium growth in the back half?

Evan G. Greenberg

Yes, keep in mind, the biggest driver is crop. And it isn't because there was some change in the way the book is managed. We brought the company Rain and Hail, and they had a big net retention on crop. So we were fronting the gross, we'd see to the government and to Rain and Hail, and now Rain and Hail share is consolidated in pace, that's what we explained to you during the time of the acquisition. So that's why the net increase is substantially faster than the gross. And by the way that's also why - as Phil says on one hand the expense ratio is down because of crop is one big driver of that, but the other is crop runs a higher loss ratio than the average and that has an impact on our current accident year loss ratio.

Jay Gelb
Barclays Capital

So that's why we saw the North American underlying loss ratio go up three points year-over-year?

Evan G. Greenberg

That's a good part of it. And then the balance of it is simply rate and trend in casualty, I mean the math doesn't lie.

Jay Gelb
Barclays Capital

Makes sense, thanks.

Evan G. Greenberg

You got it.

Operator

We will next hear from Michael Nannizzi from Goldman Sachs.

Michael Nannizzi
Goldman Sachs

Thank you. Actually I have one quick question if I could on the short-term financing. I thought that you guys have talked about paying that down over the next couple of quarters. Just wondering what is the rate you're paying on that and how does that compare to the investment yield you're getting in the portfolio, and just one follow-up? Thanks.

Philip V. Bancroft

It's a very low rate. The rates are about 50 basis points, so it's a repurchase agreement. So there is a fairly reasonable spread. We see our book yield is 4.3% so there is a reasonable spread between the borrowing and we will be making the decision over the balance of the year as to when if we pay that off.

Michael Nannizzi
Goldman Sachs

Okay, so that's still kind of it, to be decided, to be determined.

Philip V. Bancroft

Yes.

Michael Nannizzi
Goldman Sachs

And then in terms of - you've talked a little bit about the loss ratio in the second quarter in North America in Rain and Hail. I mean if were to go back out Rain and Hail, if we were just to look at the legacy book by itself, what would the change look like there and can you kind of talk about was it non-cat whether or was anything else kind of that play in that change?

Evan G. Greenberg

Well, so the current accident year loss ratio for North America as reported was 74 and it would have been 72, if we will remove the acquisition.

Michael Nannizzi
Goldman Sachs

Right, okay. Okay, great. Thank you very much.

Evan G. Greenberg

Welcome.

Operator

Your next question will come from Larry Greenberg from Langen McAlenney.

Larry Greenberg
Langen McAlenney

Hi, Evan not to look for splitting hair level of detail on pricing. But I think last quarter you kind of described things are stabilizing, but thought we bounce along the bottom for the next couple of years, I mean has anything changed from that view?

Evan G. Greenberg

You will recall Larry that - and frankly my view hasn't changed. What I did say last quarter was I distinguished between short tail and longer tail. I thought that the first quarter events and the second events will have an ameliorating impact on pricing in short tail business and I also referenced I believe the energy business and the energy market and said that I thought that the losses there were such that you'd see along the cats would a catalyst to improve pricing. How much and how long remains to be seen. I'm still - I remain of that view and in casualty as I said, we are touching on bottom and I see that firming and I see us getting some price. But that I felt we're on the bottom there and that price would not equal trend for a period of time. I can't see it; I don't see the catalyst on the horizon. But there is plenty of external events and risk out there. And so some of that happens then you might see it improve more quickly, otherwise I think this is where we are for a couple of years.

Larry Greenberg
Langen McAlenney

Great, thanks. And one of your CEO Brethren mentioned that they are seeing actually increased competition in excess workers comp these days, are you seeing crazy things like that?

Evan G. Greenberg

This is about, what different line you said? I'm only getting to it. I going to let - I'm going to ask Brian Dowd to answer that question. The answer - I don't think I'd see, but he may.

Brian E. Dowd

Yes, we've seen along the margins we will have some extra players, but one of the biggest players, if not the biggest player, of our margin is more or less withdrawn from excess workers comp. So we probably are seeing a little bit less competition in our space for excess workers comp. We tend to play in a larger account national space versus the smaller insurers. So in a larger space we've seen less competition excess works comps for our space.

Larry Greenberg
Langen McAlenney

Great. Thank you.

Operator

Gregory Locraft from Morgan Stanley, Smith Barney has our next question.

Evan G. Greenberg

Good morning, Greg.

Gregory Locraft
Morgan Stanley, Smith Barney

Hi, good morning and thanks. I just wanted to take your temperature Evan on the M&A landscape and consolidation is heating up a bit globally, and any thoughts on that front?

Evan G. Greenberg

Well, my temperature is running 98.6 and I'm not running hot and I'm not running cool. And we are just rational; the trends to me have not changed. There is the micro-industry pressure of relentless soft market. And so the drive for many who have feel the pressure towards consolidation and some of that will be intelligent in my judgment and some of it will destroy value. The more macro-oriented trends that you see in financial services broadly that also I believe drive insurance M&A on a global basis. Those trends remain whether it is regulatory pressures on those that have insurance companies and capital requirement on whether it's their own, the results of their basic business. And what you see is a sluggish economic growth that also creates pressure. So in my mind, you stay patient, you stay very fundamental and over time there is plenty of opportunity.

Gregory Locraft
Morgan Stanley, Smith Barney

Okay, great. And then I may have missed it in the opening remarks, but did you split out organic growth in the 15% top line versus M&A?

Evan G. Greenberg

No, we did not split it out.

Gregory Locraft
Morgan Stanley, Smith Barney

Okay.

Evan G. Greenberg

I think we gave you enough color around it to give you a sense and figure that out.

Gregory Locraft
Morgan Stanley, Smith Barney

Okay, great. And then last one is on just your ROE. If I look at ROE and I sort of normalize or go back to lets say the catastrophe levels or loss that you had expected back in January, February. You guys are running, if you do the guidance, at about '10, '11. So solid double digit, certainly better than almost all your peers in a very challenging year. But I am wondering, how do we think about the ROE trajectory for ACE over time? Is '10, '11 kind of the goal or is that more or less the trough given where we're at in the underwriting cycle?

Evan G. Greenberg

You know our goal over a cycle is 15% and that goal remains, and I think it's far more than aspirational, I think it's realistic. And when I look at our underlying business, I think it's quite healthy and I believe that the acquisitions we have made of late was a good use of capital, because I think it was accretive to our overall ROE. While certain underlying portfolios particularly Commercial P&C right now suffer the trough of ROE. And though combined ratios, you know that's very discipline, to stay below 100. So I believe overall given our business mix, given where it's both geographic and by product, we are well positioned to capitalize on opportunities that only help our ROE over time. And though it's a long race and you don't just measure it quarter-by-quarter or year-by-year.

Gregory Locraft
Morgan Stanley, Smith Barney

Okay, great. Thank and nice quarter.

Evan G. Greenberg

You keep your eye on the fundamentals.

Gregory Locraft
Morgan Stanley, Smith Barney

Thank you.

Operator

We'll next hear from Vinay Misquith from Evercore Partners.

Vinay Misquith
Evercore Partners

Hi, good morning. Two questions, the first is of pricing and loss cost trends, I think you managed to get some good price increases this quarter. How should we be looking at margins for the future? Would that be sluggish given this small rate during this quarter?

Evan G. Greenberg

Vinay, I believe, I've answered that already. We've said that the price increases that we in the industry are achieving right now in long tail lines, which is where your question really sits, is on price does on equal trend. And trend in our judgment, and you can't predict the future, but if you're taking a reasonably conservative estimate of trend then price is inadequate to equal trend. And you can go from there in the math about loss ratios. Your second question?

Vinay Misquith
Evercore Partners

Sure, fair enough. The second question was on the retentions, they have increased in the Overseas General segment, just wondering whether it's more sort of more accident and health and would you keep more business in that?

Evan G. Greenberg

It's a mix of business. It is not a fundamental change in risk appetite.

Vinay Misquith
Evercore Partners

Sure. That's right. Thank you.

Evan G. Greenberg

Welcome.

Operator

We'll next hear from Jay Cohen with Bank of America/Merrill Lynch.

Evan G. Greenberg

Good morning, Jay.

Jay Cohen
Bank of America/Merrill Lynch

Thank you, good morning, I think Phil mentioned that the operating cash flow was aided by, I think it was $300 million from a one-off transaction, a large one-off transaction. And I am wondering if that played a role in the premium comparison as well?

Evan G. Greenberg

No it did not. It was a surety contract with a relatively small amount of premium and the collateral that we collect is calendar's operating cash flow.

Jay Cohen
Bank of America/Merrill Lynch

Got it.

Philip V. Bancroft

Collateral, not premium or loss ratio impact.

Jay Cohen
Bank of America/Merrill Lynch

Right, right. And then the second question in the Overseas General business, it looks like the underlying accident year loss ratio. It was generally a good, quite a good number relative to say the past six, seven quarters. And I'm wondering if there is a business mix issue there or is it some of the pricing in the short tail lines helping that number?

Evan G. Greenberg

It’s a combination. I’d say to you first of all, remember quarter-on-quarter, you can have some volatility in short tail, large losses. We were comfortable within our loss ratio PEGs and didn’t have large loss volatility outside of it. Number two, yes, mix of business is helping loss ratio, whether it is accident and health, whether it is personal lines, whether it is Asia, Latin America, it varies, but that’s helping the loss ratio, when it comes out to mix. Each line by line if you go line by line, you will see the lines you’d expect with loss ratio arising based on rate and trend, but then you sum it all up and this will be average.

Jay Cohen
Bank of America/Merrill Lynch

Great, thank you.

Evan G. Greenberg

You're welcome.

Operator

We will now hear from Matthew Heimermann with JPMorgan.

Matthew Heimermann
JPMorgan

Hi, good morning everyone. Couple of questions, first, hi, Phil on the NII, could you just quantify the FX and private equity?

Philip V. Bancroft

Yeah, there is really three components to be increase over the run rate that we told you last quarter. The turnover was important, right, the slower turnover in the portfolio that was worth about $15 million, private equity was worth about $15 million, and then FX was [45].

Matthew Heimermann
JPMorgan

Okay, that's helpful. And then just Evan, just bigger picture, I mean given the amount of regulatory in legislative scrutiny that some other fellows and financials are facing today. Is there anything that you’re focused on either regulatorily or legislatively right now or is the industry just kind of in a period where we might just avoid kind of a spotlight for all?

Evan G. Greenberg

No, I am very active and quite concerned about a few things. Number one, international regulation and globally of insurance and particularly the International Association of Insurance Supervisors doing something called Com Frame, where they are trying to wrestle that, like battle through a sort of a uniform global standard of regulation of insurance. And they are looking at it in the vision of European Solvency II. And I think that is a mistake, the U.S. system of regulation put aside 50 states, which is how we administer it, but our fundamental system of regulation is different from Solvency II. The U.S., our system is geared to protect policyholders. Policyholders only and that there is minimum capital and management to protect that and meet the obligations.

Solvency II is fundamentally different. It's designed to protect policyholders, shareholders, bondholders and employees, keep a company from ever failing. There is the contrast of the two systems. The U.S. is 40% of the world insurance market, every jurisdiction is informed by its culture and its history and what works best for it, there is not one system for the word. And I'm very focused on getting U.S. regulators and treasury together because of what Dodd-Frank creates in the world of treasury and insurance to show the world that there is another way and it isn't simply one way. And that is very important because if they adopt one system, then I'll tell you what ultimately if that system is going to - we're going to have a hard time not implementing it here and not be a mistake. We turn insurance companies into utilities. And if you don't have an ability to fail, you don't have an ability to succeed. So you get me going on that one as you can see, I feel strongly. And that is a big issue for this industry and we should be focused on it.

Matthew Heimermann
JPMorgan

That's very helpful. I guess would that then dovetail kind of also just into the - they continue to be around global accounting standards in the sense that what the IASB is promoting is very much tied to Solvency II?

Evan G. Greenberg

That's the other one that we're very focused on. You all get it under FASB, there is an insurance accounting regime right now, and it works well for both investors and for the industry. And under this notion to converge internationally, there is no insurance accounting standard, they are creating one. And why are we driven to accept that one, they ought to be accepting ours and otherwise we don't converge. I think it's a mistake and I think all investors ought to be a lot more vocal than they are about what they think at this of the system when you look at what an IASB is potentially proposing here?

Matthew Heimermann
JPMorgan

All right. Nice to hear somebody say FASB is a global standard because I think that's been lacking in the debate, but thanks for the answers.

Evan G. Greenberg

You're welcome.

Operator

We'll now hear from Scott Frost from Bank of America/Merrill Lynch. Hi, Scott your line is open. Please go ahead, sir.

Scott Frost
Bank of America/Merrill Lynch

Can you hear me? Hello.

Evan G. Greenberg

Okay. Now I can hear you.

Scott Frost
Bank of America/Merrill Lynch

Okay, sorry about that. On the investment portfolio I had some questions, I backed into what looks like Europeans sovereigns AA or below of roughly $2 billion. You said that you have no exposure to troubled European countries. I was wondering, which country is you're considering as troubled? Number two, it looks like about, if I back out your non-US corporate portfolio if I back out the disclosures on European and UK banks and corporates that you listed as exposures I come up with about 3 billion split roughly evenly between A or better, BB or below. Could you give a breakout on that in terms of and that's all non-US corporates, how much are in European countries and how much are in…

Evan G. Greenberg

All right, we got it. Tim and Phil you want to dive into that.

Philip V. Bancroft

I think it'd be better if we take that off-line, I mean just I'll got to gather that.

Evan G. Greenberg

But I think you're misinterpreting, how you're looking at the data there. So, we'll help you with it. Give us a call. We'll give you a call.

Scott Frost
Bank of America/Merrill Lynch

Okay, great. Thanks.

Operator

We will now hear from Thomas Mitchell with Miller Tabak.

Thomas Mitchell
Miller Tabak

There has been some recent press about the potential for the naïve capacity in Florida that come back and bite the taxpayers there. And it raises a somewhat larger question for me which isn't, I suppose it's not really numbers related, it's more a sense of a trend related, in the US and then around the world, if you were to define the direction of naïve capacity growing, shrinking, growing faster than you'd like, shrinking almost as fast as you like, where do you think it - where do you think we're now and what do you think the trends are likely to be over the next year or two?

Evan G. Greenberg

First of all I think, let's just narrow this down. I think you're talking about cat reinsurance, is that correct, Tom?

Thomas Mitchell
Miller Tabak

Primarily, yes.

Evan G. Greenberg

Okay.

Thomas Mitchell
Miller Tabak

Yes, because that would include the catastrophe bond market and other facilities.

Evan G. Greenberg

I understand. And I think what you're referring to as naïve capacity is let's call it opportunistic capital that is coming in to try to make a trade right now, would that be about right?

Thomas Mitchell
Miller Tabak

Yes.

Evan G. Greenberg

Okay. I think it's having a modest impact on the overall, I think while capital is come in I think it's a modest amount of capital, you know, sub 10 billion.

Thomas Mitchell
Miller Tabak

And do you think that it's growing?

Evan G. Greenberg

And my sense of trend, well, I think it's growing. Well, look, it always spike post an event and or a couple of events and - but I don't see some freight train of capacity and big momentum of it coming into the market, no.

Thomas Mitchell
Miller Tabak

Okay. Thank you very much.

Evan G. Greenberg

You’re welcome.

Operator

And we’ll now hear from Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital

Hi, good morning, Evan. Follow-up on the organic growth question from earlier, I don’t think you spoke too much to life. Can you talk about organic first reported premium growth in the life insurance segment?

Evan G. Greenberg

Yes, our international life, the acquisitions, you’re saying our organic growth, so take away. So international life had good double-digit growth in the quarter in terms of premium by itself. So excluding acquisition, let me break this down for you for a moment. In the life segment, you have Life Re, which is the VA and you don’t have revenue growth there as you know. The international life is in there and that grew double-digit organically without the acquisitions. And then you have Combined, which is a life company in the U.S., you have Combined, A&H business in the life segment, and that did not grow.

Ian Gutterman
Adage Capital

Got it, okay. And to follow-up on the crop side, you mentioned the loss ratio being up a couple points, what about the expense ratio? I see that was down on crop coming in.

Evan G. Greenberg

That’s what Phil said in the commentary that the drop in expense ratio is primarily due to the acquisitions.

Ian Gutterman
Adage Capital

Okay. It seems like that’s about a couple of points, so net-net combined ratio cropped in and really bites the combined ratio overall just the shift from last year expense?

Evan G. Greenberg

By about 7/10 of a point.

Ian Gutterman
Adage Capital

Got it. Okay. And is there seasonality, if I'm trying to just figure out how much crop influence this quarter. Isn't Q2 sort of a high quarter for crop that may not be as much of a benefit in the second half, is that correct?

Evan G. Greenberg

Q3.

Ian Gutterman
Adage Capital

Q3 is the bigger one, okay, got it. And moving on, Phil, I was trying to understand why goodwill went up in the quarter? I guess as I'm guessing right that was from New York Life and I thought you bought that if I recall at a discount to book?

Philip V. Bancroft

No, no, we bought it, so the book value is irrelevant in that calculation. All the increase in goodwill was related to the acquisition of Hong Kong, which closed in the quarter. And the measure isn't relative to the historical book value; the measure is relative to the market value of the entity that you bought. So that's our price relative to market value, you pay in excess of what's deemed to be the market then that turns into goodwill.

Ian Gutterman
Adage Capital

Got it. Okay.

Evan G. Greenberg

Remember, when you buy it, when you're buying it, yes, below book. But then you do purchase accountings. But now you on your opening balance sheet.

Ian Gutterman
Adage Capital

Got it. Okay, and then Evan, just one more macro question. Let's take a worse case that Europe destabilizes and that EU or at least the euro dissolves or whatever, some kind of really bad macro scenario there. It sounds like the investment side isn't a big deal. Are there other places that we should be concerned about maybe on the underwriting? Is political risk become an issue again or is there some place felt that it could be a concern and sort of what have you done proactively to try to limit that damage?

Evan G. Greenberg

You really don't provide, political risk exposure is fundamentally limited to developing market, it's not developed market and isn't that the irony. And you're seeing all the fiscal problems that we're talking about are developed markets. So there is not a political risk exposure. We feel comfortable with our risk management and we gave you a lot of disclosure around for our European invested asset, which I will remind you backs European liabilities and currency. So, if the currency takes a big whack, yeah, you take it on the asset, but you also take it on the liability side.

Ian Gutterman
Adage Capital

Sure.

Evan G. Greenberg

And then our basic underwriting is of commercial business and commercial risks. And the world doesn't stop, though commerce can be impacted and so I don't see in a narrow sense an insurance or a specific. But what you do know is that if it's systemic then the definition of systemic is, everybody takes a whack whether it's foreign exchange related or whether it is mark-to-market as we have seen in volatility of financial markets. Those are generally transient and we would expect them to be transient that we'd amortize our way back out of it because of the quality of our portfolio.

Ian Gutterman
Adage Capital

Okay. I was thinking, I was trying think tertiary effects on say, are there political risk contracts may be there for an African country, but the currency denominated in euros and if something happens to the euro, something could happen to that contract even though, is there any kind of currency convertibility deals you do, things like that.

Philip V. Bancroft

Not that would be impacted that way, no.

Ian Gutterman
Adage Capital

Got it. Okay.

Evan G. Greenberg

It's the currency of the African country, their inability to where there is a block on the currency and you can't convert. So it's be the local currency.

Ian Gutterman
Adage Capital

Okay, I just wanted to make sure about that. Okay, great.

Evan G. Greenberg

Now you got that right. Now, remember there is all kinds of waiting periods usually a 180 days around that and all kinds of workouts.

Ian Gutterman
Adage Capital

Great. Thank you, Evan.

Evan G. Greenberg

You're welcome.

Operator

We will now hear from Brian Meredith with UBS.

Brian Meredith
UBS

Good morning, just a couple of quick numbers questions here. First, I am wondering, if you could actually give us the crop written and earned in the quarter. And then going forward could you think about may be giving us that number given it's becoming a pretty large part of your business and there is definitely some seasonality in that business.

Evan G. Greenberg

We're not going to provide that number this quarter. We have given you a lot of information around it and we will take that question though, we'll honestly take that question under (inaudible) separate.

Brian Meredith
UBS

Great.

Evan G. Greenberg

We don't do that, we run a very large DNO book but we don't show you the excess cash. We don't - it's where do you see. And so we'll keep providing you color around it but whether we break it out specifically, we'll…

Brian Meredith
UBS

Understood. Is it the seasonality and how it kind of affects the different quarters and that's why.

Evan G. Greenberg

You're going to get it over a year, you know that. And I can tell you, I don't mind telling you, the second and third quarter are the biggest quarters. Fourth quarter is very little and there you go.

Brian Meredith
UBS

Okay. And then just quickly, so tax rate seemed a little on low side in the quarter, anything unusual there or kind of still kind of think it's going to be kind of a 17%, 19% tax rate going forward?

Philip V. Bancroft

There is nothing unusual. I mean our tax rate will bounce around a bit because of where the losses are incurred, what jurisdiction, if we have cats in taxable jurisdiction versus non-taxable. So it's just a function of that. And while we're on taxes let me just mention one other thing, we hear a fair amount about the taxes that offshore companies pay or don't pay. And one thing you should note is that our tax rate in the U.S. is about 29%. So if you look at our business generated from our U.S. operations, after all the reinsurance to outside offshore to affiliates, our tax rate is relatively high. It's 29%, so just mention that why you gave me the window.

Brian Meredith
UBS

Okay, great. And then last question Evan, any thoughts on the M&A pipeline out there right now.

Evan G. Greenberg

I miss the word.

Brian Meredith
UBS

All right, thank you.

Evan G. Greenberg

You're welcome, Brian. I think I gave a fair amount of color on it a few minutes ago, and I don't think I really have more to add.

Brian Meredith
UBS

Great.

Operator

We will take our last question today from Mark Dwelle with RBC Capital Markets.

Mark Dwelle
RBC Capital Markets

Yes, good morning. Just a clarification on a couple of numbers' points. You'd commented about the $35 million of favorable development from the first quarter catastrophe events, does that included within the $146 million of overall favorable development or is that not included in that total?

Evan G. Greenberg

The total was 101 after-tax and it's netted in that 101.

Philip V. Bancroft

You're asking about period period development. It is - yeah, but the 146, I think is the prior period development.

Mark Dwelle
RBC Capital Markets

Okay.

Evan G. Greenberg

Is that correct?

Mark Dwelle
RBC Capital Markets

I was asking if the 35s and the 146, it is not in the 146?

Philip V. Bancroft

It's netted into the cat number.

Mark Dwelle
RBC Capital Markets

It's netted into the cat number. So to clarify further, the $134 million of net cat losses would have been $169 million pre tax absent that improvement?

Evan G. Greenberg

Yes, you will see a schedule in the financial supplement. But on a pre-tax basis, the total cat losses were $133 million, $167 million from that is from second quarter and 33 benefit is from the first quarter.

Philip V. Bancroft

That's pre-tax.

Evan G. Greenberg

All pre-tax.

Mark Dwelle
RBC Capital Markets

Understood, okay. Thank you. Actually that's all my questions. Thank you.

Operator

Ladies and gentlemen, that is all the time we have for questions today. Ms. Wilson, I'll turn it back to you for closing or additional remarks.

Helen M. Wilson

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

Operator

One again, ladies and gentlemen that does conclude our conference for today. We thank you for your participation.