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CB.N - Q2 2021 Chubb Ltd Earnings Call

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OVERVIEW:

Co. reported 2Q21 core operating income of $1.620b or $3.62 per share.

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PRESENTATION

Operator

Good day, and welcome to the Chubb Limited Second Quarter 2021 Earnings Conference Call. Today's conference is being recorded. (Operator Instructions)

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

Karen L. Beyer - *Chubb Limited - SVP of IR*

Good morning, everyone, and welcome to our June 30, 2021 Second Quarter Earnings Conference Call. Our report today will contain forward-looking statements, including statements relating to company's performance, pricing and business mix, growth opportunities and economic and market conditions, which are subject to risks and uncertainties, and actual results may differ materially.

Please see our recent SEC filings, earnings release and financial supplement, which are available on our website at investors.chubb.com for more information on factors that could affect these matters. We will also refer today to non-GAAP financial measures, reconciliations of which to the most direct comparable GAAP measures and related details are provided in our earnings press release and financial supplement.

Now I'd like to introduce our speakers. First, we have Evan Greenberg, Chairman and Chief Executive Officer; followed by Peter Enns, our Chief Financial Officer. 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.

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Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Good morning. As you saw from the numbers, Chubb had an outstanding quarter, highlighted by record operating earnings and underwriting results, expanded margins and double-digit premium revenue growth globally, the best in over 15 years, powered by commercial P&C and supported by continued robust commercial P&C rate movement. Chubb was built for these conditions.

We have averaged double-digit commercial P&C growth over the past 10 quarters. The breadth of our product and reach, combined with our execution-oriented underwriting culture and our reputation for service and consistency enable us to fully capitalize on opportunity globally. In conditions such as these size and scale are our friend.

Core operating income in the quarter was $1.62 billion or $3.62 per share, again, both records. On both a reported and current accident year ex-cat basis, underwriting results in the quarter were simply world-class. The published P&C combined ratio was 85.5% and current accident year was 85.4% compared to 87.4% prior year. The 2 percentage points of margin improvement were almost entirely loss ratio related.

Current accident year underwriting income of $1.2 billion was up 27%. While on the other side of the balance sheet, adjusted net investment income of $945 million, also a record, was up nearly 9.5% from prior year. Peter will have more to say about cats and prior period development, investment income and book value.

Turning to growth and the rate environment. P&C premiums were up 15.5% globally, with commercial premiums, excluding agriculture, up nearly 21%. The 15.5% growth for the quarter and 12.6% for the first 6 months were the strongest growth we have seen since 2004. Growth in the quarter was extremely broad-based, with contributions from virtually all commercial P&C businesses globally, from those serving large companies, to midsized and small and most regions of the world and distribution channels.

We continue to experience a needed and robust commercial P&C pricing environment in most all important regions of the world, with continued year-on-year improvement in rate to exposure on the business we wrote, both new and renewal. Based on what we see today, I'm confident these conditions will continue.

In North America, Commercial P&C net premiums grew over 16%. New business was up 24%, and renewal retention remained strong at 96.5% on a premium basis. In our North America Major Accounts and specialty commercial business, net premiums grew over 13%, with each division, Major Accounts, Westchester and Bermuda having its largest quarter in history in terms of written business. And the standout was our middle market and small commercial division, which had its biggest quarter in about 20 years, driven by record new business growth and strong retentions.

Overall rates increased in North America commercial by a strong 13.5%, which is on top of a 14.7% rate increase last year for the same business, making the 2-year cumulative increase over 30%. And remember, in North America, rates have been rising for almost 4 years. However, they have exceeded loss costs for only about 2 years now. Loss costs are currently trending about 5.5% and vary up or down depending upon line of business. In general commercial lines loss costs for short-tail classes are trending around 4%, while long-tail loss costs, excluding comp, are trending about 6%.

Let me give you a better sense of the rate increase movement by division and line in North America. In Major Accounts, rates increased in the quarter by about 16% on top of almost 18% prior year for the same business, making the 2-year cumulative increase over 36%. Risk management-related primary casualty rates were up almost 9%. General casualty rates were up 27% and varied by category of casualty. Property rates were up nearly 12% and financial lines rates were up almost 20%.

In our E&S wholesale business, the cumulative 2-year rate increase was 39%, comprised of an increase of circa 18% this quarter on top of 18% prior year second quarter. Property rates were up about 16.5%. Casualty was up about 21%, and financial lines rates were up over 21%.

In our middle market business, rates increased in the quarter over 9.5% on top of over 9% last year, making the 2-year cumulative increase 20%. Rates for property were up over 10.5%. Casualty rates were up 11%, excluding workers' comp, and comp rates were down at about 0.5%. Financial Lines rates were up over 17.5% in our middle market business.

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Turning to our international general insurance operations, commercial P&C premiums grew an astonishing 33% on a published basis or 24% in constant dollars. International retail commercial grew 27% and our London wholesale business grew 60%. Retail commercial P&C growth varied by region, with premiums up 36.5% in our European division, with equally strong growth in both the U.K. and on the continent. Asia Pacific was up over 29%, while our Latin America commercial lines business grew over 14.5%.

Internationally, like in the U.S., in those markets where we grew, we continued to achieve improved rate to exposure across our commercial portfolio. In our international retail commercial P&C business, the 2-year cumulative rate increase was 35% comprised of increases this quarter and prior year of 16% each.

Two territories in particular, the U.K. and Australia, stand out in terms of rate achievement. In our U.K. business, rates increased in the quarter by 18%, on top of a 26% rate increase prior year for the same business, making the 2-year cumulative increase 48%.

In Australia, the 2-year cumulative rate was 42%, comprised of an increase of 23% this quarter, on top of 16% prior year. In our London wholesale business, rates increased in the quarter by 13%, on top of a 20% rate increase prior year, so making the 2-year cumulative 36%.

International markets began firming later than the U.S. And again, like with the U.S., rates have exceeded loss costs for about 2 years now. Outside the U.S., loss costs are currently trending 3%, though that varies by class of business and country.

Consumer lines growth globally in the quarter continued to recover from the pandemic's effects on consumer-related activities. Our international consumer business grew 13% in the quarter, and that's on a published basis. It grew 5% in constant dollars. Breaking that down for you, international personal lines grew 20% on a published basis, while our international A&H grew 6.5%, but it was essentially flat in constant dollar.

Within our A&H book, a nascent recovery in our leisure travel business outside of Asia is beginning to result in growth, although passenger travel activity is still well below pre-pandemic levels. In both our group A&H business, with its employer-based benefits and our consumer-focused direct marketing business, premiums were up mid-single digits, still impacted by the pandemic but beginning to improve.

Net premiums in our North America high net worth personal lines business were up over 2.5%. Nonrenewals in California and COVID auto-related renewal credits had almost a point of negative impact on growth in the quarter. Our true high net worth client segment, the heart of our business, grew almost 8% in the quarter.

Overall retention remained strong at over 94%, and we achieved positive pricing, which includes rate and exposure of 13% in our homeowners portfolio. Loss cost inflation in homeowners is currently running about 11%. Lastly, in our Asia-focused international life insurance business, net premiums plus deposits, were up 55% in the quarter, while net premiums in our Global Re business grew over 32%.

In sum, we continue to capitalize on a hard or firming market for commercial P&C in most areas of the world. Both growth and margin expansion are 2 trends that I am confident will continue. Our organization is firing on all cylinders. We're growing our business and our exposures, and we continue to expand our margins. Our leadership and employees are energized and driven to win. I couldn't be more proud or humbled by the results they are producing, and I want to thank them all publicly for their efforts. I am confident in our ability to outperform and deliver strong, sustainable shareholder value.

I'll now turn the call over to Peter.

Peter C. Enns - *Chubb Limited - CFO*

Thank you, Evan, and good morning. First, I'd like to acknowledge Phil Bancroft's almost 20 years of service and leadership with the company. I'm excited to be in my new position and build upon all that he has achieved -- all he has achieved under his leadership, and I'm honored to be leading the very strong team he has built going forward.

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Turning to our results, we completed the quarter in an excellent financial position and continued to build upon our balance sheet strength. We have over $75 billion in capital and a AA-rated portfolio of cash and invested assets that now exceeds $123 billion. Our record underwriting and investment performances produced strong positive operating cash flow of $3.1 billion for the quarter.

Among the capital-related actions in the quarter, we returned $2.3 billion to shareholders, including $1.9 billion in share repurchases and $352 million in dividends. Through the 6 months ended June 30, we returned $3.1 billion, including $2.4 billion in share repurchases and dividends of $704 million. We recently announced a onetime incremental share repurchase program of up to $5 billion through June 30, 2022.

As Evan said, adjusted pre-tax net investment income for the quarter was a record $945 million, higher than our estimated range, benefiting from increased corporate bond call activity and higher private equity distributions. We increased the size of our investment portfolio by $2.4 billion in the quarter after buy-backs due to strong operating cash flow and high portfolio returns, including $694 million in pre-tax unrealized gains from falling interest rates. At June 30, our investment portfolio remained in an unrealized gain position of $3.3 billion after tax.

During this challenging investment return environment, we will remain consistent and conservative in our investment strategy and do not expect to materially adjust the portfolio asset allocation over the near term. We will be selective but active, and will continue to focus on risk-adjusted returns and we will not reach for yields.

There are a number of factors that impact the variability in investment income, including the amount of operating cash flow available to invest, the reinvestment rate environment and the assumed prepayment speeds on our corporate bond calls and variability around private equity distributions. Based on the current interest rate environment and a normalization of bond calls and private equity distributions, we continue to expect our quarterly run rate to be approximately $900 million.

Our annualized core operating ROE and core operating return on tangible equity were 11.5% and 17.7%, respectively, for the quarter. And as a reminder, we continue to present the fair value mark on our private equity funds outside of core operating income as realized gains and losses instead of net investment income as other companies do. The gain from the fair value mark this quarter of $712 million after tax, would have increased core operating ROE by 5 percentage points to 16.5% and core operating income by $1.59 per share to $5.21.

Book and tangible book value per share increased by 4.2% and 5%, respectively, from the first quarter due to record core operating income and realized and unrealized gains of $1.4 billion after tax in our investment portfolio, which again primarily came from declining rates and mark-to-market gains on private equities. The increase in book value per share also reflects the impact of returning over $2 billion to shareholders in the quarter.

Our pre-tax P&C net catastrophe losses for the quarter were $280 million, principally from severe U.S. weather-related events. There was no overall change to our aggregate COVID-19 loss estimate.

We had favorable prior period development in the quarter of $268 million. This included a charge for molestation claims of $68 million pre-tax compared with $259 million in the prior year. Excluding this charge, we had favorable prior period development in the quarter of $336 million pre-tax, split approximately 30% in long-tail lines, principally from accident years 2017 and prior and 70% short-tail lines.

For the quarter, our net loss reserves increased $1.1 billion in constant dollars and our paid-to-incurred ratio was 80%. Our core operating effective tax rate was 15.8% for the quarter, which is within our expected range of 15% to 17% for the year.

Now I'll turn the call back over to Karen.

Karen L. Beyer - *Chubb Limited - SVP of IR*

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

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will begin with Michael Phillips with Morgan Stanley.

Michael Wayne Phillips - *Morgan Stanley, Research Division - Equity Analyst*

First question is on growth, I guess, maybe specifically North America commercial lines. Are you pleased with the growth there relative to the rate you're getting? And I guess, what I'm implying is how much of the growth you're getting is true market share gains versus just all rate?

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Well, I think it's a serious combination of both. You just heard me provide you new business growth rates and strong renewal retention rates, and that means exposure growth. And that means, in your parlance, gaining market share. And so all in, very, very strong growth, fundamental growth in the business. And by the way, actual exposure growth was negative in the quarter. And -- but new business and renewal retention and rate well overcame that. You saw a 21% growth in commercial P&C.

Michael Wayne Phillips - *Morgan Stanley, Research Division - Equity Analyst*

Okay. And sticking with North America commercial lines. The core loss ratio relative to 1Q was up a little bit. Was there some impact from portfolio transfer in the second quarter? Or is that just a normal second quarter event that happened? Just wondering what impact that was with that in the quarter that maybe...

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

No, it's just normal -- it's normal quarter-on-quarter seasonalization. There wasn't some impact from LPT or that. And the mix of business changes quarter-on-quarter, and that's it. I think the thing you're more focused on is the year-on-year change, and it looks pretty strong.

Operator

We will now take a question from David Motemaden with Evercore.

David Kenneth Motemaden - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Just wanted to follow up on that last question, Evan, just on the North American commercial loss ratio. How much of the 2.4 points year-over-year improvement was driven by mix versus rate in excess of trend?

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Sure. You're really asking me the question, I want to help you with it, of LPTs and the impact of writing so much LPT last year versus this year, which can inflate loss ratio last year versus this year.

If you adjust for the LPT impact and a little bit of other onetime noise the year-on-year combined ratio, adjusting for that, improved 1.8 points. It was 0.7 on expense, and it was 1.1 loss ratio related.

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David Kenneth Motemaden - *Evercore ISI Institutional Equities, Research Division - MD & Fundamental Research Analyst*

Got it. That's perfect. That's exactly what I was looking for. And that's good to see that accelerate a bit from the improvement last quarter. I guess just another question, just overall on the expense ratio. Maybe this is also for Peter. I think in the past, you've talked about some of the improvement being driven by some non-sustainable COVID-related impacts for T&E, things like that. Was it -- did that come back, those onetime impacts? Or are we still realizing some sort of benefit from that?

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

No, you're fundamentally looking overall at a pretty good run rate. And look, if things opened up more and as they open up more, there'll be more travel-related expense, a little more entertainment-related expense. We don't anticipate it to have a big impact, a material impact. Still a pretty good run rate there. And that's on the OpEx ratio. Remember, the acquisition ratio bounces around with mix of business.

Operator

Our next question will come from Greg Peters with Raymond James.

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

So the first question will focus on just the pricing commentary. You really laid out some very robust results in terms of price achievement, not only in the recent quarter, but really for the last almost 2 years. And in your press release, I think you said you're confident these market conditions will continue. So, Evan, you know where I'm going to go with this, which is there's growing...

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

I don't actually, Greg. There's a lot, but I don't know where you're going. Go ahead.

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

Well, it's going to -- listen, there's a lot of rhetoric in the market that the rate environment is going to start to soften. And so where I'm going with it is from where you sit today, you're producing an 85% combined ratio. That's pretty darn good. Is -- are we going to be in an environment, say, 2 years from now where we're back to negative rate increases across many lines of commercial? Or talk about your views on how you see the market developing?

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Look, I can't tell you what we're going to see 2 years from now. I can give you a sense of -- in my own judgment because I don't have a crystal ball. Based on the current market conditions and where I think they're going over the medium term right now, I think loss -- I think rates will continue to exceed loss costs. They're exceeding loss costs right now by a reasonable margin.

And the industry overall -- forget Chubb, the industry overall has been, number one, achieving loss rates in excess of loss costs for just 2 years now. And secondly, the industry starts at a loss ratio that is quite high. And to achieve a reasonable risk-adjusted return, it has to continue to achieve rate in excess of loss cost for a prolonged period of time.

Interest rates are so low, there's no joy on the other side. And then you have an external environment that is -- that has risk around it, from cyber, to climate, to the litigation environment. And all that is baked into, I think, the mood and the thinking among those in the industry underwriting today.

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And so in my judgment, from everything I see, it is natural that I gave you year-on-year movement in pricing and rate so that you would have a perspective. And as you think about the rate of increase declining going forward, that is natural but it's well in excess of loss cost, and I believe that will continue. A long answer, but to a good question that I think deserved a fulsome response.

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

Well, and your comments about loss costs are interesting because there's two -- and you mentioned litigation. So there's a perspective that the legal environment, because of COVID, was shut down last year, and that's going to come back in spades. And then the second piece on loss cost is there's all this rhetoric about inflationary pressures, especially on things like auto. And do you see that sort of manifesting itself in terms of higher loss costs for the industry as we think about the next 12 months?

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Yeah. So here's how I see it. When we look at the long-tail lines, we're using a historic trend ignoring COVID and the shutdown, assuming a reversion to the mean and which was recognizing what I think is a relatively hostile legal environment and litigation environment. So there's -- the actual at the moment is running better than the trended 6% we're using. But we think that's a head fake and a timing question in how we imagine trend and therefore, what you really need in pricing.

On the short-tail side of the business, I really gave you 2 numbers. I gave you homeowners. And I gave the homeowners running a double-digit observed inflation today. I gave you a long-tail -- I gave you a short-tail commercial that we're trending at 4%.

On the commercial property side, from all we see and all of our data, currently at the moment, it's actually running below that, both frequency and severity. But we see enough of what we see as inflation externally. We see enough of what we see in the homeowners book that we continue to trend it in both pricing and reserving at that 4% range.

Operator

We will now move to Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

My first question, Evan, going back to some of the pricing commentary you gave, it seems like most lines still healthy levels above loss trend. So we've heard from some folks in the industry as certain lines are getting to rate adequate and momentum is slowing. But it sounds like just really across the board, most lines are still in need of rate. I guess, would you characterize any lines as being rate adequate or just general kind of pushing consistently the rate across the majority of your commercial lines?

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

I'm not sure, Elyse. I heard your commentary, but I'm not sure I got the question.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

I was just trying to get a sense, like broadly across commercial lines and you make your commentary about it still being a firm market. Do you see every line still in need of healthy, robust rate increases? Or any lines may be more at adequate levels right now?

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Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Elyse, it really varies across the board. When I look at the industry overall, I think, in many classes, the industry, in aggregate, if I rolled it all together as one big portfolio, needs rate. When I look at it for the Chubb portfolio, most of our business is at or approaching risk-adjusted rate adequacy.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

Okay. That's helpful.

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

That's as far as I will go.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

That's helpful.

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

But it varies by line, by territory, by class.

Elyse Beth Greenspan - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

That's helpful. And then my second question, you guys outlined a pretty robust $5 billion capital share repurchase plan last week. As you think about the opportunities, your excess capital position, do you think that -- should we think about the capital return being prorated over the next year depending upon where your share price is? Maybe it could come sooner than later? How are you thinking about share repurchase, given the $5 billion and also understanding that you guys bought back a good amount of your shares in the second quarter as well?

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Nice try, Elyse. Stay tuned.

Operator

Now we will hear from Ryan Tunis with Autonomous Research.

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

Evan, one observation, I guess, we had is the Overseas General segment loss ratio improvement has actually been keeping up pretty well at the North America commercial loss ratio improvement. And I guess that's a little bit surprising to us, just given the mix. And I was just curious if that surprises you as well.

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

No. Not at all.

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Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

So when you think about Overseas General North America commercial, you think that they have pretty similar margin profiles at this point, given pricing conditions?

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Well, they're running different combined ratios. It varies by segment of Overseas General, by country, by the mix. It varies wholesale versus retail. But Overseas General continues to improve at a pace that's very similar to North America's pace.

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

Got it.

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

I'm a little confused beyond that, Ryan, and I want to help you if I can.

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

No. I -- just Overseas General is not a segment where we've been used to seeing a lot of loss ratio improvement for a long time. I thought that was more attributable to the A&H mix, but it's been impressive. I was just...

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

No, no. Here it is, bud. Over half the overseas general business is commercial business. And -- but you haven't been in a market where you take Europe or you take the London market, both wholesale and retail. Those were soft markets for an extended period. And we were scratching dirt for growth, but we were getting growth. And -- but we were very disciplined in underwriting, and we were making good money and good margins, a decent return. Not off-the-charts risk-adjusted return, but it -- a decent return and relative to the market, we were well outperforming.

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

Got it.

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

You've seen. And what you get is, particularly with Europe and then with the U.K., they're slower to react. But you see that reaction taking place, that was just an opportunity for us to drive right now, both growth and rate.

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

Got it. And then a follow up on Elyse's question, your response for the Chubb book, so a lot of lines are approaching risk-adjusted rate adequacy. I guess just from a growth perspective, how much is that driving -- when your -- the top line? Like when all of a sudden, you see a line that a year ago wasn't rate adequate, and now it is. Is that a substantial marginal contributor to the top line growth we're seeing? Or is it more incremental than that?

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Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Hey, here's how it goes around here. Number one, underwriting will never destroy book value. So if it's running over 100, you have to fix it or kill it immediately. In this kind of environment, if -- you have to strive in your business to achieve an adequate risk-adjusted return. If the market will allow an adequate risk-adjusted return on that cohort of business that you are underwriting, then I'll tell you what, more submissions, more quotes and more broker relations, more brokers and agents and drive to write that business.

Ryan James Tunis - *Autonomous Research LLP - Partner of Property & Casualty Insurance*

Got it.

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

We know our minds clearly. And that's the point I was really trying to make. We've been growing commercial at double digit now for 10 quarters. No one's really noticed that. And that's because we saw an improving -- an improved environment. Short of that, how many years were people saying, "Oh, show us the benefit of Chubb and ACE coming together and this and that?" We said it's about underwriting discipline, and it's about a market environment. Now you're surprised to see it. Don't be.

Operator

(Operator Instructions) We will now move to Tracy Benguigui.

Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

I'm going to give you a breather on pricing and loss trends. There's a lot of market -- no problem. I don't know if you'll like this question, but there's a lot of market attention paid to your Century subsidiary with respect to the BSA bankruptcy since that entity has been run off, not made it, not guaranteed and not part of an intercompany pool.

So I'm not trying to box you in on the BSA side. But I'm wondering, structurally, could you conceivably let that entity's assets run dry? Or could there be circumstances that you may theoretically be under any obligation to contribute capital? I mean I recognize that Century is regulated by Pennsylvania, which is also your group supervisor.

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Tracy, in our 10-K, we have fulsome disclosure around Century and our obligation. It is under a statutory order negotiated and consummated between Cigna and the state of Pennsylvania before ACE purchased Cigna's P&C business, which included Century. And that 10-K disclosure around our obligation to Century speaks for itself. It's quite clear. And it is a limited obligation, and I will leave it at that.

Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Okay. Great. I also recognized that Bermuda is opposing the G7 tax proposal. In theory, if this minimum 15% global tax rate floor holds, how would you be thinking about Chubb's seating arrangement with overseas affiliates?

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Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

I would -- how would I think about what? What about affiliates?

Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Your seating arrangement. Yes, your seating arrangements with overseas...

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Oh, our seating arrangements.

Tracy Dolin-Benguigui - *Barclays Bank PLC, Research Division - Director & Senior Equity Research Analyst*

Yes.

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

We seed risk for pooling and capital efficiency purposes. That's the reason we do it. We don't do it for tax purposes. I'll give you a very simple example so you'll get it really clearly.

Imagine that on Chubb's balance sheet, I can take $10 million net per risk on a given class of business. But imagine that in all the countries we do business in around the world, I can't take that kind of retention because of my limited amount of capital. If I tried to take it in each jurisdiction and I had a loss in Malaysia or I had a loss in XYZ country, I'd have to be dividending out of one place, contributing capital in another. It's the most inefficient way to run a business.

So the pooling of risk and internal reinsurance is what allows you to leverage a global balance sheet to the benefit of local operations and it provides in one place the stability of spread of risk against an amount of capital. So that's the fundamental reason that you start with, that Chubb uses internal reinsurance. Thanks for the question, Tracy.

Operator

Our next question will come from Brian Meredith with UBS.

Brian Robert Meredith - *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

Evan, just curious, the big $5 billion share repurchase authorization you announced. Does that all indicate kind of what your view is of inorganic kind of growth opportunities here, be it opportunities or at least your appetite?

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

No. Nothing has changed, steady as she goes. The -- we're disciplined. Everything I've ever said about M&A. We're disciplined. Money doesn't burn a hole in our pocket. It has to advance what we're doing strategically. It has to be good for shareholders in terms of value creation. All of that, nothing changes.

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Our earnings generation power, as we see it, our current capital position and surplus capital, together, led us to the decision that the right thing to do and the prudent thing to do, just walking the talk we've said about we'll hold capital and have capital flexibility for risk and growth, organic and inorganic. And we'll return other than that to shareholders. That's all we're doing.

Brian Robert Meredith - *UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist*

And Evan, another question here. You are a fairly meaningful player in the cyber insurance marketplace. I'm just curious, can you give us kind of your thoughts on that marketplace right now? I know there were some issues with losses last year, but I understand that the pricing environment is pretty good right now, and just your view of opportunities there.

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Yes. Look, the pricing environment is pretty good. The -- but that's not it. That is not addressing, by itself, the fundamental issue that the industry has to wrestle and Chubb is beginning to respond to, but others are slow to react to, that are the fundamentals around cyber.

Like pandemic, cyber has a catastrophe profile to it and the nature of cat potential that has no time nor geographic boundary to it. And you take the growing digital interconnection of the world today in everything, personal and business, and that potential for catastrophe, the concentrations of exposure are only growing.

And you see the spectre of risk raising its head in all the cyberattacks we see, malicious cyberattacks, both nation state and non-nation-state actors for various reasons: one, to disrupt society; another, to make money. And so you have a frequency of loss on one hand and rate -- and some adjustment to coverage can manage that.

On the other side of the coin, you have a systemic nature of this. And I can tell you, in the way Chubb underwrites, we are facing it and we are beginning to address it. And then on the -- in underwriting. And then on the other side are the real public policy questions, and we are involved in raising our voice in the public policy arena.

Number one, when you look at ransomware. While I don't think the government should outlaw ransomware payments at this time, I do think that we ought to be looking at whether we allow crypto payments. I do think the nature -- because who are you paying? Terrorists?

Secondly, Treasury right now. You should require -- you should be obligated under current laws, anti-money laundering laws to get permission to make a ransomware payment. We should be removing the incentive out of the system for ransomware attacks, which are all about money for the most part. And unmask what is the social or the intention to disrupt our country politically and unmask that part of it and show it.

Secondly, there are all kinds of things that the private sector and public sector could be doing together. Sharing of information is one of them right now and understanding where systemic risk aggregations are is another. So I'll stop right there, but it is more than about achieving rate in cyber today.

Sorry, Brian, more than you expected, but we have clear views about this.

Operator

(Operator Instructions) We'll now hear from Meyer Shields with KBW.

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Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Two, I guess, small ball questions. Evan, you talked about the general expense ratio, but I was hoping you could give us a little color on what drove the actual decrease in administrative expenses in North American commercial year-over-year?

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

Meyer, how about we take that one off-line with you? We'll go through the accounting of it.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay.

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

There was nothing substantial.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. Fair enough. In the same sort of tone, other income or expenses in North America commercial, that was negative 14. Is there anything unusual in terms of what's building up to that number?

Evan G. Greenberg - *Chubb Limited - Executive Chairman & CEO*

No, nothing unusual within that. It's just noise, quarter-to-quarter noise.

Operator

And with no additional questions in the queue, I will turn the call back over to your host for any additional or closing remarks.

Karen L. Beyer - *Chubb Limited - SVP of IR*

Thanks, everyone, for your time and attention this morning. We look forward to speaking with you again next quarter. Have a great day.

Operator

Ladies and gentlemen, this will conclude your conference for today. Thank you for your participation, and you may now disconnect.

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