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CB.N - Q1 2022 Chubb Ltd Earnings Call

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## OVERVIEW:

Co. reported 1Q22 core operating income of \$1.64b and core operating income per share of \$3.82.

## CORPORATE PARTICIPANTS

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

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

**Peter C. Enns** *Chubb Limited - Executive VP & CFO*

## CONFERENCE CALL PARTICIPANTS

**Alexander Scott** *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

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

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

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

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

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

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

**Paul Newsome** *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

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

**Yaron Joseph Kinar** *Jefferies LLC, Research Division - Equity Analyst*

## PRESENTATION

### Operator

Good day, and welcome to the Chubb Limited First Quarter 2022 Earnings Conference Call. Today's conference is being recorded. (Operator Instructions)

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.

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

Thank you, and welcome to our March 31, 2022, First Quarter Earnings Conference Call. Our report today will contain forward-looking statements including statements relating to company 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](https://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. And then we'll take your questions. Also with us to assist with your questions this morning are several members of our management team.

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

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

Good morning. We had an excellent start to the year with record per share operating earnings and underwriting results, double-digit Global P&C commercial lines premium growth, accompanied by rate increases in excess of loss cost, and improving growth in our consumer business globally.

Core operating income in the quarter was \$1.64 billion or a record \$3.82 per share, up 52% on a per share basis over prior year.

In the quarter, we produced simply outstanding underwriting results. \$1.28 billion of underwriting income was more than double prior year with a combined ratio of 84.3%, both records.

Our P&C current accident year combined ratio, excluding catastrophes, was 83.5%, a 1.7 point improvement over prior year, with about 1 point from loss ratio improvement and the balance, expense driven.

On the investment income side, adjusted net investment income was circa \$900 million for the quarter. We are predominantly a buy-and-hold fixed income investor. And given rising interest rates and widening spreads, we expect investment income to increase from here. Every 100 basis points increase in interest rates for us is worth, on an annualized basis, about \$1.2 billion in pre-tax investment income.

We have a portfolio duration of about 4 years. So a rise in rates begins to earn in reasonably quickly. Peter will have more to say about other financial items.

Let me say a few words about the Russian-Ukraine war. The events unfolding before our eyes are a human tragedy of epic proportions with profound geopolitical implications. Our actual incurred losses to date from the event are de minimis. And from all we know today, while additional losses may develop over time, this will not represent a meaningful event for Chubb.

Integration planning around the Cigna transaction is quite active and remains on track. We expect to receive regulatory approvals leading to a close during the second quarter. There are no changes of substance to the guidance we gave you, and any changes are modestly positive. We will update you after closing.

Now turning to growth. The rate environment and inflation, Global P&C premiums, which exclude Agriculture, increased 8.8% in the quarter on a published basis or 10.7% in constant dollars, with commercial up 12% and consumer up 8%. Growth in the quarter was broad-based with contributions from virtually all commercial businesses globally,

from large corporate to middle market to small, from traditional to specialty in most all regions of the world. Commercial P&C premiums, excluding agriculture for North America were up 10.5%, while in Overseas General, they grew 13% in constant dollars, but we then had 5 points of FX impact to the published results.

Agriculture premiums were down in the quarter because of a return of premium to the government based on our level of profitability for the '21 crop year. This is a favorable and expected development. You will recall that crop insurance is a business where revenue and losses are shared with the government. For the '22 crop year, we will have a substantial increase in premium revenue over last year, given commodity prices and other factors. Most of this will be recognized in the third quarter.

Returning to Commercial P&C, in terms of rate, the level of rate increase remains strong, and as I have said before, is naturally moderating as individual portfolios achieve adequacy and additional rate is then required to keep pace with loss costs. The rate environment is reasonably orderly. And in aggregate, rate increases remain in excess of observed and projected loss costs.

In the quarter, in North America, total P&C premiums, excluding agriculture, grew 9.6%, again with commercial up 10.5%. Growth this quarter in commercial lines was led by our middle market and small commercial business with premiums up almost 12%, followed by our major accounts in specialty division, which grew 9.5%.

Total exposure change was a positive 1 point in the quarter, a combination of an increase in economic exposure of about 3.2% due to higher payrolls, sales and other economically sensitive activity; and on the other hand, a decline in exposure due to underwriting changes, such as increased attachment points, and higher deductibles, which is a good thing.

Renewal retention for our retail commercial businesses was 100% on a premium basis, very strong. Overall rates increased in North America commercial lines 8.7%. Major Accounts, which serves the largest companies in America, rates increased 9.3%. General casualty rates were up over 15.5% and varied by class of casualty, while risk management-related primary comp and casualty rates were up 3.7%. Property rates were up 9.1%, and financial lines rates were up 13.9% and varied by subcategory.

In our E&S wholesale business, rates increased by more than 11%. Rates were up 13.3% in property. Casualty was up 10%, and financial lines rates were up 15.4%. And in our middle market business, rates increased 7.7% or 9.5% excluding comp. Rates for property were up over 8%. Casualty rates, excluding comp, were up 8.5%, and comp rates were down 1.5%. The comp pricing, which is rate plus exposure, was up over 9%. And finally, financial lines in middle market were up 17%.

We are trending loss costs at 6%, and it varies by line. In general, we're trending loss costs in the rates we charge for short-tail classes just over 6.5%, though the actual is running lower. In long tail, excluding workers' comp, we continue to trend at a 6% rate overall. And our first dollar workers' comp book is trending between 4% and 4.5%.

In short-tail classes, we are actively monitoring property valuations, loss costs as they develop and the real-time drivers of cost are changes in inflation, labor, parts and supplies as well as the delays caused by supply chain disruptions given the length of time to repair or replace which can add additional pressure on costs. In long-tail lines, we actively monitor and study both frequency and severity of each class.

Turning to our International General Insurance operations, retail commercial P&C premiums grew 15% in constant dollars, while our London wholesale business grew just over 5.5%. Retail commercial growth varied by region, with premiums up 18.5% in Latin America, followed by growth of about 16.5% in our U.K. and Europe division, and Asia Pac was up 14.5%. Internationally, like in the U.S., we continued to achieve improved rate to exposure across our commercial portfolio.

In our international retail business, rates increased in the quarter 10%, while in our London wholesale business, rates increased 9%. Both varied by class and by region as well as country within region.

Outside North America, loss costs are currently trending about 4%, though that varies by class of business in country. In general, loss costs for short-tail classes are running just under 4%. And we anticipate this to increase. In long-tail, we are trending at about a 4.5% rate.

International consumer lines growth in the quarter continued to recover from the pandemic's impact on consumer-related activity, and premiums increased about 9.5%, though FX then scrubbed 6 points off the growth rate. Premiums in our International A&H business grew 8.6% in constant dollars. Our international personal lines business grew over 10%. Latin America led the way with A&H and personal lines growth of over 18% and 17.5%, respectively, while Asia Pac's growth for these 2 product lines was over 6% and 24.5%, respectively.

Net premiums in our North America high net worth personal lines business were up about 7.5%. Last year's reinsurance reinstatement premiums, due to CAT losses, had a negative impact on growth. Adjusted for that, plus other onetime items, our underlying growth was about 5.5% in the quarter.

Our true high net worth client segments, the heart of our business, grew over 13% in the quarter, driven by a flight-to-quality and competitors leaving certain markets, while overall retention was very strong at nearly 99%.

In our homeowners business, we achieved pricing, which includes rate and exposure of 12.3%, while homeowners loss costs are running in the 11% range. In our Asia-focused international life insurance business, net premiums plus deposits were flat in constant dollars, but will increase in future quarters. While net premiums in our Global Re business were up 22%.

In sum, we had an outstanding quarter all around, and we are off to a great start to the year. As I look ahead, I remain optimistic and confident in the things we can control, though I have naturally grown more cautious given the world around us. Economic growth, general inflation and central bank actions and the war come to mind. We will continue to capitalize on favorable underwriting conditions for our Commercial P&C businesses globally.

Consumer lines growth should continue to recover. As interest rates rise, our investment income will as well. And as I stated last quarter, our strategic investments, including the acquisition of Cigna, and likely later in the year, Huatai, will provide us with greater revenue and earnings growth opportunity.

I'll now turn the call over to Peter, and then we'll be back to take your questions.

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**Peter C. Enns - Chubb Limited - Executive VP & CFO**

Good morning, everyone. As you've just heard from Evan, we are starting the year with an exceptional quarter with strong top line growth and record P&C underwriting results that produced operating cash flow of \$2.4 billion for the quarter.

Turning to our balance sheet and capital management. Our financial position remains exceptionally strong with \$73 billion in total capital. We continue to remain extremely liquid with cash and short-term investments of over \$5 billion. I would note, S&P and Fitch both reaffirmed our AA ratings and stable outlook, reflecting our strong financial position.

Among the capital-related actions in the quarter, we returned \$1.3 billion or 82% of core earnings to shareholders, including \$1 billion in share repurchases and \$340 million in dividends. As of March 31, \$1.6 billion of the \$5 billion share repurchase authorization remains available through June 30. We plan to seek authorization from our Board for our annual share repurchase program prior to that date.

During the quarter, rising interest rates caused a mark-to-market pre-tax unrealized loss of \$4.7 billion or 4.5% of our fixed income portfolio. As a comparison, the Barclays Global Aggregate Bond Index declined by 6.2% for the quarter. This adverse mark-to-market movement of \$3.8 billion after tax or 6.5% of our book value, drove the decline in book and tangible book value per share of 4.4% and 6.8%, respectively. Excluding the unrealized mark-to-market in the investment portfolio, book and tangible book value per share increased by 2.1% and 2.9% respectively.

As noted in our supplement, the market rate on our fixed maturity portfolio was 3.4% for the quarter end, exceeding our book yield of 3%. As of last Friday, the market reinvestment rate had increased to 3.8%. Reflecting this rising rate environment, we now expect our adjusted investment income for the second quarter to be in the range of \$915 million to \$925 million, and that it will go up from there.

Our reported ROE for the quarter was 13.6%, and our core operating return on tangible equity was 17.1%. Our core operating ROE was 11.3%. Pre-tax catastrophe losses for the quarter were \$333 million, including \$138 million for Australian storms, \$65 million for wildfires in Colorado and \$130 million for other global weather-related events. We had favorable prior period development of \$240 million pre-tax, essentially all in short-tail lines of \$228 million, principally in A&H, property and surety.

Our paid-to-incurred ratio for the quarter was 91% or 80% after adjusting for CATs and prior period development. Our core operating effective tax rate for the quarter was 16.9%, and we continue to expect our annual core operating effective tax rate for '22 to be in the range of 15.5% to 17.5%.

Now to finish with a couple of discrete items. First, relative to our exposure in Russia, our Russian entities have been separated operationally from Chubb and are managing their affairs independently and have been deconsolidated. During the quarter, we impaired the full carrying value of these entities and have recognized a realized loss of \$87 million.

Relative to Cigna, we have amended our purchase agreement to remove the joint venture in Turkey. This amendment will have a de minimis impact on the transaction. As Evan mentioned, we will provide an update with more specifics on the acquisition during the second quarter earnings call.

I'll now turn it back to Karen.

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

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) We will begin with Yaron Kinar with Jefferies.

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**Yaron Joseph Kinar** - Jefferies LLC, Research Division - Equity Analyst

Congratulations on the quarter. I know I've asked similar questions in the past, so I hope you have a little bit of patience this time around. You have, what, the investment environment, adding a good 150 basis points ROE for every 100 basis points of interest rate improvement. The loss ratios looks great. You're still earning well over trend. At what point do you start taking the foot off of the rate pedal or go after more exposure as opposed to pushing for rate?

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

We don't think of it that way exactly. I mean, first of all, the market itself is a governor on rate. We're in the competitive market. We pursue the rate we think we need. And that actually, it's the other way around, that actually determines the outcome of growth. We're underwriters first. And the rate we require for both exposure and adequacy of rate to exposure plus inflation as part of that, that's the starting point for us.

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**Yaron Joseph Kinar** - Jefferies LLC, Research Division - Equity Analyst

Okay. And then my second question, I think for the last several quarters, if we look at the rate environment in commercial internationally, it's been higher than in North America, yet the loss trends are lower internationally. Can you maybe help us think through why that would be? Is it because of the lower interest rate environment overseas? Or are there other drivers there?

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

Well, you know what? You have 55 countries that we're operating in around the globe. So there is no one neat simple answer. On the long-tail side, most countries don't have the kind of legal environment that we have. There are a few that come to mind that are similar like Australia and the U.K. The balance, it's a much lower inflationary environment on loss costs for long-tail lines of business.

And then short-tail, it really varies by jurisdiction. And Europe is very different than Australia, which will be very, very different than, say, Malaysia or Korea in terms of parts and supplies and the nature of short-tail losses. So it's a mixed bag. And that's why we're on the ground operating locally in every jurisdiction around the world. We know the markets. We're part of the market. And so we approach from the idiosyncrasies of that local market when we think about adequacy of pricing and underwriting.

**Operator**

We'll now move to our next question, which will come from Michael Phillips with Morgan Stanley.

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

Evan, as you just said, you're part of a pretty competitive environment and that kind of govern a lot of things. Given the decelerating rate environment for the industry, and I think it's pretty unique times with loss trends that are accelerating pretty rapidly. Do you think there's an opportunity for the industry to find pockets where rates will actually convert and accelerate again sooner than they otherwise would have?

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

Look, it's certainly possible. That as losses in certain areas or exposures increase, certainly the industry -- and you see it in different areas. Look at personal auto right now, industry responds. Look at commercial auto, industry responds. Look at cyber, industry responds. So as loss costs show themselves or the sector is on your doorstep, the industry does respond.

Look at property, property continues to increase at overall a double-digit rate. Part of that is a reflection of revised views of CAT exposure, given climate change. And that is pretty universally recognized by good underwriters in model changes that drive inflation and loss cost. So I'm answering your question by giving you facts that, I think, make itself evident.

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

Okay. This is more for actually for you and your book and specific to your North American commercial lines book. When you look at that book, Evan, do you step back and say, "Gee, I wish we had more of this." Or either there's holes of opportunity, and holes is too strong of a word, but pockets of opportunity, either size of accounts or lines of business where I wish we did more of this in North America commercial lines.

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

It's more of a personal question. If you know me, you know my natural stage is not at rest. And we're an ambitious group. And we have, let's call it, 1% or less of the global insurance market. We're rounding, however still in that regard. There's plenty of growth opportunity for this company. And we're not -- brilliant at everything we do, there's plenty of opportunity to improve ourselves. So we're on an endless path.

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**Operator**

Now moving to Greg Peters with Raymond James.

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

So the first question, I know you mentioned this in your comments and then in your letter, the political, the war, political tensions, lockdown, supply chain issues. I think you mentioned in your letter, the potential for a new world order. So my question is the strategy difference is being a global insurer, versus having more of a regional focus. And I'm wondering if that narrative has changed or your thinking has changed because of all of these wild swings and what we're seeing in the press in reality?

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

Nothing. Nothing has changed. We take a medium-term and longer-term view of opportunity and strategy when we think about growth for the company.

Let's take Asia. Asia is where probably more than 1/2 to 2/3 of the world's growth will likely take place over the next decade, 2 decades and longer out. Chubb's presence, and increasing presence there is a good thing. It will allow us to capitalize on those opportunities, and that means that's where the insurance industry is going to grow.

When I think about Latin America, yes, it has a volatility signature to it that is more extreme, but we recognize that and how we approach the business. But the trend line over time is increased growth opportunity for a number of reasons in particular.

And so no, it doesn't give me pause for thought on the underlying thesis, but the world goes through periods of greater volatility and risk and sometimes a little less. You recognize that and you build that into your thinking when you approach your strategy and tactics and how you expose your company, but it is a natural consequence of the strategy you take on when you go global that you will expose yourself.

I would also say this, I don't think that any country or region of the world, given the interconnectedness of the globe is immune. We're certainly non-immune at home. And if you're in the United States as a U.S.-only insurer, you haven't insulated yourself from the global issues by any means. Just look at inflation.

And by the way, the war in Ukraine, in cyber that goes across border. So we all live on the same planet, nowhere to hide, bud.

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

Good point. Peter, in your comments, you talked about the capital returns in the quarter. I think you said 80-plus percent of the earnings was returned to shareholders. When we think about how -- and obviously, it's going to ebb and flow between quarters, but is that sort of like the general framework that you guys are thinking about absent some major M&A opportunity on a go-forward basis?

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**Peter C. Enns** - *Chubb Limited - Executive VP & CFO*

I'd say that was just an outcome I was indicating, and we have a capital framework, which Evan has been clear on the past, which is we will hold capital for risk and opportunity and return capital beyond that to shareholders. So we will reauthorize with our Board's permission a new program in the second quarter, and we'll report on that, on that basis. But there's no change to anything, and that 83% or 82% was an outcome.

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**Operator**

We'll now hear from Elyse Greenspan with Wells Fargo.

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

Evan, in your annual report, you also talked about achieving an ROE of about 13% in 2023 and kind of heading north from there. So when you make that statement, how are you thinking about the rate versus trend environment playing out over the next couple of years? Do you see still a good glide path for written rate to remain in excess of loss trend?

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

Well, I didn't -- we did all our inputs. I'm not Elyse. I'm not going to go to specific items, but all of it -- our own view of market outlook is baked into that statement.

Glide path, I think, is right. That rates will continue to moderate but with an asterisk on it. It depends on the line of business, and it depends on the loss cost environment. And I would expect that the industry would respond.



And then keep in mind, if there are any classes where rates are in excess of that, which is required to earn an adequate risk-adjusted return on capital, then you might see in some of those classes, and you see it. You always see it. You see it now, that there is a little rate giveback, which is natural also. So we imagine in a word, a fairly orderly marketplace. But it's a marketplace. And we also know a marketplace always has a certain signature of chaos to it. And that's baked into our thinking.

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

Okay. And then in terms of growth rate, you guys saw almost 11% Global P&C that's ex-Ag growth in the quarter. Obviously, there was some impact of FX there. But as we think about the global economies improving, consumers is bouncing back, would you expect premium growth to remain kind of within that level or perhaps pick up from here?

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

Nice try, Elyse. You know I don't give forward guidance, but I remain quite confident in Chubb's ability to outperform.

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

Okay. But am I right in thinking that Consumer just has some tailwinds, right? Just given the environment and the headwinds that, that business, I guess, has faced over the past couple of years?

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

Yes, I think you're reasonably right. It varies by region, but you see the trend, follow the footprints and where we have been going quarter-on-quarter. And I think that's a reasonably good way to think about it.

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**Operator**

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

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

Evan, I just had a question, a bit on the exposure change, specifically in North America commercial. It sounded like that detracted around 2 points from growth this quarter, which obviously close to 11% was still good. But I'm wondering, if you could talk a bit more about some of the underwriting actions that you've been taking.

I know this is something you constantly work on, but it feels like it was a bit more of a concerted effort or it has been more of a concerted effort over the last year or so. So I'm just wondering where we are in this exposure management. And is this something that is going to continue to be a drag going forward? Are we through most of it?

And maybe secondly, if we could think about how to quantify the benefit to margins from these changes, whether that be on both underlying or cat load?

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

Yes. So I think, David, you didn't get it quite right. It didn't detract 2 points. In fact, it added about 1 point. What I gave you was 1 point of exposure growth in commercial lines North America. I told you about 3.2 points of that was economic. And then there was an offset from underwriting, which we can measure, and that it was a change in terms and conditions and deductibles, et cetera.

And it's not some event over the last year. It's over a more extended period of time. In the hard market, one of the tools you have and that the clients want because they're getting a lot of price and rate increase. Deductibles and attachment points as an example, they don't move for years during a softer part of the market cycle, yet inflation is relentless, even if it's 2 points or 3 points, it's year-on-year on year-on-year. And so what a \$1 million deductible was worth 10 years ago is hardly what it's worth today, and clients in a hard market, they understand dollar swapping. They don't want to swap dollars.

And so you correct for that. It's not just rate that occurs. There is this rational correction of structural terms with your clients. And that's the change in deductible and attachment points as just to cite those in particular. So you got mental model.

In terms of margin, nice try. I'm not going there. And though we do quantify it quite precisely to ourselves in most classes. And I think I answered it.

I want to go back on Elyse's. And Elyse, not to -- not be engaging. I expect Consumer to continue to recover and to continue to show improved growth. The only thing I can't control is a war and any area that may go into recession. But from what I can see right now, I expect it to continue to recover.

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**Peter C. Enns** - Chubb Limited - Executive VP & CFO

Anything further, David?

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

Yes. That's helpful. And I guess, have you seen any, obviously, higher rates, higher interest rates is helping ROEs across the industry. Have you seen any competitors picking up their aggressiveness in terms of pricing, just as we've had interest rates move higher here? Or has that -- obviously, it's still a very uncertain environment. Inflation is still very high. Have you seen any evidence of the competitive environment picking up?

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

David, think about it. They've just started rising relatively short period ago. Portfolios have to turn over to actually earn it in and they moved very, very quickly. And by the way, on one side is interest rates and on the other side is inflation, and the industry needs to stay ahead on inflation, so no. The answer is I have not seen that.

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**Operator**

Moving on to Ryan Tunis with Autonomous Research.

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

I got one on the Russia-Ukraine conflict, Evan. In the annual letter, one thing that stood out to me was the fact that Chubb's a market leader in a lot of political risk classes, you mentioned your Bermuda subsidiary. I think it's called sovereign risk.

So I guess I was pleasantly surprised, but in a good way, that losses from Russia - Ukraine were de minimis. So first part is can you just help us understand how have you managed to avoid losses tied to that? And second of all, what are the types of opportunities you're seeing on the back end of this?

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

Yes. Opportunities begin to emerge in political risk, but we're pretty conservative and cautious underwriters in the class and the way we approach it. We know our minds clearly.

Look, more loss may develop in that area. I can't tell you. If I knew, we would have recognized. But given events, losses and further exposures may develop in the political risk area, given confiscations or expropriations or inability to use an asset.

We are in touch with all our clients. And so far, to date, we don't see circumstance, individual circumstance that translates possibly. If it does happen, given our aggregate of exposure in total, because we watch and always have our aggregations by country, by industry, by type, whether it is insuring debt or it's insuring equity, whether it's insuring currency and convertibility. We're very careful in how we think about the constructs in that way.

If there is loss to emerge in the future, which I just don't know, it won't be a big event for Chubb. We don't have huge limits on any one client on a net basis. And so in aggregate, that's why I made that statement that it may develop. If it happens, it happens over an extended period of time. And the aggregate amount, it won't be a big event for Chubb.

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

Understood. And then my follow-up, I guess, very strong underlying loss ratio improvement in the commercial segments. Is it fair to say that pretty much all that is from the earned pricing versus loss trend dynamic? Or was there anything else that you'd point to that might have made that outsize this first quarter?

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

No, no, nothing, no. It's really in long-tail lines, you're in the first quarter of the year, it's based off of PEG loss ratios that you select. And in short-tail lines, virtually the same. And there's nothing we see underlying, and there were no onetime or anomalous items that contributed. Very broad -- it was the resilience of it and the quality of it, I'm gratified to see. And it's a testament to all my colleagues is the broad-based nature of it.

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**Operator**

Now moving to Paul Newsome with Piper Sandler.

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**Paul Newsome** - Piper Sandler & Co., Research Division - MD & Senior Research Analyst

Congratulations on the quarter. The 6% loss trend that you were talking about, does that include the A&H book? And I was wondering if there's a difference or you can contrast the claims inflation trends you're seeing on the pure property casualty book versus what we're seeing on the A&H book. I guess sort of the corollary question to that is, if there is a difference, does the way we think about sort of aggregate, (inaudible) change from Chubb when you close the Cigna deal?

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

Paul, let me help you with that. What I gave you was the commercial lines business, and I gave you short-tail. Included in the commercial lines business is a very small A&H book. Actually, I think you can virtually see the premiums. So it hardly swings any stick.

Beyond that, I'm not going into any more parts and pieces. In fact, I think I was more transparent than most are who are reporting. So I've gone as far as I'm able to go in terms of individual lines or any of that. But again, A&H hardly swings a stick in the trend numbers, because the 6% was in North America, and it was North America commercial.

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**Operator**

Next question will come from Alex Scott with Goldman Sachs.

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**Alexander Scott** - Goldman Sachs Group, Inc., Research Division - Equity Analyst

First question, I had for you is, just to see if you could describe what you're seeing with court reopenings? And if that's having any impact, I guess, either positive or negative on just the updated view of loss cost trends that are sort of separate from the CPI-type inflation?

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

What did you just say? I'm sorry. What was the first part of that?

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**Alexander Scott** - Goldman Sachs Group, Inc., Research Division - Equity Analyst

Sure. I'll repeat it. Sorry. I was interested if you could describe what you were seeing with court reopenings? And how that's impacting loss cost trends, either positive or negative?

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

We're not -- we're seeing an increase in frequency what we would expect with court openings, and we're seeing more adjudication of claims given court openings. Nothing is impacting trends.

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**Alexander Scott** - Goldman Sachs Group, Inc., Research Division - Equity Analyst

Got it. And the second question, I had was just on the cyber insurance. And I guess, A, are you seeing anything there? And B, the war exclusion language you have in your policies, could you just describe if that's changed at all since sort of 2017, and things maybe learned from the outcome with Merck? And whether the language would be more protective against events like what happened in 2017?

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

First of all, let me work backwards, and then I'm going to come to the first part because let's be precise with each other.

First of all, Merck. Merck was not a cyber insurance policy. Merck was a property insurance policy. And I wish those who are thinking about this or writing about this externally would put their heads around that. That it was property insurance, not cyber insurance, huge difference. And I hope that helps you.

Secondly, when you started by saying, am I seeing anything there in cyber, what do you mean, am I seeing anything there? Help me and then I'll help you.

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**Alexander Scott** - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Sorry, have you received any claims that are at all associated with the conflict in Ukraine and Russia?

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

The largest single vector territory of attack into the United States for the last number of years has been Russia.

Clearly, when it comes to ransomware attack, more comes out of Russia than any other jurisdiction in the world. In fact, China is not a source of that. China's more a source of espionage. And so it hasn't abated, and it hasn't increased actually from what we see. And when we talk to the experts, those in the cybersecurity industry, there are certain changes of patterns that I won't go into. But overall, it was a hostile environment and it continues to be in that regard and has a certain frequency and severity signature to it. We haven't seen anything systemic. And I think you probably know that because otherwise, you'd have been reading about it in the New York Times.

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**Operator**

Next question is from Meyer Shields with KBW.

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

Evan, I'm trying to understand with the Cigna businesses, if interest rates rise in those markets, does that get typically offset by more aggressive pricing? Or does that translate into higher returns?

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

In which businesses?

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

In the businesses that you're buying from Cigna.

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

No. Pricing doesn't really change. It's very independent of interest rate environment. This is not savings-oriented business. For the most part, it is fundamentally a risk business. It's a morbidity business, to be clear, the vast majority of it.

Think about supplemental health-related, dread disease related, there is an element of ROP, which is a return of premium. It has a savings element to it. But that's a filed rate and it changes very slowly. So no, it's not an interest -- to put it in a word, Meyer, it's not an interest-sensitive business.

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

Okay. And then I don't know if it's too early for this. I suspect not. Has Chubb's crop book changed at all this year because of the commodity prices? In other words, the mix by state by commodity?

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

No, it has not. We have 20-some-odd percent market share in crop in the United States. That's a huge tanker. That thing moves pretty slowly if you're thinking about change and exposure, which in that sense, you'd be thinking about change in mix of crop. You'd be thinking about territory change.

And the only change in mix of crop comes in the aggregate to the degree that farmers change their behaviors, and it aggregates to something significant like a change from corn to soybeans, et cetera. But we generally see that almost every year, a bit of that on the margin.

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**Operator**

(Operator Instructions) We will now hear from Brian Meredith with UBS.

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

Evan, I have a couple of quick questions here for you. First, I'm just curious, looking at the ceded premium in your North America business, up pretty large on a year-over-year basis. Was that just a timing issue? Or is there something else going on? Maybe more of an opportunity here to buy some less expensive reinsurance and put some good margin in place.

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

Always looking for that. But no, there was nothing, it was just a mix and an anomalous in the quarter. It bounced around a little bit, as you know.

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

Got you. And then I guess my second question, I'm just curious, looking out over the next kind of 6 to 12 months, balance sheet is obviously in much better shape for a lot of these P&C insurance companies.

Pricing maybe we're kind of in the seventh to eighth inning. What's your view with respect to the M&A environment out there and the opportunities that may be presented to you? I know you've got a couple of larger ones internationally, but I'm sure you've got the capabilities to do lots of M&A.

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

Yes. And I gather you're talking about the industry, Brian, my view of it, not Chubb.

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

Yes.

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

I don't have a firm view about it, a clear view. I would say, on one hand, cost of capital has gone up, and so the bar goes up. Most companies or a lot of companies, their balance sheet and earnings power are in pretty good shape.

And most of the M&A in the industry, in my mind, cloaked in the word strategic is actually more done out of weakness where people feel pressure, and they want to continue growth. They have a balance sheet hole problem, et cetera. And I don't see a lot of impetus for M&A in a broad sense. And there's more risk in the environment right now, remember that. And so people will be a little cautious.

You'll see it will be more in small and midsize. I doubt you'll see much in anything of a large size, but who the heck knows.

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**Operator**

Ladies and gentlemen, this will conclude your question-and-answer session for today. I'll be happy to turn the call back over to Karen Beyer for any closing remarks.

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

Thank you, everyone, for joining us today. If you have any follow-up questions, we'll be around to take your call. Enjoy the day. Thank you.

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**Operator**

With that, ladies and gentlemen, this does conclude your conference for today. We do thank you for your participation, and you may now disconnect.

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