Q1 2015 Earnings Call

Company Participants

- Albert A. Benchimol
- Joseph C. Henry
- Richard T. Gieryn

Other Participants

- Charles J. Sebaski
- Cliff H. Gallant
- Jay Arman Cohen
- Meyer Shields
- Ryan Byrnes

MANAGEMENT DISCUSSION SECTION

Operator

Good morning and welcome to the First Quarter 2015 AXIS Capital Earnings Conference Call and Webcast. All participants will be in a listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Richard Gieryn, General Counsel and Corporate Secretary. Please go ahead.

Richard T. Gieryn {BIO 4699487 <GO>}

Thank you, Emily, and good morning, ladies and gentlemen. I'm Rick Gieryn, General Counsel for AXIS Capital, and I'm happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the first quarter ended March 31, 2015. 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, www.axiscapital.com.

We set aside an hour for today's call, which is also available as an audio webcast through the Investor Information section of our website. A replay of the teleconference will be available by dialing 877-344-7529 in the United States and the international number is 412-317-0088. The conference code for both replay dial-in numbers is 10062982.

With me on today's call are Albert Benchimol, our President and CEO; and Joe Henry, our CFO. Before I turn the call over to Albert, I will 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 within the meaning of the U.S. federal securities law.

Forward-looking statements contained in this presentation include, but are not limited to, information regarding our estimate of losses related to catastrophes and other loss events; general economic, capital, and credit market conditions; future growth prospects; financial results and capital management initiatives; evaluation of losses and loss reserves; investment strategies; investment portfolio and market performance; impact to marketplace with respect to changes in pricing models; our expectations regarding prices and other market conditions, and any merger-related statements.

There are important factors that could cause actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by forward-looking statements, as are further described in the Risk Factors section in AXIS's most recent report on Form 10-K and other documents on file with the SEC. We undertake no obligation to update or revise publicly any forward-looking statements whether as a result of new information, future events, or otherwise.

In addition, this presentation contains information regarding operating income, our consolidated underwriting income, and adjusted group and segment results, which are non-GAAP financial measures within the meaning of the U.S. federal securities laws. For a reconciliation of these items to the most directly comparable GAAP financial measures, please refer to our press release and financial supplement, which can be found on our website.

The focus of today's call is the discussion of the financial results for AXIS Capital for the first quarter ended March 31, 2015. As you know, we are party to an agreement and a plan of amalgamation with PartnerRe, and we are subject to strict confidential requirements as a part of this transaction. As a result, we will not take questions regarding the amalgamation at the conclusion of the prepared remarks, as we cannot further comment on this matter at this time. We would respectfully ask that you refrain from asking merger-related questions. For information about the pending merger, please see our merger proxy S-4 filed on March 16, 2015 or visit the Investor Information section of our website, www.axiscapital.com.

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

Albert A. Benchimol {BIO 2023727 <GO>}

Thanks, Rick, and good morning, everyone. Thank you for joining us today. Last night, AXIS reported first quarter 2015 operating income of $136 million or $1.35 per diluted share, representing annualized operating ROE for the quarter of 10.3%. Adjusting for charges relating to announced merger agreement with PartnerRe, the operating ROE would have been 10.8%.

We ended the quarter with diluted book value per share of $51.97, an increase of 10% over the last year. Adjusting for dividend, diluted book value grew 3% during the quarter and 13% over the last 12 months.

Gross premiums written in the quarter declined 4% on a constant currency basis to $1.7 billion. Our insurance segment gross premiums written were up 1% on a constant currency basis. Gross premiums written for our reinsurance segment declined 7% on a constant currency basis, primarily driven by the impact of higher levels of multi-year premiums written last year. On an annual premium production basis, consolidated gross premiums were essentially flat on a constant dollar basis.

In a transitioning new market, we continue to focus more on consolidating our position and improving portfolio construction and underwriting profitability rather than pursuing aggressive growth in lines where markets that offer fewer attractive opportunities. Still, we continue to achieve meaningful growth within certain business areas that continue to show promise and where we can differentiate ourselves.

Our Accident & Health unit continues to positively contribute to income, and we remain excited about growth opportunities. In that regard, we recently completed the acquisition of Ternian Insurance Group to establish an anchor for more comprehensive A&H retail distribution in the United States. Ternian is a leading provider of coverages in the U.S. voluntary group limited benefits market. As AXIS already wrote a large share for Ternian's A&H business, we do not expect much immediate incremental revenue from the transaction with the exception of a small amount of incremental fee income. But we are confident that with Ternian now part of the AXIS family, growth in that segment will accelerate.

We delivered solid underwriting results during the quarter with a consolidated combined ratio of 94.3%. This reflects low catastrophe and weather-related losses, ongoing favorable reserve developments and a broadly diversified well-constructed portfolio of risks, as well as incremental expenses related to our merger with PartnerRe.

Our top and bottom line results reflected our tactical responses to the market environments and importantly demonstrated progress on our targeted portfolio enhancements and operational excellence initiatives. These initiatives combined with our meaningful market presence, our technical expertise and our financial strength position us well to continue to deliver strong value proposition for all of our stakeholders.

Joe Henry, our CFO, will now discuss our financial results in the quarter. Joe?

Joseph C. Henry {BIO 13390626 <GO>}

Thank you, Albert, and good morning, everyone. During the quarter, we generated good results with an annualized operating ROE of 10.3%. Our quarterly diluted book value per common share increased by 2.6% to $51.97 per share. The growth in our diluted book value over the last 12 months was over 10%. When our dividends declared during last 12 months of $1.12 per share are added to the growth and book value, the total value created for our shareholders over the last 12 months was $5.96 per share or 13%.

Our latest quarterly results benefited from strong investment results, continued favorable prior year development in our loss reserves, a quiet quarter of natural catastrophe and weather-related losses, and positive results from our weather and commodities business. These positive factors were partially offset by a decrease in written and earned premiums and an increase in our current accident year loss ratio.

We also reported an increase in our general and administrative expenses, which included approximately $7 million or $0.07 per diluted share of cost related to the planned amalgamation with PartnerRe Limited, and approximately $5 million or $0.05 per share of incremental expenses related to our ongoing expense reduction initiatives.

Overall, our operating income was comparable to the first quarter of prior year, while our net income increased primarily due to large increases in foreign exchange gains, driven by the impact of the continued appreciation of the U.S. dollar on our foreign-denominated liabilities which were partially offset by realized losses on our investment portfolio which were also largely driven by foreign exchange market volatility.

Moving into the details of our income statement, our first quarter gross premiums written decreased by 8%, 4% on a constant currency basis, and were flat after adjusting for the impact of multi-year premiums to $1.7 billion with the variance driven by a decrease in our reinsurance segment. After adjusting for foreign exchange movements and future year premiums for multi-year policies, our Reinsurance segment top line was down $16 million or 1%.

Foreign exchange movements primarily impacted our motor, credit and surety, property and catastrophe loans.

In the first quarter of 2014, we wrote a number of treaties on a multi-year basis. This significantly increased our prior-year premiums written and also had the impact of reducing premiums that were available for renewal during the current year. Lines most significantly impacted by this were our property and catastrophe lines of business. While we continue to find opportunities to write new multi-year business in the first quarter of 2015 primarily in the motor lines, the level of these premiums decreased by $67 million on a comparative basis.

While we benefited from growth in the motor lines due to new business and favorable premium adjustments, this was offset by decreases in catastrophe premiums reflecting difficult ongoing market conditions and decreases in liability premiums, driven by treaty restructurings and non-renewals.

Further, in the agriculture line, we non-renewed some business and had renewals pushed into the second quarter. I want to spend a moment to provide more detail on changes in our agriculture book. We have now concluded most of our 2015 agriculture renewals, producing total estimated 2015 premium of $140 million, about 16% lower than total 2014 premiums primarily reflecting the reshaping of our agriculture portfolio in response to recent loss experience.

In addition, we are booking the 2015 portfolio at breakeven and will reflect experience as the year unfolds. Included in our first quarter gross premiums written is $70 million of agriculture business bound during the quarter. Reinsurance gross premiums for the second quarter already include another $57 million, and we expect the remainder to be written later in the year.

Our insurance segment gross premiums of $603 million were flat compared to last year with increases in the liability lines, reflecting continued growth in the U.S. primary and excess casualty markets, our aviation lines, driven primarily by timing of renewals, and our marine lines which benefited from new business. These increases were offset by reductions in the property lines, driven by continued competitive market conditions and a decrease in the credit and political risk lines impacted by a reduction in new business.

Our consolidated net premiums written were down 12%, 8% on a constant currency basis for the current quarter. The reduction was driven by the decrease in written premium discussed earlier, as well as the growth in ceded premiums, which was due to increased reinsurance protection purchased primarily in our insurance, professional and property lines and reinsurance catastrophe lines, and the impact of changes in the business mix.

Our net premiums earned decreased by 4%, 3% on a constant currency basis to $906 million in the first quarter of 2015, compared to the same period of 2014, primarily reflecting increased premiums ceded across both segments and reductions in our reinsurance segment, driven by decreases in the professional, catastrophe, and agriculture lines, which were partially offset by growth in our motor proportional business.

Our first quarter 2015 consolidated current accident year loss ratio increased by 0.7 points to 62.8% compared to 62.1% in the same period of last year. Both periods benefited from the absence of significant natural catastrophe and weather-related losses.

In our insurance segment, the first quarter 2015 current accident year loss ratio decreased 0.2% to 64.6% compared to the same period of 2014. During the first quarter of 2015, we incurred $5 million of losses related to natural catastrophe and weather-related losses compared to $6 million in 2014. After adjusting for these losses, the segment's current accident year loss ratio increased slightly by 0.1% with the change driven by an increase in mid-size loss experience in our marine lines, which was offset by improvements in our professional lines.

The first quarter 2015 current accident year loss ratio for our reinsurance segment increased to 61% compared to 59.7% during the same period of 2014. During the first quarter of 2015, we incurred natural catastrophe and weather-related losses of $3 million compared to $8 million in 2014. After adjusting for these losses, the current accident year loss ratio increased from 58.1% in 2014 to 60.2% in 2015, primarily due to changes in the business mix, reflecting a shift towards more treaties written on a proportional basis which reduces the volatility of our overall book of business. As a reminder, our underwriting results adjusted for the impact of cessions to AXIS Ventures, our third-party capital vehicle, are included in our financial supplement.

Turning to loss reserves established in prior years, our results continue to benefit from net favorable loss reserve development which aggregated to $50 million during the first quarter. Short-tail classes in both segments contributed $28 million of this balance, primarily reflecting better than expected loss emergence. This favorable development was net of adverse development of $21 million in our agriculture lines which primarily reflected unfavorable experience in certain price products in our portfolio and crop hail products for the 2014 accident year.

We continue to give way to actuarial methods that reflect our experience for our reinsurance professional lines which contributed $20 million of favorable development, reflecting lower ultimate loss estimates primarily for accident years 2010 and prior. We also reported combined favorable development of $12 million in our motor and credit and surety lines. Partially offsetting these favorable movements were the adverse development on our insurance liability and credit and political risk lines, $11 million in each line due to new information received on specific individual claims.

During the first quarter of 2015, our acquisition cost ratio increased by 0.7% to 18.9% compared to the same period of 2014. The variance in the ratio was due to an increase in acquisition costs reported in the reinsurance segment and primarily reflected an increase in adjustments for loss-sensitive features in reinsurance contracts following prior year loss reserve releases.

Our total general and administrative expenses increased in the quarter, driven by cost related to our announced amalgamation with PartnerRe Limited of $7 million as well as $5 million in expenses related to our ongoing expense rate reduction initiatives, which we have previously discussed with you.

Overall, the company reported underwriting income of $96 million and a combined ratio of 94.3% for the first quarter. Net investment income was $92 million for the quarter, up from $79 million in the fourth quarter and up from $83 million in the fourth quarter of last year.

The most significant driver of the quarter-over-quarter increase was the contribution to net investment income by our other investments portfolio. Other investments contributed $31 million during the quarter versus $12 million last quarter and $17 million in the first quarter of the prior year.

In aggregate, the total return on our cash and investment portfolio for the quarter was 0.7%, including foreign exchange movements or 1.2% excluding foreign exchange movements.

The positive total returns for the current quarter were due mainly to price improvements on our fixed maturities portfolio as a result of falling U.S. and euro interest rates and credit spread tightening. This was tempered by realized losses on the sale of fixed maturities mainly due to foreign exchange as the U.S. dollar continue to strengthen.

We continue to hold a high-quality well-diversified portfolio with cash and investments totaling $14.8 billion at March 31, down approximately $1.1 billion from December 31 and down $0.6 billion from a year ago. The decrease from the previous year was principally due to the repayment of our senior notes.

The duration of our fixed maturities portfolio was 3.0 years at March 31, up slightly from 2.9 years at the end of December 2014. Our fixed maturities weighted average credit rating remains unchanged at AA-.

During the first quarter, we settled a significant amount of outstanding claims, most notably in the agriculture lines which combined with other cash outflows related to the increase in our premium ceded and settlement of other liabilities resulting in a decrease in the cash flows from our operations compared to prior periods. We expect to return to our normal levels of operating cash flow in the second quarter.

Our total capital at March 31, 2015 was $7.0 billion, including $1 billion of senior notes and $628 million of preferred equity, an increase of $0.2 billion from $6.8 billion at December 31, 2014. This increase was primarily due to a comprehensive income generated during the quarter.

During the first quarter, we announced that effective January 1, 2015, the share repurchase authorization program was increased to $750 million of the company's common shares effective through December 31, 2016.

However, following the announcement on January 25, 2015 of the signing of the definitive amalgamation agreement with PartnerRe Limited, we have suspended our open market share repurchase program until a closing date of the amalgamation transaction. During the first quarter, the company repurchased 0.3 million common shares at an average price of $50.95 per share for a total cost of $15 million. At April 29, 2015, the company still has $749 million of remaining authorization under our board-authorized share repurchase program.

As we have previously discussed with you, provided that market and financial conditions remain the same, we currently expect to continue our goal of returning approximately 100% of our annual operating earnings and any excess capital to our shareholders in the form of common dividends and share repurchases, as soon as the merger transaction has been completed.

While we continue to work on completing the PartnerRe merger transaction, we continue to progress on the strategic goals and expansion opportunities already initiated. We are making good progress on our ongoing expense reduction initiatives, which commenced prior to our merger announcement, and we expect to see early benefits of these initiatives to start impacting our results by the second quarter of this year.

In addition, our Lloyd's unit is making good progress in the London market. And during the quarter, we have expanded the capabilities of AXIS Ventures, our third-party capital vehicle.

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

Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Joe. Turning to market conditions, overall, we're looking at an environment that is a bit more challenging than the last time we spoke. Across our insurance lines, we've seen overall pricing decline in the quarter, led by the reductions in property and certain specialty lines. Despite this, they remain attractive opportunities for profitable growth in many insurance lines of business, and our production emphasizes those areas, including causality lines, certain target of professional lines and renewable energy among others.

Our new business production was strong for the quarter and it's quality-consistent with that of our renewals. It reflects success in our various distribution initiatives and targeting of opportunities in the small E&O, aviation and renewable energy markets. The net of this was flat production in international markets and growth in our professional lines in U.S. divisions. We had lower production in credit and political risk, consistent with tightening spreads and a potentially more challenging credit outlook.

Within our insurance segment, the overall AXIS insurance rate change for the first quarter of 2015 was minus 3%, down from last quarter's minus 1% and down from the plus 1% achieved in the first quarter of last year. This overall average rate change was primarily driven by short-tail lines and larger accounts that attract capacity.

In our U.S. division, overall rate declined 4% in the quarter versus down 1% last quarter. The U.S. property market drove this reduction as it remains competitive, reflecting a quite wind season last year and the abundance of capacity in the market. Rates on cat exposed accounts were under the most pressure.

In U.S. casualty, market conditions are pointing to a crusting in the market. Long-term indices indicate that rates are at a five-year peak, and we are now seeing signs of accelerating competition. U.S. casualty rates are still very positive territory. Most accounts are well priced with strong rates, and we are still growing and writing profitable business in this class.

In our international division, overall rate change was minus 5% for the quarter, down from the minus 2% of change last year. As usual, there were wide variations in rates depending on the line of business or geography. The lines under the most pressure in the low double-digit range were onshore and offshore energy, reflecting record high levels of market capacity. International property rates are also down, about 10% in the quarter.

Notwithstanding recent reductions though, we are still in net positive territory from where these lines were prior to the multi-year increases observed in these markets. Aviation and terrorism rates were also down in the high single-digit range in this quarter, while we've seen a handful of large aviation losses in the last few months, including the Germanwings tragedy, and they remain substantial over capacity.

In our professional lines division, overall rates were flat for the quarter, down slightly from the plus 1% in the previous quarter. Within D&O, primary layers were up 4%, while excess business rates are down about 2%. Large account and professional firms' E&O business showed positive increases in line with our portfolio reshaping initiatives.

Turning to reinsurance, the major themes in the markets have not changed. Excess capacity, strong balance sheets and a consolidation of buying continue to pressure reinsurance pricing across most territories and lines of the business. Multi-year commitments continue to be in demand, broadly impacting all lines of business.

With the continued trend of reduction of reinsurers on panels, we believe that AXIS benefits given our financial strength, broad multi-line product offerings and global presence, market conditions are also leading to more opportunities to purchase retro protection, which we have used to optimize the portfolio and reduce tail volatility.

In the U.S. reinsurance market, trends are consistent with those experienced in the last six months of 2014, but we believe that we are now observing some moderation in that negative momentum. Commissions for pro rata accounts are still increasing, but the rate of commission growth has slowed. Similarly, aggressive renewal terms have also moderated slightly as cedents are focused on maintaining stable reinsurance panels.

For U.S. property reinsurance business, reinsurance capacity remains abundant, and we are seeing expansion of per risk and per event limits. U.S. catastrophe renewals remained in line with the January first renewals with rates down between 5% and 10%.

For U.S. professional lines reinsurance, competition remains high with traditional competitors seeking to retain business and new competitors actively bidding up ceding commissions. Nevertheless, we benefit from generally continued improving conditions on the primary business. Rates on non-proportional business are experiencing negative pressure in the 5% to 10% range, and requests for expansion of limits are increasing.

We're in the process of completing April 1 renewals. This is not a major renewal day for us with approximately $166 million of gross premiums written up for renewal.

Based on what we know today, we estimate gross premiums written to be down 10% on a constant dollar basis. About half of this decline is attributable to U.S. liability business where share of one program was decreased due to unfavorable changes in terms and one large proportional treaty was restructured, resulting in loss of premium to the market.

April 1 renewals include business from the Asian market, mostly Japan with a small number of mid-size Korean renewals. In Japan, major buyers continue to favor our core partners for reinsurance panels. We benefited from our strong relationship building, resulting in growth from multiple lines including trade credit, casualty and property. While the negative currency impact of 15% almost offsets our growth there in dollar basis, it still contributes to a better portfolio for AXIS.

Overall, AXIS experienced a high retention of targeted business with April 1 renewals, a point of market validation for one of the premises of our amalgamation with PartnerRe. And I understand PartnerRe communicated similar experience on their call.

Looking forward to the upcoming June 1 and July 1 renewals, which are dominated by U.S. catastrophe excess of loss renewals, we expect continued softening of rates with reductions of up to 10%. We expect non-capitalized will also continue to see terms down 5% to 10% with continued commission pressure on that, too. Despite this, we're encouraged as the number of lines continue to benefit from good underlying primary retrench.

Against this backdrop, the diversity in our enterprise portfolio by line and geography is serving us well as we've been able to place emphasis where business is performing better. We are also actively addressing limits management and reinsurance and retro-purchasing in the current environment to optimize outcomes for our portfolio.

AXIS Capital is well positioned to provide our clients, brokers and partners a meaningful array of products and services. As an independent specialty insurance company, we are financially strong and have the necessary scale to differentiate ourselves from the smaller industry players as well as to compete successfully up market. With $7 billion of capital and $5 billion in gross premiums written, AXIS has demonstrated its ability to compete and win in the marketplace.

And while we are pleased with our statutory market positioning today, we believe that the fundamentals of a merger with PartnerRe accelerate the achievements of our longer-term strategic objectives and offer a unique value proposition for our shareholders, clients and employees.

As has been reported, EXOR made an unsolicited bid for PartnerRe on April 14. For legal reasons, we will not be addressing this unsolicited offer during our prepared remarks or during the Q&A portion of this call. I am, however, allowed to repeat what we have already said with regard to our merger of equals. We remain convinced that our strategic combination with PartnerRe, a transformational merger that will create a diversified global insurance and reinsurance company with the scale, capital and enhanced market presence to deliver greater breadth and depth of products and services, larger capacity and leading positions in several markets will in fact result in superior and sustainable value to all shareholders.

As we've emphasized, our amalgamation with PartnerRe will create one of the world's preeminent specialty insurance and reinsurance companies with gross premiums written in excess of $10 billion, total capital of more than $14 billion and cash and invested assets of approximately $32 billion. Moreover, it will leverage the complementary strength of both companies and create an organization with a size and breadth to advance numerous objectives, including enhancing product and service offerings, maximizing growth opportunities, optimizing portfolios, and delivering both economies of scale as well as capital efficiencies.

In our view, the strong April renewals serve as another proof that our strategic combination with PartnerRe is very well received by both clients and brokers in the marketplace. Since the day of our announcement, we've made good progress on integration planning with PartnerRe. We've completed Phase 1, focused on visioning for the new company and are fully engaged in the integration planning phase. We have real opportunity to address the launch of the important January 1 renewal season with a stronger larger unified company. This is all very exciting for us.

I would also like to take a moment to thank all of those involved in the integration process at both AXIS and PartnerRe for their continuous focus, not only on the business of the business delivering our 2015 plans, but also undertaking the work required to bring our two companies together. We still have much work ahead of us, and we are looking forward to the future. I will make sure to keep the investment community abreast of any developments as we move ahead.

With that, let's open the call for questions. Again, I ask you to respect our requirement not to engage in questions relating to the merger. Operator?

Q&A

Operator

Thank you. We will now begin the question-and-answer session. Our first question is from Cliff Gallant of Nomura. Please go ahead.

Q - Cliff H. Gallant {BIO 1854853 <GO>}

Good morning. Thank you.

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

Good morning, Cliff.

Q - Cliff H. Gallant {BIO 1854853 <GO>}

In that, when I look at your combined ratio, excluding the impact of reserve releases, it looks like a 99.8% for the quarter which is up over three points over the prior year quarter. And you've talked a lot about how things have changed in a lot of items. Comparing the quarters, it's not always apples-to-apples, I realize. You've talked about mix change as well. But I was wondering if you could be a little bit more detailed discussing what would have caused that change, particularly when the catastrophe numbers seem to be similar for both quarters.

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

Sure. Let me start with the highlights and Joe, I know, will have some details to share with you. I think there is a couple of issues that go through that. One is just they're just the normal rate and trend that we embed in our lines of business on a regular basis. Number two is that, as Joe had mentioned earlier for a handful of lines of business, we've decided to take a somewhat more conservative approach to initial reserving this year.

And let me give you an example. Joe referred to agriculture where last year, we were booking it in the early quarters of the pricing ratios whereas now, we're simply booking it at a breakeven. And frankly, we have no more information today than we had at the first quarter of last year, but we choose to book it at a higher level as a level of prudence. We are taking a more cautious approach to reserving both our credit and political risk book and some of our Latin American surety book, again, in light of the economic environment that we're in. Again, we have no evidence that we need it. We just think that, for the moment, it is appropriate. So, these are three areas, Cliff, where in the absence of actual claims activity, we're just choosing to book a little more conservatively. So, that would be one.

The other issue, as Joe pointed out, is that we did have higher mid-size loss activity. And finally, I would say that, although the mix is fine and where it needs to be on the insurance side, there have been some tactical changes in mix of business on the reinsurance side. We've been telling you now that property pricing on the reinsurance property and cat have been challenged over the last two years.

As a result of that, and you will see this of course in our numbers, you'll see that earned premium on reinsurance cat and reinsurance property are smaller as a proportion of that book and other lines of business including motor are growing. And so clearly, we think it's the right thing to do in a more challenging environment to reduce some of our premiums on the cat side. Of course, in a no claims quarter, those who are willing to take on that cat business potentially at less attractive rates still look good. But we still think that right now, that's not the best transaction to pursue. So, those are some of the things that have affected the portfolio going forward, but I know that Joe has some specific metrics that he can share with you.

A - Joseph C. Henry {BIO 13390626 <GO>}

So Cliff, three things. First, let me go backwards and start with the expense ratio. Our expense ratio was up in the quarter to 18%, as I said. And if you'll focus on dollars because I think that's a little – it is important, our expenses are at $163 million for the quarter. If you back out the merger-related expenses of $6.6 million and what we're calling operational expense initiatives and that's IT sourcing, as well as terminating some leases, these are steps that we are taking to improve our expense ratio on the long run, that'll bring you down to about 16:7 in a ratio. We did get a benefit from foreign exchange in the first quarter on the expense side, so that brings it up again.

And then if you take out the volume impact – the fact that we have lower earned premium, as we mentioned in the prepared remarks, you're back down to the low 16s which is frankly exactly where we thought it would be. And again, if you normalize for those items on dollars, we're about $156 million in expenses, which is very comparable to where we were a year ago. So, there's an aberration, if you will, in the expense ratio.

Secondly, on acquisition costs, while we are under pressure, no doubt about it both on the insurance and reinsurance side in terms of, what I'll call, gross commissions, we also were impacted by the fact that we've taken down prior year loss reserves in reinsurance, and that had an impact of increasing our acquisition costs on loss-sensitive features included within certain reinsurance treaties. So again, our acquisition costs are up a bit because of the fact that we've taken down prior year loss reserves, but that's reflected, if you will, in the current accident year. So, those are two issues.

The third one, I'm just going to get into a little bit of detail here, so bear with me a second. So, this is on the loss ratio. The group current accident year loss ratio, excluding cat and weather, is up 1.3 points, as you know, from 60.6% in Q1 2014 to 61.9% in Q1 2015. That's due to a slight increase in insurance about 0.2% and a 2.1% increase in reinsurance. Although, I'll admit, the insurance ratio is higher than it was from the improved results we had in Q3 and Q4 2014.

However, let me discuss reinsurance first. Virtually, all of the increase in the current accident year loss ratio ex-cat and weather is due to a change in mix, as Albert was discussing. Our motor and liability premiums are up, which drive a higher but more stable loss ratio, but we've had good experience. And reinsurance actions taken by the reinsurance segment have offset the impact of both rate and trends which, as you know, are down. So that's reinsurance.

On the insurance side, we did have a higher level of mid-size losses, as Albert mentioned, in marine specifically onshore and offshore energy, as well as some higher losses in aviation due to the TransAsia and the Germanwings events, and rate and trend pushed up the ratio as well. But the mix of business specifically higher premiums in accident and health and professional lines and continued benefits we're seeing from ceded reinsurance offset that.

We were also encouraged by the fact that our attritional loss ratios have continued to behave well for the last four quarters. So, the last point I will make – Albert really covered, but I'll just say that we've decided to become a bit more conservative on our IELRs or initial expected loss ratios in certain lines of business where there is more uncertainty. And examples of that are corporate risk solutions within insurance and agriculture and surety within reinsurance. That's a mouthful. I'm not sure you followed that but...

Q - Cliff H. Gallant {BIO 1854853 <GO>}

I appreciate it. A very thorough answer. Thank you.

A - Joseph C. Henry {BIO 13390626 <GO>}

Okay.

Operator

Our next question is from Charles Sebaski at BMO Capital. Please go ahead.

Q - Charles J. Sebaski {BIO 17349221 <GO>}

Good morning. Thank you.

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

Good morning.

Q - Charles J. Sebaski {BIO 17349221 <GO>}

I guess first question, Albert, I guess just sort of conceptually on your business, I know you can't talk about the PRE deal per say, but the theory on that is kind of larger scale and how that plays out in the market going forward. And I guess, my thought is if scale is important, how does that coincide with the capital management activities over the last few years? So, if I look back, you guys have given back – getting upwards of $2 billion over the last three years of total capital management. If scale in RI was important, why not have held on to all that capital and deployed it into your business over the last three years?

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

That's a good question. Thank you for asking it. I think the first thing is that when we talk about scale, the first thing that we need to do is recognize that – I do believe that scale is important, but I don't believe that scale was a determinant of our deal with PartnerRe. Where we are, as I mentioned in my prepared remarks, we're already one of the larger mid-size companies. We are not challenged by scale.

So, if we were a $2 billion, $3 billion company, it would be a different story, but that's not where we are. We're already a well-diversified, well-established company. We have years of having established relationships with our clients and our brokers. Scale is not our problem. And so, we continue to be, I believe, a prudent users of capital. And you can rest assure that to the extent that we could have used that capital to grow at attractive rates of return, we would have done so. We did not believe that it was in the best interest of our shareholders to pursue less attractive business simply to pile our premium. So, I think what really matters is we turn on risk and market positioning not whether you have $1 billion or $2 billion worth of incremental capital. So, that I think should address the first thing.

But with regards to the – going back again, which I can't repeat since it relates to the original rationale for the transaction with Partner is that our merger of equals was not simply about scale. It was about creating opportunities that we would not able to create as a successful mid-size company for a few more years yet. There were significant expense synergies that were available to us in this that would not simply be available if we grew $1 billion of premium. There were market positioning that would be so much better inasmuch as we would now be very well established with a three-legged stool with very strong leading market positions in all three of our businesses. For the scale itself, it is not a guarantee of success. What matters is how are you utilizing that scale. Hopefully, that addresses your question.

Q - Charles J. Sebaski {BIO 17349221 <GO>}

So, on that answer and the opportunity in the marketplace that you see through this combined entity, if we were to find ourselves two quarters from now and PRE shareholders, in turn, vote for EXOR, does that not put you into a position of having to do something else?

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

Somehow, the first half of my answer didn't seem to connect. I told you that we do not have a problem with scale as a stand-alone company. We're already one of the largest.

Q - Charles J. Sebaski {BIO 17349221 <GO>}

No, I am not talking about scale. I guess, I was asking about the market opportunity portion, not the scale portion, the market opportunity portion, the second part of your answer.

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

I think that both opportunities provide different sets of market opportunity – both scenarios provide different sets of market opportunities. Charles, I think we're getting close to starting to talk about hypothetical scenarios around the transaction, and I'm advised that we should change the topic.

Q - Charles J. Sebaski {BIO 17349221 <GO>}

I appreciate all of your answers.

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

Thank you.

Operator

Our next question is from Ryan Byrnes of Janney Capital. Please go ahead.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Good morning, guys. Just had a quick first question on the alternative returns. You kind of ran a good deal higher than I think that most of us were expecting and obviously, it seemed like it was a pretty quite quarter for equity. I was just, one, trying to figure out what led to that strong performance there.

A - Joseph C. Henry {BIO 13390626 <GO>}

Yeah, Ryan, it's Joe. We have within our alternative portfolio equity long, short hedge funds that performed very well during the quarter. We actually have four different funds that we invest in, and two of those performed very well relative to the benchmark. So, it's simply outperformance by two of the four hedge funds within that asset class.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Okay. Great. Thanks for that. And then quickly, obviously, we went in pretty good detail there about the one timers from the cost synergies as well as the Partner stuff. Can you maybe help us out with the second quarter as well and maybe, I guess, excluding the PartnerRe stuff? But how much on an absolute basis we should expect from kind of restructuring charges, and did those all run through the corporate expense line?

A - Joseph C. Henry {BIO 13390626 <GO>}

The second part of your question is yes, they run through the corporate expense line, but the integration of the merger is expected to take place over several quarters. I'm not going to get into predicting what our expense level is going to be relative to merger-related expenses, but let's just say that the integration, as Albert mentioned, is progressing. We're in full tilt, and we would expect to continue on that pace throughout the second quarter and probably into the third.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Okay. Great. Thanks again, guys.

Operator

Our next question is from Jay Cohen of Bank of America Merrill Lynch. Please go ahead.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Yeah. I just wanted to drill down a little bit on the insurance active in your loss ratio excluding cash. Joe, as you've mentioned, up from the last several quarters and there were some issues that you highlighted, I guess, my question is when you look at the last three quarters – you got two really good quarters, this one was less good – would you lead us to a number that might be a normalized one? In other words, should we think about the second half of last year as pretty reasonable as the starting point, or is the first quarter more of a reasonable number or likely somewhere in the middle?

A - Joseph C. Henry {BIO 13390626 <GO>}

Yeah. Jay, I think we mentioned in Q4 that we had an extraordinary performance within insurance on an accident year basis. So, I wouldn't necessarily say continue with the extrapolation of the fourth quarter of last year, but I do think the first quarter of this year was high. We had, as I mentioned, two fairly large marine losses and two other losses in other lines of business. So, it was a higher quarter than normal in terms of mid-size losses for us. So, I think my answer would be to lean you more towards the middle.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Great. That's very helpful. And then, I guess, Albert, your comment on capital management looking forward the desire to basically use up the earnings with buybacks and dividends, I just don't remember you saying that recently, post the PartnerRe deal, is that new information, or was that consistent with what you've been saying?

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

My recollection, Jay, is that it's consistent with what we've been saying. Look, the fundamental issue with us – with our capital is that if we have an opportunity to use that capital profitably to grow, that is always our first choice. On the other hand, if we don't like the opportunities in front of us then rather than keep the capital, we will give it back to you.

The two things that have happened to us over the last couple of years with regards to our portfolio and to our capital management is that we found less opportunities, if you would, in growth on the cat side, which is a very cat-intensive. But on the other hand, as we've discussed with you, the shift in our portfolio mix made us much more capital-efficient. And as a result of the diversification benefit of the more balanced portfolio, we were able to grow over the last two years and still return the capital back to our shareholders. So, we felt that that was the right call to make from a capital efficiency perspective.

When we announced our merger of equals with Partner in January, what we did say was that we expected to have both expense synergies and capital synergies in the combined company. And although both companies had suspended their share repurchase programs ahead of the closing of the merger, that it was the expectation of both companies that post the merger, we would give back that accumulated capital. So, it still remains our intent, given where we see the world today. It still remains our intent post the close to take the accumulated earnings between now and the close and add them to our stock repurchase budget as we move forward post the close. I believe that that was always consistent.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Great. Thanks for that reminder then.

Operator

Our next question is from Meyer Shields of KBW. Please go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Pardon me. Thanks. Also, to focus on the insurance segment, with regards to higher initial expected loss ratio picks, I guess two questions on whether that's quantifiable at all, and how long the tails of the associated lines of business are. So, then if it proves that you're too conservative, when would we know that?

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

I think that it depends by line, so I think with regard to the picks. We're already reflecting lower picks in our professional lines, reflecting what I consider has been excellent work that has been done by our professional lines team in repositioning our U.S. D&O portfolio, and we've seen a lot of progress. And by the way, we expect to continue to see further progress in that area.

The area where we have decided to be more conservative on the insurance side, certainly in the credit and political risk area, as the economy improves, as we see these projects pay down, as we see different things, we may decide that we will book these lower. My guess is a year or two to be safe, just to make sure that we put this behind us.

And by the way, if you look at the tail of our portfolio in our credit risk solutions, part of what we call credit political risk unit, it's not a long tail book. I mean it's got an average tail of, a little over three years. So, there is a relatively rapid reduction in the outstandings. And so as loans, as projects evolve and continue to pay down and increase their debt coverages, we can see that relatively quickly.

I think that those would be the areas. I think, as you know, our general reserving philosophy is that for longer tail lines, we are going to be more prudent than the midpoint, but those are going to take a little longer because one of the reasons we increase reserves above the midpoint is because we know that they are longer tail lines, and it takes some time to get some visibility.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. That's helpful. There was a little bit of accident year strengthening also – I'm sorry, prior year strengthening in a few lines in insurance. I was hoping you could talk about which accident years are contributing to that?

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

I think there were couple of claims, right, Joe?

A - Joseph C. Henry {BIO 13390626 <GO>}

There are. There's one liability claim. Is it 2006? We'll look that up for – in a second.

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

2008.

A - Joseph C. Henry {BIO 13390626 <GO>}

I'm sorry, 2008.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. And then just lastly, was there material foreign exchange impact on the fixed maturities investment income?

A - Joseph C. Henry {BIO 13390626 <GO>}

Yes. It was about $80 million, which flows through most of our equity. If you look at foreign exchange across our whole financial statements, the net impact to our results was about a $35 million hit.

Q - Meyer Shields {BIO 4281064 <GO>}

That's $35 million to equity, not to earnings?

A - Joseph C. Henry {BIO 13390626 <GO>}

Correct. The earnings benefit was about $71 million in total.

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

Yeah. Are you referring to the absolute dollars of the net investment income that we're reporting?

Q - Meyer Shields {BIO 4281064 <GO>}

Yes.

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

Is that what you – yeah. We'll have to go back to that. I don't think it was a major number. We will get back to you on that.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thanks so much.

Operator

I'm showing no additional questions. This concludes the question-and-answer session. I'd like to turn the conference back over to Albert Benchimol for any closing remarks.

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

Thank you very much. And thank you for your presence and for your questions. I'm sure that many of you have additional questions, and I can assure you that Linda will do an excellent job of responding to those. So, if any of you have additional questions, please feel free to call Linda Ventresca to 212-500-7620. And we look forward to speaking with you soon. Bye-bye.

Operator

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.