Q1 2020 Earnings Call

Company Participants

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

Other Participants

- Brian Meredith
- Douglas T. Eden
- Elyse Greenspan
- Gerald Fine
- Meyer Shields
- Philip Stefano
- Ronald David Bobman
- Yaron Kinar

Presentation

Operator

Good day and welcome to the Q1 2020 AXIS Capital Earnings Conference Call. All participants will be in listen-only mode. (Operator Instructions) Please note, today's event is being recorded.

I would now like to turn the conference over to Matt Rohrmann of Investor Relations. Please proceed, sir.

Matt Rohrmann {BIO 15132648 <GO>}

Thank you, Eric. 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 first quarter and period ended March 31st, 2020. Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you'd like copies, please visit the Investor Information section of our website at axiscapital.com. We set aside an hour for today's call, which is also available as an audio webcast. This is also available through our 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 the company's Form 10-Q for the quarter ended March 31, 2020, which will be filed after date of this call as well as the additional risks identified in the cautionary note regarding forward-looking statements and our earnings press release issued yesterday evening.

We undertake no obligation to update or revise publicly any forward-looking statements. In addition, this presentation may contain non-GAAP financial measures. For the purposes of this call, we believe the best way to discuss our operating results is on an ex-PGAAP basis, which is a better representation of the run rate performance of our business. Reconciliations are included in our earnings press release and financial supplement, which can be found on the investor information of our website.

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

Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Matt, and good morning, everyone. Thank you for joining our earnings call. On behalf of AXIS, I'd like to begin by expressing our heartfelt sympathy to the families and loved ones of all those whose lives and livelihood have been tragically cut short by the pandemic. Over the past few months, the world as we know has been upended and we must now work together to navigate the unprecedented challenges brought on by COVID-19.

And yet, heroes have arisen everywhere and we at AXIS feel immense gratitude for the brave individuals who are on the frontlines fighting the pandemic and putting both their own and their families lives in parole. Within AXIS, our foremost concern has been with the health and safety of our colleagues. We also believe very deeply that our industry fulfills a vital social purpose to help people when they're down and to help individuals, businesses and organizations rebuild in times of crisis. We proudly stand by a promise to our customers, partners in distribution and our communities. We're reviewing each claim on an individual basis and where our policies do provide coverage, we're already making payments to help our insurers overcome financial setbacks.

I'm proud to say that we've seen the best of AXIS in these last few weeks. We sustained a high level of responsiveness to our producers as we partner with them to help our common clients manage risk in these highly uncertain times. The investments we've made over the past years to update our technology platform, and implement our digital transformation have allowed us to shift seamlessly to remote work protocols. And by all accounts, we've maintained a high level of service that our producers have come to expect of us. And separately, we're also continuing to support the relief efforts underway in our local communities.

I'm most thankful to our team who have met the challenge with resilience, grit and grace. We're convinced that we've enhanced the AXIS brand with our service over the past six weeks. We'll spend a large part of this call discussing our exposure to COVID-19, its impact on our results and our plans for managing through the global crisis. But an essential component of this discussion is the state of our company at the start of the pandemic.

We entered 2020 strongly positioned along four key attributes. We have the strongest capital adequacy we've had since 2016, we had a prudently constructed investment portfolio with over 84% of assets in investment grade bonds. And while our portfolio experienced a negative return in the first quarter, given the recovery of markets, we are now in positive return territory for the year-to-date in our portfolio. We also have an outstanding team and a technology platform that allows us to operate remotely without any reduction in our capabilities and we have the best balanced book of business in the history of our company, the result of many years of portfolio repositioning and reduction in cat volatility.

Now while in the last couple of years, our progress in demonstrating the benefits of this repositioning has been slower than we had wished, and we believe that our results this quarter provide tangible proof that we're now delivering on our goals. We use as our key metric to monitor our progress in underwriting, the ex-PGAAP, ex-cat current year loss, acquisition and G&A ratios. And we delivered strong progress along each of these metrics. Our consolidated PGAAP, ex-cat current year combined ratio was 93.6% this quarter, 4 points lower than the prior year, not only sustaining but accelerating the progress that we've achieved in the prior quarters. This attritional underwriting results along with much lower things on PMLs in cat and cat loss curves over recent years positions us well for continued improved performance. I'd like to add that like with any carrier there will always be some quarterly volatility in our results, but we're now working off a much better base.

Let's now discuss the financial impact of COVID-19. As shared in our pre-release, we're projecting $300 million in cat losses with $235 million coming from COVID-19. AXIS was among the first to provide a more comprehensive estimate of COVID losses this quarter. We saw no reason to wait. We conducted deep reviews of our policies and programs within our insurance segment and found that the vast majority of our business does not respond to the current situation. While we do have some contracts that provide the cover, the majority of our business includes physical damage requirements from business interruptions, clear virus or pandemic exclusions, and sub-limits in terms of coverage.

Where we do have exposures, we believe that we have a good understanding of our potential losses for our first party business. For the reinsurance segment, we use various approaches to determine the company's net cash provision. We reviewed our various property, catastrophe in A&H contract and made a number of judgment calls based on the nature of our clients business. We supplemented these with the conversations and loss indications we see from clients. We've further since checked our estimates using a variety of industry insured loss estimates, market share analysis and catastrophe modeling analysis.

While our loss provision of $235 million is of course subject to change given the uncertainty of the situation. We believe it appropriately reflects potential losses that have been incurred, assuming the shelter-in-place remains through July 31. I would like to credit our team for the tremendous efforts required that has gone into to prepare this estimate.

We did not take a provision for third-party business. Frankly, we haven't seen anything yet there and we expect that it will take several quarters, if not years for the full impact of COVID-19 to be realized. That's another reason we expect the market pricing will continue to remain strong, to allow the industry to absorb the higher losses that are expected to emerge from this pandemic over time.

To conclude my introduction, it was a tough quarter as the pandemic took its toll on our underwriting and investment results. We're not alone in facing the challenges of pandemic, but I'm confident that we outperformed in many ways. The AXIS team continues to make progress in its underwriting, grew in attractive lines and sustain high service with customers and producers throughout the pandemic. I'm very proud of our performance this quarter.

Pete will now walk us through the financials and I'll come back to talk more about pricing and have our Q&A. Pete?

Peter Vogt {BIO 17059745 <GO>}

Thank you Albert. Good morning everyone. To echo Albert's comments from earlier, our hearts go out to everyone whose lives have been directly affected by COVID-19. We find inspiration every day in the heroism displayed by the healthcare workers, early responders, and essential workers. Like Albert, I'm impressed by the way our staff has come together to advance the business, support our customers as well as support the relief efforts in our own local communities. I'll now proceed with the update.

As you heard from Albert, and saw in our earnings pre-release last week, our consolidated quarterly performance was heavily influenced by COVID-19. And the adverse impact it had on both our underwriting and investment results. During the quarter, we incurred a net loss attributable to common shareholders of $185 million and an ex-PGAAP operating loss of $161 million. During the quarter, we reported $300 million of pre-tax net catastrophe and weather-related losses including $235 million for COVID-19. These COVID-19 losses increased our consolidated combined ratio by 21.3 points in the quarter.

As Albert noted, these reserves were established following detailed reviews within both segments. In those instances where we identified COVID-19 as a likely cause of loss, we established loss reserves in the first quarter. Our losses from COVID-19 are largely attributable to property related coverages, but also include event cancellation and A&H coverages. Our current estimate assumes, the shelter-in-place remains in effect through July 31st of this year, and this applies to both of our business segments. The vast majority of our reserves are IBNR. Our subject -- our estimates are based to a higher than usual level of uncertainty because of the inherent difficulty in making assumptions around COVID-19 due to the lack of comparable historic events, its ongoing nature, and farreaching impacts. These assumptions include the nature and the duration of the pandemic, its effects on human health, the economy and our customers, the coverage provided under our contract and by ceded reinsurance, the evaluation of loss and the impact of loss mitigation actions.

In addition to the loss provisions associated with the pandemic, we also incurred a full limit loss of $10 million related to the WHO pandemic risk linked swap. This loss is reported through the other insurance related income line in the income statement. Excluding the effect of COVID-19, we incurred $65 million of pre-tax, cat and weather losses in the quarter, primarily associated with U.S. weather events, UK flooding, and Australian wildfires.

Moving beyond COVID -19, the first quarter saw continued improvement in the company's ex-cat underwriting results. We believe the best way to discuss our results is on an ex-PGAAP basis, which is a better representation of the run rate performance of our business. Our ex-PGAAP current accident year combined ratio, ex-cat and weather decreased by over 4 points as a repositioning of the portfolios in both segments, including the exit from certain product lines in the insurance segment earned through. The consolidated current accident year loss ratio, ex-cat and weather was 57.1, a decrease of 1.8 points attributable to the progress in both segments.

We reported net favorable prior year reserve development of $6 million in the quarter, of which $4 million came from insurance and $2 million from reinsurance. The Consolidated ex-PGAAP acquisition cost ratio was 22%, a 1.5% decrease from the first quarter of 2019. The consolidated G&A expense ratio was 14.5%, a decrease of almost 1 point compared to the first quarter of 2019. Reduced G&A ratio was largely driven by decreases in personnel costs, professional fees, and travel and entertainment expenses. The normalized G&A ratio for this quarter was 14.6%. We continue on track to achieve our annualized run rate expense reduction of a $100 million started in 2018. However, given the uncertainty of the current situation, we have planned additional savings targets throughout the rest of this year. Fee income from strategic capital partners was $16 million this quarter compared to $20 million in the prior year quarter.

Now, I'll move into the segments. Let's begin with Insurance. The Insurance segment reported an increase in gross premiums written of 11% for the first quarter. This increase principally came from the professional lines, liability, property and marine lines largely attributable to new business and favorable rate. This is the second quarter in a row, we reported growth in the Insurance segment as we moved beyond the portfolio actions taken in 2018 and 2019. This quarter pre-tax cat and weather-related losses were $178 million. The COVID loss estimate was $135 million and is primarily associated with property related coverages, but also include event cancellation coverages. Virtually all of the reserves are IBNR.

The Insurance segment had meaningful improvement in the ex-PGAAP current accident year combined ratio ex-cat. It improved by over 5 points, down to 92.3 for the quarter. This is the second quarter in a row where we have seen over 5 point improvement in the insurance segment ratio. The current accident year loss ratio ex-cat and weather decreased by 2 points in the quarter. The decrease was due to improved loss experienced in marine and aviation together with continued impact of rate over trend.

These improvements were partially offset by an increase of about 1 point due to business mix as professional lines and liability businesses now represent a greater proportion of our portfolio relative to the property business. While the greater proportion of professional lines and liability business adds about 1 to the ex-cat loss ratio. These lines benefit the ex-PGAAP acquisition cost ratio, because they have lower net acquisition costs. The change in business mix accounted for about half of the over 2 point decrease in the ex-PGAAP acquisition ratio for the Insurance segment.

Now let's move on to the Reinsurance segment. The Reinsurance segment reported decrease in gross premiums written of $242 million for the quarter. We had a decrease across a number of lines as we look to better balance the portfolio. These were partially offset by increases in liability and accident and health lines driven by rate increases and new business under favorable market conditions. The quarter pre-tax cat and weather-related losses were $122 million, primarily attributable to COVID-19.

The COVID-19 loss estimate was $100 million and was primarily associated with property related coverages, as well as some medical expense, and travel coverages. The current accident year loss ratio ex-cat and weather decreased by over 1 point compared to the first quarter of 2019. The decrease was due to favorable impact of changes in business mix, due to less motor and agriculture business earned in the quarter, together with improved loss experience in aviation. The acquisition cost ratio was almost 1 point lower than last year, due to changes in business mix, the impact of retro contracts, partially offset by adjustments related to loss sensitive features.

Net investment income of $93 million in the quarter was $14 million lower than the first quarter of 2019, primarily due to lower hedge fund returns. The hedge funds are part of our alternative asset portfolio will report on a current quarter basis. At quarter end, our total alternative portfolio was just under $700 million, of which about 70% reports on a one quarter lag. We expect the impact of those first quarter returns to be reported in the second quarter. Our current book yield is 2.7%. Our current new money yield at quarter end was 2.9%, our current new money yield is 2.3% and the duration of our portfolio continues to be approximately 3.3 years. Loss associated with an equity method investment of $24 million for the quarter was attributable to negative investment returns achieved by the investee.

With respect to capital actions, as discussed during our last earnings call in December, we issued $425 million of junior subordinated notes at a favorable rate. In January $225 million of the proceeds were used to redeem all of our Series D Preferred Shares. We intend to use the remaining proceeds along with the proceeds raised last June to redeem our $500 million a senior notes maturing this coming June. Adjusting for the repayment of the June senior notes, our pro-forma quarter end debt would have been $1.3 billion resulting in total capital of $6.1 billion.

Our pro-forma quarter end leverage ratios would be total debt to capital of 21% and total debt plus preferred of 30%. Both of these ratios are up about 2 points from year-end pro-forma comparables. After we repay the senior notes in June, we have effectively and efficiently refinanced our long-term debt over the past two years and have no long-term debt maturing until 2027. Because we had an overlap of debt, we had temporarily higher interest costs of $7 million in the quarter. This will disappear on a go-forward basis after the second quarter. Diluted book value per share decreased by $6.01 in the quarter to $49.78. This was principally driven by the net loss, net unrealized losses and common share dividends.

That summarizes our first quarter results and with that, I'll turn the call back over to Albert.

Albert A. Benchimol {BIO 2023727 <GO>}

Thank you, Pete. Let's do a brief overview of market conditions and outlook and then we'll open the call for questions. Excuse me. Overall, the momentum in market currently is accelerating and spreading to just about every line in market. For Insurance, this is a continuation of pricing improvements that we've now seen for 10 quarters. For Reinsurance, I say that it's only recently that we've seen real pricing momentum take hold. This difference is what drove the top line divergence between our Insurance and Reinsurance segments. Our strong 11% growth in insurance speaks to both our satisfaction with our current portfolio and the improved returns that we're seeing.

On the other hand, we did not always get the rate that we were looking for at the January 1 reinsurance renewals. In many cases, we reduced our participation or exited certain treaties, but the April renewals were a different story. We'll get to that later. But first let's start with insurance market conditions. Overall, across the entire insurance book, we saw average rate increases of 10%, about twice what we achieved in last year's first quarter.

Our U.S. division, we once again saw the strongest pricing action, with average rate increases of almost 15%, primarily in excess casualty achieved average increases in excess of 20%. E&S property rates were up 15%, and our U.S. programs business, which focuses on homogeneous books of smaller accounts was up almost 5%. Within our North American Professional Line division pricing also continued to accelerate and rates were up over 7% in the quarter. Now most of our business units within Professional Lines saw double digit pricing increases.

However, our global cyber and technology line exhibited modest price action at a bit over 1% impacting the average. While cyber and tech are not yet generating the same increases that we're seeing other areas of our Professional Loin division, we are starting to see upward movement is rates there too. Within our Commercial Management Solutions unit, we saw strong rate improvement with average increases of more than 17%. Public and private D&O showed impressive average increases of over 40% and 25% respectively. We're definitely entering hard market territory in these lines.

In addition, we saw strong double-digit increases in our financial institutions and Canadian specialty businesses, while our Bermuda AXIS business was up 18%. In our London-based

International Insurance Division, rates were up more than 8% on average in the quarter. Excuse me. We saw double-digit increases across property, professional and casualty lines, renewable energy and aviation. Our marine and political risk lines were up on average by 5% with marine cargo seeing increases of more than 20%.

To give you a sense of the momentum in our markets, across the entire Insurance segment the March rate change was strongest in the quarter averaging 15%. Overall in the quarter, 95% of our insurance business renewed flat to up, interestingly 40% of our renewals by volume experienced rate increases of at least 10%, and almost a fifth of our renewals achieved rate increases of more than 20%. These are by far the best numbers we've seen in over a decade.

Looking forward, we see no indication that rate activity will subside, indeed as I noted earlier, with COVID-19 related claims emerging over the next few quarters, ongoing low interest rates and the specter of social inflation overhanging the industry, the motivation to sustained pricing discipline is high.

There is talk that exposure growth may face headwinds in coming quarters. Given the difficulties, some insurers and brokers are facing with the pandemic, they might find it easier to renew with incumbent carriers. Thus, renewal retentions may increase as new business slows. On the other hand, two of the characteristics of a hardening market are better incumbents look to reduce limits and standard carriers tend to kick complex business back into the E&S market and that's our sweet spot. So I think we'll need to see -- we'll need to wait and see a little bit more before taking the view on these positions. In our mind, there's better visibility within reinsurance. There, we expect more demands as insurers look to buy additional protection, and tighter supply as reinsurers are also looking to manage their capital and their risk appetite. This should drive stronger reinsurance conditions in upcoming renewals.

The April 1 reinsurance renewal were generally encouraging. We observed meaningful improvements across all lines with the exception of Asian non-cat business which is a relatively small part of our book. In Japan, earthquake crisis was flat and with flood covers average on -- it had rate increases on average of over 50%. Although, on a risk-adjusted basis, we see that increase more in the range of 20% or so.

We use the renewals to reduce our exposure on low attaching treaties, as we continue to push for a more balance in our portfolio. We also renewed U.S. casualty business where we achieved double-digit rate increases and a small aviation book where rate was up over 40%. As we look ahead to the June renewal season, there was talk of 10% to 20% pricing increases in Florida, but now it looks likely to be stronger than that with better terms and conditions. This is a fast developing situation and it is promising, but we will have to wait and see how it develops.

I expect reinsurers including AXIS to show appropriate caution. We'll evaluate treaty-by-treaty making sure that we select the right business and the right partners for long-term profitability. And whether it's insurance or reinsurance business, our focus will remain on enhancing the balance and profitability of our book. We intend to sustain the improvement trends in the underwriting results, and we believe that the current environment offers excellent opportunity for us to do so.

Before I open the question period, I do want to speak a bit about how we're managing through the pandemic. We've advanced three key operating priorities; the first is to sustained operating capabilities and client centricity; the second is to minimize the downside; and the third, is to prepare for the recovery. Regarding the first as I noted earlier, our investments in our technology platform and digital capabilities have paid off and helping us to seamlessly transition to a remote work model.

All of our staffs have work-from-home capabilities and our platform is strong. Importantly, the feedback that we're getting is that our service responsiveness have been sustained at high levels. We intend to limit the downside, so as we emerge strong and participate fully in the eventual recovery. We've modified our appetite in certain lines and markets looking at limits, imposing exclusions and generally making investments and underwriting decisions with the understanding that no one truly knows how long or how bad this pandemic will be, both in terms of human and economic hardship. We also cut our expense budget to help protect our profitability in 2020. We identified $50 million in expense cuts. This includes deferring non-critical hires and delaying certain projects as well as the natural attrition in travel and entertainment given remote working.

But we also know that the world will eventually emerge from this crisis and we expect there will be significant opportunities when economic activity picks up again. So we are continuing to invest in the future, enhancing current coverages and developing new ones, accelerating investments in digital capabilities and processes, and continue to invest in our brand and our franchise, with our key producers.

To conclude, we're coming off three years of aggressive efforts to strengthen our business. We've made significant changes and believe the hardest part is behind us. We've taken the right actions, and we're seeing meaningful and tangible progress in our results. We entered 2020 in a strong state of readiness, and while the pandemic is a challenge for access our industry and our communities, we face that challenge with confidence and optimism that we will manage the downside, preserve our strengths, and emerge strong on the other side. And throughout all of this, we will continue to be there for our clients and partners in distribution every step of the way.

Finally, a recent piece of news, some of you may have noticed that shortly before this morning call, A.M. Best announced that it has revised its rating of AXIS to A, excellent from A+ superior. Their reasoning is that our operating performance over the past five years hasn't met their expectations. I've got the report here in front of me. In this report, AM Best credits AXIS in a number of areas. AXIS maintains levels of risk-adjusted capitalization that places us in the strongest category on both a standard and stress tested basis. A.M. Best noted that AXIS has a favorable business profile, and a solid spread of risk by both line business and geography.

It says we have a well-developed and comprehensive enterprise risk management program, and that it's embedded throughout the organization. But in operating performance, they dropped us from -- they dropped us to adequate. So in short, our lower operating performance over the past five years is the basis for A.M. Best downgrade. Well, we're the first to agree that our progress has been slower than we desired. It is disappointing to see this rating action after we're seeing such encouraging underwriting results and the significant actions that AXIS has taken during that time to strengthen our business. That said, we accept responsibility and we're committed to doing all that we can so that we can earn back that superior rating.

And with that, let's please open the line for questions. Operator back to you.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now begin the question-and-answer session. (Operator Instructions) Our first question today will come from Brian Meredith of UBS. Please proceed with your question.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes, thanks. A couple of questions here. First, I wonder if you could talk a little bit about how much of your business interruption coverage actually has a positive or a virus endorsement on it? And did you book all that in the quarter? And then, conversely how much of your kind of exposure, property exposure has doesn't have any virus exclusions?

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

Okay. Let me see if I can take it. There are of course a -- let's focus on the insurance one. And it's really two different markets, one is the UK market, one is the U.S. market. In the U.S., we have property exposure that generally comes from our E&S book, our program book and some binder business. The program book and the binder business have ISO virus exclusion language, so that does. Our E&S book, I would say 80% of our E&S book has access forms with the virus exclusion. We do have some policies that are broker policy -- broker warning. We've gone through every single one of them, we've identified what's exposed, sublimits and so on and so forth, and we've taken the exposures for that.

In the UK business, there is some local business that we write and then there's some general property business. In the UK in particular, the cause of loss is denial of access through the government program. And so we've gone through all of our book, we only have a limited number, let's say a handful of programs and binders that provide this coverage as a buyback. And what we've done there is we've reviewed every industry frankly against the list that was provided by the government in terms of the closures. We've reviewed those policies, we've looked at where there's sublimit, and in many of those were small accounts with very small sublimit in terms of dollars, and in those cases we generally assume as I said, through July 31. In most cases that was longer than even the sublimit, so we use the sublimit as to estimate our losses and where not -- we've made some prudent estimates of the claims there.

The only remaining piece, as I said, is the global property book. There that book is -- over half of it is excess above any sublimit. We've gone through every policy that's for casinos, hospitality, hotels, restaurants and so on and so forth. We reviewed the business, we've looked at where the BIs are, where the exclusions may or may not be and we took a charge against that. So by and large, we believe that we've done a comprehensive review of all of our property exposures where there was BI, where there isn't, and we're comfortable that we've identified all of the policies where there is coverage.

Q - Brian Meredith {BIO 3108204 <GO>}

That's great. And then I'm wondering, Albert, if you could talk a little bit about trade credit and then maybe political risk exposures. That's an area that I know a lot. Lot of people in the market think there'll be some pretty meaningful losses. What's your exposure to that area?

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

So we have trade credits and political risk in two areas. Trade credit, as you know, we have a small book on the reinsurance book. Now that book is one that we've reduced significantly over the last several years, we literally have $20 million of net written premium in the trade credit area, and it was multiples of that a few years ago, so we really cut that one back. We think that one's handled well. I think it's a little early to provide an estimate of the potential damage and the reason for that is that there's significant potential impact from government's actions. As you know a number of European countries, the governments are coming in and supporting that business, taking a share of the losses, so there's a number of areas there to look at.

We do have some surety business that we look at on the reinsurance book that we feel is going to do well. It really -- even in the last financial crisis was not hurt, and so we think the conditions of the surety book will do well. On the insurance side, we do have some credit and political risk. In our Lloyd's credit and political risk book, about 60-plus percent of that book is concentrated in energy, in sovereigns -- excuse me, in financials and then the rest is literally very small shares of metal, defense infrastructure and so on. So, let's take a look at the big ones, the big areas. In our energy book, about half that book backs emerging market purchases of energy. And we just don't see loss exposure as company -- as countries are going to want to import oil and they're going to want to pay for it, so we don't see much there. The other half of that energy book generally supports state-owned or state-sponsored energy companies.

And again, we think that after having reviewed that book, we think we're in a good place there. We literally have $200 million of exposure to E&P companies. We've evaluated their book, their hedging program, their production in terms of costs and most of them can do very well, even in the $20 and $30 range and of course there's some exposure there if they don't but by and large we feel that that portfolio is very well managed. I think on the sovereigns, again, we think that those are usually MOM guarantees on support, we think they'll manage. On the financials, these are really to support letters of credit funds transfers between countries and again we don't see the banking system being impacted by this and so we continue to believe that book is good and frankly when you get down to the smaller shares, I think it's generally strong -- strong obligors and small shares with a very good reinsurance programs.

So for the moment again, I think it's too early to tell but we don't see that book is being particularly at risk, of course, we would expect to see some losses but we assume there's going to be losses every year, it could be higher but I think it's way too early again, given the potential government support and other actions to make an estimate there. In our CRS book, we do a lot of a project finance, again those projects are continuing to go on, we've taken a look at the take or pay contracts. We've taken a look at the production cost, and very little of that is in terms of production and exploration, where we are in energy and has a lot to do with pipelines and so on. So again, we see these things continuing. We've got a large book of renewable energy projects in development. We think these continue for all of the reasons that we expect.

We do have a small book of airline financing. There the vast majority of the airlines that we do business with are government-sponsored or government-owned. We're monitoring the situation obviously. We also have collateral as you know. So again, I think that under foreseeable even an extended recession, we think that book will be in good shape. But again, given the government support and the uncertainty that I think it's too early to really take a strong view there. But we think that book is well constructed, its well reinsured the limits are much, much, much smaller than they were in the last global financial crisis. So we're there, but we think we're in good shape.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thanks for the answer.

Operator

Our next question will come from Meyer Shields of KBW. Please proceed with your question.

Q - Meyer Shields {BIO 4281064 <GO>}

Great. Thanks. Good morning. Albert, I was hoping you could update us on expectations for premium and maybe unusual loss experience in the motor reinsurance book?

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

I'm sorry, could you repeat the question?

Q - Meyer Shields {BIO 4281064 <GO>}

Yes. I'm trying to understand how we should think about premium volumes, and I'll say maybe better than expected near-term experience in motor reinsurance because of the shelter-in-place orders?

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

Right. So we don't really do any reinsurance of motor business in the U.S, it's mostly European book. Some of that is XOL, some of it is quota share. We certainly expect there would be some volume reduction in that going forward, on the other hand, we also expect that the negative impact of premium reductions would also be offset by improved experience and there's less driving going forward. It's a book that we continue to reduce, I think you -- I believe that Peter spoke in his remarks about how that went down again in January 1, so it's not a large book for us, and we're not exposed to what's happening in the U.S.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. And I have missed this, I'm trying to get the time line of the $50 million of planned expense reductions in response to pressured exposure units?

A - Peter Wilson {BIO 4267902 <GO>}

So, I'll handle that Albert. Meyer, we came in kind of under our expectations in the first quarter by little bit, but for this year, we've actually redone our budgets in the expectation that revenue may be less and just through what we're seeing right now, obviously our travel and entertainment, as we can see it, starting the second quarter is way down and just because of the stay-in-place orders, we are going to see a lower expense run rate. And as we project out the rest of the year with where we're focusing our energies, we believe that we'll be able to drop kind of about $50 million from what our budgets were for the year.

The one thing I would say is my expectation is, as we get back into a normal work environment going to 2021, some of that T&E is going to go back up, some of the jobs that we may have put delayed hirings on because it's a little bit difficult to hire some people in places right now given stay at home, we'll ramp that back up. But we did a bottoms-up. We feel really good about at least the short-term nature and we will manage it going into 2021 based upon what we see for the rest of this year.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Is the $50 million an annualized number or is that the actual expected diminished savings -- sorry diminished spend?

A - Peter Wilson {BIO 4267902 <GO>}

Yes. it's really annualized through the course of our entire year. So you'll see some more of that come in the last three quarters of the year.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, great. Thank you so much.

Operator

Our next question will come from your Yaron Kinar of Goldman Sachs. Please proceed with your question.

Q - Yaron Kinar {BIO 17146197 <GO>}

Good morning, everybody. First question is to the mortgage reinsurance book, could you may be offer us little more color on how its structured both with regards to the GSE insurance and the PMI reinsurance? And then, maybe also just talk about because of the stress scenarios that you've run, what the impact there would be and maybe some of the underlying assumption behind these stressed scenarios?

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

So if we look at our mortgage reinsurance book, it's primarily the government-sponsored entities. I think let's -- somewhere between 5% and 10% is private, but the vast majority of our book is there. So in terms of that book, what we've done -- the good news about that book as you might imagine is a lot of data on it, there's a lot of rating agency model. So we stressed it using the rating agency stress model all the way to the top. And we feel that under a wide range of scenarios that book still generates profit, there's always a -- an extreme scenario that is beyond anything that's in the plans right now, where it would start to make some losses, but for a very wide range that portfolio should be continuing to generate some profits.

I think the second question was with regard to the scenarios that we used. Pete, you may want to go through that because it's a combination of both the impact of the closures as well as the economic environment, correct?

A - Peter Wilson {BIO 4267902 <GO>}

Yeah. So we did run multiple scenarios with the company to test our veracity through some various scenarios. We did a full bottoms up economic scenario, where we've taken and stressed the books in the asset portfolio to one the global financial crisis, and then double the financial -- the global financial crisis. And we laid out assumptions with regard to GDP, with regard to market indices from both credit markets and the equity markets, unemployment rates, pandemic rates as into the amount of infection rate, the increase in mortality rate, the unemployment rates was very full scenarios and ran that through all of our books of business to get a view as to what we think could impact the company both on the top line, the loss line and on the asset side. So, we're doing that to help us plan as this current situation evolves, but the teams have done a good job. So we've got a lot of guideposts to align us to take actions over the rest of the year.

Q - Yaron Kinar {BIO 17146197 <GO>}

Got it. Thank you. And then my second question, I realized maybe a bit challenging, but I'm going to give it a try anyway. So the $235 million of COVID losses in the quarter assumes that the shelter-in-place really left at the end of July. Do you have any sense of what those losses would look like if the stay-in-place orders were to extend another month or if we had another round of shelter-in-place orders coming later in the year?

A - Peter Vogt {BIO 17059745 <GO>}

In our scenario planning that we did do one of the key assumptions was the duration of the stay-in-place. And so, we have to view as to what that could be. Obviously I think it starts to drive into account more coverages like Albert said, it would not be -- wouldn't be prudent for us to actually take those numbers and just discuss them. Right now, we're using them for modeling purposes. But we do have ideas of our underlying books. We reviewed the contract languages and all the coverages in lines of business where we think there is exposure. We have a sense of what that could be, but it would be really speculative to provide any numbers.

Q - Yaron Kinar {BIO 17146197 <GO>}

Under --

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

Peter, maybe it makes sense to provide a little bit of cover. So on the one hand, in a number of our accounts, we've already gone through the limits, right. So there are some sublimits in many cases, sometimes three months, sometimes dollar amounts. In most of those cases, we're already through those. So whether this happens again or extends longer, I think that we'd be okay there.

The other thing is that, the area where we have our biggest exposure as we've just discussed with you is really in the UK book. And there, we do have a catastrophe cover internationally where the attachment points is $75 million. There's a retention for $75 million. And there, we're already more than two-thirds into that tower, just with these numbers here. So, we think that there is -- there's also some additional areas that give us comfort that the potential deterioration here, it has some factors that could mitigate it.

Q - Yaron Kinar {BIO 17146197 <GO>}

Got it. And just you said you're two-thirds of the way into the $75 million attachment?

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

Yes.

A - Peter Vogt {BIO 17059745 <GO>}

In the UK.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay.

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

That was a good play, Albert. I should have mentioned that tower protection in the UK.

Operator

Thank you. Our next question will come from Elyse Greenspan of Wells Fargo. Please proceed with your question.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hey. My first question on the business interruption side, how can we think about losses that could stem from your reinsurance book, so if you pick it up to your property cat program, do you have any color on your insurers and the virus exclusions that they might have or just thoughts around some of your insurers attaching into their property tax covers on the BI covers that they actually provide and will kick in for COVID?

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

So, Elyse, obviously, when you're in the reinsurance business, you're one step removed. And so I think that's just the nature of the business. I think what we did, I feel very good that what we did was quite comprehensive based on whether it is -- so let me just give you a sense of it, excuse me. The first thing we did of course is we identified all of our affected property treaties, whether they were quota share or XOL or property cat. We also look at our A&H book and evaluated that. We looked at where there was coverage, we then evaluated what was exposed just give you an example, for example on the property book, we scaled both the property cat book into countries because different countries have different exposures than others, and into clients and into whether they were lower level policies and higher level policies.

And so just to give you a sense of more than 60% of our policies on the property cat side, or exposure -- I mean, not policies but exposure, we think is not affected at all, because of the nature of the customers, either because they're personal lines businesses or exclusions. And so we feel pretty good that we were able to do that. We looked at Canada, we look at the UK, which are countries where people are concerned. And again, we've got very few limits exposed there. So we've done that. We then gone through individual accounts. We called our customers. We get -- we got feedback from our customers. We read what you read and you've talked to brokers, but who may have a book of business or not, evaluated those, modeled those and went through it.

In -- and then we -- so that was the bulk of the analysis and then we kind of sense checked that analysis using some modeling market share, what if the loss were X, what if loss were Y. And so those are the ways that we evaluate it. As you know, we do provide some pandemic A&H covers. But as I'm sure you also know these are really not meant to be loss protection covers but really more Solvency II cover so they attach very high. And there what we did is, we're continuing to monitor the all mortality levels of the various countries, and we're comparing those with the attachment points of the various treaties.

So we think we've gone into a reasonably granular level of detail to be able to estimate those various losses. Same thing on the travel book. So I think that understanding the limitations of being a reinsurer versus being an insurer, I believe that the announcement that we've done was very comprehensive.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. That's helpful. And my next question on the prior year development slowed in the quarter on. And can you just give us a sense of what years on development came from? If you added to any lines or years or maybe was just a result of the reserves that was viewed in the quarter?

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

Yes. We're always, as we look through the reserves this past quarter, Elyse, given a lot of the uncertainties we're seeing right now, especially when it comes to social situation and the COVID-19 situation. We did see some positive development coming out of the property book as well as the motor book, but we thought it prudent as always since we like to take the bad news early, and wait on the good news that we really did put some reserves up on the liability side, especially given the current situation.

So again, we're being prudent with that, but we basically we did see positive development in motor and property, but we put much of that back up on the liability lines in both insurance and reinsurance.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And what was the size of the amount you put up on the liability line?

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

I don't have that number in front of me we can get that right back to you.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. And then, in terms of the insurance segment, you guys have talked about like the one-off business of the Novae business kind of the negative impact on your margins going down, as we kind of get through the first half of this year assuming that comment still applies. And then could you just give us a sense of the magnitude of the impact on we saw in the first quarter that could dissipate later on this year?

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

Sure. So on the insurance side, Elyse, the ex-cat loss ratio is impacted by just under 1 point negatively by the runoff book. As I mentioned at year-end that runoff book had about $50 million a UPR. It's down to just slightly over $30 million and that'll then that will just runoff the rest of the year, probably with a $15 million, $10 million, $5 million kind of runoff the rest of the year, but that did hurt us. That was a negative to the insurance ex-cat loss ratio by about a little under 1 point this first quarter.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. And then one last quick one on expenses. So you guys have the $50 million this year, you just highlighted on the call. And then there is about, what was it $30 million, so we still have rest of that $100 million to come through this year?

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

Yes. And we've got line-of-sight to that, Elyse. We've actually accelerated some of that. So I do think that the $100 million will be achieved and again that's off the run rate 2017 base. And then we've just taken our annual budget right now and dialed it back due to the uncertainty in the current situation.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. Thank you very much.

Operator

(Operator Instructions) Our next question will come from Ron Bobman of Capital Returns. Please proceed with your question.

Q - Ronald David Bobman {BIO 17308423 <GO>}

Hi. Thanks a lot, and good morning, everybody. I had a question about reinsurance protections, and I'm sort of trying to understand what a carrier insurer is sort of thinking and might have to do as far as buying additional property cat reinsurance covers, and through the context of if COVID losses currently or ultimately could utilize some portion of the carrier's cat tower? Does that insurer need to buy sort of effectively third event cover now? So it has the protections for the balance of the year. Could you walk through the thought that I'm touching on? Thanks.

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

Yes. I think generally I would say that it will be insurance that different carriers will make right? So, in some cases the use of tower they can use up most reinsurance policies not all of them, but mostly reinsurance policies have a reinstatement provision there, and so they would buy another tower. I think different companies will make their individual choices. I don't know that we can generalize right now, if everybody -- first of all, we don't know that a lot of people are going to get into their towers is number one, right.

I think one of the things that I mentioned earlier is that we don't think that this is that these losses are going to spread through the industry like peanut butter. There's a lot of businesses personal lines, others U.S. exclusions, whatever where it's unlikely to happen. I think if you've got certain countries or certain programs, where you've got that exposure I think is where that's likely to happen. And at that point, I think it'll become the decision of each management team to determine, what they want to do with the reinsurance purchases, I'm not sure that we can provide better concise than that.

Q - Ronald David Bobman {BIO 17308423 <GO>}

Thanks.

Operator

Our next question will come from Doug Eden of ECM. Please proceed with your question.

Q - Douglas T. Eden

Good morning. With the shares trading at such a discount to tangible book value, do you see any value in repurchasing shares at these levels for EPS accretion?

A - Peter Vogt {BIO 17059745 <GO>}

Hey Doug, this Pete Vogt. We currently do not have a stock repurchase program in place, and given the current situation as we're kind of like in the middle of a cat that's still evolving, don't think it would be imprudent for us right now to put a repurchase plan in place and to repurchase any shares. We would really given that the movement in the evolving situation. So, we don't have any plans to repurchase shares right now.

Q - Douglas T. Eden

Thank you.

Operator

(Operator Instructions) Our next question will come from Gerald Fine of MCN Group. Please proceed with your question.

Q - Gerald Fine {BIO 1796996 <GO>}

Yes. Thank you. how confident are you on policies that are can written with specific exclusion for the viruses on business interruption will hold up, don't you expect all this to be litigated and the political nature of it and the target that we all could be, how confident are you, those specifically will hold up?

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

That's a fair question. And let's agree that for the moment we're talking hypothetical. My view here is that if you were to do this, you would so hurt the insurance industry that it would end up being an industry that requires a bail out. I mean that's exactly the issue. If we -- and I think that regulators and legislatures when they realize the full negative impact of what this would mean, I think they would step back.

Because at the end of the day, I think the very simple question that one has to ask every legislature and every regulator is, okay, you want to take all of our capital to pay for this that where we don't have covers. So when the hurricane hits Miami, how do you want the insurance industry to respond, now that it no longer has capital? And that's the issue. The issue is that the downside of making that decision is so bad, number one.

And number two, I think that has been recognized by Republican senators in their letter to the President and so on is basically saying that this goes against the constitution in the United States, it's very likely we have to go to the Supreme Court, which means that the insurers are unlikely to see any benefits from action of the sorts for many years. And so, why would you want to do all that when there are much better mechanisms to support the economy.

Q - Gerald Fine {BIO 1796996 <GO>}

Are you reserving money for legal expenses assuming that we have some politically-minded insurance commissioners and attorney generals coming at the industry with a target -- pain on your back? Is that part of your reserving technique to build up your reserves for legal expenses?

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

So the first thing that I would say is about were to happen, we wouldn't be the first company in line to go against this. This would be a massively funded movement by the entire insurance and reinsurance industry. So thank God we wouldn't have to pay for it all ourselves. But to be specific, we do have a budget in this $235 million charge or defense cost, because we do believe there will be additional litigation to defend our position.

Q - Gerald Fine {BIO 1796996 <GO>}

Thank you for your answer.

Operator

Our final question will come from Phil Stefano of Deutsche Bank. Please proceed with your question.

Q - Philip Stefano {BIO 20346322 <GO>}

Yes. Thanks and congrats on the underlying improvement. I guess, I wanted to ask a question around the A.M. Best action and the extent to which forward projections that you're making may have been included or not included in how they contemplated taking the action that they did. And I guess, how do -- when we're thinking about the sustainability of the underlying improvement and it feels like there is more tailwinds to come as the negative impact from Novae continues to burn off. Should we read anything into how they're thinking about the sustainability of the improvement, it is just based on the news we got this morning?

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

Look, let me not mince words here. We're obviously very disappointed by the A.M. Best action. Again especially because we believe we have turned the corner and we're starting to show tangible results. So I'll start my answer by saying that I cannot speak, nobody in AXIS can speak on behalf of A.M. Best and they will need to explain this. But let me say this, everything that I see in terms of A.M. Best Communication speaks to the prior five-year operating return, not the forward-looking return. In fact, the report that I have in front of me actually says that, there are improvements coming down the pike. So I will leave it to A.M. Best, but my expectation is that this is based on a backwards looking performance and not on a forward-looking performance, but you also made a reference in your question about, ongoing bad news because of the remaining business.

Let me give you some comfort there. We have taken all of the action necessary to curtail the business that hurt our results in the past, and we've discussed this earlier we're already now at frankly in ex-cat combined ratio that this company hasn't delivered since 2013. And so, we've moved in the right direction, we've identified the business that we have decided to eliminate, Peter announced a little while back that hurts the loss ratio by little under 1 point, but there's again very little left.

I do want to provide you the assurance that there is nothing left in our book that we believe needs to be addressed in terms of there's a book of business here, what are we waiting for? I -- there were areas in the past where we had to wait from January 1 to the next January 1 to non-renew, a binder or this or that, but when we look at the book of business today, and in fact, you can see it in the growth of insurance, insurance is now on the front foot, it's in growth mode in a hard market.

So we're not looking for we're not looking to cut back there. We cut back again on our property and our property cat exposures at January 1 in the reinsurance, because we wanted to make sure that we would bring the volatility and the potential volatility of the book down. So to the extent that we can, I do want to express my confidence that we've taken the actions necessary to get rid of the business has been hurting us, and other than this $30 million of premium that Peter spoke about, we're feeling very confident and very optimistic about our outlook.

Q - Philip Stefano {BIO 20346322 <GO>}

I got it. I appreciate the thoughts. Best of luck on proving them wrong.

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

Thank you. We're looking forward to doing it.

Operator

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

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

Thank you, operator. So I want to thank everybody for your time this morning. So, notwithstanding the challenges of COVID-19 the four-point improvements in our ex-cat current year combined ratio I think speaks to the hard work. So we've done over the last several years. I think we're starting to see consistent and meaningful improvements.

Obviously, we're very disappointed by the A.M. Best action which really speaks on a backward-looking basis and not a forward-looking basis. I think our team is doing an incredible job in terms of the shelter-in-place. Our service is great. As we look to the future in the months ahead, we are remaining focused on limiting the downside. We're going to practice expense discipline. We're going to continue to deliver great service to our customers.

I believe, we're taking all the right actions and I believe that AXIS is well positioned to manage through the pandemic and come out strong on the other side. So we do hope -- we look forward to reporting more positive news in upcoming calls. Thank you very much and please stay safe. Operator, Thank you.

Operator

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