Q4 2020 Earnings Call

Company Participants

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

Other Participants

- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Josh Shanker, Analyst
- Meyer Shields, Analyst
- Ronald Bobman, Analyst
- Yaron Kinar, Analyst

Presentation

Operator

Good morning. Welcome to AXIS Capital Fourth Quarter 2020 Earnings Conference Call. All participants will be in listen-only mode. (Operator Instructions) After today's presentation, there will be an opportunity to ask questions. Please note that this event is being recorded.

I would now like to turn the conference over to Matt Rohrmann, Head of Investor Relations. Please go ahead.

Matt Rohrmann {BIO 15132648 <GO>}

Thank you, Kate. Good morning, ladies and gentlemen. I'm happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the fourth quarter and year ended December 31, 2020.

Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you'd like copies, please visit the Investor Information section of our website at axiscapital.com. We set aside an hour for today's call, which is also available as an audio webcast. This is also available through the Investor Information section of our website. With me today are Albert Benchimol, our President and CEO; and Pete Vogt, our CFO.

Before I turn the call over to Albert, I'll remind everyone that the statements made during this call, including the question-and-answer session, which are not historical facts, may be forward-looking statements. Forward-looking statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from those projected in the forward-looking statements due to a variety of factors, including the risk factors set forth in the company's most recent reports on Form 10-K and Form 10-Q and other reports the company files with the SEC.

This includes the additional risks identified in the cautionary note regarding forward-looking statements in earnings press release issued yesterday evening. We undertake no obligation to publicly update or revise any forward-looking statements. In addition, this presentation may contain non-GAAP financial measures. Reconciliations are included in our earnings press release and financial supplement.

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

Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Matt. Good Morning, everyone. Thank you for joining our fourth quarter conference call.

2020 was a tough year. AXIS and our industry faced the combination of COVID-19, which impacted both our underwriting and investment income, compounded by heightened hurricane activity that made 2020 the fifth costliest cat year on record. Given our presence in the diversifying UK market and global reinsurance business, we could not avoid COVID. But I'm proud of the manner in which AXIS responded to the pandemic. Our team did an outstanding job of sustaining excellent service to our clients and partners in distribution, and we exhibited our values in our support of our colleagues and our communities. We were early in identifying our potential COVID exposures and establishing prudent reserves in the first quarter.

Unfortunately, the pandemic spiked again in the fourth quarter. And recent court judgments also increased the potential cost to the insurance industry. This caused us to take an additional COVID charge in the fourth quarter. While the pandemic is still an ongoing catastrophe event, I believe we've taken a prudent approach to analyzing our exposures and that we have the reserves to reasonably address our potential liability for both short and long-tail related exposures incurred in 2020.

COVID and the various catastrophe events in 2020 materially impacted our financial performance and we delivered disappointing results that unfortunately overshadowed encouraging progress in our core underwriting performance. The fourth quarter of 2020 marked the fifth consecutive quarter and sixth quarter in the last eight in which we delivered significant year-over-year improvement in our current accident year ex-cat combined ratio.

The fourth quarter's accidents -- accident year ex-cat combined ratio of 91.8% was 4.5 points better than that of last year's fourth quarter. And the full-year 2020 accident year ex-cat combined ratio of 92.2% was close to 5 points better than the full-year 2019. We delivered better core underwriting results across nearly all of our lines of business. This encouraging progress reflects the re-underwriting of our book and strategic growth in the more attractive lines where we could achieve above our minimum return targets.

We enter 2021 with a significantly stronger and more balanced book of business, but we also recognized that there is still more to do. In particular, we will continue to take advantage of the market conditions to accelerate our growth in non-cat exposed lines of business to deliver more balance in our results. We will continue to improve the construction of our portfolio to increase our resilience to cat events. And we are in excellent position to do just that.

Across our business, we're capitalizing on favorable market conditions to continue growing in our most attractive markets, while improving terms and conditions, reducing limits and increasing attachment points where appropriate. At the same time, we're continuing to remediate and eliminate unprofitable business and feel very good about the quality of our book heading into 2021. And we believe AXIS is poised to drive profitable growth. I'll provide additional context shortly, but first, I'll pass the floor to Pete, who will walk us through the fourth quarter and year-end financials and then I'll come back to discuss market trends and we'll have our Q&A.

Pete?

Peter Vogt {BIO 17059745 <GO>}

Thank you, Albert, and good morning, everyone.

As Albert noted in his comments, this was a challenging quarter for the company, heavily influenced by COVID-19 and above average natural catastrophes. But it also included strong core underwriting results. During the quarter, we incurred a net loss attributable to common shareholders of $5 million and an annualized ROE of negative 0.4%. The operating loss was $16 million and annualized operating ROE was negative 1.4%.

As previously announced, the quarter's pre-tax catastrophe and weather-related losses, net of reinstatement premiums, were $198 million or 18.4 points on loss ratio. This included a $125 million loss provision for the COVID-19 pandemic, which is in addition to the $235 million loss provision recognized in the first quarter of 2020, resulting in a full-year 2020 COVID charge of $360 million.

The fourth quarter COVID loss provision increased the fourth quarter consolidated combined ratio by 11.6 points, and the full-year COVID loss provision increased the full-year combined ratio by 8.2 points. The fourth quarter COVID loss provision was determined following a detailed review of all lines of business and considered new information in the quarter, including data provided by clients, the global shelter-in-place orders that came into effect in the fourth quarter and outcomes of recent court judgments, including the UK's approved court ruling.

I would like to spend a couple of minutes providing some additional color on our approach to COVID. The $360 million of loss reserves established in 2020 represent our ultimate estimate of losses from direct exposures incurred as of December 31. Most of the reserves are for property coverages and the vast majority of the reserves are IBNR. We also analyzed loss potential from indirect exposures, especially in casualty lines, professional lines and credit lines.

We recognized that while emerging claims in these lines may be more difficult to directly attribute to COVID, the pandemic has caused an economic and legal environment, which will likely lead to an increased frequency of claims in some of these areas. We, therefore, considered a range of potential economic and claims scenarios arising from the pandemic.

We considered these scenarios together with the nature of our exposures, claim notifications we have seen to date, the reduced underlying exposures in some areas, our existing systemic loads, our overall favorable claims emergence in 2020 and that our 2020 loss ratios do not yet reflect all the benefit of the rate improvements that we have achieved over the year.

After this review, we concluded that we have established adequate reserves in the lines of business that have potential indirect exposure from COVID or its economic impact. Given the recent press on the Tokyo Olympics, I remind you that we have exposure to this event. At this moment with the information we have, we expect the Olympics to take place in 2021.

Lastly, I note that our COVID loss estimates are subject to a higher than usual level of uncertainty because of the inherent difficulty in making assumptions regarding COVID due to the lack of comparable historic events, its ongoing nature and far-reaching impacts.

In summary, with the addition of the $360 million recognized in 2020, we believe that our total loss reserves established in 2020, adequately reflects the ultimate estimate of COVID impacts, both direct and indirect, for all lines of business incurred as of December 31. In addition to the COVID loss provision, we experienced other natural catastrophe and weather-related losses, net of reinsurance premiums of $73 million in the quarter or 6.8 loss ratio points. These losses were primarily related to Hurricanes Zeta and Delta and regional weather events in the United States.

As I noted in my opening remarks, COVID losses and above average catastrophe and weather-related losses overshadowed the continued improvement in the core underwriting results. In the quarter, the company produced a current accident year combined ratio, ex-cat and weather of 91.8%, or 4.5 points better than the prior year quarter. And as Albert noted, the full year current accident year combined ratio was better than full-year 2019 by 4.6 points.

In the quarter, our consolidated current accident year loss ratio, ex-cat and weather was 57.4%, a decrease of 4.8 points from the fourth quarter of 2019. For the full year, the ratio was 57.7%, a decrease of close to 3 points from full-year 2019. We reported net favorable prior year reserve development of $7 million in the quarter, largely related to insurance, property and marine as well as reinsurance, credit and surety lines. This compared to $14 million in the fourth quarter of 2019. The consolidated acquisition cost ratio was 21.3%, a decrease of 1 point compared to the fourth quarter of 2019 and mainly attributable to the insurance segment. The full year is also down a point as compared to the prior year. The consolidated G&A ratio was 13.1% in the quarter, an increase of over 1 point compared to the fourth quarter of 2019.

The normalized G&A ratio this quarter was 13.8%. For the full year, our dollars of G&A were down $55 million or 8.7%, from 2019. While much of this decrease can be attributed to the lack of spending due to COVID, we do expect to capture approximately a third of the decrease as pure long-term savings. Overall, operating efficiency and expense control remain important goals of ours and we continue to target G&A ratio in the low-14s for 2021. Fee income from strategic capital partners was $13 million this quarter compared to $23 million in the prior year quarter. The decrease was largely due to lower profit commissions.

Moving to the segments. I'll start with insurance. During the quarter, our current accident year combined ratio, ex-cat and weather decreased by over 1 point. And for the full year, the ratio declined by 5 points from 2019, as the repositioning of the portfolio continued to earn through. The insurance segment reported an increase in gross premiums written of $143 million, or 15% in the fourth quarter. This increase principally came from professional lines, liability and property lines, driven by new business and favorable rate change, and an increase in credit political risk due to some premium adjustments. This is the fifth quarter in a row we have had growth in the insurance segment.

Insurance segment current accident year loss ratio, ex-cat and weather, increased slightly during the quarter as compared to the fourth quarter of 2019, principally reflecting some higher loss activity in the cyber line of business. However, for the full year, we saw a decrease of close to 2 points as compared to the prior year. In the quarter, the acquisition cost ratio improved by 2 points due to changes in business mix, as we have a greater proportion of liability and professional lines business, which carries a lower acquisition cost and less MGA and facilities business, which carries a higher acquisition cost.

Now let me move on to the reinsurance segment. During the quarter, the segment's current accident year combined ratio, ex-cat and weather decreased by almost 8 points, again, as we've made changes to this portfolio. For the full year, the combined ratio, ex-cat and weather is down by 3.5 points.

Reinsurance segment's gross premium written was down $56 million in the quarter, and this is primarily due to decreases. This is primarily attributable to decreases due to timing differences and the non-renewal of certain contracts in a number of lines of business. These decreases were partially offset by increases in liability and professional lines due to premium adjustments primarily related to favorable market conditions. The fourth quarter is the smallest quarter for gross premiums written for reinsurance. So if we look at the full year, gross premiums written are down 13%, as we've made changes in the portfolio to improve balance and profitability of the book.

FINAL

Bloomberg Transcript

The current accident year loss ratio, excluding catastrophes and weather related, decreased by almost 10 points in the fourth quarter compared to the same period in 2019. This is primarily due to improved loss experience in A&H, agriculture and engineering lines, as well as the impact of changes in business mix. The G&A ratio increased by 1.8 points in the quarter, largely attributable to decreases in net premiums earned, the lower fees related to arrangements with strategic capital partners.

Net investment income of $110 million for the quarter was $8 million lower than the fourth quarter of 2019, primarily due to decreases in yields. Year-over-year, investment income from fixed income declined due to the decrease in our portfolio yield, but was partially offset by strong alternative gains in the quarter. Our current book yield is 2.3%, and our new money yield is 1.3%. The duration of our portfolio is approximately 3.3 years. Diluted book value per share increased by $0.34 in the quarter to $55.09. This was principally driven by net unrealized gains, partially offset by net losses and common dividends declared.

That summarizes our fourth quarter results. With that, I'll turn the call back over to Albert.

Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Pete.

And for those joining via webcast, we understand that there was a technical issue and that you missed the opening minutes on that. We deeply apologize for that. But please note that a replay of the webcast will be archived in the Investor Information section of our website to make sure you have access to all of the information.

So let's move on to the third part of our presentation, which is the overview of market conditions and the outlook before we go to the questions. So across both our insurance and reinsurance segments, we saw positive pricing momentum continued during the fourth quarter and into the January 1 renewals. In our insurance book, we saw average rate increases of nearly 18% in the fourth quarter. This compares to 16% in the third quarter, 15% in the second and 10% in the first.

For the full year, our consolidated insurance business averaged rate increases of more than 14% on a gross basis. That's more than double the average rate increase that we saw in 2019. Going into the specifics. In our US division, we saw average rate increases of 17% in the quarter. Within that, excess casualty reported average rate increases of more than 28%, while primary casualty was up more than 12%. E&S property saw increases of more than 21%. Our accident and health units had rate increases of up 8%98. And in our US programs business, which focuses on homogeneous books of smaller accounts, we saw increases of 6%.

Moving to our North American professional lines division. Pricing continued to accelerate and rates there increased by more than 21% in the quarter. Our commercial management solutions unit, average rate increases of more than 30%. We continue to see particularly strong rate action across public D&O, where we're essentially an excess writer as well as private equity, with both up over 40% this quarter.

In addition, privately-held companies was up close to 30% and ancillary lines increased 18%. Separately, we saw rate increases of 34% in our Canadian specialty business and 33% for Bermuda excess. Financial institutions delivered rate increases of more than 20%. Within cyber and tech, we saw increases of close to 14%, as rate accelerated in response to increase in claims related to ransomware, among others. Given recent developments in this line, I expect the cyber market will rally to implement much improved pricing and changes in terms and conditions this year.

Moving to our London-based international insurance division. Rates were up more than 16% on average in the quarter. Renewable energy, where we're a global market leader, was up almost 23%. Professional and casualty lines were also up 23%, and aviation saw increases of about 19%.

Our international marine, political risks and property books, all averaged in the low double digits. But within that, however, marine cargo once again continue to outperform and was up 20%, while global property and construction were also both up close to 20%. Overall, for the entire segment, in the quarter, only 98% of our total insurance business renewed flat to up and new business pricing is at least as good as and often better than renewal business. More than 60% of the premiums renewed experienced rate increases in excess of 10%. And within that, 40% of our portfolio had rate increases in excess of 20%.

Let's move on to reinsurance. Only a small percentage of our reinsurance book renewed in the fourth quarter, so it's better to look at the full year. And there we estimate that for full-year 2020, we averaged reinsurance rate increases of about 8%. This accelerated into the January 1 renewals, where we renewed close to half of our reinsurance book with average rate increases of about 12%.

The renewal season started early. There was much talk of discipline and demands for better terms. But in the final two weeks, most deals got done in an orderly fashion. We expect new capacity as both incumbents and new entrants had some impact, especially in cat retro covers where new entrants wrote a meaningful amount of business. Terms and conditions did improve, but it fell well short of being a hard market.

Looking across geographies within North America, we estimate the average pure rate increase of about 13%. Almost all lines achieved double-digit increases. Professional lines and liability were both up over 15%. We continue to see firming market conditions in property and catastrophe, with better rate momentum at regional levels as nationwide companies varied by risk profile.

In our Global Markets division, pricing also averaged 30%, with aviation the strongest at over 40%. Within our EMEA and LatAm division, the long downward trend in rates appears to have finally reversed on a broader basis, but pricing still shows much room for improvement. Rates were up 10% on average, with liability and professional lines the strongest, while property and catastrophe were still separately in the single digits.

In APAC, we saw average increases in the low single digits, with catastrophe rates up in the high single digits. At AXIS, we enter the January one renewals with perhaps less optimism than many industry observers. And so for us, this meant that we achieve pricing that was a bit better than our expectation in some cases, bit worse than others, but generally consistent with the moderate overall improvement that we had anticipated. In the end, we felt that we were able to execute well on our renewal strategy and that our portfolio is better positioned as we enter 2021.

For us, that means close to a flat premium production year-over-year and about 10% less premium in property and property cat, notwithstanding the achieved rate increases as we continue to reduce our overall exposure to cat volatility. While the pricing momentum that we're seeing in both insurance and reinsurance is encouraging, we still believe in multi-year correction as needed.

There continues to be clear evidence of a catastrophic impact that climate change is having on weather, property, agriculture and other lines. According to industry data, three of the five worst cat years on record happened in the last four years. And 2020 tide is the hottest year on record, and also saw a record number of Atlantic storms.

Separately, we're still in the midst of a period of social inflation and increasing cyber threats, including ransomware. And there remain many uncertainties on how society will emerge from COVID. These trends and ongoing uncertainties must be reflected both in our pricing and in prudent reserving, all of which means that there remains a clear motivation to sustain strong pricing and reviews of policy wordings for the foreseeable future.

In this current phase of the cycle, most, if not all of our growth has been within the insurance business, as market conditions there have been much more favorable. And in the short term, we anticipate that much of our growth will continue to come from insurance, particularly in the non-cat exposed lines of business. We're looking at our hybrid model as a differentiator, providing a broad range of opportunity from which to choose the best possible outcomes, and allocate capital to the areas offering the best returns as we build our optimized one AXIS portfolio.

We look to the future with optimism. We feel very good about the book of business that we have and we're confident that we'll be able to continue to improve our results. We've got a terrific team, strong and lasting relationships with our producers, and are growing in the areas where we want to grow. We believe that the continued positive momentum that we're seeing in our underlying performance provides evidence that our strategy is working. Our team is disciplined, focused, and intent on driving meaningful profitable results in 2021.

And with that, I'll open the line for questions. Operator

Questions And Answers

Operator

We will now begin the question and answer session. (Operator Instructions) Our first question is from Brian Meredith from UBS. Go ahead.

Q - Brian Meredith {BIO 3108204 <GO>}

Thank you. A couple of questions here. First one, Albert, wonder if you could just dig in a little bit more in your cyber exposure. I know you're a leader in that market. I understand the ransomware situation. How do you protect yourself in that market, given kind of the escalating kind of loss trend we're seeing there?

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

Brian, that's a very timely question. And obviously, as you know, we have seen a little bit more ransomware attacks and we did increase the loss ratio in the fourth quarter for that. In fact, that was the driver, if you would, for the loss ratio in the insurance division. But we've, obviously, because of our leadership in that line of business, we've got a lot of technical expertise in that line. And we've actually been working on our cyber portfolio since probably the middle of the year. We look at a number of models, and we've been looking at some changes. And there's a lot of stuff that we've done. Obviously, we've changed our underwriting guidelines. We're making sure that our customers have much better cyber hygiene. We've partnered with a number of tech companies to ensure that our clients are both better educated about cyber risk prevention as well as recovery.

We increased prices. We've changed terms and conditions. But we've also bought more protection. So last year, we had a 55% quota share, plus the XOL ag. This year, we increased that to a 65% quota share and we bought more XOL ag on it. So, I think we've done a very good job of both identifying the issues early, making clear changes to our approach and buying more protection. So, I think we're entering 2021 in a good place with regard to cyber.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thanks. And then my next question on the insurance segment, a little more broadly here. Looking at underlying loss ratios and what's going on there, improved, call it about 100 basis points, 150 basis points year-over-year, but you're getting rate on rate. And I assume loss trend is nowhere close to where rate is right now. I mean, as we look into 2021, should we expect some pretty meaningful underlying loss ratio improvement?

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

Well, the first thing I want to answer is that my lawyer is listening. And the last thing he is going to let me do is give me some documents [ph] (Technical Difficulty). But that said, we've had two good years now of rate, 7% in '19, 14% in '20. And as you've heard, Pete's talked about it, we took a very prudent approach in 2019 in view of some of the uncertainties, both relating to the actual claims emergence given COVID and the fact that we wanted to make sure that we had adequate reserves at the end of the year.

And you've heard me speak just a few minutes ago about all of the uncertainties that remain today with regard to social inflation, with regard to the uncertainties around COVID and so on and so forth. And while, clearly, we believe that the rate increase that we're getting are ahead of trend, we think that the right call is to also prudently reserve until we have more clarity on those lines. So the answer is yes. We expect to continue to make good progress. But I wouldn't ask you to use a formulaic approach to 14% minus loss trends, gives you a big reduction in loss ratios.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thank you.

Operator

Our next question is from Meyer Shields from KBW. Go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Similar questions as Brian's, I guess. Albert, can you give us some insight in terms of the cyber loss ratio increase? Was that on 4Q losses? Was that an adjustment to the full-year loss ratio?

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

That's a fair point. Pete, you can jump in on that.

A - Peter Vogt {BIO 17059745 <GO>}

Yeah. Thanks, Albert. Hey, Meyer. This is Pete. Yeah, we did look at our full year of losses for cyber and a loss ratio we pick reflective what we think the full year experience would be. I don't like to use words like catch-up or whatnot. But we took a view as to what we were seeing throughout the full year. So, I think a little heavy in the quarter. But overall, we're comfortable with the full-year view we have on cyber and what we've put up. And we feel comfortable with all the actions the underwriters have taken going into 2021.

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

For [ph] cyber, loss number, we still showed meaningful improvement in year-over-year loss ratios for our insurance division.

Q - Meyer Shields {BIO 4281064 <GO>}

Right. I want to make sure that we shouldn't expect the cyber issue to offset loss ratio improvement in '21.

A - Peter Vogt {BIO 17059745 <GO>}

Yeah. I think the -- what we saw in the quarter was about 2 points due to cyber and I wouldn't expect to see that type of impact going forward every quarter, Meyer.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. And then this is sort of related. But I was hoping you could update us on how we should think about loss trend for lines like cyber and based on your recent report for catastrophe losses?

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

Could you repeat that? I lost the last half of your question.

Q - Meyer Shields {BIO 4281064 <GO>}

So, I just want to get a sense as to how we should think about loss trend for lines like cyber and you recently published a report on sort of long-term climate change impacts. I just want to get a sense in terms of recognizing the hesitation of the formulaic loss ratio model. But how should we think about trends for these one-off lines?

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

So, our expectation, actually, is that we're going to be seeing pricing increases in cyber anywhere from 10%, 25%, maybe even more as we go through. We're reducing limits, decreasing attachment points, all of the things that you've been hearing us and other leaders of the industry make. So, we think we'll be able to use all of those methodologies to both manage "loss trend", but also make sure there's more premium to reflect that.

With regards to catastrophe, I think our message on cat, which is that exposure fighting nuts [ph]. And so our view is that we just need to have less net cat exposure as we move forward because I think we're changing and the world is changing. And I think it's very difficult to project with any accuracy the impact of climate change on frequency and severity.

And so from our perspective, we're obviously updating our models to assume a net shift up in loss curves, and we're responding to that with both increased pricing and less exposure to property, property-cat. Our goal is to make property, property-cat a smaller percentage of our overall book to make sure that we generate sufficient profits in other lines so that even if profitability and property is not where we want it to be, we don't let it drag down the entire company.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Perfect. Thanks so much.

Operator

Our next question is from Yaron Kinar from Goldman Sachs. Go ahead.

Q - Yaron Kinar {BIO 17146197 <GO>}

Hi. Good morning. Going back to the cyber question or set of questions. Can you maybe talk about what the size of the overall portfolio is? And then with the price actions and the changes that you're making in the portfolio, would you expect that portfolio to grow into next year? Or could there be some retrenchment? And then maybe similarly, would you expect the loss ratio on that portfolio to remain relatively stable to kind of where you ended 2020? Or would you expect some changes there?

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

So, there is a couple of things. First of all, as I mentioned earlier, we use a fair amount of reinsurance on this thing and we're increasing that as we're going forward. Secondly, we are going to be reducing the amount of units that we're going to be taking in terms of risk in 2021. The volume is really going to be a question of how much rate is ahead of our reduction unit. But net-net, you can expect us to reduce that. We think we've got a good number for the loss ratio in 2020. I think we reflected everything we knew on that line. But let's be honest. We are going to have to see how that year develops and make sure that we reserve appropriately for it.

I don't know if you want to add anything to that.

A - Peter Vogt {BIO 17059745 <GO>}

No, that sounds good, Albert. I would say that we acknowledged the risk in that business. That's why we increased our quota share back up to 65% and bought the sideways -- additional sideways protection. But again, I think we're comfortable with the loss ratio that we have for 2020. And we know the underwriters are getting rate as we go into 2021 and they are improving terms and conditions. So, we feel comfortable going forward, but it's obviously a lot of business to keep an eye on.

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

And it's probably worth mentioning that because we use a lot, I mean, just to put thing in scale here. We are probably going to end up with what, somewhere between 125, maybe a little bit more of net earned premium in cyber next year. It's not a huge, huge line for us on a net basis. We write a lot of it, but we cede a lot of it too.

Q - Yaron Kinar {BIO 17146197 <GO>}

Got it. That's helpful. And then my second question. I apologize if you touched on it. I did have some technical difficulties. PMLs, I think they increased both year-over-year and sequentially. Can you maybe talk about what drove those increases?

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

Yeah, I wouldn't make much of the 1/1 PMLs because, obviously, we renew our reinsurance in May. And the big increase there is the fact that we non-renewed a couple of ag and XOL treaties at 1/1. Obviously, we've got a good five months, at least in front of us to manage the wind portfolio. So it really matters is where the portfolio ends up at June 1, and what kind of reinsurance we buy at May 15, which is when we renew ours. So, I wouldn't read -- I wouldn't read excessively into that right now. As you know, if you look at our numbers, we are writing less property. Certainly, we're writing less property than we're getting rate. So on a unit basis, that continues to come down.

Q - Yaron Kinar {BIO 17146197 <GO>}

That makes sense. Thank you.

Operator

Our next question is from Elyse Greenspan from Wells Fargo Securities. Go ahead.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi. Thanks. Good morning. My first question on, Albert, I think in your prepared remarks, you pointed to, when talking about reinsurance that you pointed to flat premiums. And you said you were down around 10% in property cat at 1/1. I just wanted to make sure I got those numbers correct. And if those numbers are correct and that was kind of all-in reinsurance statement unless we see material changes, I guess, during other seasons of the year, would you expect that book to be kind of closer to -- close to cloud [ph], I guess is what you're saying for 2021, the reinsurance book until?

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

Yeah, my expectation is that we're going to write less gross exposures going forward. Obviously, price, we're going to be pushing for price everywhere that we can. But net-net, that portfolio should have less gross exposures as we go through the year. We still have obviously the important renewal seasons of April, May, June and July.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. Even the --

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

That was reinsurance, by the way. The 10% was a reference to my -- to the January 1 renewals

Q - Elyse Greenspan {BIO 17263315 <GO>}

Yeah. I just -- like, I guess if conditions remain the same. But then on the casualty, so if you are -- if property was down 10 at 1/1, obviously, we'll see what happens the rest of the year. I guess you saw, like somewhat of growth on the casualty side to kind of net to kind of a flat overall level. Am I thinking about that, right?

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

That is. And it's consistent with the strategy that we've been sharing with you, which is that we want to make -- there's a lot of good property written, business to be written, by the way. And I don't want anybody to broad-brush property, property-cat. But I think that we have to recognize the inherent volatility in property. And so we think that there's an appropriate amount of property that we could take in our book as a percentage. And as we can grow what is now looking to be attractive casualty, professional lines and other non-cat exposed business, we're going to use that as an opportunity. And perhaps, Elyse, if you'd allow me a little editorializing, this is not the first time we've talked about the fact that we want to see more balance in our portfolio.

The difference or the issue is that over the last two years, three years, we've been a little cautious about what we were seeing in professional and liability lines. And obviously, I think that our judgment, I think has now been proven when you're seeing a lot of people increase their reserves in '17, '18, '19, for those lines. And while we very much wanted to rebalance the portfolio, we saw that then was the wrong time. I think that now what we're seeing in '20 and into '21, we think that we're seeing a much better relative value opportunity for us in professional lines and casualty and other non-cat exposed lines. And so we think that we really have a great opportunity for us to accelerate that rebalancing, that the market did not really allow us to do over the last two years, three years.

A - Peter Vogt {BIO 17059745 <GO>}

Okay. That's part of reserve [ph].

Q - Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. And then my second question was on reserves. So, I think you guys have pointed out that you released -- some of the lines that you've released reserve that in the fourth quarter. And I know during some other quarters of the year, you've taken action, right, to strengthen up some of your liability lines. Were there any lines that you strengthened in the fourth quarter? Or was it not material enough to call out?

A - Peter Vogt {BIO 17059745 <GO>}

Hey, Elyse. This is Pete. Yeah, I can handle that, Albert. Yeah, Elyse, probably the only line we strengthened in the fourth quarter that's worth calling out is we did strengthen the insurance professional lines. And so we did that in the quarter. And that kind of offset the positives we saw on the lines I called out in my comments, the reinsurance, credit and surety and the insurance, marine and property. And I guess, what I'd say overall, if I look back on the full year, which I might suspect you'd want to know about. If I look at the full year -- for the full year, we strengthened actually both, professional lines and liability over the course of the full year. And we still showed positive PYD because with all the other lines of business we had, we had positive PYD coming out of other lines that offset the increases we didn't, pro lines and liability. And as I look at it, for the calendar year, we increased pro lines and liability in total with reinsurance and insurance just over $100 million. And that really was focused on accident years '17, '18, '19

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. That's helpful. And then one more. You guys have obviously been running down right on the run-off of the Novae portfolio that's been impacting your margin. Is there any run-off that we still need to think about for 2021?

A - Peter Vogt {BIO 17059745 <GO>}

No, that's really gone. I mean, there is a little bit of UPR left, but it's less than $10 million. So that's insignificant in the grand scheme. So, we're glad that's behind us, Elyse.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. Thanks for the color.

Operator

Our next question is from Josh Shanker from Bank of America. Go ahead.

Q - Josh Shanker {BIO 5292022 <GO>}

Yeah. Thank you. I appreciate the time. This is a theoretical question, I guess. If you look at a year of writing business and building a portfolio, given on COVID and cats and hard to measure what the real ROE of the business is. But when you think about the portfolio you've built as of January 1, 2021, how much better do you think the ROE on that book of business is than the business you had one year ago for normalization for cats and COVID and whatnot? Or maybe even over a three-year period, how much better design you can -- your portfolios were more efficient, if that's the right word?

A - Peter Vogt {BIO 17059745 <GO>}

Albert, you're on mute.

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

So the first thing that I would say is the biggest impact needs to be interest rates because, obviously, that has a factor on every line of business that you look at. And then the second issue is the loss trends that you have. There's no question that other than COVID, pricing is ahead of loss trends in almost every line. If I'm looking at the business that we are writing today, based on what we've achieved, we're feeling reasonably comfortable that this business should earn-out to a double-digit ROE. And I say earn-out, obviously, because we're writing it today and this thing gets out over a period of time. I would say that, between last year and this year, the rate increases have allowed us to absorb the reduction in interest rates and the loss trends. And end up at about where we thought we were at the beginning of last year when we did not know about the reduction in interest rates or COVID.

Q - Josh Shanker {BIO 5292022 <GO>}

Okay. So let's assume that's right and that the book today is a double-digit interest rate business. I guess, take COVID out of the equation, what do you think it was one year ago?

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

So at about this time one year -- and I don't know if it was you or somebody else, but I remember answering that. The business that we were writing at January 1 of last year was priced to deliver a double-digit ROE. And so we felt that. Now, since then, what happened, we had a one in a 100 pandemic event. We had a cat experience that was probably close to one standard deviation away from the mean. We had lower interest rates. So those things that ultimately were such that we were not able to deliver that double-digit ROE.

But if you look at our book of business today versus last year, I would say that on a mean basis, on a price basis, it looks better. When you look at it from the perspective of just to give you some statistical model analysis, the probability of breakeven has improved, the probability -- the coefficient of variation and the distribution has improved. The one in 10 has improved. So all factors in the portfolio have improved on a price basis year-over-year after we fully reflected the trends and the lower interest rates, as well as the pricing and the various actions that we've taken to improve the portfolio during the year.

Q - Josh Shanker {BIO 5292022 <GO>}

And let's take like individual lines like cyber or D&O or whatnot, how much of your return is based on portfolio construction versus being a better underwriter than the next guy? And so your D&O business will have several 100 basis points of better return than somebody else's. Your cyber business will have several 100 basis points, better points than somebody else's. How much is risk selection a important part of that sort of double-digit ROE goal? And how much is it creating the right portfolio?

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

So, I think it's a combination of both. I mean, at the end of the day, if we don't do a good risk selection, we don't get good line results and then it's the allocation of the distribution. And by the way, Josh, you've actually identified the way we do our planning, which is we do individual bottom-up reviews of the individual portfolios and what we can do to improve each one of them. And then we bring them together and compare the relative returns and volatilities, and then we try to combine them to get the best optimized distribution of doing it. So, I think there's a fair amount that's required to do that. And I don't want to get into a lot of weird numbers. I'm just going to give you one. Our brokers tell us that with regard to quota share, we generally get very generous ceding commissions compared to the other people in the industry, which leads us to believe that our reinsurers are very happy to take a quota share of our business.

Q - Josh Shanker {BIO 5292022 <GO>}

That certainly makes sense. I appreciate the answers, and good luck in the New Year.

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

Thank you, sir.

Operator

Our next question is from Ron Bobman from Capital Returns. Go ahead.

Q - Ronald Bobman {BIO 17308423 <GO>}

Hi. Good morning. I hope everyone's well. I had a couple of reinsurance protection questions. The reinsurance asset, I guess, are recoverable against COVID losses. I'm wondering what sort of magnitude the COVID reinsurance recoverable asset is at year end?

A - Peter Vogt {BIO 17059745 <GO>}

Ron, I don't have that number right at my fingertips. But we do have some reinsurance recoverable specifically on our per risk contracts on the insurance side. But we can follow up with you on the exact number.

Q - Ronald Bobman {BIO 17308423 <GO>}

Okay. Thanks. And then unrelated, but also sort of reinsurance recoverable. There was some disburse -- the reinsurance asset and the program. On the cyber business, the quota share that was referenced a couple of times in the Q&A and in the presentation, are there any sort of like loss ratio caps or event limits that constrain that? Or is it -- should we just assume at 65% protection on all losses?

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

So some have caps, some don't. And then, of course, on top of that, we've got the XOL.

Q - Ronald Bobman {BIO 17308423 <GO>}

Okay. Could you describe generally? I'm not looking for terms, but like, generally, what type of caps?

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

They're multiples of the premium. So that's basically loss ratio caps...

Q - Ronald Bobman {BIO 17308423 <GO>}

Got you.

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

...which we feel are very comfortable and give us a lot of comfort in terms of getting protections across the curve.

Q - Ronald Bobman {BIO 17308423 <GO>}

Okay, Thanks, Albert.

A - Peter Vogt {BIO 17059745 <GO>}

Thanks, Ron.

Q - Ronald Bobman {BIO 17308423 <GO>}

That's it.

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

Good.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Albert Benchimol for closing remarks.

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

Thank you, operator. And thank you to everybody for participating and for your time this morning. I think we've addressed all the big points.

If you don't mind, I would like to take a minute to express my appreciation to our team and to all of our colleagues. I continue to be inspired by the commitment and resilience that you're showing in the face of a very difficult year. And as I've said before, in one of the worst years, we've seen the best of AXIS. And I have you all to thank for that.

And to all of our investors and our analysts, just to remind you of our commitment, we are absolutely committed to deliver superior returns. We've been working very hard over the last several years to change the portfolio. We make no excuses. 2020 was what it was. But we also understand the unique impacts. And we feel that the underlying improvements in our portfolio give us a lot of confidence that we can deliver in 2021. So, thank you to everybody. And we look forward to keeping you updated with our progress.

Operator, this ends our conference call.

Operator

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