S&P Capital IQ

CONTENTS

Chubb Limited NYSE:CB

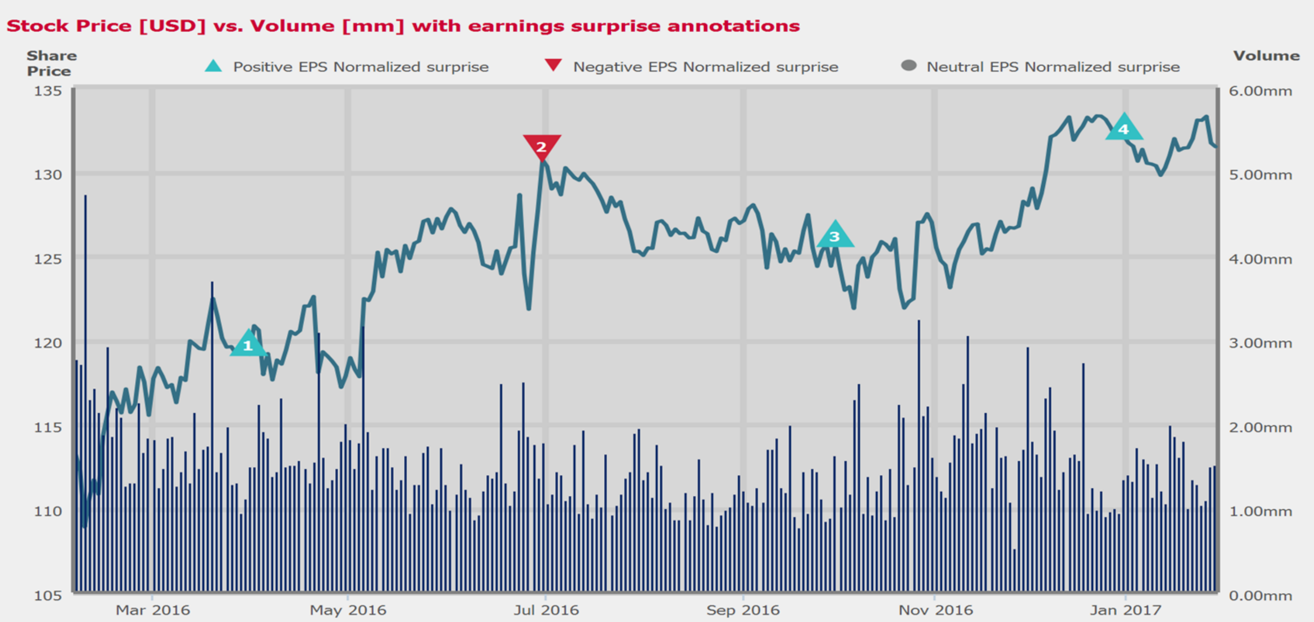
FQ1 2017 Earnings Call Transcripts

Wednesday, April 26, 2017 12:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2017-			-FQ2 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.41	2.48	2.90	2.56	10.33	10.84
Revenue (mm)	6295.80	6186.00	(1.74 %)	7237.37	27263.85	28332.87

Currency: USD
Consensus as of Apr-26-2017 12:24 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2016	2.17	2.26	4.15 %
FQ2 2016	2.32	2.25	(3.02 %)
FQ3 2016	2.58	2.88	11.63 %
FQ4 2016	2.41	2.72	12.86 %

Call Participants

EXECUTIVES

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

Helen Wilson

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

John W. Keogh
COO & Executive Vice Chairman

Paul J. Krump
Executive Vice President and President of Personal Lines & Claims

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

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Ian Gutterman
Balyasny Asset Management L.P.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Jay H. Gelb
Barclays PLC, Research Division

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

Kai Pan
Morgan Stanley, Research Division

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

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

Ryan James Tunis
Crédit Suisse AG, Research Division

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Presentation

Operator

Good day, everyone. Welcome to the Chubb Limited First Quarter 2017 Earnings Conference Call. Today's call is being recorded. [Operator Instructions] For opening remarks and introductions, I'll turn the conference over to Helen Wilson, Investor Relations. Please go ahead.

Helen Wilson

Thank you, and welcome to our March 31, 2017 First Quarter Earnings Conference Call. Our report today will contain forward-looking statements, including statements relating to company performance, investment income, pricing and business mix, economic and market conditions and integration of our Chubb Corporation acquisition and potential synergies and benefits. All of these are subject to risks and uncertainties and actual results may differ materially. Please refer to our most recent SEC filings and earnings press release and financial supplements, 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 these non-GAAP financial measures to the most direct comparable GAAP measures and related information are provided in our earnings release and financial supplement, which are available at investors.chubb.com.

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. As you saw from the numbers, Chubb had a very good start to the year with strong results. After-tax operating income for the quarter was $1.2 billion or $2.48 per share compared to $2.26 per share the prior year, up nearly 10%. As a reminder, we closed the acquisition on January 14 last year, so our '16 first quarter results excluded 2 weeks of Chubb earnings. For comparison purposes, adding those 14 days back into the last year's first quarter, operating income per share this quarter was up 8%.

When discussing our underwriting results and premium growth, I will occasionally use the term "as if" to compare our results to last year's first quarter as if we were one company for the entire quarter and excluding merger-related accounting and underwriting actions. I expect, as the year progresses, we will reduce the need to reference "as if" for quarterly and year-on-year results comparisons.

Our combined ratio for the quarter was simply excellent at 87.5%. That compares to 90% last year or 88.9% as if we were one company through the full quarter. Total P&C underwriting of $783 million was up 28% or about 9% as if. The underlying current accident year combined ratio, excluding cat losses was simply outstanding at 88% and better than last year, driven by a strong performance in our core Global P&C business in particular. Adjusted net investment income for the quarter was $836 million, in line with the guidance we gave you last quarter and up 9% over prior year or 3% if we include the investment income for the 14-day stub period.

Chubb's strong earnings produced a good operating ROE of circa 10% for the quarter, while book and tangible book value per share were up 1.7% and 3.1%, respectively. From post-merger closing to this March 31, book value per share has increased over 9.5% and tangible book has increased about 16%. Bill will have more to say about investment income, tangible book value and cats and prior period reserve development.

For the quarter, premium revenue growth was about in line with our expectations and what we described last quarter. The same themes prevailed: strong retentions of business; growth in new business over last year's first quarter, but constrained nonetheless due to market conditions; a contribution of new business from cross-selling and the strength of the organization; and a reduction in revenue due to merger-related underwriting actions, including the purchase of additional reinsurance.

As a reminder, the impact from these last items, which this quarter amount to about 3% of P&C net premium, should ameliorate as we move through the year. For the quarter, P&C net premiums were up about 13.5% in constant dollars. Foreign exchange had a 0.5 point impact. On an as-if basis, P&C net premiums were up over 2%.

The commercial P&C insurance market is soft globally. And conditions vary depending on the territory, line of business and size of risk. Rates are flat or declining, depending on class of business, size of customer and territory. The rate of decline is slowing, because pricing in many classes has reached or is reaching unprofitable levels. On the other hand, there are a few stress classes where we're able to achieve or hold rate. Market terms and conditions continued to soften in a number of classes. At the same time we are discussing rate and term movement, keep in mind, for the industry, claim inflation is hardly nonexistent and pricing hasn't kept pace, contributing further to industry combined ratios under pressure. And as you have noticed, in fact, loss cost inflation has increased in certain classes while overall reserve adequacy is starting to come under pressure.

As noted in prior quarters, large account business, particularly shared and layered, is more competitive than mid-sized. But middle market is incrementally more competitive, particularly in the U.S. and Europe as companies stress about growth and reach more aggressively. Wholesale again is certainly more competitive than retail. Again, like last quarter, certain markets are noticeably more competitive than others. London, Bermuda and Brazil by example are particularly competitive. While in the U.S. and Continental Europe, competition is a little less ferocious and a bit more orderly but soft or softening nonetheless.

Globally, new business remains harder to come by in what simply can be characterized as a hungry market. Competitive new business conditions are ameliorated for us to some degree where the power of the organization is brought to bear for a client or producer. Also, our total capabilities in terms of product, ability to serve many different types of insurance customers, our deep distribution strength and extensive geographic reach means our optionality or ability to capitalize on opportunity is exceptional and, by the way, will only improve with time.

Rate movement for the business we wrote in the quarter varied by territory and market segment. Renewal pricing was down about a 0.5% in our U.S. middle market business, with exposure change a positive 0.5%. In our U.S. major accounts business, renewal pricing was down about 1.5%, with exposure change a positive 1.2%. In our international retail Commercial P&C business, pricing was down 2%. By major class of business, beginning with North America retail, general and specialty casualty-related pricing was down about 1%. Financial lines pricing was down about a 0.5% and property-related pricing was down about 3.5%. Internationally, general and specialty casualty-related pricing was down 1%, financial lines pricing was down 1% and property-related pricing was down 2%.

Now with that as context, let me give you some more detail on our revenue results for the quarter. In our North America Commercial P&C business, net premiums were up over 19%. Normalizing for the 14 days in January and the impact of merger-related underwriting actions, net premiums were flat. The renewal retention rate as measured by premium was 88.5%, with middle market and small commercial at about 87% and major accounts at nearly 94%.

It is worth mentioning that while the overall market is competitive, there are a few classes, such as property and casualty coverage for real estate-related risks, where 1 or 2 companies simply for volume, defy any logic and are writing at terms that will produce very large underwriting losses in the future. In these instances, we just walk away. On the other hand, where there is a flight to quality advantage and the strength of our firm stands out, such as in our risk management business, renewal retention can be high as 100%.

Overall, new business writings for North America commercial lines were up 16% over first quarter '16. In our North America Personal Lines business, net premiums written were up 13%. On an as-if basis, and excluding the 5 point impact of additional reinsurance, growth was about 6.5%. Rates were up over 2% and exposure change added 3%. Retention remained quite strong at over 95%.

Turning to our Overseas General Insurance operations, net premiums written for international retail P&C business were up 10.5% in the quarter in constant dollars or nearly 6% as if. Growth for our global A&H business was up more than 5% in constant dollars or 1.5% as if, made up of 4.5% in North America, which includes combined insurance and our group A&H business, and about 1.5% in international. John Keogh, John Lupica, Paul Krump and Juan Andrade can provide further color on the quarter, including current market conditions and pricing trends.

I want to say a few words about integration. Operationally and financially, all areas of integration are on track or ahead of schedule. Integration-related savings are directly contributing to our margins in the face of declining rates and continuing loss cost trends while giving us room to invest in our competitive profile, including our technology, talent, product expansion and future operating efficiency. Total integration-related savings impacted our combined ratio by about 2 points.

In closing, there is a combination of strength and stability in our company that is highly attractive to our distribution partners and customers. Our people are intently focused on execution of strategies. We have a lot of energy in the organization right now and a great deal of optimism and passion. Personally, I am confident in our people and capabilities and in our prospects near and long term.

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

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

Thank you, Evan. Chubb's overall financial position grew stronger in the quarter as we continued to generate substantial capital and positive cash flow. Among the capital-related actions in the quarter, we returned $460 million to shareholders, including $320 million in dividends and $140 million of shares repurchased. Year-to-date through yesterday, we have repurchased $200 million.

We also paid off $500 million of debt that matured in the quarter. Our $1 billion of 2007 hybrid notes converted to a floating rate earlier this month, which at current rates will reduce our 2017 interest expense by over $30 million. Investment income was $836 million and was within our expectations. While there are always a number of factors that impact the variability of investment income, we expect our quarterly run rate to remain in a range of $830 million to $840 million.

Net realized and unrealized gains for the quarter were $360 million, primarily from our investment portfolio and principally due to decreases in interest rates. Foreign exchange had a positive impact on book value of $118 million and a small unfavorable impact on operating income of $3 million. Operating cash flow in the quarter was $1 billion.

Net loss reserves decreased $191 million for the quarter on a constant dollar basis. This primarily reflects a seasonal decrease in our crop reserves, favorable prior period reserve development in the quarter and the amortization of the fair value liability adjustment established in purchase accounting. After adjusting for these items, net loss reserves increased by $319 million. The paid-to-incurred ratio on the quarter was 91% after adjusting for the items noted above.

We had positive prior period development of $231 million pretax or $155 million after tax. This included $41 million pretax of adverse development related to the change in the Ogden discount rate in the U.K., which impacted our casualty-related exposures. We also had favorable development of $79 million related to the 2016 crop year loss estimates. The remaining favorable development was split evenly between short-tail and long-tail lines with the long tail coming from accident years 2013 and prior. Our catastrophe losses in the quarter were $206 million or $164 million after tax compared to $258 million or $204 million after tax in the prior year. Catastrophe losses this quarter were primarily from North America weather events and Cyclone Debbie in Australia.

During the quarter, P&C premium growth was negatively impacted by incremental merger-related underwriting actions and additional reinsurance of $187 million, impacting growth by 3%. In addition, the alignment of accounting policies related to the timing of recognizing premiums in 2016 for certain of Chubb Corp's foreign subsidiaries adversely impacted the quarter by an additional $73 million or 1.1%. When considering these items, P&C premium growth was 2.2%.

As Evan mentioned, our integration efforts are either on track or ahead of schedule. Total incremental integration-related savings realized in the quarter were $124 million, leading to total cumulative realized savings of $449 million. On an annualized run rate basis, savings through March are $710 million. The operating income tax rate for the quarter is 14%, which is below our expected range of 16% to 18%, primarily due to a tax benefit related to our employee benefit programs, including the required adoption of new accounting guidance on stock compensation.

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

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

Question and Answer

Operator

[Operator Instructions] We'll have our first question from Kai Pan, Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First question on the cost savings side, is the contributed 2 points to your -- the P&C combined ratio, I just wondered, do you see potential upside to the $800 million target? And how much of that will flow through bottom line versus reinvestment?

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

Upside to the $800 million. We are -- we're right now ahead of schedule in our realization of the $800 million on both an annualized and realized basis. We're thoughtfully reviewing where we are. And we will update our views about expense savings we will realize, both annualized and realized, at the end of the second quarter when we do the second quarter call. At that time, I expect we will upsize the $800 million. But beyond that, I'm not going to give you any guidance.

Kai Pan
Morgan Stanley, Research Division

And how much would that flow through the bottom line?

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

We're not -- you know what, Kai, we're not going there. A substantial portion will flow through the bottom line. It's offset by natural rises in our operating expenses. We're a very efficient company. As you've noticed over the years, we control expenses well, but you still have natural inflation and expense. Then we have investments we're making in the company, technology in particular, though I note that it seems that there is a misunderstanding about how that works. Those are capitalized expenses. You have a timing question. And we hardly -- like anybody, we hardly lay out a model of here's how our -- here's the detail of how our expenses look. So you'll figure that for yourself.

Kai Pan
Morgan Stanley, Research Division

Okay, great. My follow-up question is, if we step back, look at your earning growth potential, we see your combined ratio is very good and already very good and premium gross profit is limited given the pricing environment; and buyback could help EPS a little bit, probably a couple of points. What do you see could drive the EPS higher from here? And what do you see as a sort of earnings power for this franchise?

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

Well, I'm quite bullish about the earning power for the franchise. Margins, as you saw this quarter, are -- the loss ratios naturally rise as you're in a pricing environment that is soft and you have loss cost inflation. And that's ameliorated for us by both portfolio management, choices we can make in terms of where we grow our business, because we have far greater optionality in that regard, which helps to mix loss ratio. And then as you know, we have a substantial expense improvements that help margin. Secondly, the organization did grow. The underlying -- when you account for the underwriting noise to the merger and the accounting, underneath it all, we did grow. And that growth was pretty broad-based. And in spite of the world we see, I see momentum. And our -- what we can do internally, the part we control, I see that part only improving and momentum building as time goes on, particularly in that middle market and small commercial business in pockets around the world, our A&H business and our large account business, which had frankly quite good growth. If you look at our risk management business this quarter, it stood out because of flight to quality and capability and stability that Chubb presents that frankly is a standout. And so -- and then you look at our Personal Lines business that actually showed underlying growth in the quarter. I am quite bullish, over time, about our capability to produce wealth creation.

Operator

Elyse Greenspan, Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

I first had a question -- the cat losses screened pretty low this quarter just given the size of the industry losses that we saw in the U.S. So I was wondering if you can comment just on your exposure. And did the rate of reinsurance that you guys purchased last year, did that help to alleviate some of the cat losses in the quarter? And so when we think about Chubb, is your kind of quarterly cat loss load lower now than it would have been for each of the legacy companies?

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

No. The additional reinsurance that we have purchased really didn't have an impact on ameliorating cat loss in the quarter. We set our appetite on cat losses as a percentage of capital in particular. And frankly, the cat losses in the quarter, it's geographic, it's where they hit. And they happened to hit where we had less concentration.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then can you provide -- in your opening commentary, you spoke about higher inflation for the industry. Can you give a little bit more color by line, where you're seeing greater inflation? And what prior periods would you potentially compare the inflationary levels we're seeing today within the property and casualty industry?

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

Yes, I'm not going to go on that part. But look, you can see it pretty simply, you see it. Anything with wheels on it has inflation. That doesn't take a genius. And Professional Lines, I would call out in particular, where D&O is experiencing more inflation and you're seeing it in security class action, in particular merger-related objection, in particular employment practices liability, in particular there is inflation. And you don't just see it in the United States. You see it on other geographies around the world, such as Australia, such as security class action beginning in Europe and the U.K. You're seeing more of that. So those are 2 examples for you.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, great. And then just, Phil, on the Ogden charge in the quarter, did that hit both overseas gen and reinsurance?

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

There was about $8 million in reinsurance and the remainder was in COG.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, great. And then do you have a share repurchase update as of quarter-to-date?

Philip V. Bancroft

CFO, Executive VP, CFO of Chubb Group and Executive VP of Chubb Group

Year-to-date, as of yesterday, was $200 million.

Operator

We'll go next to Jay Gelb, Barclays.

Jay H. Gelb
Barclays PLC, Research Division

Evan, I had a couple follow-ups with regard to your annual letter. In 2017...

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

You read it, did you?

Jay H. Gelb
Barclays PLC, Research Division

With great interest. In 2017, I think I believe you said we should expect growth from Chubb in constant dollars, even while taking into account the soft market conditions. I know you touched on in your prepared remarks, but if there's any other insight you could add on that, that would be helpful.

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

Yes. I said to you that in the last earnings call, I believe that, look, first quarter would look to a degree like fourth quarter, you'd begin to see the amelioration of some of the underwriting actions we took, et cetera. And that minus 1.9% or 2% was less than you saw in prior quarters. Secondly, the normalized for all that, and I hate as if and I hate noise, you want it just as published. And we're getting there. But the underlying of 2% growth is an improvement. And it's pretty broad-based to me. When I look at it by region, I look at the P&C business broken down between its various segments, between its various lines of business. And I see a building momentum in that regard, but offset by what you have to do in underwriting to maintain margins. I'm not looking for this company to be publishing mid-90s combined ratios. And that means you -- on various portfolios, as pricing or terms reach a point, you have to be disciplined and trade growth for underwriting discipline. I think that we're showing great restraint and great discipline in that regard of underwriting and at the same time, getting more and more after the growth opportunities that you put them all together and that you can produce combined ratios like that and grow on the underlying at 2% or greater. That's a pretty good trick to me. And I expect, as I say, in certain areas where we really see opportunity for that to continue to build momentum.

Jay H. Gelb
Barclays PLC, Research Division

That's helpful. The other area of the letter that really caught people's attention was the unfavorable comment on the insurance brokers. Can you give us some insight there in terms of what issues you see as most problematic?

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

Yes. You made me win -- I won the bet because of your question. I knew -- I believed this question was going to come up. Look, I want to put a little context around this, and then I want to just expand on my comments. And this is hardly some cause célèbre for me. It was one comment out of a letter that commented on many things in the industry and beyond the industry. Chubb is an agency and a brokerage company. We are not a direct writer. This is our chosen form of distribution. Now one of the reasons -- one of the main reasons I am a firm believer that brokers and agents, intermediaries, provide a necessary role in the selection and market-making function in our business. And if they didn't, then frankly there wouldn't be a -- there wouldn't, long term, be a place for them. In a market-based economy, if you don't really have a role that's necessary, you soon disappear. I believe it is a vital role in our business. And agents and brokers are our partners. In brokerage, it's more ambivalent. It's by the nature of brokerage. They represent a client. In agency, they truly are an extension of us. They represent us. And they are our partners. My comments came about because I've been in this industry for over 40 years. I care about this industry and I care about its long-term health.

I was referring in particular to the facilitization of business that I see -- predominantly that we see, predominantly but not exclusively in the wholesale markets. And I think some of that behavior has gone beyond what is reasonable. How does it work? The broker, particularly in the wholesale area, will box up, will collect the class of business for efficiency's sake into one portfolio. Business that was placed at one -- as one-off risks, particularly smaller and midsized risks, but not exclusively. It could be just simply a class of business. But they bring it all into one place and so there's a lot of volume. And so in the first instance, it's spoken of as efficiency. But that volume is used to attract underwriters, who no one comes with clean hands, who for the sake of volume will do things to pricing and terms and conditions that aren't that prudent, that aren't sustainable and that they otherwise wouldn't do when it's one-off risk placed. And then for the sake of efficiency, it is more efficient for the broker to place it this way, more efficient for the underwriter, in some cases, to receive it this way, but not in all cases. Compensation goes up. Price goes down, compensation goes up. What's the logic of that? And frankly, in this world today, a digital world where there is greater efficiency and greater transparency, what industry or business do we know about where prices are going down but intermediary percentage of the dollar of what's being placed goes up? And that's what's occurring in the facilitization of the business. I don't think it's advisable. I don't think it's in the long-term interest or even the medium-term interest of our business, of our industry. I don't think it's sustainable. And I say it because I care about the industry. And I think like every other industry, those who are knowledgeable of markets, who are knowledgeable of how to use technology in markets, they will notice this, and change will come, without a doubt in my mind.

Jay H. Gelb
Barclays PLC, Research Division

And if I could just focus on one separate issue, given your position in the industry. Given the media speculation on the CEO transition that looks like it's forthcoming at AIG, any perspective you'd like to provide on that?

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

No. I wish them well. I'd like to see a healthy AIG. And I can guarantee you Chubb's ability to thrive and to execute our strategy is hardly based around a competitor stumbling or not thriving. And I'd like to see a healthy company. So I wish them well in their selection.

Operator

We'll go next to Jay Cohen, Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes, a couple of numbers questions. So I believe you said there was an accounting adjustment on the premiums of $73 million. I guess it was a negative. Does that continue going forward? Or was that a 1 quarter issue?

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

It looks like it will also recur in the fourth quarter in the neighborhood of $50 million. But then second and third quarters are immaterial impacts.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay. And then beyond this year, there's no impact?

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

No, that's correct. It'll all be over this year.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's helpful. And then secondly, on the administrative expenses in both U.S. personal and U.S. commercial, that number dropped quite a bit from where it had been running for the past couple of quarters. And obviously, you're recognizing some synergies, but it was a pretty notable dropoff. I understand that there was a pension benefit essentially versus a year ago and I'm wondering if you could break that out. Was the -- how much the actual -- the number came down beyond just the pension change?

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

The expense savings, the incremental expense savings over the first quarter of last year was $124 million. The pension change was not included in that number. That's an additional $28 million that's been allocated to the units.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

And that's mostly in the U.S.?

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

It is mostly in the U.S. But it's spread amongst the units -- but actually no, the pension change was all in the U.S., sorry.

Operator

And next, Paul Newsome, Sandler O'Neill.

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

Anyway, we're past the -- a year past the deal with -- between ACE and Chubb and we have an ongoing soft market. What does that mean from a capital management perspective? Would we see continued higher dividends and perhaps more stock repurchases as the benefits of the deal come through?

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

We've said we have an authorization of $1 billion for this year, and we have no plans beyond that.

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

No change to our playbook. Steady as she goes.

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

Steady as she goes, okay.

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

There is -- I -- your -- Paul maybe to go a step further. There was no surprise to us in the landscape you just painted. And there has hasn't been a change to us. It's a year since the merger, going well. The market is soft, the market was soft, the market is soft. That's exactly within our expectation. And so actually, there is no change in what we see internally and expected of ourselves. And there is no change from what we expected to the external environment.

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

That's great. And what about the M&A outlook at this point? Again, through a good chunk of the merger integration, do you think -- should we expect to see you more active in the market?

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

No, I'm not comment -- I'm not going there. I'm not commenting on -- we have plenty to do in not only completing integration, but in unlocking the power and potential we see of this organization. And if we never do another deal, the value creation potential we have in our hands is enormous, simply enormous. And from both the product, geographic, customer perspective, God, don't lose sight. This is P&C industry is, what, about $2.5 trillion a year of business. We write about 1.5% of it, almost a rounding of it. And we have, what, something like 10 countries that we do over $400 million a year in, a hardly excessive market penetration. And the opportunities, when you put together the capabilities and knowledge of both organizations is simply stunning. And the only thing that stands in the way is you got to maintain or you got to balance it with underwriting discipline when people are doing dumb stuff. So over any period of time I look at this organization, we're going to win and we're going to outperform. And there are going to be moments in every micro market and in every product area where there's, because the world doesn't move in lockstep, where we're going to be able to just zip ahead. So in that regard, forget about M&A, stay tuned.

Operator

We'll go next to Brian Meredith, UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick questions for you. First one, I'm just curious on the homeowner's business, how much of the growth that you're seeing right now is rate versus unit volume growth? Because I know you've been taking potential price increases on the Fireman's Fund business.

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

So we told you -- in my commentary, I told you 6.5% growth normalized and that there was 3 points and 2 points between rate and trend. So rate and trend was about 5% together, and overall, we're up 6.5%.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. Just unit growth, great.

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

And quarter growth. Well, hang on. Paul Krump is going to expand on that.

Paul J. Krump
Executive Vice President and President of Personal Lines & Claims

Yes. Brian, it's Paul. Just a couple of thoughts there. Just want to note that the first quarter growth was a little bit higher than the previous run rates because there were some timing issues related to the integration and some of the impacts from ending the Fireman's Fund conversion. I think that the run rate is really long term. I think, right now, we're seeing around 3%, 4%.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you, great. And then, Phil, just quickly back on the administrative expenses, just to follow-up on Jay's question. So the pension's all going through the admin line right now, but still a very substantial decline on the year-over-year basis. Was there any shifts with respect to kind of reallocation of kind of expenses this year versus last year versus loss in administrative expenses?

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

It was. There was. There's about $24 million that moved from administrative expenses to ULE of our loss costs. That was just an attempt to make the policies consistent between Chubb Corp. and Legacy ACE.

Operator

Ian Gutterman, Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

I guess I was hoping you guys could expand a little bit on the comments on incipient loss cost inflation and just what drivers you're seeing in the environment. And I guess if I throw out a few, maybe to prompt a response, is this the delayed impact of more liberal judges appointed? Is it the populism we've seen across the country showing up in the jury box? Or is it something more close to home and to the industry? Meaning to say, terms and conditions have deteriorated and things that wouldn't have prompted a lawsuit, now that [plans bar] sees a hole they can drive through and takes you to court?

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

Yes, I'll come to that. Let me go a step further beyond Professional Lines and commercial auto. We regularly look at portfolios and it happened just last week we -- a group of us spent many hours doing the deep dive with our casualty folks from around the world, going through all casualty portfolios and doing updates on what we see in pricing and trend. And our updated look at trend right now, it's a -- the casualty-related trend primarily is running around 4%. And so you'll say, "Well, that's not 5%." And we see the same thing in comp, by the way. And so that's not 0%. It's -- and that's my point. While it's still a little tamer than what we had seen historically in the past, you take 4% that goes year-over-year-over-year-over-year and you got prices that are flat or down, well, do the math of what happens to loss ratio and what you do with risk selection, et cetera, and portfolio management or terms to alleviate, that plus expense are your anecdotes. But other than that, it does grind.

When it comes to Professional Lines in your question, it is about the external environment and I'll ask maybe John Keogh and John Lupica, who both grew up in the business, to speak, maybe give you a few comments. But I would tell you this. It's not that we're seeing populism. Remember this doesn't happen on a dime or appointments of judges recently. Appointment of judges, that has occurred for the last 8 years. You've stacked a more liberal court, on one hand. But what we're also seeing is a change in the plaintiff bar environment. There are more plaintiff bar law firms, more boutique law firms who are like ambulance chasers and out to make a buck. And it's attacks on society, by the way, it's attacks on corporations and it's a problem where anything that represents any kind of bad news, that is natural exposure to any kind of business, and by the way, this is not restricted to one industry like health care or I read some of that and that's just not right. It's very broad-based. And there's not a merger that goes down where there isn't a lawsuit filed on both sides. You paid too much, you paid too little. And do these get settled? They get settled for [indiscernible] money, but it's still money and it increases the frequency. And then security class actions around absolutely everything. And then employment practices liability, as an example, has found its way into higher-paying jobs, when it seems as part of layoffs today that, okay, another retirement benefit you get or another benefit you get is a payment from an [EPL].

That's the kind -- that's just what's going on. Now I'll ask my colleagues if they want to answer that.

John W. Keogh
COO & Executive Vice Chairman

As -- this is John Keogh. As usual, Evan, I mean, you've kind of covered all. I would, just for color, make the point that when I was deep into the D&O business 15 years ago, there were a handful...

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

Did you say 50 years ago?

John W. Keogh
COO & Executive Vice Chairman

15, not that bad. Feels like 50 though. 15 years ago, there were a handful of plaintiff firms that drove all the litigation, at least here in North America. Today, when you look at the list of plaintiff firms, and most of them are led by people who worked at those handful of firms who've gone out on their own, there are dozens firms today, all of whom are going to work every day with the ambition to make money and find ways to create new theories of litigation, new theories of liability against corporate America. And I think that is a fundamental change in the business that they we're witnessing in terms of the frequency of claims in the D&O business that is not, in my mind, a temporary change. It's a secular change. This is going to be with us and probably there's a dozen more firms in the next 5 years, that wouldn't surprise me, that are making a living doing this. And then outside the U.S., in Australia and U.K., they see what goes on here, the lawyers. They see an opportunity. And the thing I would add that Evan did not mention is litigation funding, right? Whether it's here in the U.S. or in U.K. or in the Australia, right, there are funds, right, that are attracting some serious money to fund the litigation in the D&O world, which obviously creates more both frequency and severity in this business than we've seen before.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. And if I could sort of tie that in...

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

John Lupica says we've wrung it dry.

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

I think you guys got it.

Ian Gutterman
Balyasny Asset Management L.P.

Just to tie that in, Evan, with your comments in the press release about the softening market. And when I think about a sort of true soft market bottom, I guess, I think more than just price, I think about terms getting worse and winning business through that. I mean, we've seen, obviously, maybe one example is a program business where a lot of people are starting to get burned and I kind of wonder if that's terms and selection. And the other is reserves, right? And just when I look at reserves, you see across most liability classes and Professional Lines a lot less IBNR than you would have seen 3 years ago, 5 years ago. Do you look at those type of signs and say, "Boy, it's really -- maybe it's not 1999, but it's the seventh inning or the eighth inning and all the same things are repeating and it's more than just price?" Or is it really just we're still in that pricing stage and the rest of it doesn't worry you as much yet?

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

Ian, I have been saying for 5 of 6 quarters or more now that I've mentioned terms and conditions softening. And I have mentioned the insidious nature of that, because there's a lag before you feel the claim effect from that, that impacts both frequency and severity. We see it beginning to show up in claims around the industry. We see claims that wouldn't have been covered by wordings in the past that all of the sudden become claims now because the wordings have been broadened and we can see that in both short tail physical lines and we see it in various casualty-related classes. I think the impact of that is more in front of us, but the notion, when I say soft market, I am not simply at price, I am right on term and condition. Remember, what we do for our living is manage exposure and that's how we think about it. So wording and coverage, that's part of what drives your view of exposure. Then you're putting pricing against that.

Operator

We'll go next to Larry Greenberg, Janney.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Not much left to cover but I'm curious, Evan, with regard to corporate tax reform. If you could talk just specifically, what impact do you think that might have on the industry and, more specifically, whether or not that could really impact insurance demand?

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

Larry, first of all, tell me what tax reform I'm commenting on, because I don't know. So I just say that so that we just keep this in perspective. I cannot...

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Yes, I would just say lower tax rates.

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

I understand the general question. I can't respond with specificity, but I'd say this. We are -- we have needed tax reform for so many years, and American business requires tax reform. And if we do major tax reform, i.e. if we move to a territorial system and we lower the rates, even if we lower the rates to 25%, 20%, it's going to have a major stimulus -- and it's done the right way, it can have a major stimulative impact on our economy, not simply the cash that comes home, but the eagerness to invest. And growth, we ensure growth and exposure. The faster the economy grows, the better it is for the insurance business, because exposure grows. That's it.

Operator

Meyer Shields, KBW.

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

Evan, I want to jump off that recent comment. Are you seeing signs yet of more new business in the U.S. from economic growth?

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

No, not really. I don't -- I think there was a -- animal spirits were obviously awakened by the policy direction of the new administration. Policy direction that I personally endorse when it comes to the deregulation of business, less regulation. God, get government out of our way. When it comes to tax reform, when it comes to infrastructure, it will simply have a multiplier impact on our ability to grow efficiently the productivity [in] the economy. Those are great things. I think that the reality that is setting in is that stating policy and implementing policy are 2 different things. And it will take time to implement policy. And at the same time, I personally, and I know many were cautious about the stance we're going to take regarding trade because that can have, depending on the stance we take and the approach we take as a country, that can have a negative impact on economic growth. And I think, right now, it's natural. The moment of euphoria is passing. And I think we're at a moment where there is a sense of realism. And I -- so therefore, I am not really seeing a pickup in economic activity that -- a trend change that is impacting our business.

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

Okay. And Phil, quick question. The $73 million accounting adjustment to premiums, did that have any impact on net or operating income in the quarter?

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

Very little.

Operator

Ryan Tunis, Crédit Suisse.

Ryan James Tunis
Crédit Suisse AG, Research Division

I just had a follow-up, I guess, just thinking about expenses. And I guess, thematically, and you can correct me if I'm wrong here, Evan, but is it right to think about the integration process' job is year 1 was about making the cost base more efficient and then years 2 and 3 perhaps is investing to position the enterprise for future growth? And then I think...

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

No.

Ryan James Tunis
Crédit Suisse AG, Research Division

That's not the right assessment? Okay. So I'd be interested...

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

No, absolutely not. The expense efficiencies that we're gaining from integration, synergies and all of that, that -- we told you how that plays out between -- we gave you a schedule and showed you how that plays out between '16, '17 and '18. And that is on track or ahead of schedule. What I said to you was, on this call is, that may get -- that we're looking at that right now. We could very well upsize that and we'll talk to you about it in the second quarter. So no, it's not like you put it in these neat packets. The investments we're making, we began making them -- ACE was making investments all along and Chubb, in some ways, was starved for investments. And we're making in -- we began and I was very clear about it. And I was clear about it to you on calls, and I was clear about it in the shareholder letter. And that is that we have been making investments and continue to make investments in expanding product, in digitizing the company and in putting in place foundational technologies that will give us greater flexibility to move in many directions, including lower cost. So no, it all goes on at once. That's more how a corporation works.

Ryan James Tunis
Crédit Suisse AG, Research Division

Okay, understood. So in the letter, the comments about the investments and digitalization was not really referencing an acceleration of investment, just an ongoing part of an investment cycle.

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

Yes, except that, God, a much bigger company now with more opportunities to invest in and, as I said, some who were starved for investment. So we are upsizing investment, but at the same time, given all the efficiencies we gain, we have tremendous flexibility to ameliorate margin pressure, and at the same time, invest for our competitive profile and grow this company in a competitive, sustainable way for the future, which that is our job for shareholders.

Ryan James Tunis
Crédit Suisse AG, Research Division

Okay, understood. And then just a quick follow-up for Phil. Could you give us an update on the revenue synergies produced as of the end of the quarter?

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

The revenue synergies, Phil. Is that $111 million?

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

Globally.

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

Globally. $111 million globally in the quarter.

Operator

That comes from Sarah DeWitt, JPMorgan.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Most of my questions have been answered, but just one follow-up on your comments on Professional Lines inflation. To what extent are you concerned about the potential for inflation with no pricing power? Or do you think the industry could get pricing power if higher inflation emerged?

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

I don't really understand that question, with all due respect. The industry, it's -- we have free will. Lincoln freed us all. And so we have free will and we can react to exposure changes as we see it.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay. So you don't see excess capacity and competitive pressures as preventing pricing power to offset that inflation?

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

Well, those are all factors that -- it's a marketplace. Each will determine for themselves. Ultimately, we all exist in the same world. We're all going to ultimately have the same experience. And some will play it in an intelligent way like a marketplace and some will be a little less intelligent. And I will say, what I am confident about is we have the capacity, we got the paper, we have the balance sheet, we have the data, we have the knowledge, we have the global reach, we have the claims capability and the insight in this business that is unrivaled. And so our ability to manage this business and to be attractive to customers that want Chubb. Well, that's an asset and we'll taken advantage and protect our asset.

Helen Wilson

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

Operator

That concludes today's conference. Thank you for your participation. You may now disconnect.