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Market Intelligence

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Earnings Call

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CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	7

Call Participants

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Presentation

Operator

Ladies and gentlemen, thank you for standing by. My name is Brent, and I will be your conference operator today. At this time, I would like to welcome everyone to the Chubb Limited Second Quarter 2023 Earnings Conference Call. [Operator Instructions]

It's now my pleasure to turn today's call over to Ms. Karen Beyer, Senior Vice President and Director of Investor Relations. Please go ahead.

Karen L. Beyer

Senior Vice President of Investor Relations

Thank you, and welcome to our June 30, 2023 Second Quarter Earnings Conference Call. Our report today will contain forward-looking statements, including statements relating to company performance, pricing and business mix, growth opportunities and economic and market conditions, which are subject to risks and uncertainties and actual results may differ materially.

Please see our recent SEC filings, earnings release and financial supplement, which are available on our website at investors.chubb.com for more information on factors that could affect these matters.

We will also refer today to non-GAAP financial measures, reconciliations of which to the most direct comparable GAAP measures and related details are provided in our earnings press release and financial supplement. Now I'd like to introduce our speakers. First, we have Evan Greenberg, Chairman and Chief Executive Officer; followed by Peter Enns, our Chief Financial Officer, and then we'll take your questions. Also with us to assist with your questions are several members of our management team. And now it's my pleasure to turn the call over to Evan.

Evan G. Greenberg

Executive Chairman & CEO

Good morning. As I mentioned on our last call, I'm coming to you this quarter from Singapore, our regional headquarters for Asia Pacific. The outlook in Asia for growth across our businesses, commercial P&C, as well as consumer non-life and life, both short and long term, is significant. The region is simply energizing. We have a large organization of talented executives and a strong diverse capability focused on the execution of a broad set of strategies throughout the region.

As you saw in our press release, we had a simply outstanding quarter. In fact, another record quarter performance with double-digit premium revenue and earnings growth, as a result of world-class P&C underwriting results that produced an 85.4% combined ratio, record net investment income and a doubling of our life earnings.

Our premium revenue growth was so well spread and broad-based, driven by outstanding double-digit growth in our commercial and consumer P&C businesses in both North America and internationally, and over 100% growth in our Life business.

Our annualized core operating ROE was 13.8%, with a return on tangible equity of 21%. Core operating income topped \$2 billion, up 14% or 16.5% on a per share basis. Both were record results. For the first 6 months, we produced operating earnings of \$3.9 billion or \$9.32 per share, up 13% and 15.8%, respectively. Our underwriting performance resulted from a combination of strong premium growth, excellent current accident year margins with a combined ratio of 83.3% and favorable prior period reserve development, particularly in North America.

On the investment side, record adjusted net investment income of \$1.2 billion was up \$290 million or 31% over prior year. Our portfolio yield is now 4% versus 3.2% a year ago, with our reinvestment rate averaging 5.8%. Our investment income run rate will continue to grow as we reinvest cash flow at higher rates and compound income without changing our risk profile. And then life earnings doubled to \$254

million, driven by our business in Asia, which is overwhelmingly supplemental A&H. Peter will have more to say about financial items, including cats, prior period development, investment income, book value and ROE.

Now turning to more color around growth, pricing and the rate environment. Consolidated net written premiums for the company increased 16.1% in the quarter, on a published basis, or 16.8% in constant dollars, made up of 10.5% growth in our P&C business globally and almost 130% in life premiums. Global P&C premium growth in the quarter was very well-balanced and broad-based, in fact, our strongest quarter for growth since the third quarter of '21. North America, Asia Pac and Europe all produced double-digit growth. It's worth noting since 2019, we've grown our commercial P&C business by 50%.

In terms of the commercial P&C rate environment, rates and price increases in property and casualty lines were strong in the quarter in both North America and internationally, while financial lines globally continued to soften. We have been diligent about staying on top of loss costs, and our positive prior year reserve development reflects a steady conservative approach to reserving. Beginning with North America, commercial premiums, excluding ag, were up 10.5%. P&C growth was 14%, excluding financial lines, while financial lines premiums decreased, reflecting a disciplined response to the underwriting environment.

Total premium in our E&S business, the Westchester, grew 12%, while our major accounts division grew 14% or 11% excluding loss portfolio transfers. In our middle market division, premiums were up 5%, with P&C growth of 9%. Our middle-market workers' comp book was flat and financial lines premiums in middle market declined about 1.5%. Overall pricing for total North America commercial lines increased 12.8%, including rate of 8.7% and exposure change of 3.8%. Pricing for commercial property and casualty, excluding financial lines, was up 17.7%. We are trending loss costs in North America at 6.7%, and it varies by line. In general, we are trending loss costs in short-tail classes at 5.8%. In long tail, excluding comp, loss costs are trending at 7.3%. And our first dollar workers' comp book is trending at 4.7%.

Let me provide a bit more color around rate and growth. Property pricing was up 31.5%, with rates up 22%, an exposure change of 7.8%. Major accounts and E&S property together grew premiums over 40% in the quarter, while middle market property grew 11.4%. Casualty pricing in North America was up 11.3%, with rates up almost 9% and exposure up 2.2%. We grew casualty in the quarter, 8%. In workers' comp, which includes both primary comp and large account risk management, pricing was up just over 5%, with rates up 5% and exposure up 4%. Primary workers' comp premiums declined 2.9% in the quarter.

For financial lines, the competitive environment remains aggressive, particularly in D&O, and rates have continued to decline. In the quarter, rates and pricing for North America financial lines in aggregate were down about 4.5%. Our fin lines book shrank 3.7%. Renewal retention for our retail commercial businesses was very strong at 98.5%.

On the consumer side in North America, our high net worth personal lines business had another strong quarter, with premiums up almost 11%. Our growth was balanced across a broad range of geographies and our retention was very strong at 104% on a premium basis and over 90% on an account basis. In our homeowners business, we achieved pricing of 14.7%, while the homeowners' loss cost trend remained steady at 10.5%.

There is a lot of attention placed on consumer auto experience. So I thought I would comment briefly on it. For us, auto was a small part of our high net worth business. And you may have noticed that we had a modest reserve release in our prior year's reserves for our North America personal lines segment in the quarter. This release was primarily in auto, and we are comfortable with our reserves and loss picks for auto.

Turning to our international general insurance operations. Net premiums were up 11% in constant dollar or 9.3% after FX. Our international commercial business grew 12%. Consumer was up 9.5%. Our international retail business grew over 10.5%, while our London wholesale business grew about 14%. In our international retail business, growth was led by Asia Pacific, with premiums up 17.5%, made up of commercial lines growth of over 12% and consumer P&C up more than 23%. Europe produced

overall growth of 10.5%, with the continent up more than 12%. We continue to achieve improved rate to exposure across international commercial portfolios. Our retail business pricing was up 8.9%, with rates up 5% and exposure change of 3.7%, while loss costs across our international commercial portfolio are trending at 6.6%.

Our international A&H division had another strong quarter, with premiums up over 16%. In Asia, our A&H business grew 31%, driven by our direct marketing and travel insurance business and the consolidation of Cigna Thailand. In the U.K. and Europe, A&H premiums were up 11.5%. And in our international life business, which is almost entirely Asia, premiums tripled to over \$1 billion. Since I'm here, I want to conclude with a bit more about operations in Asia, which have very strong growth and momentum across our businesses, both consumer non-life and life and commercial P&C.

We have significant opportunity for growth, both short and long term, in a broad variety of markets across a broad range of customers and distribution channels. Our total premium in the region is about \$9 billion and well balanced, with half non-life split 50-50, consumer and commercial, and the other half, life. Our overall presence and capabilities in North, Southeast Asia and Australia are spread across 11 markets, with distinct and significant areas of growth opportunity in each. Across the region, we have a broad range of product capabilities focused on different customer segments with varied and meaningful distribution strength, including a diverse and growing list of partnerships with financial institutions and e-commerce leaders that give us access to hundreds of millions of consumers.

We have strong digital capabilities and a fast-growing digital insurance business, encompassing more of our products. We are the largest direct marketers of insurance, mostly A&H products, to consumers in Asia through both non-life and life companies that are unifying to offer more products to more customers. From a macro perspective, the region is so dynamic and vast with the diversity of cultures and large economies some with large young populations, some with large aging populations that have a different set of needs. Broadly speaking in Asia, there is an innovation-oriented mindset, a strong work ethic and a deep dynamism. Supply chains and capital flows are growing deeper across the region. There is a growing infrastructure investment. As a result, regional commerce and trade is growing and becoming more connected between Southeast Asia, North Asia, India and Australia.

There is a lot to be optimistic about. In summary, we are having an outstanding year with record quarterly and first half financial results. We are growing exposure in a thoughtful and balanced way and underwriting conditions are favorable in a lot of areas of our business. We have a lot of momentum heading into the second half. And as I look ahead, we again are confident in our ability to continue this pattern of growth in revenue and earnings and in turn, drive double-digit EPS growth.

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

Peter C. Enns

Executive VP & CFO

Thank you, Evan. And good morning. As you've just heard, Chubb delivered another quarter of strong underwriting and investment performance, leading to record results, which generated \$2.5 billion of operating cash flow this quarter and \$4.8 billion through the first half of the year. We returned \$1.1 billion of capital to shareholders this quarter, including \$724 million in share repurchases at an average price of \$197.04 per share and \$354 million in dividends.

Book value and tangible book value per share, excluding AOCI, increased 2.2% and 3.1%, respectively, for the quarter and 4.3% and 6.5%, respectively, through the first half of the year, reflecting record core operating income net of the capital returned to shareholders noted earlier.

In addition to the quarterly ROEs Evan just gave you, our year-to-date core operating ROE and return on tangible equity of 3.2% and 20.2%, respectively, exceed the target range Evan has laid out in the past. Adjusted net investment income from the quarter was \$1.24 billion or \$20 million above the top end of our guidance, primarily from higher private equity income. The increase over last year of 30% was driven by strong cash flow, our accelerated portfolio turnover and higher reinvestment rates.

In the third quarter, we expect adjusted net investment income to rise from \$1.24 billion this quarter to around \$1.27 billion on a recurring basis, and to continue to grow from there. Relative to our invested assets, we continue to tactically execute our portfolio turnover strategy while maintaining a conservative credit posture. During the quarter, we reclassified our \$8 billion held-to-maturity portfolio to available for sale to have even more flexibility to put money to work at higher yields.

These securities had \$397 million after tax of net unrealized losses that reduced book value at the time of the change. It's important to note that the transfer itself has no economic impact as the underlying securities remained unchanged and are of a very high quality with an average rating of AA. We will look to sell parts of this portfolio only where and when we think it makes economic sense and not all of the unrealized loss will become realized.

Turning to our underwriting business. The quarter included pretax catastrophe losses of \$400 million, principally from weather-related events in the U.S. Prior period development in the quarter in our active businesses was a favorable \$260 million pretax, which was split about evenly between short tail and long tail lines and included \$146 million for North American commercial and \$61 million for Overseas General.

Our corporate runoff lines had adverse development of \$60 million, principally related to molestation claim development. As I noted, the PPD and Overseas General for the quarter was \$61 million versus \$173 million last year. The larger favorable PPD in the quarter last year was concentrated in the 2020 accident year and included favorable development from COVID-related economic shutdowns. The year-to-date favorable PPD for Overseas General was \$204 million, comparable to last year's \$233 million and \$181 million in 2021, all in short tail lines for these years. Our paid-to-incurred ratio for the quarter was 89% or 83% after adjusting for cats and PPD.

Turning to our Life segment, year-over-year segment income growth came primarily from the acquisition of Cigna. Our core operating effective income tax rate was 19% for the quarter, which is at the top end of our guided range of 18% to 19%. We now expect our annual operating effective tax rate for 2023 to be in the range of 18.5% to 19%, excluding the impact of consolidating Huatai. On July 1, we completed the acquisition of additional shares of Huatai Group, increasing our aggregate ownership to 69.6%.

We expect the closing of additional shares this quarter, which will bring our ownership up to 83.2%. Beginning in Q3, we will consolidate Huatai's results within our financials. We currently estimate consolidation will result in a small amount of accretion to operating income and EPS book value and ROE and a modest amount of dilution to tangible book value, which we estimate will recover within the next few quarters. However, I would note, we are still working through our purchase accounting analysis. I'll now turn the call back over to Karen.

Karen L. Beyer

Senior Vice President of Investor Relations

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

Question and Answer

Operator

[Operator Instructions] Your first question is from the line of Mike Zaremski with BMO.

Michael David Zaremski

BMO Capital Markets Equity Research

Great. I guess first question would be on the -- thanks for the commentary on loss trend on the commercial side. It sounded like it's data flattish and get the rate environment accelerated sequentially. I'm just curious, any context on why the rate environment is accelerating if loss costs are kind of staying steady? And I know that's just for you. And does your loss cost also pick -- include higher reinsurance costs if you're experiencing higher reinsurance costs?

Evan G. Greenberg

Executive Chairman & CEO

Well, the rate -- it's all baked into it, of course. But the rate environment accelerated in property, and I think that speaks for itself as you know, where it's about the loss environment particularly around CAD and inflation costs in property generally. And reinsurance costs have moved up in property. And I think that's a -- in total, that's a very rational response. And in casualty, loss cost trends have been moving higher.

And I think it's reflective of the trend we've been observing over the last number of years. It's not a new story. It's a story we're aware of and on top of, but I think it's rational. And you see comp and professional lines I talked about going the other way. So I think the market, frankly, in the reacceleration is a rational response to the external environment.

Michael David Zaremski

BMO Capital Markets Equity Research

Okay. And my one follow-up is you touched on catastrophe losses. They actually looked a bit lighter than at least what the consensus models for kind of a normal 2Q for Chubb, whereas some other competitors maybe more regional-based have experienced much, much higher kind of "normal" catastrophe levels. Any commentary on your cat loss this quarter? Was it just -- was it kind of in line with expectations?

Evan G. Greenberg

Executive Chairman & CEO

The cat losses are never in line with, particularly with expectations. It's a -- they're either greater or less than you might imagine in any quarter on your -- the average annual loss pick you would choose for that. This was a very heavy cat quarter for the industry. And I think most companies have reported significantly higher cat losses than average.

I don't think there's any particular magic as to why Chubb's was lower. We underwrite well. We have a good spread of business. We select risk well, but that doesn't mean we choose where -- it translates to we choose where a tornado is going to land and come down. And if it had moved 10 miles to the east or west, we could have had greater losses. So it's a variation. It has a variability quarter-on-quarter. And we had a very good experience this quarter. Thanks for the question.

Operator

Your next question is from the line of Yaron Kinar with Jefferies.

Yaron Joseph Kinar

Jefferies LLC, Research Division

I guess, my first question, just looking at North America Commercial's underlying loss ratio, the improvement there. Is there a mix component there? Is that mostly rate over trend? Can you maybe elaborate on that a bit?

Evan G. Greenberg
Executive Chairman & CEO

Look, the current accident year loss ratio it reflects the totality of the commercial business. So it's a mix of all the lines, right? And property and casualty rate and price exceed loss cost, and that is potentially a positive to the ultimate loss ratio margin. In the case of comp and financial lines, rate and price lag the selected trends. And in that case, the ultimate margin is potentially shrinking or it's neutral. And so our loss pick reflects all of that, and we're patient and we lean towards conservatism in our loss picks.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. And then my second question, just with regards to rate adequacy, particularly in financial lines and property. Just because of the very different directions, we're seeing rates moving in those lines. How -- are the rates adequate in both of those today?

Evan G. Greenberg
Executive Chairman & CEO

I think for the business we've written, yes, the rates are adequate for our portfolio. And our loss picks reflect that. And the kind of combined ratio we're putting up has a mix of all of that in there, and it speaks for itself.

Operator

Your next question is from the line of Greg Peters with Raymond James.

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

I guess first question -- so the first question. In your prepared comments, you spoke about innovation and specifically in Asia. And there's been a lot of rhetoric in the marketplace, it's been ongoing, but it seems to have accelerated this year around artificial intelligence, large language models, generative AI, and we obviously closely monitor your expense ratio. So maybe you could spend a minute and talk about your perspectives on these very important technology developments and how you think about it for your company not only in North America but on a global basis?

Evan G. Greenberg
Executive Chairman & CEO

Yes. And thanks for that question. We've been employing AI for quite a number of years now, 5 or 6 years anyway. And particularly, it's algorithmic AI, not generalized or large language models. And it's employed in the operations side of the business, to a degree in the underwriting and claims side, in the marketing side, chatbots, et cetera.

And there have been a lot of experiments and use cases that prove themselves out. And we're now in a stage where we're scaling and will, over the next 2 or 3 years to receive what we think are significant benefits out of that. Insightfulness and abilities in underwriting and in claims in discrete areas. And the service side of our business where we see cost and lower level work that can come out or improve in its accuracy, all of that is things we know, and we're scaling the tools.

At the same time, as you can imagine, we are on the large language models. And the potential benefit that, that will ultimately bring beyond algorithmic, particularly in underwriting and claims, and the ability to work either replace work that is done or make it more accurate or work alongside underwriters. It's not a silver bullet. And we're doing this on a global basis. Some regions more in marketing, some more

focused on portfolio underwriting. But yet, whatever anyone's doing spreads to the other. And it's just where we start on one and end with another.

The generalized and large language is going to be iterative. It will be over time. You think about insurance and the parameterization risk or factor around what we do, how many lines of business, the exposures, the geographies you cross. And so by its nature, it's going to be iterative and take longer than some of the breathless rhetoric that I hear. But we're focused on that. It's part of what a modern insurance company is going to look like and is looking like.

Charles Gregory Peters

Raymond James & Associates, Inc., Research Division

I feel like we could probably have a long conversation on that topic. I appreciate the comments. I need to pivot as my follow-up question to the reinsurance business.

Evan G. Greenberg

Executive Chairman & CEO

Come and see sometime. We'll talk about it.

Charles Gregory Peters

Raymond James & Associates, Inc., Research Division

Let me know when you're available.

Evan G. Greenberg

Executive Chairman & CEO

Tomorrow for breakfast. Show up. Go ahead. Go ahead.

Charles Gregory Peters

Raymond James & Associates, Inc., Research Division

I don't know if I can make it there tomorrow, but reinsurance, you look at what's going on in the market, and I know you're very close to it, it seems like, especially in property cat, seems like these conditions, some of the hardest market conditions we've experienced in 20-plus years.

And yet if I look at your global reinsurance business and look at the growth, it seems like you're not really growing your exposures, you're just growing the rate. Maybe you could provide some perspective on how you're looking at the reinsurance business in the context and maybe your perspective is the rate is still inadequate, but give your perspectives on your -- on the reinsurance market would be helpful.

Evan G. Greenberg

Executive Chairman & CEO

Yes. Look, I don't disagree with anything you said. But you'll notice at the same time, our property insurance business is growing like 40% right now. And that's a combination of rate and exposure and some of that exposure is not premium, by the way. It's structural changes. And it's unit count. It's a lot of exposure growing. And in property cat, that's growing more exposure as we grow that, and it's growing it in the tail.

And when we look at the risk reward -- and by the way, the property insurance, as we grow it across geographies, is also growing exposure in the tail. We prefer to put our emphasis on the property insurance business. And the spread of risk we're getting, we've never seen better pricing and better risk-adjusted returns that we see right now in large account, E&S, middle market, in a variety of geographies across the globe. And we're putting more emphasis on that than we are on property cat. We don't think the risk-adjusted returns are as favorable. [See], plain and simple.

Operator

Your next question is from the line of David Motemaden with Evercore ISI.

David Kenneth Motemaden*Evercore ISI Institutional Equities, Research Division*

Just wanted to ask, I guess, sort of related to the last question, just about premium growth in North America commercial and the difference between the 14% growth, excluding financial lines. And I think you said it was about 18% increase in price excluding financial lines. Maybe you could just talk about the drivers of that disconnect?

Evan G. Greenberg*Executive Chairman & CEO*

Yes. And there's been a lot of chatter I've noticed about that in the last number of months. And it's actually pretty straightforward. The majority of the difference between the 2 numbers is a result of structural changes. It's included in our price is the impact of things like deductible changes and attachment points where we can put a value on it.

And so it acts like rate or it acts like exposure, it doesn't add to premium necessarily. That portion of it. But it adds to potential margin, or another way of saying it, it supports loss cost. And the point of talking about rate and exposure that way, rather than by the way, putting exposure over into loss ratio and saying, here's the loss ratio trend, which is different than lost cost trend is to give a sense about that. And so here is the price we get the rate plus the trend. And yet a portion of the rate depends on the line of business or of the exposure is actually not premium.

And as I said, it acts like premium, but it's not premium. And so that's the difference between the 2. Did I say that clearly for you?

David Kenneth Motemaden*Evercore ISI Institutional Equities, Research Division*

Yes, yes. That makes sense. And I guess just maybe just a quick follow-up on that. Any way to size, I guess, terms and condition changes versus, I guess, the premium increase change or if I were to look at the rate increase?

Evan G. Greenberg*Executive Chairman & CEO*

It's in rate or it's in exposure. We look at it, but we don't go that far and start disclosing that. But what you got to know is look at our overall premium growth, our retention rates that we give you, it's very healthy. And then what you can see is, wow, this is the amount of rate and price that goes against loss cost, so you can get a transparency around that. You don't add the 2 together, they're not comparable that way. They're answering 2 different questions.

David Kenneth Motemaden*Evercore ISI Institutional Equities, Research Division*

Got it. Okay. Yes, that makes sense. I appreciate that. That's helpful. And then I guess just maybe on the North America commercial current accident year or loss ratio ex cat. Was there -- I know the second quarter tends to be an LPT, a heavy LPT quarter. Was there any of that or anything else like non-cat property losses either way within the 70 basis points year-over-year improvement?

Evan G. Greenberg*Executive Chairman & CEO*

No. And it's interesting. We're kind of looking at each other like we haven't noticed that the second quarter, in particular, is a heavy LPT quarter. They kind of come lumpy through the year.

Operator

Your next question comes from the line of Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan

Wells Fargo Securities, LLC, Research Division

My first question, last quarter, sticking with North America commercial. You had pointed to premium growth for the balance of the year kind of being above kind of 7.6%. And you guys exceeded that margin by a good amount this quarter. As you said, like good property growth. It seems like that was a good driver there. Can you just give us a sense of how you think premium growth kind of transpire over the balance of the year relative to your expectations last quarter?

Evan G. Greenberg
Executive Chairman & CEO

Elyse, I'm feeling pretty good. I'm feeling good.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. I had to try. My second question, we saw...

Evan G. Greenberg
Executive Chairman & CEO

I think [indiscernible] to appoint us, but it -- we're feeling good. And you saw what I said in the commentary and what I said in the press release that we're going to continue to -- in this sort of pattern. I'm not putting a number.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And my second question, we saw share repurchase improve, go up this quarter. I think you guys obviously had a new authorization and are sitting on a good amount of excess capital. Anything to read into the number and just how we think about level of anything new in terms of thinking about the level of capital return from here?

Evan G. Greenberg
Executive Chairman & CEO

No. We thought we were undervalued. We think we're undervalued. We're buyers.

Operator

Your next question is from the line of Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research US LP

First question, I just have on cyber. First of all, like where exactly does that live in the disclosures? Is that in financial lines as well? And just curious if you can give us an update on the size of that book and how you're feeling about that business from a rate adequacy standpoint?

Evan G. Greenberg
Executive Chairman & CEO

Yes. As you statutorily have seen, we write a sizable book. And I don't know that we've disclosed the total global premium. But what I would tell you is we're one of the top, I don't have the updated numbers, so I want to be careful, but we're in the top 3 of cyber writers, maybe the top 2 of cyber writers globally. The business is growing in certain segments for us, but the overall business is growing.

And the rate environment has leveled off. Terms and conditions on what we underwrite our form. We were first to really leaders to roll out a form that addresses systemic risk to a greater degree and addresses the severity in ransomware and other one-off. So the underwriting, we're vigilant about it. The growth, we're growing it. The pricing is pretty good. In most segments, there are some segments that need rate. And in those areas, we're leaning back a little bit. That's what I'd tell you about cyber.

Ryan James Tunis*Autonomous Research US LP*

Got it. And I appreciated the commentary, like the line-by-line commentary on loss. But if I heard you correctly, I think you said workers' comp, you're trending at around 4%.

Evan G. Greenberg*Executive Chairman & CEO*

I think I said about 4.7% from memory.

Ryan James Tunis*Autonomous Research US LP*

Okay. Well, that's, I guess, a little bit higher than I would have thought that line was running at is -- are you seeing any type of pickup in inflation there? Are you taking it differently than you have in recent quarters or just...

Evan G. Greenberg*Executive Chairman & CEO*

We've increased it in the last -- earlier in the year. There's 2 things: one, mindful of medical inflation; and number two, payroll increases. And so on one hand, that benefits exposure change, as we just talked about, rate and price. And on the other hand, wages go up, and that translates to severity on the indemnity side. And so those 2 things together rationally are going to push up your pick on loss cost and comp.

Operator

Your next question comes from the line of Tracy Benguigui with Barclays.

Tracy Dolin-Benguigui*Barclays Bank PLC, Research Division*

As you sit right now in Singapore and you look at your opportunity set, how would you rank in terms of capital deployment priorities, underwriting capacity given your views of achieving rate adequacy versus acquisitions in emerging markets, could even be JVs?

Evan G. Greenberg*Executive Chairman & CEO*

Yes. I'm not. First of all, we have plenty of capital flexibility. That is not a question. We are not constraining organic growth whatsoever. And I can tell you, I would make 2 comments to you. We are not on the acquisition hunt. We are focused on what we -- there is so much opportunity around what we've got strategy around organic growth.

In Asia, we are just full up. It's fabulous. And in North America and other parts of the world, we've got plenty of growth opportunity, and that's what we're getting after. And we've got a great rate environment to take on more exposure in areas like property, and we are taking -- it's not a question of capital. It's a question of, are you willing to take on the volatility that goes along with it? And we are because it's -- we think we're getting paid well for that. It's a good thing to invest in with shareholder capital. And that's our priority. That's what we're focused on. And then you use the word JV, and I read the same article. And you know what, don't believe what you read.

Tracy Dolin-Benguigui*Barclays Bank PLC, Research Division*

Okay. And yes, I wasn't implying that you don't have strong capital. I've noticed that you reported \$49 million of unfavorable reserve development for molestation claims. It's not a large number, but I'm curious what you're seeing right now on revival statutes. Based on the work we've done, are those charges

reflecting the 11 states where new statute of limitation reform laws went into effect? Or does the reserves also reflect the 38 states introduce new reform bills this year.

Evan G. Greenberg
Executive Chairman & CEO

No. Tracy, it's more case specific. And the only thing the reviver statutes, as they open them up to does, it opens up the top of the funnel. And so more potential losses from years past, legacies going way back, events flow into the top of the funnel. And then eventually, some ripen -- some percentage of them ripen into claims in cases and ultimately in incurred. When we see a liability, we're going to reflect it.

Tracy Dolin-Benguigui
Barclays Bank PLC, Research Division

Very basic question. Does statute limitations only apply to child abuse or is it more broad-based?

Evan G. Greenberg
Executive Chairman & CEO

Well, it depends on the state; it varies. Some have opened it up more broadly; and some, it's only about -- most, it's only about child abuse. Wait a minute, I think I have a colleague who may be correcting me about that. No, okay. Answer was right.

Operator

Your next question is from the line of Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

So Evan, looking at with Huatai going to be consolidated here and ownership increasing life insurance is becoming a pretty meaningful component of your overall earnings metric, I think you get north of 10%. I'm wondering if maybe you can give us a quick snapshot of what the business mix looks like there? How much is savings products versus indemnity products, short tail, long tail as much of it capital intensive? Just give us some perspective on what -- how we should think about that life insurance business.

Evan G. Greenberg
Executive Chairman & CEO

About 80%, 90% of the business is straight up accident and health business, the same kind of business we write on the non-life side. In the life side, you write a longer duration policy, whereas -- and they're all individual policies. So if on the non-life side, I may direct market the same kind of products and they're annually renewable and they have a certain lapse rate to them.

And on the life side, I may sell them through agents and/or through direct marketing and its dread disease and it's hospital cash and it's cancer and it's accident insurance. And it will be sold predominantly. Most of the book we have are individual policies and they are longer duration, which adds a great stability, a long-term asset. And then there is a percentage, but it's a minority percentage of the business where it's tied to a savings and protection policy, but yet we load it up with accident and health riders.

So you're going to buy a large amount of protection, the stuff we love, alongside a very traditional low -- much lower risk savings product that either they're on a par basis where, okay, any interest rate risk is fundamentally to the customer and we share the upside with them. Or it's got extremely low guarantees, like in the 1% range or 2% in the whole life policy. That's it. The overwhelming majority of this business is risk-based accident and health business.

Brian Robert Meredith
UBS Investment Bank, Research Division

That's really helpful. And then this one more focused, I guess, on your personal lines business. I'm just curious, could you talk a little bit about what you're seeing happening in the regulatory environment,

given the level of rate we've seen going through in like personal auto but homeowners? Are you starting to see any pushback by regulators?

Evan G. Greenberg

Executive Chairman & CEO

Yes. It varies by state. I think it's pretty well known to you. It's not hidden. And we are employing where we want to grow exposure, and we need more flexibility of terms or of rates. We are using E&S to a greater extent as a tool to be able to take more exposure and do it in a thoughtful way and shape portfolios. And we do that both in states where exposure is concentrated in cat and we're also doing it in states where the regulatory environment doesn't allow us greater flexibility to be able to actually serve the public's need.

Operator

Your next question is from the line of Meyer Shields with KBW.

Meyer Shields

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

I want to follow-up on Brian's question, if I can. Is there a specific opportunity for Chubb's growth in North America personal because of regulatory friction that is leading a number of competitors to really pull back?

Evan G. Greenberg

Executive Chairman & CEO

Well, I don't think it's -- yes, on the margin there is that. But we have a really distinct strong brand. And Meyer, I think the recognition of our brand and service, all things being equal, more customers, and it's proven, in our cohort want to buy Chubb. And then it's a question of price and terms. And there have been competitors who've been overly competitive in the area. And I think of -- in the past, naively so or for other reasons have underpriced risk.

And we're in a market now, I think where there's greater discipline in the business, and that creates opportunity for us. In addition to the notion of others who may have gotten it wrong and they're pulling back. Now we don't have an endless appetite, and we will shape our portfolio, but we're using every tool we can to take more risk and more exposure in a balanced way, not to become the cat writer of high net worth, but the national writer of high net worth, balanced. And do that in a thoughtful and sound way that is enduring.

Meyer Shields

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

Okay. That's helpful. And then just a brief question. I think I know the answer to this, but does the consolidation of Huatai impact the book value yield of the Chubb investment portfolio at all?

Peter C. Enns

Executive VP & CFO

To a very minor degree.

Operator

Your next question is from the line of Alex Scott with Goldman Sachs.

Taylor Alexander Scott

Goldman Sachs Group, Inc., Research Division

First one I had is on casualty in North America. You all have been fairly vocal about the need for accelerating rate there. And I just wanted to get your updated thoughts on is that occurring at the rate you think you needed to for the industry to have adequate pricing? And what kind of competitive environment are you seeing there on casualty lines in North America?

Evan G. Greenberg*Executive Chairman & CEO*

Well, I can't speak for the industry. but I can speak for Chubb, and I like the level of rate we are securing and the terms and conditions against the various cohorts of casualty we write. And I think we're -- I know we're staying on top of loss development and loss trends. And then we reflect it in the pricing and the terms. And I had said in previous quarters that I thought these lines needed to move, and in fact, they are.

Taylor Alexander Scott*Goldman Sachs Group, Inc., Research Division*

Got it. The second question I had is around the casualty reserves. I'm sure you see there's a fair amount of chatter around the 2013 to 2019 accident years and people looking at the loss cost trend on longer tail lines and sort of thinking through, should we be confident in those reserves? And I appreciate this is probably a bit of an annoying question, but is there anything you would add to that discussion to help people think through your confidence in those reserves just in light of the environment?

Evan G. Greenberg*Executive Chairman & CEO*

Well, pretty simply, I'd say this, look at our track record. We've been doing this for how long, how many decades through all kinds of cycles and look at our reserve policy and look at our reserving track record. And by the way, Peter just made some expansive comments around prior period reserve development, which is simply a reflection of strength of reserve. We are quite confident and comfortable with the level of our reserves.

Operator

At this time, I would like to turn today's call back over to Karen Beyer.

Karen L. Beyer*Senior Vice President of Investor Relations*

Thank you, everyone, for joining us today. If you have any follow-up questions, we'll be around to take your calls. Thank you.

Operator

Ladies and gentlemen, thank you for participating. This concludes today's conference call. You may now disconnect.

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