S&P Global
Market Intelligence

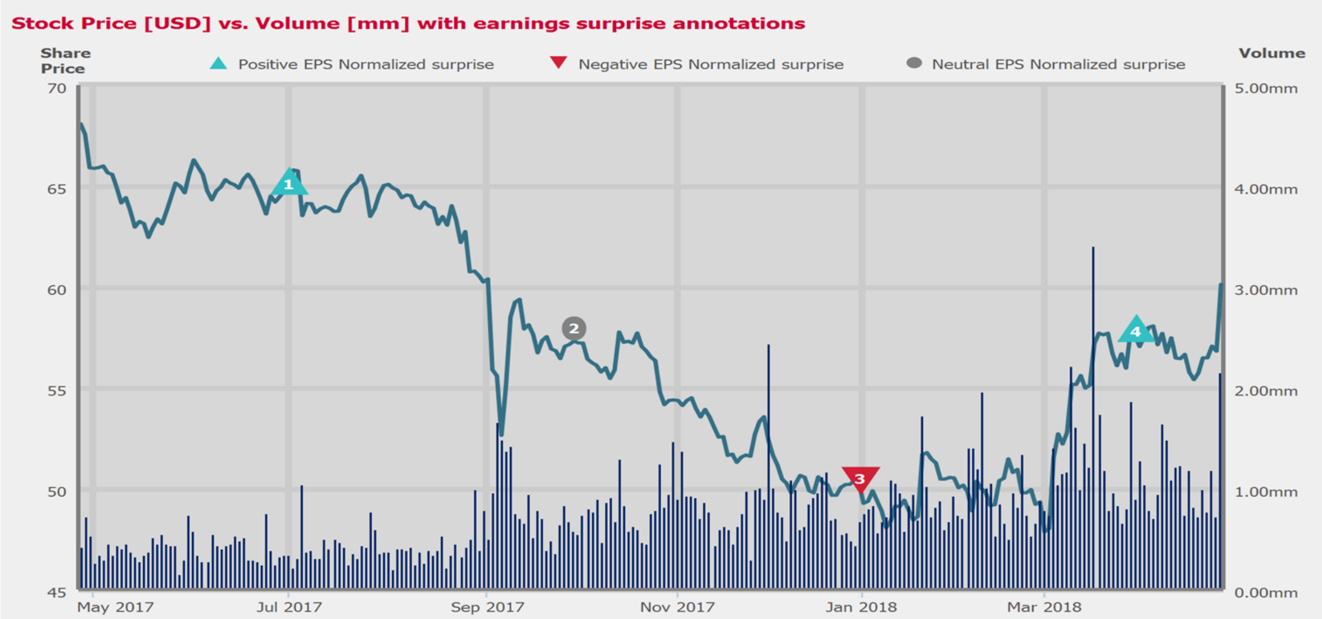
AXIS Capital Holdings Limited NYSE:AXS
FQ1 2018 Earnings Call Transcripts

Thursday, April 26, 2018 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2018-			-FQ2 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.15	1.46	▲26.96	1.10	4.57	NA
Revenue (mm)	1898.41	1985.87	▲4.61	1219.37	4943.92	NA

Currency: USD
Consensus as of Apr-27-2018 1:50 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2017	1.16	1.31	▲1 12.93 %
FQ3 2017	(5.42)	(5.35)	NM
FQ4 2017	0.26	0.24	▼2 (7.69 %)
FQ1 2018	1.15	1.46	▲3 26.96 %

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Call Participants

EXECUTIVES

Albert A. Benchimol
CEO, President & Director

Linda A. Ventresca
Chief Strategy Officer

Peter John Vogt
CFO & Executive VP

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UBS Investment Bank, Research Division

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Wells Fargo Securities, LLC, Research Division

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Kai Pan;Morgan Stanley, Research Division;Executive Director

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good morning, and welcome to the AXIS Capital First Quarter Earnings Conference Call. [Operator Instructions]

Please note, this event is being recorded. I would now like to turn the conference over to Linda Ventresca, Head of Investor Relations. Please go ahead.

Linda A. Ventresca
Chief Strategy Officer

Thank you, and 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 of 2018. Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you would like copies, please visit the investor information section of our website, www.axiscapital.com. We set aside 1 hour for today's call, which is also available as an audio webcast through the investor information section of our website. A replay of the teleconference will be available by dialing (877) 344-7529 in The United States, the international number is (412) 317-0088. The conference code for both replay dial-in numbers is 10118928.

With me on today's call are Albert Benchimol, our President and CEO; and Pete Vogt, our CFO. Before I turn the call over to Albert, I will 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 AXIS' most recent report on Form 10-K filed with the Securities and Exchange Commission on February 28, 2018, as well as the additional risks identified in the cautionary note regarding forward-looking statements in our earnings press release issued on April 25, 2018. We undertake no obligation to update or revise publicly 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, which can be found on the investor information section of our website.

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

Albert A. Benchimol
CEO, President & Director

Thank you, Linda. Good morning, everyone, and thank you for joining us to review our first quarter performance. For AXIS, the story of the first quarter is that our actions of the past few years are starting to deliver meaningful results. I'm pleased by the quarter's results, which I believe signal the start to a strong 2018 for AXIS. I'm going to begin by putting our first quarter results in the context of recent transformation actions and the ongoing evolution of our company, after which, Pete will provide a bit more detail on the numbers, and I'll close with our customary review of pricing and outlook.

Over the past 5 years, AXIS has undergone a fundamental transformation from an intelligent and opportunistic provider of large capacity for volatile lines, in what was a hard market to a relevant and leading player in a select number of attractive markets, positioned to deliver superior results across a wide range of market conditions. In that time, we exited a number of lines and markets where we did not see a clear path to leadership or profitable growth, including the Australian retail market, Canadian property, global excess casualty, retail distribution for property and casualty lines in the U.S., and most recently, Onshore Energy. But we also invested in developing lines with exciting potential, including A&H, Renewable Energy, cyber, agricultural reinsurance and mortgage reinsurance. We provided our underwriters with better tools and analytics and achieved industry-leading claim service levels. We expanded geographically and completed the acquisitions of Aviabel and Novae. We recruited strong talent. By the end of 2017, AXIS was a relevant top 10 player in substantially all of its chosen markets, including the U.S. E&S wholesale business, North American professional lines and the London Lloyd's market for international specialty lines. This quarter's results provide some insight into the earnings potential of our progress to date. We reported operating income of $1.46 per share and operating ROE up 10.8%.

However, our reported GAAP result understate the true profitability of our book, as the PGAAP adjustments related to the Novae acquisition had a negative $40 million impact on reported earnings. As Pete will discuss later, these PGAAP adjustments will substantially run off by the end of the year. Thus, we believe a better indication of our underlying profitability is on an ex-PGAAP basis. And on that basis, ex-PGAAP, our annual operating -- our annualized operating ROE was 12% in the quarter. Let me add that the integration of Novae continues to proceed according to plan. Pete will address our results with the Novae operations attributed separately to insurance and reinsurance segments.

But on a combined basis, the continuing business of Novae delivered a running rate accident year combined ratio in the mid-90s for the quarter, excluding any PGAAP adjustments. This performance still does not reflect the full benefit of the recent and ongoing underwriting actions we've taken on the Novae portfolio nor the full synergies we expect to achieve from the integration of Novae. You will recall, we announced revised synergy projection of $60 million by year-end 2020. This quarter reflects only $7 million of achieved synergies or $28 million on an annualized basis. So there's still more progress to come. Separately, we've also earlier this year expanded our transformation program to include the redesign of our operating model based on best practices utilized by forward thinking companies, both within and outside our sector. You'll recall the highlights of the organizational changes that we announced included the realignment of accidents and health operations to the insurance and reinsurance segments, restructuring our finance and IT functions around an integrated organization structure and the creation of a global underwriting and analytics office. These actions put the company on a powerful path forward, as we accelerate our strategy to be a leader in specialty insurance and reinsurance, while increasing our efficiency and profitability. Simply put, we aim to be better, smarter and faster in serving our clients and partners in distribution. We will, on the one hand, be more efficient in the delivery of our differentiated services; and on the other, invest in greater analytics, technology and development for our staff. We expect that these operational efficiencies and investments in new initiatives and talent will make AXIS more agile and responsive and better position our company to lead and win in today's markets and into the future. In addition, we expect our ongoing transformation to deliver net additional expense reductions of $40 million by year-end 2020, even as we invest in our people and in our business. When added to the $60 million in synergies from the integration of Novae, total expense in cost savings should exceed $100 million by year-end 2020. We're proud of our achievements to date and keen to continue our progress to deliver outstanding products and services to our customers and superior returns to our shareholders. We have a clear runway to enhance profitability and are committed to a journey that will provide substantial rewards to all our key stakeholders.

And with that, I'll turn over the call to Pete, who will go through the figures in more detail.

Peter John Vogt
CFO & Executive VP

Thank you, Albert, and good morning, everyone. During the quarter, we generated strong results, featuring net income of $63 million in an annualized ROE of 5.5%. Our operating income for the quarter was $123 million, and in ex-PGAAP basis, our operating income was $137 million, generating an ex-PGAAP annualized ROE of 12%. Net income this quarter benefited from good ex-cat underwriting results, a lower level of catastrophe and weather-related losses, continued favorable prior year reserve development and strong investment income. These positive factors were partially offset by net investment income losses and foreign exchange losses. Diluted book value per share declined by 2% in the quarter to $52.57. The decline was principally driven by net unrealized losses on investments. Before I get into specifics, I would like to provide an update on a number of items. Firstly, with regard to the acquisition of Novae, in the quarter, we recognized $60 million of intangible amortization, including $57 million of VOBA amortization. This expense affected the company's operating income, but was not included in the results of the company's insurance and reinsurance segments.

As previously disclosed, the VOBA is expected to be immaterial beyond mid-2019. Underwriting income in the quarter continue to include the earnout of Novae's unearned premium as of the closing date without the recognition of the associated acquisition cost, since the DAC asset was written off at closing. This DAC would normally been amortized into acquisition expenses. We estimate that the consolidated acquisition cost on an as-if basis would have been $40 million higher, resulting in an as-if acquisition cost ratio of 23.1% versus the reported ratio of 19.6%.

As we have previously mentioned, we entered into a reinsurance-to-close agreement for Novae's 2015 and all prior year's liabilities. The agreement effectively transfers responsibility for discharging all liabilities associated with all business underwritten by Novae in 2015 and prior years. The positive financial impact associated with this transaction was reflected in the fair value of Novae's balance sheet at the closing date.

During the quarter, we recognized a reduction in reserves for losses and loss expenses, representing the transfer of the liabilities to the reinsurer, consideration paid and a payable representing consideration due to the reinsurer at March 31, 2018. The transaction had no impact on our net income in the quarter. Additionally, in the first quarter, we realigned our accident health business units into the insurance and reinsurance segments. Financial results relating to A&H were previously included in the results of the insurance segment. As a result of the realignment, A&H results are included in the results of both the insurance and reinsurance segments. In the investor information section of our website, we have supplemental historical financial information presenting this alignment.

Finally, nonoperating transaction and reorganization expenses of $13 million were recognized in the quarter. These expenses are associated with the integration of Novae and our transformation program. Moving into the details of the income statement. First quarter gross premiums written increased by 39%, with an increase in both reinsurance and insurance segments. The reinsurance segment reported an increase in gross premiums written of $415 million in the quarter compared to the same period last year. Approximately, 1/3 of the increase is due to the timing of renewals, primarily driven by multi-year contracts written in 2016 that were not available to renew in 2017, but have renewed in the first quarter of 2018. These contracts renewed for 1 year term. $50 million of the increase is driven by the acquisition of Novae. Foreign exchange movements contributed $80 million to the increase. And lastly, we had good premium growth in A&H and cat from new business, and strong growth in the motor business, driven by rate increases as well as new business. The insurance segment reported an increase in gross premiums written of $336 million in the first quarter. The increase is mostly driven by $302 million of premium associated with the acquisition of Novae. Year-over-year, Novae's gross premiums written declined about 10% with 2/3 of the decrease related to discontinued lines and the remainder due to the nonrenewal of certain accounts, primarily those identified to be underperforming within the property and marine lines. The legacy AXIS insurance book was up 6%, primarily driven by aviation due to our acquisition of Aviabel, professional lines and new business across a number of business units and an increase in liability lines due to new business and renewal rate increases. Consolidated net premiums written increased year-over-year by 32%. Reinsurance net premiums written increased by $286 million compared to the same period in 2017, including $19 million attributable to Novae. The additional increase of $267 million reflected the increase in gross premiums written, partially offset by an increase in premiums ceded in catastrophe lines. Insurance net premiums written increased by $191 million compared to the same period in 2017. The increase is almost all attributable to the acquisition of Novae. Consolidated net premiums earned increased by 24% year-over-year. Reinsurance net premiums earned increased by $41 million compared to the same period in 2017. $13 million of the increase is attributable to Novae, with the remaining increase due to strong premium growth in catastrophe, motor, and accident and health lines, partially offset by an increase in ceded premiums earned in catastrophe lines. Insurance net premiums earned increased by $188 million compared to the same period in 2017, a $178 million of the increase is attributable to Novae, with the balance due to strong premium growth in A&H, along with premium growth in aviation lines associated with the acquisition of Aviabel.

We reported a consolidated combined ratio of 90.8%, an 11.3 point improvement from the first quarter 2017 consolidated combined ratio of 102.1%. While this is our reported numbers, it is not the most useful ratios to gain an insight into our business performance. As I noted in my opening remarks, this quarter benefits from a lack of DAC amortization associated with the runoff of the Novae unearned premium. In the same quarter, last year, it does not include Novae results. So we're not comparing on a like-for-like basis.

In order to provide better insight into the changes in the business, I'll compare the first quarter of this year reversing the PGAAP impact on acquisition costs and combining the first quarter of 2017 AXIS results with the first quarter 2017 Novae results, which we provided in supplementary disclosure earlier this year. On this pro forma basis, the current quarter consolidated combined ratio is 94.3% and is a 10.4-point improvement from the first quarter 2017 AXIS Novae consolidated combined ratio of 104.7%. The 10.4-point improvement is driven by a 4.8-point improvement in the current accident year loss ratio, ex-cat and weather, a favorable increase in prior year development, affecting the loss ratio by 4.4 points and decrease in the G&A ratio of 1.8 points and lower cat and weather losses, partially offset by a higher acquisition cost ratio. The current quarter consolidated current accident year loss ratio decreased by 5 points to 61.3% compared to a pro forma first quarter 2017 of 66.3%. During the quarter, we incurred catastrophe and weather-related losses of $35 million or 3 points. This is a decrease of 2/10 of 1 point from pro forma 2017, catastrophe and weather losses of 3.2 points. The first quarter losses were principally due to weather-related events. The consolidated current year accident loss ratio, ex-cat and weather are 58.3%, is a 4.8-point decrease from pro forma first quarter 2017 ratio of 63.1%. Both segments improved. The reinsurance segment, current accident year loss ratio, ex-cat and weather, are 62%, is a decrease of 5.9 points from a pro forma prior year ratio of 67.9%.

The drivers of the improvement are rate increases across a number of lines, reducing impact from Ogden rate change, favorable experience in property and credit and surety, and a positive impact of mix resulting from our underwriting actions. Insurance segment current accident year loss ratio, ex-cat and weather of 54.5%, improved 3.8 points from a pro forma prior year ratio of 58.3%. The improvement was driven by a 9.7-point improvement in the legacy Novae book, primarily driven by the favorable impact from discontinued lines and a 1.2-point improvement in the legacy AXIS book, driven by favorable changes in business mix and a favorable impact of rate and trend, partially offset by an increase in midsize and attritional loss experience in aviation and marine lines.

Turning to loss reserves established in prior years. During the first quarter, our results benefited from net favorable prior year reserve development of $54 million, including $32 million attributable to the reinsurance segment and $22 million attributable to the insurance segment. Included in the $54 million is favorable development of our 2017 catastrophe reserves of $26 million, split $19 million in the insurance segment and $7 million in the reinsurance segment.

During the first quarter, the pro forma consolidated acquisition cost ratio of 23.1% increased 7/10 of 1 point compared to the same period in 2017. There was no material change in the insurance segment's ratio and a 1.5-point increase in the insurance segment's ratio, primarily related to changes in business mix.

On a year-over-year reported basis, we will continue to experience a higher acquisition ratio and a lower current accident year loss ratio, ex-cat and weather, due to the mix of business provided by the Novae acquisition, which consists of primarily smaller accounts. The G&A expense ratio of 14.5% decreased by 1.8 points compared to the pro forma first quarter 2017 G&A ratio of 16.3%. The decrease mainly related to realized synergies in Novae acquisition and an elevated level of expenses in the first quarter of 2017, primarily due to onetime separation costs and share-based compensation costs.

In the first quarter, the income from strategic capital partners was $13 million, up from $11 million last year. It consisted of $5 million in other insurance related income, primarily attributable to profit commissions associated with third-party retrocessions and $8 million included as an offset to G&A expenses. Net investment income was comparable to the first quarter of 2017, with an increase in income from fixed maturity securities, largely offset by a decrease in income from alternative investments, in particular hedge funds, which benefited from a stronger performance in equity markets in the prior year quarter. In the quarter, the total return on cash and investments, including the impact of foreign exchange, was a negative 1/10 of 1 point compared to a positive 1.1% last year. The year-over-year decrease in total return was primarily driven by the increase in unrealized investment losses on the fixed maturity securities, primarily as a result of an increase in U.S. Treasury rates. The balance sheet is strong, and today, we have more sources of capital available to us than we've ever had in our history. AXIS is well positioned to continue to support clients across its portfolio lines, where we feel we can get an appropriate return on capital. The suspension of share repurchases has continued into 2018 as we continue to focus on restoring capital to levels held prior to the major cat losses in 2017.

With respect to the integration of Novae, we are still comfortable that we will deliver $60 million in run rate savings by 2020, with at least $30 million to $35 million in this year. As Albert noted earlier, this integration, combined with our ongoing enterprise-wide transformation program, is expected to deliver $100 million in run rate cost savings by 2020, even as we continue to invest in our future-ready operating model.

Finally, we feel comfortable that various other underwriting and risk management initiatives, together with continued progress and targeted growth initiatives and continued momentum in strategic capital partnership activities will continue to drive strong results.

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

Albert A. Benchimol
CEO, President & Director

Thanks, Pete. Let's spend a few minutes going into detail on the market and recent price changes we've seen across our business. In our insurance book, we're seeing the continuation of the positive pricing momentum that started after the record third quarter cat events in '17. In this quarter, our average renewal price change was up 5%. This compares to plus 3.5% in the fourth quarter of last year and minus 1.4% in the first quarter of 2017. For the moment, at least, it seems to be gathering some steam. With the monthly rate change increasing in succeeding months, with average increases of 4% in January, 4.7% in February and 6.6% in March. In the first quarter, 89% of renewed premiums were flat to up. Well, that figure was 72% in the fourth quarter of 2017.

Similar to last quarter, the strongest improvements were observed in our U.S. division, where we achieved average increases of 11.7%, with solid double-digit improvements across both E&S property and excess casualty, while primary casualty and programs were up in the mid- to high-single digits. In our important London-based international insurance division, the average rate change for the first quarter was 4.3%, with the strongest increases in the U.S. and Caribbean exposed property lines. 90% of the premiums renewed were flat to up. Our U.S. and Bermuda professionalized division was up a bit above 1% for the quarter. This is noteworthy, as it is the first time we saw a positive overall price change in some time for professional lines. About 79% of the book renewed flat to up. The strongest increases are in primary layers and D&O, while excess layers and E&O lines are closer to flat.

Across all insurance lines and geographies, we're seeing more submissions and achieving growth where it makes sense. We're aggressive in pushing price increases where it's warranted. This has resulted in lower retention ratios in some cases, but we're showing growth and improved profitability, so we're satisfied that we're taking appropriate actions. The reinsurance market is also seeing an improved tone, but it is more subdued as there is still excess capacity. In quarter share business, we're benefiting from the underlying price changes, but ceding commissions are generally flat, other than in treaties that have delivered poor performance. In those cases, particularly in the U.S., one is likely to see ceding commissions drop 1 or 2 points. Otherwise, it's generally renewal with expiring terms. Excess of loss treaties are similarly stable, except in the case of poor underlying performance, and there, increases are generally in the low single digits. Exceptions are, of course, in the U.K. excess motor business, which responded to the change in the Ogden rates last year and catastrophe, where the markets are modestly up in the U.S. but generally flat elsewhere.

I think it's fair to say that cat markets have not responded to the extent hoped for at the end of last year. The recent April 1 renewals were in large part focused on the Asia Pacific region. Rates in terms are very stable in Japan and flat to slightly negative outside Japan. Overall, in both our insurance and reinsurance portfolio, earned rates is on average matching trend. On a written basis however, rate is ahead of trend, which should bode well for future periods. I'm cautiously positive on the outlook, despite the abundancy of capacity in many lines. I believe the market is simply too stressed to give up any more pricing. Nevertheless, there will be no ties to lift all boats, and meaningful underwriting margin improvement will be dependent on individual company's ability to access attractive risks and select among the best opportunities to create profitable portfolios.

In that regard, I'm bullish about our prospects. Our global diversified specialty hybrid platform and top 10 positioning gives us significant flexibility over our competitors, and we remain focused on improving our portfolios to deliver stronger results. Regardless of market conditions, we will continue to strengthen our franchise, platform and capabilities and leverage risk funding with the goal of delivering stronger performance. As I mentioned on the onset of our call, our actions for the past few years are starting to deliver meaningful results. Perhaps, the best way to illustrate this is to compare the results of legacy AXIS business year-over-year without the impact of Aviabel and Novae portfolios, which we've only recently started to influence. Within the legacy AXIS portfolio, the ex-cat accident year combined ratio improved by 3.5 points in insurance and 6 points in reinsurance. We intend to continue our disciplined data-driven approach to portfolio construction to make the most of our recent acquisitions and achieve further progress in underwriting performance. The success we're seeing at our Novae integration work is encouraging, as we continue to meet and exceed our objectives and delivering on this very important effort. The organization is energized, and we're making significant strides in cementing our leadership role in the London International Specialty Insurance space.

In summation, I'm pleased with the quarter's results and feel it's a bright start to a strong 2018 for AXIS. Our differentiated market positioning, underwriting actions and progress along our targeted $100 million of cost savings by 2020 give us a clear path to improve performance. I'm confident about our ability to deliver on our goals. And we are committed as ever to the successful execution of our strategy in 2018 and beyond, producing superior outcomes for all of our stakeholders. Thank you for your attention. And with that, we'd be happy to open the call for questions. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, Albert, I appreciate all the pricing color. In terms of just outlook from here, do you think that the upward momentum you pointed to rate increases improving every month of the quarter, do you see that continuing? And I guess, in your comment there, if we get to the June and July renewals and all the capital that's been coming back into the reinsurance market potentially causes rates to decline at the mid year. Do you think that, that will have an impact on the upward momentum that you're seeing in the primary insurance market?

Albert A. Benchimol
CEO, President & Director

Thank you, Elyse. So happy to provide the details on a monthly basis. But I would be loath to project that we will continue to add 1 or 2 points of pricing increase per month. I think the levels that we have are levels that are sustainable. I think they work well for the customers, for the brokers and for the companies to try and maintain a well-functioning market. But I think we do need to keep these increases going forward. We'd be, of course, very happy to see improved beyond that, but we're working on the basis, that if it stays at these levels, we need to build profitable portfolios at those levels. I do want to differentiate our outlook from what we're seeing in our various insurance lines and the reinsurance market. And as I mentioned, I think the reinsurance market is much more subdued than what we're seeing, at least, in our markets for insurance lines. There, in nonloss-affected cat business, we've essentially seen flattish, maybe up a couple of points, but really not much change. In loss-affected portfolios, we've seen mostly high single digits, and in some cases, double digits. Again, I expect that to continue. My expectation, of course, is that there will be more loss-affected treaties renewing in the May to July period. So my expectations that cat, on average, will probably show high single digit on average when you incorporate the higher preponderance of loss-affected treaties. And so I think that's where we are. I continue to hope that will not see a diminution of the current pricing. But I'm also not supporting a vision of substantial improvement beyond the levels where we are today.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then in terms of reinsurance, the growth you saw in the quarter, Pete, you highlighted there was some multi-year coverage from 2016 that renewed this first quarter. Are there multi-year covers from -- in the back 3 quarters of '16, that we should think about in terms of modeling that -- or up for renewal this year?

Peter John Vogt
CFO & Executive VP

Yes. That is a -- that's a good question. I don't have that answer right on top of my head. I'll get back to you on that. But I think most of it really occurred in the first quarter, but we can follow-up on that.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then a couple other questions, just related to the expense level. Is the acquisition cost ratio that -- about 23% or so excluding the purchase accounting adjustments. Is that the right level to assume, going forward, ex purchase accounting?

Peter John Vogt
CFO & Executive VP

That's a good level to assume ex purchase accounting. I think it's going to continue to drift up towards that -- into that low 20s area as the purchase accounting impact goes away.

Albert A. Benchimol

CEO, President & Director

And Elyse, you know that we have, in every quarter, a little bit of up and down around loss sensitive factors. So as reinsurance numbers develop well in certain lines of business, we give up a little bit more commission. So that was a little bit higher this quarter. So there's always going to be a little bit of up and down. But Peter is right, that's generally a good level.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then in terms of the purchase accounting benefit for the remaining 3 quarters, can you -- is there any kind of color that you can give us about thinking the benefit that we should model going forward? And is it the right way to think about it that you get -- you wrote off about $209 million of deferred acquisition cost? Is that the level that it will come back as a benefit by the end of '18? Or can you just help us think through the modeling there?

Peter John Vogt
CFO & Executive VP

Yes. We expect in the modeling, at least, that through the course of 2018, you'll see about $120 million benefit. So we got about $40 million of that in the first quarter, which I mentioned, so $80 million for the rest of the year, and that will decline throughout the year. So you'll see more of a benefit in 2Q, less in 3Q, even less in 4Q as that DAC amortization benefit runs off. But in total, for this year, we're looking to -- it's going to probably be about $120 million. And the remaining $80 million will not be runoff evenly. Probably about 45% of that remaining will be written off in the second quarter, and then the last 2 quarters, the rest, may be 30% and then 25%.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then there's no benefit in '19, so the only thing we need to think about in '19 is just in terms of the intangibles amortization running through the model?

Peter John Vogt
CFO & Executive VP

No. There'll be a little bit, but it'll be de minimis. I think by the time we get to '19, at least, there will about probably $19 million left and that will run off for the most part in the first half in '19.

Albert A. Benchimol
CEO, President & Director

And of course, that benefit will be offset by the amortization.

Peter John Vogt
CFO & Executive VP

Yes, amortization of the VOBA.

Albert A. Benchimol
CEO, President & Director

Which will be a negative below the underwriting, yes.

Peter John Vogt
CFO & Executive VP

So just to expand on that, Elyse, we gave a schedule out for the VOBA, and again, we expect that to be $171 million of a drag this year, of which $57 million was amortized in the first quarter, and that will be down to about $27 million drag in 2019, again, most of it running off in the first half of next year.

Operator

And our next question is from Kai Pan with Morgan Stanley.

Kai Pan;Morgan Stanley, Research Division;Executive Director

So I just want to follow up on the -- your comments on the underlying improvements and the loss ratio improved 5 points year-over-year. So why suddenly? I know you have done a lot of work in the past several years. Why suddenly all showing up in this quarter? I just wonder what's sustainability of the 58% going forward?

Peter John Vogt
CFO & Executive VP

Kai, it's Peter. I would say that what we're seeing finally come through is at the last 3 to 5 years of work on the underlying portfolios, we had good progress in the areas we expected to see good progress, and it's coming through as we're actually starting to earn it in this first quarter. Again, there's always puts and takes in a quarter. I think the quarter benefited from a low level of property activity on the reinsurance side this quarter. But a same token, we had higher level of midsize losses on the insurance side associated with our aviation lines and marine. I'd say, it was a really good quarter. I do think these levels can be sustainable. But we did not do anything different this quarter. We're just continuing to see the improvement that's taken a long time to turn the ship over the last 3 to 5 years start to earn through.

Albert A. Benchimol
CEO, President & Director

Yes. If I can add to that, Kai. I mean, obviously, we spent a lot of time analyzing results with the loss bridge. We identify factors like ceded and adjustment premiums, rates, trend, mix, experience, you name it. I think a couple of highlights: number one, we didn't have the adverse impact of Ogden, which, as you know, hurt us last year; and that had a meaningful impact on the loss ratio. We continue to have growth in the A&H business, which tends to have a lower loss ratio, a higher expense ratio but lower loss ratio through the business. We've had some ups and downs on the losses. So as Pete says, we didn't have any substantial large loss activity in the reinsurance division, good property activity. On the other hand, we had pretty poor aviation results this quarter. We had some additional losses on marine. Obviously, the property book in the U.S. was affected by the weather event. So every quarter, you're going to have something, but by and large, I think not unreasonable. And of course, the addition of the Novae book makes a difference. Because the Novae book, as Pete pointed out, has a higher acquisition expense but generally a lower loss ratio and 2 -- fully 2 points of the improvement in the loss ratio is the inclusion of the Novae book in our consolidated results. So from our perspective, this really is consistent with the runoff of the discontinued lines that we had. We got out of retail property and retail casualty in the U.S. in the end of 2016, but those lines hurt us in 2017. As those premiums ran off, you're now seeing a book which is less exposed to the discontinued line and more demonstrating the underlying profit potential of the ongoing continuing business.

Kai Pan;Morgan Stanley, Research Division;Executive Director

Okay. That's great. Just follow up on that, is there any seasonality in Novae's book through the year? What I'm trying to understand is that your historical access -- accident year loss ratio has been pretty consistent throughout the quarters. Is there going to be more seasonality with the inclusion of Novae?

Albert A. Benchimol
CEO, President & Director

I would say twofold. By and large, not really. One of the good things about their book, of course, and that we were very attracted to is that they have a lot of small accounts, very diversified. They actually add diversity to our book of business because they have more European exposure, and that adds balance. So those are good things. But I would say that when you think about cat exposure, our cat exposure was predominantly around the -- when it comes to wind, mostly around U.S. wind. It quite happens every month, if you want. But when you think of wind, it's predominately in the summer and early fall. Novae has a much larger European property book. And so we're probably going to be more exposed to European property wind losses. So I would say that it probably is going to reduce the overall seasonality of our cat exposure because where as we were low in Europe before in the European wind season, we're now going to be higher. And we've always been, like everybody else, higher exposure in the summer for U.S. wind, and we're going to continue to have U.S. wind exposure. So yes, they have a different pattern, but I think, it probably levels out our pattern because of the rebalancing between Europe and U.S.

Kai Pan;Morgan Stanley, Research Division;Executive Director

That's great. Then on the cost saving, the $100 million. So I just want to make sure that's like -- that's after potential reinvestment in the business. So that will be flow-through the bottom line. And also, could you provide a schedule in term of the annual cost saving like a target as well as the restructuring cost through the next 3 years?

Albert A. Benchimol
CEO, President & Director

Kai, thank you for bringing that question because it's actually very important. In as much as the numbers that we gave you, the $60 million and the $40 million, they're actually the result of additional savings elsewhere. But we specifically allocated a good chunk of those savings to investing in our people, to investing in development, investing in technology and analytics. So the number that we give you is a net number after incremental investments that we're going to do in our people and in our business. That, of course, is going to be achieved off of the expense structure and the expense base that we have in 2017, that will roll through 2020. And Peter, you may have some insights on calendar year projections. But we feel pretty good that by the end of 2020, we will have eliminated those expenses.

Peter John Vogt
CFO & Executive VP

Kai, we are very confident and still sticking with the estimates we gave you for the $60 million associated with Novae. If you take our $7 million synergies, actually experienced in the first quarter of '18 and annualize that, you can look at we've already got $28 million on an annualized run rate towards our $60 million. We do expect to get to -- up to $35 million of that this year, so $30 million to $35 million, and as we said $50 million to $55 million next year, with the full $60 million coming in 2020. For the additional $40 million that Albert mentioned, we do have end plans that suggest that we will get to that additional $40 million also by the end of 2020. We have not gone through the details scheduling on when all those actions will actually take place. I'd say that the predominant will actually come through in '19 and with the remainder coming through in '20.

Albert A. Benchimol
CEO, President & Director

It's fair to say that we don't expect substantial amounts in '18.

Peter John Vogt
CFO & Executive VP

Yes.

Albert A. Benchimol
CEO, President & Director

And as we're working through it, we'll be rolling out the new organizational structure. There'll be things that are done through the rest of this year. So we don't expect that there will be any real savings from that incremental 40 during this year. We'll see more of that split between '19 and '20.

Peter John Vogt
CFO & Executive VP

'19 and '20, yes. Is that helpful?

Kai Pan;Morgan Stanley, Research Division;Executive Director

Yes, yes, very helpful. My last question, if I may, is on the industry consolidation. You've seen increased M&A activities in this industry. I just wonder will that provide any opportunities for AXIS or you will be solely focused on the integration of Novae and growing organically?

Albert A. Benchimol
CEO, President & Director

We're focused on integrating Novae. I mean, we've got a full project -- list of projects in front of us right now. We're doing a lot of work, very successful, and I think, on schedule. We're completing the integration of Aviabel. We're focused on the execution of the strategy, the integrating of Novae and Aviabel and making plan.

Operator

Our next question comes from Amit Kumar with Buckingham Research.

Amit Kumar;The Buckingham Research Group Incorporated;VP & Senior Analyst

Two quick questions, if I may. The first question, obviously, is going back to the discussion on Novae. In the opening remarks, you mentioned that the number was mid-90s CR and there was sort of room to improve on that. Can you just sort of update us as to where do you think that number settles on a normalized basis?

Albert A. Benchimol
CEO, President & Director

As you know, we're not really keen on guidance, Amit. But the reason I feel confident that, that mid-90s accident year combined ratio has room to grow is twofold. The first is, as Peter mentioned, we're less than halfway through the synergies associated with the Novae acquisition. So by definition, that should help. The second issue is that, although we like a lot of what Novae had done -- what attracted us to Novae in the first place was that they had already taken a lot of the tough decisions to focus their book of business on areas where they were profitable. But the truth is, there were still some parts of that portfolio that continued to use some action. And I know that over the last 6 months, since we've been in that company, there's a bunch of business that we chose to nonrenew, and you still don't see the benefits of that portfolio improvement. Just in the first quarter, we probably nonrenewed willingly, probably somewhere between $30 million and $50 million of business that we said, "You know what, going forward, this is not business that necessarily meets what we want to do." Again, you won't see any of that reflected in the results for several quarters. So I feel good that we're doing the right things, that we're continuing to do the right things. And as these actions work their way through the earned premiums and the expense lines, I have confidence that we're going to see further improvement in the Novae and the London book results -- as, by the way, I expect in the overall book of AXIS.

Amit Kumar;The Buckingham Research Group Incorporated;VP & Senior Analyst

Got it. That's helpful. That the only other question I have is, I guess, going back to Kai's question on consolidation. Probably, I'll try to ask it in a bit more direct manner. Your name has been reported in the press, and there are obviously has been a lot of discussions in the investment community based on VR, and XL and other franchises. And clearly, there has been exuberance in the stock price based on that investment chatter. Based on your response to Kai, should the takeaway be that you are more focused on the integration, and hence, it's premature to think that anything could happen? Or how should I sort of string those 2 comments together?

Albert A. Benchimol
CEO, President & Director

Well, let me start with the policy that we don't -- our policy is not to talk about rumors, our top policy is not to talk about hypotheticals, what could happen in the industry or not happen in the industry. My response to Kai and my response to you is that we're focusing on things that we can do and that we can control, and right now, we're focused 100% on the execution of our strategy because we think that will deliver significant benefits to our customers, our employees and our shareholders.

Operator

Your next question comes from Meyer Shields with KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

So Albert, you talked, I think, very reasonably about disappointing property catastrophe rate increases despite record or new record catastrophe losses last year. So if we don't have that -- the same sort of historical uptick post events, is the line of business still worth the volatility?

Albert A. Benchimol
CEO, President & Director

Well, that's an excellent question. And frankly, that's the reason you'll notice that our net cat premium has actually declined over the last 5 years. Cat is still an important component of risk management for our customers on the reinsurance side. And I think it makes sense that this should be an important component of our offering. As you know, many customers continue to want to have cat protection through their traditional reinsurance program, in addition, of course, to take advantage of alternative market. And it's my belief that customers can -- are willing to pay a little bit more for the incremental benefit and service that you get under reinsurance. But net-net, I see that you will continue to see that our net cat exposure will decline if we don't get the adequate compensation for it. But our strategy and it's our strategy that we put in place and executed now for quite some time, is that we want to continue to provide a full range of products and services to our customers, and then to the extent that it makes sense for us, to partner with third-party capital and share those cat premiums with our third-party capital partners, we will do so. It's a strategy that delivers fees and the good years and that reduces the net losses in the bad years, and that's a policy that we will continue to use.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's helpful. And second, help me if you talk a little bit about net gross ratios by line of business within insurance? In other words, whether there are any changes in reinsurance purchasing by line of business?

Albert A. Benchimol
CEO, President & Director

The short answer is there always is. Because every year, we have an opportunity to renew -- to review the construct and consider attachment points, whether we're doing more quarter share, more excess so on and so forth. I would say that if you look at our numbers, we have, probably over the last 2 or 3 years, increased our sessions in professional lines. And so that's a pattern that's been there. I don't expect meaningful change to that approach. I think that every year, we look to optimize our property, the reinsurance purchases. And as you know, we renew our property program, including tax in early May. And so we're looking to optimize that structure, and we'll be reporting on that later on. But other than that, we continue to maintain the patterns that we have in the past. Is there anything you want to add that. Hang on a second maybe Peter has anything -- something you want to add to that?

Peter John Vogt
CFO & Executive VP

Yes. I mean, the only thing I would add, Meyer, is we did actually buy some more reinsurance in the cyberspace. We actually have a really good quarter share tree that actually Novae had on its cyber book. We had actually had a smaller quarter share on our books, and we actually had one more increased our purchasing to help protect the cyber book. We are large player in cyber. We love the business. We think we're very good at it, and we've got a cyber center of excellence. But in order to protect the unknown unknowns, we've upped that quarter share on our book as well. So you would have seen some increased sessions coming out of insurance side due to that new treaty, and we feel good about it. It's a good treaty, good ceding commission and a good profit commission if the business performs well.

Albert A. Benchimol
CEO, President & Director

Right. And to your earlier point, Meyer, our cat premiums -- we're increasing the sessions of cat premiums this year. And you'll recall, I mentioned earlier, in this year, we're ceding about half of our cat premium, and that number was closer to 42% last year.

Peter John Vogt
CFO & Executive VP

Yes.

Operator

And our next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick ones here for you. First one, just curious on the investment income, fixed income that you had in the quarter, given where we are right now with current rates, should we expect that to start ramping up going forward? Anything you're doing with the investment portfolio to maybe take advantage of the higher interest rate activity?

Albert A. Benchimol
CEO, President & Director

Well, Brian, a couple things is -- just to give you a couple of points -- I know this always is a question. But the book yield at the end of the first quarter was 2.7%, and that was up from 2.5% at the end of 2017. And our current new money yield is 3.2%. So that's considerably above where our current book yield is. The other thing I'd point out is we do have about 15% of our fixed income portfolio in floaters. So as rates tick up, we should be able to gain that advantage a little bit quicker.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then any thoughts about kind of cash deployment stuff in the balance sheet? Or with the ADC, I guess, you've got cash flows going out here soon?

Peter John Vogt
CFO & Executive VP

Yes, yes. So with the ADC -- or not with the ADC, I'm going to call it the RITC, we can see -- we got to -- we'll finish that up in the second quarter with some cash. But you may not see that totally come through in cash because we've actually been -- actually working with the reinsurer to transfer securities across which we're going to show up in cash flow. But we do have some cash there, and we are keeping our eye on the timing of the payments. We served to reserves up for the cat -- for the 2017 cat.

Brian Robert Meredith
UBS Investment Bank, Research Division

How much is that going to be from a cash perspective?

Peter John Vogt
CFO & Executive VP

With this year, if I think about that, I don't quite have the timing on that. I can't tell you that the total reserves at the end of the quarter for the cats, as I mentioned, they did come down a little bit from where we were. But we were at about 700 -- mid-700s in reserves for the cats for 2017.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then Albert, just for you, let's turn around the whole M&A topic we've had so far. And maybe ask you what opportunities, not so much from buying companies, but what opportunity do you anticipate there might be in the marketplace for you? Have you seen any from some of the consolidation activity we've seen so far this year?

Albert A. Benchimol
CEO, President & Director

The issue is that whenever there's any kind of turmoil in any organization, whether that turmoil comes from M&A or anything else, there's always an opportunity to attract talent or an opportunity to attract new pieces of business. Because brokers would rather deal with different people. And to that extent, you've seen this, of course, that we continue to be recruiting top quality talent. And we're looking at a couple of opportunities right now that -- where brokers are thinking we might want to move this, we might want to move that, but that's the everyday job of our business, is to try take advantage of all those things. So we'll continue doing that.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And just last question, can you just remind us, when you say you want capital levels to return to kind of pre-hurricane levels before you look at buying back stock again, how do you define that? Is it getting debt-to-capital ratios? Is that back down getting shareholders' equity or common equity up to the level prior to the hurricane?

Albert A. Benchimol
CEO, President & Director

Yes, I think it's all of those. Look, we set up front that we have -- so if you look at our numbers, and Peter, you can jump in here. But our current leverage numbers are higher than our target leverage numbers, and there's 2 reasons for that. One is obviously that we took a dip in the equity last year because of the cat losses. And again, at the very least, we'd like our equity numbers to be where they were prior to that. But more importantly, we've also prefunded the 2019 maturity. And we fully expect, and in fact, we said so in the offering, we fully expect that we will repay that in -- in spring is that of '19?

Peter John Vogt
CFO & Executive VP

Yes, spring of '19.

Albert A. Benchimol
CEO, President & Director

So those things are going to get us back to a total leverage level, which is below 30%, which is where we want to be and equity above where it was. I can tell you, if we continue to see the kind of progress that we're seeing in our book and in pricing, we're always going to get priority and a profitable growth.

Operator

Our next question comes from James Naklicki with Citi.

James Naklicki;Citigroup Inc., Research Division;Research Analyst

My question is on the current accident year loss ratio. What was the favorable impact of rate and trend during the quarter? I know you've quantified it last year.

Albert A. Benchimol
CEO, President & Director

Yes, so as I mentioned, the only place -- in most places, the rate and trend is almost 0. The place where it really changed was in U.K. motor, where we're now getting the earnings increases above the trend. Because it's, frankly, we're playing catch-up. Other than that, I would say, on any one line of business, it would have been no more than plus 2 or minus -- sorry, plus 0.2 or minus 0.2 on the ratio. Is that correct?

Peter John Vogt
CFO & Executive VP

Yes. I'd say, in total, year-over-year, James, it's about 0.5 in total and that 0.5 is really fundamentally driven by the changes we got in the motor book. Absent the motor book, we'd be right about where Albert said.

James Naklicki;Citigroup Inc., Research Division;Research Analyst

Got you. And just one follow-up. On the other insurance-related income during the quarter, nice jump there. Was that more on the fee income side or the weather and commodities business?

Albert A. Benchimol
CEO, President & Director

$9 million of that year-over-year improvement, James, was due to the lack of the loss of a weather and commodities derivative from last year. We had a loss of about $8.7 million running through that line last year on the weather and commodities, and that's now 0.

Operator

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

Albert A. Benchimol
CEO, President & Director

Thank you very much. I do want to recognize that this was a very good quarter, and it really does reflect the very hard work and very dedicated and talented staff have done over the years to get us to where we are. We have a great team here. They're very focused on their customers. They're very focused on delivering a strong result. And I look forward to continuing to work with them to deliver further improvement on behalf of all of our key stakeholders. And we'll talk to you in the next quarter. Thanks very much.

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