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Q2 2021 Earnings Call

Company Participants

- Albert Benchimol, President, CEO & Director
- Matt Rohrmann, Head of IR
- Peter Vogt, CFO & Executive VP

Other Participants

- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Josh Shanker, Analyst
- Meyer Shields, Analyst
- Phil Stefano, Analyst

Presentation

Operator

Good day everyone. Welcome to the AXIS Capital Second Quarter 2021 Earnings Conference Call. (Operator Instructions) 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, sir.

Matt Rohrmann {BIO 15132648 <GO>}

Thank you, Cole. 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 Second Quarter ended June 30, 2021.

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 on the audio webcast found on 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 report on Form 10-K and other reports the company files with the SEC.

This includes additional risks identified in the cautionary note regarding forward-looking statements in our 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 Benchimol {BIO 2023727 <GO>}

Thank you, Matt. Good morning, everyone. Thank you for joining today's call. This has been another strong quarter for AXIS, an additional data point that reinforces the positive momentum in our positioning and performance which we believe is the outcome of a multiyear effort to build a more profitable and resilient company.

In both the Second Quarter and first half of 2021, we reported record operating earnings per share underpinned by excellent production, strong underwriting and solid investment income. We believe that we're only just beginning to show what we're capable of achieving.

While the broader industry benefited from a relatively low cat quarter, the big story for AXIS is the continued strengthening of our core underwriting performance. Our current year ex-cat combined ratio of 88.7%, for the quarter, almost 3 points better than the prior year, marked the seventh consecutive quarter since the Fourth Quarter of 2019 that we have driven improvements in our underlying core results.

Our insurance segment followed a very strong start of the year with an even better Second Quarter. Indeed, our insurance business is delivering performance on par with the best companies in our industry, including strong growth and improvements across almost all underwriting metrics to deliver an all-in quarterly combined ratio of 85.

Our work over the last few years has positioned us very favorably and the market is experiencing the strongest conditions, and we're firmly on the front foot, leading to record new business production. I'll expand on it later in our call, but we expect favorable market conditions will continue well into 2022, providing us with an even more broader set of opportunities to build on our progress.

Our reinsurance team is also leveraging current market conditions to further optimize their contribution to our consolidated portfolio, and the team is delivering on its goals. We're growing where it makes sense, holding the line where conditions are not as attractive as they should be and meaningfully reducing catastrophe PMLs, all of which are leading to a stronger, more profitable portfolio.

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I'll make a couple of observations about our premium production and reinsurance. We're building the book of business that will drive the earnings profile that we want. Excluding property and catastrophe, where we're targeting lower exposures, gross reinsurance premiums written would be up 14% in the quarter. Importantly, as many of you have noted, given the improved construction of our portfolio, we're keeping more of what we're producing and net written premiums are up 8% this quarter, and that's what will be driving profitable earned premium growth in the coming periods.

Moreover, our reinsurance team's consistent approach to underwriting profitability continues to deliver sub-90s accident year ex cat combined ratios and an all-in quarterly combined ratio of 90.

We're pleased with the progress that we're making across our company. We believe we're making the right moves, and we have the wind at our backs. We worked hard to get to this point, and we feel great about the direction that we're headed in. Throughout the business, our team is playing to win. I'll now pass the floor to Pete, who will walk us through the Second Quarter financials. Then I'll come back and discuss market trends. We'll have our Q&A. Pete?

Peter Vogt {BIO 17059745 <GO>}

Thank you, Albert. Good morning, everyone. This was an excellent quarter for AXIS, with a number of positive highlights underscored by the continuing improvement in the company's core underwriting results. During the quarter, we generated net income available to common shareholders of $228 million and an annualized ROE of 19.3%. Operating income was $171 million with an annualized operating ROE of 14.4%.

Diluted book value per share increased by $2.47 in the quarter to $55.50. This was principally driven by the net income and partially offset by common share dividends. As Albert noted, the consolidated current accident year combined ratio ex-cat and weather, was 88.7% and or more than 2.5 points better than the prior year quarter, principally driven by improvements within the insurance segment.

The consolidated current accident year loss ratio was 58.2%, a decrease of 3.3 points over the prior year as both the ex-cat and cat loss ratios improved. The quarter's pretax cat and weather-related losses net of reinsurance were $29 million or 2.5 points. There was no change to the net loss estimate of $360 million established for the COVID-19 pandemic in 2020.

The consolidated G&A expense ratio was 14.1%, which is consistent with our expectations. Overall operating efficiency and expense control remain important goals for us, and we continue to target a G&A ratio in the low 14s for 2021. And lastly, on a consolidated basis, fee income from strategic capital partners was roughly flat year-over-year.

Now we'll discuss the segments. I will start with the insurance segment where we had impressive performance across a number of metrics. Gross premiums written increased by 22.3% to $1.3 billion, a quarterly record for the segment. I would also note that the

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year-to-date production of $2.4 billion is a record for the first half of the year. The increase primarily came from new business and favorable rate changes in the professional lines, property lines and liability lines.

During the quarter, the insurance current accident year combined ratio ex-cat and weather was 84.5%, a 6.8-point improvement from last year, reflecting the combination of rate change and underwriting actions we have taken to strengthen the portfolio.

The current accident year loss ratio, ex-cat and weather, decreased by nearly 4 points in the quarter with all lines contributing with positive rate change. We saw the greatest movement in the property lines resulting from not only the impact of favorable rate over trend but also from improved experience driven by the underwriting actions that we have taken.

The acquisition cost ratio decreased by 3.2 points in the Second Quarter compared to 2020. Approximately 2/3 of the decrease is due to changes in business mix. As we have written less high-cost property MGA business and more lower-cost professional lines and liability business, where we get a favorable ceding commission. We also had about 1 point of benefit in the quarter due to just some timing differences.

Now let's move on to the Reinsurance segment. The Reinsurance segment's gross premiums written of $673 million for the Second Quarter was $6 million lower than the prior year, due to decreases in property and catastrophe lines from nonrenewals. This was partially offset by increases in liability and professional lines driven by favorable market trends. We are comfortable with the reduction in premiums in our property business as this is establishing a less volatile portfolio as is demonstrated by our much lower reported PMLs.

During the quarter, the reinsurance current accident year combined ratio ex-cat and weather increased by 0.9 point. This was caused by an increase in the G&A ratio due to a decrease in fees, the ex-cat loss ratio and the acquisition cost ratio both are essentially flat with the prior period.

Net investment income was $105 million for the quarter compared to net investment income of $45 million for the Second Quarter of 2020. The quarter's exceptional net investment income was primarily attributable to positive returns from our alternative assets, principally the credit funds, real estate funds and private equity funds. This was partially offset by a decrease in income from fixed maturities attributable to the decreased yields on the portfolio.

At quarter end, the fixed income portfolio had a book yield of 2% and a duration of 3.1 years and our market yield was 1.4%. Overall, with continued improvement in most operating metrics and positive momentum in our core underwriting book, this was a very strong quarter for AXIS. That summarizes our Second Quarter results. With that, I'll turn the call back over to Albert.

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Albert Benchimol {BIO 2023727 <GO>}

Thank you, Pete. Let's do a brief overview of market conditions and outlook. We'll then open the call for questions. We're continuing to see positive rate action across both of our segments. For our Insurance segment, this was the 15th consecutive quarter in which we reported overall rate increases and the fifth consecutive quarter of double-digit average rate hikes.

This quarter, the average insurance rate increase was a bit over 14%, which is up more than 1 point sequentially from the First Quarter of this year and roughly flat with the prior year period. We can see -- we continue to see a dynamic market responding to loss trends and supply and demand pressures with some lines accelerating their rates of improvements, while others have crested and some exhibiting a deceleration in the pace of rate hikes.

Nonetheless, substantially all lines are showing increases at or above loss cost trends. Looking at our insurance segment by region. The North American market is showing the larger average increase of 15%, while London International is up 13%. By class of business, Professional lines saw the strongest pricing actions with average rate increases at 20%. This is ahead of both last year's Second Quarter and this year's First Quarter, driven by the rapid escalation in cyber lines. These have delivered accelerated increases in the quarter, which reached more than 40% by June.

In other professional lines, London and Canada are stable, averaging close to 20%, while in the U.S. rate increases are averaging in the low double digits. Liability lines averaged close to 13%. Primary Casualty has remained generally stable at these levels, while the pace of increase in AXIS Casualty is down from its highs. Marine liability remains strong in the high teens. Property rate increases clustered at about 12%. That is only very modestly down from last year's quarter, but sequentially, it's up from the First Quarter of this year.

Other specialty lines continue to do well in the low to mid-double digits with renewable energy, where we're a global leader standing at close to 20%. Aviation is up more than 12% and several lines within our marine book are up in the mid- to high teens.

So with all the changes in the dynamic market, conditions remain quite strong, with 97% of our insurance portfolio renewing flat to up and fully 60% of our portfolio by volume, achieving rate increases of 10% or better.

Let's move on to reinsurance. We estimate that the overall reinsurance rate change was up about 12% in the Second Quarter as compared to 11% in the first. By region, the North American market was strongest with averages increasing about 13%, followed by EMEA, LATAM at 12% and Asia at 7%. By class of business, liability came in just above 20%, professionalizes followed at 15%, and property and cat trailed with averages only in the mid-single digits.

Looking at the big renewal since we last spoke, for the June Florida renewals, there continue to be an abundance of capital with heavy competition for the higher layers, all of which pressured pricing.

While pricing was reported to be in the plus 5% to 20% range, the higher rate increases were mostly in the harder to complete lower layers, most exposed to frequency losses. For AXIS, we've continued to reduce our exposure in Florida as we do not believe that pricing in this market has reached attractive levels.

Finally, during the July 1 renewals, which impact approximately 10% of our portfolio, we saw overall rate increases in the 8% range. The July renewals relate mostly to North American accounts where, on average, rate increases were about 10%. Other regions were up in the low to mid-single digits. Specialty lines, including aviation, marine and A&H, were in the 10% to 15% range. Putting it all together, our combined insurance and reinsurance portfolios are averaging rate increases in the double digits for both the quarter and the year-to-date.

And while we're seeing pricing increases coming down from their peaks in many lines, others are moving up the net of which is we still anticipate that positive market conditions will continue, with average price increases in line with or above loss costs into 2022 and likely beyond.

As you've heard me say in the past, it's essential that our industry maintained pricing discipline as we face the cumulative impact of a number of headwinds, including low interest rates, the longer-term impacts of the COVID pandemic, climate change and extreme weather as well as loss cost inflation.

It goes without saying that we shouldn't confuse rate change with rate adequacy. The recent price increases bring industry profitability to a barely acceptable level of rate adequacy after many years of severe price competition and loss cost inflation. The industry has not yet gotten ahead of the curve on loss costs or reserve adequacy. And must sustain its discipline, especially in a low interest rate environment.

We're doing our part by pricing and reserving on the basis of prudent loss cost trends. But given everything we see, we feel great about our future. We're encouraged by the positive momentum in our performance, and we're capitalizing on favorable market conditions. We're building a stronger, more resilient portfolio that we believe will consistently deliver superior results.

We believe that the changes we've made to our company in the last few years have resulted in much stronger market positioning and attractive specialty insurance and global reinsurance markets and a more data-driven collaborative approach to portfolio construction that prioritizes the profitability and stability of our consolidated results.

We're building an optimized hybrid underwriter that will deliver attractive returns to our shareholders. We have a strong franchise grounded in the delivery of superior service to our clients and partners in distribution. We have a terrific team, and we continue to recruit great talent. We believe the future looks very bright for AXIS, and we look forward to

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continuing to keep you updated on our progress. With that, let's please open the line for questions. Operator?

Questions And Answers

Operator

(Operator Instructions) Our first question today will come from Brian Meredith with UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

I got a couple here for you, Albert. The first one, let's talk a little bit about cyber. Perhaps one, can you remind us kind of the size of your cyber book gross and net basis? Then on the cyber book, I appreciate that you're getting some substantial rate increases. What's going on with terms and conditions and kind of contract structure to perhaps mitigate some of the loss activity?

A - Albert Benchimol {BIO 2023727 <GO>}

Yes. So I think that with regards to the changes in terms and conditions, as you know, we're one of the leaders in cyber globally. So we've been on top of this thing very much since the beginning of last year. So since that time, we were noticing that there were significant model changes, increases in ransomware attacks. I think the view of aggregation and systemic risk in cyber really started to increase.

And so since last summer, we started to make significant amendments to our risk appetite and to the portfolio construction. Among the things that we did, we reduced our limits. We increased deductible and we set up much more stringent underwriting criteria, including stronger vetting of insured cyber defense capabilities. We've also increased the services and support we provide our insurers to make sure they're better prepared to defend against breaches and to respond post the breach event.

And as you also know, we reported to this last quarter, we also purchased more reinsurance to protect ourselves through the transition period. The good news is there are other -- the leaders in the industry are kind of acting with us. So there's a, I would say a consistent effort, which makes these actions a lot easier to put in effect because everybody is looking at it that way.

So what are we thinking as a result of that? We're seeing significantly less exposures because the more stringent underwriting criteria are affecting it. And just to give you a sense, notwithstanding the fact that our Cyber submissions are up meaningfully year-over-year. Our quote count is actually down by almost half year-over-year. We've reduced limits. We've reduced certain classes of business. Pricing is going up.

And so -- right now, actually, if you look at the Second Quarter, it's essentially a 100 combined ratio business. So the problem with cyber, if you would, it's not necessarily -- and by the way that 100 combined ratio is before the rates that we're starting to earn now.

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The issue with Cyber is not so much the profitability of the current business, but given the views around aggregation, it requires more capital to support it. Therefore, you need to make more profits to support that capital.

And I think we need to continue to adjust the pricing to make sure that this line of business delivers adequate profitability to support the capital that we need to put behind it. But we're big believers in the long-term attractiveness of Cyber, it's only because our society needs it.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you. And anything as far as the size of the book?

A - Albert Benchimol {BIO 2023727 <GO>}

Sure. We have approximately $300 million growth, and we've got a quota share of 65% against it. We've got some XOL against it. So basically, it's less than 150 net all in. So we think it's very well contained for the size of our balance sheet and for everything that we're doing.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Great. Then the second question, if I look at your underlying loss ratio in your insurance business, it's been kind of running, let's call it, roughly 52% for the last most recent six months. Is that a kind of decent run rate right now, at least considering where we are with earned rate versus trend?

A - Peter Vogt {BIO 17059745 <GO>}

Brian.

A - Albert Benchimol {BIO 2023727 <GO>}

Go ahead, Pete.

A - Peter Vogt {BIO 17059745 <GO>}

Brian, this is Pete. I would say yes, that's where we expected it to be. I think we really looked at the step to 55% last year was what we expected and we told you we thought that would come down 200 to 300 basis points given the rates we already put on the books in the second half of 2020. So I think the 52% is a pretty good run rate.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Then last question, just with respect to kind of capital management here. If I look at your stock still trades below book value, your financial leverage is definitely coming down. It's not quite at 25%, but coming down. Is there any visibility into maybe when you would be willing to start repurchasing your shares?

A - Peter Vogt {BIO 17059745 <GO>}

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Yes. Brian, that's something that we will continue to look at. Probably will not do anything in the near term. Obviously we're in the middle of wind season.

But when we get towards the end of the year, especially with our PMLs coming down so much, we'll take a look at what we really think we want. We'll take a view of it probably in December. At that time, we'll make any announcements.

But you're right. I'm happy the leverage ratio is coming down, we do want to get it to that 20, 25-ish range, and that day is coming down nicely. But I really want to wait until the end of the year before we really do anything there.

A - Albert Benchimol {BIO 2023727 <GO>}

If there's one comment that I would add, obviously if we have the opportunity to grow our book of business at double-digit returns, we're also -- we're going to want to take advantage of that, too.

Operator

Our next question will come from Meyer Shields with KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Let me start with one quick follow-up. Can you talk about what's going on with, I guess reinsurance costs on the Cyber book?

A - Albert Benchimol {BIO 2023727 <GO>}

I'm sorry. You broke up. Are you asking about what's going on with reinsurance on the Cyber book?

Q - Meyer Shields {BIO 4281064 <GO>}

In other words, the cost to buy reinsurance because you've protected yourselves very thoroughly. I'm just wondering whether -- or what the trends are in the cost of that protection?

A - Albert Benchimol {BIO 2023727 <GO>}

We have a 1/1 renewal. So we'll take -- we've got some time to work on it. Obviously our quota share partners are going to enjoy the benefit of the very significant pricing increases that we're obtaining on the book. So we're confident that we'll be able to renew it. But to be fair, that's a 1/1. We'll have to deal with that in the second half of the year.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. One other underwriting question. Can you -- I know it's really, really early, but can you give us any thoughts about how much of the rising PML for European windstorm would be exposed to the German flood?

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A - Albert Benchimol {BIO 2023727 <GO>}

Yes. Not -- the short answer is not that much. The reason is what you get is the 50 to 100 to 250 PMLs. These are really affected more by year one in 10, one in 20, one in 30 kind of areas. So it's a little early because as you know, these are not very well modeled losses for our customers, and there are some very specific local concentrations that we have to work through. Certainly, I promise you that if this thing turned out to be any kind of a material loss you'd hear from us. But right now, we're just following it.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. No, that's helpful. Then a final question. The decrease in investment income from fixed maturities was a lot sharper than I would have expected, recognizing administrative were down, but it seems to have moved faster. Can you talk us through what's going through there? What's going on there?

A - Peter Vogt {BIO 17059745 <GO>}

Yes. I think -- Meyer, this is Pete. Actually, when I look at it, it's down the way it's down sequentially given that we're about a 3-year duration and kind of new money yields are at about 1.4%, and the book was at 2.1% -- the, I'll call it, decrease of middle single digits was kind of what I expected in the quarter. So I don't think there's anything plenty going on there other than the fact that yields are just really low right now for new money.

Operator

Our next question will come from Phil Stefano with Deutsche Bank.

Q - Phil Stefano {BIO 18965951 <GO>}

Yes. Looking at the reinsurance book and your focus on the cat and property in particular, the gross was down, but the net was up, and I was hoping you could help us to square that against the nice decline that we've seen in PMLs and how that's been able to trend versus the net book being up?

A - Albert Benchimol {BIO 2023727 <GO>}

Yes. I think the most important part is that there's been a huge amount of work made in the construction of the portfolio. I think that's the greater efficiency of the portfolio, getting rid of the bulky exposures are very important, and I think more balanced and geographically with regard to the portfolio, all of which helped in driving the PMLs down.

Now of what we're keeping in terms of the P&L, it's not just a cat that goes to retro. So although we've reduced sessions, we've reduced retrocessions in other lines also. Where we are today we're seeding to our third-party capital partners over 50% of our cat book, and that is the largest percentage we've ever shared with our third-party capital partners.

Q - Phil Stefano {BIO 18965951 <GO>}

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Okay. Got it. And Pete, I think you had said in your prepared remarks, the insurance acquisition expense ratio had a slight benefit from timing issues. Can you provide a little more color on what that was or what happened there?

A - Peter Vogt {BIO 17059745 <GO>}

Phil, it was a number of things, but it was things like true-ups for profit commissions that ran through some ceding commissions that got booked through. So -- all in all, they added up to about 1 point.

So when I think about what's the right look at what that acquisition cost ratio should be long term, I kind of look more at the year-to-date number of about 18 as a good proxy. But it was a number of small things that we kind of got cleaned up in the quarter, Phil.

Operator

Our next question will come from Elyse Greenspan with Wells Fargo.

Q - Elyse Greenspan {BIO 17263315 <GO>}

My first question -- just wanted to get a little bit more color on -- Albert, you seem pretty bullish on the pricing environment. But you did say right, that there's some lines that are at loss trends, but it sounds like for those mines where pricing is equivalent to trend? Would you expect price to stay stable?

Because I know you also said that you think pricing will stay at or above loss trend going into 2022. So just trying to, I guess for the lines that have gotten a good amount of rate and now they're closer to trend. Would you expect that they will just kind of stay stable from here as we go through the end of this year and into 2022?

A - Albert Benchimol {BIO 2023727 <GO>}

Well I'm not anywhere near as bullish as I'd like to be. I think ultimately, I do believe that we need to be -- we need to maintain strong pricing. But I think we're already seeing in a number of areas where the pricing is off its highs.

I want to be clear, the rate of change is off its high as pricing is still going up. If you think about us through the first half of this year being at a 13% kind of average and when you think of loss costs being more in the low to mid-single digits, that's a long way down.

So I think there's a journey down over the next several quarters, call it 4, call it, 8, call it, you know how many, I don't know. But I think that I feel very, very strongly that the industry is not yet in control of its loss cost trends.

And I think because until it does and given the low interest rates, I think that we're going to continue to see, hopefully, some discipline for pricing ahead of loss costs. That said, we fully expect that levels will start to gradually come down from where they are at some point, they'll stay double digit for a little while. At some point, it will be single-digit

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increases. But as long as we have an opportunity to sustain pricing that is at or ahead of loss costs, we can continue to improve the profitability of our book, and I feel confident that we will have those opportunities for a number of quarters to come.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Then, Albert, in terms of loss trend, right, it seems like from what we've been hearing from other players, right? Like inflation and just like social inflation and what's going on the course hasn't been so bad if things have been slow to reopen post-COVID. But -- what are you seeing on the loss trend side? And do you have any concerns just as it comes to inflationary expectations?

A - Albert Benchimol {BIO 2023727 <GO>}

Yes. Everybody knows, I think unexpected inflation is not a friend of the industry. So of course not only do you get a problem on your bond portfolios because they tend to go down in value, but very often reserve development.

I've been following the debate that's been going on in the last few days. And my perspective on this is it's always the difference between price index related inflation and social inflation. If you don't mind, I'll just give you my views on that.

So I think that right now, given what we're looking at price-index-related inflation is a manageable issue for the industry. Why do I say that? Because we get to reset values for the exposure for the insured values on an annual basis. So whatever the impact of inflation is on property values, on payrolls, on revenues, that's the exposure base and you get -- and you capture that.

Then secondly, to the extent that you've got -- you monitor prices -- what's important is the claim handlers properly evaluating the cost of adjusting a claim and they -- when they look at the claim, they take a look at where they are in time, they look at the cost of goods sold, they deal with that. Then again we have an annual process of changing pricing if we need to. We've got a loss cost train analysis as part of our annual planning process.

So less of an issue if I think it's manageable. And certainly, in our case, I know I've heard people say that they've had to increase reserves for urea and others because of various inflations, we took -- we kind of estimated that and we feel pretty good about that.

I'd say that social inflation, that's a different situation. I think that's more of a concern for the industry. Now I define social inflation as including factors, that will include politicians, regulators or courts kind of redefining wordings in favor of claimants and increased propensity to sue new causes of action and ultimately, larger awards, jury awards.

And again as you know very well, those are more of an issue in longer tail lines because it can take years to discover that the loss trends are higher than you anticipated at pricing when you wrote the policy.

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And I think we and the rest of the industry are certainly seeing that for the 10 years. So that's led to adverse development in professional lines and liability lines. It takes a while to kind of catch up as the situation evolves.

Now certainly, the strong pricing we've seen over the last 12 to 18 months in professional lines, in liability lines, are a result of that. But I think what matters to me is that what we've seen up to now is only barely getting us to where we need to be for right now. I think we'd be diluting ourselves if we think that the impact of social inflation will stop. Social inflation is tied to perceptions of social and equity. We know that COVID has affected people differently that we've got to cater recovery. I believe that social and equity will be a clear and present danger for the industry, for some time, which is why I think it's imperative that we don't lose our discipline and price ahead of loss costs.

As to what we're doing at AXIS, we're making sure that we're pricing and reserving on the basis of prudent losses. We've reduced our limits, which are a good defense against inflation. We've managed our attachment points. So I think we're addressing it, but this is an issue that the entire industry needs to continue to address.

Q - Elyse Greenspan {BIO 17263315 <GO>}

That's helpful, Albert. One last one on you guys lowered your PMLs, a good amount this quarter. I know one of your kind of target for this year was to get your cat load down by about 2 to 3 points relative to the recent average ex-COVID. So does this put you within that range? Does it put you better than where you expected? It just looked like a good level of decline that we saw across some of your peak PMLs this quarter?

A - Albert Benchimol {BIO 2023727 <GO>}

Yes. It's a meaningful level of decline. It's exactly what we were planning on doing. I mean I feel really proud of the team. We're literally delivering on all of the goals that we set for the team. These are appropriate levels of PMLs.

I've also said that as an organization, we'd ultimately like to bring our balance of property in cat closer to 20% of our overall net retained premium. We're not quite there yet. I'd like to get there through growth of other lines. But where we are right now is we're entering the 2021 wind season in the very best position we ever have as a company and exactly where we want it to come into it.

Operator

And our next question will come from Josh Shanker with Bank of America.

Q - Josh Shanker {BIO 5292022 <GO>}

Just an outstanding quarter in insurance. There's no doubt about it. When I think about, Albert, you're a great student of history, looking at an 84.5% underlying combined ratio with a lot of rate that has yet to be earned through behind that. How sustainable do you think margins can be in a diverse book of insurance business that can produce those kinds of underwriting results?

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A - Albert Benchimol {BIO 2023727 <GO>}

So Josh from you, thank you very much, I'll take the complement. The other thing that I would say is the reinsurance result wasn't bad either. I would say that. But let's get to your point on --

Q - Josh Shanker {BIO 5292022 <GO>}

We've seen those kind of reinsurance results. Those are more common to see it in insurance is truly, truly something special, I think.

A - Albert Benchimol {BIO 2023727 <GO>}

So good. But let's go back to the issue. There is nothing unusual or special about the combined ratio that we delivered in insurance this year. It's exactly what we expected based on the work that we've done in this book for many, many years, the runoff of the discontinued businesses, the changes in risk appetite there is nothing unusual.

And to your point, I have no reason to believe anything other than that as we earn the higher rates that we've been writing in the last 12 months, as we continue to improve our portfolio, I think there's more progress to come.

A - Peter Vogt {BIO 17059745 <GO>}

Josh, this is Pete. I'll just add, Albert.

As I mentioned a little bit earlier, I feel really solid about where the loss picks are, Josh. But just in the quarter, the acquisition cost ratio for insurance had the benefit of some of those timing items I mentioned to fill.

So I definitely -- 84.5%, great, current accident year combined ratio, excluding cat -- But I think a run rate might be just about 1 point higher than that, which is still phenomenal for us given the improvements we've done over the last couple of years.

Q - Josh Shanker {BIO 5292022 <GO>}

When you think back to like 2001 through, I guess maybe the '04, '05 accident year, it turned out that those initial picks were very, very conservative, and they throw up a lot of favorable development. But there was a huge amount of change in terms and conditions. Insurers like yourselves weren't necessarily willing to take the better margins until there was evidence of the eight claims trend coming through too.

I mean there's been some changes in terms and conditions in this cycle, but it's not nearly as revolutionary as it was 20 years ago. I mean you're not -- obviously these are your best picks, but how do you think about the conservatism and the potential that the 2019 through 2022 accident picks are ultimately have potentially been, materially, overstated, given past trends and hard market cycles?

A - Albert Benchimol {BIO 2023727 <GO>}

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So I'm not going to try and guess how overstated they might be, but I will say the following. We feel very clear that in our approach, we are doing a number of things. One is we're assuming a higher kind of more than technical loss trend in our reserving, and we're booking our reserves to reflect the ongoing uncertainty around the loss trends, is number one.

Number two, as we've discussed, you can mathematically figure it out. We are not fully reflecting all of the pricing in our loss ratios right now. And number three, we are not giving any credit to portfolio construction in our loss ratio year-over-year changes. So we'd like to believe that there is prudence in our loss ratios. We'd like to believe that there may be an opportunity. But I would be loath to project any more than that.

Operator

This will conclude our question-and-answer session. I'd like to turn the conference back over to Albert Benchimol for any closing remarks.

A - Albert Benchimol {BIO 2023727 <GO>}

Thank you, Operator. Thank you, everybody, for participating in our call. Before we wrap, I really need to express my continued appreciation to our AXIS colleagues across the world for the work that they do every day to make AXIS a stronger company.

This is a great quarter. This is the result of many years of hard work. This is the ninth consecutive quarter of year-over-year improvement that we're delivering, and this is really on the back of the hard work and engagement of our team, and I want to thank them. To all of you, we look forward to continuing to update you on our progress. Thank you very much. Operator, this ends our call.

Operator

Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time. Have a great day.

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