S&P Global
Market Intelligence

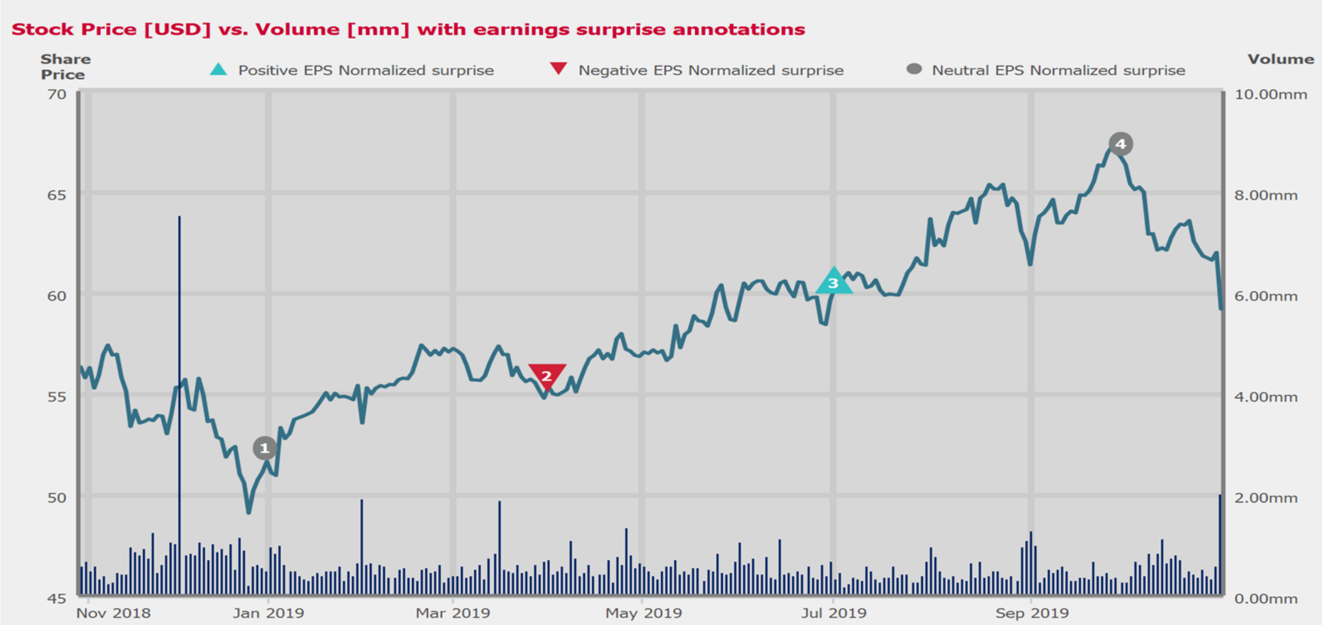
AXIS Capital Holdings Limited NYSE:AXS
FQ3 2019 Earnings Call Transcripts

Wednesday, October 30, 2019 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2019-			-FQ4 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.18	(0.39)	NM	1.36	3.52	5.64
Revenue (mm)	927.73	856.08	(7.72 %)	751.58	4526.68	4820.96

Currency: USD
Consensus as of Oct-30-2019 9:53 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2018	(1.30)	(1.77)	NM
FQ1 2019	1.39	1.24	1 (10.79 %)
FQ2 2019	1.31	1.62	2 23.66 %
FQ3 2019	0.18	(0.39)	NM

Table of Contents

Call Participants

EXECUTIVES

Albert A. Benchimol
CEO, President & Director

Matthew Jay Rohrmann
Head of Investor Relations

Peter John Vogt
CFO & Executive VP

ANALYSTS

Amit Kumar

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Joshua David Shanker

Sean Keller Reitenbach
Keefe, Bruyette, & Woods, Inc., Research Division

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Good day, and welcome to the Third Quarter 2019 AXIS Capital Earnings Conference Call and Webcast. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference call over to Mr. Matt Rohrmann, Investor Relations. Mr. Rohrmann, the floor is yours, sir.

Matthew Jay Rohrmann
Head of Investor Relations

Thank you, Mike. Good morning, ladies and gentlemen. Welcome to our conference call to discuss the financial results for AXIS Capital for the third quarter and period ended at September 30, 2019. Our earnings press release and financial supplement were issued yesterday evening after the market close. 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 through the Investor Information section of our website.

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'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 AXIS' most recent report on Form 10-K as well as the additional risks identified in the cautionary note regarding forward-looking statements in 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 section of our website.

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

Albert A. Benchimol
CEO, President & Director

Thank you, Matt. Good morning, everyone, and thank you for joining our call. As I noted on our earnings press release, this was a challenging quarter with large catastrophes in the Caribbean, U.S. and Japan. There was also a higher incidence of midsize losses, particularly in our credit and aviation lines. To be sure, even with these factors that affected our entire industry, we're very disappointed to be reporting an operating loss for this quarter. But while we're not pleased with our results, we are also encouraged by a number of positive indicators that reflect the progress that we've made to strengthen our business. To this point, I'd like to take a few minutes to discuss our third quarter results within the context of where we are in our journey and why we're confident that our performance will continue to show progress. To better address these metrics, I'll break down my comments by speaking individually about our 2 segments, insurance and reinsurance.

First, let's talk about insurance. Our quarterly insurance combined ratio, excluding the effects of PGAAP on acquisition expense, improved by 3 points. This reflected a lower attritional loss ratio, which absorbed the higher incidence of midsize losses and still came down over 1 point; a lower cat loss ratio; and lower acquisition expense. Excluding cats and prior year development, the combined ratio was flat at 99% as the much improved technical ratio was offset by what we see as a short-term bump in the G&A ratio.

Let me explain. As part of the remediation of our portfolio, we shed a meaningful amount of premium and made greater use of reinsurance. As a result, third quarter net earned premiums for insurance are down 13%. A consequence of these actions and reduction in premium is that while G&A expense for insurance is essentially flat on a dollar basis, the insurance G&A ratio is up by 2 points given the lower premium base. Reducing our premium writings in the short term is a necessary step to improving both the profitability and volatility of our insurance portfolio. We view the resulting increase in the G&A expense ratio as an acceptable price to pay for delivering a much stronger-performing business. I'm confident that given our strong positioning, coupled with increasingly attractive market conditions, we will make up the loss volume, allowing us to more clearly demonstrate improving loss and expense ratios over the next couple of years.

To that point, the reported 6% reduction in insurance gross written premiums year-to-date is not a good indicator of our growth potential. Specifically, this year, we reduced gross writings of less attractive business by more than 40% in our insurance book while we were remediating it. In parallel, we grew the more attractive business by over 13% year-to-date. Indeed, in markets that we consider highly attractive, our growth rate has been well in excess of 20%, including cyber, primary and excess casualty, marine and design professionals and environmental business. We've also had strong growth in Canada and in U.K. liability business. In addition, we're shifting more of our insurance portfolio towards more SME exposure, which tends to exhibit less volatility.

We're not growing in every line, and that's because, as I said on last calls, with the pricing actions that we're seeing, we believe the industry is appropriately reacting to loss trends that have deteriorated over the last few years and that have exacerbated the negative impact of several years of price declines. Our view remains that even with the increases we've seen in the last 2 years, many lines of business are still not at acceptable pricing. I would add that the canceled and non-renewed business are adding about 2 points to the reported insurance combined ratio. Thus, adjusting for a G&A ratio that is on par with last year's, our continuing core business in the insurance segment is currently running at an ex-cat accident year combined ratio in the mid-90s. These metrics are highly encouraging and demonstrate to us that we're taking the right actions to strengthen our insurance book.

Let's move to reinsurance, where we reported a very disappointing quarter. Our quarterly ex-cat reinsurance results reflect normal quarterly volatility. However, it's worth pointing out that, year-to-date, the accident year ex-cat combined ratio for our reinsurance business is still down by more than 1 point, showing the progress over the prior year. But the big item this quarter was the large losses that we experienced in Japan. As noted in our last earnings call, we took advantage of improving market conditions to expand our presence in Japan, a rare opportunity given the high client loyalty within that market. This aligned with our long-term strategy as we view Japan to be among the most attractive reinsurance markets. In addition, increasing our Japanese exposure brought more capital efficiency and further diversification to our overall cat portfolio. Unfortunately, 2019 proved to be a highly active year for typhoon activity in Japan. However, we continue to believe that from a longer-term perspective, growing in Japan is the right call, and we're confident that we will receive appropriate returns for our commitments to the Japanese market.

So let me conclude by saying that while it was a tough quarter, there were many positive indicators reinforcing that we have the right strategy. We're continuing to build momentum, and we're seeing significant growth in the most attractive areas of our business. It's because of this that we're confident that we will deliver the results that our team and our investors expect.

Later during the call, I'll speak on trends that we're seeing in the marketplace. But first, I'll pass the floor to Pete.

Peter John Vogt
CFO & Executive VP

Thank you, Albert, and good morning, everyone. During the quarter, we generated net income of $28 million and an annualized ROE of 2.3%. On an ex-PGAAP basis, our operating loss was $28 million, generating an ex-PGAAP annualized operating ROE of a negative 2.4%. Our results this quarter were adversely impacted by a couple of items, including pretax cat and weather-related losses, net of reinstatement premiums of $160 million, as we recently announced these losses were primarily driven by Hurricane Dorian and the Japanese typhoons. In addition, the current accident year loss ratio, ex cat and weather-related, increased by 0.5 point over the same period last year due to some volatility in the claims area of reinsurance segment. And this more than offset improvement in the insurance segment and the positive impact of rate over trend across both segments.

As Matt mentioned at the beginning of the call, 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. This is relevant for our group results and our insurance segment results this quarter. Accordingly, all my remarks regarding the quarterly operating performance for group and for insurance will be on an ex-PGAAP basis.

Moving into the details. At the group level, the current quarter consolidated ex-PGAAP combined ratio was 109.5%, an increase of over 9 points from the third quarter of 2018. This was driven by an increase of 6.6 points to the cat and weather-related losses that I mentioned a moment ago as well as 0.5 point increase in the current accident year loss ratio, ex cat and weather, combined with a decrease of 1.5 points in favorable prior year reserve development. We reported net favorable prior year reserve development of $27 million in the quarter, of which $15 million came from insurance and $12 million came from reinsurance. The consolidated ex-PGAAP acquisition cost ratio was 22.6%, which is comparable to the prior year.

The consolidated G&A expense ratio of 13.4% increased by 0.7 point compared to the third quarter of '18. The increase in the G&A ratio was driven by the decrease in net premiums earned. The year-to-date G&A ratio is at 14.5% and has trended down over the course of the year as we expected. As Albert stated, the increase in the G&A ratio is a natural consequence of building a more profitable book. We expect this will reverse as we grow earned premiums in a strengthening market and further advance our operational transformation. Regarding the operational transformation, we continue to remain on schedule to achieve our annual run rate net savings of $100 million as compared to our 2017 run rate by the end of next year.

Fee income from strategic capital partners was $18 million for the quarter, essentially flat to prior year. For the year-to-date, fee income was $57 million, a year-over-year increase of over 30%.

Now we'll move to the segments. Let's begin with insurance. The insurance segment reported a decrease in gross premiums written of $74 million in the third quarter. This was due to decreases in property, partially offset by increases in liability lines. In the quarter, almost 90% of the reduction was in relation to lowering our property exposure, which is consistent with the strategy that we have indicated to you during past calls. Offsetting this decrease, we saw favorable new business opportunities in liability, especially in U.S. Excess Casualty and U.S. Primary Casualty.

The insurance segment ex-PGAAP combined ratio was 103.8%, which was 3.1 points lower than the same period last year. This quarter, pretax cat and weather losses were $41 million, primarily attributable to Hurricane Dorian, compared to $62 million in the same period in 2018. The decrease in the current accident year cat loss ratio was almost 2.5 points compared to the third quarter of 2018. As we have continued to improve the property portfolio, we have seen our market share of U.S. weather-related storms come down year-over-year.

The insurance segment current accident year loss ratio, ex cat and weather, decreased by 1.5 points in the quarter compared to the third quarter of 2018. The decrease was driven by favorable loss experience in property lines as well as favorable rate over trend in all lines. These improvements were partially offset by midsize loss experience in credit, aviation and marine as well as changes in mix of business as we earn less premium in property and more in liability and professional lines. The insurance segment ex-PGAAP acquisition cost ratio was 21.8%, which is over 1 point decrease from the prior period.

Now let's move on to the reinsurance segment. The reinsurance segment reported an increase in gross premiums written of $57 million in the third quarter. The increase principally came from the catastrophe, A&H and liability lines, partially offset by property lines. The increase in cat, A&H and liability business was largely due to timing. These increases were offset by nonrenewals in property, largely related to underperforming businesses.

The reinsurance combined ratio was 109.9%, which was 20.4 higher than the same period last year. The reinsurance segment's current accident year loss ratio, ex cat and weather, of 64.8% was 2.2 points higher compared to the third quarter of 2018. This was driven by claims volatility in the credit and surety lines as well as the aviation line. The year-to-date current accident year loss ratio, ex cat and weather, was down 1.2 points over the prior period, and we believe this is more indicative of the improvement in this portfolio.

The reinsurance segment current accident year cat and weather loss ratio increased by 14.6 points. The pretax cat and weather-related losses, net of reinstatement premiums, were $119 million. This was primarily attributable to Hurricane Dorian and the Japanese typhoons. This compares to $30 million in the same period in 2018.

The decrease in favorable prior year reserve development of $20 million was due largely to some late-claim reporting centered in the property lines. The reinsurance segment's acquisition cost ratio was almost 1 point higher than last year. This was principally due to adjustments related to loss-sensitive features and the impact of retro contracts, partially offset by changes in business mix.

Net investment income of $116 million for the quarter was comparable to the third quarter 2018. Our current book yield is 2.9%, and our new money yield is 2.5%. The duration of the portfolio is approximately 3.1 years.

With respect to the Novae transaction, in the quarter, the net drag on operating loss from PGAAP VOBA DAC adjustments was $4 million after tax or approximately $0.05 per share. As we've previously disclosed, the VOBA DAC impact will be minimal from this point moving forward.

Lastly, diluted book value per share increased to 0.5% in the quarter to $56.26. This was principally driven by net income generated and net unrealized gains, partially offset by common dividends.

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

Albert A. Benchimol
CEO, President & Director

Thank you, Pete. Let's do a quick overview of market conditions, and then we'll open up the call for questions. So we're now entering the third year of price firming. And as more pain has afflicted the market, the pace of improvements in pricing, terms and conditions has accelerated. The average rate increase on renewed business across our insurance portfolio was 8% in the third quarter as compared to 7% in the second and 4% in the first. The markets that have suffered the most are the ones exhibiting the largest dislocations and pricing increases. There's no denying that many of our lines of business have been under intense pressure over the past few years, but now we also have the opportunity to take advantage of the recovery, especially with our stronger relevance and leadership in many attractive markets.

Let's move to specific data. In our U.S. division, average rate increases were close to 11% for the quarter. The strongest increases came in Excess Casualty where rates were up 17% for the second straight quarter, while E&S property came in at more than 14%. U.S. Primary Casualty was up close to 7%, while program business renewed at about 4%. Overall, rates in our U.S. division were up approximately 10% year-to-date.

Within our North American professional lines division, rate increases are picking up, coming in at 4% versus 2% in the second quarter. Our commercial management solutions unit, which writes mostly excess D&O and some private company D&O on a primary basis, achieved average increases of nearly 14%, and we saw an 8% increase in our Canadian specialty insurance business. Small E&O and cyber were flat to down 1% or so, although recent cyber losses appear to be stabilizing that market, providing opportunity for price increases. Overall, average year-to-date increases for the professional lines division were over 3%.

In our London-based international insurance division, our average rate increases were nearly 10% for the quarter, although there are many units that were up well in excess of that level. For example, the average rate increase across the entire marine book was almost 25%. Additionally, we achieved double-digit increases across renewable energy, professional and casualty and global property books. Most program units are up single digits, and political and credit risk were flat. The only reduction is in terrorism where results have been strong in recent years. The average year-to-date increase in our international book came in at 6.5%. And for the overall consolidated insurance book, the year-to-date average increase is 6.5%, up from 4.5% in the prior year. Overall, almost 90% of the entire insurance book was renewed flat to up this year.

Everything we see and hear convinces us that rate increases will continue into 2020 and very likely longer. Results have been inadequate and remain so in many lines. Large loss activity seems to be increasing. Social inflation is a top concern, and benefits from prior year releases will likely fade away. Interest rates are also likely to stay lower for longer than most of us expected. Carriers essentially have no choice other than to improve current year underwriting results. Notwithstanding the challenges we face this quarter, we're confident that AXIS will do very well in this environment. As I noted earlier, we grew our more attractive lines by more than 13% year-to-date, and we intend to expand our appetite for growth as additional lines start to reach levels of acceptable profit opportunity.

Moving to reinsurance. While that market does not appear to be as dislocated as the primary or retro market, we still expect ongoing improvements at coming renewals. For proportional business, reinsurance will benefit from strong underlying primary rate increases, combined with pressure on reducing ceding commissions. Excess of loss treaties should respond to recent loss experience, and we expect to see pricing corrections in many lines, including aviation, marine, credit, engineering, casualty and professional lines.

As to catastrophe covers, at the upcoming 1/1 renewals, we expect to see ongoing increases in North American and Caribbean markets driven by an increased demand for reinsurance, combined with another year of unsatisfactory results for reinsurers. On the other hand, at this point, we expect Europe and Latin America to be flat or up low single digits given the absence of large losses in recent years. As we move later into 2020, we would expect the Japanese and U.S. midyear renewals to show increases in double-digit range, including significant increases in loss-impacted layers, although, of course, a lot could happen between now and then. We will use these market conditions to further improve our aggregate catastrophe exposure and volatility.

I do want to share with you the progress that we've made in just this year. Between the third quarter of 2018 and the third quarter of this year, we shaved peak exposures, increased geographic diversification and made other changes to shift our entire annual expected cat loss curve down by more than 10% across the curve while we improved the cat combined ratio by 8 points. It's our goal to make similar reductions in the cat loss curve while we continue to improve the underlying profitability and volatility of that book in 2020. And outside of cat, across both the insurance and reinsurance book, we are using multiple levers beyond pricing to improve portfolio quality. We are pushing for more favorable limits, exclusions and attachment points and are improving our risk selection across the enterprise.

So to conclude, this was a tough quarter, but we've also seen very encouraging indicators that we're making tangible progress and are on the right path. The markets are improving. We're seeing great opportunities, growing where we want to and making ongoing investments necessary to become a stronger company that is well positioned to deliver long-term profitable growth.
And now let's please open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions] And the first question we have will come from Amit Kumar of Buckingham Research.

Amit Kumar

Albert, a few questions. I wanted to start with the topic of these midsize losses. These midsize losses have impacted the results for several quarters despite repositioning your portfolio. I wanted to get some sense as to how would you respond to investors to give them confidence that this volatility will diminish going forward. And can you talk about some specific steps you might be taking to address this issue?

Albert A. Benchimol
CEO, President & Director

Amit, thank you for that question. I think the first thing to do is let's talk about the nature of the losses because some really do deal with truly the normal volatility in those lines. Half of our large loss experience this quarter is in credit lines. There's been a number of large bankruptcies that you've seen. And if you look at our credit lines, both in insurance and reinsurance, they tend to give you 4, 5, 6, 7, 8 very, very strong quarters, and then you get 1 bad quarter. But on average, these are lines of business that are coming in with performance in the 70s and 80%, and that's exactly what we're seeing. So half of our large loss this quarter is due to credit losses where we've had essentially no credit losses in the last 7 quarters. And so the lines of business that are affected are still very good. And if you write credit, that's what you expect to see, 5, 6, 7 good quarters, 1 bad one, but a great average result. And that's what happened. That would be number one.

Number two, I think that as you look at the overall midsize losses of our businesses, these are not large lines. These are essentially losses. When we talk about midsize, they are literally $5 million. There's nothing unusual in the underwriting or in the risk appetites to lead to this. There are occasional quarters where you have a higher frequency. And I think you've all read the headlines certainly around a number of the big aviation cases going on, where there's been change of facts and patterns, which, of course, caused us to revisit the estimate in those and just a couple of small marine losses. But otherwise, there's nothing big and there's nothing unusual in the severity and frequency.

I will say that last year was generally a good year for midsize losses. And so the deterioration that you see year-over-year is not a poor result in our book. On average, I would say that midsize losses average about 3 points across the year. What we're seeing here is maybe 0.5 point higher than that, but nothing unusual. It's perhaps a bad comparison year-over-year. But I will say this. We spend a lot of time analyzing every part of the book. We have spent many years improving the quality by reducing limits, increasing attachment points, using more reinsurance. There is nothing here that is a runaway loss. There is just an unusual frequency in this quarter compared to the prior quarter. And the very large concentration of credit losses this quarter is not in any way an indicator of poor results in credit. In fact, our credit results continue to be very, very strong.

Amit Kumar

Okay. That's helpful. Using that answer as a backdrop, let's link it to the discussion on insurance. And maybe we can also talk about rate versus loss trend in a second. I think one of the questions I've been getting since last evening is as you pivot away from the property cat -- sorry, the larger lines, on the liability side -- and you talked about growth in Excess Casualty and Primary Casualty. Now there's a new debate emerging on loss cost inflation, including social inflation, tort climate, jury awards, et cetera. What should give investors confidence that that's not another area where things could develop worse than what we are talking about today?

Albert A. Benchimol
CEO, President & Director

That's a very good question, and I'd be happy to talk about that in a number of areas. But Excess Casualty and casualty is actually one area where we think we're on very, very solid footing, and let me tell you why. So first of all, if you go back to conference calls in the last 2, 3, 4 years, you'll hear that we were very negative on casualty trends for many years. We've actually shrunk our book of business over the past few years, and we've made significant changes to that book of business, including increasing attachment points, reducing gross limits. So just to give you an example, average net limits exposed in 2019 in the Excess Casualty book is literally 50% of what it was just in 2015. So we've taken a significant amount of correction already, and we've been demanding price on Excess Casualty since '16. And we indicated to you, for example, that we had very low retention ratios and so on as we were taking those changes.

The second thing is that whenever we've seen any negative indication in liability, we immediately booked it on our reserves. And so if you look at the triangle that we provide, you'll see that we've been very responsive to taking any bad news early on our reserve, such that we believe that we're currently in a very good position with regards to our reserves, and we believe that we've got a very good handle on where the casualty book is.

And then to be fair, we're getting 17% price increases. You can rest very assured that we are not taking anywhere close to that as reductions in loss ratios. We will incorporate and are reserving an assumption of a very, very heavy loss trend. We'll show improvement, I hope, but we are not assuming that this 17% is a free gift, and so we will reflect that in our reserving. And I think that we're in very, very strong position with regard to our casualty book.

And I would make exactly the same case, for example, on our D&O book. You've heard us talk about D&O. You know that we made major changes to our D&O book back in 2014 because, even then, we already saw increased trends in technology, in health care. And we told you at that point that we would make significant reductions to our public D&O book. We told you that we would significantly reduce the primary book, and we did. We told you that we would increase the attachment point, that we would reduce limits. And again, attachment points on U.S. public D&O are literally 40% higher than they were just 4 years ago, 5 years ago, and we've also continued to reduce the limits. So we've been making those changes as we've been seeing those trends. We reduced our reinsurance professional lines book. We probably peaked that in '15, '16 and started bringing it down, again in expectation of those trends.

So I think we've actually been taking those actions early on. We've been taking the right actions, and we feel that now, in fact, is a good time to grow on the Excess Casualty. We do not yet think that now is a good time to grow on the public D&O. So we're being cautious on where we choose to grow.

Amit Kumar

That makes sense. The last question. I'll re-queue. In Q1, the gap between loss cost -- I'm sorry, the pricing versus loss cost trend was -- on the insurance side was 100 points. In Q2, it was 200 points. Where do you think we are now? And where are we headed from here?

Albert A. Benchimol
CEO, President & Director

Again, I think on a long-term basis, if you look at 8% -- and again, let's remember, the year-to-date book is at 6.5%, which is really what we're going to be earning next year. But if you look at 8%, that, obviously, if you look at longer-term trends, solidly 300 basis points. But as I indicated to you, when you get lines of business that are giving you 10, 11, 12, 15 pricing increases, that's -- you're not using -- we're not using a 5% loss trend on those. We're assuming that most of that increase is going to go. So I think that, clearly, there is room for a couple of hundred basis points of loss improvement based on that because we are going to assume a longer than -- a higher-than-average long-term trend on losses, but there's clearly room for improvement in results with the kind of rates that we're seeing. But again, let's remember, what we're going to be earning next year is not a book that's 8% higher. It's a book that's 6.5% higher.

Operator

And next, we have Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes. I just want to go back to the whole midsize loss thing, what's been going on. I think it's been like 6 quarters almost in a row in the insurance industry that we've -- insurance business that we've had these -- the elevated property, midsize, those types of things. Is perhaps -- I guess first question is, is that coming from largely kind of unattractive or, call it, attractive business? Because I know you mentioned the credit business is clearly attractive. But generally speaking, where is it coming from? And should we see that kind of going away as we go into 2020 as some of that unattractive business runs off?

Albert A. Benchimol

CEO, President & Director

Yes. So the first thing again is to talk about the fact that when we talk about a 3%-ish average large -- midsize loss loads, that's not unreasonable. And even if there's good business, you're going to have claims every once in a while that are going to pop you for $5 million or more. So what is good news, for what it's worth, is that it's true that in the insurance division, the large loss is a bit higher over the last, I believe, 3, 4 quarters, but that's because, in the prior period, they were pretty good. But here is the issue. If you look at where the losses are, they're not coming from our property book because we have made so many strong changes to our property book that we're seeing significant improvements, both in the attritional loss ratio, midsize loss ratio and cat loss ratio. So when you look at our large losses in the last couple of quarters, property is not there. The only place that you're seeing it in this quarter, as I said, half of it is in credit. And again, I'll take the trade of having sub-90% combined ratio business that pops you every 6 or 7 quarters. That is good business.

And I think on the aviation, I think everybody has been reading the newspapers. And there has been a change in venue in very visible cases, which clearly has caused us to take a more conservative view on that. But the distribution of the large losses on the credit and aviation lines, frankly, I look at them, and I don't see them as disturbing. And I don't want to give you a false hope. I think it's going to be about 3% a year, plus or minus 1 point in any 1 quarter. But our job is to reduce the overall loss ratio, including those midsize losses. And again, what's really good about what we're seeing in the results this year is that even with the increase in the midsize losses, you're still seeing a reduction in the ex-cat loss ratio on the insurance book, and that reflects a lot of hard work. And again, although we had some volatility in the quarter for reinsurance, the year-to-date results for reinsurance are still better than they were last year's year-to-date results.

So I want to be very clear here. We're as frustrated with this quarterly result as you are. There's no way that I'm going to try and tell you that this is a good quarter, but we've peeled this quarter every way we could. And what we're seeing is that the losses are reasonable in the context of an improved portfolio, and there's nothing untoward in what we see.

Brian Robert Meredith
UBS Investment Bank, Research Division

Is there anything you could do with ceded reinsurance that maybe would mitigate some of this?

Albert A. Benchimol
CEO, President & Director

I think we've optimized our ceded reinsurance substantially last year, in fact. I need to give a shout-out to our ceded re team because I think we're doing very well on ceded re. And you have to realize that if you're going to start to take a loss to be materially lower than $5 million on any one line, you're going to be giving up a huge amount of long-term profits. And giving up diversification, you're going to take your own diversification benefit, and you're going to hand it to your reinsurers. And so I think there's a lot of -- and I'm happy to sit down and have the analysis, but I think where we are makes sense. I would argue with you that as business gets better, where there is an opportunity for us is actually to reduce quota shares so that we can keep more of that business as it gets better next year.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Got you. That makes sense. So therefore, if I kind of take everything you're saying, Albert, as we look into next year, 2020, if we aren't seeing a meaningful improvement in the underlying kind of loss ratios in the insurance industry, at that point, would you say, hey, listen, there's something wrong?

Albert A. Benchimol
CEO, President & Director

A, I have all the confidence in the world that we are going to see those lower ratios because, as I mentioned to you, when we look at our continuing book versus the canceled, the non-renewed book, that -- we're feeling that those numbers are very strong and they are right now on an accident year basis. Admittedly, we got to do something with the G&A ratio. We're going to pay attention to the expenses. But the book that we're bringing ourselves down to is a high-quality book and a great platform on which to build. And so I am absolutely confident that the loss ratios will improve. If they don't, it's because the industry is seeing much higher loss trends than any of us is expecting. And what we will do in that case is we will take corrective action on the underwriting, and we will take corrective action on demanding more rate.

Brian Robert Meredith

UBS Investment Bank, Research Division

Got you. Got you. And just one last one, just curious. Some of the acquisitions you've made of late, are they performing as kind of expected, i.e., like Aviabel and obviously Novae?

Albert A. Benchimol
CEO, President & Director

So on the Novae book, as you know, we acquired Novae in '17. We -- in the '18 year, we made some changes to that book in the beginning of '18. There were some additional changes that we told you we were making, and I'll be blunt. Some of that non-renewed book that I'm telling you is hurting us is part of that canceled business. But what I will tell you is that the strategic positioning that we now have in the London market, which is one of the strongest markets in the world right now, being a top 10 leader is really giving us the opportunity to demand rate and get very good business. So we're feeling really good that we have the opportunity to take advantage of this 10% average rate that we saw in the business. And I indicated to you, 25% increases in marine, increases in the teens in property and so on. So we think that, that positions us very well. Obviously, some of that book, just like our own book, they have some lines of business that need to improve, but there's nothing unusual or unexpected in the composition of the Novae book.

I think as to Aviabel, that was not a very expensive acquisition. That was a small acquisition to help us reposition our book of business in aviation. And the reason for that is the following: We have found that the large airline business has gone down so much that it was no longer attractive. We were reducing that significantly, and we believe that the general aviation market was a much better market, still not great where it was but a better market. And so the acquisition of Aviabel -- and it was really, literally a $50 million book. It's not that huge. We acquired that to shift our book of business away from large airlines, more towards general aviation that tends to report well. It's still not a great result, but it's an improving result. We've cut back on that book. We've cut back on the expenses, and so it's one where we're seeing progress. It's certainly not where we want it to be, and we will continue to monitor it and fix it. But those are the 2 acquisitions we've made. And by and large, are there risks in there, lines in there that I wish were better performing? Yes. But overall, are we a better company today because of those acquisitions? I believe the answer remains yes.

Operator

Next is Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, also sticking with the insurance book. So I guess part of what's going on with -- away from the loss ratio is also on the expense side that you guys pointed to in terms of the impact of the lower earned premiums with flat G&A. So when do you think we're going to get to the point where all these re-underwriting actions are complete and given all the pricing that you're getting that net -- gross and net premiums in insurance can inflect positively?

Albert A. Benchimol
CEO, President & Director

So I'll speak to that. I guess what I want to say is that we should not minimize the progress that is actually shown in the insurance results. We're talking about delivering a technical ratio that absorbed a higher amount of losses and still came down by 2 points. So there is progress being shown in the property book. We're certainly -- sorry, in the insurance book. We're still intending to do more, but there has been significant progress in the insurance results.

I think that with regards to the inflection curve, it's a combination of 2 factors. One is we're clearly focused on looking at where we can reduce the G&A expenses so that we can handle that. And secondly, as I mentioned with Brian, one of the things that we're looking to do in 2020 is obviously grow the book where we find the attractive opportunities. But also where lines of business are now looking good to us is reducing some of this -- some of the quota shares, so we can keep more of that profitable premium on our books and improve the ratio accordingly.

I'm loath to give a specific time frame, but I can tell you that as we look at our projections, we expect that the negative "impact" that we've had on the G&A ratio should start to turn as early as the beginning of 2020. Peter, you should look at that. But...

Peter John Vogt

CFO & Executive VP

Yes. I mean as we -- I think more about the growth side, I think as we get into next year, the canceled business that we have, the UPR is running off. That, as we've indicated, that UPR should be down by about the middle of next year. So therefore, if we get into next year, insurance should start to show some growth as long as the markets continue to be favorable for us by the time we get into the -- by the second half of next year is what I'd say. I don't have a crystal ball on that, but I do think that there are some positive momentum there in the growth lines.

On the G&A, we continue to be able to pull down our operational transformation that we're doing, and we expect to see that, and we still have all indications we'll get more of that into next year. And as we're planning on going into next year, I think we'll take another hard look at expenses and the G&A ratio in insurance to make sure it effectively reflects the size of the book.

Albert A. Benchimol
CEO, President & Director

So I guess the short answer is we've got 2 or 3 levers that we can pull, and we'll be working on those.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then so the 2 points from the canceled and the non-renewed business that you alluded to in insurance, so what does -- does that circle out at the end of this year in terms of we don't have to think about that impacting margins? Or will you still see somewhat of an impact in 2020?

Peter John Vogt
CFO & Executive VP

Elyse, you could still see an impact to that I would say going through the first half of 2020. As we indicated, a lot of those things we canceled had tails on them, so it all depends on how they perform in a certain quarter. This quarter, that book didn't perform really well. It jumped up and beat us. It actually -- one of the canceled books was -- actually had some cat exposure to it. That is on the cat line also. So as that runs off, again, a lot of it was MGAs and coverholders we canceled. So there was a bit of a tail on it, but it's something that we keep our eye on every quarter and I expect I'm going to need to keep my eye on for at least through the first half of next year.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then in terms of the fourth quarter cat, so we have another sizable typhoon in Japan. There's also the California wildfires, which I know are ongoing, and then some other events within the U.S. Do you guys have a sense of losses? And it might be too soon with California. But maybe with the fourth quarter typhoon in Japan, can you kind of size Hagibis in relation to the losses you took in the third quarter? Just kind of give us a rule of thumb on both those events.

Peter John Vogt
CFO & Executive VP

Well, with regard to Hagibis, what I'd say is we don't know what it is yet. I mean AIR had an estimate was $8 billion to $16 billion, which is really quite wide. So we expect given what we've talked to with our cedents, it will be something that's probably larger than Faxai but lower than Jebi. And so it's somewhere in there. The only thing I could really tell you is we know we did increase our market share with regard to Japan, so we will see higher losses from that market than we saw with Jebi -- somewhere associated with Jebi. What I would tell you is, as we noted in our press release, we had a couple Japanese aggregate treaties that were impacted by Faxai. And those were exhausted, so they won't be -- will not be impacting the fourth quarter.

Operator

Next, we have Yaron Kinar of Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

I guess first question, and then I apologize if I missed the first part of the call. But in insurance, so I'm seeing a material shrinkage in both aviation and credit and political risk premiums. Those are lines that have previously been emphasized. So what's changed? And specifically, I guess, in aviation, Albert, you just pointed out that you're doing -- you have a shift from large airline business to general aviation. Is it as simple as that shift that's creating the pressure in premiums there? And then maybe additional thoughts on credit and political risk.

Albert A. Benchimol
CEO, President & Director

Yes. So on the insurance book per se, we're just not seeing enough improvement in aviation, quite frankly, and so further reductions is the right move. And so we're just reacting to market conditions.

With regard to credit and political risk, there's been -- the way that business works, it's literally one deal at a time, and there's no renewal business. And so we evaluate every risk as it comes. And depending on the market conditions, we take more or less. We are actually very clear with our people that there is never a budget for volume on the credit line. So it's really a question of the fact that of the opportunities that we've seen, we took the ones we wanted. There weren't as many. There are a couple of sources that are slowing down right now, which, at some point, will pick up, but we're not overly concerned. But the credit line is one where, as you know, there's large limits in credit, so you want to be very careful how you underwrite it. And so this was simply a question this quarter, not of changing our appetite for credit, but the fact that we just didn't see the opportunities that we wanted to see in credit.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Okay. And then shifting to Japan. I guess one clarifying question. The Hagibis loss estimate that you said that you expect it to be smaller than Jebi. Is that for the industry? Or is that for AXIS specifically?

Albert A. Benchimol
CEO, President & Director

No. Actually, to be clear, we -- we're talking to people. In fact, we've gotten some of our team members in Singapore right now talking to customers at the conference. And they -- all we can tell you is that people are not prepared to share a lot of information. They want to get it right. I think they're embarrassed in prior losses. I think if there was to be a guess, I think it would -- people are saying that Hagibis could be the size of Jebi, maybe a little smaller, but that's kind of the industry.

For what it's worth, one of the reasons that modeling prior losses is not going to be as easy is that Hagibis is going to have substantial flooding losses compared to the traditional wind losses. And flood losses tend to be larger because they tend to be industrial and commercial versus residential. And so there's a lot more idiosyncratic, either the plant isn't flooded or it isn't. And so I think there's a certain sense of caution that modeling may or may not get you the right answer, so I think everybody is holding it up. But it's more likely to be closer to a Jebi-type loss than it is to a Faxai-type loss.

I think with regard to us, if it were a Jebi-type loss, it would be bigger than our old Jebi-type loss because our market shares are bigger. On the other hand, I think what Peter was trying to do was to guide you not to extrapolate from Faxai because Faxai had some exposure to low aggregate treaties that have now been basically paid through, and they're a one-shot deal. So the fact that we had a higher concentration at the lower layers in the Faxai should not affect us in the same way in Hagibis. That was -- that, I believe, was the indication that Pete was trying to...

Peter John Vogt
CFO & Executive VP

Yes. That was the indication, yes. And I would say that we don't have an estimate to what our loss is yet. All we're hearing is industry estimates that are pretty broad.

Albert A. Benchimol
CEO, President & Director

Yes.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Okay. And assuming that rates keep up with loss trends in Japan, as you look into next year, would you expect that your exposure there, your wind exposure remains roughly the same? Or do you see any changes, just given the higher frequency of these severe events?

Albert A. Benchimol
CEO, President & Director

I appreciate that. No. I think that we would be looking to maybe shift it around maybe between layers. But I think in terms of overall exposure, we had a real opportunity this year to do what we needed to do to optimize our portfolio. And to be fair, the Japanese exposures really did improve the balance in that portfolio, so we have the Japanese exposure we want in our portfolio. So it's simply a question of optimizing it based on the renewals that are available, rather than increasing it.

Operator

And next, we have Sean Reitenbach of KBW.

Sean Keller Reitenbach
Keefe, Bruyette, & Woods, Inc., Research Division

Assuming reinsurance rates keep firming, looks like they are, would you suspect that 2020 will look similar for gross written premium growth as 2019?

Albert A. Benchimol
CEO, President & Director

I'm not sure that I can answer that question because we're literally going through our plan as we speak. And as you might imagine, every large loss in the market changes expectations as to what clients will do and what rates are achievable. I would say that on a gross basis, we probably would not grow as much on the cat line because I think that we will take the rate that we can get. But in terms of exposure, I think we'd be looking to -- as I mentioned to you earlier, we took our entire aggregate cat loss curve over 10% down just in 1 year, and we're looking to do more of that. So I expect that we're going to write -- we're going to take all the benefit of rate that we can get. We will continue to make some improvements in terms of where we are at various layers. But the large growth on a gross basis that you saw on cat, you are unlikely to see next year. As to the other lines, I think we would be responsive to the opportunities.

Sean Keller Reitenbach
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's very helpful. And then secondly, on the Lloyd's positioning, do you have any overarching thoughts on the Blueprint One that came out and how that helps to probably not hurt your positioning?

Albert A. Benchimol
CEO, President & Director

So I think I probably have to say that I am on the Council of Lloyd's, so be aware of that. But secondly, whatever answer I give you, I'm speaking as the CEO of AXIS, not as a member of the Lloyd's council. I'm happy to let Bruce and John Neal speak for Lloyd's. From what -- from our perspective, we always believe that London market and Lloyd's, in particular, needed to make some real changes to get out of the funk they were in, in the 15, 16, 17 year of business. And so I think the changes that they're making, I think, are all in the right direction. It's a broad range from improving the processes and making claims payment faster to looking to take advantage of technology, digital capabilities to create a small account platform, to improve the way that we write large risks. All of those initiatives relates to leveraging digital capabilities to better service the customer, do it cheaper, and ultimately, make better decisions.

Then there are -- you've heard about the syndicate in a box, which is to facilitate the entrepreneurial introduction of new business into Lloyd's. I think that's a good way of bringing more business into Lloyd's in order then to increase the platform and leverage our costs over a greater premium base, that's very, very good, and looking for ways to leverage third-party capital. So there are a number of factors -- of initiatives within the blueprint that all have very strong and positive intent. It's obvious that they're not all going to move at the same speed. It's obvious that they're not all going to have the same level of success, but they all are moving in the right direction. And I would say that even if we make -- even if we fall short of the Lloyd's goals but make significant progress, it would be a much stronger market. And our participation within the Lloyd's market would benefit strongly from those improvements.

Operator

And the next question will come from Josh Shanker of Deutsche Bank.

Joshua David Shanker

Yes. If I take a little stroll down history lane, and I remember it as being even before your 10 years as CEO, Albert, that one of the great differentiators for AXIS was going to be a robust Accident & Health business. And I've never really understood completely the goals. And now obviously, it's a line you're deemphasizing. Can you talk a little bit about what's going on there? What were the initial designs and why that business might not be attractive today as it was 5 and 10 years ago?

Albert A. Benchimol
CEO, President & Director

Okay. So the first thing that I want to say is we're not deemphasizing it. It's still a business that is very important and continues to grow for us. The issue in -- the particular issue that you see this year in A&H is that we canceled a large treaty that was moving in the wrong direction with regard to performance. It wasn't actually a reinsurance treaty. It was an insurance treaty that was heading in the wrong direction, and we couldn't cut the terms with our partner. And we thought it best -- and it was a meaningful treaty. But we are continuing to grow our A&H business in North America. We're continuing to grow our A&H business in our reinsurance business, so I just want to correct that we are not deemphasizing it. It's simply a -- what you're seeing this year is simply action to continue to improve the quality of that book.

But let me take it back. When the A&H business was initially launched, our goal was to have -- was to build a -- at the time, was to build a retail A&H platform. I think that within a reasonable amount of time, we recognized that AXIS is a wholesale company, not a retail company. And so we needed to change the focus of the A&H business to be more into the wholesale business and the reinsurance business, and so we've done that. That was really the big change in the strategy between the time that we launched it and I would say the -- 2013 or so.

Peter John Vogt
CFO & Executive VP

2013, yes.

Albert A. Benchimol
CEO, President & Director

When we said, "You know what? We don't have the platform to truly -- the retail platform to truly create a retail A&H business. And rather than try and compete with one hand behind our back in that market, let's shift it to markets where we have a -- more relevance and a better chance of success." And so we took it more into the wholesale market.

And our performance since then, obviously we didn't build $1 billion business. It's a $500 million business, so it didn't meet perhaps the original goals of building a retail business. But once we changed that focus from retail to wholesale, it's been making good progress. It's delivering an underwriting profit and so that is moving in the right direction. All you're seeing this year is a correction to a large treaty that was moving in the wrong direction, and we just wanted to correct that. Does that help you?

Joshua David Shanker

Okay. That's great. I really appreciate that. And then on the underwriting actions you're taking this quarter, I assume we'll see that continue into the next few quarters. Can you sort of scale for me the timing of when we see the earned premium benefit of these changes make a material difference in loss ratios?

Albert A. Benchimol
CEO, President & Director

Again, I need to start by saying that we're seeing them now. You're seeing the loss ratios declining today. You're seeing our share of cat losses in North America declining because of the changes that we've made to our property book. So there are some very...

Joshua David Shanker

You're right, Albert. Actually, it's sometimes hard for us to see ex-cat margins for the low, low ex-cat loss ratios versus higher attritional margins on business that's less cat exposed, I guess. It's sometimes hard for us to run it.

Albert A. Benchimol
CEO, President & Director

I appreciate what you're saying. But at the end of the day, you still had a 1.5 point reduction in the ex-cat loss ratio this quarter, notwithstanding the fact that we had higher midsize losses. And so that's the real progress. And certainly, we expect to continue to deliver on that every quarter. I think that as the actions that we have made work their way out -- so for example, Peter spoke about the fact that we've got this discontinued business, which is hurting us to the tune of 2 points, staying around for about a year to the second -- into the first half of next year but at a declining rate, I believe, Pete?

Peter John Vogt
CFO & Executive VP

Yes.

Albert A. Benchimol
CEO, President & Director

So we will see that start to improve. And as we earn more of the business that we're writing today versus the business that we wrote a year, 1.5 years ago, we are going to see more benefits. I'm absolutely confident that we're already seeing those benefits. And as the book continues to earn out, we will see more of those benefits. It's just a different book today.

Joshua David Shanker

Yes, yes. Well, I look forward to seeing it next quarter in 2020.

Albert A. Benchimol
CEO, President & Director

As do I.

Operator

And next, we have a follow-up from Amit Kumar of Buckingham Research.

Amit Kumar

I know it's at the top of the hour, so I'll make this quick. Just a few clean-up questions. Number one, going back to your initial remarks, Albert, on the credit book. Did you say it was running at a loss ratio or a combined ratio of 70s and 80%?

Albert A. Benchimol
CEO, President & Director

Combined in the 70s and 80s.

Amit Kumar

Got it. That's helpful. Number two, are you blacked out from buying -- I'm sorry, or repurchasing your stock right now?

Albert A. Benchimol
CEO, President & Director

No, we're not.

Amit Kumar

And any thoughts on capital management with how the stock is reacting today?

Peter John Vogt
CFO & Executive VP

We do not have a stock authorization plan in place right now.

Albert A. Benchimol
CEO, President & Director

Okay. But there's no blackout, other than the fact that we...

Peter John Vogt
CFO & Executive VP

There's no blackout. Although we could get the Board to approve it, but we do not have an authorization plan in place right now.

Albert A. Benchimol
CEO, President & Director

I think we'll sit down, and we'll look at our -- we'll sit down with our Board and look at our planning. We'll look at the opportunities we have next year. To that point, I think it's worth saying that the balance sheet has strengthened a lot over the last 2 years. As you know, we took out some additional leverage when we acquired Novae. We're working our way down, and so we're bringing the equity back up. We're taking the leverage down, so the balance sheet is definitely in a stronger position than it was at this time last year. But we'll sit down with our Board. We'll look at our plan for next year, and we'll take a position.

Amit Kumar

Got it. And the other question is I know you have an ag -- an MPCI reinsurance ag book. Any thoughts on the performance and how we should think about any impact to Q4 from that?

Albert A. Benchimol
CEO, President & Director

I don't know that we've had any indication that it would be negative. Let me go back and check a little bit more on that. But I can tell you that as we went through it, there was no surprise in the most recent review. But I could come back to you on that.

Amit Kumar

Got it. And final question. I know there was a question on Q4 cat. I know you gave a very detailed answer on Hagibis. Did I miss -- did you comment on the Dallas losses or the California wildfire? Did I miss that? Or was that not addressed?

Albert A. Benchimol
CEO, President & Director

I think on the California wildfire, as we said, it was still too early, obviously. They're still burning. And the Dallas event was just not a major event overall. We consider that to be a "PCS event," which is just one of these non-cat weather type of event, but there's nothing unusual there.

Operator

At this time, we're showing no further questions. We'll go ahead and conclude our question-and-answer session. Mr. Benchimol, gentlemen, did you have any closing remarks?

Albert A. Benchimol
CEO, President & Director

Thank you very much, operator, I'll take some. So thank you all for participating in the call. And as I said at the beginning of this call, we're just not satisfied with these results, and we understand your frustration. But I remain confident that the metrics that we're seeing continue to confirm that we are moving in the right direction. We have the right strategy, and our success will be grounded in our ability to continue to execute on that strategy. You can rest assured that the entire team is going to be focused on doing nothing other than improving results. We look forward to speaking with you again soon. Goodbye.

Operator

And thank you, sir, for your time also and to the rest of the management team. The conference call has now concluded. At this time, you may disconnect your lines. Thank you again, everyone. Take care, and have a great day.