Q4 2013 Earnings Call

Company Participants

- Albert Benchimol, CEO, President
- Joe Henry, CFO
- Linda Ventresca, CDO

Other Participants

- Charles Sebaski, Analyst
- Clifford Gallant, Analyst
- Dan Farrell, Analyst
- Ian Gutterman, Analyst
- Josh Shanker, Analyst
- Meyer Shields, Analyst
- Mike Nannizzi, Analyst
- Ryan Byrnes, Analyst
- Vinay Misquith, Analyst

Presentation

Operator

Good morning. Welcome to the AXIS Capital Q4 2013 earnings conference call.

(Operator Instructions) Please note this event is being recorded.

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

Linda Ventresca {BIO 5930519 <GO>}

Thank you, Amy, and 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 Fourth Quarter and the year ended December 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 United States, and the international number is 412-317-0088. The conference code for both replay dial-in numbers is 10039141.

With me on today's call are Albert Benchimol, our President and CEO; and Joe Henry, our CFO.

Before I turn the call over to Albert, I will remind everyone that 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 estimate 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; evaluation 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 conditions.

These statements involve risks, uncertainties and assumptions which could cause actual results to differ materially from our expectations.

For discussion of these matters please refer to the Risk Factors 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'd like to turn the call over to Albert.

Albert Benchimol {BIO 2023727 <GO>}

Thank you, Linda.

Good morning, everyone, and thank you for joining our call. On balance, we delivered a good quarter and a good year, benefiting from strong diversifying growth, improved pricing in many lines, lower cat activity, continued reserve releases and strong performance in our equities and alternative investments.

After-tax operating income for the quarter was $159 million, and annualized ROE was 12.3% on an operating basis. Our gross written premiums are up 10%.

This is a product of our continued effort on two fronts. First, we've shown strong growth in improving market segments, particularly in the US. And second, we are seeing ongoing returns from the substantial investments we made in new initiatives of recent months and years.

For the year, we reported a 13% increase in gross written premiums, a combined ratio of 91% operating ROE of 12.1%, and operating income of $633 million, as compared to ROE of 8.2% and operating income of $422 million last year. We grew diluted book value per share, adjusted for dividends, by 8% and returned substantially all of our income to our shareholders through the repurchase of stock and a growing stream of dividends.

While it was a good year overall, we know we can do better. Our Second Quarter was impacted by an accumulation of small and mid-sized global cats and weather events.

And this Fourth Quarter was adversely impacted by exposure to rising claims costs for the US D&O business in recent accident years. I assure you that we are all focused on making the changes in our portfolio as necessary to reduce the likelihood of these types of issues.

That said, it is a reflection of the strength of our Company that these disappointments were easily absorbed without significant impact on our overall financial performance, that we took the necessary actions to address them, and finished the year stronger than ever.

We face the future with confidence and optimism. Joe will take you through our results in some detail, and I will return with market commentary and outlook.

Joe?

Joe Henry {BIO 13390626 <GO>}

Thank you, Albert. Good morning, everyone.

During the quarter, we generated good results with an annualized operating ROE of 12.3%. In addition, quarterly diluted book value per common share, a key metric in measuring the value we generate for our shareholders, increased by $1.20 per share, or almost 3% in the quarter.

Our results benefited from a very benign quarter with respect to natural catastrophe and weather-related losses, compared to the same quarter last year which was significantly impacted by Storm Sandy.

In addition, the continued growth in our book of business and favorable prior-year reserve development contributed positively to our results, but were partially offset by an increase in large and attritional losses incurred in property lines effecting both segments, our insurance US D&O line, and our reinsurance segment's agricultural line. The D&O losses incurred also led to an associated increase in the underlying loss ratios for that line of business.

For the full 2013 year, we produced underwriting income of $428 million and posted an operating ROE in excess of 12%. Our diluted book value per common share increased by $2.83, or almost 7% for the year.

Moving into the details of the income statement, our Fourth Quarter gross premiums written were up 10%, to $826 million, with growth emanating from both of our segments.

In our Insurance segment, our top line was up $26 million, or 5%, reflecting a continuation of the trends noted throughout the year. The Accident and Health line continued to contribute substantially to top-line growth during the quarter, bringing the annual increase in this line to almost $108 million.

Growth in our Non-US Professional Lines business reflects our continued global expansion. Liability also continued to show growth, driven by the US wholesale excess casualty market.

These increases were partially offset by reductions in marine and aviation, which were driven by some rate reductions and timing differences.

Our Property Line showed a decrease in gross premiums written, driven by the previously-discussed reductions in cat-exposed business, written through MGAs, a repositioning of this book, which has now been completed.

In Reinsurance, our top line was up $47 million, or 27%. Growth was driven by professional lines reflecting new business with a significant cedent.

New business was also noted in the property lines. These increases were partially offset by decreases in agriculture and motor lines, due to negative premium adjustments as less business was written by our cedants than initially expected.

2012 included reinstatement premiums related to Storm Sandy, which drove the current quarter's decrease in the Property Catastrophe line, while Engineering was impacted by the non-renewal of a large treaty.

For the full year, we reported gross premiums written of $4.697 billion, an increase of $557 million, or 13%, compared to last year. Our insurance segment contributed $2.559 billion, an increase of 11% for the year, while our reinsurance segment increased by 17% to report gross premiums written of $2.138 billion.

Our quarterly consolidated net written premiums written were up 25%, exceeding the growth rate for gross premiums written. Similar to prior quarters, the difference is driven by a number of factors, with changes in reinsurance purchasing in our insurance segment having the biggest impact.

This included reductions in the quarter share session rates for significant portions of our professional lines and liability books, a reduction in the cost of our property per risk and property cat protections, and higher retentions for both property and Marine. Changes in business mix with increased writings in lines of business where we did not purchase significant reinsurance also contributed.

Our net premiums earned were up 10% for the quarter, with growth in both Insurance and Reinsurance segments. Insurance increased by 18%, primarily driven by prior-quarters' premium growth in the property lines and continued expansion of our Accident and Health business.

Reinsurance growth of 4% primarily reflects the annual year-to-date increase in the agricultural line. Our Fourth Quarter consolidated Accident year loss ratio decreased 23.3 points, from 86.4% to 63.1%, compared to the same period of last year, primarily due to the decrease in the national catastrophe and weather-related losses mentioned earlier.

The current quarter's loss ratio includes no significant natural catastrophe or weather-related losses, with a recognition of $5 million of weather-related pre-tax losses being more than offset by favorable development of $10 million on losses related to weather events incurred earlier in the year.

In contrast, the comparative quarter included losses of $303 million, net of reinstatements, primarily related to Storm Sandy, which contributed 35.4 points to the Fourth Quarter 2012 ratio.

After adjusting for the impact of these items, our current accident year loss ratio increased by 12.6 points quarter on quarter. Increases were noted in both Insurance and Reinsurance segments.

Excluding the impact of natural catastrophe and weather-related losses, our Insurance segment current accident year loss ratio increased by 17.8 points. The increase was driven by two primary factors.

First, we experienced an increased level of large and attritional losses, primarily in our US D&O and property lines. Secondly, the recent claim experience observed in the D&O lines has led us to increase our 2013 underlying loss ratios for this line of business.

Similarly, after making the natural catastrophe and weather-related adjustments, our Reinsurance segment experienced an 8-point increase in the current accident year loss ratio. This increase was led by an increase in large and attritional losses in our Property Line business and large losses in our Agricultural line.

Agricultural losses related to the impact of unfavorable weather conditions and commodity pricing in the US, as well as natural catastrophes in India. A change in the business mix also contributed to the increase, although to a lesser extent.

For the full year 2013, the change in the current accident year loss ratio is less pronounced. For the year, the consolidated accident year loss ratio decreased by 5 points, from 68.5% to 63.5%.

After adjusting for the natural catastrophe and weather-related losses, which contributed 5.4 points and 12.7 points to the 2013 and 2012 loss ratios, respectively, the current accident year loss ratio increased by 2.3 points. The increase can be attributed to a change in the mix of business, the increase in the amount of large and attritional losses incurred relative to last year, and the strengthening of the insurance D&O lines.

Turning to loss reserves established in prior years, we continue to benefit from net favorable development, which aggregated to a net $43 million this quarter. Short-sale classes in both segments contributed $43 million of this balance, primarily reflecting better-than-expected loss emergence.

During the quarter, we continue to give weight to actuarial methods that reflect our favorable experience for liability reinsurance business, which contributed a further $20 million of favorable development. Our Motor and Credit and Political lines contributed an additional $18 million.

The favorable experience was partially offset by adverse development in our insurance D&O line. Our total prior-year losses relating to Professional lines increased by $30 million following adverse development in our Insurance segment on the 2011 and 2012 accident years, US D&O business.

We've had a number of movements in our Professional lines book for the quarter and for the year, and I would like to take the time now to review with you. First, as a broad comment, our Professional lines reserves for the 2010 and prior accident year have held up well over time.

We have only had to take specific actions with respect to a few claims related to the credit crisis impacted business. This was the case in the Second Quarter of the year. There has been no further adverse development in the 2010 and prior reserves in either the third or the Fourth Quarter of 2013.

However, going into the second half of the year, claims started to trend up in our US D&O book for 2011 and 2012. We made some adjustments to prior years, but these were not material to our results in the context of overall favorable development for the Professional lines portfolio.

In the Fourth Quarter, higher levels of claim activity continued. This caused us to perform a deep dive into the entire US D&O book, the net result of which was an adjustment in our view of the loss experience for that book for 2011 through 2013.

Again, during the quarter, we added $32 million to prior-year reserves and another $30 million to our full-year estimate for 2013. The $30 million Fourth Quarter addition contributed 70 (sic; 7 points, see comments at end) to the Fourth Quarter loss ratio, but only about 1.5 points to the full-year loss ratio.

We are comfortable that we have reacted quickly and prudently to the information at hand. Our Professional lines book has nearly $700 million (sic $474 million; see comments at end) in IBNR on $1.1 billion of net premiums earned for the 2011 and 2012 years.

And our 2013 year is currently reserved at a 76% loss ratio, substantially all of which is IBNR. Our full-year 2013 favorable development was $219 million, which compares to $245 million recognized in 2012.

During the Fourth Quarter, our acquisition cost ratio increased by 1.8 points quarter over quarter, from 16.8% to 18.6%, with increases noted in both segments.

Insurance segment increase is primarily driven by reduced commissions received due to changes in our reinsurance programs discussed previously, as well as mix-of-business changes which were partially offset by decreases due to a reduction in the business written through MGAs.

The Reinsurance segment increase is driven by a higher acquisition cost paid on certain lines of business, which includes the shift in the mix of business written towards proportional lines which carry a higher acquisition cost ratio.

The increases in general administrative expenses were primarily driven by personnel-related expenses driven by higher headcount, as well as the professional and business costs related to various growth initiatives across the company.

The increase in G&A expenses was more than offset by the growth in net earned premiums which reduced our overall G&A ratio compared to the prior-year quarter. Taken together, these items produced an underwriting income of $94 million and a combined ratio of 92.5 for the quarter.

Net investment income was $114 million for the quarter, up from $103 million in the Third Quarter, and up from prior-year quarter's $87 million. The most significant driver of the increase was the contribution to net investment income by our Other Investments portfolio.

Other Investments contributed $41 million during the quarter versus $32 million in the Third Quarter and $15 million in the Fourth Quarter of last year. The majority of our Other Investments portfolio is hedge funds, which benefited from the strong equity markets during the Fourth Quarter and throughout 2013.

Income from our Fixed Maturity portfolios, including cash and short-term investments, was $78 million for the quarter, similar to last quarter's $75 million and $76 million in the prior-year quarter. Net investment income for the year was a $409 million, 7% higher than last year's $381 million.

Similar to the quarterly movements, the increase in annual net investment income is primarily due to the contributions from our Other Investments portfolio.

In the aggregate, the total return on our cash and investment portfolio for the quarter was 0.9%. For the year, the total return on our cash and investments portfolio was 1.6%.

The positive total returns for the current quarter and the year were driven by strong returns from our equity and hedge fund holdings, tempered by price declines on our Fixed Maturity portfolio caused by rising global interest rates. Rising global interest rates caused the yield to maturity to increase to 2.3% from 1.6% at the end of last year.

We continue to hold a high-quality, well-diversified portfolio with cash and invested assets totaling $14.8 billion at year end, consistent with the prior-year quarter and up $0.4 billion from a year ago. The duration of our Fixed Maturity portfolio was 3.2 years at year end, consistent with the prior quarter and up slightly from 3.0 years at the end of last year. Throughout 2013, our portfolio maintained a weighted average credit rating of AA minus.

Net unrealized gains on the portfolio decreased by $5 million during the quarter and by $240 million during the year to $135 million at year end. These movements were driven by rising global interest rates during 2013, offset partly by the strong performance of global equity markets and by spread tightening on the US high-yield corporate debt portfolio.

Our total capital at December 31, 2013, was $6.8 billion, including $1 billion of long-term debt and $0.6 billion of preferred equity, comparable to $6.8 billion at December 31, 2012.

Our capital position reflects the net income generated during the year and preferred share activity, which was offset by common share repurchases and dividends and the decrease in unrealized gains and investments due to an upward shift in sovereign yield curves during 2013.

During the Fourth Quarter, as previously anticipated, we restarted our Share Repurchase program. In the last three months of the year, we repurchased 2.3 million shares for a total cost of $113 million.

This brings our total repurchases for the year to 10.8 million common shares, or 9% of our shares outstanding at the beginning of the year, at an average price of $43.61 per share, for a total cost of $472 million.

During December 2013, we announced that effective January 1, 2014, our Board of Directors has authorized the repurchase of up to $750 million of the Company's common shares. This effectively resets our repurchase authorization limits and allows us to effect repurchases under this new plan in open market or privately negotiated transactions through December 31, 2015, depending upon market conditions.

In addition, we also announced an 8% increase in the quarterly common share dividends of $0.27, continuing our proud tradition of annual dividend increases for our common shareholders.

Our strategic expansion opportunities continue to progress, and we remain optimistic about our prospects.

During the Fourth Quarter, we launched our new third-party capital initiative named AXIS Ventures. While AXIS Ventures did not commence operations until January 1, 2014, we received investment capital from our third-party investors before the 2013 year end, which has been reflected as part of non-controlling interest balances in our consolidated balance sheet.

We continue to believe that our diversified global franchise and strong balance sheet will continue to allow us to take advantage of market opportunities as they emerge.

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

Albert Benchimol {BIO 2023727 <GO>}

Thank you, Joe.

Turning to market conditions. Notwithstanding the well-publicized reduction in pricing trends, there remain reasonably good fundamentals in many insurance lines and markets after three years of positive rate activity across many parts of our business. The US remains the strongest market, driving almost all of our growth in 2013.

Average price increases in our Insurance business in 2013's Fourth Quarter came in at a slower pace than that observed earlier in the year, with the overall portfolio showing great change of plus 1%. For our International division, the rate as a whole in the Fourth Quarter was down 2%, but the average does not provide adequate color, as the specialty lines which comprise this division were typically mixed.

Of the 16 separate lines we monitor, 8 were up in the quarter, 3 were flat and 5 were down, with the most significant declines not surprisingly in aviation, terrorism and off-shore energy. For the full year, the average rate change was up 2%.

We anticipate pressure on overall rates for this division in the coming year, as the weaker lines should continue their trends, while those that have exhibited pricing improvements over the last three years begin to taper off.

In our Professional Lines division, rate change was 1% overall, plus1%, but again with wide variations by product and layer. For the US, pricing across all units was positive, with the exception of site A coverages, where recent results have been quite strong.

Rate increases on primary layers continue to be more consistent and higher, up 6% overall for non-financial institutions and plus 3% overall for financial institutional products.

Excess layers across products in the US are up 2% overall. Bermuda excess lines continue to experience low single-digit rate declines, in line with the trends throughout of the year.

A number of classes continue to suffer from excess capacity, including small miscellaneous professional liability, large account E&O, and international professional coverage for asset managers of private equity. On the other hand, classes which have seen higher-than-expected claims activity in recent history, such as public company D&O, are seeing much higher rate increases.

The general trends for 2013 Professional lines more broadly indicate the slow softening for 2014. But we expect the increases to continue where they are required, including in areas where we are taking corrective action.

In our US division, all lines remain positive to rate change territory, with a plus 5% rate change for the division overall, our 11th consecutive quarter with positive rate. While pricing momentum has faltered in Property lines, we still achieved average rate increases in the low, to mid-single-digit range, depending on class and geography.

Our Casualty business however continued with strong rate improvement at or near double-digits. Submissions in this division remain up over 20%, and retentions are good.

While property pricing will likely continue to slow in 2014, we expect ongoing improvement outside of property.

We continue to enhance the overall quality of our insurance book with solid rate adequacy, strong underwriting discipline, while prudently expanding our product offerings to achieve greater scale and diversification.

As to Reinsurance, the recent January 1 renewals reflected the supply/demand's imbalance with a substantial increase in alternative capital, a larger equity base of traditional reinsurers, and a strong desire to diversify the way from the beleaguered catastrophe markets confronting greater retentions and reduced demand from buyers.

While the greatest impact on pricing was in the US property catastrophe renewals, for the most part, declines match those already granted in the mid-year 2013 renewals.

More broadly, the overall market experienced margin compression in the face of deterioration and pressure on ceding commissions. Against this backdrop, we leveraged our strong technical capabilities and position with clients to write targeted business and make some shifts in our overall Reinsurance portfolio. As a result, we believe our actions offset much of the compression in industry margins.

Despite the headwinds, for the 50% of AXIS Re's 2013 expiring premium renewable in January, excluding agriculture, we grew premium about 6%, roughly flat on an annualized basis after adjusting for multi-year premiums. And we added more balance to the portfolio.

About 13% of the expiring premium was non-renewed or canceled, but this was offset by increases at renewal and new business.

The renewable base for our Agricultural Reinsurance line, which we introduced to our product offering as we entered last year, is in excess of $120 million in the First Quarter. This renewal remains very much in process and will be completed later in the quarter.

Despite some pressure introduced by declines in commodity prices, we are expecting growth in this area from increase shares and new business in the US as we renew this new product line of ours.

About two-thirds of our January 1 renewal volume is written out of our continental European Reinsurance business, which sees more than 80% of its business renewal on that date. There, we lost some volume to both less purchasing by many multinational clients, as well as the withdrawal on our part where experience was poor or pricing declined to unacceptable levels.

Renewal volume was up 2% on the back of a few multi-year policies, where we believe we secured attractive terms. But after adjusting for these, we were down about 1% on an annualized basis.

I think we did a commendable job in protecting the profitability of the book, giving up less than 2 points in technical margins but reducing volatility with more pro rata and less cat business.

Outside of Europe, we maintained premium volume overall. Cedants were quite aggressive in pushing terms in price, but still discipline was generally maintained in most lines of business and good relationships ensured continuity.

The ability to find new business, unless new to market, was a challenge. One observation I would make is that there was a clear difference in the terms of engagements with core reinsurers, as opposed to more generic or less well-rated capacity.

Core reinsurers, including AXIS, often benefited from earlier allocations and better terms, while following markets often wrote business at lesser terms.

Going forward, we expect current market conditions to sustain through the year. On the other hand, we do not expect similar reductions in property cat pricing in the April and June/July renewals.

Recall that this January's renewal price reduction simply serves to give the January customers the benefit of pricing achieved by other clients in last year's spring and summer renewals. We are optimistic that rate reductions from here on will be more modest.

Notwithstanding the evident increase in competition, we remain very well-positioned to protect our book and our margins. We have excellent relationships with our clients and brokers.

We continue to work on shaping our portfolio across multiple dimensions. And we are more proactive in managing exposures and hedging risk through retro arrangements and the use of capital markets instruments.

We are confident in our ability to navigate through this market.

More broadly, underwriting excellence has been a hallmark at AXIS and remains our key strength and differentiator in shifting markets. Our underwriters distinguish themselves by their expert knowledge of their markets and their responsiveness.

We're investing heavily to enhance our strong underwriting culture and provide our underwriters with the tools and resources they need to succeed.

We react quickly when faced with new data, as we did with our US D&O book this quarter. But our goal is to reduce the likelihood of such events with enhanced data and analytics, and dilute their impact with a broader, more diversified, more balanced book of business.

Our recipe for outperformance is straightforward: maintain one of the strongest teams in the industry, reinforce the strong relationships we have with clients and brokers to access and retain good business, use improved analytics and tools to optimize the portfolio, and make intelligent use of hedging tools to further enhance risk-adjusted returns.

We have the capital and balance sheet to support our growth and ample earnings power to absorb the occasional large loss and still deliver strong results.

It is a winning formula and one we intend to execute the benefits of our clients and shareholders.

With that, we are ready to take questions.

Joe Henry {BIO 13390626 <GO>}

Just before we open up for questions, I'd just like to correct one thing that I said during my prepared remarks and clarify one other point.

As far as the additional $30 million of losses for 2013 US D&O, that was seven points to the loss ratio not 70. I understand I said 70 -- it is seven points.

Also for the Professional lines for 2011 and 2012 years, we have $474 million in net IBNR on earned premium on $1.1 billion. The $700 million was a gross number. So again, $474 million net IBNR on net earned premium of $1.1 billion of the 2011 and 2012 accident years.

With that, Amy, I'll ask you to open it up for questions.

Questions And Answers

Operator

(Operator Instructions) Mike Nannizzi, Goldman Sachs.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Thanks. On the professional liability reserves, is there any consistency between what you did here and the reserve adjustments you made, I think it was for 2005 and 2008, in the First Quarter of 2013? I think it was 2005 to 2008. Thanks.

A - Joe Henry {BIO 13390626 <GO>}

Mike, it's a separate issue. The reserve adjustments we made in the Second Quarter of the year related to the credit crisis years. This relates to accident years 2011 and 2012. As I said during my remarks, we have seen no further development on the reserves that we set up in the Second Quarter, in the Third Quarter and Fourth Quarters of the year.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Got it. Can you give us a little color on what, is there a theme in terms of what happened in the Fourth Quarter and what impacted 2011, 2012 and your decision to take the loss ratio, the pickup for this year, the type of case? Anything that we can understand what is underneath.

A - Albert Benchimol {BIO 2023727 <GO>}

Mike, I understand. The development in our US D&O book this quarter was clearly a disappointment. At the very least, we owe you an understanding of what happened in terms of context.

Let me start by saying, our professional lines book, it is an important class of business for us. Last year we wrote $900 million gross, $600 million net. It's a broadly diversified portfolio by customer, by product, attachment point, geography.

We have made lots of money in that book of business over the years. We're rightly considered a leading underwriter professional lines by our clients and our distribution partners.

If you take that $900 million, I'd broadly categorize this book into three major sections: miscellaneous professional liability, essentially E&O, financial institutions, and the US D&O book. The issue at hand here is really contained within the primary component of the US D&O book.

As Joe just mentioned to you, obviously within the financial institutions book, we had a couple of cases go against us on the FI book, but the 2010 and prior has continued to behave well overall. So what we had were a couple of isolated cases, but that really has nothing to do with the actions that we took in the Fourth Quarter.

Again going back to the primary D&O book, we were never a large writer of primary D&O in the US. However, in 2009, we believe that the stress of the industry presented an opportunity to increase our penetration of that primary business.

Since then, we grew the book from under $20 million in annual gross premium to the current $50 million level. In these early years, we didn't see anything alarming in our reported claims that would indicate we needed to take any kind of reserve actions.

However, as Joe noted earlier, we started to see claims pick up a little bit, actually a lot, in the second half of 2013. Although we made some adjustments in the Third Quarter, in the context of the overall book of business and the overall reserve for professional lines for the 2012 and prior, it really was not material to us.

The Fourth Quarter really brought out some new data to us and we saw higher levels of claim activity continuing. We performed a deep dive in the entire US D&O book, the net result of which was this adjustment in our view of the loss experience for that book in 2011 through 2013. As Joe said, we had added $32 million to the prior-year reserves, and we decided to add $30 million to our estimate for full-year 2013.

Obviously we are not pleased with this development. We have developed a comprehensive action plan to remediate this book as quickly as possible, and it is already in effect. We have made changes to our underwriting, our pricing, claims monitoring and actuarial analysis of that book, and we will keep very close eye on it to ensure we get the results we expect.

I believe we've responded to these developments promptly and decisively. We've established what we believe to be prudent reserves so as to minimize the risk of revisiting this issue in future periods.

I would also add that in performing our various analyses, we identified some positive indications in other parts of our professional lines book for the 2011 and 2012 years. As you would expect, this is a broad book. And a broad book of this type would give you both good and bad news emerging within the diversified portfolio.

However, consistent with our established practice at AXIS, we believe it is still too early to take any action on these favorable indications. So all you are getting is the bad news here. We are taking the situation very seriously and we are taking firm action.

We must also remember that this issue is contained to a $50 million book within a profitable and probably-diversified $4.5 billion Company. Notwithstanding making what we believe to be prudent adjustments to our estimates, our Company still reported a combined ratio of 92.5 in the quarter and 91 for the year, and operating income of over $600 million.

This is not good news. We are not happy to talk about it, but we are going to confront it. We're going to take care of it and we're going to put it behind us.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Got it. Thanks for that. My question is, do we know, obviously you have a big book, it is very diversified, lots of different places, geographies, placements and towers. But is there an underlying trend that we can say -- oh, that makes sense, that is US D&O, that is clearly limited to the primary layers.

So that is why whatever this trend it is, it's not relevant to the international book, reinsurance, higher working layers. Something, so we could say -- oh, it makes sense that it is in this one book and then decisive corrective action has been taken. We don't have to think about how this is relevant to other books?

A - Albert Benchimol {BIO 2023727 <GO>}

Mike, that's a very good question. I think the answer here really lies in the composition of that book. As I mentioned to you, it was a small book that we were growing. Frankly, the composition in terms of industry concentrations, in terms of experience, is not a proxy of the industry.

In fact, the fact that it isn't a proxy of the industry has served us well in the early years. We saw no frequency of severity in 2009 and 2010. In 2011 and 2012, as we were looking at the industry, going through the Chinese reverse mergers, we were looking at M&A defense.

We were observing all of these issues happening in the industry, and we were seeing no evidence of that in our book. When you have a book that is not the proxy of the industry, sometimes it works for you and unfortunately sometimes it works against you. What happened was, it worked for us by and large, through 2012.

What happened in 2013 was that the severity of frequency that we were seeing was really hitting our books. We were seeing a lot in tech, we were seeing a lot in healthcare.

As I said, we did the deep dive and we said this is a small book, about 400 accounts here for about $50 million of premium. The average limit is about $10 million. What we did is we made a modest increase in the assumption of frequency of severity of that book.

Again, if you take a look at this book and you assume that this book has had a little over $100 million, 400 accounts, if you simply add about three full-limit losses per year, that explains the entire increase that we have done. It is a small book. Honestly, we underestimated the volatility of the small book, and we should have accounted for the greater volatility inherent in a small book.

As I mentioned, three additional limit cases a year account for the entire increase in the reserves. That is what happened here. With regard to the other book, I think it is a fair question, why is that not an issue in your other book?

The other book is supremely well diversified. On average, the limit that we offer are significantly lower. It is really diversified by class, by industry, by country.

I think that the totality of that book really behaves in a very different way than what is a small relatively un-diversified, relatively unbalanced book with regard to the industry. That kind of composition works for you in certain markets, it works against you in others.

Operator

Cliff Gallant, Nomura.

Q - Clifford Gallant {BIO 1854853 <GO>}

Thank you. Actually, that last answer was pretty thorough, I appreciate that. I was curious about when you said you did the deep dive during the quarter, if there was any more granularity about what kind of trends you did see, that might be useful to think about that, that line of business.

A - Albert Benchimol {BIO 2023727 <GO>}

Again, I think, as you might imagine, we have been scratching our head on this one. This is simply a change in the assumption of the severity, of frequency of severity, and by adding a couple of cases a year.

Because the frequency that we saw in 2013 basically says we have to reevaluate our assumption of frequency of severity for that portfolio as a whole. We just said -- you know what? We need to assume we are going to have a little bit more bad luck in that portfolio going forward and we reflected that in our loss picks.

Operator

Josh Shanker, Deutsche Bank.

Q - Josh Shanker {BIO 5292022 <GO>}

A couple of things which are related. I want to talk but the business mix issue and also talk about growth trajectory for accident, health and other smaller businesses, and ultimately their affect on the trajectory of the expense ratio.

Obviously they are small right now, but still the expense ratio is higher than it was a year ago. When should we start expecting some amelioration in that number? And what long-term plan or short-term plan are you thinking about as involves business mix?

A - Albert Benchimol {BIO 2023727 <GO>}

A couple of things that I would say. If you look at our expense ratio, one is we are clearly seeing long term, and I think we should expect to see long term, an increase in the acquisition expense ratio for the Company for two reasons.

We probably had a lull in our MGA business last year. As you know, we have been repositioning our MGA book overall. We're now growing it back up again, and MGAs generally have a higher acquisition expense ratio.

Were also ceding less reinsurance and we get less benefits of ceding commission. So you have that. I expect that trend will sustain.

With regard to the G&A issue, let's take A&H in particular because that is a large enough book to discuss on its own. We've said all along we needed to be in excess of $300 million worth of earned premium to be able to leverage those expenses across the book and achieve a combined ratio below 100.

I do not have a problem with achieving a technical ratio in the low to mid 90s. The issue is it taking that infrastructure that we are putting in place. As we have said, our expectation is that by the end of the year we will have reached that balance between earned premium on the one hand and technical margin and overall expense.

I will also say that as a general practice, Josh, we will always have a handful of new initiatives and we will always invest in new offices. This is the R&D of our business. The R&D of our business is bringing on people, establishing a presence, building.

So right now, and ice have said this before, we still have challenging expense ratios in Canada and Australia, as we are expanding that area. You have heard that we bring on new teams. In fact, we just recently, this week we announced that we are bringing on a new healthcare team.

We are not going to be writing a dollar of business with this team before the middle of the year at the very earliest. And it will be a slow growth as we go through that. That is going to continue going forward.

The overall expenses of the Company, in my mind, are likely going to have another factor. That factor is investments that we are making currently as we transition from a small mid-size Company to a larger Company.

We have some short-term investments that we need to make, to make that transition, including investments in IT, including investments in how we are delivering our services across the organization. I would expect continued growth in our expenses as we make those investments, many of which cannot be capitalized, over the next couple of years.

As we are looking at our numbers going forward, we are optimistic that the investments that we will be making over the next couple of years start to provide a meaningful investment in terms of bending down the cost structure of this organization in future years.

Is there anything you wanted to add, Joe?

A - Joe Henry {BIO 13390626 <GO>}

Yes, Josh, two things. On A&H, our gross premiums for the year were about $269 million, which was slightly above our plan. The mix of business between insurance and reinsurance was about 30/70, but as we move forward Chris and team expect that, that actually will move towards more of a 40/60 mix, with a lower expense ratio.

Just to report on what happened during 2013, the G&A expense ratio for A&H itself came down by 7 points. Even though A&H is a bigger part of our earned premiums and had a higher expense ratio, over time their expense ratio will come down. I do not know if that helps at all.

Q - Josh Shanker {BIO 5292022 <GO>}

It does. On the loss ratio side, you mentioned business mix, I assume the business mix change is largely a decline in aviation aerospace and an increase in casualty? I wanted to understand what is driving the -- I realize obviously, there is the through nine months 2013, you increased the loss pick there for the professional lines. But on the business mix, is that principally what you are getting at when you say that the loss ratio was higher based on business mix change?

A - Albert Benchimol {BIO 2023727 <GO>}

I think that is right. I will expand on that just a little bit, Josh, but that is a very good point. One of the things that we are looking to do here is to significantly increase the capital efficiency of our book and reduce the volatility.

There are a number of lines of business that we have introduced recently that are very steady lines of business, but with higher loss ratios. A good example would be A&H, which is a very steady line. That is contributing, in fact, to the growth in the loss ratio for the insurance industry.

Another area that you will see that we have grown, is we have grown the motor book in the reinsurance area. Again, that is a high loss ratio, low expense ratio, very stable book of business.

We have added just last year in the reinsurance area, over $100 million of agricultural reinsurance business, most of it quarter share. Again, that is a higher loss ratio business.

All of these, and I want to parse the two of them, because you can argue that the lines that I have just discussed are high loss ratio but low volatility. You also have casualty, which is high loss ratio and higher volatility, so I wanted to make a point of distinguishing between the two.

Yes. We are seeing very good growth opportunities for us in our US excess and umbrella book. That is clearly a higher loss ratio business, but that is approaching very attractive profitability levels. All of those things are creating a shift in the mix of business to a slightly higher long-term loss ratio, but also significantly reducing the volatility of the book.

I want to give you one more piece of data. Over the last two years, Josh, we increased our premiums by about 15%. Over the same last two years, we reduced our shares outstanding by 16%. We have been able to grow the book, diversify the book and return all of our profits to our shareholder as a result of having a much better capital efficiency in our portfolio.

Operator

Vinay Misquith, Evercore.

Q - Vinay Misquith {BIO 6989856 <GO>}

The first question is related to the US D&O book. If I heard correctly, you have $50 million of premiums. As you mentioned, the loss is up by $30 million this year. So there seems to be a 60-point charge on the combined ratio.

A - Albert Benchimol {BIO 2023727 <GO>}

Absolutely. As I said, this is an unbalanced book. If you have a $10 million line, three full-limit losses is $30 million. The problem with that book is that it is small and it cannot absorb an increase in the frequency of volatility. That is a real issue.

Again, I think what is really important is that when you have over 20 different portfolios of professional lines across the Company, some are going to perform a little bit better, some are going to perform a little bit worse. But the totality of the portfolio, when you get the benefit of the balance and the diversification in that portfolio, that totality of that portfolio continues to perform very well.

As I said earlier, we saw a lot of positive indications for 2011 and 2012. We chose not to take them. You are getting all of the bad news and none of the potential good news. We think that is the right thing to do.

We think the right thing to do at this point in time is having identified the issue that were made significant actions on the underwriting side, on the claims monitoring side and all of the other issues. Our underwriters are working very hard to rebalance this portfolio. They're obviously going to be looking very strongly at pricing, at mix, at everything else.

In the context of it, this book, 2011, 2012 and 2013, is going to have very unattractive loss ratios. We think that those unattractive loss ratios are prudent.

We can't guarantee anything, but we have done everything we could to make sure that the likelihood of this thing hitting us or hurting us in 2014 and on, is highly unlikely. Think we are taking all of the right moves, including taking prudent view of what those years might be.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, that's helpful. The second question is, looking at -- I think the full year accident year loss ratio, ex cat, is a more appropriate way to look at things. That was hurt by higher property loss both in the insurance and reinsurance segment, and higher ag losses this year.

Looking forward to next year and looking at where pricing is going, should we see flattish margins next year versus this year? How much of a negative impacted did ag and the property losses have on full-year losses this year?

A - Albert Benchimol {BIO 2023727 <GO>}

Good questions, Vinay. I think the first thing that we need to say, because I don't know if we actually made it clear enough, is we actually had a very profitable year in ag.

But all of the losses came in the Fourth Quarter, as there was some adjustments in premium, there was a significant premium reduction after we got the final board[ph] from our clients. We did get losses coming out of India, and then we had a small as well, excessive loss in the US piece.

Net-net, we reported a profitable underwriting year in the ag book. It is just that the losses succumbed in the Fourth Quarter.

With regard to the property book, there's always going to be some volatility. One of the issues that comes across here is that in the reinsurance side, we actually had very, very favorable property experience, ex cat, in the Fourth Quarter of last year.

So it makes the comparison year over year actually unattractive. But that speaks more to the experience in the Fourth Quarter of last year as it is this year. Again, there's a lot of volatility that you would expect in a book of our size.

Going back to your core question, we have benefited from some pricing increases in excess of half our book, I would say, last year was showing rates at or better than trends. Certainly that will be a positive issue there. There is going to be continued volatility on the property side on a normal basis, on the cat side on a normal basis.

I would say that when I look at all of our book year over year, on a price basis excluding volatility, overall there is probably 1 point of deterioration year over year in terms of the price of profitability of the book. But that alone is not going to be directive, because the volatility of the book of the business, the construction of the portfolios, will very likely have more impact on our ultimate results than that 1 point on a price basis.

Q - Vinay Misquith {BIO 6989856 <GO>}

The one point includes the property cat in the reinsurance business, correct?

A - Albert Benchimol {BIO 2023727 <GO>}

The property cat is a separate issue, because it is a volatility issue. I would say, all in, as I mentioned earlier, I think the reinsurance book is somewhere between one and two points of margin that we're giving up in the book.

On the property book, as I said, maybe one point, all in. I'd say in the construct of our book and the change in the mix of our business are likely going to have more impact on the forward-looking numbers.

A - Joe Henry {BIO 13390626 <GO>}

Vinay, it is Joe. A couple of things to follow up on that. In terms of agriculture profitability during the year, the technical ratio which is basically losses in acquisition costs was 93-3. So we had an excellent year on a year-to-date basis on agriculture.

In case anybody is curious about the accident year loss ratios, and we focus more on year to date than quarter, on the insurance side the accident year loss ratio went up 3.5 points. If you look at what that comprised of, it is comprised of a mix of 1.1 points and cost or experience of 2.4 points.

The mix of that, the mix is really driven by A&H, and the cost was really driven by the professional items that we discussed. On the reinsurance side on a year-to-date basis, the accident year loss ratio is up 1.3 points. That is a case of mix actually declining by about 1 point and cost going up by about 2.3 points. Both of those issues, mix and cost, are related to ag.

Operator

Ryan Byrnes, Janney.

Q - Ryan Byrnes {BIO 16902592 <GO>}

As you guys shift away from more capital-intensive lines of business, how should we be thinking about capital management going forward. In late this year you guys repurchased about 93% of operating earnings through dividends and repurchases. How should we think about that going forward?

A - Joe Henry {BIO 13390626 <GO>}

Ryan, It's Joe. We've really not changed our outlook as far as capital management is concerned. We are going to continue to repurchase shares equal to our operating earnings, less dividends, if the conditions are favorable to do that.

Our PMLs have come down, you can see from the supplement, the financial supplement disclosure. As Albert was mentioning, we've grown the book of business and that brings additional reserve risk to it.

To a certain extent some of the PML reductions have been offset by increase in reserve risk. We are standing pat. If the opportunity presents itself, we will get active again. But overall we are not changing our strategy.

A - Albert Benchimol {BIO 2023727 <GO>}

Ryan, if I may, there's a statement that you made that I have to correct. We're not moving away from capital-intensive lines. They are a strong part of our book, we have got great experience and a great history of positive results in that line.

What we are doing is we are adding to that book of business. We are growing in lines that diversify the book. We are growing lines that don't add a significant amount.

I want to make it very clear to everybody on the call, we are not moving away from those lines. We are an experienced market, we are a good market for those lines. We will continue to participate in those lines.

Operator

Meyer Shields, KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

When you look back at 2013, to the property and attritional losses over the full year, would that qualify as average, above or below?

A - Albert Benchimol {BIO 2023727 <GO>}

Obviously on a cat basis, we had a below-average year. There's no doubt about that. I think on a property-type basis, what I would say to you is, it is probably a little bit above average. But what happened to them is the frequency, or the distribution of those losses, was not average.

As you know we had a real clumping of those losses in the Second Quarter. But when you look back at the full year, which ultimately we have to do, it was just a modestly above-average year for property. For property losses.

Q - Meyer Shields {BIO 4281064 <GO>}

Just a quick question, did you buy back any stock in January of this year?

A - Albert Benchimol {BIO 2023727 <GO>}

We did not buy back any stock in January of this year. We are waiting for our window to open up in the next couple of days. As Joe mentioned earlier, we have not changed our stance with regards to capital management.

Operator

Charles Sebaski, BMO Capital Markets.

Q - Charles Sebaski {BIO 17349221 <GO>}

I had a question about the credit and political risk. Seems that it has been growing pretty much this year and came down a little bit. I'm wondering if there's anything specific? Or global events? Or how the book has played out?

A - Albert Benchimol {BIO 2023727 <GO>}

You are right, we have had increasing revenues in that book. We have had some good opportunities. We have expanded the book to include more project finance, for example. A better fit with the opportunities that we have been seeing in 2013 as compared to our appetite.

That has really been the issue. We feel good about the quality of the book. Interestingly enough, the total exposure in the book has actually gone down year over year, as the exposure assume the prior year's continues to go down.

I would say that the underlying risk in the portfolio is down year over year, as the old business is running off. But we have put on some attractive new business, and it is okay.

Q - Charles Sebaski {BIO 17349221 <GO>}

Regarding the new healthcare team that you are putting on, I wonder if we could get a little insight on where in that market you are looking to play. On the smaller, larger side? What kind of outlook or expectation you have for size. Or any additional thoughts you might want to share on that new plan.

A - Albert Benchimol {BIO 2023727 <GO>}

As you know, we recently recruited a new team. It goes without saying that this team is highly regarded in the industry, significant experience, presence in both the market as well as the industry.

What I would say is that what we expect to do here is build a very broad book of risk. We're going to go to doctors, doctors' groups, hospitals, health care service organizations. It will generally be low-limit primary mostly. What I want to do here is take it at the appropriate pace.

We have literally just brought on the team. The first thing that we are going to do, is we are going to go through confirming all of the assumptions that we made. We're going to develop the business plan. We'll look at the brokers, and we will come back at you with a more defined plan for that business.

But we can't do that when they are busy working with other people. We are happy we got them on board. We're going to be working internally to develop the right plan. If things go as we expect, we should start to write business in the summer.

Q - Charles Sebaski {BIO 17349221 <GO>}

The question was more along the lines of do you see opportunity? Is it in the large hospital, large doctor groups? Is this on the smaller end and the spectrum of insured's out there that you obviously saw a market opportunity for? That kind of piece of it.

A - Albert Benchimol {BIO 2023727 <GO>}

Yes. That is right. I think one of the things that is very interesting is, we have to recognize that with the evolution of the Affordable Care Act, there a lot of changes happening in the industry. We believe that will, in fact, create some new opportunities that may not have been there in the past.

When you look at very experienced, I think physicians groups, hospitals, allied health care facilities, individual physicians, that will generally be the kind of market that we will be going after. Limits will generally be kept low. Obviously we will be looking very much at securing that business in those states that have a good track record with regards to litigation or liability.

It will be a surplus lines facilities. We've got all of those things planned properly. As you know, this is an industry right now, this is a market right now, that is undergoing some transition.

We did not bring this team on board to write a whole lot of business over the next six months to a year. What we did is, we brought this team on board so that we could expand our offerings of professional liability. We have a very well diversified portfolio. We do accountants, we do lawyers, solicitors, insurance brokers, security consultants, architects, engineers, a whole slew of them.

We think that this is a large market. We think that this is an appropriate addition to our portfolio of professional liability cover. Obviously the less I would say a 12 to 24-month plan and much more of a longer-term plan to expand and diversify our professional liability practice.

Operator

Dan Farrell, Sterne Agee.

Q - Dan Farrell {BIO 4935961 <GO>}

Can you expand a bit more on your strategy for reinsurance purchase in 2014 following some of the changes that you made in 2013?

A - Albert Benchimol {BIO 2023727 <GO>}

Sure. We have made some -- let's just go through the changes are made in 2013, just for putting in context here. Like many people, for a long time we used to buy a lot of individual towers, by low down on individual towers. That was great for protecting the individual result of anyone book of business.

What we found, when we did a further analysis, and again I go back to my point, the secrets to improving the results overall is enhanced use of analytics in optimizing the portfolio. When we did all of that, what we were looking at is that we were ceding away lot of our diversification benefit.

It just made a lot more sense for us to retain more of the individual towers in our various businesses. We discussed that with you all in our Investor Day presentation, Mike Steel, our Chief Risk Officer, went through that with you.

The first thing that we did, is we said we can afford to buy more. Of course, because we wanted to be prudent, we also put an aggregate cap on those treaties, so that if we got hit with too much frequency, we've got some protection on that. We thought this was the right opportunity to do that.

In some cases, we actually increased quarter share reinsurance purchases for some lines. And in other lines we decreased quarter share protections from some lines. The last thing that we did was, as you know, we issued a CAD Bond in July providing us with $200 million protection for aggregate US losses in excess of $1 billion in the year.

Another thing that we did, is we started to take more opportunistic use of ILWs and capital market instruments to shave some of the peaks of our exposures. We are now, this year, also going to use a little bit of retro in our reinsurance book to further manage the profitability of the book and further manage the volatility of that book. We regularly do reviews based on our best estimates of where the book is, the volatility of the book and where it is going.

My expectation is that you will see in 2014, some more modifications here and there across our reinsurance purchases. As I said, I think you will see for the first time, the purchase of a little bit of retro in our reinsurance book. But I think the major shift in approach happened in 2013.

Operator

Ian Gutterman, BAM.

Q - Ian Gutterman {BIO 3106649 <GO>}

First, can you quantify within the quarter, I know you gave the year, but within the quarter, how much impact the non-cat property and agricultural losses were?

A - Joe Henry {BIO 13390626 <GO>}

Bear with me a second here.

A - Albert Benchimol {BIO 2023727 <GO>}

Let me just go through the loss ratio information right now. Just bear with me.

A - Joe Henry {BIO 13390626 <GO>}

Could you repeat that question to me to make sure that have it right? Because I've got some numbers in front of me. Just repeat that, please.

Q - Ian Gutterman {BIO 3106649 <GO>}

Sure. The comments in the press release, and I think in your prepared remarks as well, about Q4 and reinsurance having an increased accident year due to the property losses, the non-cat property losses plus the crop losses.

A - Joe Henry {BIO 13390626 <GO>}

Right. For reinsurance in the quarter, we had an 8-point change in the accident year loss ratio. Some of that was due to mix, a very little piece, but most of it was due to the cost or experience. Within the cost or experience, property was 5.4 points and ag was 3 points. That's in the quarter on reinsurance.

Q - Ian Gutterman {BIO 3106649 <GO>}

Perfect, thank you.

A - Joe Henry {BIO 13390626 <GO>}

On the insurance side, if you need that, it was 6.1 points in the quarter.

Q - Ian Gutterman {BIO 3106649 <GO>}

That was all property?

A - Joe Henry {BIO 13390626 <GO>}

Yes.

Q - Ian Gutterman {BIO 3106649 <GO>}

Got it. Okay. Great, thank you. On the D&O, Albert, you obviously gave us a lot of color. I was hoping to push for a little bit more.

Can you give us a little bit better idea of where these claims came from? You mentioned, I think, some medical, some tech. I'm looking more specifically, where were you attaching on these?

Were they normal attachment points for you? Were they high, were they low? Were they side A, were they side B? Were they derivative cases, were they security accident cases? What additional color can you give us?

A - Albert Benchimol {BIO 2023727 <GO>}

Two from column A and one from column B. The real issue there, this is a primary book, so it attaches low. What we get hit on in this second half of the year was a higher frequency of securities class actions on the primary public D&O book. As I mentioned, we did have a heightened number of cases in the tech and healthcare parts of the portfolio.

Q - Ian Gutterman {BIO 3106649 <GO>}

Okay, so this is traditional, this is the kind of stuff I would see in, say, the cornerstone data or whatever. It should correlate to those kind of cases?

A - Albert Benchimol {BIO 2023727 <GO>}

It is. As I mentioned earlier, the issue with our portfolio is that because of its distribution by industry, it has not historically been a good proxy for the industry.

As I mentioned earlier, at the risk of repeating myself, some of the cornerstone data that is available, a lot of that stuff we missed. We missed because of the way the portfolio was constructed. Unfortunately, we did get hit in the second half of 2013.

Q - Ian Gutterman {BIO 3106649 <GO>}

Okay. Then your plans for renewing that? Simplistically, if you're adding $30 million of claims on a $50 million book and you already had, I assume, a non-serial loss ratio book, it would seem to imply you're at over 100 loss ratio in this book. Which would suggest you are using a lot of pricing or to non-renew? Or am I misreading that?

A - Albert Benchimol {BIO 2023727 <GO>}

You're absolute correct. The loss ratio is in excess of 100 and our corrective action plan includes a combination of a number of issues. One of which is clearly we need to push price in a number of areas. B, we need to revisit the premium to limit balance in the book.

We think, in fact, that where we look at what is happening in this book, we have here what could be the core of an interesting book. But where it is right now is between and betwixt.

We think there's an opportunity for us here to be more focused on exactly the kind of distribution we want on this book. We think that actually with a greater number of risks in that portfolio, we will actually get more balance. It is getting the distribution, which is more reflective, if you would, of the industry and getting a better balance.

As I mentioned to you in terms of my market comment, these are difficult markets. We are getting price increases in there, but we are going to have to work a getting that balance. Until then, we're going to make sure that we are containing this book so that it does not hurt us in the future.

Operator

Mike Nannizzi, Goldman Sachs.

A - Joe Henry {BIO 13390626 <GO>}

I think we lost him, operator.

Operator

(Operator Instructions) Mr. Benchimol, would you like to make any closing remarks?

A - Albert Benchimol {BIO 2023727 <GO>}

Thank you. Again, I want to go back to my opening comment. On the whole, it was a good year, but certainly there are things within this year that we are not happy about.

I believe that we took the right actions to take care of it and continue within 2013. We will take action and we will report to you on our progress as the year continues. Thank you very much and we will speak with you shortly.

Operator

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