Q3 2019 Earnings Call

Company Participants

- Albert A. Benchimol, President, Chief Executive Officer & Director
- Matt Rohrmann, Head Investor Relations
- Peter Vogt, Chief Financial Officer

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Josh Shanker, Analyst
- Sean Reitenbach, Analyst
- Yaron Kinar, Analyst

Presentation

Operator

Good day, and welcome to the Third Quarter 2019 AXIS Capital Earnings Conference Call and Webcast. All participants will be in listen-only mode. (Operator Instructions). Please note this event is being recorded.

I would now like to turn the conference over to Mr. Matt Rohrmann, Investor Relations. Mr. Rohrmann the floor is yours, sir.

Matt Rohrmann {BIO 15132648 <GO>}

Thank you, Mike. Good morning, ladies and gentlemen. Welcome to our conference call to discuss the financial results for AXIS Capital for the third quarter and period ended at September 30, 2019. Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you'd like copies, please visit the Investor Information section of our website at axiscapital.com. We've set aside an hour for today's call, which is also available as an audio webcast through the Investor Information section of our website.

With me on today's call are Albert Benchimol, our President and CEO; and Pete Vogt, our CFO. Before I turn the call over to Albert, I'll remind everyone that the statements made during this call, including the question-and-answer session, which are not historical facts, may be forward-looking statements. Forward-looking statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from those projected in the forward-looking statements due to a variety of factors, including the risk factors set forth in AXIS's most recent on Form 10-K, as well as the additional risks identified in the cautionary note regarding forward-looking statements in our earnings press release issued yesterday evening. We undertake no obligation to update or revise publicly any forward-looking statements.

In addition, this presentation may contain non-GAAP financial measures. For the purposes of this call, we believe the best way to discuss our operating results is on ex-PGAAP basis, which is a better representation of the run-rate performance of our business. Reconciliations are included in our earnings press release and financial supplement, which can be found in our Investor Information section of our website.

With that, I'd like to turn the call over to Albert. Albert?

Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Matt. Good morning, everyone, and thank you for joining our call. As I noted in our earnings press release, this was a challenging quarter with large catastrophes in the Caribbean, US and Japan. There was also a higher incidence of mid-size losses, particularly in our credit and aviation lines. To be sure even with these factors that affected our entire industry, we're very disappointed to be reporting an operating loss for this quarter.

But while we're not pleased with our results, we are also encouraged by a number of positive indicators that reflect the progress that we've made to strengthen our business.

To this point, I'd like to take a few minutes to discuss our third quarter results within the context of where we are in our journey and why we're confident that our performance will continue to show progress. To better address these metrics, I'll break down my comments by speaking individually about our two segments, Insurance and Reinsurance.

First, let's talk about Insurance. Our quarterly insurance combined ratio, excluding the effects of PGAAP on acquisition expense, improved by three points. This reflected a lower attritional loss ratio, which absorbed the higher incidence of mid-size losses and still came down over a point, a lower cat loss ratio and lower acquisition expense. Excluding cats over prior year development the combined ratio was flat at 99 as the much improved technical ratio was offset by what we see as a short-term bump in the G&A ratio.

Let me explain, as part of the remediation of our portfolio, we shed a meaningful amount of premium and make greater use of reinsurance. As a result, third quarter net earned premiums for insurance are down 13%. The consequence of these actions and reduction in premium is that while G&A expense for insurance is essentially flat on a dollar basis, the insurance G&A ratio is up by two points given the lower premium base. Reducing our premium writings in the short-term is a necessary step to improving both the profitability and volatility of our insurance portfolio.

We view the resulting increase in the G&A expense ratio as an acceptable price to pay for delivering a much stronger performing business. I am confident that given our strong positioning coupled with increasingly attractive market conditions, we will make up the loss volume allowing us to more clearly demonstrate improving loss and expense ratios over the next couple of years.

To that point the reported 6% reduction in insurance gross written premiums year-to-date is not a good indicator of our growth potential. Specifically, this year we reduced gross writings of less attractive business by more than 40% in our insurance book, while we were remediating it. In parallel, we grew the more attractive business by over 13% year-to-date. Indeed, in markets that we consider highly attractive our growth rate has been well in excess of 20% including cyber, primary and excess casualty, marine and design professionals and environmental business.

We've also had strong growth in Canada and in UK liability business. In addition, we're shifting more of our insurance portfolio towards more SME exposure, which tend to exhibit less volatility. We are not growing in every line and that's because, as I've said on last calls, with the pricing actions that we're seeing, we believe the industry is appropriately reacting to loss trends that have deteriorated over the last few years and that have exacerbated the negative impact of several years of price declines.

Our view remains that even with the increases we've seen in the last two years, many lines of business are still not at acceptable pricing. I would add that the canceled and non-renewed business are adding about two points to the reported insurance combined ratio. Thus, adjusting for a G&A ratio, that is on par with last year's, our continuing core business in the insurance segment is currently running at an ex-cat accident year combined ratio in the mid-90s. These metrics are highly encouraging and demonstrate to us that we're taking the right actions to strengthen our insurance book.

Let's move to Reinsurance, where we reported a very disappointing quarter. Our quarterly ex-cat reinsurance results reflect normal quarterly volatility. However, it's worth pointing out that year-to-date the accident year ex-cat combined ratio for our Reinsurance business is still down by more than 1 point, showing the progress over the prior year. But the big item this quarter was the large losses that we experienced in Japan.

As noted in our last earnings call, we took advantage of improving market conditions to expand our presence in Japan, a rare opportunity given the high client loyalty within that market. This aligned with our long-term strategy as we view Japan to be among the most attractive reinsurance markets.

In addition, increasing our Japanese exposure brought more capital efficiency and further diversification to our overall cat portfolio. Unfortunately, 2019 proves to be a highly active year for typhoon activity in Japan. However, we continue to believe that from a longer term perspective, growing in Japan is the right call and we're confident that we will receive appropriate returns for our commitments to the Japanese market.

So let me conclude by saying that while it was a tough quarter there were many positive indicators reinforcing that we have the right strategy. We're continuing to build momentum, and we're seeing significant growth in the most attractive areas of our business. It's because of that we're confident that we will deliver the results that our team and our investors expect.

Later during the call, I'll speak on trends that we're seeing in the marketplace. But first, I'll pass the floor to Pete.

Peter Vogt {BIO 17059745 <GO>}

Thank you, Albert; and good morning, everyone. During the quarter, we generated net income of $28 million and an annualized ROE of 2.3%. On an ex-PGAAP basis our operating loss was $28 million, generating an ex-PGAAP annualized operating ROE of a negative 2.4%. Our results this quarter were adversely impacted by a couple of items, including pre-tax cat and weather-related losses, net of reinstatement premiums of $160 million. As we recently announced, these losses were primarily driven by Hurricane Dorian and the Japanese typhoons.

In addition, the current accident year loss ratio ex-cat and weather-related increased by 0.5 point over the same period last year due to some volatility in the claims area of Reinsurance segment and this more than offset improvement in the Insurance segment and the positive impact of rate over trend across both segments.

As Matt mentioned at the beginning of the call, we believe the best way to discuss our results is on an ex-PGAAP basis, which is a better representation of the run-rate performance of our business. This is relevant for our Group results and our Insurance segment results this quarter. Accordingly, all my remarks regarding the quarterly operating performance for Group and for insurance will be on an ex-PGAAP basis.

Moving into the details at the Group level, the current quarter consolidated ex-PGAAP combined ratio was 109.5, an increase of over 9 points from the third quarter of 2018. This was driven by an increase of 6.6 points to the cat and weather-related losses that I mentioned a moment ago, as well as 0.5 point increase in the current accident year loss ratio ex-cat and weather, combined with a decrease of 1.5 points in favorable prior year reserve development.

We reported net favorable prior year reserve development of $27 million in the quarter, of which $15 million came from insurance and $12 million came from reinsurance. The consolidated ex-PGAAP acquisition cost ratio was 22.6, which is comparable to the prior year. The consolidated G&A expense ratio of 13.4 increased by seven-tenths of a point compared to the third quarter of '18. The increase in the G&A ratio was driven by the decrease in net premiums earned. The year-to-date G&A ratio is at 14.5 and has trended down over the course of the year as we expected.

As Albert stated, the increase in the G&A ratio is a natural consequence of building a more profitable book. We expect this will reverse as we grow earned premiums in a strengthening market and further advance our operational transformation. Regarding the operational transformation, we continue to remain on schedule to achieve our annual run-rate net savings of $100 million as compared to our 2017 run-rate by the end of next year. Fee income from strategic capital partners was $18 million for the quarter, essentially flat to prior year. For the year-to-date fee income was $57 million, a year-over-year increase of over 30%.

Now we'll move to the segments. Let's begin with Insurance. The Insurance segment reported a decrease in gross premiums written of $74 million in the third quarter. This was due to decreases in property, partially offset by increases in liability lines. In the quarter almost 90% of the reduction was in relation to lowering our property exposure, which is consistent with the strategy that we have indicated to you during past calls. Offsetting this decrease, we saw favorable new business opportunities in liability, especially in US Excess Casualty and US Primary Casualty. The Insurance segment ex-PGAAP combined ratio was 103.8, which was 3.1 points lower than the same period last year. This quarter pre-tax cat and weather losses were $41 million, primarily attributable to Hurricane Dorian, compared to $62 million in the same period in 2018. The decrease in the current accident year cat loss ratio was almost 2.5 points compared to the third quarter of 2018. As we have continued to improve the property portfolio, we have seen our market share of US weather related storms come down year-over-year.

The Insurance segment current accident year loss ratio ex-cat and weather decreased by 1.5 points in the quarter compared to the third quarter of 2018. The decrease was driven by favorable loss experience in property lines, as well as favorable rate over trend in all lines. These improvements were partially offset by mid-size loss experience in credit, aviation and marine, as well as changes in mix of business, as we earned less premium in property and more in liability and professional lines. The Insurance segment ex-PGAAP acquisition cost ratio was 21.8, which is over a point decrease from the prior period.

Now, let's move on to the Reinsurance segment. The Reinsurance segment reported an increase in gross premiums written of $57 million in the third quarter. The increase principally came from the catastrophe, A&H and liability lines, partially offset by property lines. The increase in cat A&H and liability business was largely due to timing. These increases were offset by non-renewals in property largely related to under-performing businesses. The reinsurance combined ratio was 109.9, which was 20.4 higher than the same period last year.

The Reinsurance segment's current accident year loss ratio ex-cat and weather of 64.8, was 2.2 points higher compared to the third quarter of 2018. This was driven by claims volatility in the credit and surety lines, as well as the aviation line. Year-to-date current accident year loss ratio ex-cat and weather was down 1.2 points over the prior period and we believe this is more indicative of the improvement in this portfolio. The Reinsurance segment current accident year cat and weather loss ratio increased by 14.6 points.

The pre-tax cat and weather-related losses, net of reinstatement premiums were $119 million. This was primarily attributable to Hurricane Dorian and the Japanese typhoons, this compares to $30 million in the same period in 2018. The decrease in favorable prior year reserve development of $20 million was due largely to some late claim reporting centered in the property lines. The Reinsurance segment's acquisition cost ratio was almost a point higher than last year, this was principally due to adjustments related to loss sensitive features and the impact of retro contracts, partially offset by changes in business mix.

Net investment income of $116 million for the quarter was comparable to the third quarter 2018. Our current book yield is 2.9% and our new money yield is 2.5%. The duration of the portfolio is approximately 3.1 years.

With respect to the Novae transaction, in the quarter, the net drag on operating loss from PGAAP VOBA DAC adjustments was $4 million after-tax or approximately $0.05 per share. As we've previously disclosed, the VOBA DAC impact will be minimal from this point moving forward. Lastly, diluted book value per share increased to 0.5% in the quarter to $56.26. This was principally driven by net income generated and net unrealized gains, partially offset by common dividends. That summarizes our third quarter results.

With that, I'll turn the call back over to Albert.

Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Pete. Let's do a quick overview of market conditions, and then we'll open up the call for questions. So we're now entering the third year of price firming and as more pain has afflicted the market, the pace of improvements in pricing, terms and conditions has accelerated. The average rate increase on renewed business across our insurance portfolio was 8% in the third quarter as compared to 7% in the second and 4% in the first. The markets that have suffered the most are the ones exhibiting the largest dislocations in pricing increases. There is no denying that many of our lines of business have been under intense pressure over the past few years, but now we also have the opportunity to take advantage of the recovery, especially with our stronger relevance and leadership in many attractive markets.

Let's move to specific data. In our US division, average rate increases were close to 11% for the quarter. The strongest increases came in excess casualty, where rates were up 17% for the second straight quarter, while E&S property came in at more than 14%. The US Primary Casualty was up close to 7%, while program business renewed at about 4%. Overall, rates in our US division were up approximately 10% year-to-date. Within our North American Professional Line division rate increases are picking up, coming in at 4% versus 2% in the second quarter.

Our Commercial Management Solutions unit, which writes mostly excess D&O and some private company D&O on a primary basis achieved average increases of nearly 14% and we saw a 8% increase in our Canadian Specialty Insurance business. Small E&O and Cyber were flat to down 1% or so, although recent Cyber losses appear to be stabilizing that market, providing opportunity for price increases. Overall, average year-to-date increases for the Professional Lines division were over 3%.

In our London-based International Insurance division, our average rate increases were nearly 10% for the quarter, although there are many units that were up well in excess of that level. For example, the average rate increase across the entire marine book was almost 25%. Additionally, we achieved double-digit increases across renewable energy, professional and casualty, and global property books.

Most program units are up single digits and political and credit risks were flat. The only reduction is in terrorism where results have been strong in recent years. The average year-to-date increase in our international book came in at 6.5%, and for the overall consolidated insurance book, the year-to-date average increase is 6.5%, up from 4.5% in the prior year. Overall, almost 90% of the entire insurance book was renewed flat to up this year.

Everything we see in here convinces us that rate increases will continue to 2020 and very likely longer. Results have been inadequate and remains so in many lines. Large loss activity seems to be increasing; social inflation is a top concern and benefits on prior year releases will likely fade away. Interest rates are also likely to stay lower for longer than most of us expected. Carriers essentially have no choice other than to improve current year underwriting results.

Notwithstanding the challenges we faced this quarter, we're confident that AXIS will do very well in this environment. As I noted earlier, we grew our more attractive lines by more than 13% year-to-date and we intend to expand our appetite for growth as additional lines start to reach levels of acceptable profit opportunity.

Moving to reinsurance, while that market does not appear to be as dislocated as the primary or retro market, we still expect ongoing improvements at coming renewals. For Proportional business, reinsurers will benefit from strong underlying primary rate increases combined with pressure on reducing ceding commissions. Excess of loss treaties should respond to recent loss experience and we expect to see pricing corrections in many lines including aviation, marine, credit, engineering, casualty, and professional lines.

As the catastrophe covers, at the upcoming one-on-one renewals, we expect to see ongoing increases in North American and Caribbean markets, driven by an increased demand for reinsurance combined with another year of unsatisfactory results for reinsurers. On the other hand, at this point, we expect Europe and Latin America to be flat or up low-single digits, given the absence of large losses in recent years. As we move later into 2020, we would expect that the Japanese and US mid-year renewals to show increases in double-digit range, including significant increases in loss impacted layers, although, of course, a lot can happen between now and then. We will use these market conditions to further improve our aggregate catastrophe exposure and volatility.

I do want to share with you the progress that we've made in just this year. Between the third quarter of 2018 and the third quarter of this year, we've shaved peak exposures, increased geographic diversification and made other changes to shift our entire annual expected cat loss curve down by more than 10% across the curve, while we improve the cat combined ratio by 8 points. It's our goal to make similar reductions in the cat loss curve, while we continue to improve the underlying profitability and volatility of that book in 2020.

And outside of cat, across both the insurance and reinsurance book, we are using multiple levers beyond pricing to improve portfolio quality, we are pushing for more favorable limits, exclusions and attachment points and are improving our risk selection across the enterprise.

So to conclude, this was a tough quarter. But we've also seen very encouraging indicators and that we're making tangible progress and are on the right path. The markets are improving, we're seeing great opportunities, and growing where we want to and making ongoing investments necessary to become a stronger company that is well-positioned to deliver long-term profitable growth.

And now let's please open the line for questions. Operator?

Questions And Answers

Operator

Thank you, sir. We will now begin the question-and-answer session. (Operator Instructions). And the first question, we have will come from Amit Kumar of Buckingham Research. Please go ahead.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks, and good morning. Albert, a few questions. I wanted to start with the topic of these mid-size losses. These mid size losses have impacted the results for several quarters despite repositioning your portfolio. I wanted to get some sense as to how would you respond to investors to give them confidence that this volatility will diminish going forward? And can you talk about some specific steps you might be taking to address this issue?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Amit, thank you for the question. I think the first thing to do is, let's talk about the nature of the losses because some really do feel with truly the normal volatility in those lines, half of our large loss experience this quarter is in credit lines. There has been a number of large bankruptcies that you've seen and if you look at our credit lines both in insurance and reinsurance, they tend to give you four, five, six, seven, eight, very, very strong quarters and then you get one bad quarter but on average, these are lines of business that are coming in with performance in the 70s and 80% and that's exactly what we're seeing. So half of our large loss this quarter is due to credit losses, where we've had essentially no credit losses in the last seven quarters. And so the lines of business that are affected are still very good and if you write credit that's what you expect to see. Five, six, seven quarters good quarters one bad one but it's great average result, and that's what happened. That would be number one.

Number two, I think that as you look at the overall mid-size losses of our businesses, these are not large lines. These are essentially losses, when we talk about mid-size, they are literally $5 million. There is nothing unusual in the underwriting or in the risk appetite to lead to this. There are occasional quarters where you have a higher frequency, and I think you've all read the headlines, certainly around a number of the big aviation cases going on, where there has been change of facts and patterns, which of course causes to revisit the estimate in those and just a couple of small marine losses. But otherwise, there is nothing big and there is nothing unusual in the severity and frequency.

I will say that last year was generally a good year for mid-size losses and so the deterioration that you see year-over-year is not a poor result in our book. On average I would say in that mid-size losses average about 3 points across the year. What we're seeing here is maybe 0.5 point higher than that, but nothing unusual. It's perhaps a bad comparison year-over-year. But I will say this, we spend a lot of time analyzing every part of the book, we have spent many years improving the quality by reducing limits, increasing attachment points, using more reinsurance. There is nothing here that is a runaway loss. There is just an unusual frequency in this quarter compared to the prior quarter and the very large concentration of credit losses this quarter is not in any way a indicator of poor results in credit. In fact, our credit results continue to be very, very strong.

Q - Amit Kumar {BIO 15025799 <GO>}

That's helpful. Using that answer as a backdrop, let's link it to the discussion on insurance and maybe we can also talk about rate versus loss trend in the second.

I think one of the questions I've been getting since last evening, is as you pivot away from the property cat -- I'm sorry, the larger lines, on the liability side, and you talked about growth in Excess Casualty and Primary Casualty, now there is a new debate emerging on loss cost inflation, including social inflation, toward climate, jury awards et cetera. What should give investors confidence that that's not another area where things could develop worse than what we are talking about today?

A - Albert A. Benchimol {BIO 2023727 <GO>}

That's a very good question and I'd be happy to talk about that in a number of areas. But Excess Casualty and Casualty is actually one area where we think we're on very, very solid footing. And let me tell you why. So first of all, if you go back to the conference calls in the last two, three, four years, you all hear that we were very negative on casualty trends for many years. We've actually shrunk our book of business over the past few years and we've made significant changes to that book of business, including increasing attachment points, reducing gross volumes.

So just to give you an example, average net limits exposed in 2019 in the Excess Casualty book is literally 50% of what it was just in 2015. So we've taken a significant amount of correction already and we've been demanding price on Excess Casualty since '16. And we indicated to you for example, that we had very low retention ratios and so on, as we were taking those changes.

The second thing is that whenever we've seen any negative indication in liability, we immediately booked it on our reserves. And so, if you look at the triangle that we provide, you'll see that we've been very responsive to taking any bad news early on our reserve such that we believe that we're currently in a very good position with regard to our reserves and we believe that we've got a very good handle on where the casualty book is.

And then to be fair, we're getting 17% price increases, and you can rest very assured, we are not taking anywhere close to that as reductions in loss ratios, we will incorporate in our reserving an assumption of a very, very heavy loss trend -- we'll show improvement. I hope, but we are not assuming that the 17% is a free gift. And so we will reflect that in our reserving.

And I think that we're in very, very strong position, with regard to our casualty book. And I would make exactly the same case, for example, on our D&O book. You've heard us talk about D&O, you know that we've made major changes to our D&O book back in 2014 because even then we already saw increased trends in technology, in health care and we told you at that point that we would make significant reductions to our public D&O book. We told you that we would significantly reduce the primary book and we did, we told you that we would increase the attachment point, that we would reduce limits, and again, attachment point --attachment points on US public D&O are literally 40% higher than they were just four years ago, five years ago and we've also continued to reduce the limits. So we've been making those changes as we've been seeing those trends.

We've reduced our reinsurance professional lines book, we probably peaked at in '15, '16 and started bringing it down, again, in an expectation of those trends. So I think we've actually been taking those actions early on, we've been taking the right actions and we feel that now, in fact, is a good time to grow on the Excess Casualty. We do not yet think that now is a good time to grow on the public D&O. So we're being cautious on where we choose to grow.

Q - Amit Kumar {BIO 15025799 <GO>}

That makes sense. The last question, I will requeue. In Q1, the gap between loss costs -- I'm sorry, the pricing versus loss cost trend was -- on the insurance side was 100 points, in Q2 it was 200 points, where do you think we are now and where are we headed from here? Thanks.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Again, I think on a long-term basis, if you look at 8% to get, as you remember that year-to-date book is at 6.5%, which is really what we're going to be earning next year, but if you look at 8%, that obviously if you look at longer-term trends solidly 300 basis points. But as I indicated to you, when you get lines of business that are giving you 10, 11, 12, 15 pricing increases that you are not using -- we're not using a 5% loss trend on those. We're assuming that most of that increase is going to go.

So I think that clearly there is room for a couple of hundred basis points of loss improvements based on that because we're going to assume a longer than -- a higher than average long-term trends on losses, but there's clearly room for improvements in results with the kind of rates that we're seeing. But again let's remember, what we're going to be earning next year is not a book that's 8% higher. It's a book that's 6.5% higher.

Q - Amit Kumar {BIO 15025799 <GO>}

Absolutely. That's helpful. I'll stop here. Thanks for the answers.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Amit.

Operator

And next we have Brian Meredith of UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes. Thanks. I just wanted to go back to the whole mid-size loss thing, what's been going on. I think it's been like six quarters almost in a row in the insurance industry that we've -- insurance business that we've had these -- the elevated property mid-size those types of things, is perhaps -- I guess first question is, is that coming from largely kind of unattractive or call it attractive businesses. I know you mentioned the credit business is clearly attractive, but generally speaking where is it coming from and should we see that kind of going away as we go into 2020 if some of that unattractive business runs off?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Yes. So, the first thing again is to talk about the fact that when we talk about a 3 percentage-ish average mid-size loss load, that's not unreasonable. And even if there's good business, you're going to have claims every once in a while that are going to pop you for $5 million or more. So, what is good news for what it's worth is that it's true that in the insurance division, the large loss is a bit higher over the last, I believe, three, four quarters; but that's because in the prior period they were pretty good. But here's the issue. If you look at where the losses are, they're not coming from our property book because we have made so many strong changes to our property book that we're seeing significant improvements both in the attritional loss ratio, mid-size loss ratio, and cat loss ratio. So when you look at our large losses in the last couple of quarters, property is not there.

The only place that you're seeing it in this quarter, as I said, half of it is in credit and again I'll take the trade of having sub-90 combined ratio business that pops you every six or seven quarters. That is good business. And I think on the aviation, I think everybody has been reading the newspapers and there has been a change in venue in very visible cases, which clearly has caused us to take a more conservative view on that. But the distribution of the large losses on the credit and aviation lines, frankly, I look at them and I don't see them as disturbing. And I don't want to give you a false hope, I think it's going to be about

3% a year plus or minus a point in any one quarter. But our job is to reduce the overall loss ratio including those mid-size losses.

And again what's really good about what we're seeing in the results this year is that even with the increase in the mid-size losses, you're still seeing a reduction in the ex-cat loss ratio on the insurance book and that reflects a lot of hard work. And again, although we had some volatility in the quarter for reinsurance, the year-to-date results for reinsurance are still better than they were last year's year-to-date results. I want to be very clear here. We as frustrated with this quarterly results as you are. There's no way that I'm going to try and tell you that this is a good quarter. But we've peeled this quarter every way we could and what we're seeing is that the losses are reasonable in the context of an improved portfolio and there's nothing untoward in what we see.

Q - Brian Meredith {BIO 3108204 <GO>}

Is there anything you could do with ceded reinsurance that maybe would mitigate some of this?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I think we've optimized our ceded reinsurance substantially last year, in fact. I need to give a shout out to our ceded re team, because I think we're doing very well on ceded re. And you have to realize that if you're going to start to take a loss to be materially lower than $5 million on any one line, you're going to be giving up a huge amount of long-term profits, and giving up diversification, you're going to take your own diversification benefit and you're going to hand it to your reinsurers.

And so I think there is a lot of -- and I'm happy to sit down and have the analysis, but I think where we are makes sense, I would argue with you that as business gets better -- where there is an opportunity for us is actually to reduce quota shares, so that we can keep more of that business as it gets better next year.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you, got you. That makes sense. So therefore, if I kind of take everything you're saying Albert, as we look into next year 2020, if we aren't seeing a meaningful improvement in the underlying kind of loss ratios in the insurance industry, at that point, would you say, hey, listen, there's something wrong?

A - Albert A. Benchimol {BIO 2023727 <GO>}

A, I have all the confidence in the world that we are going to see those lower ratios, because as I mentioned to you, when we look at our continuing book versus the canceled, the non renewed book that -- we're feeling that those numbers are very strong and they are right now on an accident year basis. Admittedly, we've got to do something with the G&A ratio, we're going to pay attention to the expenses.

But the books that we are -- that we bring ourselves down to is a high quality book and a great platform on which to build. And so I'm absolutely confident that the loss ratios will improve. If they don't, it's because the industry is seeing much higher loss trends than any of us is expecting and what we will do in that case is we will take corrective action on the underwriting and we will take corrective action on demanding more rate.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you, got you. Just one last one, just curious, some of the acquisitions you've made of late, are they performing as kind of expected i.e. like Aviabel and obviously Novae?

A - Albert A. Benchimol {BIO 2023727 <GO>}

So on the Novae book, as you know we acquired Novae in '17-'18 [ph] year. We made some changes to that book in the beginning of ' 18. There were some additional changes that we told you we were making and I'll be blunt, some of that non-renewed book that I'm telling you, is hurting us, is part of that canceled business. But what I will tell you is that the strategic positioning that we now have in the London market, which is one of the strongest markets in the world right now, being a top 10 leader is really giving us the opportunity to demand rate and get very good business.

So we're feeling really good that we have the opportunity to take advantage of this 10% average rate that we saw in the business and I indicated to you 25% increases in marine, the increase in the teens in property and so on. So we think that position is very well. Obviously, some of that book, just like our own book, they have some lines of business that need to improve, but there is nothing unusual or unexpected in of the composition of Novae book.

I think Aviabel that was not a very expensive acquisition. That was a small acquisition, to help us reposition our book of business in aviation. And the reason for that is the following; we have found that the large airline business has gone down so much that it was no longer attractive, we were reducing that significantly and we believe that the general aviation market was a much better market, still not great where it was, but a better market. And so the acquisition of Aviabel -- and it was really literally a $50 million book, it's not that huge.

We acquired that to shift our book of business away from large airline, more towards general aviation that tends to report well. It's still not a great result, but it's an improving results. We've cut back on that book. We've cut back on the expenses, and so it's one where we're seeing progress, it's certainly not where we want it to be and we will continue to monitor it and fix it. But those are the two acquisitions we've made, and by and large, are there risks and their lines in there that I wish were better performing, yes. But overall, are we a better company today because of those acquisitions? I believe the answer remains, yes.

Q - Brian Meredith {BIO 3108204 <GO>}

Thank you.

A - Matt Rohrmann {BIO 15132648 <GO>}

Thank you, Brian.

Operator

Sorry about that, sir. Next is Elyse Greenspan with Wells Fargo.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, good morning. My first question, also sticking with the insurance book. So I guess part of what's going on with -- away from the loss ratios also on the expense side that you guys pointed to in terms of the impact of the lower earned premiums with flat G&A. So when do you think we're going to get to the point where all these re-underwriting actions are complete and given all the pricing that you're getting that net growth in net premiums in insurance can inflect positively?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I'll speak to that. I guess what I want to say is that we should not minimize the progress that is actually shown in the insurance results. We're talking about delivering a technical ratio that absorbed a higher amount of losses and still came down by 2 points, so there is progress being shown in the property book. We certainly -- sorry, in the insurance book, we're still intending to do more, but there has been significant progress in the insurance results. I think that with regards to the inflection curve, it's a combination of two factors. One is, we're clearly focused on looking at where we can reduce the G&A expenses so that we can get a handle of that. And secondly, as I mentioned with Brian, one of the things that we're looking to do in 2020 is obviously grow the book where we find the attractive opportunities, but also where lines of business are now looking good to us is reducing some of the quota shares, so we can keep more of that profitable premium on our books and improve the ratio accordingly. I'm low [ph] to give a specific time frame, but I can tell you that as we look at our projections, we expect that the negative quote-unquote impact that we've had on the G&A ratio should start to turn as early as the beginning of 2020. Peter, you should look at that.

A - Peter Vogt {BIO 17059745 <GO>}

Yeah, I mean, as we think I think more about the growth side, I think as we get into next year, the canceled business that we have, the UPR is running off. That -- as we've indicated, that UPR should be down by about the middle of next year. So therefore, if we get into next year, insurance should start to show some growth as long as the markets continue to be favorable for us, by the time we get into the -- by the second half of next year is what I'd say. I don't have a crystal ball on that, but I do think that there is some positive momentum there in the growth lines.

On the G&A, we continue to be able to pull down our operational transformation that we're doing and we expect to do that and we still have all indications we'll get more of that into next year, and as we're planning on going into next year, I think we'll take another hard look at expenses and the G&A ratio in insurance to make sure it effectively reflects the size of the book.

A - Albert A. Benchimol {BIO 2023727 <GO>}

So I guess the short answer is we've got two or three levers that we can pull and we'll be working on those.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. That's helpful. And then so the two points from the canceled and the non-renewed business that you alluded to in insurance, so when does -- does that circle out at the end of this year in terms of, we don't have to think about that impacting margins? Or will we still see somewhat of an impact in 2020?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Elyse, you could still see an impact to that, I would say, going through the first half of 2020 as we indicated a lot of those things we canceled had tails on them. So it all depends on how they perform in a certain quarter. This quarter, that book didn't perform really well, jumped up and bit us. It actually -- one of the canceled books actually had some cat exposure to it that hit us on the cat line also. So as that runs off, again, a lot of it was MGAs and cover holders we canceled, so there was a bit of a tail on it, but it's something that we keep our eye on every quarter and I expect I'm going to need to keep my eye on for -- at least through the first half of next year.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. And then in terms of the fourth quarter cat, so we have another sizable typhoon in Japan, so as well the California wildfires, which you know are ongoing and then some other events within the US. Do you guys have a sense of losses, and it might be too soon with California but maybe with the fourth quarter typhoon in Japan, can you kind of size Hagibis in relation to the losses you took in the third quarter, just kind of give us a rule-of-thumb on both of those events?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Well, with regard to Hagibis what I'd say is we don't know what it is yet. I mean AIR had an estimate was $8 billion to $16 billion which is really quite wide. So we expect to give a more -- we've talked to our cede, it will be something that's probably larger than Faxai, but lower than Jebi. And so it's somewhere in there. The only thing I can really tell you is, we know we did increase our market share with regard to Japan. So we will see higher losses from that market than we saw with Jebi if it somewhere associated with Jebi. What I would tell you is, as we noted in our press release, we had a couple Japanese aggregate treaties that were impacted by Faxai and those were exhausted. So they won't be -- will not be impacting the fourth quarter.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. Thank you very much.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thank you.

Operator

Next we have Yaron Kinar of Goldman Sachs.

Q - Yaron Kinar {BIO 17146197 <GO>}

Hi. Good morning, everybody. I guess first question -- and then I apologize, I missed the first part of the call. But in insurance, so -- I'm seeing a material shrinkage in both aviation, and credit and political risk premiums. Those are lines that have previously been emphasized, so what's changed? Specifically I guess in aviation, Albert, you just pointed out that you're doing a -- you have a shift from larger airline business to general aviation. Is it as simple as that shift that's creating the pressure in premiums there? And then maybe additional thoughts on credit and political risk?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Yeah. So on the insurance book, per se we're just not seeing enough improvement in aviation quite frankly. And so, further reductions is the right move. So we're just reacting to market conditions. With regard to credit and political risk, there has been -- the way that business works it's literally one deal at a time and there is no renewal business. And so we evaluate every risk as it comes. And depending on the market conditions, we take more or less. We are actually very clear with our people that there is never a budget for volume on the credit line. So it's really a question of the fact that -- of the opportunities that we've seen, we took the ones we wanted. There weren't as many. There are a couple of sources that are slowing down right now, which at some point will pick up, but we're not overly concerned. But the credit line is one where, as you know, there is large limits to the credit, so you want to be very careful how you underwrite it. And so this was simply a question this quarter not of changing our appetite for credit but the fact that we just didn't see the opportunities that we wanted to see in credit.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. And then shifting to Japan, I guess one clarifying question, the Hagibis loss estimate, you said that you expect it to be smaller than Jebi, is that for the industry, is that for AXIS specifically?

A - Albert A. Benchimol {BIO 2023727 <GO>}

No. Actually, to be clear, we were talking to people, in fact, we've got some of our team members in Singapore right now talking to customers at the conference and they -- all we can tell you is that people are not prepared to share a lot of information. They want to get it right. I think they are embarrassed on prior losses. I think if there was to be a guess, I think it would -- people are saying that Hagibis could be the size of Jebi, maybe a little smaller but that's kind of the industry.

For what it's worth, one of the reasons that modeling prior losses is not going to be as easy is that Hagibis is going to have substantial flooding losses compared to the traditional wind losses and flood losses tend to be larger because they tend to be industrial and commercial versus residential. And so there is a lot more idiosyncratic either the plant isn't flooded or it isn't. And so I think there is a certain sense of caution that modeling may or may not get you the right answer. So I think everybody is holding it up. But it's more likely to be close closer to a Jebi type loss than it is to a Faxai type loss.

I think, with regard to us, if it were a Jebi type loss, it would be bigger than our old Jebi type loss because our market shares are bigger. On the other hand, I think what Peter was trying to do was to guide you not to extrapolate from Faxai because Faxai had some exposure to low aggregate treaties that have now been basically paid through and they are a one shot deal. So the fact that we had a higher concentration at the lower layers in the Faxai should not affect us in the same way in Hagibis, that I believe was the indication.

A - Peter Vogt {BIO 17059745 <GO>}

Yes, that was the indication, yes. And I would say that we don't have an estimate to what our loss is yet. All we're hearing is industry estimates that are pretty broad.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. And assuming that the rates keep up with loss trends in Japan, as you look into next year, would you expect that your exposure there -- your wind exposure remains roughly the same or do you see any changes just given the higher frequency of these severe events?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I appreciate that. No. I think that we would be looking to maybe shift it around maybe between layers but I think in terms of overall exposure we had a real opportunity this year to do what we needed to do to optimize our portfolio. And to be fair, the Japanese exposure is really did improve, the balance in that portfolio, so we have the Japanese exposure we want in our portfolio. So, it's simply a question of optimizing it based on the renewals that are available, rather than increasing it.

Q - Yaron Kinar {BIO 17146197 <GO>}

Got it. Thank you so much and good luck.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thank you.

Operator

Next we have Sean Reitenbach of KBW.

Q - Sean Reitenbach {BIO 20103487 <GO>}

Good morning.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Good morning.

Q - Sean Reitenbach {BIO 20103487 <GO>}

Assuming reinsurance rates keep firming and it looks like they are, would you suspect that 2020 will look similar for gross written premium growth as 2019?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I'm not sure that I can answer that question because we're literally going through our plan as we speak. And as you might imagine, every large loss in the market changes expectations as to what clients will do and what rates are achievable. I would say that on a gross basis we probably would not grow as much on the cat line, because I think that -- we'll take the rate that we can get, but in terms of, excuse me, in terms of exposure, I think, we'd be looking to, as I mentioned to you earlier, we took our entire aggregate cat loss curve over 10% down just in one year and we're looking to do more of that.

So I expect that we're going to write -- we're going to take all the benefit of rate that we can get. We will continue to make some improvements in terms of where we are at various layers, but the large growth on a gross basis that you saw on cat, you are unlikely to see next year. As to the other lines, I think, we would be responsive to the opportunities.

Q - Sean Reitenbach {BIO 20103487 <GO>}

Okay. Thanks. That's very helpful. And then, secondly, on the Lloyd's positioning, do you have any overarching thoughts on the Blueprint One that came out and how that helps or probably not hurts your positioning?

A - Albert A. Benchimol {BIO 2023727 <GO>}

So, I think, probably, you have to say that I am on the Council of Lloyd's. So be aware that. But secondly ,whatever answer I give you, I'm speaking as the CEO of AXIS, not as a member of the Lloyd's Council. I'm happy to let Bruce and John Neal speak for Lloyd's. From our perspective, we always believe that London market and Lloyd's in particular needed to make some real changes to get out of the funk they were in, in the '15, '16, '17 year of business. And so I think the changes that they're making, I think, are all in the right direction. I think it's a broad range, from improving the processes and making claims payment faster to looking to take advantage of technology, digital capabilities to create a small account platform, to improve the way that we write large risk, all of those initiatives relates to leveraging digital capabilities to better service the customer, do it cheaper and ultimately make better decisions. Then there are -- you've heard about the Syndicate-in-a-Box, which is to facilitate the entrepreneurial introduction of new business into Lloyd's. I think that's a good way of bringing more business into Lloyd's and that to increase the platform and leverage our costs over a greater premium base, that's very, very good. And looking for ways to leverage third-party capital. So there are a number of factors -- of initiatives within the blueprint that all have very strong and positive intent.

It's obvious that they're not all going to move at the same speed. It's obvious that they're not all going to have the same level of success, but they all are moving in the right direction. And I would say that even if we make -- even if we fall short of the Lloyd's goals, but make significant progress, it would be a much stronger market and our participation within the Lloyd's market would benefit strongly from those improvements.

Q - Sean Reitenbach {BIO 20103487 <GO>}

Thank you very much.

A - Albert A. Benchimol {BIO 2023727 <GO>}

You're welcome.

Operator

And the next question will come from Josh Shanker of Deutsche Bank. Please go ahead.

Q - Josh Shanker {BIO 5292022 <GO>}

Yes. Thank you for taking my question. If we take a little stroll down history lane, I remember and this thing is even before your tenure as CEO Albert, that one of the great differentiators for AXIS is going to be a robust Accident and Health business, and I've never really understood completely the goals and now obviously it's a line you're de-emphasizing. Can you talk a little bit about what's going on there? What were the initial designs and why that business may not be attractive today as it was five and 10 years ago?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Okay. So the first thing that I want to say is we're not de-emphasizing it. It's still a business that is very important and continues to grow for us. The issue in -- the particular issue that you see this year in A&H is that we canceled a large treaty that was moving in the wrong direction with regard to performance. It wasn't actually reinsurance treaty, it was an insurance treaty, that was heading in the wrong direction and we couldn't come to terms with our partner, and we thought it best and it was a meaningful treaty. But we are continuing to grow our A&H business in North America, we're continuing to grow our A&H business and our reinsurance business. So I just want to correct that we are not de-emphasizing it, it's simply a -- what you're seeing this year is simply action to continue to improve the quality of that book.

But let me take it back, when the A&H business was initially launched, our goal was to have -- was to build a -- at the time, was to build a retail A&H platform. I think that within a reasonable amount of time, we recognized that AXIS is a wholesale company not a retail company. And so we needed to change the focus of the A&H business to be more into the wholesale business and the reinsurance business and so, we've done that. That was really the big change in the strategy between the time that we launched it, and I would say the 2013 or so?

A - Peter Vogt {BIO 17059745 <GO>}

2013, yes.

A - Albert A. Benchimol {BIO 2023727 <GO>}

When we said, you know what, we don't have the platform to truly -- the retail platform to truly create a retail A&H business and rather than try and compete with one hand behind our back in that market, let's shift it to markets, where we have a more relevance and a better chance of success. And so we took it more into the wholesale market and our performance since then -- obviously, we didn't build $1 billion business, it's a $500 million business, so it didn't meet perhaps the original goals of building a retail business.

But once we changed that focus from retail to wholesale, it's been making good progress. It's delivering an underwriting profit, and so that is moving in the right direction. All you're seeing this year is a correction to a large treaty that was moving in the wrong direction, and we just wanted to correct that. Does that help you?

Q - Josh Shanker {BIO 5292022 <GO>}

Okay. That's great. I really appreciate that. And then on the underwriting actions you're taking this quarter, I assume we'll see that continue into the next few quarters. Can you sort of scale for me the timing of when we see the earned premium benefit of these changes make a material difference in loss ratios?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Again, I need to start by saying that we're seeing them now. You're seeing the loss ratios declining today, you're seeing our share of cat losses in North America declining, because of the changes that we've made to our property book. So there are some...

Q - Josh Shanker {BIO 5292022 <GO>}

You're right, Albert. Actually, it's sometimes hard for us to see ex-cat margins for the low -- low ex-cat loss ratios versus higher attritional margins on business that's left cat exposed, I guess. It's sometimes hard for us to run it.

A - Albert A. Benchimol {BIO 2023727 <GO>}

I appreciate what you're saying, but at the end of the day, you still had a 1.5 point reduction in the ex-cat loss ratio this quarter, notwithstanding, the fact that we had a higher mid-size losses. And so that's a real progress and certainly we expect to continue to deliver on that every quarter. I think that as the actions that we have made work their way out. So for example, Peter spoke about the fact that we've got this discontinued business, which is hurting us to the tune of 2 points staying around for about a year, to the second -- into the first half of next year, but at a declining rate I believe, Pete.

A - Peter Vogt {BIO 17059745 <GO>}

Yes. Yeah.

A - Albert A. Benchimol {BIO 2023727 <GO>}

So we will see that started to improve and as we earn more of the business that we're writing today versus the business that we wrote a year or year-and-a-half ago, we are going to see more benefits. I'm absolutely confident that we are already seeing those benefits and as that -- and as the book continues to earn out, we will see more of those benefits. It's just a different book today.

Q - Josh Shanker {BIO 5292022 <GO>}

Yeah. Yeah. Well, I look forward to seeing next quarter in 2020. Thank you.

A - Albert A. Benchimol {BIO 2023727 <GO>}

As do I.

Operator

Next we have a follow-up from Amit Kumar of Buckingham Research.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks. I know it's at the top of the hour, so I'll make this quick. Just a few clean-up questions. Number one, going back to your initial remarks, Albert, on the credit book, did you say, it was running at a loss ratio or a combined ratio of 70%s and 80%.

A - Albert A. Benchimol {BIO 2023727 <GO>}

Combined in the 70%s and 80%s.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. That's helpful. Number two, are you blacked out from buying -- I'm sorry, repurchasing your stock right now?

A - Albert A. Benchimol {BIO 2023727 <GO>}

No. We're not.

Q - Amit Kumar {BIO 15025799 <GO>}

And any thoughts on capital management with how the stock is reacting today?

A - Peter Vogt {BIO 17059745 <GO>}

We do not have a stock authorization plan in place right now.

Q - Amit Kumar {BIO 15025799 <GO>}

Okay. But --

A - Peter Vogt {BIO 17059745 <GO>}

Yeah.

Q - Amit Kumar {BIO 15025799 <GO>}

But there is no blackout other than the fact that we can get --

A - Peter Vogt {BIO 17059745 <GO>}

There is no blackout, although, we could get the Board to approve it, but we do not have an authorized plan in place right now.

A - Albert A. Benchimol {BIO 2023727 <GO>}

I think we'll sit down and we'll look at our -- we'll sit down with our Board and look at our planning. We'll look at the opportunities we have next year.

A - Peter Vogt {BIO 17059745 <GO>}

To that point, I think, it's worth saying that the balance sheet has strengthened a lot over the last two years, as you know, we took out some additional leverage when we acquired Novae, we're working our way down and so we're bringing the equity back up take. We're taking the leverage down. So the balance sheet is definitely in a stronger position than it was at this time last year. But we'll sit down with our Board. We'll look at our plan for next year and we'll take a position.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. And the other question is, I know you have an Ag -- an MPCI reinsurance Ag book, any thoughts on the performance and how we should think about any impact to Q4 from that?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Okay. I don't know that we've had any indication that it would be -- that it would be negative. Let me go back and check a little bit more on that, but I can tell you that as we went through it, there was no surprise in the most recent review, but I could come back to you on that.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. And final question, I know there was a question in Q4 cat. I know you gave a very detailed answer on Hagibis. Did I miss -- did you comment on the Dallas losses or the California wildfire, did I miss that or was that not addressed?

A - Albert A. Benchimol {BIO 2023727 <GO>}

I think on the California wildfires we said it was still too early. Obviously, they're still burning and the Dallas event was just not a major event, overall. We consider that to be, quote, a PCS event, which is just one of these non-cat weather type of events, but there's nothing unusual there.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Okay. That's all I had. Thanks for all the answers.

A - Matt Rohrmann {BIO 15132648 <GO>}

Thank you.

Operator

At this time, we're showing no further questions. We'll go and conclude our question-and-answer session. Mr Benchimol, gentlemen, did you have any closing remarks?

A - Albert A. Benchimol {BIO 2023727 <GO>}

Thank you very much, operator. I'll take some. So thank you all for participating in the call and as I said at the beginning of this call, we're just not satisfied with these results and we understand your frustration. But I remain confident that the metrics that we're seeing continue to confirm that we are moving in the right direction. We have the right strategy and our success will be grounded in our ability to continue to execute on that strategy. You can be rest assured that the entire team is going to be focused on doing nothing other than improving results. We look forward to speaking with you again soon. Bye-bye.

Operator

And thank you, sir, for your time also and to the rest of the management team. The conference call has now concluded. At this time, you may disconnect your lines. Thank you again everyone. Take care and have a great day.