Keefe, Bruyette, & Woods Insurance Conference

Company Participants

- Meyer Shields, Analyst
- Peter J. Vogt, Chief Financial Officer

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

...rooms. Thank you. Meyer (00:00:03). Thanks.

Meyer Shields {BIO 4281064 <GO>}

All right. Tom (00:00:05), thank you very much. We're going to kick off the conference with a fireside chat with Pete Vogt, the CFO of AXIS. I also want to welcome Matt Rohrmann who heads IR for AXIS.

So, as recently as yesterday, there were stories of M&A constantly affecting a trend in the (00:00:25) industry (00:00:26) most recent big deal with the acquisition of Novae. From the outside, it seems like things are progressing well with the integration. I was hoping you can give us some insight in terms of how things look on the inside.

Peter J. Vogt {BIO 17059745 <GO>}

Sure. Thank you. First, I'd like to thank you, Meyer, for inviting us here today, looking forward to being here for the conference for the next two days. Novae is doing well. We closed on it October 2nd of last year, so we're three-plus quarters into an integration now. As we said in the second quarter, we've now realized about $40 million of that run rate savings target of $60 million that we we're targeting on the integration. So, bringing the two back offices together is actually going quite well.

As we sit here today, one of our big milestones is we're submitting our plan to Lloyd's for 2019. In that 2019 plan, we'll have all the premiums running through our Syndicate 1686. So, we'll actually be able to have Syndicate 2007, which is the old Novae Syndicate, be there and actually going to run off for the years of account.

So, that would be a big milestone for us. The first big milestone was actually getting everything under one managing agency, and Lloyd's has been fantastic to work with. We were able to actually get that accomplished going into 2018. So, we closed on the second, but by the end of 2018 - by the end of 2017, Lloyd's worked with us to get to one managing agency.

So, we're feeling really, really, really quite good about that. We have already announced as we go into 2019 we will be actually moving into The Scalpel, that is right across the street from Lloyd's, and that would be a big event for us because we'll be able to get everybody into one place.

Today, we're currently in three different locations in London, and I think we can get everybody into one place, we'd really be able to get the teams harmonized. In the meantime, we actually have done a lot of moving, and we've got all the underwriting teams that underwrite the same risk together. So, we've moved people from our Fenchurch office to their Lombard office and vice versa to get all the underwriting teams together. So, going quite well.

Q&A

Q - Meyer Shields {BIO 4281064 <GO>}

No. Excellent. One of the elements, and you mentioned this little bit, are the expense savings, both those associated with Novae itself and sort of general expense optimization initiatives. Can we translate that into a targeted expense ratio or can you give us some thoughts about how to think about that in the context of a ratio?

A - Peter J. Vogt {BIO 17059745 <GO>}

Right. We've talked about that. We're looking at, in total, $100 million off of our 2017 run rate by the time we get to 2020 rough run rate. And $60 million of that's going to come from Novae and another $40 million through other initiatives that we've now launched in the company.

That $40 million, by the way, because I get this question all the time, is net of other reinvestment not gross. So, that is a net number based upon we expect to still be investing in data analytics and other InsurTech-type things that we need to get going in our business.

What I would say is when we look at it, I have guided, and said, let's bring in our expense ratio down to below 14. We look at it now, you get out to 2020, we should be able to get into the high-13s. And so we're looking at that aspect of our return and trying to really crunch that expense ratio down. Where it can go further, that's going to be up to other things that we can determine to run more efficiently in the organization.

Q - Meyer Shields {BIO 4281064 <GO>}

Correct. But this gets us to 2020?

A - Peter J. Vogt {BIO 17059745 <GO>}

This gets us to like 2020, yeah.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. On the subject of M&A, before Novae was acquired, you actually bought a company called Aviabel. I suspect it was overlooked because Novae was a larger acquisition. Can you talk a little bit about what Aviabel brought to AXIS?

A - Peter J. Vogt {BIO 17059745 <GO>}

Yeah. The other reason it may have been overlooked is it was really quite small. Aviabel was a Belgian company located in Brussels, very small, only $50 million of gross written premium, but all in the aviation sector. It was attractive to us, one, because it was small and very digestible. It also gave us a presence on the continent. So, that was actually quite good.

But also, it actually allowed us to take our aviation book and diversify it. So, our aviation book grew up in London, and very much an airline-focused aviation book, had some aviation more in the portfolio there. And Aviabel is very much a general aviation book. So, put the two books together, it gave us a much larger aviation portfolio, but a more diversified aviation portfolio. So, that actually went really quite well. And it was very interesting because it was really a one product line type acquisition.

Q - Meyer Shields {BIO 4281064 <GO>}

Yeah. Fantastic. Of course, we do want to encourage as much participation from everyone in the room if possible. So if you got a question, just let me know, otherwise I'll keep (00:05:06). And one more M&A question and then we'll get to other topics. How should we think about AXIS and M&A in coming years? It seems like Novae is mostly digested. There's certainly heightened elements of M&A out there, whether they're actual announced deals, deals that are speculated, deals that are rejected, what do we think about - how should we think about AXIS in that context?

A - Peter J. Vogt {BIO 17059745 <GO>}

Yeah. When we look at AXIS, we want to make sure that we're relevant in our chosen markets, in the markets that we want to play. And we look at the insurance side and there's three markets that we really want to make sure we're relevant, the most relevant with our distribution partners and that's in the U.S., in the property casualty E&S space, that's in the global professional line space, and then that's in London. And one of the things we had when we looked at that is we were already top 10 in E&S in the U.S. We are at top 10 PRO lines, but we were nowhere near top 10 when it came to our presence in London. And the purchase of Novae takes us now to a number 8 syndicate. And even with the syndicate, plus the paper that we have there for our branch really makes us a presence in London.

So we feel that in those areas we're already top 10. We don't need an acquisition to continue to go where we want to go and evolve our strategies. If one shows up, that would be fantastic and we'll always look as it comes across, but we don't need an acquisition there. So, we're not out looking for something. We are always looking for talent. We're looking for new products and new niches, but we're not necessarily needing an acquisition in those spaces.

And then on the reinsurance side, we're about number 14 reinsurer. So, when you exclude the, call it, the top five big ones, I put (00:06:44) in that range of second tier, top 10 of the second tier of reinsurers. And again there, we're looking at we do not need an acquisition to go where we want to go. I think that we can grow in the lines we want to grow in, maybe add some talent here and there, but an acquisition is not required

So, that's what I would say globally on our top-down. The other is, while we are doing well with the Novae acquisition, there's still a lot of work to do. I think getting through 2019 and making sure everything is bedded down correctly, especially in the back office, would be prudent for us before we even think about doing something anyway.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Fantastic. So, let's get to current operations now and I think another top of mind topic among a lot of investors is loss cost inflation and loss trend. Sort of a disagreement among different executives over the course of the second quarter, earnings in terms of whether they're seeing signs of even normalizing loss trend versus below historical averages and Albert himself, Albert Benchimol, CEO of AXIS had talked about seeing some signs of real inflation. Can you give us a little bit more detail of what you're seeing on that front?

A - Peter J. Vogt {BIO 17059745 <GO>}

Yeah. And specifically on the liability side, we model, and we take not only our own information but a lot of industry information. We start thinking about loss cost, especially on the liability side. The harder part there is to think about social inflation and what's going on there. And we've got our model that kind of track what we think that is, and we also look at what's happening in the industry.

We also acknowledged and realized that over the last, I think, what, 7 to 10 years inflation, probably if you look over 50 years, has been lower in that period. So, you really need to take a long-term view to what you think inflation could be on a go-forward basis when you're thinking about pricing as well as reserving. The other thing that Albert very much, and talking to our underwriters, we have a great underwriter who leads our U.S. E&S excess casualty area, and he'll say that one of the things that's very interesting in that excess world is things are considered excess when that's got $1 million attachment point.

And when you talk to Mike, who's been in the business for 25 years, he had $1 million attachment point back in 1990. So, we think it should be going up. And so, one of our other worries is just when you think about where you want to play in excess, that $1 million attachment point 30 years ago really got hit. Now, maybe it should be $2 million attachment point because that $1 million is starting to become a working layer in some places.

And again, so we're looking at as we look at casualty where do we want to play, where do we want to be on the excess layers so that we can actually make the best returns.

Q - Meyer Shields {BIO 4281064 <GO>}

Right.

A - Peter J. Vogt {BIO 17059745 <GO>}

And I think that's some of the issues that we look at. So, it's not only what we think the inflation is, it's what has that inflation done to how you structure your product and where you want to play on a program.

Q - Meyer Shields {BIO 4281064 <GO>}

Yeah. So, there – it sounds like there is an underlying shift in terms of attachment points. Is that real, theoretical at this point?

A - Peter J. Vogt {BIO 17059745 <GO>}

The hard part is the market doesn't want to move, right? So, you have to deal with, one, where you want to play; and two, how you might be able to write enough business but handle that. And so, our guys will look at, they'll write $1 million attachment point, if they like the risk and they really like it, or they may write it and actually do a fact (00:09:53) between $1 million and $2 million, and actually laid off to a fact (00:09:55) market because we'll just say, you know, what that, we just think that's too low of a limit for us. So, it's done. It had to evolve the underwriting process to be a little bit more complex than maybe it was back 30 years ago, which is a good thing.

Q - Meyer Shields {BIO 4281064 <GO>}

Right. It provides (00:10:09) opportunity for synchronization and distinctive performance. So you mentioned what the market will and will not allow, and obviously that's a perennial hot topic. Where is the market now in terms of pricing? Our superficial assumption is that it varies by line of business based on profitability, but I was hoping you can give us a little bit more detail. And also to extent that you can talk about terms and conditions of the other aspects of underwriting, how do things look?

A - Peter J. Vogt {BIO 17059745 <GO>}

Yeah. So, through the second quarter, we continue to see pricing positive, we'll talk about the insurance side first. But obviously a slowdown from what we'd seen, coming right out of the third quarter of 2017, we saw a good increase in pricing on our property lines, especially in the E&S and Global Property, and we saw that continued through the first quarter. That slowed down in the second quarter.

Again, that isn't – we were hoping to actually see that continue. But we still got double-digit rate increases on our property lines in U.S. E&S as well as our Global Property in the second quarter just not as good as we've seen in the first quarter. So, there's positive momentum there, but it seems to be waning. It was positive at the beginning. It's still slow. We're still trying to push rate in that property lines. We do think that property lines had gotten rate decreases the last number of years and that it was time to actually get some more rates. We continue to try to push rate in the property area and, again, on the insurance side.

On our PRO line side, we had been having rate decreases the last number of years and that turned into positive rate, slight positive. We're talking a very low single-digit but positive nonetheless. And so, that was a good indication. We continue to see that in the second quarter. So that was – I'll call it just a straight flat increase that's happened through the year, but that was good for the PRO lines area where we'd seen negatives over the last number of years. And so, we're feeling pretty good about what we saw there.

As we go into next year, who knows what we'll see. I still think we need to get more rate on the property side. I think we need more rate in London. I think you've seen sort of what Lloyd's has said to all its syndicates, that there's a fair amount of pricing pressure now that needs to come across in London to get things to be – to adequate returns for everybody who is writing specialty there. And so, we will continue to push rate there.

On the reinsurance side, we came out. We thought January 1 was disappointing, but everybody had very high expectations. We had hoped that we would continue to see just the momentum go there and building. And so, we've got some rate increases on January 1, but then we got to the middle of the year as we talked about June 1 and July 1 renewals, we didn't see the pricing that we had hoped for. And in the legacy AXIS book, we were actually down on our cap premium year-over-year because we weren't seeing the pricing that we wanted to see there. Coming up to January 1, we'll see what happens again this year.

Q - Meyer Shields {BIO 4281064 <GO>}

Right. In terms of?

A - Peter J. Vogt {BIO 17059745 <GO>}

In terms of pricing.

Q - Meyer Shields {BIO 4281064 <GO>}

Right. Yeah. And I guess there's two ways or two aspects to that. There is the contribution pricing from whatever loss events we have this year, and the negative contribution to pricing from the continued inflow of third-party capital.

A - Peter J. Vogt {BIO 17059745 <GO>}

Yes. So, I mean, that's just part of the – what you see on the reinsurance side now. I mean, I think third party capital is here to stay. I think at AXIS, we recognize that. We have a third-party capital area where we look to partner with third-party capital and use our underwriting and our expertise in underwriting and our expertise in distribution to help provide risk to third-party capital that they deem acceptable to them. We do like that model. We think it leverages our capabilities on the underwriting and distribution side to actually be able to put that third-party capital to work.

To keep all the interests aligned, there's two things we do. We tend to do all those deals on a quota share basis. So that whatever we're underwriting and coming up with a price with, our third-party capital partners know that we're keeping a piece of that risk, too. So, our interests are all aligned.

The second thing it gives us then is some solid fee income because the third-party capital partners we have will give us a fee to actually do the underwriting and do the processing, and be that front door in the market for them. So, when we look at it holistically for access, it actually works really quite well. But I do think that as an industry, we have to acknowledge that that third-party capital is here to stay and we have to figure out how we use that effectively and how we bring the value that we bring to the market and get paid for that value. And that value for us is being those expert underwriters.

Third-party capital is capital. It still needs an underwriter in the middle to help set that price, help set those terms and conditions, as well as handle all the claims on the back end. So, that underwriting expertise and that claim expertise, if we can put it to bear in the market and be agnostic to capital, whether it's our balance sheet, whether our insurance guys use reinsurance to actually help them get into a market, or we use third-party capital, we need to be using the best capital to provide the best product to our clients.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. So, let me take that concept and go into further. A lot of the Bermuda-based insurance/reinsurance model was initially I guess post-911 predicated on property capacity.

A - Peter J. Vogt {BIO 17059745 <GO>}

Yes.

Q - Meyer Shields {BIO 4281064 <GO>}

That expected contribution to income is I think permanently based on the way you've described third-party capital is permanently lower than it had been in the past.

A - Peter J. Vogt {BIO 17059745 <GO>}

Yes.

Q - Meyer Shields {BIO 4281064 <GO>}

So, how should we think about the future of reinsurance as a contributor to really building value?

A - Peter J. Vogt {BIO 17059745 <GO>}

I think when you look at building value, when you get to look at the ROE that you're going to get, so what's the returns you're going to get? And if you can actually get a good return to your shareholders because you are writing some risk, but you're also getting some fees for actually helping that third-party capital partners apply that risk.

I think that is a way that you can look at it and get an appropriate ROE for your shareholders. So, it's a combination of doing it, too. And that's why if you just ignore the third-party capital, I think it would be hard because you're just going to be playing at a diminishing pool. But if you actually work the system and say, okay, what's our value in the value chain, and then how do we work with our distribution partners and our third-party capital partners to actually have the funnel that brings in the business, and then apply that business to the right capital, you can get an appropriate return for your shareholders.

The other side is you look at it holistically what we've done at AXIS over the last number of years is we have actually evolved out of just being that original cat reinsurer in Bermuda. We have a very large insurance operation which is very diversified that has close to almost $4 billion in premium. So, we're not wholly dependent upon just to quote reinsurance cat anymore. And even on the reinsurance side, we've grown our books in motor, we're quite big, and we've gotten into the mortgage business which we're growing in the agriculture business.

So, I think part of it is that's your starting point. But now you have to evolve your business and 2011, at this point, now 16 years ago. I think at AXIS, we've evolved our business and we're going to continue to evolve it to get positive streams of income from various sources.

Q - Meyer Shields {BIO 4281064 <GO>}

Perfect. That's helpful. And again if people have questions, just signal in some sort of way. I don't want to overlook anything. I want to talk a little bit about Lloyd's. On the one hand, we do seem to be seeing some signs of top-down enforcement, maybe, that's the wrong word, it's a little bit too harsh. So, basically, top-down insistence on adequate returns. On the other hand, things have gotten pretty tight in Lloyd's. So, perhaps, you can argue that that oversight was inadequate. What do you see happening? And how does the oversight – has the Franchise Board actually impact operations?

A - Peter J. Vogt {BIO 17059745 <GO>}

Yeah. It'll be interesting to see. When I heard what Lloyd's was doing and they came out publicly with what they said they were doing, it was very interesting to us because over the last number of years, what they were saying and telling people to do is what we've been doing with our businesses, right. So, we've been ranking our businesses and saying, okay, where do we have a fundamental competitive advantage, where are we profitable, and how do we grow those lines of business?

In the bottom quartile, you've got businesses where maybe you don't have a competitive advantage and you're not profitable. And the question is how do you remediate those businesses or fundamentally get out of them? And if we look at AXIS over the last number of years, we've gotten out of some pretty big businesses. We exited Australia, where we're trying to grow the D&O business there on a retail basis, where when we looked at it, we said we really don't have a competitive advantage. And it's not making money for us. So, that doesn't make it – that's not a good use of capital to sit there.

Since then, we've also done that with the U.S. retail, property casualty business. We've also done that with some of our Lloyd's businesses when we think about onshore energy that we got out of just most recently, and R&P property in the U.S. So, that idea of actually taking a hard look at your portfolio, and I believe Lloyd's came out with what they call the well chart that kind of went up and then came back down again where they said, let's take all the lines of business that are making money and you can go all the way up, and you say, okay, that's your apexes, the most amount of money we could have made as Lloyd's in total. And then, here's all these businesses are losing money and starts bringing it down. When you look at the back end of that hump, there's a lot of businesses there.

You've got to ask yourself, why is a Syndicate in it? Are you just there as capacity so therefore, you're not bringing any value, so therefore, if you're losing money in it, why are you doing it? So, I think Lloyd's coming down, they were doing and told the market to do what we at AXIS have benefit doing for years. So, it wasn't new to us. Well, the interesting will be see – as you mentioned, Meyer, how does a regulator now enforce that? Now, Lloyd's is different because you have to get your plans approved through the SBF process. So, we'll see it as syndicates go through that this fall exactly how harsh Lloyd's is, they're coming back and holding people to their plans and adjusting their plans based upon what they've seen profitability be.

But I do think embracing that and getting people to understand where do you actually have an advantage or not? And if you don't, why are you in a business. And I think we've seen a lot of syndicates even this year exit lines of businesses where they were small, probably not making money, you don't know. But they have exited lines. And if they've exited, they probably made the same conclusion that we probably aren't making money in it and we don't see a reason to still stay in that particular line of business.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. So, is it fair to say that you're expecting a more positive marketplace in Lloyd's I would say 2019 versus 2018, is it too early to say that?

A - Peter J. Vogt {BIO 17059745 <GO>}

I think it's too early to say that. I'd say as we're looking at our plans, we're definitely looking at focusing more on those lines of business where we have an advantage, where we believe that having a leadership in a line of business you can drive better rate and you can drive better terms and conditions. So, as we look at our plans, that's where our guys are focusing on, where can they actually influence changes for the positive.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Fantastic. An AXIS specific question that I want to focus on, because I thought it was an interesting perspective is the stated desire to reduce the reliance on the top three brokers. I was hoping you can talk about that. First of all, what drove that decision-making process and how they are progressing in terms of actual implementation?

A - Peter J. Vogt {BIO 17059745 <GO>}

Yeah. I think this is a good question to think about it on, again, the insurance versus reinsurance side. On the reinsurance side, you really got the top three brokers. And we work very closely with them. I think the differentiating factor in the reinsurance world is not only working well with your top three brokers, but getting to know your clients better.

So, on the reinsurance side, I think we focused more on working with our brokers as well as getting closer and understanding our clients' needs better. And so that touch point of the clients and understanding them which the brokers are 100% supportive of by understanding your reinsurance claim.

Then on the insurance side, we were very much through the big three brokers. When we look at now, especially in the U.S., when you think wholesale distribution, that's not the top three brokers, right? So, now, we've diversified quite a lot now, and we're looking at really good relationships with a lot of the wholesalers there. And so, you've got the top three or four wholesalers you have great relationships with. And that does allow us to diversify our distribution a bit. And then in Lloyd's obviously in London, everything goes through the brokers that were there.

So, we actually feel good about being able to diversify. A lot of it had to do with where our value proposition was. And I think on the P&C side, when we're thinking retail going through the brokers, we didn't have what I would call a competitive advantage against the travelers in the CNAs on that retail side.

But on wholesale side, the way we can respond quickly, the way we can handle difficult risks, where we have expert underwriting that works really well with our wholesalers, and our partners, and AmWINS and BB&T and whatnot, very, very solid relationships with them. So, that allows us to see bigger breadth of market, bring what we do well to the distributor. Where on the retail side, that expert underwriting, there's standard risks. You do initially shine there, right, when you're looking at that.

Q - Meyer Shields {BIO 4281064 <GO>}

So, I would argue...

A - Peter J. Vogt {BIO 17059745 <GO>}

Sorry. Yeah. Go ahead.

(00:23:27-00:23:36).

A - Peter J. Vogt {BIO 17059745 <GO>}

Yes.

(00:23:37-00:23:47).

A - Peter J. Vogt {BIO 17059745 <GO>}

So the smaller risk side? Yeah. What we had to do is in the U.S. especially, we put in a new system called Duck Creek in the back end that allowed us to actually move very quickly.

So, all the products that are on there now and we should be done with over three and a half years to a five-year implementation allows us to do everything paperless and respond to quotes in less than an hour, sometimes 20 minutes.

So, especially now in the small case, what we've done is revamp the process where it's very much even less of an underwriting where we've got underwriting assistants actually doing the underwriting and turning it around in 20 minutes. So, we've got to screen. I will say that's a complex risk this way to an underwriter, although this way to just UA and they can turn around really quickly. And if somebody wants to bind it with the new system, we can bind it, it's in the PDF out in a day. So, we've been able to actually build the back office there to set ourselves up to get into that market.

Typically, what we see in that market, we found it actually can be more profitable. It's not a big business for us yet, it's a business that we do want to grow. We see a lot of it more in the professional line side, that's our AXIS PRO operation out in Kansas City, and they do a really good job, and that's a little bit different. You got to get to know the brokers well in the underwriting side, explain the product to them and then it really comes into a central area, and then we turn the underwriting around really quickly.

(00:25:13-00:25:37).

A - Peter J. Vogt {BIO 17059745 <GO>}

You know, right now, it's interesting. One, I don't like to talk about other people's M&A because you never know. But ask them how to process, they follow their process, and now it seems like it's going to go through and see what - we'll have to wait and see what happens. But I'll leave it up to the Aspen people, but they ran their process.

I think the other thing that is interesting, though, is there are a lot of - there is a lot of assets in Lloyd's that are actually for sale. You mentioned Chaucer. There's a couple other syndicates out there for sale, too. It'll be interesting to see how that goes and what happens there because depending upon people's future thinking about the future of Lloyd's, we'll get a view on how profitable people think the future of Lloyd's could be based upon what we see some of these assets sell for.

(00:26:26-00:26:32).

A - Peter J. Vogt {BIO 17059745 <GO>}

Yeah. We've just start - it's on the reinsurance side. We just started that about three years ago now. So, it's not a big part of our business yet. We actually brought in some folks, built their own models. We've got a good relationship with some distributors. We're finding it's good business. It's good solid business. It grows very slowly, but we do find it attractive.

I think the pricing in that area is still solid, and we can get a good ROE on that business today. The issue will be on a go-forward basis. I think Arch has made it a very attractive business to get into. The more people get into it, the more we may see margin spent. And so, that'll be a year-by-year look at that business.

Q - Meyer Shields {BIO 4281064 <GO>}

(00:27:16).

(00:27:17-00:27:42).

A - Peter J. Vogt {BIO 17059745 <GO>}

You think about – even in the past, even on the property side, you had to start to model demand surge post-cats, and I think that's what this is, and I think when you think about social inflation and when our guys look at social inflation, you need to consider a variety of factors. So, me-too, you may not be able to say that's specific to me-too, but you need to think about it when you're thinking about that social inflation factor on the liability side.

But it's not only me-too, it's just where do we see court cases going, where do we see – we got jury awards, but then in the long run, a lot of those come down, you get the big headlines, but then (00:28:21) what the final award is, and it's a lot less. So, there's a lot of analysis that goes through that, and I think you just have to watch, and you got to look for actuals. What is actually happening rather than speculative.

Q - Meyer Shields {BIO 4281064 <GO>}

One point you mentioned, this is going back and I apologize, it's I guess kind of a little bit like we're jumping around. But in terms of diversifying distribution, you talked about building relationships with the wholesale distribution channels which I felt have gone through a period of significant consolidation, maybe not last year, but preceding years you had that. Does that pose a similar sort of oligopolistic model to what we're seeing in reinsurance? Does wholesale look like reinsurance?

A - Peter J. Vogt {BIO 17059745 <GO>}

Wholesale's got – I think part of it is the value that they bring to their brokers, and you do have, on the wholesale side, the top number of wholesalers are really quite big. And they are getting there, and maybe we will end up with the top, call it, four or five or maybe even three, but I think the key there is to make sure that you continue to bring value to the distribution chain. So, as we get to know those distributors today, we are going to be going through brokers to clients whenever looking to go direct. So, we'll deal with distribution as it is. But the more distributors that we have relationships with, the more access to clients we get.

So, we will work with the big, the big wholesalers, but to the extent there's other wholesalers who are regional or local especially as we look at, I'll call it, smaller market businesses, we might find ourselves doing more business with more wholesalers, but on a regional basis. So, we'll always look for that, and we have really good relationship right now with the top three there. We do look to do things that actually help them and help us bringing expenses down through the movement of data back and forth. And so, as we cement those relationships, we hope to actually be able to use that to our advantage and their advantage. They'll have lower expenses. We'll get a greater look at more business.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Is there a trend of new wholesale brokers being formed? I don't think there is, and correct me if I'm wrong.

A - Peter J. Vogt {BIO 17059745 <GO>}

I haven't seen – yeah, I haven't seen more being formed.

Q - Meyer Shields {BIO 4281064 <GO>}

(00:30:26) more relationships with the people that are out there.

A - Peter J. Vogt {BIO 17059745 <GO>}

Yes.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Fantastic. And again, if there are questions, please just let me know. Big-picture question and this is a little simplistic, but we put out a chart a couple of months ago just tracking the number of publicly traded Bermuda insurers/reinsurers start off obviously very small before 2001. I think it was what probably four or five of them got close to above 20 at one point in time and particularly given the XL acquisition, Novae acquisition, Aspen take out, there are fewer and fewer these companies out there. What does Bermuda look like? What's the future of Bermuda as an operating hub?

A - Peter J. Vogt {BIO 17059745 <GO>}

Yeah. First, I'd say, at AXIS, we are committed to Bermuda. That's where our holding company is. I do get that question, are we looking to move off the island? We are not looking to move off the island. We're committed to Bermuda. We have a good relationship with the BMA. And we do like the – we do like it down there. And one of the interesting things to think about is, as a lot of our competitors, I would use the word, are no longer public versus that taken out, or the phrase, because a lot of the companies are still there in Bermuda.

They've just been accumulated under a bigger umbrella. So, somebody like in Endurance, still has a big presence on the island, but they're part of Sompo now. So, they're not publicly traded anymore. You're not following them anymore. However, they are still there, and they still have the presence on the island. They're still active on the island. They still have a good staff on the island. I actually think it's bigger than it was when they got bought by Sompo.

So, we really do like the island. We do think it's a good hub for us right now especially given where we want to grow. I think that we're definitely committed to the island. The expertise sits there. Some of these consolidations have lent itself to us being able to pick up talent where we can actually use some talent. But other than that, I still think Bermuda and the BMA is a good place for us to be on a go-forward basis.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Has the competitive environment changed at all in the wake of some of these, I guess, takeovers where B and C still exist just under different ownership?

A - Peter J. Vogt {BIO 17059745 <GO>}

Yeah. We've seen you know pockets of people wanting to grow. And you'll get that initial growth surge. But at the end of the day, everybody wants return on their capital, and everybody wants a decent return on their capital. So, it's interesting we hear competition is tough, and it's a hard market. I mean, it's a soft market.

Q - Meyer Shields {BIO 4281064 <GO>}

Typical market.

A - Peter J. Vogt {BIO 17059745 <GO>}

Yeah, a typical market. But that's - I think that's going to be the go-forward. I do think that where we are today, that the big cycles where you can just turn around and be able to get all the pricing that you need, that has gone away. So, we need to get smarter. We need to get better at assessing our risk. We need to be able to pick our pockets and write profitable business and appropriate ROE in the markets that we're in today, in the current competitive environment we are today. And I do think that even folks who've now - they're now, I'll call it, private. But they're still there. They've got new owners who want to return also. So, I do think that the competition is going to be there forever, the competitive landscape. And I don't think being private actually reduce those hurdle rates too much.

A - Meyer Shields {BIO 4281064 <GO>}

Right. Yeah. Okay. And then, I just wanted to do a quick survey if there's any final questions? And if not, please join me in thanking Pete for a very helpful presentation.

A - Peter J. Vogt {BIO 17059745 <GO>}

Thank you, Meyer.