S&P Global
Market Intelligence

Chubb Limited NYSE:CB

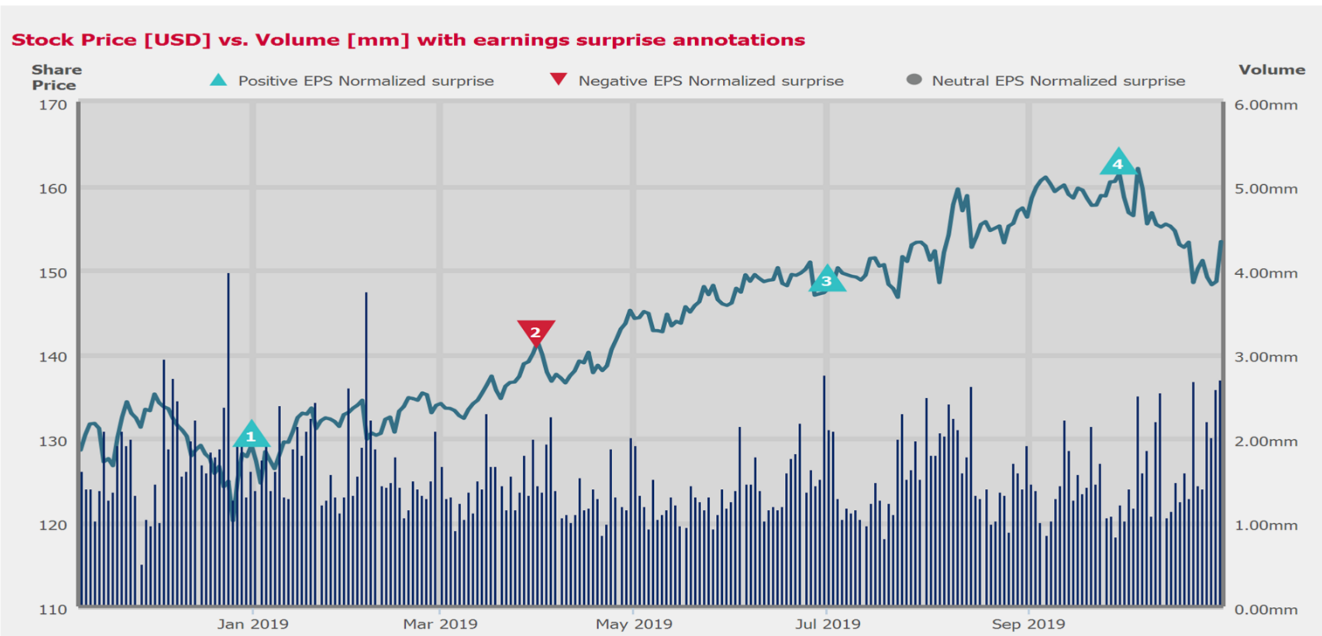
FQ3 2019 Earnings Call Transcripts

Wednesday, October 30, 2019 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2019-			-FQ4 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.61	2.70	▲3.45	2.71	10.50	11.11
Revenue (mm)	7821.00	8010.00	▲2.42	7080.50	30657.50	30620.10

Currency: USD
Consensus as of Oct-30-2019 9:53 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2018	2.00	2.02	▲1.00 %
FQ1 2019	2.56	2.54	▼(0.78 %)
FQ2 2019	2.56	2.60	▲1.56 %
FQ3 2019	2.61	2.70	▲3.45 %

Table of Contents

Call Participants

EXECUTIVES

Evan G. Greenberg
Chairman & CEO

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

Karen L. Beyer
Senior Vice President of Investor Relations

Philip V. Bancroft
EVP & CFO

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

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

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Jay H. Gelb
Barclays Bank PLC, Research Division

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

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

Michael David Zaremski
Crédit Suisse AG, Research Division

Michael Wayne Phillips
Morgan Stanley, Research Division

Ryan James Tunis
Autonomous Research LLP

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Presentation

Operator

Good day, everyone, and welcome to the Chubb Limited Third Quarter 2019 Earnings Conference Call. Today's call is being recorded. [Operator Instructions] And now for opening remarks and introductions, I would like to turn the call over to Karen Beyer, Senior Vice President, Investor Relations. Please go ahead, ma'am.

Karen L. Beyer
Senior Vice President of Investor Relations

Thank you, and good morning, everyone. Welcome to Chubb's September 30, 2019 Third Quarter Earnings Conference Call. Our report today will contain forward-looking statements, including statements relating to company performance and growth opportunities, pricing and business mix and economic and market conditions, which are subject to risks and uncertainties, and actual results may differ materially.

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

We will also refer today to non-GAAP financial measures, reconciliations of which to the most direct comparable GAAP measures and related details are provided in our earnings press release and financial supplement.

Now it's my pleasure to introduce our speakers this morning. First, we have Evan Greenberg, Chairman and Chief Executive Officer; followed by Phil Bancroft, our Chief Financial Officer, we'll then take your questions.

Also with us to assist you with your questions are several members of our management team. And now I'll turn the call over to Evan.

Evan G. Greenberg
Chairman & CEO

Good morning. We had a strong third quarter with core operating earnings up double digit and excellent premium revenue growth globally. Growth benefited from a continuously improving pricing and underwriting environment where insurance rates and terms continued to firm quarter-over-quarter in major areas of our business.

Our growth is also benefiting from our many product, customer and distribution-related growth initiatives around the globe, particularly in the U.S., Asia and Latin America.

Core operating income was $2.70 per share, up 12%. The balance of our earnings between underwriting and investment income was very good with underwriting income of $754 million, up 12.5% and adjusted net investment income of $910 million, up 3%.

Global P&C underwriting income, which excludes agriculture, was up 27.7%. The combined ratio was 90.2% and benefited from lower year-on-year cats offset partially by higher crop losses, another cat-like risk.

On a current accident year basis excluding cats, the combined ratio was 89.5%, and excluding ag, it was 88.3%, up modestly, like 0.4% from prior year. Book and tangible book value per share were up 2% and 3.3% respectively in the quarter and are up 9.8% and 15.7% since December 31, driven by a combination of strong income and the mark from falling interest rates. While benefiting temporarily, our company's book value growth, prolonged low interest rates, a result of over-alliance on monetary policy, have penalized savers and led to misallocation of capital and overvaluation of assets without substantially supporting business investment and economic growth.

Annualized core operating return on equity for the quarter was 9.5%. Phil will have more to say about investment income, book value, cats and prior period development.

Turning to growth and the rate environment. P&C premium revenue in the quarter in constant dollars was quite strong. Net premiums grew 7.2% and then foreign exchange had a 1 point negative impact.

As I noted at the beginning, the pricing environment continued to improve quarter-on-quarter with the rate of increase accelerating and spreading to more classes of business and risk type. For perspective, rate increases in both our North America commercial lines and on our London wholesale businesses this quarter were double those of the first quarter, 6.4% versus 3.2% and 17% versus 8%, respectively.

In the U.S., rates continued to firm in major accounts, E&S wholesale specialty and the middle market. In our international operations, we continue to observe firming conditions in the London wholesale market and in Australia while rates began to increase in the U.K. retail market and parts of the continent, particularly for large risks. The market is responding to the fact that rates have not kept pace with loss costs over a number of years, which has put pressure on margins and ultimately on reserves.

Rates have gone down while loss costs have risen. Pretty simple math. However, as we have been saying for some time, the frequency of severity and certain long-tail and short-tail classes has been worsening, while at the same time in other classes, it has remained subdued or declined.

For the sake of simplicity, let's divide long-tail loss into 3 buckets. Bucket 1, generally speaking in the attritional loss layers, severity has been increasing at a relatively modest pace and frequency has been steady, though there are exceptions.

In the second bucket, in excess layers, the frequency of large claims settlements has been increasing and putting pressure on rate adequacy, a consequence of so-called social inflation, but also casualty attachment points not moving for years. A $1 million attachment point for casualty excess 10 years ago is worth a fraction of the amount today.

And finally, the third bucket. There has been an increase in class actions, large to mega, everything from securities and antitrust related to science-based. For example, chemical, pharma and physical trauma related. And there are casualty cat-type events such as molestation-related reviver statues legislative actions.

I have spoken about all of this for some time now. In my judgment, given the simple math, the risk environment and a reset of risk appetite on the part of many, the current market conditions are sustainable.

Returning to the quarter. Overall prices increased in North America commercial on a written basis by 6.8% versus a loss cost trend of about 4.5%. Renewal price change includes both rate of 6.4% and exposure change of 0.4%.

As I noted last quarter, we are also benefiting from a flight to quality, particularly in large account and specialty as more business meets our underwriting standards. Given the choice, many potential customers prefer Chubb.

New business in North America Commercial Lines was up 18.5% in the quarter with major accounts in Specialty up over 23%, and middle market and small commercial up over 9.5%.

Retention of our customers remained very strong across all of our North America, Commercial and Personal P&C businesses with renewal retention as measured by premium of 96.6%.

In major accounts and specialty commercial, excluding agriculture, premiums were up 9.5% with major accounts retail up about 5.5% and E&S wholesale up over 18%. Rates for major accounts were up over 8% with risk management up 4.5%, excess casualty up 17.5% and property up over 29%. Public D&O rates increased over 17.5%.

In our E&S wholesale business, rates were up about 7.5% with property up 17% and Financial Lines up 8.5%.

Turning to our middle-market and small commercial business. Premiums overall were up 5.6% and renewal retention in our middle-market business was 92%.

Middle-market pricing was up over 6%, and excluding workers comp up about 6.5%. Pricing for primary casualty was up 7.7%, property up 7.3%, excess umbrella up 7%, and public D&O rates up 32%.

In our North America Personal Lines business, net premiums written in the quarter were up 2.7%, but adjusting for the expanded reinsurance that we have discussed in the past, net premiums written were up almost 4%, our best quarter of the year. Retention remains strong at 97% on a premium basis, and steady at over 90% on a policy basis. Homeowners pricing was up 10.7% in the quarter.

Turning to our international business. Growth accelerated in our Overseas General Insurance operations with net premiums written up about 11% in constant dollar and FX then had a negative impact of about 3.5 percentage points. Net premiums for our London market wholesale business were up 29%, while our retail division was up over 9.5% with growth broadly distributed across the globe.

Growth in our international retail business was led by Latin America and Asia Pacific, up circa 10% and 9%, respectively, with U.K. retail in the continent up over 8% and 6%, a very good result.

Overall rates in our London wholesale business were up 17%. Our Asia-focused international life insurance business had a strong quarter with net written premiums up over 20% in constant dollar and a contribution to earnings of $40 million, up over 43% from prior year.

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

In closing, this is a very good quarter for Chubb. Premium revenue growth continued to accelerate as more business met our underwriting standards and we continue to achieve greater price adequacy in an improving underwriting environment. At the same time, we are executing on our many long-term growth initiatives around the globe. Our organization is firing on all cylinders.

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

Philip V. Bancroft
EVP & CFO

Thank you, Evan. We ended the quarter with a very strong overall financial position. Our businesses and investment performance produced positive cash flow in the quarter of $2.2 billion. We grew our assets to $175 billion, including cash and invested assets of $109 billion, which generated strong investment income, and we grew total capital to over $68 billion.

Among the capital-related actions in the quarter, we returned $819 million to shareholders, including $341 million in dividends and $478 million in share repurchases. Year-to-date, through yesterday, we have repurchased over $1.3 billion in shares at an average price of $145.70 per share.

Our annualized core operating return on tangible equity was 15.6%. Adjusted net investment income for the quarter of $910 million pretax was higher than our estimated range and benefited from higher private equity distributions and increased corporate bond call activities.

Net realized and unrealized gains for the quarter were $263 million after-tax. There was a gain of $503 million in the investment portfolio from a decline in interest rates, partially offset by a loss of $112 million from our variable annuity portfolio and a loss of $116 million from FX.

Although market yields have declined significantly in recent months, we will remain conservative in our investment strategy and do not contemplate any significant shift in asset allocation.

Despite the negative impact of lower interest rates, we expect our growth in invested assets and strong cash flow will support current investment income levels. We now expect our quarterly adjusted net investment income run rate to be approximately $900 million.

Pretax catastrophe losses in the quarter were $232 million with about 90% from U.S. weather-related events, including Hurricane Dorian and the balance from international events, primarily in Japan.

In addition, agriculture underwriting income was adversely impacted by weather conditions resulting in underwriting income of $1 million compared to $79 million in the prior year.

We had favorable prior period development in the quarter of $167 million pretax or $112 million after-tax. This included $27 million pretax adverse development related to legacy environmental exposures. The remaining favorable development of $194 million comprises $279 million favorable development from long-tail lines, principally from accident years 2015 and prior, and adverse development from $85 million in short-tail lines, principally from noncat large losses in commercial property lines.

On a constant dollar basis, net loss reserves decreased $137 million, reflecting the impact of favorable prior period development and catastrophe loss. On a reported basis, the paid-to-incurred ratio was 103% for the quarter. After adjusting for the items I discussed, the paid-to-incurred ratio was 96%.

Our core operating effective tax rate for the quarter was 15.1%, which is in line with our annual expected range of 14% to 16%. Through 9 months, our core operating effective tax rate was 15%.

As a clarification to a point in the press release relating to North America commercial, we had a 2-point increase in our loss ratio. 1 point is property related, year-to-date losses were higher than our selected loss ratio. The other point is long-tail related, simply higher loss fix this year than last and in line with previous quarters, no change.

I'll turn the call back over to Karen.

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

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Paul Newsome, Sandler O'Neill.

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

Congratulations on the quarter, everyone. I was hoping you could touch a little bit more on your comments on the tort environment, which I found very interesting. And specifically, I'm curious if the buckets and descriptions you're using are just attributed to the U.S.? Or given you're international focused, also something we can think about having similar issues in or developments in the international markets?

Evan G. Greenberg
Chairman & CEO

Yes. That's a good question. The -- when it comes to securities related -- and we don't see it in general casualty. General casualty is behaving in a steady way. We don't see the same factors that we see now, the U.K., Germany, which is always been the troubled environment, and Australia. There you see the same trends and in a place like Australia, it's even more acute. But that's been for some time, and I've been talking about it for a while because it's the same -- we've observed the trends for the last couple of years. The U.K. has worsened over the last 2 years, maybe 3. Australia has been -- it began deteriorating about 4 years ago and accelerated and is just a stupid environment now. And Germany, given their insured versus insured and the fact that they have -- you have 2 Boards in a company, has been a difficult environment for a long time. But that's about it. The other markets around the world kind of minor.

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

Great. And then separately, just a more topical comment on the California wildfires and exposures. Is there anything about Chubb's exposures out there that would be different from the last couple of years just from a pure -- from an exposure, from a reinsurance perspective?

Evan G. Greenberg
Chairman & CEO

Well, let's see, the last couple of years we do have a quota share that we did not have before. That would be the one major difference. Over the last year in particular, though it began 2 years ago but really, it's been the last year, we've been reshaping the portfolio. Given the underwriting environment and the level of rate we can charge, we've been -- we've aggressively pursued more rate increase so that earns into the portfolio and has a benefit, and we've reshaped the portfolio around the margin and that continues, particularly in extreme wildfire zones.

Operator

Our next question will come from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question on, Evan, going back also to some of your comments on inflation. Now North America commercial, you guys -- you just pointed to consolidated trend about 4.5%, which is in line with what you guys have been saying in the past couple of quarters. So just given the whole environment and what you see out there in terms of class action lawsuits, et cetera, picking up, I mean, do you view that as kind of the right base on -- as we think about where a trend could be over the next 12 months?

Evan G. Greenberg

Chairman & CEO

Elyse, our trend reflects everything we know. And we have -- and it's the overall portfolio. So that's everything. Long and short tail. We have classes in long and short tail where the loss cost trend is benign. And we have, in both long- and short-tail, classes where it is less benign, and I specifically spiked out to talk about the casualty, and I'm using casualty in the broad sense, including professional lines. The areas where we for some time have been talking about that loss cost trends or the strike loss cost trends, the loss environment has been worsening or becoming more hostile. That's all baked into that 4.5%. Our selected trend factors by line reflect everything we know that we can mathematically calculate is -- and substantiate is in our loss picks. Now we can't speak about the future because we don't know the future. We only know what we can observe today and the trends as we see them today, and we've reflected all of that.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then my second question in terms of North America commercial, the prior year developments slowed, I believe it's all due to what Phil pointed out in terms of the noncat losses in Commercial Property. I just wanted to clarify -- so did all -- away from just noncat property, did all their lines within commercial develop favorably in the quarter? If we can just get a little bit more color on that. Were there releases within that business?

Evan G. Greenberg
Chairman & CEO

In the current accident year, you're speaking to current accident year?

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

No. I was talking about the prior year development. So the $109 million this year versus the $216 million last year within North America commercial.

Evan G. Greenberg
Chairman & CEO

We had releases and we had -- we took reserve charges as we told you. And when you say lines, it's the lines that we study in the quarter. We don't study -- or we don't do a deep dive study on all lines every quarter. And as we've described numerous times, we have a schedule for that. And so of the lines studied in the quarter, those would be the long-tail ones that had releases. And by the way, it's many sub-lines and so some have some increases, some have decreases, but the aggregate that we gave you was a decrease in reserve.

Operator

We'll take our next question from Greg Peters with Raymond James.

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

I have one question and a follow-up. Evan, in your prepared remarks, and I'm not trying to put words in your mouth, but I believe you suggested that assets might be overvalued due to the low interest rate environment. And I'm curious how you want your investors to view those comments in the context of your investment portfolio.

Evan G. Greenberg
Chairman & CEO

Yes. What I was really relating to more than anything in my mind is, I look at the prices people are paying to buy assets, all kinds of assets. And in my mind in particular, I think about is the -- we purchase insurance companies and we look at those assets, and I find the market knows to be tremendously overvalued. And when I look at the prices being paid and so much private equity and in high tech and IT related and technology related, the asset values are tremendously inflated. I'm really making the comment that investors are chasing absolute yield, not risk-adjusted yield. When I come to our own investment portfolio, we're very careful about how we invest for risk-adjusted return, not absolute yield. And that's why Phil made the comment that there won't be and you won't see a change in our investment philosophy and strategy because we're disciplined and we're not just going to chase the highest yield, for example, in high-yield bonds where we're active. We know what the -- we know what we think the right risk-adjusted price is from looking at historic default trends, et cetera. We're not going to chase. And that's what my comments were related to.

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

Thanks for the clarification. I want to pivot -- and at the outset, I just want you to realize I'm not trying to get you to criticize your distribution partners. But if I consider the stock market performance as a measure of success, the insurance brokers have outperformed the underwriters on a 1, 3 and 5-year basis. And I was wondering if you could just update us on your views about the symbiotic relationship with your insurance brokers and/or if it's changed?

Evan G. Greenberg
Chairman & CEO

Yes. That bounces around and we're in the risk-taking business. Brokerage is in the intermediation business only, and I realize we're both in the advisory business that way. I -- that they have done well, it's not a zero-sum game. If they have done well, I applaud them for it. I reflect they've done a good job and congratulations, and we'll run our own race. And I'm not concerned with Chubb's ability to outperform over reasonable periods of time and that's particularly in comparison to those who were, like us, risk takers. Secondly, has the relationship changed? No, it's fundamentally the same relationship it has been for years. It changes based on tools and capabilities, change. But beyond that, the relationship is -- the foundation of it is -- hasn't changed. And that is a broker is in the business of representing their client and their client's interest and helping them to select -- advising them and helping them to select the right coverages, the right insurers and put together the right program. They intermediate that and our relationship is -- brokerage is an ambivalent relationship. You work in partnership together and you also work -- you work for each of your respective interests.

Operator

Our next question will come from Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

First question, Evan, when you were talking about the competitive environment in your prepared remarks, I think you used the term reset of risk appetite on the part of some competitors. Do you feel that, that reset is causing maybe pricing to move well in excess of loss trend and low interest rate pressures in certain lines? And I guess what I'm trying to get at is that I think we all know that there is a number of competitors kind of resetting and that gives us confidence -- a new confidence that the rate environment stays -- is moving in the right direction. But I guess a lot of investors ask us whether Chubb's margins can maybe eventually benefit more so than peers if the environment persists?

Evan G. Greenberg
Chairman & CEO

Yes. Look, I can only speak about what I know, not what I don't know. There are lines of business -- there are numerous lines of business where rate is exceeding loss cost trend and that is it's healing margins and, therefore, it is naturally ameliorating and benefiting margin and then there are other lines. And some of that, it's actually improving the underwriting margin and in some areas, it needs to go further because it's not -- it's still not adequate to earn in a positive underwriting margin. So it's all over the line. As far as Chubb's margin goes, I'm not going to prognosticate about the future. The trends as we see them are positive, they are good, and all things being equal, it benefits margin. However, I can't speak to the future loss cost environment and future trends that way, so that's why I never predict the future when it comes to that. We're in the risk business.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. That's helpful. And lastly, kind of as a follow-up to one of the previous questions, Evan, you said that, broadly speaking, asset values are inflated and I think you alluded to also the M&A environment, but you can correct me if I'm wrong. So does that imply that there's maybe less M&A opportunities today than, I guess -- well, there hasn't been much M&A for you guys in recent years? And maybe Phil can also remind us of the drag excess capital is having on your ROE?

Evan G. Greenberg
Chairman & CEO

Yes. In the environment, sure you haven't -- you've seen us quiet and you observe the prices for assets yourselves. I assume you come to the same conclusion I do. Phil, on ROE?

Philip V. Bancroft
EVP & CFO

The drag on the ROE, it's in the range of 0.7% to 1%.

Operator

Our next question will come from Yaron Kinar with Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Evan, this is probably just me not in full capacity after a busy night, so I apologize in advance, but there is something I don't quite understand.

Evan G. Greenberg
Chairman & CEO

Did you drink too much?

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

I drank a lot of insurance P&L.

Evan G. Greenberg
Chairman & CEO

That's intoxicating.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

So overall loss trend remained stable at 4.5%, which incorporates lines that are deteriorating, others that are benign. But if it remains stable, why are we seeing Chubb and peers increasingly vocalizing concerns over loss trend deterioration? And why are rates as a whole firming?

Evan G. Greenberg
Chairman & CEO

Because the loss environment in those troubled lines, you do see trends and you do see it showing up in overall loss picks that you've seen loss ratios in casualty rising -- and I'm using casualty broadly, I'm using the term to include professional lines and general casualty and taking out workers comp. It varies by line, but you've been hearing about it and seeing it in commercial auto. You've been hearing about it and you've seen it in D&O and medical malpractice and excess liability. And so that has focus and attention from -- underwriters see it and the investing community sees it, so there is dialogue about that. And I do think that it is -- the loss cost environment there has not been benign. I've been talking about it for a while. Our own loss picks in those areas have been increasing. It does have an impact on our overall loss ratios because it gets blended in there and it has. And so you need to be aware of it and focus on it. And it is a trend right now. It has been and is. Am I making sense to you?

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Yes. And is this the way it means, though, that even if the loss -- long-term loss remains stable, there is a certain reset of a base given the recent experience?

Evan G. Greenberg
Chairman & CEO

Not a reset of the base. But remember, we're talking loss ratios and that's calendar year, that can include prior period reserves, that includes current accident year. So naturally, you've seen very strong rate and with more benign loss years, releasing reserves -- industry releasing reserves into earnings when I take prior period. And you know as you get to more recent years, rates had been going down, loss cost trends have been rising and you've seen underneath the surface of these loss cost trends, some of these ones that I just talked about and have been talking about that are more troubling and they show up. And then in the current, that all then rolls forward to the current accident year loss picks where you raise your expectations based on what you see today and has -- it has trended from the recent and past years.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And then my follow-up question is...

Evan G. Greenberg
Chairman & CEO

Am I making sense? Am I being clear for you?

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

I think so. I may follow-up off-line, but I think I got the general gist. And then my second question is just around -- you had mentioned the 3 buckets, attritional loss layers excess in large to mega. Can you offer maybe a broad distribution of premiums for Chubb by those buckets?

Evan G. Greenberg
Chairman & CEO

No, no. I don't have those...

Operator

We'll go next to Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess I appreciate, Evan, your comments on not wanting to kind of go and predict the future. I guess I would ask then on your North America commercial that you had 90 bps of deterioration in the core, how much of -- and you call out the commercial property. I mean can you say how much that 90 bps would have been without that commercial property losses?

Evan G. Greenberg
Chairman & CEO

Well, we said that -- I'm a little lost. The 90 bps is in the combined ratio.

Michael Wayne Phillips
Morgan Stanley, Research Division

That's correct. Yes.

Evan G. Greenberg
Chairman & CEO

The loss ratio in North America commercial was 2 points. We told you 1 point was year-to-date property where loss is outside the loss pick and we said the other 1 point was casualty related. That's casualty long-tail lines, which is casualty broadly. And that was just -- and that was in line with our loss picks all year. No change. That's just rate and trend. And we -- Phil gave you that.

Michael Wayne Phillips
Morgan Stanley, Research Division

Yes. No, perfect. And then, I guess, on those 3 buckets, again, that was just asked, do you have any concerns on what you see in that second layer kind of filtering back down into the first layer that you talked about, the first bucket?

Evan G. Greenberg
Chairman & CEO

No. We're not -- no, we're not seeing it that way. And think about it a little bit. The average loss always, it increases by the -- a normal trend factor in the primary layer. Frequency has been pretty steady. So we -- jittery a little bit and -- but steady. And the severity has risen at a -- kind of a normal loss cost trend. But what it does is when attachment points -- and that's what I was trying to say -- in excess don't change over years and years and years, then more losses bleed into that layer. Do you get it?

Michael Wayne Phillips
Morgan Stanley, Research Division

Yes.

Evan G. Greenberg
Chairman & CEO

And that's separate from the larger one-offs, that large excess losses that I talked about. I broke bucket 2 down into 2 pieces for you. And so to answer your question, no, I don't see that. Actually it works the opposite.

Operator

We'll go next to Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

Evan, I wanted to go back to your comment in your prepared remarks where you said that conditions are sustainable. I was just a little bit confused on what in particular is sustainable. Is it the pricing environment? Is it where you view the loss trend environment? Just, I guess, maybe a little more specificity on that, please.

Evan G. Greenberg
Chairman & CEO

Yes, buddy, you're overthinking it. I was talking about the underwriting and pricing environment only.

Ryan James Tunis
Autonomous Research LLP

Got it. So broadly speaking. And I guess I want to follow...

Evan G. Greenberg
Chairman & CEO

Broadly speaking, the trend we see in pricing and underwriting, we see -- in the areas that this is impacting, we see it continuing.

Ryan James Tunis
Autonomous Research LLP

Understood. And then I guess my follow-up is keeping it on this discussion about -- it sounds like -- and I might be wrong on this, but it sounds like there might be a difference between the conversation about loss trend and the conversation about loss picks. Is it like, for instance, Phil mentioned that -- sorry, Evan.

Evan G. Greenberg
Chairman & CEO

Go ahead. No, go ahead.

Ryan James Tunis
Autonomous Research LLP

So Phil's comment that because it's casualty lines in North America, the accident year loss ratio deteriorated a point. Yes, it's similarly to previous quarters, but in previous quarters, you seemingly didn't have quite as much rate. So is it such that there's an uncertain enough loss environment that you're observing a certain level of trend, but maybe you're saying we should, out of an abundance of conservatism, just continue to set loss picks a little bit higher, and that's why that's perhaps staying at 1 point? Or is it more simple than that and it's -- and I just have that wrong?

Evan G. Greenberg
Chairman & CEO

It's more simple than that. I'm trying to understand what your -- how you're thinking about it. But remember, the loss ratio is based on earned rate, not written rate. And it's earned rate over the loss pick you had, earned rate goes into -- again, you trend losses forward. We have an overall loss trend factor of 4.5%, we had an earned rate of whatever it was in those long-tail areas. That went into us imagining a loss pick for the year in those casualty areas of x, and that has remained steady. We have not changed the loss ratios we have selected in part of -- in any of our casualty areas.

Ryan James Tunis
Autonomous Research LLP

So as more of that earned rate comes in, we would expect that point of deterioration to moderate.

Evan G. Greenberg
Chairman & CEO

Then the earned premium grows, then you look at the loss cost trend for each line and you decide does it remain the same? Or does it go up or go down? Ok, that's what I can give you, Ryan. That's why I'm not prognosticating future. I go back to that. But I'll -- based on what I see right now, I've got a 4.5% loss cost trend and I've got -- and that is a blend of all lines of business, and we've got rate that exceeds loss cost trends in North America on a written basis.

Operator

Next, Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Evan, I'm just curious, are you getting tightening terms and conditions and enough to maybe ameliorate some of this loss cost trend if you're going forward? Or should we not think about it that way?

Evan G. Greenberg
Chairman & CEO

Are we getting changes in terms and conditions?

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes. Tightening enough that maybe can -- the 4.5% that you're seeing or some of the social inflation.

Evan G. Greenberg
Chairman & CEO

In some -- and I don't want overstate it. So I don't -- you can't bake it in, in the overall. But we are getting more changes in deductibles, we're getting changes in sub-limits, we're getting changes in attachment points, in casualty excess, and those things are all part and are ameliorating and we put values on those.

Brian Robert Meredith
UBS Investment Bank, Research Division

And that's not in your -- when you give us your price increases, that's not included in that, is it?

Evan G. Greenberg
Chairman & CEO

In some lines it is because where we can actually measure it, it is an exposure adjustment and then we take rate against exposure and we determine -- what we can determine mathematically, that allows us -- that is the same thing as rate. So we do -- we consider it.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then my follow-up question, Evan, I'm just curious, PG&E, I know it has been talked about a little bit. There's nice subrogation that should be coming through there. What are your kind of thoughts on that subrogation, when can you potentially see some of that come through?

Evan G. Greenberg
Chairman & CEO

I'm not going to speculate on that. But we don't see any material or substantial future subrogation opportunity for Chubb from PG&E.

Operator

Our next question will come from Ryan Tunis, Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

I actually didn't have another one, but I'll ask -- I guess I'll ask on agriculture. I think I asked last quarter on this as well.

Evan G. Greenberg
Chairman & CEO

[indiscernible]

Ryan James Tunis
Autonomous Research LLP

No, no, no. I don't think anyone got to it. But yes, I guess there was a little bit of a higher loss pick there. I mean I guess, first of all, what does that incorporate? How much development could we potentially expect on that in the fourth quarter? And what are you still thinking a good combine ratio use for that business is when you look out to 2020 or just, I guess, normalized annual combined ratio for the overall crop segment?

Evan G. Greenberg
Chairman & CEO

I'll just take that last part. We've run in the in the high 80s to 90% historically, and we don't see a change to that. And by the way, look at the last number of years, we had excellent results the last few years in that business. It has a natural volatility, it's crops, it has both an attritional and a cat-like nature to it. And this year, we're going to have a less-than-average year for that business, and let me turn it over to John Lupica for a minute to give you a little more color on that.

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

Yes. Thanks, Evan, and Ryan, too. We certainly adjusted the year-to-date numbers in the quarter based on what we know today. And we still have to capture all of the yields from the field before we can really put a final number. The nice part about the year is prices are pretty much at base prices, we finish out the October harvest price schedule. So due to the delay in planting, the harvest period has been pushed out 5 to 6 weeks. So I think by the end of the year, we'll obviously have a better sense of the year. And as Evan noted, if we don't see any change off our expectation, we certainly expect it to be in that low 90s area.

Evan G. Greenberg
Chairman & CEO

Low 90s combined for the fourth quarter would be about where we would imagine if nothing changes from what we know now. But God, there's a lot of unknowns out there. We have no idea right now about yields. We just don't know.

Ryan James Tunis
Autonomous Research LLP

Perfect. And I guess I want to ask one more. Workers comp, Evan, obviously been at some rate pressure. I mean how are you seeing absolute levels of profitability there? Are there fewer opportunities today than there were one -- at one point? Yes, I mean what's the outlook right now on workers comp?

Evan G. Greenberg
Chairman & CEO

For Chubb, that's not a growth area at this time. We -- it has -- loss cost trends have been quite benign and the industry has responded with a lot of competition and lowering the prices, some of it rational, some of it, to us, just beginning to overshoot that mark. And loss -- the benign loss cost environment, it's questionable whether that will remain. And so we have been -- as rates have been coming down, we have been exerting more discipline in that area. It has not been a growth area for us. And I'm speaking about first dollar primary risk transfer business. In our risk management business, that's a whole different book. And that's where the -- that's large account where it's self-insured or self-funded on some basis, and we provide all kinds of services and we provide excess coverage. And there we're -- that's an area that we're quite active and probably the largest writer of that in the United States, and we have a lot of knowledge and capability, and that's where the client has skin in the game and so that seems to be different.

Operator

Next we'll go to Jay Gelb with Barclays.

Jay H. Gelb
Barclays Bank PLC, Research Division

I know it's early days with regard to other catastrophe loss potential in 4Q, but any initial perspective on Typhoon Hagibis and the California wildfires? And looking at that relative to what was a pretty heavy catastrophe loss a year ago in the fourth quarter, around 8 points of catastrophe losses on the combined ratio, how should we think about that?

Evan G. Greenberg
Chairman & CEO

Well, you should think that this is the end of October. So we're 1/3 through the movie. And I can't tell you how the movie ends. I didn't see it before. So I don't know. We're in the risk business and we're in -- and part of being in the risk business, we take catastrophe exposure. And so I don't wring my hands about having catastrophe losses, I'm just concerned, did we measure the exposure correctly? And did we charge a proper price for taking the risk? Other than that, I'm going to have that volatility. So I'm not wringing my hands. On the Japan typhoon, so far, from everything we know, it is not a significant event for Chubb. On the California wildfires, they are ongoing right now. The only thing we know is the Tick fire is the one that's out. And on that one, we didn't have any -- we didn't have any losses. And on the other 2, I -- it's just very early days and I'd rather not predict. And I don't know what the outcomes will be. At this moment, our losses are very minor.

Jay H. Gelb
Barclays Bank PLC, Research Division

Right. Understood. And then on a separate issue, I just want to follow up on the North America commercial. The gross written premium in the third quarter was up 10% year-over-year. Was there anything -- any one-timers in there that would have influenced that? Or was that kind of a true perspective on the growth rate that you're now seeing in that business giving improving market conditions?

Evan G. Greenberg
Chairman & CEO

We didn't have anything mega in the quarter, but we write large account there. And so we won a number of new large accounts, and that's what just gets baked into that. But nothing in particular that stands out to us.

Jay H. Gelb
Barclays Bank PLC, Research Division

So a strong acceleration in the core business production?

Evan G. Greenberg
Chairman & CEO

It was a strong growth quarter. We won a number of new large accounts in the quarter. I -- but remember, it's lumpy business, so I can't tell you the next quarter is going to be the same. It bounces around a bit. But it was very good. We liked everything we saw about how the market behaved and moved towards us in terms of rate and terms.

Operator

Our next question will come from David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Just had a question and appreciate the color on the 3 buckets. Just wanted to get a little bit more detail on when you really saw or have seen an acceleration in the loss trends in the last 2 buckets? And specifically, if you've seen any increase over the last couple of quarters that you'd note?

Evan G. Greenberg
Chairman & CEO

Nothing over the last couple of quarters that we'd note. I've been talking about this. If you go back into shareholder letters, into quarterly commentaries, we've been talking about this for 2 years.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. So no meaningful acceleration beyond what you've been mentioning. Okay. That's helpful. And then just on the PPD in North America commercial. The Child Victims Act obviously went into effect this quarter. Just wondering, any early indications you got on your exposure there. And if that was an element that led to the lower year-over-year PPD?

Evan G. Greenberg
Chairman & CEO

No. 0, number one. Number two, I think you're referring to New York. California went into effect, I believe the governor signed it last week. And there are a number of other states that are in the middle of passing reviver statutes now. We have no way at this point of estimating the exposure and ultimate loss to Chubb in that. And so -- you're at the very beginning, it's way too early.

Operator

And ladies and gentlemen, at this time, we'll take our final question from Meyer Shields with KBW.

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

Evan, I was wondering if there is any way of quantifying broadly how much of the current insurance market is adequately priced compared to a year ago.

Evan G. Greenberg
Chairman & CEO

Well, Meyer, we haven't done -- we haven't added it up that way or thought about it that way. And when you say the market, I -- that's asking -- I can't -- I cannot tell you the adequacy of the ocean overall. So no.

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

Okay. Fair enough. Second question, given -- I don't know whether it's external weather issues or the underlying climatological changes. Is there any way of assessing what loss trend is for North America property lines?

Evan G. Greenberg
Chairman & CEO

There is no way for you to assess that, but we can assess that.

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

Can you tell us what you've come up with?

Evan G. Greenberg
Chairman & CEO

And it'll vary -- Meyer, I'm not disclosing it, but it will vary -- we're not going into sub-lines, but it'll vary -- we have a number of property portfolios. We have first dollar property that is admitted risk. We have first dollar property that is E&S and they behave differently. We have excess property, and we have other coverages that go along with that. And then we have large account property and so -- and they all -- it all behaves a little bit differently.

Operator

And this does conclude today's question-and-answer session. I'd like to turn the call back over to today's presenters for any additional or closing remarks.

Karen L. Beyer
Senior Vice President of Investor Relations

Thank you all for your time and attention this morning. We look forward to speaking with you again next quarter. Thank you, and have a good day.

Operator
And this does conclude today's call. Thank you for your participation. You may now disconnect.