FINAL

Bloomberg Transcript

Q1 2013 Earnings Call

Company Participants

- Albert Benchimol, President, CEO
- Joseph Henry, CFO
- Linda Ventresca, EVP, CDO

Other Participants

- Arash Soleimani, Analyst
- Charles Sebaski, Analyst
- Dan Farrell, Analyst
- Ian Gutterman, Analyst
- Michael Nannizzi, Analyst
- Raymond Iardella, Analyst
- Ryan Byrnes, Analyst
- Vinay Misquith, Analyst

Presentation

Operator

Good morning. Welcome to the First Quarter 2013 AXIS Capital earnings call.

All participants will be in listen-only mode. (Operator Instructions)

Please note this event is being recorded.

And I would now like to turn the conference over to Linda Ventresca. Please go ahead.

Linda Ventresca {BIO 5930519 <GO>}

Thank you, Amy. Good morning, ladies and gentlemen.

I am happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the First Quarter ended March 31, 2013. Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you would 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 US, and the international dial-in number is 412-317-0088. The conference code for both replay dial-in numbers 10026491.

With me on today's call are Albert Benchimol, our President and CEO, and Joseph Henry, our CFO. Before I turn the call over to Albert, I would remind everyone that 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 US Federal Securities Laws.

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

These statements involve risks, uncertainties and assumptions which could cause actual results to differ materially from our expectations. For a discussion of these matters, please refer to the risk factor section in our most recent Form 10-K on file with the Securities and Exchange Commission. 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 and our consolidated underwriting income which are non-GAAP financial measures within the meaning of the US federal securities laws. For a reconciliation of these items to the most directly comparable GAAP financial measures, please refer to our press release which can be found on our website. With that, I would like to turn the call over to Albert.

Albert Benchimol {BIO 2023727 <GO>}

Thanks, Linda. Good morning, ladies and gentlemen.

Thank you for joining us today. Last night we reported a very good First Quarter. Both insurance and reinsurance segments delivered strong and diversified premium growth, with consolidated gross premiums written up 15%. Both also contributed solid underwriting profits, with a consolidated combined ratio of 83%. We generated strong accident year results in the absence of meaningful catastrophe or weather activity, and continue to see favorable reserve development from prior years benefiting our results.

Operating income for the quarter was $227 million or $1.92 per diluted share, and our operating ROE for the quarter was 17.1%. We ended the quarter with record diluted book value per share of $44.67, an increase of 4% from year end 2012, and 13% growth over the last 12 months. That aside, I believe we are also making meaningful progress in improving our risk-adjusted returns through portfolio diversification and optimization activities, as can be seen in the evolution of our business mix. I will discuss market conditions in more detail following Joe's remarks. And with that, I will turn over the call to Joe.

Joseph Henry {BIO 13390626 <GO>}

Thank you, Albert. Good morning, everyone.

We produced strong results this quarter generating underwriting income of $171 million, and solid returns from our investment portfolio producing an annualized 22.7% return on average common equity, and operating ROE of 17.1%. Our diluted book value per common share increased by $1.70 or 4% during the quarter. On the underwriting side, we benefited from a quiet catastrophe and weather environment, and the continued recognition of net favorable prior year reserve development this quarter. In addition, while the low interest rate environment continues to plague investment returns for the entire industry, our alternative investments contributed significantly to our income this quarter.

Moving into the details of the income statement, our First Quarter gross premiums written were up 15% to more than $1.7 billion, reflective of similar growth rates in each of our segments. In reinsurance, our top line was up $149 million. Agriculture contributed $73 million of this growth, as we initiated this new strategic global business. Most of this business related to US exposures, but we also expanded in Asia. And with much of this business binding later than usual this year, based upon what we know today we expect to recognize at least another $50 million of new written premium for agriculture in the Second Quarter. In agriculture, we have created a center of excellence that can be consultative and value-added for cedents facing an increasingly complex environment.

Outside of our agriculture initiative, the remaining growth was largely driven by the expansion of our continental European reinsurance business at the key 1-1 renewal date. We expanded our European cat portfolio, as well as our motor business where we see positive developments business in the UK market. Foreign exchange also contributed favorably in this line. In the US, we have seen restructurings of a number of launched programs in recent months, with cedents increasing retentions. This, along with renewal timing contributed to a reduction in our professional lines reinsurance business this quarter. We did, however, find select opportunities to grow our property business in the US.

In our insurance segment, growth was $72 million or 14%. This growth was balanced across property and casualty lines that have been improving over the last one to two years, and featured significant growth in our newer accident and health line. Accident and health contributed $29 million of this increase. The 30% growth in this line was driven by a successful 1-1 for the global accident health reinsurance business. Geographic expansion of our professional lines book continued this quarter, with growth in Europe, Canada, and Australia. In liability, we continue to selectively grow in the US wholesale excess casualty market, where the rate environment has improved significantly in recent quarters. Rate increases and new business opportunities contributed to growth in our property business, even as we reduced cat exposed business written through MGAs.

Our consolidated net premiums written were up 15%, in line with gross. The impact of ceded reinsurance changes in our insurance segment was largely offset by changes in business mix. Our net premiums earned were up 3% for the quarter, with growth in insurance and reinsurance driven by our accident and health and agriculture initiatives, respectively. Our First Quarter consolidated current accident year loss ratio improved by 9.3 points to 56.4%. In insurance, this ratio improved by 10.3 points. Reinsurance improved by 8.4 points. The primary driver of each of these reductions was the absence of catastrophe and significant weather-related events in 2013.

There are two factors to consider in the property lines, in comparing the First Quarter of this year with the same quarter last year. First, last year as part of the ongoing rebalancing of our catastrophe portfolio, we were moving away from the regional catastrophe aggregate reinsurance contracts which drove meaningful losses in our portfolio throughout 2011. We were also repositioning cat exposure in our insurance segment, moving away from writing this business through MGAs. Although this process had already begun, our experience in 2010 and 2011 years supported conservatism in establishing initial loss picks for the property lines. Further, the First Quarter of 2012 was an average quarter for the industry, in terms of US cats tracked by PCS.

This quarter in contrast, we are substantially out of the regional catastrophe aggregate excess of loss programs, are further along with our MGA repositioning, and it was a below average US cat quarter. To summarize, with significant progress in the repositioning of our catastrophe exposure and a relatively low cat loss quarter for the industry, we had a high degree of comfort that the favorable experience during the quarter in the property lines should be recognized this quarter.

Turning to loss reserves established in prior years, we continue to benefit from net favorable development, which aggregated to $54 million this quarter. Short tail classes in both segments and our professional lines reinsurance business contributed $38 million of this balance, primarily reflecting better than expected loss emergence. In addition, we began to recognize favorable development for our reinsurance liability business this quarter. We believe that our older accident years are at a stage of expected development, where we can give weight to methods that reflect our favorable actual experience. As a result, we recognized net favorable development totaling $16 million for the reinsurance liability class this quarter, which primarily emanated from the 2004 through 2007 accident years.

We have strengthened reserves in professional liability and liability insurance lines for specific cases that developed adversely. This strengthening totaled $16 million. We also strengthened our estimates for -- of catastrophe and weather-related losses for events in the 2010 through 2012 years by an aggregate $30 million. This development is comprised of a number of movements up and down by event. The most material of these was a $28 million increase for the February 2011 New Zealand earthquake, most of which was IB&R.

Our consolidated acquisition cost ratio decreased by 3.3 points quarter-over-quarter, with reductions in both insurance and reinsurance. In insurance, a 1.5 point reduction was driven by a combination of recent reinsurance purchasing changes, and the reduction in high-cost MGA source business. In reinsurance, that ratio was down 4.8 points, with the bulk of the variance attributable to our accruals, the loss-sensitive features in underlying reinsurance contracts. Such accruals contributed to an increase in the ratio for the First Quarter of 2012, and conversely, reduced the acquisition cost ratio this quarter.

We expect the normalized acquisition cost ratio for the current mix of reinsurance business to be in the range of 21% to 22%. However, we caution that there is always the potential for loss experience to result in variances in any one quarter relative to the normalized run rate. The increase in our general administrative expenses in comparison to the First Quarter of 2012, was primarily driven by increased staffing and office costs attributable to the continued expansion of our global platform over the past year, as well as a larger accrual for performance-based compensation given improved results this quarter. Total expenses this quarter were comparable to those of the Fourth Quarter of 2012.

Turning to our investment portfolio, net investment income was down $7 million from the First Quarter of 2012. Yields from our fixed maturity portfolio continued to decline, as a result of the protracted low rate environment resulting in a $10 million reduction in income, despite a growing asset base and an increased allocation to short duration high-yield corporate debt securities. Our other investments contributed $43 million of income this quarter, with our hedge funds benefiting from the strong performance of global equity markets. With respect to asset allocation, it is worth noting that we significantly increased our investment in senior CLO debt this quarter. The majority of these floating rate issues which will benefit from an increase in interest rates, were purchased in the new issue market with an average credit rating of AA plus. As a result, we expect this action will improve yields going forward, without compromising the credit quality of our portfolio.

We ended the quarter with a very strong capital position, with record common shareholders' equity of $5.4 billion, and total capital of $6.9 billion at the end of the quarter. We repurchased 3 million shares from Trident II and affiliated entities this quarter. This combined with a secondary offering, resulted in Trident exiting its AXIS holdings. As Albert noted in our press release, our increasingly diversified underwriting investment portfolios and strong capital position is such that we have revised our expectations for capital management this year.

Based on opportunities as we know them today, we now expect to return to our shareholders closer to 100% of our earnings this year in the form of regular dividends and share repurchases. We are pleased to be able to report these solid First Quarter results to you. And we remain optimistic about our prospects for the remainder of 2013 and beyond. Our global diversified -- our diversified global franchise and strong balance sheet mean that we are well-positioned to execute on our expansion initiatives, and take advantage of market opportunities as they arise. With that, I will turn the call back over to Albert.

Albert Benchimol {BIO 2023727 <GO>}

Thank you, Joe. While the nature of our business is such that predictions about the future are fraught with risks, we are nevertheless cautiously optimistic about improving fundamentals in many parts of our business. We continue to be encouraged by the overall trends in pricing and market conditions that have continued into 2013. Within our insurance segment, the overall AXIS insurance rate change for the First Quarter of 2013 stands at plus 5%, up from the plus 4% last quarter and the plus 3% in the First Quarter of last year. Rates are continuing to increase across most classes and geographies, other than a few notable exceptions.

In our US division, which is dominated by wholesale E&S, property and casualty business, continues to show the strongest rate improvement. Overall, rate change this quarter was plus 9%, in line with last quarter. For the property classes in this division, this is the eighth consecutive quarter of rate increases. While rate increases averaged about 10% last year, they were in the high single digits by the Fourth Quarter. And in the First Quarter of this year, we see them in the mid to high single digit range. So as we enter our third year of increases, which by the way, is something rarely seen in our careers, we are seeing a modest slowdown in the scale of increases, but the trend remains uniformly positive. The strongest increases remain in accounts with recent loss activity, winter flood concerns, or accumulation issues within specific geographic regions.

Casualty business in the US division, which is primarily E&S umbrella business, continued to show the double-digit rate increases that commenced in the Second Quarter of 2011. Premium increases are occurring across primary, buffer, and excess layers. The largest increases are naturally associated with the tougher classes. Overall in the US, we are continuing to see more challenging risks flow away from standard carriers and back into the E&S market, providing us with a greater flow of submissions, higher new business conversion rates, and improved retention ratios.

In our international division, which is dominated by London-sourced specialty lines, the overall rate change is plus 4% this quarter, in line with the last several quarters, but with wide variation depending on the line of business or geography. In our international property classes, we achieved only modest rate increases after several quarters of double-digit rate hikes. Our achieved rate change this quarter was lower than in any of the prior eight quarters. It is probably too soon to declare it as a trend, but we are keeping a close eye on it. Marine business impacted by recent loss activity showed strong increases in the First Quarter renewals, consistent with our expectations given a difficult 2012 for that line. And disappointingly, aviation and terrorism are stubbornly continuing their downward trends at a pace consistent with last year's.

In our professional lines division, substantially all classes are now seeing rate strengthening, with First Quarter averaging plus 3%, as compared to a generally flat environment in the first half (technical difficulty). Specialized division, substantially all classes are now seeing rate strengthening, with First Quarter averaging plus 3% as compared to a generally flat environment in the first half of 2012, and a plus 2% average increase in the second half of last year. So you could say we are observing pricing momentum.

For D&O, rate increases are higher and more consistent on primary business than in excess. We attribute that to the fact that primary layers were more exposed to losses in recent years, and in the excess layers, surplus capacity is dampening significant improvements. Similarly, lines of business such as small to mid market lawyers, private and not-for-profit D&O, and employers practice liability that have been impacted by increasing for concealed loss, are seeing strong rate increases and tighter terms and conditions. We expect similar dynamics to influence US professional lines as we move forward. Outside the US, the rate environment is positive in management liability, and essentially flat for the professional liability lines.

Moving on to reinsurance. As you know, our First Quarter is dominated by the significant January 1 renewal rate. Over 55% of our expiring 2012 reinsurance business renewed during the quarter, and we addressed January 1 renewal conditions in our last conference call. By and large, there were increased retentions here and there, and often pressure from modest increases in ceding commissions. These were often offset by the reinsurance participation and the underlying rate increases achieved at the primary level. Excess of loss layers were generally stable. Overall, we grew where appropriate, and we are satisfied that we made significant progress in rebalancing our portfolio with a view towards improving our overall risk-adjusted returns.

We did note in our last quarter, that the story on agriculture was an unfinished one, given late renewals. And as Joe just noted we made great progress in our new agriculture reinsurance initiatives. When all was said and done, more proportional agricultural reinsurance business was placed in the reinsurance market at generally stable terms. Significant rate increases were seen for excess of loss renewals on US MPCI business. As expected, the greatest improvements came from treaties with concentrations in the states heavily affected by the 2012 drought.

We established ourselves as a specialist in the line, and assembled a portfolio of business with strategic cedents, that value our highly experienced team, not only as a consistent capital provider, but also as an important partner in product development and analytics. Looking forward for our reinsurance business, this time of the year is relatively quiet. Less than 20% of our expiring premium renews during the Second Quarter. Generally, we are seeing a continuation of the trends experienced in the First Quarter.

As our European portfolio substantially renewed at the beginning of the year, I will focus my comments on activity in the US and non-European catastrophe business, as well as the recent Asian renewals. Our US reinsurance business is dominated by specialty liability reinsurance lines, such as professional liability. In these lines, there is a trend towards more retention by the cedents, and requests for more ceding commissions. But just like before, this is generally against a backdrop of improvements in the underlying business. In our view, this rendered returns as or even more attractive for the business we wrote relative to it expiring.

The recent Asian renewals were in line with expectations. Our Asian reinsurance portfolio is currently dominated by Japanese property reinsurance business. Improvements subsequent to the Tohoku earthquake of 2011 were maintained despite weakening of the Japanese yen which led to an abundance of capacity. Terms and conditions were generally unchanged for proportional business, and pricing was flat for excess of loss business. Despite the competitive pressure created by the additional capacity, in the majority of cases we received our desired shares. A big win in this market. AXIS Re Asia

Pacific continued to build on its strategic profile across the Asian market, and is now perceived more broadly as an accepted quoting market.

Away from Asia, the First Quarter property reinsurance business pricing was mostly flat to down 5% for cat and per risk excess of loss. And that is mostly in the US, Canada, Caribbean and the UK. Pro rata terms and conditions were mostly unchanged, not withstanding brokers pushing for expanded terms and conditions on a few profitable accounts. Loss Re accounts continues to experience rate pressure, and capacity was plentiful. For the most part, there was limited impact to the market from Hurricane Sandy, other than loss impacted accounts, some of which saw 10% to 25% pricing increases. Generally, for the upcoming first of June and first of July renewals which are dominated by US catastrophe excess of loss renewals, we expect to see continued pressure on rates with the influx of capacity from both traditional sources and capital markets.

Certainly, there will be some opportunistic purchases introduced in the mix. That aside, we fully expect rational pricing in the more traditional placement, better handled by the professional reinsurance market. As an important strategic provider of capital to a number of cedents, we see room to position our cat portfolio at attractive expected returns. We don't, however, expect to significantly increase our cat exposure.

Looking ahead for our industry, while there is still favorable momentum in the insurance marketplace, there continues to be talk about the sustainability of rate increases. Especially since the cumulative rate impact in property-related lines approximates 20% since the beginning of 2011, and some of the First Quarter increases in property-related lines are lower than they were last year. But as I have said before, while these rate adjustments are necessary and welcome, they are still not enough and must continue. This is especially true in mid and longer tail lines, where recent improvements are inadequate to offset the many years of price declines, and the effective absence of any investment income. There must be more. And even more so outside the US, where other than in loss affected regions in mind, market improvements are lagging the United States.

As for AXIS, we believe that we are very well-positioned to take advantage of improvements in the market, to grow where appropriate, and add balance and diversification to our exposures. The bedrock for that is in our very strong capital position, global footprint, and superior staff with great customer relationships. I have always said that an insurance company is nothing more than capital and people, but the real differentiator is in the quality of the people and the service and expertise they bring their clients. The better companies outperform because of their ability to recruit and retain the best staff in the industry.

And AXIS is blessed with a strong, disciplined, and entrepreneurial underwriting culture. This has been evidenced over the last couple of years with the development of teams to pursue opportunities at A&H, renewable energy, environmental design, engineers and architects, agriculture reinsurance and US marine reinsurance. As well as new talent to complement our established business units across the globe. We continue to attract the best talent in the industry this quarter, with the announcement that Peter Wilson has joined us as President of our US insurance business. Peter is an exceptional seasoned industry veteran, whose skill sets and depths of experience in the US cat specialty lines strongly complements our Company.

From our perspective, AXIS' US insurance business is one of the very few successful startup US specialty businesses of the last decade. A number of competitors have tried, with much less success. We look forward to building on this strength with Peter, and we welcome him to our team. We are all very engaged and committed to executing on our strategic imperatives, and delivering superior value creation for the benefit of our shareholders.

And with that, I will open the call for questions. Operator?

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Vinay Misquith at Evercore.

Q - Vinay Misquith {BIO 6989856 <GO>}

Good morning, and congratulations on a great quarter. The first question is on the accident year margins. Historically, I believe AXIS has had to put up a very high loss ratio in the First Quarter, and lower that as the quarters went by. Has that changed now, because you have changed your regional programs?

A - Joseph Henry {BIO 13390626 <GO>}

Yes, Vinay, it's Joe. As I have mentioned, in my prepared remarks, there are really -- there are two reasons for that, the midwest aggregate contracts that we are mostly out of, and the changes in our insurance MGA programs. So we felt, as I said, we felt much more comfortable that with that behind us, if we had a favorable experience in the quarter, we could recognize that in the quarter. So yes, you are correct.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay. That's helpful. The second question is really on margin improvement, if we look at the year-over-year. Primary insurance plus 5%, reinsurance getting the underlying rates from the primary insurers. How much of margin expansion should we expect this year versus last year?

A - Joseph Henry {BIO 13390626 <GO>}

Vinay, it is difficult on the insurance side. We really got three different things going on. We have got improvements in our property and casualty lines, and those rate increases are being earned through, and they are in excess of trends. So we are seeing improvements in the combined ratios in those businesses. As Albert mentioned in professional lines, our rate increases have just started to increase. So we haven't really seen the full benefit of earning through those rate increases yet.

Then we have got a third set of lines, like terrorism and aviation where we have had continued pressure on rates. However, our returns are good in those lines of business. So we have got really three different things going on. So I would say on balance, we haven't really reflected much in our loss ratio or combined ratio from rate increases in the past couple of years. However, we expect to have that earn through as we go through in 2013 and '14. And probably we will expect to see a 2 point improvement in our loss ratios in insurance.

(multiple speakers) Go ahead. I'm sorry.

Q - Vinay Misquith {BIO 6989856 <GO>}

No. That's it. Thank you very much.

A - Joseph Henry {BIO 13390626 <GO>}

Okay.

Operator

Our next question comes from Mickey[ph] Nannizzi at Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Yes. This is Mickey, hello.

A - Linda Ventresca {BIO 5930519 <GO>}

Good morning, Mickey.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Good morning. Just I had a couple of questions, actually, if you don't mind. On deployment, I think I remember, I think I got this right, that last quarter you said 50% to 100% of deployment, and at 14% would be at the low end of that range. So now we are here. You are back up to 100%. What is the outlook next year? Is that different?

A - Albert Benchimol {BIO 2023727 <GO>}

Yes. I think what we -- obviously, always a little cautious at the beginning of the year when you look at it, when you are trying to balance the opportunities, as well as the growth in capital. I think we have our -- the way we are looking at our book of business this year, we see ourselves now more comfortable, aiming towards essentially returning all of our earnings in the form of our normal dividends plus share buybacks.

With regard to '14, I think again, it is a little early to give any guidance or thoughts on that. We are very enthusiastic here at AXIS about our opportunities to take advantage of market opportunities. And if they are out there, we will do it. If they aren't, we will be just as happy to give the shareholders the capital back.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Great. Thanks. It looked like, the way I was thinking about it, after First Quarter was that you would see more opportunities potentially to grow in some of the more capital-intensive lines It looks like you grew in some property cat. So that was actually maybe a little more than I expected. Then, I am just trying to reconcile that with the -- with the outlook. Is it really just that, being very conservative, even more so at the beginning of the year? And even though you have more property cat, do you feel good about extending that level of deployment?

A - Albert Benchimol {BIO 2023727 <GO>}

That is a good question. And I think it has to do with efficient use of capital. And I think that I one of the things that I am specially pleased about with regards to the production this quarter, is if you look at it, it is all in diversifying business. We did not add to peak zones. We added new types of risks, we added new geographies.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay.

A - Albert Benchimol {BIO 2023727 <GO>}

So that allows us to make more efficient use of our capital. Obviously, that continues to move us forward, in what we have been telling you is our short-term strategy, which is to add balance and diversification, and overall reduce the volatility of earnings. All of that means that we can use our capital more efficiently. And to the extent that we can use our capital more efficiently, again we are happy to give all the excess back to our shareholders.

Q - Michael Nannizzi {BIO 15198493 <GO>}

A very logical answer. That makes a lot of sense. Thank you. Then just one, if I could. Just on crop[ph], I guess, I noticed we are seeing a lot of folks building out crop reinsurance businesses, and the deltas from 1Q '12 to now in a lot of cases are really significant. How do you think about, or how should we think about whether or not -- and then some of the insurers are talking about really holding the line firm on rate. How do we square all that to make sure that, that the margins, that the new, or really growing reinsurers are securing -- are substantial enough for the risks they are taking?

A - Albert Benchimol {BIO 2023727 <GO>}

Well I think at the end of the day, I don't think that the Ag business is different from any other business. Which is you need to distinguish naive capacity from professional experts. And we started by getting some of the best minds in the agricultural reinsurance business and trying to build, not simply a capacity provider, but rather a partnership with people who need both consistent capacity on the one hand, and an assistance in designing, modeling products and portfolios. So when you look at our business, frankly, we did not do that much of it last year. All together, around $14 million for the full year of excess of loss.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Right.

A - Albert Benchimol {BIO 2023727 <GO>}

Once we brought on our team last summer, we reengaged with a number of these relationships. And today we have increased both on the quarter share and some growth on the excess of loss. I think in terms of pricing, pricing fundamentally for the bulk of the business has been stable. Especially, for again for those users of reinsurance that are the strategic dependents on capacity. There has been a handful of opportunistic quota shares that were able to be done at very good prices, and good for those cedents. And we did not participate in those.

What we are really looking for are partnerships with individuals who need capacity every year, good year, bad year, and who are willing to share, if you would, the economics with us. So on a -- on quota share, I would say generally, stable terms. On excess of loss, clearly, meaningful increases in pricing. In some cases, 60%-plus for those areas of the country that were affected last year.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Very much appreciate the thoughtful answers, Albert. Thank you.

Operator

Our next question comes from Arash Soleimani at KBW.

Q - Arash Soleimani {BIO 18869554 <GO>}

Hello, thanks. Just a couple of quick questions. First, in terms of accident and health growth, to what extent do you expect that to benefit the expense ratio going forward?

A - Joseph Henry {BIO 13390626 <GO>}

Well that is a good question. I think just to put the frame of A&H back in context I think is very important. As we have said all along, the A&H initiative was a multi-year program to establish a global platform. And what we said all along was that we think it will take us an earned premium basis of $300 million to be able to spread our expenses over the premium base, and achieve a combined ratio below 100. And our target is to achieve that, and a positive contribution to the bottom line in 2014.

So that plan is on, and that is still something that we are aiming for. And certainly, our 30% growth this quarter highlighted by very good production in the US reinsurance business, makes us feel very good about that. What I have said all along is that I am actually quite satisfied with the technical ratio of our A&H business. In fact, our technical ratio, which is the loss plus the acquisition expense. That has improved another 2 points this quarter over last year's First Quarter.

The real issue here, is getting the expensive global platform to be serviced by the marginal return. And again in this quarter, we got another 2 point reduction in the G&A ratio year-over-year. So we are making the progress that we want to see, in terms of getting this combined ratio down to below 100, and making positive contributions. There is no question that in 2013, A&H will be net-net a drag on earnings, but it could -- because it will be a combined ratio above 100. But that is consistent with our plan. That is consistent with our expectation. And in my mind, we are still on line to make a positive contribution in '14.

Q - Arash Soleimani {BIO 18869554 <GO>}

Thanks. That's very helpful. And just one follow-up question. In terms of the recent departure of the AIG executives going to Berkshire, I was curious if you have any thoughts on that, if that has any implications for the market?

A - Albert Benchimol {BIO 2023727 <GO>}

Well I think that was recently[ph] announced. I think we will see. We will see what that means. But fundamentally, let's just take one step back. We have been competing with 1,000 pound gorillas from the first day we were born.

Q - Arash Soleimani {BIO 18869554 <GO>}

Right.

A - Albert Benchimol {BIO 2023727 <GO>}

Sometimes they have one name, and sometimes they have a different name. And this is a business where you need to distinguish yourself by the quality of the service, your expertise, and your risk selection. Whoever is in the market, that is still going to be what matters, the quality of our service, our people, our risk selection. And we will continue to compete on that basis.

Q - Arash Soleimani {BIO 18869554 <GO>}

Great. Thanks. That's very helpful. That is all for me.

Operator

Our next question comes from Dan Ferrell at Stern Agee.

Q - Dan Farrell {BIO 4935961 <GO>}

Hello. Good morning.

A - Albert Benchimol {BIO 2023727 <GO>}

Good morning, Dan.

Q - Dan Farrell {BIO 4935961 <GO>}

Just a quick question. I was wondering if you could expand a little bit more on the trends that you are seeing in UK Motor? I know you said that you saw some favorable things going on there. Maybe just add a little more to that?

A - Albert Benchimol {BIO 2023727 <GO>}

Sure. And again, the UK Motor probably needs to be separated into the quota share and excess of loss market, because there has been a lot of volatility around that. Fundamentally, this is a business which continues to improve. So we are happy to participate on a quota share basis, and we have grown that business. Most of the growth that you saw in the First Quarter was there.

We have historically were a meaningful player in the excess of loss market in the UK. Although as you know, a few years ago there has been some developments in court awards moving towards PPO, and Periodic Payment Orders, which essentially kept the liability open for the life of the injured party. We were very concerned by that, because obviously it extended the tail and uncertainty of that risk. And so we made significant cutbacks in our participation in the excess of loss motor business.

However, we also felt that we should find a way to help our clients. And so we worked very hard to try and create new structures, where we could provide the capacity that our clients needed, but in a way that made sense for us. And so we worked very closely with our clients, with the industry, and developed a commutation clause that basically said, we will work with you. We will provide you with capacity. But we would like to be taken out of our liability by the 10th year, as opposed to having an essentially unlimited tail.

A lot of people said, no, the market is good enough. We can keep writing it on this basis. And so, obviously, we were not able to support them. A small percentage of the market said, yes, we are prepared to work on that basis. So I would say that perhaps less than 10% of the UK excess of loss motor market has these, what I would call commutation clauses. And within that segment, we are actually a meaningful player. So we have found a way through a creative product structure to reenter the UK market in a way that makes sense for us.

Q - Dan Farrell {BIO 4935961 <GO>}

Okay. That is helpful detail. Thank you.

Operator

Our next question comes from the Ryan Byrnes at Janney.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Good morning, everybody.

A - Albert Benchimol {BIO 2023727 <GO>}

Good morning, Ryan.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Just quickly, one clarification question on the capital management. Is it net income or operating income that you gauge your, I guess, payout ratio off of?

A - Albert Benchimol {BIO 2023727 <GO>}

We usually think of it as operating income. But I got to tell you, there is no formula here. So we look at our capital. It could be a little bit less, it could be a little bit more. I would -- there could be an opportunity to make -- to buy a large chunk, and we would do that. I wouldn't think of it as that formulaic. But if you needed something, I would use operating income as a model.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Okay. Great. Thank you. Then just my other question was, with the repositioning of more of the US prop cat book, trying taking on more homeowners type risk. Just want to see, how you are viewing the mid-year renewals? And will you be able to get the shift to more homeowners fully in place by this year, or is it a multi-r, or is it a multi-year type event? I want to see how you view the homeowners prop cat market right now?

A - Albert Benchimol {BIO 2023727 <GO>}

Well I think I shared with you in my prepared remarks, we think for the strategic large buyers, I think there is going to be some consistency in the business. I think that it is likely that the Florida dominated, the domestic market is probably going to see some price reductions. Although I think people need to recall that this is probably the best priced reinsurance business. And even after the adjustments that people are contemplating, it should continue to be a very, very good business. Of course, as you know, we are seeing a lot more of capital markets participation in all of that.

So going back to us, on the Florida business. The Florida domestic business is literally less than 1% of our expiring premium. So it is not a major part of our business. We will continue to participate in that. Obviously, we don't see huge opportunities to increase it under the conditions that we have today. So be it.

With regard to the shift between personal lines and commercial lines, there is one thing that we know, it is that relationships matter, and you want to work with your clients. And we will work with our clients to make sure that as we transition our book of business, we do so in a way that gives our clients a fair amount of foresight, and allows them to manage around that. So we are not going to shut down our commercial catastrophe reinsurance business, but we will gradually move it over time. It is not a 2013 target for 100%. You will see more progress being made in '13, more so being made in '14, and so on. But gradually the trend will be absolute.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Great. Thanks for the answers.

Operator

The next question comes from Charles Sebaski at BMO Capital Markets.

Q - Charles Sebaski {BIO 17349221 <GO>}

Good morning. Thanks for taking my call.

A - Albert Benchimol {BIO 2023727 <GO>}

Good morning.

Q - Charles Sebaski {BIO 17349221 <GO>}

Just one follow-up. And I don't know if you provided this, was the growth in the agriculture business, if you gave a breakdown between how much came in the excess of loss versus the proportional?

A - Joseph Henry {BIO 13390626 <GO>}

We didn't give the exact breakdown, but most of it was quota share.

Q - Charles Sebaski {BIO 17349221 <GO>}

Okay. Excellent. Then I just wonder about if there is any additional color on -- I think you said, Joe, that you increased your exposure on European cat at the 1/1 period. I am wondering, on what scale that is, or what P&L change you would be seeing on that exposure shift?

A - Joseph Henry {BIO 13390626 <GO>}

Well we did -- is we just participated a little bit more. I think we were $20 million more of European cat business last year. But in terms of scale, you could see in our P&L schedule on the -- in the financial supplement that -- just bear with me as I pull that out -- there was a bigger increase in the lower layers. So we did participate in some of the lower layers. But we shifted that portfolio again, to try to optimize it. We took down some of the upper layers. We replaced that with some capacity on the lower layers.

Q - Charles Sebaski {BIO 17349221 <GO>}

Okay.

A - Joseph Henry {BIO 13390626 <GO>}

But this continues to be certainly, well within our idea of a balanced global cat portfolio.

Q - Charles Sebaski {BIO 17349221 <GO>}

Okay. Great. That is all I had.

Operator

Our next question comes from Ray Iardella at Macquarie.

Q - Raymond Iardella {BIO 16279337 <GO>}

Thanks. Good morning. I was wondering if you could provide more color on the insurance liability and professional liability. I think you had mentioned in the prepared remarks, you had increased some case reserves. I was just curious, what you are seeing in those books of business?

A - Joseph Henry {BIO 13390626 <GO>}

Yes. For the most part, we had a couple of claims, case reserve changes on a few of the accident years, 2005 and 2008 in particular. And we just decided to get a little bit more conservative with IBNR. However, as you know, we have been releasing IBNR from professional lines for other accident years. So they really netted against each other. We don't see it as a trend. We see it as an unusual situation. Obviously, we are going to keep an eye on it. But I really wouldn't draw any particular attention to it.

Q - Raymond Iardella {BIO 16279337 <GO>}

Okay. Then on the liability side of the --?

A - Joseph Henry {BIO 13390626 <GO>}

Again, the same thing there. We had two claims, and we just decided to strengthen reserves in that line of business. As you know we, in the Fourth Quarter we started a liability reserve release program for insurance. We just, frankly, sat on that in the First Quarter, and recognized the additional case reserve development we had on a few claims. So again, just a few case reserve -- some case reserve activity in two lines in the First Quarter, which we will monitor. But we just decided to take a conservative look and strengthen reserves in both lines.

Q - Raymond Iardella {BIO 16279337 <GO>}

Okay. That's helpful. Thanks again.

A - Joseph Henry {BIO 13390626 <GO>}

You are welcome.

Operator

Our next question comes from Ian Gutterman at Adage.

Q - Ian Gutterman {BIO 3106649 <GO>}

Hello, Albert, I guess my first question is there has been stories in the trade press that you have looked at some Lloyd's syndicates. And obviously, that was a big taboo prior to you joining the Company. I was just -- was wondering if you could talk about your interest in Lloyd's, and how you think about acquisitions?

A - Albert Benchimol {BIO 2023727 <GO>}

That is a very wide range of question, Ian. Let's talk about acquisitions, and Lloyd's in particular. Fundamentally, I like what we have here. I think we have got the right people.

We have got the right officers. We have got the right resources. This Company has no need, for what I would call transformational M&A. We have been very public about the fact that we would gladly look at opportunistic bolt-on acquisitions that would advance one or the other of our initiatives. And as a matter of practice, I try to show Linda everything that is in the market. So I wouldn't read into the fact that we want to see everything that is in the market, as anything other than just being on top of development.

With regard to Lloyd's in particular, we are of the belief that Lloyd's is a particular and unique environment. Not so much because of the business that is there, because the business that is there, is business that fundamentally we have access to through our London market. But the issue is that, it does also provide access to a number of jurisdictions, and that is a positive for us. So we are in fact, exploring whether or not Lloyd's makes sense for us as an additional vehicle, as an additional if you would, licensed piece of paper to allow us to expand in our international expansion.

But for the -- with regard to the book of business at Lloyd's itself, there is actually very little that we would be going after within the Lloyd's market. We already service the US market locally, and we think that is a better way to service it. With regard to the international wholesale lines, we obviously, one of our flagship offices is our London specialty lines office. We already get that. We already access the Canadian market, the Australian market. Locally, we have -- we access the Asia market through our Singapore branch. So we are not looking simply to go in and steal business from Lloyd's. We are looking to use the Lloyd's platform as an opportunity to expand internationally.

Q - Ian Gutterman {BIO 3106649 <GO>}

Great. That is very helpful, actually. My other one is on your comments about diversifying the cat book. And obviously, from a capital standpoint, that is a healthy thing to do. I guess my question is, can you talk a little bit more about how you avoid this sort of diversification aspect, right? Where we see a number of sort of lesser cat companies over the years, follow that strategy and put themselves out of existence, because they diversify into lower turn areas? So can you just talk about how you are confident that you getting high enough turns in areas that are not peak zones?

A - Albert Benchimol {BIO 2023727 <GO>}

That is very important. And in fact, the issue that we have is, if you were to talk to our reinsurance people from Jay on down, one of the things that you are going to be hearing over and over again, is we turn on risk, we turn on risk, we turn on risk. It really is about, are we getting paid for the risk? How this risk fit in the overall portfolio. There is a real focus -- and you have seen the results of that. I mean, when you think about the shift in our portfolio over the last 18 months or so, there is no question that, that has been driven by our desire to have a more balanced, more capital efficient, ultimately more profitable portfolio.

Q - Ian Gutterman {BIO 3106649 <GO>}

Okay. Great. Then I had -- one quick numbers question just to make sure I have got all the puts and takes on the reserve development. I know every quarter there is all these things that maybe are a little non-repeating.

You had the $54 million reported. You had the $16 million new thing from releasing liability, which was offset by the $16 million that went the other way. And there was a $30 million adverse development on cat. So is $84 million the right way to think core releases this quarter? Because that will be a pretty strong number, compared to what we have traditionally seen?

A - Joseph Henry {BIO 13390626 <GO>}

I would never annualize any reserve release number.

Q - Ian Gutterman {BIO 3106649 <GO>}

No. Right. But I was trying to get a sense -- was there -- is there an inference that your reserve releases were maybe stronger than trend in this quarter on a core basis?

A - Joseph Henry {BIO 13390626 <GO>}

Ian, all I want you to take away from this, is that we are comfortable with the totality of our reserves.

Q - Ian Gutterman {BIO 3106649 <GO>}

Great. Got it. Thank you.

Operator

(Operator Instructions) I would like to turn the conference back over to Management for any closing remarks.

A - Albert Benchimol {BIO 2023727 <GO>}

Thank you very much, operator, and thank you all for participating in our quarterly conference call. As you know, there has been much happening at AXIS over the last little while, and we look forward to spending more time explaining it to you and discussing it with you. And as a result of that, we did schedule an Investor Day in New York on June 12, and certainly invite all of you who are interested to participate. If you haven't already been reached, please feel free to call Linda Ventresca, and we will make sure that you have all the details of our Investor Day on June 12 in New York. Thank you, all. Good-bye.

Operator

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