S&P Global
Market Intelligence

Chubb Limited NYSE:CB

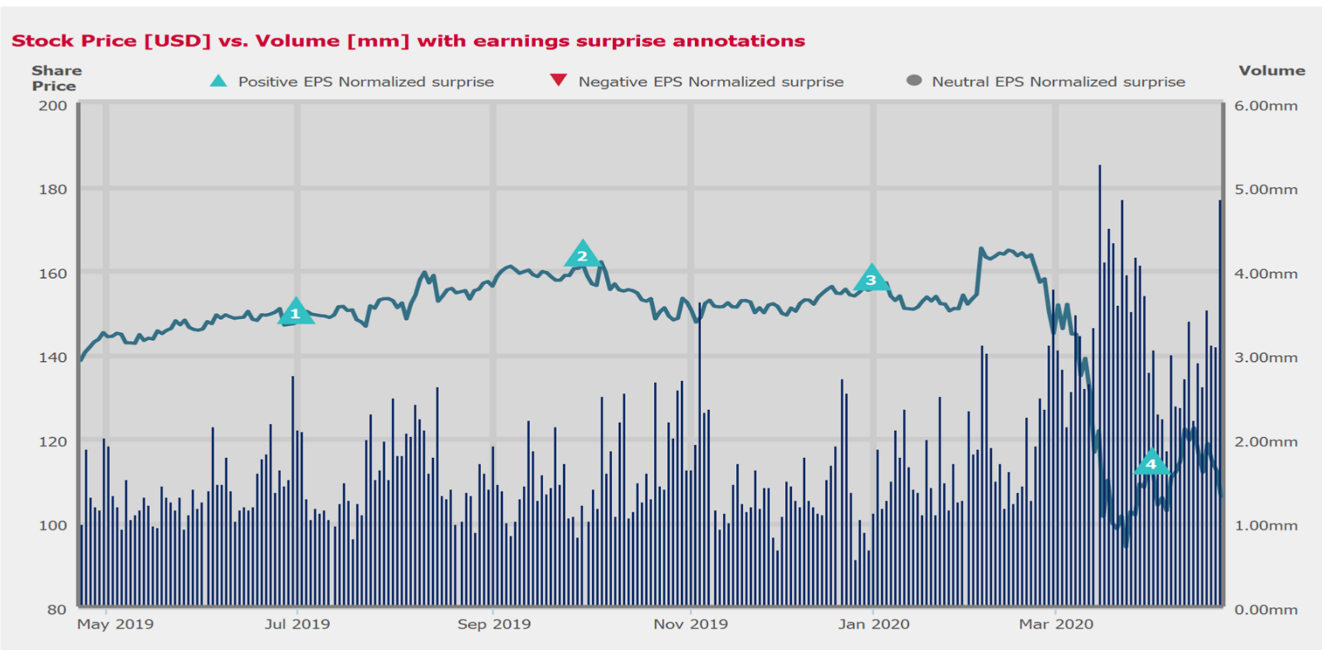
FQ1 2020 Earnings Call Transcripts

Wednesday, April 22, 2020 12:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.57	2.68	▲4.28	2.55	10.59	11.18
Revenue (mm)	7139.50	7332.00	▲2.70	8000.83	31859.50	33074.43

Currency: USD
Consensus as of Apr-22-2020 10:38 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	2.56	2.60	▲1 1.56 %
FQ3 2019	2.61	2.70	▲2 3.45 %
FQ4 2019	2.15	2.28	▲3 6.05 %
FQ1 2020	2.57	2.68	▲4 4.28 %

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EXECUTIVES

Evan G. Greenberg
Chairman, President & CEO

Karen L. Beyer
Senior Vice President of Investor Relations

Philip V. Bancroft
Executive VP & CFO

Timothy Alan Boroughs
Executive VP & Chief Investment Officer of Chubb Group

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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

Jon Paul Newsome
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Lawrence David Greenberg
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Michael David Zaremski
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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 and welcome to the Chubb Limited First Quarter 2020 Earnings Conference Call. Today's call is being recorded. [Operator Instructions]

For opening remarks and introductions, I would like to turn the call over to Karen Beyer, Senior Vice President, Investor Relations. Please go ahead.

Karen L. Beyer
Senior Vice President of Investor Relations

Thank you, and welcome to our March 31, 2020, first quarter earnings conference call.

Our report today will contain forward-looking statements including statements relating to company performance and the impact of the COVID-19 pandemic and its economic and other effects, 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 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.

And now it's my pleasure to turn the call over to Evan.

Evan G. Greenberg
Chairman, President & CEO

Good morning. We're in an unprecedented moment of historic proportions. None of us living today has experienced an event of this nature or magnitude. It is at once surreal and catastrophic. As a country, we will manage through and heal both our society and economy, and it will take time. The decisive heroic actions taken by our health professionals in combination with the support and leadership of our federal and state governments and our vast private sector and civil society are a powerful force to combat the virus, stabilize our financial markets, support our economy, which remains in a virtual coma, and set the stage for recovery. The most important thing we can do now to achieve stability and health while reopening the economy is to improve our test, digital trace and isolate capability.

The insurance industry plays an important role in our economic foundation. During this health and economic crisis, we are shouldering our responsibilities and carrying our share of the financial load. This event impacts both the liability and asset side of our industry balance sheet. With that, I'm going to divide my remarks into 2 parts: first, our quarterly results, which were very good; then I'll provide some perspective on the current environment and how we are operating.

To begin, as you saw from the numbers, we reported core operating income in the first quarter of $2.68 per share. The quarter was marked by very strong premium revenue growth globally and excellent underwriting results on both a published and current accident year basis. The calendar year P&C combined ratio for the quarter was 89.1% versus 89.2% prior year with P&C underwriting income up over 9.5% in constant dollar.

On a current accident year basis, excluding cats, the combined ratio was 87.5%, a full point improvement over prior year with current accident year underwriting income up over 18%. The major difference between calendar year and current accident year underwriting income growth was a reduced benefit from the runoff of the '19 crop insurance year. You'll recall, '19 was a difficult year for agriculture while '18 was an excellent one. Book and tangible book value per share declined 5.5% and 7.5%, respectively, for the quarter. And Phil will have more to say about investment income, book value, cats and prior period development.

Turning to growth in the rate environment. P&C net premiums grew 8.9% on a published or 9.3% in constant dollars. The commercial P&C pricing environment continued to firm across the globe. We secured greater market share as we achieved improved rate to exposure in more lines of business and this necessary firming continued into April. Overall rates increased in North America commercial, which includes both major accounts and specialty as well as middle market and small commercial by 10.5%. New business was up 27.5% in the quarter and renewal retention was 95% on a premium basis.

Our North America commercial P&C business had a strong quarter with net premiums growth of over 10%. In major accounts and specialty commercial, excluding ag, premiums grew about 9.5% with major account retail growth of 7% and E&S wholesale growth of over 19%. In terms of rate increases, rates for major accounts were up 13%. And in Westchester and Bermuda, they were up 16% and 42%, respectively.

Turning to our U.S. middle market and small commercial division. Premiums grew 11% overall with middle market up 9% and small commercial up over 40%. Renewal retention in our middle market business was 94.5%. Middle market pricing was up over 6.5%. And excluding workers' comp, it was up over 7%. In our North America personal lines business, net premiums written in the quarter were up 4.8% and retention remained very strong at 98% on a premium basis.

In our international general insurance operations, growth remains strong with net premiums written up 10% in constant dollar and FX then had a negative impact of about 1.3 points. Net premiums for London wholesale business grew over 27% while our retail division was up over 8.5%. Growth in our international retail business was led by Latin America, which was up 13%. Continental Europe and the U.K. had growth of 9.7% and 9.1%, respectively. And overall rates in our international retail business were up 8% and 18% in our London wholesale.

Our international life insurance business had a strong quarter with net written premiums up nearly 30% in constant dollar. John Keogh, John Lupica, Paul Krump and Juan Luis Ortega can provide further color on the quarter, including current market conditions and pricing trends. But that's ancient history and from another time. What's important is to recognize the underlying strength and momentum of our company as we entered this moment.

Turning to the current environment. The COVID-19 pandemic and consequent economic crisis will, of course, impact Chubb. Our growth momentum, particularly in our commercial P&C business globally, continued into April and we continue to experience improved rate to exposure. As we go forward, offsetting that will be a meaningful impact to growth from the health and economic crisis as exposures in important areas shrink for a time with the impact varying by country.

This includes consumer-related lines, for example, travel insurance, A&H discretionary purchases, automobile insurance, commercial lines where exposures are reduced while businesses are closed or as they reopen and are diminished or simply go out of business. Small commercial businesses, in aggregate, will be more impacted than medium, which will be more impacted than large companies. But it will vary substantially by industry. For credit-related products, such as trade credit, surety and other lines such as workers' comp, premium revenue will be impacted by reduced exposures.

As you know, we do not give forward guidance. And in this case, the degree of revenue impact is simply unknowable. On the other hand, as I said, we are and will continue to benefit in terms of growth from improved technical conditions as many insurance companies take actions to reduce exposures or improve their rate to exposure to correct for inadequate underwriting.

This will be an earnings event for Chubb. It will not threaten our balance sheet. Operating earnings will be impacted predominantly on the liability side of the balance sheet from increased insurance claims, though the asset side will likely be impacted as well from increased asset impairments. In addition, as I just mentioned, earnings will be impacted by a reduction in premium revenues for a period of time. In sum, from what we know now, this will be a manageable cat-like event. However, from an exposure, we really don't discretely price for. So its impact is additive to our normal projected loss exposure. In a sense, it's like what terrorism exposure was before 9/11.

We have a very strong balance sheet. Our capital and liquidity position are robust, and Chubb will continue to operate at a high level and emerge strong or stronger. Again, insurance has an important role to play in society and in the economy, and we are shouldering our share of responsibility while doing our job to support our employees, our customers and our business partners. We have been quite clear about our priorities, and it shows in our response.

First, to the extent possible, we have taken care of our 33,000 people around the world and endeavored to keep them safe through aggressive work-from-home protocols. We have provided them a degree of peace of mind, knowing their jobs and benefits are secure during the health crisis with a no-layoff pledge. Second, we have remained consistent in how we take care of our customers and distribution partners, doing what we can to support their needs. In fact, we are operating around the globe as a normal company during abnormal times.

I am so proud and absolutely grateful for how my colleagues are performing every day as a group. From the smallest to the largest unit, from the biggest to the smallest country, how each is focused on delivering on our mission from internal operations to underwriting, sales, claims, marketing and finance, it's really quite remarkable. We're extending payment terms to commercial customers, recognizing their cash flow pressures. We're providing a premium credit for auto policyholders in the U.S., recognizing their reduced exposures. We're supporting our U.S. small business clients with premium reductions for their reduced exposures. And we're supporting our small commercial clients by providing health care workers and first responders with gift cards redeemable at our customers' businesses.

Lastly, as a corporate citizen, we're contributing to the immediate emergency response today while supporting the future tomorrow. Our commitment of $10 million to pandemic relief efforts globally is being directed to a range of organizations that provide essential resources immediately in areas that are facing the most acute need. This includes providing emergency medical equipment and supplies to health care facilities and helping community food banks support those who are hungry and vulnerable, including so many who've become unemployed as a result of the pandemic. And this is only the first chapter. As we move into the recovery phase, the Chubb Foundation will commit substantial additional funds.

In sum, our company is very strong. Our balance sheet is in good shape, and we are operating well. While I see pressure on revenue and earnings in the short term, I see much opportunity for us in the future. Given all of our capabilities, I am confident Chubb will weather these difficult times and emerge stronger from this challenge.

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

Philip V. Bancroft
Executive VP & CFO

Thank you, Evan. I want to begin with a few words on our financial position, which remains exceptionally strong. Our balance sheet includes a AA-rated investment portfolio with a relatively short duration and a conservative approach to our loss reserves. We have over $67 billion in total capital, which, as we enter this period, is very strong, stemming from superior operating performance. Our access to liquidity on a global basis is excellent and unimpaired. Our operating cash flow remains quite strong and was $1.7 billion for the quarter.

Net realized and unrealized losses for the quarter of $3.7 billion after tax included $2.2 billion from an investment portfolio, which resulted primarily from widening credit spreads in the investment-grade and high-yield bond portfolio through March 31. Even after considering the valuation adjustments noted, our portfolio remained in an overall unrealized gain position through the quarter end. Since that time, credit markets have recovered and liquidity has improved as a result of the extraordinary actions taken by the fed in response to the COVID-19 pandemic. The portfolio mark has improved by approximately $1.7 billion pretax through this Monday.

We also had a mark-to-market loss on our variable annuity reinsurance portfolio of $560 million. This was primarily due to negative equity returns and an increase in implied volatility. Again, this is purely a mark-to-market adjustment required because the transactions are deemed to be derivatives for accounting purposes, and it does not indicate a reduction in cash flows from our reinsurance treaties for the quarter. The results are in line with our expectations, given these market conditions.

Finally, realized and unrealized losses included $896 million after-tax losses from FX related to our net asset exposure to foreign currency. These represent a point-in-time mark-to-market valuation adjustment and do not affect the capital position of our international operating units. As we noted in the press release, the marks are market price-driven based on the last day of the quarter and a moment in time. We believe they are largely transient and will accrete back to book value over time.

Adjusted net investment income for the quarter was $893 million pretax and was within our guidance range. During March, we engaged on the margin in several tactical adjustments to the portfolio. We purchased a modest amount of high-quality equities and modestly increased our exposure to investment-grade corporate bonds. While there are a number of factors that impact the variability in investment income, we expect our quarterly run rate to remain in the range of $885 million to $895 million.

Net catastrophe losses for the quarter were $237 million pretax or $199 million after tax, including $224 million from global weather-related events and $13 million so far from COVID-19, which has been classified as an ongoing catastrophe. While there was no significant impact on core operating income in the first quarter relating to COVID-19, the company anticipates that this global catastrophe event will have an impact on revenue as well as net and core operating income in the second quarter and potentially future quarters as a result of an increase in insurance claims due to both the pandemic and recessionary economic conditions.

On a constant dollar basis, net loss reserves increased $363 million in the quarter and include the impact of catastrophe loss payments, favorable prior period development and crop insurance payments in the quarter. On a reported basis, the paid-to-incurred ratio was 95%. After adjusting for the items noted above, the paid-to-incurred ratio was 88%.

We had favorable prior period development in the quarter of $118 million pretax or $94 million after tax. The favorable development is split approximately 28% in long-tail lines, principally from accident years 2016 and prior, and 72% in short-tail lines. Last year's favorable development of $204 million included $61 million of positive development from our agriculture segment resulting from stronger-than-expected results from the 2018 crop year. As we said at year-end, based on a difficult 2019 crop year, this level of development would not recur in the first quarter of 2020.

Among the capital-related actions in the quarter, we returned $666 million to shareholders, including $340 million in dividends and $326 million in share repurchases at an average price of $142.67 per share. Given the current economic environment and to reserve capital for both risk and opportunity, the company has suspended further share repurchases indefinitely. Our annualized core operating ROE in the quarter was 9.4% and our core operating return on tangible equity was 15.1%. Our core operating effective tax rate for the quarter was 16.3%. We continue to expect our annual core operating effective tax rate to be in the range of 14% to 16%.

I'll turn the call back to Helen -- I mean, to Karen, sorry, excuse me, to Karen.

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

Question and Answer

Operator

[Operator Instructions] And with that, we will take our first question from Michael Phillips with Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess the first question is going to be on the future impact on the wealth side from COVID in the coming quarters. And obviously, without giving numbers, but maybe just where you feel Chubb is most exposed to that from, I guess, a geographic and coverage perspective.

Evan G. Greenberg
Chairman, President & CEO

I'm not going to give any specifics in that. There'll be -- it will come from a variety of areas as we imagine right now. And there'll be -- the reason we didn't put up numbers in the first quarter is because we're going to do it in a thoughtful way based on claims that come in that are analyzed and reported. And then we're able to have a framework to project to IBNR with that in a thoughtful way as well. But claims will come from travel insurance and A&H. We'll have business interruption losses, where we purposely provided coverage as opposed to where we -- to the vast majority where we did not provide coverage.

We'll have it through credit-related, that is surety and trade credit and maybe political risk, who knows? Workers' comp will produce losses, I'm sure. And so it kind of gives you a sense, and it will be -- I think it will be pretty broad-based because it's created exposures for clients, for the industries and the economies broadly. And it will -- geography, well, over half our business is in the United States. So I expect, all things being equal, since our greatest exposure is in the U.S., by territory, the greatest amount of loss will come out of the U.S. And I hope that helps you.

Michael Wayne Phillips
Morgan Stanley, Research Division

Yes. It does. I know, Evan, you've been very actively involved in Task Force and things that are happening here in the U.S. and I guess, clearly, all the pressure from states on BI and states on workers' comp and the big restaurants that in bed with Trump and things like that, all these different pressures in the U.S. And not really looking for your one expectation, but just your thoughts on how this all kind of shakes out, given all the different scenarios on how the pressure on insurance kind of unfolds and what to expect maybe as this thing kind of shakes out.

Evan G. Greenberg
Chairman, President & CEO

The insurance industry is an important part of financial plumbing of our economy in the U.S. And frankly, it's part of the financial plumbing that's critical globally. The insurance industry, I think, is performing quite well and I think will perform very well in meeting their obligations and our obligations. When it comes to business interruption, there is activity that I'd put into 2 categories. One is on the political side, where there's talk about retroactively imposing cover on insurers for something that they didn't cover and didn't charge a premium. That is retroactively changing contract and increasing our exposure. I think that, that's unnecessary harm and would do great damage. It would damage or destroy the insurance industry in a terrible way. It would simply take money from one to give to another. Who does that serve? And frankly, it's unconstitutional, and we are a constitutional democracy. And preservation of that and the certainty of that in such uncertain times is paramount. So I'd start with that.

Secondly, the insurance industry, for the most part, except for those customers who discretely purchased it, BI insurance doesn't cover COVID-19. It covers and requires direct physical loss to a property. And the regulators who've approved these forms because we're highly regulated confirm that themselves that it's not contemplated. Lawyers and the trial bar will attempt to torture the language on standard industry forms and try to prove something exists that actually doesn't exist and try to twist the intent when the intent is very clear. And the industry will fight this tooth and nail. We will pay what we owe. And finally, what I'd say is business interruption insurance, actually, we should remember is very good value for money because what it does cover, we pay out as an industry, roughly from what we can estimate, about $0.70 on the dollar and every business -- for every business interruption dollar of premium we collect in claims. And that's pretty good value for money. So thank you for the question.

Operator

And we will take our next question from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I guess, picks up on the BI conversation a little bit. So internationally, does policy language typically follow the standard language within the U.S.? I guess you did mention that you could see some business interruption losses from COVID. But should we think conceptually that the same excludes -- virus exclusions would imply internationally as well as you attribute it to within the U.S.?

Evan G. Greenberg
Chairman, President & CEO

Yes. Elyse, 2 comments. First, internationally, it follows the same pattern generally, which is it requires direct physical loss to property as a trigger for BI and -- number one. And then number two, the exceptions to that for Chubb are where we purposely extended cover for different clients in different industries and purposely took on the exposure. And in those cases, it's clearly defined.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then my second question, you guys suspended your buybacks indefinitely. And the language, the prepared remarks as well as your press release, kind of attributed to seem like economic uncertainty as well as just having capital flexibility. We've obviously seen suppressed prices throughout the insurance space coming off of this COVID uncertainty. So can you just kind of provide us a little update in terms of suspending the buybacks and how you think about just having more capital as well as the potential for some M&A here, given that valuations are much more attractive right now?

Evan G. Greenberg
Chairman, President & CEO

Elyse, when you look at the historic -- and let's just look at this from a big-picture perspective. We are in the worst economic event that we have faced as a nation and globally since the Great Depression. The economy is shut down. The opening of the economy is going to take time, and it's not going to happen in a smooth way. And no one knows for sure the shape or size or duration. No one knows with any certainty. And frankly, to be buying back stock at that time, to me, is so clearly unwise. And the fiduciary responsibility is to our customers, our shareholders, our employees. And I think capital strength of balance sheet, capital and liquidity are king in this environment. And those are attributes and strength you can't have enough of and very fundamental, very basic. And when there is visibility and there is certainty, and we all have a better sense, then we will reassess.

Operator

We will take our next question from Paul Newsome with Piper Sandler.

Jon Paul Newsome
Piper Sandler & Co., Research Division

So first question, I was wondering if you could talk about how we might see a really fundamental change in the perception of risk. I think of sort of hard and soft markets is happening because of underwriting, seeing risk change.

Evan G. Greenberg
Chairman, President & CEO

I can't really hear what you're saying. Can you speak up, Paul, and say it clearly? Because we're on a funny line right now. Yes.

Jon Paul Newsome
Piper Sandler & Co., Research Division

My apologies. Hopefully, that's better. I was hoping you could talk about where you see the perception of risk changing in the insurance industry, given the current environment. Where do we see underwriters likely changing how they do underwriting and rethinking risk concentrations and such?

Evan G. Greenberg
Chairman, President & CEO

Yes. First of all, we're asking a question right now that is asking about what do you think of the results of the wildfire when we're in the middle of the fire. This event is unfolding, and I would urge you to think that way. It's not like it has occurred and now we're looking back. We're in the middle of it. And so some of the implications, it's too early to tell, don't know. But the one thing I will say, perception of risk always occurs when a new peril rears its head from the more academic to the actual. It has a powerful impact and impacts perception of risk. And in this case, the last time we had that was really terrorism. And now in this case, we will go through in a similar exercise in some ways. Underwriters will. It will vary by company whether they actually had considered pandemic in their ERM modeling, which we do or had not and really examine concentrations and how it impacts both sides of the balance sheet.

And then by the way, how you modeled and what the actual looks like are always different. There's always basis risk. And reality is always different than the laboratory. And this, no different. But this is a peril that the industry really didn't discreetly charge for. It's a peril that has no bounds in terms of geography nor time. So it's a very different kind of cat and that has, in a practical sense, infinite tail. So it will impact. And by the way, no doubt in my mind, better underwriters had better control over the exposures. And underwriters who were maybe not as good will have many surprises that will emerge. And time will tell, and we'll see that as this event unfolds. I hope that helps you.

Jon Paul Newsome
Piper Sandler & Co., Research Division

No, that's great. My second question, we've focused very much on the business interruption issues and the political risk in the U.S. Could you speak to how that may differ outside the U.S.? And I think just some of the basics, I think sometimes you just don't know how extensively it was included overseas and how the political situation may differ.

Evan G. Greenberg
Chairman, President & CEO

Yes. Overseas, we're not the -- in any one country, Chubb is not a large middle market or small commercial writer. It's a business we're growing. And in most every jurisdiction, no different than the United States, small commercial and middle market customers have standard industry forms providing coverage in their country. They require direct physical loss. Most countries that I know of adhere -- that where there's significant concentration of exposure for the industry, adhere to the rule of law. And their forms are pretty darn clear. Large commercial customers, business interruption insurance is typically on a more manuscript basis. And so each customer's forms speak to a large degree for themselves. And in each jurisdiction, they'll be adjudicated based on the wordings as they were drafted. And frankly, Paul, to date, I feel more stability outside the United States on the regulatory and legal front than I do in the United States, the irony.

Operator

And our next question will come from Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

First question, do you feel the COVID losses will impact your reinsurance cover and you'll get some help from your reinsurance partners?

Evan G. Greenberg
Chairman, President & CEO

That's good -- that's specific to each reinsurance cover. It's very fact-specific, we'll say.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. My next question, if I look at the North America commercial segment, and I heard your commentary about exposure and pricing being 10%, I think, plus. And I'm looking at gross written premiums in the segment growing a lesser 6%. Is there -- is exposure shrinking in the North America commercial segment? Trying to understand the dynamics there.

Evan G. Greenberg
Chairman, President & CEO

North America commercial grew like 9%. So I don't know what you're saying.

Michael David Zaremski
Crédit Suisse AG, Research Division

So it's still less than the 10% -- 10.5%...

Evan G. Greenberg
Chairman, President & CEO

Mid and small grew, you can see, double digit. Large account grew a little slower. And last year, we wrote a one-off transaction related to -- or 2 one-off transactions related to wildfire last year that didn't repeat this year.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Got it. So maybe some noise in there.

Evan G. Greenberg
Chairman, President & CEO

But underlying that, it's like really strong growth.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. And I'll just sneak one quick one in. Given you announced the no-layoff policy for your valued employees and there will be top line pressure, should we expect a material spike in the expense ratio in 2Q?

Evan G. Greenberg
Chairman, President & CEO

No. That's as far as I'll go on forward guidance because I don't give forward guidance, but no.

Operator

And we will take our next question from Greg Peters with Raymond James.

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

So on the call and in your press release, you reported $13 million of catastrophe losses related to COVID-19. And then you made the statement saying this will be tracked as a separate ongoing catastrophic event. So that's clear that there's going to be losses and revenue, and I'm -- revenue hit and losses related to this. Is the tracking that you're going to provide going to give us color on both? And then maybe you can dovetail that into the accounting geography of your announced premium reduction programs in the interim U.S. small business to personal lines, et cetera.

Evan G. Greenberg
Chairman, President & CEO

Yes. Well, I'm not going to give you much satisfaction on that question. But the -- nice try. The loss part will be tracked. You're doing your job. The loss part will be tracked as part of cat. And that's what we report as cat. The revenue reduction from exposures, et cetera, those will just come out in our published numbers. And we'll give you as much color as we can around it as we understand it or know it. We don't see it yet. But we know it's coming. You can't have an -- I mean it's just common sense. You can't have an economy shut down and exposures aren't shrinking and premium is a function of rate to exposure. So just pretty basic there. And that will just be on a published basis. But what we call as cat and assigned a cat number is to corral the losses and distinguish them from this -- for the cat event from what we would think is the underlying sort of run rate at the time.

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

Got it. I had to try. I know the broader...

Evan G. Greenberg
Chairman, President & CEO

I gave you a framework. And I think that, that will help you.

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

I understand and I do appreciate it. So I guess my second question, the investment market has been clearly thrown into chaos. And so I was curious if you could comment, one -- and I know you guys did provide some color in your opening comments. But just some additional color around how your approach to investing is going to change. And then maybe also dovetail in on the life insurance business because a lot of that business is a spread-based business. And with interest rates at near 0, I've got to imagine that the outlook for those type of business is under a great deal of duress.

Evan G. Greenberg
Chairman, President & CEO

Remember, I'll just answer the life insurance part quickly for you. Our life business is not in the United States. It's in Asia. It's savings and protection-related and very strongly protection-related. And the interest rate environment is quite different. It's -- and so -- and the minimum guarantees you provide are extremely low. And you can see we publish it to you, our earnings on international life business are pretty good, grew nicely. On the investment portfolio, I'm going to ask Tim Boroughs, our Chief Investment Officer, to give you a little more color. But fundamentally, the changes we are making in investment activity are tactical and not strategic and the fundamentals remain in place. Tim, you're on.

Timothy Alan Boroughs
Executive VP & Chief Investment Officer of Chubb Group

Yes. Thanks. Maybe put a little context around this. As you watch the Fed, their response to the markets has been, I think, very impressive. It's been large and historic and it included the purchase of corporate bonds both in the investment and the high-yield sectors. So I guess that one way you might think about our portfolio is that the Fed is buying or supporting the financing over 80% of what we own. So I think in that regard, we're in good shape. As Phil mentioned in his commentary, we have made a few tactical adjustments to our portfolio. I think this is an advantage of the dislocations that occurred in March with liquidity. And that included corporate bonds and equities. And as Evan mentioned, overall, I think that there's -- there remains too much uncertainty on how the virus will progress and how quickly the economy recover to make any significant moves off our current allocation.

Evan G. Greenberg
Chairman, President & CEO

I hope that helps you a little bit.

Operator

And next, we will hear from...

Evan G. Greenberg
Chairman, President & CEO

Meyer Shields.

Operator

KBW.

Meyer Shields

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

We're hearing a lot of, I think, very legitimate opposition to changing the definition of business interruption exposure, and it seems like a lot less concern over expanding presumptions of [consistability] within workers' compensation. Is that a fair read? And should we expect that difference in attitude to persist?

Evan G. Greenberg
Chairman, President & CEO

Say that again, Meyer, the second part. Will you repeat the question for me?

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

Okay. There's a lot of, I think, completely appropriate opposition to retroactively changing the exposure on business interruption policies. But I'm not hearing that much pushback from insurance companies about the fact that workers' compensation presumptions are changing a lot of states. And I understand the sort of emotional components of that. But from an economic standpoint, how are you thinking about that change in exposure?

Evan G. Greenberg
Chairman, President & CEO

Yes. Meyer, a very bright line distinction that should not confuse anyone, business interruption insurance, the -- not the regulatory, the political activity around it, where there are those who are suggesting to retroactively change contract and add coverage that was never contemplated nor charged for is very different than the workers' comp, where I think you're referring to health care workers and first responders, where there is the notion of presumption that you got the virus on the job. That is not a change of contract. That is something perfectly within the purview depending on the state of the regulators and the legislator -- legislatures. And so that's within legal bounds to do that and so very, very different. And I wouldn't confuse the 2. And by the way, it varies by jurisdiction. Some jurisdictions right now have all along said that a medical worker, for instance, who contracts an illness, it is presumed to have occurred on the job, whereas in other -- for any other profession, it's construed to be a general illness you could have gotten anywhere and so it's not job-related. So workers' comp is very different in that regard.

Operator

And next, we'll hear from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Evan, so I'm just curious, understand the implications for exposures here going forward. But do you think any impact on pricing going forward, be it -- will companies lax up a little bit on pricing, given the economic strain? Or is it going to go the other way, given potential increase in exposure?

Evan G. Greenberg
Chairman, President & CEO

I think that the industry is -- has woken up to rate to exposure in the last year, in particular, last 1.5 years and understands generally the need to get paid for -- properly for the exposures [take on]. I don't see that trend changing. And I think this event is very likely -- more than very likely, I think this event will be the largest event in insurance history, when you add it all up, both asset side and liability side of the balance sheet. And I think that just raises the specter of risk and the notion of managing exposure. And I think it will just put a point on getting the right rate to exposure. So I think that absolutely continues.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then second question, just on the business interruption, is it possible to give us a percentage or number of your policies that actually carry a virus endorsement and maybe some perspective on what a typical kind of supplement on that is? I know it's typically pretty heavily supplemented.

Evan G. Greenberg

Chairman, President & CEO

No. Brian, I'm not going into that level of detail. And -- but what's very clear, the vast, vast majority of our policies require direct physical loss. And then the sublimits vary by whether it's a major account or it's a middle market or it's a small commercial client. It really varies and -- on both what we offered and what they bought because we offer different options.

Operator

And next, we'll hear from David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Evan, just hoping to get your outlook on D&O and other management liability lines amid COVID and likely lawsuits alleging misleading disclosures and other things related to COVID. I mean how big of an issue do you think this is for the industry and then for Chubb in particular?

Evan G. Greenberg
Chairman, President & CEO

Who knows? So I'm not going to overly speculate about that. And that's just -- but out of every event -- and every event creates trial bar, ambulance chasing, drive-by shooting, where they get most of the money and the supposed aggrieved to get very little. I have no doubt that there will be COVID-related D&O suits related to price drop and disclosure, et cetera. And frankly, it is frivolous. It is an unnecessary tax on business and society at this point. It is a waste of time in terms of both resource and time and money. And Congress ought to grant immunity to business in some form against that kind of activity that is so counterproductive, enriches one industry at the expense of an economy that is trying to emerge. All stocks dropped broadly. The COVID-19 was no one's fault. And the foreseeability of it, no one is -- no one has that kind of vision. And so there's still the notion of buyer beware for basic things. And in my mind, that's something that we ought to deal with. And I'm glad you asked that question.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

No. Great. Appreciate the color there. And then just also, you guys are obviously, I think, top 5 in the workers' comp market. Just wondering if you could give us a sense for the percentage of your book that is health care and other frontline responders, what sort of exposure you have there?

Evan G. Greenberg
Chairman, President & CEO

It's -- I won't give you specifics and only to say though health care is not a meaningful part of our book of business.

Operator

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

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Just a couple of questions. One, I've heard a lot about cyber risk being greater in this environment with a lot of workers working from home...

Evan G. Greenberg
Chairman, President & CEO

I can't hear you. Can you speak more clearly? I'm sorry, just to...

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Can you hear me? Can you hear me better now?

Evan G. Greenberg

Chairman, President & CEO

Now I can.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Great. So my first question is around cyber. I know you guys have a large cyber practice. There's been speculation or talk about an increased cyber risk considering that a lot of employees are working from home. Do you see that as a large issue? And if so, how can the industry address that?

Evan G. Greenberg
Chairman, President & CEO

No. To date, we're not seeing a meaningful change in patterns.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And then the second question is probably a more philosophical question. But I think you've seen several insurers as renewals come up maybe articulate some of the exclusions around pandemic and around COVID-19 specifically in policies. Do you think that, that actually could create an opening for the plaintiffs' bar to go after a prior language that was maybe less explicit in the exclusions?

Evan G. Greenberg
Chairman, President & CEO

I can't speak to what people's manuscript forms look like. And therefore, whether they're correcting weaknesses with that, I can't speak to that. But generally, no. I think COVID-19 or pandemic-related exclusions are just belt and suspenders on policies -- on the basic policies that require direct physical loss.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. If I could sneak one other quick one in, I think in response to Brian's question, if we look at the vast majority of your business interruption policies have physical damage trigger requirements. Can you say anything about what -- how many of your policies have viral exclusions?

Evan G. Greenberg
Chairman, President & CEO

No. It really -- no, it's -- I'll leave it at that. No. There is -- it's -- where it's appropriate, it does.

Operator

And we will take our next question from Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

I guess I'll try one more time on this business interruption. But I mean I guess one question I have is should we -- is the real question in terms of the business interruption exposure how many? Or is it how long does this lockdown happen? What's kind of more relevant in terms of sizing that loss?

Evan G. Greenberg
Chairman, President & CEO

Say that again?

Ryan James Tunis
Autonomous Research LLP

Is the question more about the number of policies? Because that's sort of what the questioning had been so far that what percentage might actively cover the virus. My question is how dependent would that loss ultimately be on how long the lockdown is in place? Or in other words, are there caps and limits on that?

Evan G. Greenberg
Chairman, President & CEO

There are caps and limits in all policies. And duration of shutdown, it's just axiomatic in business interruption that length of shutdown can impact and does impact severity of loss, pretty basic in any BI cover.

Ryan James Tunis
Autonomous Research LLP

Got you. And then my other question, just taking a step back. I know you mentioned in the general op-ed this morning that you think ultimately the industry will pay out tens of billions of dollars in claims. Is there any reason in your mind that you should think that Chubb's market share of those claims should be more or less than what its global market share is currently as the global leader in P&C?

Evan G. Greenberg
Chairman, President & CEO

I think Chubb, from everything I know, we're a pretty good underwriter. We're a pretty buttoned-up, disciplined shop. We have good controls within the organization. And I have no reason to believe that Chubb would produce something outsized. Look, this is a significant event for the industry and it's going to be a significant event for Chubb as well. It's an earnings event. It's not a balance sheet event, as I said. And I do think it will be the largest loss, single loss in industry history, when you add up both sides of the balance sheet and you look at the capital impact to the industry.

Operator

And our final question will come from Larry Greenberg with Janney.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

I just want to be certain that I understand the accounting and the intent of how you're going to recognize losses in the second quarter. So should we assume that you will put up a catastrophe loss for what you expect will be your ultimate exposure from COVID, recognizing that so much is changing and there's a lot of unknowns down the road? But is that your plan?

Evan G. Greenberg
Chairman, President & CEO

We will let the facts speak to us. We will put up our loss based on the facts as we know them at the time, when we come to close the books on the second quarter. And I'm not going to speculate ahead right now. And we will then provide our perspective and color around that to help define it and give you a sense. But I'm not going to speculate on where we'll be by the end of the second quarter to give you definitive color on the question you have.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Okay. And then just on...

Evan G. Greenberg
Chairman, President & CEO

It will depend on what we know. Get used to being in a world with a lot of unknowns and a lot of uncertainty right now. And you're requesting certainty when there's a great deal of uncertainty. And a lot of that is for worksheet projection-related. And I would caution against trying to overspeculate on any of it.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

Yes. I'm really not asking for any level of certainty. But really, just the intent to put a number up for what you -- given your level of information at that given point of time for what you can best estimate as your ultimate exposure.

Evan G. Greenberg
Chairman, President & CEO

Exactly right. We will put up, and we always do, our best estimate of ultimate loss to an event. We always do that. And no different here, we're consistent that way. So you can expect that of us.

Lawrence David Greenberg
Janney Montgomery Scott LLC, Research Division

And then just curious on your thoughts on legislative proposals that might be productive probably just prospectively. But is there any conceivable model where government involvement could be helpful on a retrospective basis?

Evan G. Greenberg
Chairman, President & CEO

There is a -- I absolutely see a public-private partnership prospectively. I don't see the sense of one on some retrospective. So there is -- and I'm going to give you both very quickly. The retrospective one would say, "Well, why don't you pay the BI losses and the government will backstop you 100%?" Well, right now, the government's current program to provide loans that then become grants if you retain your employees is a very efficient way versus now we create some BI way. And by the way, BI insurance to adjust a claim requires that you prove it's an ascertained net loss. You have to prove what your expenses were and what -- and your loss of revenue and all of that. And that's -- and the adjudication of that is messy and takes time, very -- it's time-consuming and it's one at a time. And what matters right now is cash flow to small businesses. And so it wouldn't be an efficient way of dealing with the cash flow needs. The government has already created a program. So what problem are we trying to solve?

On a prospective basis, I see it differently. Why doesn't the industry underwrite pandemic? Because of the size of the tail, as I say it, as it's an event that has no geographic or time limit. And so the tail is so great, the industry has a finite balance sheet that can't take infinite risk. If the government would take the tail risk and take the significant loss on -- in a pandemic event, the industry, I believe, could take a retention. I could be underwriting pandemic. A little -- very different, but a little like think about TRIA. And I can tell you, I'm in favor of a public-private partnership in shouldering the burden in the future. And Chubb has put together its own proposal. And we will be sharing that around shortly with the appropriate parties, both inside the industry and outside the industry.

Operator

And this concludes today's question-and-answer session. And I would now like to turn the call back to Karen Beyer for any additional or closing remarks.

Karen L. Beyer
Senior Vice President of Investor Relations

Thank you all for joining us this morning. We look forward to speaking with you again. Have a nice day, and stay well.

Operator
And this concludes today's conference. Thank you for your participation, and you may now disconnect.