Raymond James Financial Inc Institutional Investors Conference

Company Participants

- Albert Benchimol, President, CEO
- Unidentified Speaker, Analyst

Presentation

Albert Benchimol {BIO 2023727 <GO>}

Good afternoon, everyone. As is normal, every time we make one of these public statements, we do have the safe harbor line which, as I am sure, you are familiar with. The details are all found in our 10-K. Let me tell you a little bit about Axis Capital. Axis Capital is a global speciality insurance and reinsurance[ph] company providing a broad range of risk-transfer products, substantial capacity. And unquestioned financial strength. We have the hybrid model where as we write both insurance and re-insurance across the globe. And this model provides us with substantial operational strength flexibility given that it gives us access to every kind of risk almost literally all over the world.

In 2013, we were at $4.7 billion worth of gross-written premiums, $2.1 billion on the reinsurance[ph] side. And $2.6 billion on the insurance side. I will talk ore about that. I am very proud of our management team, deeply experienced average of 29 years of insurance industry experience for our Executive committee members. We have excellent financial strength. We have $6.8 billion worth of capital, a strong rating, A+ from S&P, A. M. Best, And Fitch, A2 Stable, Moody' s, high quality insurance investment portfolio. And very prudent reserves. One of the things that is not on this slide. But which I think actually is an important part of our culture is an entrepreneurial culture. I think that throughout this presentation, I hope to be able to demonstrate to you how we invest in the growth of our Company.

By way of background, we were created as I mentioned in 2001. If you look at our entire history, 2002 through the end of 2013, all together we run about $41 billion worth of gross-written premiums. And delivered underwriting profits of $4.1 billion combined ration of 89 which for industry is actually a very attractive result. I will give you ore detail about the insurance and reinsurance[ph]. But you can see that over time 56% of our gross-written premiums were the insurance side, 44% on the reinsurance[ph] side. We have (inaudible) 2002 expanded our global presence to insure that we stay close to our markets, close to our distribution sources. And close to our clients in risks. We currently have 29 offices across the globe over 5 continents. And you can see of course vary strong representation in the UK and London. We are in Zurich, in Europe very strong representation in the US. We have a Canadian office. And also presence in Latin America, Singapore. And 5 offices in Singapore which we acquired through the acquisition of an MGA to establish our international/Australian operation a few years ago.

Let us start with the insurance company which you see on this chart. As I mentioned earlier, in the last 11 years $22.8 billion worth of gross-written premiums with a combined ration of 84% which is one of the best combined ratios you will find in the insurance space. Although this is a business which as you can see writes property, marine, terrorism, preferred, professional lines, a number speciality classes some of which may be prone to volatility, this insurance business has never reported a combined ration in excess of 100. You can see that over time the distribution of our premiums has gone up and down and that really reflects the responsiveness that we have taken advantage of opportunities and responding to market conditions to either increase or reduce the writings of our book of business.

On the pie charts you will notice two very big areas. One of the obviously property, 26% of our 2013 book. Another large area is 35% n professional lines. We do have significant leadership capabilities in the professional line and also on a number of speciality lines which we write both in the US and at our London office in Singapore. This is actually a busy chart. But I think it is worth speaking to. This shows you our underwriting profit margins. So it is one minus the combined ratio through our inception today results for our insurance business. As you can see, at 15.4% we have the second highest underwriting profits over that period of time and significantly in excess of all the other classes. It is in the small print that we have used as our peers here of those that I believe make the most sense. And these are speciality insurance companies, US insurance companies. And Bermuda insurance companies with whom we compete on a daily basis.

An important part of what we do in Axis is always look for new market opportunities, develop new initiatives for growth. And one of the most visible ones for us for the last several years has been developing a global Accidents and Health franchise. This is a business that we started from scratch in the Fourth Quarter of 2010. Last year it wrote $260 million plus of premiums. This is a very concerted effort to build a global franchise in Accidents and Health. It takes a long time to build it. It is not cheap. In fact, we expect that we need to reach at least $300 million of earned premium to achieve a break-even in this line of business to support the infrastructure that we have built across the world. This like the other parts of our business is going to be a hybrid approach writing both insurance and reinsurance[ph] in both the US, domestic. And international markets. As you can see, there are a number of opportunities for us to grow both in insurance and reinsurance[ph] globally.

To give you a sense of the scale of this opportunity there are really two global leaders in Accidents and Health, AIG and Chubb; Sorry AIG and (inaudible) both of whom write in excess of $1 billion a piece. Zurich and Chubb write between $600 million and $8 million and there is really nobody else. There is really nobody else in the states in terms of large players of any size. the rest of the market is very fragmented. And we see this as a real opportunity for us to build the 5th largest A&H franchise in the world. It is something that we have been focused on for three years now. It is moving right on schedule.

Moving on to our next business line, it is reinsurance[ph]. Here again, you can see that we written about $18 billion of gross-written premium inception to date with a combined ratio averaging 88% throughout that period of time. Here again, there is only been two years in which we have reported a combined ratio in excess of 100%. And as you might expect, those were in 2005 with Katrina, Rita. And Wilma. And obviously in 20011 when we had the largest international catastrophe ever.

You can also see on the chart the growth and diversification in the portfolio. We think of ourselves as having market-leading capabilities in five key areas. One of which is probably catastrophe. the second is professional line. The third is trade credits and bonding business. The fourth European motor. And fifth our most recent area of focus in our reinsurance[ph] business is the global Agricultural reinsurance[ph] area. Just to give you a sense of that, we brought in a team in 2012. That book of business was $15 million in 2012. It was $120 million in 2013. And we are really looking to expand that. We think that the food agriculture is a growing vertical globally. And we absolutely want to develop the kind of expertise that will see us grow with this vertical as we go forward.

Here again, you can see the combined underwriting results of our Axis reinsurance[ph] bushiness. It is in blue with an 11.3% margin. You can see that we are not the most profitable re-insurer as measured on third chart by combined ratio. And that is because most of the people who beat us are catastrophe reinsurers[ph] and when there is no catch here they have outstandingly low combined ratios. But if you compare us to the diversified re-insurers around the world, you can see again that our performance stand very favorably compared to them. This strong underwriting performance that I have just discussed with you in addition to intelligent balance sheet management, good investment results has allowed us to deliver to our inception to date growth in our book value per share with (inaudible) dividends as grown at a compound rate of 13.1% over the last 11 years. I do believe that is one of the strongest records in the diversified insurance space.

Dive growth and capital has come with an incredible prudent reserving philosophy. Reserves are obviously the largest liability of insurance companies and it is very important for us to insure for us that we establish prudent reserves, take the bad news early. And wait until the reserves develop favorably over a period of time before we actually recognize the favorable development of those reserves. What this chart shows you is the composition of our reserves by IBNR (inaudible) which is funds we set aside for future claims to be reported to us and then case reserves which are claims have been reported to us and you can see that in the short to mid tail lines, medium to long tail lines. And long tail lines we have had a significant components of our reserves is an IBNR. And in fact in the totality of our portfolio over 62% of our reserves on the books are IBNR.

I mentioned to you that our philosophy with regards to reserves is one of establishing prudent reserves up front, taking the bad news early. And waiting for a while to release favorable results. And you can see on the bottom of this chart the favorable development that we have delivered in every year of our existence. Although, obviously it has tapered down a little bit over the last couple of years it is still in the $200 million plus range of favorable development in each year. And I think this speaks to the prudent that we put in the establishment of our reserves.

Obviously, the past is no guarantee of the future. But I think our reserving philosophy is well presented on this slide. Another strong component of our balance sheet is obviously our investment portfolio. We have in excess of $15 billion of invested assets, 82% of which are investment-grade fixed income securities and cash. And the balance is invested in a diversified portfolio of high yield, equities, hedge funds. And other alternatives to give us the diversification that we want and need. As you can see from this chart, it is a high quality, highly liquid portfolio with an average rating of AA; an average duration of 3.2 years. I will say that although it is a high quality, highly liquid portfolio we actually have no need for liquidity. We generate on average in excess of $1.1 billion of operating cash flow annually. So we have been adding cash flow to our portfolio every year since our inception.

We have got a very strong and stable balance sheet and canalization in which you see on this slide. It is the composition of our capital over the last several years. Obviously, the largest part of this is the light-blue common shareholders equity. As of year end, we had approximately $5.2 billion worth of common equity, $628 million worth of perpetual-preferred stock providing a very low cost component of our capital. And about $1 billion in debt, $6.8 billion of capital in total. And as you can see the total capital that we have has been relatively stable for each of the last several years. The reason for that is that we have in fact been giving back to our shareholders in the form of dividends and stock repurchases essentially all of our operating income over the last several years. In fact as this chart shows you, we have since 2008 given back 104% of our operating income back to our shareholders through dividends and stock repurchases. The fact that we have bee able to grown our portfolio by over 38% since 2008 without having to grow our total capital also peaks to the fact that we have been making significant strides in providing diversification and balance in the portfolio and the growth in diversifying the line has actually allowed us to grow the portfolio on the same capital base and achieve much-enchanced capital efficiency.

As we go forward, we are continuing in our stock repurchase program. We have announced to the street that it continues to be our intention for this year to continue to return substantially all of our operating income to our shareholders in the form of share repurchases and buy backs. So that is the past. What about the future? Well our goal is absolutely to be a top quintile performer in terms of financial results for our industry whether you look at the ROE or you look at growth to book value adjustments for dividends. We also hope to achieve that with slightly lower earning volatility that we have in the past. And we believe that if we can deliver top quintile performance with industry-average volatility it will give us a substantially improved sharp ratio equivalent in terms of our returns.

We have four specific strategic imperatives to achieve and sustain that goal. the fist is to continue to invest in our people and our culture. the strength of our Company is in our underwriting culture, the skills and relationships that our underwriters have. They have contributed significant guide to our organization and continues to be an important part of our strategy to continue to bring in talent individuals on board them, develop them, retain them. And motivate them to achieve the kind of results that have made us a leader in the industry.

The second is deliver diversified growth. I have just discussed with you how in the last five years or so we have grown our top line maturity % which does not require any additional capital. that is because of the benefits of diversification and the construction of our portfolio. And as I will show you in a second, we have had significant successes in growing in lines that do not add to our chief exposures in adding lines that are balancing our portfolio both by line of business and by geography.

The third goal is to optimize our risk of adjusted returns using improved data and analytics. There is an incredible amount of data valuable to us. There are more tools available to us on a daily basis. And we think that we can add significant value by extracting more out of our portfolio by managing the portfolio by doing a better job of determining how much risk we keep, how much we see to reinsurers[ph]. And so on. We have already started to see significant benefits coming out of that. And I really do believe that it is important. I have got a comment her which is really critical. And that is that we want to be informed by models not ruled by models. At the end of the day, models are simply mathematical approximations. Nothing replaces the judgment and the experience and the insight that our underwriters bring to the decision. But what we have now is a combination of that experience that was insight and the analytics to support the decisions.

And finally, to enhance operational excellence to make sure we have the right platform with the right tools, the right IT, to optimize the efficiency and the effectiveness of our staff and ultimately to deliver a lower cost operating platform. We have made very big progress on each of those areas. And in fact in 2013 maybe was not a great year for us with a 13% ROE. But it was still a very good year for us. And last year we grew our gross-written premium by 13% including significant contributions from new businesses. I point to two of them here. A large part of that growth last year came from the Agricultural reinsurance[ph] unit which was a new business unit from our Accident and Health unit which we established as I mentioned in 2010. We also have a number of other initiatives that will contribute to our profitable growth as we go forward.

Last year we established for the first time in our history a Lloyd syndicate which started writing at 1-1 of this year which is going to significantly expand our access to international speciality lines. We re-entered the Us primary market which has improved in recent years. This was a line of business that we actually determined to exit in 2010 after reducing it for several years because we did not believe that conditions were attractive at the time. We now believe that now is a good time to re-enter the market and we are back in US primary casualty. We have always had an incredibly successful excess casualty franchise in the US. Historically it was more in the umbrella and excess. But ENS markets are now going to the retail markets with excess casualty.

We have expanded. We have taken the talent that we have in professional liability in Marine and Property energy. And we have expanded those talents to the Singapore office, to the Australian offices so that we can take those same talents and speciality lines. But get closer to those risks in the Asian/Australian markets. We have also expanded in Canada and a number of other areas. We recruited from a large bank and established Weather and Commodities Market unit to provide additional coverages to utilities, to energy companies, anybody whose business is actually at risk with changes in extremes in weather. That has already started quite well. It is already profitable in its first year. And these are individuals I have worked with in the past that Jay Nichols the Head of our Reinsurance[ph] business has worked with in the past. So these are people that we have known. We have been in these businesses before. Now is a good time to get back into these businesses now that the bank are no longer allowed to be in these businesses because of Dot Frank.

We have established a Third-party Capital Management unit. You will hear. And you will have heard I am sure about a significant amount of third-part alternative capital from pension plans from investment funds, from hedge funds that are entering into the reinsurance[ph] business. They have the capital. But they do not have access to the risk. And they certainly have the underwriting skills that we do. We see this as an opportunity to match our underwriting, our book of business with sources of capital that perhaps are better suited for some of the risks that we have access to. We have also recruited very recently a new Healthcare and establish healthcare liability teams. Six people who have joined us very recently. And we expect to start writing healthcare liability some time in the summer of this year.

So we are very active in developing and promoting these new intimates which ultimately are going to provide tactical optionality to us and opportunities for profitable growth. And again, last year we still delivered a 91% combined ration almost $700 million worth of profits and an ROE of 13%. There has been some talk that the second derivative of pricing has turned negative. We have had three years of quite attractive pricing improvements in speciality and speciality lines, property lines, energy lines, Marine. And so on. It is actually quite rare in our industry in the absent of a capital crisis of the past three years of pricing improvements that we have. and that really was due to the fact that the industry needed to sustain a higher level of profitability at a time of lower rates. It is true that where we are right now in many cases, we expect to see a leveling off of pricing especially in some of the speciality lines and some of the property lines. We continue to expect modest improvement on some for the lower primary professional liability lines in the DNOA for example. We expect to see continued improvement in the casualty lines in the US. I think it is fair to say that 2014 is likely going to be a flatfish year.

I think there a significant difference between what the second derivative tells and what the market conditions actually are. What this graph is meant to show you is where the pricing is. In many of our books of business, as compared to what was at 100-2004 which was a very profitable year. As you can see, in many of our lines of business, we actually have pricing today which is well in excess on a risk-adjusted basis from what it was in 2004. So there are still substantial opportunities for writing good business, substantial opportunities for growth and notwithstanding the fact that perhaps the pace of pricing is not as favorable as it might have been a year ago. the market still has significant opportunities for us. That is really where I wanted to finish my presentation and prepared remarks. And really open the floor to questions so that I can respond to your more specific questions.

Questions And Answers

A - Unidentified Speaker

I will ask a couple of questions. First off all thank you for your presentation. You talked about Accident and Health. And we have heard some other companies talk about Accident and Health. It seems like a broad description that could mean a lot of different things. Perhaps you could provide come clarification, give us some granularity to what exactly your Accident Health business looks like.

A - Albert Benchimol {BIO 2023727 <GO>}

Absolutely. Well the first thing I want to say is that what we are focused on is more Accident then speciality health. We are not in the health insurance business. We have no desire to compete with the Aetnas and the Cignas and the various health insurance companies in the world. where we do provide health insurance or reinsurance[ph] is either on excess of loss basis or on a primary basis on some real specialty program., volunteer firemen for example, student travel programs, sports team travel programs that are very contained (inaudible) assignments. That is part of the health area that we are prepared to deal with. But in terms of just general affordable act kind of coverages, we have absolutely no interest in being in that area.

A - Unidentified Speaker

Where does the large ticket premium volume come from or is it all small premium policy-type of business that you are writing?

A - Albert Benchimol {BIO 2023727 <GO>}

Currently our sources of business are two-fold. One is through the reinsurance[ph] area where we write a fair amount of reinsurance[ph] globally. As I mentioned, we have a hybrid approach. We will write reinsurance[ph] on accident health primary carriers on a quota share basis excess or catastrophe converges basis. We will do the same thing on the healthcare area. In terms of size of contracts, our reinsurance[ph] contracts are currently the largest contracts.

We also provide individual coverages. And for the moment a lot of these coverages are actually arrangements that we have through managing general agents and managing general underwriters who again have access to a speciality book of business. And they are looking to partner with a carrier who has both the filings, the ratings, the paper. And the ability to service and support their growth. So for the moment, the largest part of our business is through the reinsurance[ph] and these MGAs and MGUs. that is an entirely expected source of revenues for a start up business because that is how you start by first going to where the volume is easily available.

As we are doing that, we are also becoming increasing more active in quoting individual risks for companies that have benefit programs whether it could be your own employers who are providing you with travel accidents and so on. And we are working with institutions to provide their own coverages there. Those are obviously a little more difficult to break into initially. But we are growing our level of success in that area. In fact, I expect that this year we will get very close to a 50/50 split between writing insurance and reinsurance[ph]. And that number Joe, correct me, I believe was close to 70/30 just over the last couple of years. We are continuing to make great progress at establishing a primary business base

A - Unidentified Speaker

You have talked a little bit about the reinsurance[ph] pricing. But again maybe a little additional color; the amount of noise coming; Obviously the latest thing to emerge in the last couple months is that the property cap pricing on reinsurance[ph] is now bleeding over to the casualty side. What is your perspective on what is going on? How much further does it have to fall?

A - Albert Benchimol {BIO 2023727 <GO>}

That is fair. We should; if you do not mind I am going to take a couple steps back and put the whole context. The capital markets have started to participate in a very small way in a cap markets as early as the mid 902. But it has really picked up after Katrina, Rita, Wilma with the issuance of cat bonds. It kind of made sense to see this growth over the recent years because of the absence of other attractive opportunities for investment and return. One of the things that really came through in the financial crisis is the cat binds did supremely well. And they really demonstrated the resilience of the asset class and the fact that they were not correlated with other economics risks.

That increased the level of interests for pension funds from hedge funds and increasingly from asset managers to go through that. In a low-interest environment, a cat bond providing a risk of lass which is generally less then that of a Junk bond providing returns that is equivalent to or even better then a Junk bond seems to be attractive as an alternative to Junk bonds. There is growing interest in that. That really drives the supply of that capital. If we look at the pricing for cat business globally, historically the cat business globally was a relatively competitive market because in most markets there is substantial amount of capacity available from the industry and relatively limited demand from most geographies in the world.

The one place that is an exception of that is really he United States where the capacity required in places like California, Florida for example to a lesser extent you find a little bit of that in Japan. Clients were paying not simply for the expected loss plus the cost of capital. But they were paying a very high marginal cost for that last dollar of capacity. So the high pricing that was available in Florida and the East Coast and California was really drive by the fact that there was more demand then capacity in the industry. All of this new alternative capital what it done is really rebound the supply/demand equation and of that extra pricing that was required for that for that ultimate capacity; that last dollar of capacity was no longer required because there was so much money coming in.

So that extra access profit that I call that was available in the US was no longer worth paying for with the all the excess capacity. The world has certainly seen in the last year or so on the cat side on average anywhere from 15% to 20% and in some cases even 25% reduction in cat pricing. Pretty much every where in the world that is pricing that came from excess technical pricing. Even after all this pricing reduction we find out catastrophe pricing id actually adequate. Most of the world uses pretty much the same models to predict expected losses in the region. Most of the world pretty much has the same expected cost of capital that they add on to that.

So where we are right now is we have lost the is we have lost the excess profitability but we have adequate profitability. Most of the people in the industry that I speak to certainly expect that the June/July renewals may see some pressure. But certainly not to the extent of what we have seen in the past. So that is what is happening in the cat world right now. Obviously with those reductions in cat pricing with a lot of the cat demand being serviced by this alternative capital, a lot for reinsurers[ph] are writing less cat business. And now they are looking to use their capital. If they cannot use it in the catastrophe side they are saying, well could we utilize that capital somewhere else which has caused s number of reinsurers[ph] to look into the casualty area and try and write more bushiness in the casualty area.

This sudden increase in capacity available in the casualty market has cost competitive pressure in the casualty market. And what has happened there is that a lot of reinsurers[ph] have been willing to pay, two, three, maybe four points of higher seeding commissions to get access to that business. Now those two, three, four points of seeding commission need to be viewed in the context of the fact that a lot for the liability business has been seeing pricing improvements whether it is 2%, 3%, 4% and so on. So what is really happening is that the reinsurers[ph] are paying a little bit more seeding commission for better price business. And so their profitability again is staying reasonably stable.

It is not like their immediately giving up that profitability, they are just not getting the benefit of the pricing increases that the primary companies are getting. the net of it all is that in the January 1 renewal; when we look at the business that we renewed in January 1. And we look at the technical ratio which is (inaudible) ratio plus the acquisition expense ration, the book that we renewed through January 1 we believe probably has a technical ratio that about 1 1/2 points higher then it was last year.

So yes, we have given up a little bit of profitability. But not that much profitability. and again when you consider the fact that last year we reported combined ratio below 90 in the reinsurance[ph] book, yes we are giving up a bit. But again the demise of the profitability cycle has been greatly exaggerated.

A - Unidentified Speaker

Any other questions? If not, thank you very much. There will be a break out after this. So thank you for your participation.

A - Albert Benchimol {BIO 2023727 <GO>}

Good. thank you.