Sanford C. Bernstein Strategic Decisions Conference

Company Participants

- Albert A. Benchimol, President, CEO & Executive Director
- Unverified Participant

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Okay, everyone, thank you for coming to the SDC this year and sticking around through, I think, what is the last presentation of a couple of days of conference. Today, we're thrilled to welcome a company which I don't think has ever been to the SDC before; this is AXIS Capital Holdings. AXIS, many of you know, is a pretty impressive company. Like a lot of firms, it was a start-up in 2001-2002 at the World Trade Center; has a really distinguished history of high returns and low volatility; a specialist hybrid reinsurer and insurance company.

And with all the interesting stuff going on in Bermuda these days, reinsurance capital convergence, so there's lot of things for us to talk about. Albert Benchimol is the CEO. He's been – he's new to the firm as of a couple of years ago. He's been driving a lot of changes, a lot of exciting stuff going on. We're happy to welcome him, and look forward to a few slides, and then we'll do a fireside chat. And when we get to it, we're very happy to take your questions with the comment cards. So thank you. Thank you, Albert.

Albert A. Benchimol {BIO 2023727 <GO>}

Josh (01:05), thank you very much. Good morning, everybody. We'll be making a number of forward-looking statements during this presentation. So, I would refer you to the cautionary statement both on the slide and on our 10-K.

As Joshua (01:25) mentioned, we are a specialty hybrid insurer and reinsurer established in 2001. Last year, to put things in perspective, we grew our gross written premiums some 13% (01:36) to a record $4.7 billion. We had a combined ratio of 91%, delivered $684 million worth of net income and an ROE of 13.1%. We grew our diluted book value per share, adjusted for dividends, by 8%, and returned essentially all of our operating income to our shareholders through share repurchases and dividends.

Putting those numbers in a broader context, you can see that over the 12 years since our inception, we've written just a little over $40 billion of premium, delivered an all-in combined ratio of 89%, which puts us among the best performers in the industry, generating $4 billion-plus of underwriting income. Of that amount, 56% or $23 billion was written by our primary insurance business, and that business delivered an outstanding combined ratio of 84% exclusive of holding company charges.

Our insurance business has produced an underwriting profit in every single year of our existence. Our reinsurance business, generating 44% of our gross written premiums inception-to-date, had an average combined ratio of 88% excluding holding company charges, and only delivered an underwriting loss in two years; Katrina, Rita, Wilma in 2005, and the large international cats in 2011. So again, impressive results, and I'll show you some details right now on that.

This chart provides you a comparison of our net underwriting margin, which is basically one minus the combined ratio, for – this is our insurance business. And we compared that to the U.S. specialty companies, Bermuda scale companies, Bermuda specialty companies ex-cat (03:20), so basically the types of businesses that have similar books of risks as we do.

And as you can see on the insurance side, we have the second-high best underwriting margin in the sector. The only company that beat us is substantially smaller than we are in the specialty area in the U.S., and under any circumstance, our very disciplined underwriting approach, our very disciplined peer review process is one that has allowed us to deliver very strong results compared to our competition.

The same statistics can be found in our reinsurance business, and here, we're comparing ourselves to all of the other reinsurance. We have both European reinsurers, large reinsurers in excess of $1.5 billion property cat. You will see here that although we are not among the leaders in underwriting profitability, that's because the majority of these are actually cat companies. Catastrophe companies, when there are no cats, have a very, very low loss ratio. So, they do tend to have a better average ratio over time, but significantly more volatility.

When you look at the more diversified reinsurers, here again, AXIS Reinsurance compares very, very favorably to the competition in terms of the underwriting profitability. Underwriting profitability, underwriting discipline is really one of our core features in our company. We are strategically positioned in 29 offices across five continents, focusing our energies, if you would, on those areas where we have access to the best business and the best talent.

We have risk underwriting platforms in the U.S., in Europe and in Bermuda, and we support that with branches across the world. We're leveraging that geographic platform to build a new global leader in accident and health both into the U.S. and internationally, and the primary and reinsurance business. We like the hybrid approach. It's an approach that we use in our P&C business, and we think it's also going to serve us very well in the accident and health area.

This is a business that did not exist in 2010. Last year, it generated $268 million of gross written premiums. And it takes a long time, it takes a lot of effort to establish a platform like that. And we believe that, by the end of this year, we will actually have achieved the kind of scale that will allow us to generate a profitable combined ratio for that business going forward. But it's exactly on schedule, exactly where we wanted, and we're very optimistic about the future of accident and health within AXIS.

Going back to financial results, this is another slide that we're very proud of. It demonstrates the growth in our book value adjusted for dividends inception-to-date. And you can see that it's averaged at 13.1% average cumulative growth rate of our book value per share adjusted for dividends, which again puts us among the best performers in our industry. We have been very shareholder-friendly managers of capital. Interestingly enough, when we were founded in 2001, we started with $1.7 billion of capital. Inception-to-date, we've already returned to our shareholders through share repurchases and dividend some $3.7 billion of value - of cash back to our shareholders.

And as you can see on this chart, from 2008 to-date, we've actually returned over 100% of our cumulative operating income, 2008 to now, in the form of dividends and share repurchases. The reason we're able to do that, obviously, we started off with a very strong capital base. But more importantly, we've been focusing very much on enhancing the capital efficiency of our business, more diversification shaving off some of the peak exposures to ensure that we can do more with the capital base that we have.

And just to give you a statistic, over the last two years, we've grown our gross written premiums by over 15%. During that same period, we've repurchased 15% of our shares outstanding. And we've been able to do that and get the upgrade from A.M. Best from A to A+. So, we did not do this stock repurchasing at the expense of capital strength. Quite the opposite, we did it in the context of a more balanced book of business, a more capital efficient book of business.

We're focused on four key strategic initiatives, which we believe very strongly will allow us to deliver top-quintile risk-adjusted returns. The first of these is investing in our people and our culture. There are no secrets in the insurance business, there are no patents, there are no access to special recipes or technology. It's really all about the people, it's about the talent that they have, the service that they deliver to their clients, and the culture that you have, a risk-aware culture, a profit-focused culture.

We've been very fortunate in that we've attracted some of the best underwriters in the business over the years. We are dedicating substantial efforts at continuing to enhance AXIS as a talent magnet, recruiting the best people. But more importantly now, spending even more money now that we are in our second decade, not simply in recruiting people, but in developing people, helping them progress, helping them become the next leadership of the organization. Our people have always been our distinctive competitive advantage, and I'm convinced they will continue to be the case.

The second imperative is delivering diversified growth. Diversification is obviously very important. But one of the major features of AXIS is its entrepreneurial yet disciplined underwriting culture. We have a very, very strong track record of developing new businesses, of expanding our businesses, of recruiting people and teams to establish new businesses. There are clear opportunities for us to take our current business lines, expand those business lines into related markets, into related market segments, as well as related - as well as geographies.

There are the opportunities significantly to take our specialty lines and expand them internationally. So for example, last year, we took our professional lines with energy, marine and specialties that we had in the London office and transferred a number of people and built another focus of expertise in the Singapore market for those same lines of business. So, we're in new markets, but with lines of business and the risks that we know very, very well.

And in terms of more balance and volatility, it's not just new lines, it's not just new geographies. Within our existing portfolios, we're challenging our underwriters to find new sources of distribution, new brokers and new markets, finding more balance in their portfolio. And again, that will promise growth and more stable results as we go forward.

Our third imperative is optimizing the risk-adjusted returns in our portfolio, and that really comes through more expansive use of enhanced data and analytics; using the models to help us determine which is the best risk-adjusted portfolio that we can create, doing more so. It's a theme that I know you're hearing a lot of in the industry, and we're certainly very, very focused on that as we speak.

And finally, making sure that we have the right operational platform – cost-effective operational platform to ensure that we can deliver our talents to the market. The first thing that we did recently on this was to create a new organizational structure, one that we call the federated model, which is really delegating and distributing down to the business units the resources that they need to succeed in their markets as opposed to a centralized service development.

So now, each of our business units has their own actuarial, finance, risk management, reserving, IT, and so capabilities because each of our businesses have different requirements for success. There are different stages of their life cycles, and one size really doesn't fit all. And by giving our business units the resources that are dedicated to them to succeed, we believe that we will be getting a better effectiveness out of that.

Another area is in IT. Quite honestly, we underinvested in IT for a number of years. We are now very focused on making sure that we take advantage of the opportunities available to us, and so we are investing in IT, all the while making sure that whatever we spend is an intelligent investment that will deliver significant cost benefit results for the organization.

So, we talked about the fact that a lot of things were happening in the company, and you're right, Joshua (12:11). This is a list of the things that we were working on just last year. So, in terms of the biggest producers of premium growth last year, certainly our global accident and health franchise, as well as the crop reinsurance business, which we launched in 2012, generated very significant growth in premiums. But we also have a number of other initiatives that are relatively early in their stages of development.

One is Lloyd's. We opened up a syndicated Lloyd's for the first time in our history and started writing as of 1/1 of 2014. We've reentered the U.S. primary casualty market. We were in it before. The market became frankly less attractive to us. We exited that market in 2010. That market has been improving. We think it makes sense to get back into that market. So, we reentered the primary market. We developed new sources of distribution for our U.S. excess casualty business.

As I noted earlier, we expanded our professional liability, energy and marine specialties in Asia and Australia. We established a weather and commodities markets unit, established a new third-party capital management business, and most recently, early this year, we announced the recruitment of a medical malpractice healthcare liability management team. Each of these are relatively early on in their life cycle, but they're all very, very promising in terms of generating profitable growth for our company.

Before I finish my presentation, I would like to speak about market conditions. There's been a lot of talk about the fact that market conditions are becoming more competitive, and indeed, they are. But I think it's very important that we understand where we're coming from. And this chart shows you the development of the pricing for each of our key sectors for our insurance business, our primary insurance business, and it's keyed off 2004.

The reason for that is, first of all, we have the capabilities to really capture all of that information across the company in 2004. But another benefit is that 2004 was an incredibly profitable year. We were right in the middle of the strong hard market that followed the crisis of the World Trade Center, and so this is one of the best company years in terms of pricing.

And you can see that compared to 2004, many of the lines of business today are still priced better than they were in 2004. So yes, that in many lines of business, pricing is declining. In many lines of business, increases are slowing down. But as you can see from this chart, the profitability – the pricing profitability of the business is still there, and there are still significant opportunities for profitable growth for the companies that are well positioned to do so.

So, those were my prepared remarks for today. And at this point, I'd be very happy to answer any of your questions, Joshua (15:00) or those of the audience.

Q&A

Q - Unverified Participant

That's great. Thank you, Albert. We're obviously happy to take the comment cards up here. I thought I'd start with though – I think this is a fair question. You obviously – you showed the chart about sort of outperformance on profitability in the insurance business against everybody else except for one competitor, and it was something like 50% higher returns...

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

Yeah.

Q - Unverified Participant

Over that period of time. What's driving that? Is that – I think there's a superficial question I'd like to ask, which is it's sort of more like product mix or you're doing different layers or there's something very tactical. But I'm also engaged because – and also curious if we could talk a little bit about this or your recent Investor Day, you talked a lot about underwriting excellence and how you really do this. It'd be really helpful to get a sense of what – really what the approach is, and from all of our perspective, how we can see if it's actually different, right. There's a lot of – it's hard to know from the outside looking at when a lot of companies say they're disciplined.

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

I think that's fair. And I have to start by repeating what I've said earlier. It's really about the people and the culture that you've built. And admittedly, it's very difficult to compare that from the outside, which is why the results ultimately have to speak for themselves. I would say to you that it's a combination of two things. The first is the fact that we focus on specialty lines. We try to avoid commodity businesses where we can't differentiate ourselves. We look for businesses that are complex, where there is volatility, where the understanding of the risk, the structuring and the risk selection do make a difference. And that's really the number one part of the selection of the businesses.

The second is, in terms of our underwriting culture, we have a unique culture and a unique process. For one thing, we do not give any individual the pen to write. We challenge each other. We have to present our recommendations to a broader group of people. So, that we make sure that when we do agree to take on a risk, when we do agree to price risk in a certain way, that it's consistent with the best knowledge and the best experience that we have in the company. Obviously, you can't use the same process for every business. A risk that is a $25,000 premium or a $50,000 premium is not analyzed in the same way as a $500,000 or a $5 million premium.

But in every circumstance, in every circumstance, you have a process of challenge and advice in the decision-making process that allows you to make sure that you select the best risks. At the end of the day, we have very proud underwriters. They are very proud of their results and they are very jealous of protecting their position as one of the best underwriters in the business. And that culture is one that reinforces that it's self-reinforcing (17:53). We have a lot of transparency inside the company. We talk about each other's results. When a team doesn't do well, they get up in front of everybody and they'd say, you know what, I didn't do as well this year, here is how I'm going to fix it. We have a responsibility to each other to make sure that we deliver good business.

Q - Unverified Participant

That's interesting. And you've got a history across the industry, is that unique, that level of sort of second underwriting review and just – I came from the primary side. So, I was – people had these like underwriting authorities that were...

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

That's right.

Q - Unverified Participant

You wouldn't actually. You typically wouldn't look at people's work in that kind of duplication.

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

I think that's right. And I think when you're dealing with small lines of business that are almost class-rated, it makes perfect sense to use these authorities. And if it fits in this box, then you can do that. But even when you delegate that kind of authority, you have a peer review process afterwards where you pull up the sample cases and you go, okay, did you do that.

So, there's a very high level of audit review. There's a very high level of what we call, again, management initiated reviews that looks back and says have you been doing the right thing, and it works for us. I have to say, our culture is not for everybody. There are a number of underwriters that we will interview and we explain to them our peer review process, and they go (19:15), not for me. And we say, well then, we're probably not right for each other. So I will say that it's not for everybody. But the results that we've demonstrated show us that it's the right thing for AXIS.

Q - Unverified Participant

That's interesting. The other thing you mentioned sort of picking specialty markets reminds me of a quote I heard a couple of years ago at some conference. I think it was maybe - I want to say John Molbeck from HCC, he stated this (19:40) comment that was, there are no specialty businesses left, there's too much competition in everything. I'm sure the story has changed meaningfully over time, what used to be exotic is no longer. But you guys continue to demonstrate good results. Are there any businesses that you have that you think are still great examples of sort of specialties, which are complicated, which are hard to get into, where there's real returns that you'll be willing to tell us about?

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

I think there are, but we have to recognize the fact that we don't have a monopoly in any one of our businesses. There clearly are a number of very good companies out there. And in any one of the business that we have, we have dozens of competitors. So, I don't think that any company can speak to a unique business. But everything that we have, that we like to write really has true risk transfer; whether it's a ceding company on the reinsurance side or the purchaser of the insurance, actually has a real concern and is willing to pay real money.

Where you do distinguish yourself is in your responsiveness to the client and to the broker; the ability to understand the structure; the ability to determine in a tower whether you are more comfortable playing in the primary layer or the first $100 million, or you'll take a look at and say, you know that, for this organization and their total portfolio of properties, we'd rather be writing the $50 million excess 500 (21:13) level, because we think that's a little further removed from the risk. Obviously, you get less premium at that level than if you're writing the first $50 million. But we think that net-net that's actually a more profitable layer for us.

So, deciding where you are is still a very important component of the underwriting. It's service, it's people, it's adding value, and something that is not often enough discussed is the quality of the claims response. At the end of the day, what we pay – what we sell is a prepaid claim service, and we differentiate ourselves with our clients and with our brokers. Because when they are most stressed because of a large loss event, the last thing they need is for their insurer or their reinsurer to create more stress. And so, the ability to work with them at that point actually significantly increases the loyalty of the client and the broker to the carrier.

Q - Unverified Participant

So, I liked the chart that you ended with and we've kept in the screen, because it keeps in context and perspective for all the depressed sort of sentiment that things aren't quite that bad. The pricing is slowing and people are sort of starting to talk about, what if we start seeing – set aside reinsurance for a moment, but certainly the primarily lines, today's sort of slowing momentum could be tomorrow's softening market.

And there is an underlying debate, I think, that's pretty active, which is sort of is the market different now, is the more rationality of data and analytics lead to better decision-making, is the industry going to be more sort of a loose oligopoly of like intelligent people who all more or less like do reasonable things or are we going to move to something that's more like the supply-driven sort of painful cycles like we've seen in the past.

And I think, when I think about you guys, you're very interesting because your both insurance and reinsurance. And so – and the insurance you write is more of the sort of specialty, more of – it's not the large primary guys who sort of have big departments of underwriters and everybody sort of moves in the same direction. It's a bit more idiosyncratic. I think there's sort of more sort of historically cowboys who play in the specialty lines.

The question would be, as you sort of think about the market – all the primary guys in the borrowing (23:29) business wanted to be rational and sort of hoping that works out that way, do you think we're going to see that sort of thing in the specialty lines? And then do you think in reinsurance, which is even more sort of a supply capital-driven market, do we have a hope of trying to see a rational outcome?

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

That's a very long statement and there is a couple of questions in there. But if you don't mind...

Q - Unverified Participant

You go take (23:49)...

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

I'd like to address one statement about cowboys in the specialty business. I think that there may be other places and there may be in the history.

Q - Unverified Participant

Right (23:58).

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

But one of the whole reasons that our peer review process provides so much value...

Q - Unverified Participant

That's right. You couldn't work it (24:03).

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

It doesn't work. It doesn't work for us. So, cowboys don't do well. On the other hand, if you want to be part of a team that is building a solid portfolio and a profitable portfolio, then AXIS is a place for you. So, I think it's important to address that issue. I'm actually hopeful about the insurance industry, because I do believe that the insurance industry certainly since I've been in it is more focused on shareholder returns and shareholder value than it's been in the past. I think the management teams and the boards realize their obligation to grow book value and to deliver results, and so they are less willing to sustain periods of true loss.

We will have always, I believe, because of the supply and demand of capital, we will always have some cyclicality in terms of better profitability and lower profitability. But I'm actually hopeful that the industry will not sustain periods of loss writing as it has in the past because, A, of its discipline, but B also is the fact that we do have better data and we do have better analytics. And so, I think we can indentify underperforming books of business sooner, and we can start to react and improve them more quickly. So my hope is that, as we go forward, we will actually have less volatility in the results of the industry. There will be some cyclicality. But as much as I don't expect to experience the old highs of the highs, I would hope that we won't see the lows of the lows.

Q - Unverified Participant

And it's hard to imagine – even if the reinsurance businesses has got a longer lag and there's sort of more uncertainty, it's hard to imagine that there's anywhere near as much uncertainty as there used to be, in terms of how little data some people were making bad decisions on 10 or 20 years ago.

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

Well, the issue I think is – it used to be access to data, and now, it's whether or not you choose to look at that data and to believe what it says.

Q - Unverified Participant

Well, we're still human.

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

That's right. And I think there are still ranges, if you would, of organizations that choose to be more or less driven by that data. But I think that the more that data is available, the more the technology is available, the more there is transparency, I think also the more likely that you are to find the industry hovering around a fair technical price. Now, a fair technical price means perhaps not as many opportunities for excess profitability, but again less opportunity for excessive losses.

And that is what - my hope is that we can achieve more or less the same average returns or improved returns but with less volatility. And if the industry can do that, then we will have significantly - we create a significant value, because we will have reduced the risk in our results. And if you can have the same average results with less volatility, you've got a much better Sharpe ratio, better risk-adjusted returns for our shareholders.

Q - Unverified Participant

I have a couple of questions here I wanted to ask, make sure we did. So you guys are obviously growing, it's a softening market, how are you balancing pulling back capacity and trying to be defensive, at the same time you have growth ambitions...

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

Right.

Q - Unverified Participant

And you're entering a lot of new businesses? And then secondarily, do you worry about - do you have to be in these businesses because you worry about brokers and customer relationships?

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

You cannot be in the insurance business if you're not prepared to work through a cycle, grow where you have to, shrink where you have to. During my prepared remarks, I made reference to the fact that we exited completely the primary casualty business in the U.S., because it was just too difficult in 2010 to write any kind of business with any hope of attractive results. And there is no question that, at the time, we were getting chided by the brokerage community. But it's their job to chide us when we wanted too high a (27:57) price or where we want to exit a market. But we have to do the right thing for ourselves and for our clients and for our shareholders.

Interestingly enough, a year or two later, the brokers that chided you for getting out are the first ones to say, you know you did the right thing. And when you get back into the business, as we just did last year, they said, you know what, you were right to get out when you did and you're right to come back in when you do. And that's the kind of respect that you need to generate with your clients and your brokers. They know that they can't abuse you. You will write the risk when it makes sense for you. You'll - if it's well priced and well structured, if it fits into your portfolio, we're happy to consider it, we're happy to write it. But if it doesn't meet those criteria, then there really isn't a reason for us to do so. So, we have to be able to get out. That chart that I've just showed you showed you that there are still a number of opportunities for profitable growth.

So, I don't think that we are facing, at this point in time, the true quandary of, my god, where do we find the next dollar of premium or should we be shrinking. There are still significant opportunities for growth. But within the overall market, there will be areas where we shrink, where we have to shrink, because it's the right thing to do. We've done it in the past. We will do it again. One of the benefits of being in multiple lines and multiple geographies, of always creating new avenues for growth is that you don't feel beholden to any one line, to any one market, to any one broker. I don't have to worry where the next dollar of premium is coming from, because we've got eight, nine, 10 initiatives that are still growing. We've got a broad range of business. And if the right thing for us to do is to reduce exposures in a certain line of business, then we will do so.

Q - Unverified Participant

So, that's a great segue. What should you be – what is your posture today on the reinsurance business? And we've talked about insurance; I think it's the chart of insurance pricing. Reinsurance is obviously under pressure. There's a lot of new capital, there's a lot of appetite within the business to write...

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

Right.

Q - Unverified Participant

I wonder – we've got June 1 renewals that haven't, I guess, publicly been commented on yet, but you'd probably have a view, I guess. Why don't you give us a sense of where you think maybe things – that shakes out? And then broadly, what's your – the firm's posture is going to be to the reinsurance business as it gets more competitive?

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

It's a very good question. I think, again, the first thing that we need to do is to understand where we're starting this decline that we're speaking about. The reinsurance industry has been very, very profitable for a long time. And in fact, all for the greater part of the last five-odd years, the balance of power between the primary companies and the reinsurers was actually in favor of the reinsurance companies. So, the reinsurance industry is starting from a position of a very strong profitability.

We've seen some pricing declines on the cat side. I think the reason for that is that in catastrophe, a component of the price was to pay for scarce capacity. Especially in the U.S., especially in Florida, where you had limited number of carriers capacity, you had to pay for the tail risk. For most of us, the U.S., Florida, California are the exposures that drive our capital. And so, if you're going to add more risk at the tail, you have to pay a price for it. What's happened with regards to cat in particular is that the increase in alternative capital is such that capacity is no longer at scarce as it used to be.

And so, the component of the cat price that was there to pay for that scarce capacity is dwindling, if not disappearing. And so, the price is now coming closer to technical price. And where the capacity was tightest, where people were paying most for access to that capacity is where you're seeing the strongest price declines, because that was the larger component of the price. And I think where we are now was – is quickly approaching the technical price, not unprofitable, but a technical price. If we continued in the next 12 months or so or 14 months or so where we were for the last 14 months, I think we'd start to get much more concerned about that. But for the moment, you're approaching a technical price.

On the casualty side, what you're seeing is reinsurers offering larger ceding commissions on the quota share business that they're writing. There, you've seen anywhere from two to five or even six points of higher ceding commission being offered. Here again, I think that we need to consider, A, the relative level of profitability, and B, the fact that in many of these lines of business we're still seeing pricing increases on the primary side. Pricing increases of the reinsurance companies are benefiting from – through the quota share. So in many cases, the higher cede is being offset by higher primary pricing, and the give up in margin, if you would, is not as large as might be indicated by the increase in the cede.

So, we're starting off from a strong position. No question we're giving back some, but again there are still levels of adequate profitability. That said, we are likely going to grow lot less on some of our existing lines of business on the reinsurance side when certain treaties become less attractive. If you look at our January 1 renewals, we showed a modest amount of growth, but that was only because we wrote a certain number of multi-year contracts. If you look at the annualized premium, we were actually down a little bit, which of course reflects this discipline to say some of these treaties are no longer attractive to us, we're going to write less of them.

And so, what we have to do is we have to reposition ourselves to those lines of business that are still generating attractive profit opportunities. So, our crop business grew last year. It'll grow again this year. We started a weather and commodity business for the first time last year. That was profitable. We've increased the resources that we've put to Singapore to access the Asian market. We're writing more motor business in Europe, areas that we think are still providing attractive opportunities and also have the benefit of not having any tail risk. And so, again, the construction of the portfolio is still attractive. The other issue, if I might...

Q - Unverified Participant

No, no, go ahead.

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

Is that obviously what alternative capital takes from one hand, they give with the other, which is the alternative capital is also providing us with opportunities to manage our net retained risk. So, we can buy attractive protection from the alternative markets and that too benefits us by optimizing our risk-adjusted returns.

Q - Unverified Participant

So, I have a couple of questions that are actually from people, sort of follow-up on that. So what is the – I guess let me try to integrate them, it's sort of two different things. One, when you think about the returns available on property cat these days – and I'm not in that business, but I think it used be thought of a 15% to 20% kind of returns and it's probably much lower now. I don't know if you want to give us a sense of what you think it looks like, 8%, 10% may be? What does that imply about the right capital structure for the business? And you guys have started up with third-party capital venture, how material will that be for you? And should reinsurers really still be in the business of like using their own capital to retain most forms of property cat risk or broadly whatever you can sell to the capital markets?

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

I think there's always a – there will always be a need for reinsurers to retain some of their risks and to create diversified portfolios. One of the values of the alternative markets is they are trying to rifle shoot specific risks. So, you'll have some providers of capacity that want low level cat exposures, because they want large premiums and so on. You have providers of capacity that basically want very remote risks. You've got people who want different types of risks. But what they like in particular are pure risks.

What a reinsurer does is the reinsurer has the opportunity to actually have more leverage in their overall portfolio and better balance in the overall portfolio than the pure risk that a lot of capital providers want. There is a different risk horizon that we as insurers and reinsurers have than many providers in the capital markets. And by that, I mean we're structured to survive the most extreme of cases, whether it's the one in a 1,000 or one in 2,000, the one in a 3,000 year scenarios and more. And to do that, we have diversification, we have risk limits and we have capital to support us. The providers of capital – the alternative capital...

Q - Unverified Participant

They're not thinking their all-in everyday (37:12).

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

Their all-in (37:13) everyday. And so, they don't mind exposing more risk, winning and losing. And so, we would never want to play the kind of volatility that some of these providers of capital are offering. So, I think there's always a reason for insurers and reinsurers to build diversified portfolios. That said, as I've just mentioned in the prior question – sort of the prior question, to the extent that that capacity is available to help us cede risk at attractive terms, we will take advantage of that. So I wouldn't be surprised if, over time, the best insurers and reinsurers actually cede more of their risk to other reinsurers or to alternative capital to the extent that doing so allows them to either, A, provide larger capacity to their best clients, or B, manage their portfolios to optimize their risk-adjusted returns.

Q - Unverified Participant

That's great. You guys are a medium-sized firm in an industry that's sort of dominated by small and medium-sized firms. There's a lot of talk about consolidation these days; folks trying to – speculating about acquisitions. What is the ideal size of a Bermuda reinsurer? Should we have as many reinsurers as we have in Bermuda?

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

Right, right.

Q - Unverified Participant

When you think about the way some of the large guys are playing in terms of big line sizes, should you guys all get together and have much bigger pool of capital to play? How do you think about the future of the industry?

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

The first thing that I would say is – I'm not sure that I would use Bermuda alone as our pure segment. I think when we're competing in the specialty commercial space, in the energy space, when we're in the London market, we're not competing only with Bermuda companies; we're competing with very successful, very experienced companies, some of whom are substantially larger than we are, significantly larger than we are. But I think the issue is this, if we want to be a specialty company that generates superior underwriting results, then by definition we cannot be in every market.

There are a lot of markets that have little appeal to us. And so, given that the markets that are of greatest interest to us are a fraction of the overall insurance market, we can actually be a big player in the market that matter to us and still be a "mid-sized company." We compete with the

"AIGs of the world and the Allianzs of the world and the Zurichs of the world" every day. They're very large companies, but we still get our fair share of the risk, and last I checked, our results compared very favorably to the larger companies.

So it's not obvious to me that simply being a broader, larger company allows you to grow book value any faster for your shareholders. And at the end of the day, for us, it's about having a sustainable advantage in our markets. It's about growing our book value at an attractive rate. And we can do that in the size of the markets that we are today. If we felt the need to offer greater capacity, we could easily offer that capacity and buy more reinsurance. If we felt the need that we needed more capacity, we could easily partner-up with capital providers who can help us create that capacity. I think it's really a question of choosing the markets you want to be in and being successful within those markets.

Q - Unverified Participant

You guys are happily a specialty company, and clearly you're not at a point where you're worried about minimum size?

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

No, in fact, within the specialty company world, we're a large company.

Q - Unverified Participant

Right.

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

I think that we have to be cognizant of where we have a sustainable advantage. We wouldn't presume to go break into the personal lines market. We wouldn't presume to go into some markets that are characterized by oligopolies of very successful organizations. It's not for me the areas where we could create the most value both to those markets or to our shareholders. But in the specialty lines markets – and there are many variance of the specialty lines markets that we're in. Professional liabilities, there are huge number of professions where professional liability is to be covered.

There is a huge amount of D&O to be written. There is a huge amount of errors and omissions business to write. There are an unlimited number of high-risk or protected properties in the world, refineries and plants and warehouses. And we are not looking at anything close to a flattening of the growth opportunities for our business. So for the moment, we continue to believe that by specializing in what we're good at, by expanding consensually from areas of strong skill sets, we will have plenty of opportunity for growth.

Q - Unverified Participant

You mentioned a few things, accident and health with the weather business for example, agriculture and Lloyd's. What's driving your selection of these markets as sort of the places that you want to grow?

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

There are two or three things that we look at all the time. The first is how does this add or detract from our portfolio. So if all it does is bring tail risk at low returns, it's not going to help us. If it provides more stability to the portfolio, if it's an attractive line of business, then that's – the first thing it does is it attracts us. The second issue is are we going to have the ability to develop a stainable competitive advantage over time or just are we going to be just one more schmuck at the table. And we're just not interested in the latter.

And so the question is, does AXIS have what it takes to be a meaningful value-added player, and that will be the second thing. And the third question will be what's the end game. If we do this, if we get into this line of business, if we execute on this plan, what does it look like and are we a better company at the end of the end game and are the IRRs attractive. And basically, if you answer those three questions, you'd be surprised how many lines of business you eliminate at the first round, you'd be surprised how many lines of business you eliminate at the second round.

So, for example, it would not be my goal to compete head-to-head with a Japanese – established companies in Japan, right. It doesn't make sense. It's a great risk. It's attractive risk. But that's a risk that I would rather access through the reinsurance markets than directly. So, we go through all of these, we select them, Lloyd's go (44:12) specifically on them. It was an opportunity for us to provide coverages to clients in jurisdictions where we did not have licenses, and we took advantage of the licensing of Lloyd's.

And secondly, there are number of risks that are exclusively marketed at Lloyd's, and if you're not at Lloyd's, you just don't see them. And so, for us it was easy. But the risks themselves are risks that we know very well. It's the property, energy, marine, all of the risks that we're already writing. Weather and commodity is very attractive, is a very attractive opportunity for us. And the reason for that is, as you know, with climate change, there's more variability in climate, and a number of businesses and entities have their economic results at risk to weather.

So, we've just seen the GDP print for the first quarter in the U.S., and the reason was bad weather. Imagine utilities, and if the weather is too warm, they don't sell as much electricity, they don't sell as much heating. If summer is too warm, they don't sell as much electricity for air conditioning and so on and so forth. And again last year in Europe, a number of utilities suffered economically because it was too warm. So, a lot of businesses are looking for protection.

Here's another one, municipalities. Municipalities have a budget for cleaning for five snowstorms a year and "80 tons of salt." But what if you have a winter we don't have five snowstorms but 10, and you don't need 80 tons of salt, but 150 tons, where does the municipality find the money for that. And so, the ability to buy protection for something like that is very helpful for municipality. So these kinds of risks that are weather-related, where the volatility is meaningful to an entity, we saw that this was an opportunity for growth for us, one where we can provide a differentiated product and where there aren't a huge number of competitors.

We talked about A&H. We love A&H, because it's a wonderful diversifying risk, it's much more stable than the rest of the P&C industry and it is generally fragmented across the world. And so, the ability to create a large hybrid insurer and reinsurer with a global presence with strong product capabilities, we felt that we had an opportunity to create one of the top players within a reasonable period of time. So, in all cases, we met the three criteria. It optimized our portfolio, we felt that we had a chance to add real value and have a sustainable advantage, and at the end game, we were better, stronger, a more profitable company for it.

Q - Unverified Participant

That's great. So I would ask, I think, one final question. You made your point about sort of reinsurance work for you (46:56). You have changed the organizational structure as a company. You're moving to more of a Federal model, lots of local resources, and obviously, you've grown to be a pretty large firm in terms of head count even if you're still sort of even only $5 billion. How do you keep the culture the same way? And then from a risk management perspective, we can all think of stories where guys like took the same risk in different businesses in the same time and then they get hit by the oil rig and an event (47:23) turns into a hurricane in Florida. And I'm sure you've fought through a lot of these, but sort of managing this make large insurance empires actually – even if it's not like that large, the complexity of it, across lots of products and offices is not a trivia to undertake (47:38).

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

It is not. And again, to the extent that, as I've mentioned earlier, people and culture are the differentiating factor, we have to spend a lot of our time and energy on that, and we do. Now, we have a little over 1,200 employees. So, we have the benefit of actually knowing all the employees in the business. And there is a fair amount of personnel (47:57) contact. So, it means visiting every one of your offices several times a year. It means making sure that there's a lot of town halls, a lot of meetings to make sure that you exchange and reinforce ideas. And that's the big part of it.

The second part of it is we spend a lot time focusing on the one-AXIS, on the cultural attributes, on the core skills that are necessary and what it takes to succeed within the AXIS culture. With regards to risk management, what you speak of is a real danger in an insurance company. And so, it's important that we have clearing systems to ensure that if you've got a risk coming up, that you log it into a system that says, I'm looking at such and such a risk; so that if anybody else is looking at it, it does log it in and they go, I'm sorry, somebody else is looking at it. Or if you have a huge property program, where the primary maybe placed in the U.S., but the excess is placed at Lloyd's or in the London market.

Again, you look for the company name and you go, well, what we found out that we already have "$25 million of the primary program and our London office is being offered on the excess level, how do we feel about that's combined or not." And so, it's very important that we have the data that allows us to accumulate our exposures, whether it be on property, liability, credits on a per name exposure, and we go through these things. If you don't then yes, you risk having – easily have excessive aggregation.

One of the benefits of being a small company, however, is that our various properties people speak to each other all the time; our various casualty people speak to each other all the time. And we can't afford to have 17 different business units all focusing on the same market. So although we have different business units for property, they each focus on a very different segment of the property market. So it's unlikely that we would have three or four of our business units actually competing for the same risk. But that doesn't prevent us from having the right systems in place to make sure that we capture the data, so that we don't get undesired aggregations.

Q - Unverified Participant

Well, thank you. That's a thoughtful answer. I guess I have one. I'll ask one question. I thought it was kind of clever. So retro – so post mid-year – I'm reading this. So post mid-year renewals, will there be opportunities to buy cheap retro from un-deployed debt funds and alternatives if you could (50:44) find allocations?

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

Yes.

Q - Unverified Participant

So, everybody who is a reinsurer will be able to take advantage of that?

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

I think they will be. I think that asset managers have the capacity that they need to deploy it. And if it hasn't been deployed, then my guess is they'll look for ways to deploy it. And I think intelligent insurers and reinsurers will look to find ways to use that.

Q - Unverified Participant

So, it could be a very interesting year if there's a big storm?

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

I don't think that the risk is going to disappear from the insurance and reinsurance industry. But I think that if there is a large event, it will likely be shared by more participants than has been in the past.

Yeah. Certainly, that's probably the hope for everybody in Bermuda.

A - Unverified Participant

Okay. Well, listen, Albert, I appreciate your time. Thank you so much for joining us. It was really a pleasure.

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

Joshua (51:38), thank you.

A - Unverified Participant

Thank you.