S&P Capital IQ

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Chubb Limited NYSE:CB

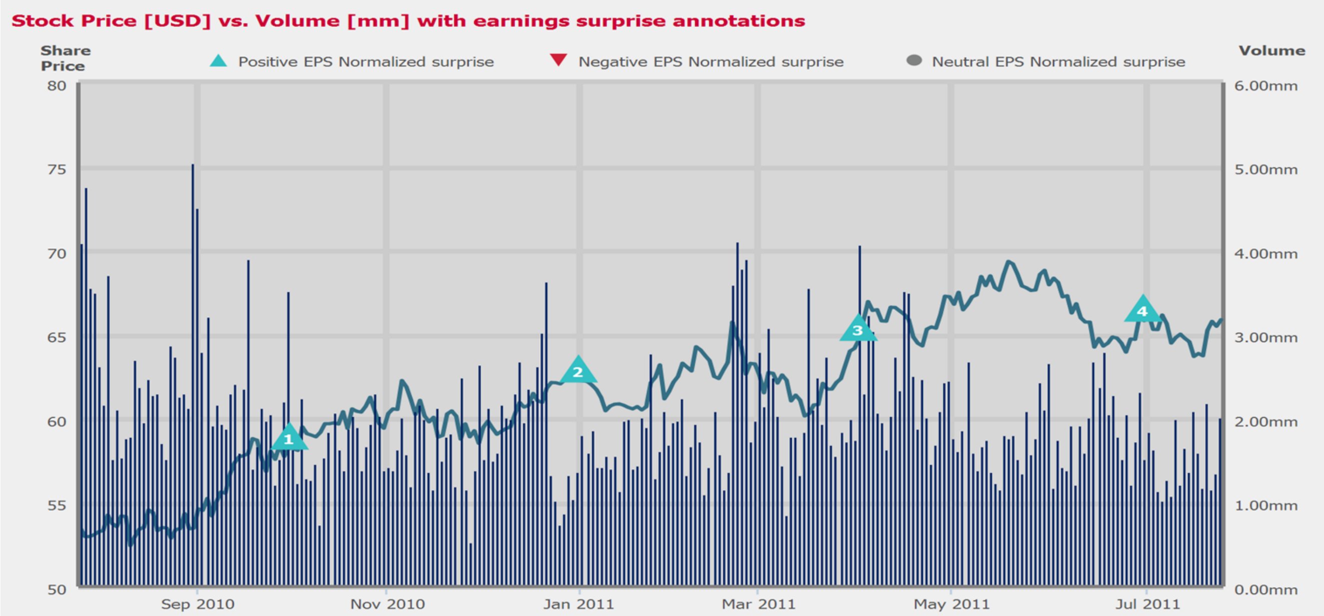
FQ3 2011 Earnings Call Transcripts

Wednesday, October 26, 2011 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2011-			-FQ4 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.77	2.22	▲25.42	1.96	6.69	7.41
Revenue (mm)	3896.40	4343.00	▲11.46	3560.26	14570.37	14962.56

Currency: USD
Consensus as of Oct-26-2011 1:03 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2010	1.80	2.01	▲11.67 %
FQ4 2010	1.83	2.05	▲12.02 %
FQ1 2011	0.67	0.79	▲17.91 %
FQ2 2011	1.63	2.01	▲23.31 %

Call Participants

EXECUTIVES

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

Helen Wilson

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

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Unknown Participant

Presentation

Operator

We are about to begin. Good day, everyone, and welcome to the Ace Limited Third Quarter 2011 Earnings Conference Call. Today's call is being recorded. [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 Wilson

Thank you, and welcome to the Ace Limited September 30, 2011 Third 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, our variable annuity reinsurance business and mark-to-market securities, 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
Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

Good morning. Ace produced outstanding operating results despite challenging financial market and economic conditions. We produced record after-tax operating income of $759 million or 2.22 per share. All divisions of the company made a positive contribution to the quarter's operating results. The quality of our earnings was excellent with strong, balanced contributions for both underwriting and investments. Net operating income was up 10% over prior year with underwriting and investment income growing in the quarter by 11% and 9% respectively. Underwriting income of $391 million benefited from both favorable current-accident year results and positive prior period development which was flat with last year. Our operating ROE was over 13.5% bringing the year-to-date to over 10%.

Net income and book value in the quarter were impacted by realized and unrealized losses of $838 million resulting from extreme financial market volatility and interest rates which fell to their lowest level in a century as well as equity and in foreign exchange markets. Approximately $706 million was attributed for realized fair value related mark associated with our variable annuity reinsurance business. We also had pricing-related realized and unrealized losses of $87 million in our investment portfolio. Both of these marks we believe will be largely if not wholly transient and will be recovered over time. Concerning the VA mark we are required to mark-to-market these long-term liabilities using derivative accounting that we believe the mark is not a good representation of our company's liabilities. For operating income purposes, we use traditional life insurance GAAP accounting. And in our judgment this is more representative of our ultimate liabilities since this is a traditional buy-and-hold long-term insurance portfolio and not a trading business.

As I said we also believe while markets are unusually volatile and unpredictable at this time, majority of the mark will reverse over time and accrete back benefiting book value and net income in the future. In fact, as a point of reference, as of Monday's market close the market improved by approximately 200 million illustrating the transient and volatile nature. Phil will go into more detail and we have included additional disclosure in our supplement which we hope you will find helpful. Returning to the quarter's operating performance, the P&C combined ratio was 90.3 which included pre-tax net cap losses of just over 120 million, the vast majority of which came from Hurricane Irene in the U.S. Our overall cat impact was quite modest and, again, reflects good risk management as well as our spread of business globally and lack of over concentration in any one business.

Our earnings growth and balance of business both product and geography have been enhanced by the acquisitions we have made in the last year. All of which are on track and should achieve or exceed the current year targets we established at the time of each acquisition. In particular given its size and importance I want to say a few words about our crop insurance business. The crop insurance loss ratios are a function of yield at the time of harvest and commodity prices. Our 2011 plan and calendar year-to-date book loss ratios contemplate an average that are modestly worse than historical average loss ratio a year. At the same time, we wrote substantially more premium volume this year than we originally projected because of higher crop commodity prices. Consequently from what we know now, our 2011 earnings from crop will be better than we originally projected when we acquired Rain and Hail.

Financially, Rain and Hail will produce an excellent return on investment to Ace. And because of our deep national presence and expertise in this business, we expect we will have superior results relative to most peer companies engaged in this business. As you know, we made a small specialty-focused acquisition in the quarter that is complementary to our agricultural industry business strategy. Penn Millers is a good solid company that has served the agri-business market since 1887 and currently operates in 34 states. We expect the transaction to close in the first quarter of 2012. We have a very strong balance sheet, great liquidity and plenty of capital flexibility. As a result of these stressed times, we are seeing a greater pipeline of opportunity than in the recent past. And we are open to additional acquisitions where they further our strategy and are accretive financially.

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 33% in the quarter with premiums up 53% in North America and up 19% in overseas general. Growth in the quarter was driven by double-digit gains from Asia and Latin America. Excellent performance from our international A&H business and our Personal Lines business globally and improved pricing in the U.S. commercial P&C where prices are firming more broadly particularly in a number of property and casualty classes. Our growth of course benefitted substantially from strong contributions from our recent acquisitions particularly our crop insurance business. As I've mentioned on our previous call, our long-term and patient strategy to pursuit product and geographic diversification and invest for growth both organically and through acquisition is clearly paying dividends in terms of revenue growth and earnings.

Focusing on North America specifically, growth primarily came from crop, high net worth personal lines and our U.S.-based wholesale business where we experience modest growth for the first time in many quarters due to improved business and net retentions and broad-based price increases of about 3%. Our U.S. retail commercial P&C premiums were flat after adjusting for a one-time transaction we wrote last year. Our U.S. retail, again, achieved positive rates with standard lines, property and casualty rates up 3.2%. Property and energy rates were up mid-single digits while general and specialty casualty were up about 2.5%, ranging from up 6 to down just 1. For our risk management business, rates were flat for the quarter. The first time in a long time that we haven't experienced a rate decrease in that class. On the other side of the coin professional lines rates were down 5.5%.The floor under pricing overall continues to firm. And more classes achieve positive rate while rate decreases were smaller. In fact September pricing was the best month of the quarter and the year. Now whether this is a trend and continues or not, remains to be seen.

Our premium renewal retention rates in U.S. retail were very good and benefitted from about 3 points of exposure increase as well as rate increase. Renewal of retention rates in terms of policy count were stable, but lower by 3 to 4 points than historical averages, and our new business ratings remain relatively low. For me, all that adds up to the difference in underwriting discipline between Ace and the market in general as we continue to further refine and focus our data-driven portfolio management in each class of business we write.

In our international commercial P&C business, retail net written premiums were up 24%, or 12% in constant dollar, while our international wholesale was up 2%. Like our U.S. wholesale business, this is the first time we have seen growth in our wholesale business in some time. International retail P&C premiums were flat to up in all territories. Our growth was especially strong in Asia and Pacific and Latin America, which registered gains of 25% and 18%. Again, in constant dollar. For our international commercial P&C renewal book, rate increases range from 2% in our London wholesale business to 1% in our Ace International business with a wide range of deviation around these numbers depending on the class and the territory. Except for cat exposed property lines, pricing trends internationally lagged the U.S. and they remain soft. Renewal retention rates held steady. John Keogh, John Lupica and Brian Dowd can provide further color on market conditions and pricing trends.

Our international A&H business, led by Asia Pacific and Latin America, continue to produce strong double-digit premium growth. Up 25% in the quarter with a 12% benefit from foreign exchange. Operating income for A&H globally was up about 10% with good contributions from both Ace International and Combined. Combined's growth meanwhile continues to suffer from the economic climate in the U.S. and Western Europe. Global Re had another excellent quarter with a combined ratio of 65% which reflects excellent underwriting discipline, though premium writings were down, a price we are willing to pay to maintain a reasonable underwriting risk reward.

In closing, our operating performance was simply excellent, though our book value suffered from the volatility of financial markets. The operating results are what endures, they highlight the strength and vitality of this organization. And I am very confident about our prospects for the fourth quarter and beyond. With that, I'll turn the call over to Phil, and then we'll be back to take your questions.

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

Thank you, Evan. We had an excellent quarter in terms of underwriting and investment income and our balance sheet and capital position are very strong. Our financial and reinsurance recoverable leverage remains low, and cash flow was a strong $935 million. Investment income was $564 million for the quarter up 9% over last year's quarter. This increase was driven by an increase in the portfolio's cash flow, a positive impact from foreign exchange and a slower turnover rate in our portfolio.

We expect our current quarterly run rate for investment income to be in the range of $555 million to $565 million which is subject to variability and portfolio turnover rates, private equity distributions and FX. Current new money rates are 3.2% if we invest in a similar distribution to our existing portfolio. Our current book yield, is 4.3%. On a pretax basis, unrealized and realized losses from our investment portfolio were about $87 million resulting from the mark-to-market impact of credit spread widening in the quarter.

Investment rate corporate credit spreads widened 100 basis points in the quarter while high yields spreads widened by 250 basis points. The mark included a gain of about $360 million in our investment rate fixed income portfolio offset by a loss of about $450 million in our B double B high yield bond and private equity portfolios. This is a high-quality portfolio and a decline in value was related entirely to market volatility. We realized minimal credit losses. These portfolio movements are summarized on page 19 of our financial supplement. Our fixed income portfolio over all remains in an unrealized gain position of $1.3 billion.

As of Monday night, approximately $80 million of this quarter's portfolio mark had reversed. Our investment portfolio continues to be predominantly invested and publicly traded investment-grade fixed income securities and is well diversified across geographies, sectors and issuers. The duration of the portfolio is 3.7 years. We have no exposure to sovereign debt of distressed European countries and our exposure to euro zone banks totals less than $1 billion or 2% of the portfolio. The overall credit quality of this bank portfolio is AA, with over $700 million rated AAA.

In the third quarter, financial market volatility impacted our variable annuity reinsurance business resulting in a net loss of about $660 million which comprised a realized loss of $706 million related to the change in fair value liabilities offset by $45 million in operating income. The results in the quarter were in line with our expectations given market conditions, and were consistent with published guidance in our 10-

Q regarding how these liabilities behave under distressed market conditions. Approximately 50% of the realized loss was attributable to an extreme drop in interest rates but about 30% of the loss attributable to the decline in equity markets.

As we've explained on previous calls and in our disclosure, a technical provision in the accounting rules requires us to mark-to-market our variable annuity reinsurance liabilities like a derivative using fair-value accounting even though this is a traditional insurance business that we intend to hold for the long term. Therefore if we believe traditional insurance reserve accounting provides a better reflection of the liabilities and long-term performance of this insurance business. For clarity and a window to our thinking, I'd like to elaborate on these 2 methodologies while referring you to page 10 in the supplement.

Accounting for derivative uses prescriptive assumptions that require us to value the policy holder accounts as if they were invested in risk-free U.S. treasury securities when in reality, they're invested primarily in equities for a long term. Under derivative accounting, equity induces are assumed to have 0 appreciation over the next 20-plus years, and interest rates remain depressed at the September 30 yield curve. When the 10-year U.S. Treasury rates were up 1.9%, and the S&P was at 11.31%. As of Monday, the S&P was at 12.54%, a 10-year note was 2.2% and as Evan said earlier, the fair value of our VA liabilities had improved by approximately $200 million. By substituting a risk-free rate for a long term equity performance, and using the current interest rate curve for the long term, we think fair value accounting does not provide a good representation of our VA reinsurance liabilities. In comparison, we believe traditional insurance accounting is a better approach and provides a more representative view of the business. We've provided data in what we believe is a very practical way on our insurance accounting assumptions for equities and interest rates for the next few years.

As you can see on page 10 of the supplement, the insurance model assumes the S&P grows at a moderate pace and while we're in a very low interest rate environment, we expect the yield curve to begin to normalize over time. You can see from the 2 scenarios we gave you, if the insurance model interest rate assumptions prove correct, the fair value mark would accrete back into book value in a reasonably short period of time. If the risk-free interest rates, under accounting for derivatives, are better representation of the future rate at a given point in time, there'd be a very modest impact to Ace's operating income in these future years. Under both scenarios, book value would increase in each year as some or all of the mark unwinds and accretes back to book value. Finally, the mark is not relevant to radiate and see a regulatory capital requirements. Neither use [indiscernible] value for establishing required capital. In terms of [ph] all the other insurance business, our net loss reserves were up 1.1% for the quarter adjusted for foreign exchange and are now up approximately $1 billion for the year.

Our paid to incurred ratio was 86%, we had favorable prior period development of $194 million pre-tax, almost all of the development was long tail, predominantly from years 2006 and prior. Cat losses were $86 million after tax most of which related to Hurricane Irene. The expense ratio was 25.6% down from 30.2% last year due primarily to a changing mix of business especially crop while our accident year loss ratio was up all due to the impact of crop. Our growth to net written premiums was 33% excluding crop and adjusting for a large risk management contract in last year's quarter the growth was 5.6%. In our 2011 guidance discussed in our second quarter call, we said we expected operating income to range between $6 and $6.20 per share. Catastrophe losses included in that estimate was $744 million after tax. Our operating income projections included in guidance remember for accident year results only and by definition did not include any estimate for prior period reserved development in future quarters.

In light of the level of year-to-date catastrophe losses, prior period development and higher investment income were increasing our guidance for the full year. Operating income is now expected to range between $6.55 and $6.75 cents per share for the full year. This includes $630 million after tax and catastrophe losses for the first 3 quarters plus $75 million after tax and catastrophe losses for the fourth quarter. The guidance also includes $335 million of after tax positive prior period development reflected in the first 3 quarters. There is no prior period development included in our guidance for the fourth quarter. We also repurchased 100 million of shares in the quarter.

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

Helen Wilson

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

Question and Answer

Operator

[Operator instructions] And we'll go first to Keith Walsh of Citi.

Keith F. Walsh
Citigroup Inc, Research Division

First question for Evan. It seems in your commentary pricing gain seem slightly broader but are we tracking loss costs? And then if you can just comment on how new business pricing is trending versus renewal, what's the gap there and how is that trending?

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

New business pricing and renewal pricing are actually tracking very closely right on each other. In fact, I'd tell you that new business pricing in many cases has been a bit better than renewal pricing. And that is an improvement to trend from what we've been seeing in the past. Regarding loss cost, you know, look, it varies by product over and depending on how you view loss cost. When I look at short-tail business, any rate increases we're receiving are greater than loss cost trend. On long-tail business, if you believe the past is an indicator of the future and inflation has been relatively benign except in health care cost. Then, you know, some of the rate we're seeing -- rate we're seeing in some of the classes is tracking loss cost. On the other side of the coin, that's not how I view things. I don't believe that the past is an indicator of the future, and I think that loss cost continue, you know, we continue to use loss cost trends that frankly are greater than the rate increase we're receiving today.

Keith F. Walsh
Citigroup Inc, Research Division

Okay. And then just second question. You know, I understand the need to get pricing with investment returns where they are but what's the reality of actually achieving enough rate to offset the down draft from investment returns with a sluggish of economy and, I guess, relatively healthy balance sheets for underwriters. Thanks.

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

Well, at a moment in time, I mean, you get it, at a moment in time what it just says is - and I tell you how we, you know, what we continue to say, you're not going to achieve your cycle over a cycle ROE target in the product line. Sometimes in the cycle you achieve greater ROE than as your target and sometimes you achieve below that. But our guide is combined ratio. And so, we walk away when we can't earn an underwriting profit, and I think that's the more clear eyed way to think about this.

Operator

Our next question will come from Mike Zaremski of Credit Suisse.

Michael Zaremski
Crédit Suisse AG, Research Division

I'm curious. International growth clearly very healthy, you've cited Latin America-Asia Pacific. I'm curious if you believe that Ace is taking market share in those regions and if you think kind of what your outlook for this growth being, whether it's sustainable.

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

Well, it has been sustainable and sustainability is going to - and I'm bullish about the future. A lot of the growth is coming because the pie is growing. When you take the economic much more robust and rigorous economic development that is taking place in parts of Asia and in parts of Latin America greater economic activity means greater exposure and there's more consciousness about insurance and more insurance being purchased. There are more people not just businesses but more who are -- who are entering the middle class in those territories. So I think trend for business and consumer has been and will continue to be favorable though like anything else in life, it will have its -- it will have its volatility.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. I'm also curious, Evan, I mean, you know, you've talked to a lot in the past about the 15% ROE goal over the cycle. Does that change at all? If you did believe, and I believe you guys don’t believe, current risk-free rates stayed near current levels for a prolonged period of time?

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

We are -- well, I'm not going to speculate on that part of it. We're not changing and we, you know, with all the thought we give to it, our target for ROE over a cycle has not changed.

Michael Zaremski
Crédit Suisse AG, Research Division

Okay. And lastly, it sounds like you're more constructive M&A. Are there certain areas or geographies potentially, international where you’re growing at a very healthy clip where you'd prefer to look at opportunities?

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

Stay tuned.

Operator

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

Vinay Gerard Misquith
Evercore ISI, Research Division

First question is on asbestos review. You do an annual review in the fourth quarter. Do you see any changes in the expected pay claims on the settlement cost that we should be aware of that, that you may need to take up reserves in the fourth quarter for?

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

Vinay, for both -- asbestos and environmental, in fact for all the "Brandywine run-off liabilities," we're in a middle of our annual review right now. And I don’t have any results yet. As you know, and as all of you know, any reserve movements are individual claim or client-dependent and I just don’t have any visibility into that now. We're doing the reserve study.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, fair enough. The second question is for Phil. Phil, on premiums in North America increased about $850 million year-over-year, and more than $700 million [indiscernible] quarter over quarter, were there some one-time premiums in that or is it mostly because of crop?

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

Year-on-year, there are 2 things. There was a large risk management contract in last year's quarter and in this year's quarter, it's obviously the impact of crop.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. And most of the premiums for crop are on the second and third quarters?

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

Yes.

Operator

And Michael Nannizzi of Goldman Sachs has the next question.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just one question. I'm trying to reconcile your comments about rates and exposures being up in North America but it looked like you said that actually in crop premiums were down about 5% in North America. Am I not connecting those things right?

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

No, you are connecting them right. You want me to expand on it for you?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Please. That would be great. Thank you.

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

Sure. It's down 5%, you have to -- there's 2 things. And then I'm going to make an overall statement about that.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay.

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

Number one, you have to adjust for a one-time-- you have to adjust -- you normalize for a one-time transaction that we wrote last year a loss portfolio transfer. And also, as we have spoken in many quarters in the past, we reduced substantially, almost to 0 our writings in traditional risk transfer workers' comp. We're just not going to write business that's running 115% to 120%. And I might add that many of the rate increases I hear out in the market place right now overall are related to workers' comp where maybe you're getting 7% or 8% but you're starting from 115 or 120 combined. We de-emphasized that class. And that plus the one-time transaction together when you adjust for that North America is flat. We're receiving great, and as I said, we're maintaining underwriting discipline, and we're very portfolio focused. So while we're achieving great, at the same, we're not writing, you know -- new business writings are up in the quarter over last year, but they're still relatively modest. And on a policy count basis you know, we're still trading market share a bit for achieving better rate.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

And so if I can just ask one question on the life reinsurance mark. So if you were to use -- assume rates are flat and then revert to a traditional insurance approach, I mean what would the -- on an apples-to-apples basis of that 706, what would the accretion look like, you know, over the next few years? Thanks.

Unknown Executive

So I think that's what we depicted on page 10 of the supplement, right? We said, in the top part of that schedule, we showed the assumptions that are implicit in our insurance accounting, and in the bottom table, we showed the rates that are current and the current yield curve. And so as you look at it from top -- you know, the first column it says operating - you can see there's a relatively modest change when you change those interest rates to our operating income, and in the column to the right shows the realized gains that result from the various -- from those 2 scenarios. So in each case, the book value grows, it'll grow faster obviously if interest rates rise faster.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Right, but the base income in that segment is probably -- I would imagine includes some of that operating income? Or are you saying that on an apples-to-apples basis, the dollars coming back to that 706 are the realized gain numbers or the total net income slash book value?

Unknown Executive

So all the way over to the right on that page, shows the total of the operating income and the realized gains and loss, and that would be the total increase to book value.

Operator

And we'll move on to our next question from Jay Gelb of Barclays Capital.

Jay H. Gelb
Barclays PLC, Research Division

I didn't see the share buyback in the press release. Did I miss it?

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

Well we -- Phil will answer whether it's in the press release, but he did just tell you -- you've got what he said in his comments right that…

Jay H. Gelb
Barclays PLC, Research Division

Yes, $100 million.

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

It's in the supplement, Jay.

Jay H. Gelb
Barclays PLC, Research Division

Okay, what should we expect for 4Q and is this all related to offsetting dilution from stock issuance related compensation?

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

It is related to dilution. We said we will buyback -- we will have a program to buyback our dilution. We don't match it necessarily quarter-for-quarter just over a period, you know, over a reasonable period of time. When we think it's right, we execute buyback.

Jay H. Gelb
Barclays PLC, Research Division

Okay, and then Evan you seem to be increasingly constructive on the rating environment in terms of U.S. TNC [ph] rates finding a bottom, is this similar to what we saw in 2000 when we had a slow and steady pace of increases that seems to be more easily absorbed by customers and brokers?

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

Well, I'm kind of a cautious guy about this. I'm not willing to declare that this is a future trend, but we have been seeing it now for a couple of quarters, and it is -- the floor is continuing to firm and we're -- and where we were getting rate increase we're getting more rate increase now than we were a quarter ago. And we're even seeing that as I said, for September, the rate was even better and more classes are achieving that. What you're finding is, the market place in general is unwilling -- less and less willing, there are always cowboys and outliers there, but less and less willing to go along with any rate decrease. And in fact, brokers, are less and less requesting rate decreases or bludgeoning the weak to give them. And that is, you know, that's a favorable trend. And you know, I'd hardly declare it a hard market, but I'd say it's, you know, it's firming the market, it's not softening, and it is beginning to firm.

Jay H. Gelb
Barclays PLC, Research Division

And then, this is definitely [ph] the last one, reinsurance purchase trends, the net to gross premium ration in P&C continues to increase. Is that a trend we should expect to continue over time?

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

Well you know, look, substantially, crop had a huge -- a huge impact on that. Remember our seated ratio on crop was substantial, first of all, Rain and Hail had an insurance company, and that's one of the things we bought, and so they had a retention. And then there was more third party reinsurance even from them because of their limited capital. Well we captured both and that changes the net to gross. So our policies were out front on all that business. That's the major change here.

Operator

And next we have Matthew Heimermann of JPMorgan.

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

A couple of questions I guess. Just big picture internationally, I mean did any of the free trade agreements that have gone through, I guess how material are those to you over the short and medium term, and then are there -- do you see any big picture risks I guess to the U.S. market or European market just developed markets generally from some of the austerity we're going through? Or is that -- or should we just think about that as a continued growth challenge?

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

Say the last part again? The first…

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

With respect to developed the economies when we think about all the austerity and deficit reduction actions we're seeing, should we just think about the risk associated with that being tied to growth? Or are there some other things that maybe we're not -- we should be conscious of?

Evan G. Greenberg

Chairman, CEO, Chairman of Chubb Group and CEO of Chubb Group

First on the free trade agreement, you know, look, there's no -- I don't see any big event as a result of that, but you know, it's all incremental, everything helps. And when -- particularly in Korea, there is commitments to treat foreign participants same as you treat domestic participants and there's greater transparency. That isn't sea change, but it's an incremental benefit. And it also increases trade which increases activity and that increases opportunity for insurance. In Columbia which is frankly, I think we're almost -- we were almost fighting a defensive action as a country because Columbia which has been a long term ally of the United States, and very pro-American, was turning their gaze more towards other countries, China, Canada, and was becoming more disillusioned with America which makes it more difficult for American businesses when we go down there to generate opportunity. This is a reaffirmation though we certainly tried their patience in waiting all the years we did to do this and we certainly didn't handle it I think in the best of ways and lost some political capital along the way with them, this definitely improves, it shows America's commitment towards Latin America, and that is a benefit for American businesses. When it comes to -- but I don't expect a sea change in Asia's business, it's all steady stuff by itself, another brick in the wall. Austerity and the United States and Europe, you know, look, first, it creates a drag on economic growth, and that will eventually show up and expose your growth for the industry which is the biggest impact. And then we know how much is being driven by the political environment right now whether it is Europe, whether it is the U.S. and our deficit and our inability to create confidence in business. Those really weigh on growth and they will weigh -- and the insurance industry is a reflection of that.

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

All right, that's helpful. And then just with respect to the competitive environment, I would just be curious how can consistent you feel like -- how much consistency between companies that you're seeing in terms of underwriting appetite? And I guess maybe another way to think about that is how much of the market do you see leading kind of the charge for better rate versus just still following at this point?

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

I think a couple of -- I think the best peer companies are endeavoring to do what we do and show discipline. And they are trying to press the market to recognize a price that reflects the risk. And then I think there are those who will just follow along with that and then there's, you know, there are still, you know, quite a number who will, who when given the chance, will take advantage to just write business for market share. They don't even -- they don't know any better. I am convinced many of them don't even know the difference between what's an adequate or an inadequate price. But I see a number of companies that are trying to -- a few that are brand names and I think are well-run companies that are trying to do what we're doing.

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

All right. Thanks much.

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

And the way you lead is simply - it's very simple. It's not that you say, "I'm going to lead the market." It's that you say, "I am going to get a price that is commensurate with the risk or I'm willing to trade market share," period.

Operator

And we have Paul Newsome of Sandler O'Neill.

J. Paul Newsome

I’m not a big fan of mark-to-market accounting as you know. And I do think the market will look through this variable annuity thing. But I am -- I have a couple of questions on it. The first question is, you know, why do you think the charge was bigger in this quarter than it was in the '08 period? And my second related question is, you know, why is the losses on a cumulative basis over, my model just goes back 8 years, negative? It doesn't look like we reached a realized gain perspective [ph] actually got the benefit of a rebound.

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

You know when you're -- you want to take the first question, go ahead.

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

Could you say the first question, again? I'm sorry?

J. Paul Newsome

Well why was the charge for the VA bigger this time around…

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

Okay, I'm sorry. Yes. There were 2 things. I think there were 2 periods where if you look at the disclosure we do around the sensitivities, the result for the quarter was a lower loss than you would have expected. The fourth quarter of '08 and the second quarter of '10 and as we disclosed in our, you know, 10-Qs and all, during those quarters, we made other assumption changes. We changed assumptions relative to annuitization and, you know, the impact on annuitization of people being deeper in the money and those types of things. So we made some changes to the models that reflected our, you know, updated view of policy holder behavior. In this quarter we had no model changes so there were no, you know -- so that as it turns out the reported results were, in my view, right in line with the sensitivities that we disclosed.

J. Paul Newsome

And the…

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

On your second question, you know, we've recovered a reasonable portion. We have not recovered all of it. Interest rates continued to fall. Equity markets, you know, from where they were in '07,'08 came down substantially. So when you add those together it has not fully recovered as of this time.

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

Took another leg [ph] down.

J. Paul Newsome

Yes. So if -- so I guess the risk here is just interest rates stay low and the market stays relatively flat, you essentially just accept the loss that you book this…

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

Well you say that, but we, you know, Paul, what we did was and let me go a little further is we gave you 3 or 4 years of transparency on that. That's why we did that so that, so that you could see the sensitivity around that and do interest rates move in line with what we have in the buy-and-hold accounting, do they behave or do they behave just like they did in fair value or is it something in between? And you can see how it accretes back. One, it will take longer to accrete back. The other one, it's shorter and something in between is just that. And so, you know, you could see those assumptions in that transparency. And I might add if you look beyond that, what we assume for interest rates for years passed that in the Life accounting is simply -- is simple around 4.3% or 4.4% over many years to come in the future, the next 20 years, so nothing crazy. And so that, again, I think will help to ameliorate and we will accrete back.

Operator

And Greg Locraft of Morgan Stanley has the next question.

Gregory Locraft
Morgan Stanley, Research Division

I wanted to just ask a question around accounting for DAC. You know, things are changing. Does it impact Ace at all?

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

Yes. Based on what we know now, we don't think that there's going to be any material impact on either our book value or our income going forward. Now, we're still on the process of reviewing it and having it audited, but that's where we are.

Gregory Locraft
Morgan Stanley, Research Division

And then back to the VA book, I just wanted to confirm that my sense was you guys stopped writing new business for this book back in '07?

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

Yes.

Gregory Locraft
Morgan Stanley, Research Division

Is this a business that you like? Are we seeing, you know, should we be seeing more of it going forward or is this effectively in run off? And we're sort of stock with the accounting ramifications until it runs off?

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

Well it's effectively in runoff, been in run off. We have not been in any new business. We don't have any intention at least in -- at this point in writing any new business. And while you say, stuck on one hand, that's true. And it's also producing about $40 million, $45 million a quarter of operating account. It does continue to produce around, you know, between $160 million and $180 million a year of income.

Gregory Locraft
Morgan Stanley, Research Division

Okay, great. And then one last one is just the expense ratio, the improvement was excellent. Any comments as the, I mean, again, it was -- it was a step function improvement. So can you talk about maybe some of the initiatives or how that occurred?

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

Yes. You know look, the expense ratio improvement was due to the crop, the consolidation of all of the crop business into Ace. That was the substantial event that did that. It increases the loss ratio and decreases the expense ratio substantially. So it's more of a mix of business related. We've been practicing what we believe to be very tight expense control for many years. We don't let expenses get out of hand. And when we're in a fast growth period and therefore it's more steady as she goes in a slower growth period. There is no period where we are not trying to become more efficient and ring out every dollar we can find. It's shareholder money and we're not going to waste it.

Operator

And then we'll move next to Cliff Gallant of KBW.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

I'm just following up on that last question, the expense ratio then. So we should expect to see a little bit more seasonal volatility in expense ratio as crop premiums have certain seasonality. Is that a fair statement?

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

Yes. I think that's fair. Absolutely.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And my other question is on…

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

You see seasonality anyway in our - in our business, in our expense ratio as it is. And this just adds another factor of seasonality to it.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, okay, good. And also the paid losses in the quarter looked a little high, you know, they're running higher to normal above $2 billion. Was there anything going on there?

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

We had cat payments.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

Just the cats that came up early? All right. And then -- and I just want to clarify, you did say that there were no actuarial assumption changes in the VA book. Is that correct?

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

That's correct. And, you know, no types of modeling changes or anything else.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. So when I look at that disclosure then from the second -- the 10-Q, you know, we see equity markets down probably in the -- so I guess best columns [ph] and minus 20 and interest rates down. That's the area, the minus 798 numbers, that's what you're indicating when you say when you think the -- that table performed well?

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

Yes. I think, well actually we would have said the equity markets were down 14% for the quarter and interest rates were off 40%. So, you know, if we've done it ourselves, you can get back right in to -- we tested the disclosure and it works very well.

Operator

And Alan Zimmermann of Macquarie has the next question.

George Alan Zimmermann
Macquarie Research

I just want to stay on the variable annuity for a second because I guess conceptually it's easy to see how lower interest rates and a lower equity markets drive up the fair value of liability. But it's harder to see and it's easy to see how they can reverse. But it's harder to see what the policy holder behavior is doing both to the liability and I don't think we have enough experience to know if that will reverse or how will that perform. So I'm just wondering if you could comment a little bit on how that affects the model.

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

Yes. The -- Phil may talk about how it affects the model, but I didn’t tell you this. The policy holder behavior, the annuitizations in our portfolio don't begin -- you get a little bit of -- people, policies that mature could annuitized in 2012, very little. You get a little -- a bit more in 2013. You get more, much more in 2014 that are eligible for annuitization. And that's where you're going to see substantial policy holder behavior. And what we know right now from the studies we -- from the clients we have where they have written this business long enough that there's enough data on annuitization from what we've seen, they're behaving, the annuitization rates are in line with what we would expect, what we expect and what we -- what are in our models.

George Alan Zimmermann
Macquarie Research

Okay which is why there's no change in the model?

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

No. We continue to study. You know, each period we see the experience that emerges in the period and we decide whether that indicates a change to, you know, what we've used for the annuitization rates for example.

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

But you're right. That's why there's no change because we're not -- we're not seeing anything that would tell you to change up or down.

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

Right.

Operator

And then Brian Meredith of UBS Financial has the next question.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two questions for you. The first one I wonder if you could talk about your thoughts on and the potential, you know, implications of the administration's proposal on cutting some of the crop insurance subsidy?

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

Yes. The RMA has done, in our judgment, an excellent job in administering crop insurance over the years. And as you know, number one, there has been a number of changes to crop insurance that's not favorable to insurers. Over the last few years there have been 2 changes. They changed it twice, number one. Number two, there is very strong recognition and support from both the agricultural industry and both sides of Congress, Democrat and Republican, for the -- for the value of crop insurance, the recognition of the value of crop insurance in the agricultural economy. And I can tell you when the industry and when -- and when both sides of Congress who were involved in this are discussing this subject they are more focused on achieving any deficit reduction in other areas of agricultural support than in crop insurance. Those are their priorities out in front because they recognize there's been change and they recognize -- they all recognize the value of this. And it's quite overwhelming. So when I'm -- while there are many things I'd be concerned about, this is not the one that I'm really focused on as a concern.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. So you just -- you just don't think it's going to go through and you don't think it will -- there'll be much of an impact then going forward?

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

Look, no one - no one can make that -- you know, in this environment, no one can make any statements of, you know, definitive statements of certainty. But I feel fairly confident about that, yes.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. Thanks. And then just a second question, Evan, I'm wondering if you could just quickly comment on, you know, impact to the industry and maybe Ace and some of the Thai floods going on right now?

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

Well, it's like one of these disaster movies they keep saying, "It's coming, it's coming, it's coming," and, you know, and it's like -- they're expecting significant flooding in Bangkok. They have been saying it for the last week that major flooding is coming and when we talk to the people on the ground they're saying, "Man, I keep looking out the window and seeing a sunny day and, you know, and it's still dry," but you know, the water is moving down there. There is a question of whether the levees will hold, and if they do and they can pump water through the canals then while the city will have water, you know, it remains to be seen how inundated it becomes. Right now, most of the industrial parts that are up in the north, most of the early reports we have and it's a very early. In talking to our folks last night, they say that, while there's water all around them and they can't open because people can't get to work right now. The facilities themselves have not experienced any significant flooding as of this time. Now, you know, that's very early, don't go to the bank on that and, we'll see, this is just unfolding.

Brian Robert Meredith
UBS Investment Bank, Research Division

Would that mean that there could be some CBI losses?

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

I don't know.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay.

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

We don't write a lot of CBI ourselves and I really can't tell you because that's a very insured specific. We'll have to see, you know, just, you know, just keep your eye on it, give it some time and we'll see.

Operator

And Jay Cohen of Bank of America/Merrill Lynch has the next question.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

A couple questions. First is, given that the crop business is having, I guess, a distorting effect on the loss ratio, expense ratio mix and also the net to gross, is that something you can break out and tell us actually what the premium level is for the crop business?

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

I think we -- in essence did, but we'll work on that, Jay, whether we, you know, because we don't really break out by line of business. And so, and we don't want to really start heading down that rabbit hole so much but this is a big book, so we'll take that under consideration but the thing that we did do is we told you that in constant dollar -- in constant dollar that on a publish basis our growth is 5.5% roughly excluding crop and the one-time transaction we wrote last year so it gives you magnitude there.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Second question. In reinsurance you had some –- I guess negative catastrophe as obviously some favorable development from prior periods. What drove that?

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

Well, you know, as mentioned [ph], we had negative and positive by the way. And they netted out to fundamentally neutral, okay? I think it was a $4 million change. So, there was -- there were ups and downs and, you know, it's what you -- what you find. You never, you know, this is about reserves the right. They're either a little better or a little worse and it which each cat related back to each quarter, each quarter's cat, a little change in this one and a little, you know, up and a little positive in this one and so when you net them out between them it nets to fundamentally 0.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

So no big moves from a particular cat, it sounds like.

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

I'm sorry?

Jay Adam Cohen
BofA Merrill Lynch, Research Division

No big moves from any particular catastrophe.

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

No. No, big moves from any particular catastrophe except that I should say the -- one of my colleagues wants to say something.

Unknown Participant

Gross in Japan [indiscernible]…

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

Japan is where because by the nature of it is where the largest change took place.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Right.

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

The gross came down.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. Then the last question. You mentioned the pipeline for deals has improved, you're seeing more opportunities. My question is has the type of deal you're seeing -- potential deals you're seeing, has that changed at all?

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

Well, it's -- has that type of deal -- I don't want to give you a glib answer so I'm thinking about it for a moment. A little bit. It's more on a theme that I have been saying for a while that is showing itself and that is we're seeing a little more around opportunities with financial institutions that own insurance companies where insurance is a secondary business to them not their primary business.

Operator

And James Keating of McLean Budden has the next question.

James Carlyle Keating
MFS Investment Management Canada Limited

I was intrigued by your comment about how loss cost trends estimates therefore, I think, were above what you, you know, expected price increases were tracking at. And I guess I wanted to ask you to expand on that if I could.

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

Well, we have been consistent and clear that in our loss cost trends and casualty overall, you know, we still price and depends on the line of business, you know, 5% to 6% in primary going up to like the 9s to 11s in excess because of the leverage and that continues, that doesn't change and you're not getting rate increases to track that. Though the difference between -- but then there's 2 things that are ameliorating. You're getting price so the gap is not growing. It's shrinking. And secondly, what you benefit form is as business you wrote in the past begins to run off as it matures, that business because of inflation being less than you priced in, in the past, that business is running off more favorably than those 2 things that are ameliorating to what you see as trend. So I hope that expansion helps you.

Operator

And next we'll go to Ian Gutterman of Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

I was wondering if there's been a difference in the ability to get rate between agency source business and broker source business.

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

Not really. And, you know, Ace is more of a brokerage company and -- so no, we don't notice that and I might add, in fact, probably we're getting better, doing a little better on the larger trade, more sophisticated client than we are on the -- on the smaller just flow business commodity.

Ian Gutterman
Adage Capital Management, L.P.

Okay. Interesting, that was going to be one of my pile ups [ph].

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

That's the opposite of what some others might say but that's how we're seeing them.

Ian Gutterman
Adage Capital Management, L.P.

Interesting. And are any of those large clients buying less coverage to offset rate yet or is there no real change in demand for cover.

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

No. No, real change in demand for cover.

Ian Gutterman
Adage Capital Management, L.P.

Okay. Great. And then the other comment you made about Westchester seeing some growth. I guess I've seen some other talk about submissions in the ENS marketplace increasing is that kind of what you're seeing behind that and if so, what's driving that?

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

We're seeing increased submission but we're seeing better retention of business which first is the -- that's the more stabilizing to me and we're seeing pricing not just in property which, you know, by itself would move you to positive rate even if other classes were negative but we're seeing it -- we're seeing positive pricing not just in property but we're seeing it in casualty in ENS as well.

Ian Gutterman
Adage Capital Management, L.P.

Are you seeing the standard market that was sort of playing that space the last couple of years starting to back off, is that possibly [ph] driving it as well?

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

No, not yet. Don't go overboard.

Ian Gutterman
Adage Capital Management, L.P.

Okay. Got it. And just my last one real quick, on the Penn Millers acquisition, I think I understand the strategy, I just want to make sure. From what I understand, they've historically struggled a bit at trying to, you know, to leverage the equipment business with the crop and I assume just given -- you obviously have much more scale and better distribution that is sort of a natural fit to go to your customers and try to cross sell if you will?

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

Yes, you got it. You know, look, Penn Millers was a mutual company, and when it was a mutual, it could focus very, very well on what it does particularly well, its expertise which is in that agribusiness-related property. You know, the company went public and as such you feel some of the company, you know, public company pressures and they were expanding out into other things that, you know weren't really within their wheel house. We'll focus on their wheel house. And then we've got very large distribution and a great brand with Rain and Hail and this is just -- this is adding an expertise that we will take advantage of.

Ian Gutterman
Adage Capital Management, L.P.

Is this one of the examples -- I think earlier this is year or last year you talked about, you know, that this agency plan to have the opportunity to do more things with this. Is this kind of what you had in mind or one of the things you had in mind?

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

This is one of them.

Ian Gutterman
Adage Capital Management, L.P.

Okay. And I assume there might be more to come?

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

Yes, but a number of those will come from current day's product capability not from acquisition whether it's in the high net worth area or whether it's growing in the farm area, whether it's environmental opportunities, whether it's overseas exposure for those in the agribusiness, whether it's what we're doing in small commercial that this gives us reach into more rural communities. So over time, remember, it's not going to be quick. You have to do this in a thoughtful and methodical way. Over time we will add more product and we're beginning to do that.

Operator

And Thomas Mitchell of Miller Tabak has the next question.

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

Just briefly, in trying to follow the investment income trends, you came in again quite a bit higher I think than your guidance had been for the second quarter and I'm just wondering if we should be thinking of closer to $530 million to $540 million or we should be thinking of closer to $560 million is the kind of regular quarterly run rate?

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

I give the run rate, you know, in our opening remarks at $555 million to $565 million, that's our view. You know it's going to be subject to some variability. One of the things we're seeing is in some of the mortgage portfolios, the durations are extending so we're not moving as quickly into the lower new money rates.

And we've -- we’ve estimated those things but it’s going to subject to volatility of that and FX and private equity distribution, so that’s our best guess at this point.

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

And then the second question really has -- when I look at the page 10 of the supplement and, I guess, as I recall, the sensitivities in the 10-Q referred to the fair value model. I’m wondering what would the traditional life insurance models sensitivities look like if just for the purpose of argument we did something, like say, the 10-year treasury was 1.5% and the S&P 500 was at 850 for an extended period.

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

Yes. Well, from a March standpoint, what we said -- I’ll just give you a couple of numbers as examples. If the S&P fell to 1,000 for example, we’d have an additional mark of 250. If the interest rate fell another 50 basis points, just as an example, and that’s falling from the 1.9 as we said is the 100-year low rate, if that fell, it would be another 250.

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

Okay. I guess my question is would that -- would that affect the traditional insurance accounting model at all?

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

Not necessarily.

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

Yes, not necessarily.

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

And you can see in our disclosure we’ve talk about our protocols and it depends -- remember something, it depends on where -- what we think -- where we think interest rates are going to be at the time someone annuitizes. That’s when interest rates come to play. They're a function of what somebody will receive when they annuitize. And so, it’s in their contract with their insurance company and then the insurance company has a protocol with us. So, if we think interest rates would be at that level when someone is annuitizing in 2013, then we would reflect that in our life insurance accounting reserve.

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

And it’s the same point on the equity index, right, to the extent that we believe that there is a fundamental change and we no longer believe the assumptions in our insurance accounting model then we would change it.

Operator

And Larry Greenberg of Langen McAlenney has the next question.

Lawrence David Greenberg
Langen McAlenney

Not much more to ask, but just one house cleaning. Just on the -- I’m assuming that the piece in your operating statement that you broke out losses from separate account assets, presumably, you know, that would reverse in a better interest rate and stock market environment along with the fair value mark.

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

Now let me be clear, those 2 things are completely unrelated. In Hong Kong, we have separate account products. So the results of the assets belong to the policy holders. So we have 2 things going on, the value of the assets go down, that goes into other income, the value of the liabilities go down correspondingly, completely offsetting, and that goes into benefits. So there's no impact or no book value, or no impact to that, it just has to be separated because you know, it's a technical thing that since it hasn't been proven in the courts that those accounts are bankruptcy remote they just have to be shown that way, but there is no net effect because it reverse the Ace, it reverses to the policy holder.

Operator

And at this time, we have time for one final question, that will come from Mike Grasher of Piper Jaffray.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

Just to follow up on your comments earlier. Question would be how much more pain can we anticipate seeing in the industry before maybe you get interested, or more focused, I should say on that specific line of business?

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

On the VA line of business?

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

Workers' comp.

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

On workers' comp line of business. I have to tell you something, when we think we can earn and underwriting profit, that's when we would consider expanding in any significant way in that line of business. And I do not see that on the horizon. And you know, you run a 115 in your earning, you know, 1%, 2%, 3% you know, at that point -- in our judgment, you're destroying capital, you're destroying shareholder value, and we just don't have an interest in it, and I don't see on the horizon a change in that. That is substantial enough.

Michael Fitzgerald Grasher
Piper Jaffray Companies, Research Division

So fair to say there is more pain to come and we should continue to see rate improvement within that line of business?

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

I think so. You know, I don't know. That's rational. And so the first thing I'd say is I think so, because that's my rational mind speaking and we'll see.

Helen Wilson

Thank you everyone for your time and attention this morning, we look forward to speaking with you again at the end of the next quarter.

Operator
Thank you, and good day. And again, that does conclude today's conference call. We'd like to thank you for your participation.