S&P Capital IQ

CONTENTS

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	11

AXIS Capital Holdings Limited NYSE:AXS

FQ4 2011 Earnings Call Transcripts

Wednesday, February 08, 2012 3:00 PM GMT

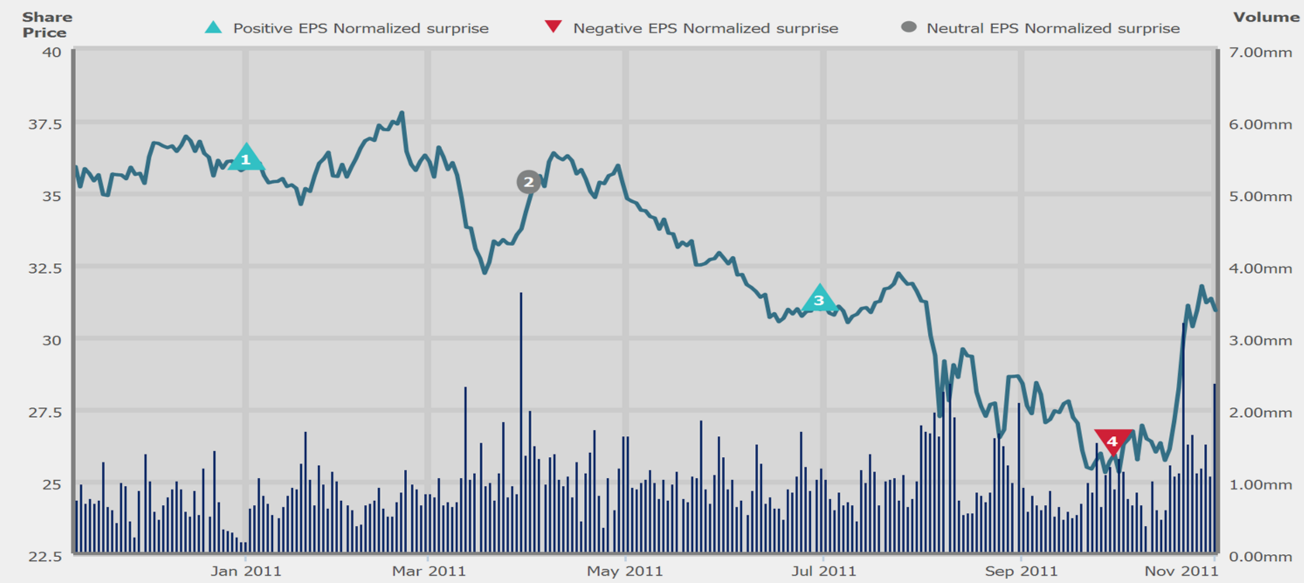
S&P Capital IQ Estimates

	-FQ4 2011-			-FQ1 2012-	-FY 2011-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.41	0.53	▲29.27	1.03	(1.37)	(1.26)
Revenue (mm)	637.54	846.75	▲32.82	1448.80	3543.43	3314.96

Currency: USD

Consensus as of Feb-08-2012 1:28 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2010	1.20	1.41	▲1 17.50 %
FQ1 2011	(3.19)	(3.65)	NM
FQ2 2011	0.48	0.65	▲2 35.42 %
FQ3 2011	0.78	0.74	▼3 (5.13 %)

Call Participants

EXECUTIVES

Albert A. Benchimol
President, Chief Executive Officer & Director

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Linda Ventresca

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

Good morning, and welcome to the AXIS Capital Fourth Quarter 2011 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Linda Ventresca. Please go ahead.

Linda Ventresca

Thank you, Amy, 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 fourth quarter and the year ended December 31, 2011. Our earnings press release and our 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've 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 United States. The international number is (412) 317-0088. The conference code for both replay dial-in numbers is 100083893. With me on today's call are John Charman, our CEO and President; and Albert Benchimol, our CFO.

Before I turn the call over to John, I'll remind everyone that statements made during this call, including the question-and-answer session, which are not historical facts, may be forward-looking statements within the meaning of U.S. federal securities laws. Forward-looking statements contained in this presentation include, but are not necessarily limited to, information regarding our estimate of losses related to catastrophes, policies and other loss events, general economic capital and credit market conditions; future growth prospects, financial results and capital management initiatives; evaluation of losses and loss reserves; investment strategies, investment portfolio and market performance; impact to the marketplace with respect to changes in pricing models; and our expectations regarding pricing and other market conditions. These statements involve risks, uncertainties and assumptions, which could cause actual results to differ materially from our expectations. For a discussion of these matters, please refer to the Risk Factors section in our most recent Form 10-K on file with the Securities and Exchange Commission. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In addition, this presentation contains information regarding operating income, which is a non-GAAP financial measure within the meaning of the U.S. federal securities laws. For a reconciliation of this item to the most directly comparable GAAP financial measure, please refer to our press release, which can be found on our website. With that, I'd like to turn the call over to John.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

A very good 2012 morning to you, ladies and gentlemen. In 2011, AXIS celebrated its 10th anniversary, and I'm enormously proud of the success AXIS has had in realizing our founding vision. However, I cannot imagine any greater test for our company celebrating such a milestone than the events that have occurred in the past year. AXIS has experienced an unprecedented set of extremely stressful circumstances on both sides of its balance sheet. On the underwriting side, an extraordinary series of natural disasters, which are estimated to have cost our industry over $100 billion, took center stage in 2011. The timing of these losses occurred against the backdrop of a prolonged soft market and perhaps the weakest phase in this business cycle, when adequate pricing remained extremely difficult to obtain. Further, on the asset side, we experienced the persistence of abnormally low interest rates, which made low-risk investment income difficult to achieve. At the same time, we weathered severe volatility in the financial markets, which agonized over the possible breakup of the euro zone, threatening to send one of the world's key economic regions into financial chaos.

We also encountered a host of other uncertainties, including political paralysis, the ratings downgrade of major economies and the fear of faltering growth in both the United States and China. As an Englishman would say, it certainly was a solid slower [ph] year for us.

For the year, AXIS diluted book value per share declined by 3.3% to $38.8, reflecting the high level of catastrophe losses. Net income available to common shareholders was $9.4 million. Return on average common equity for 2011 was a nominal 0.2%. While we are unhappy with the adverse impact of these extraordinary events on our earnings, we are nonetheless satisfied with the ability of our portfolio to absorb these significant losses without impairing our financial strength.

Over the long term, however, we have compiled an exceptional record and I am pleased that even during such a difficult year, we continued to invest in our company and deliver franchise value to our shareholders. Diluted book value per share, adjusted for cumulative dividends declared, has risen at a compound annual rate of 13.7% from 2002 through 2011. Our return on average common equity, which was marginal in 2011 due to the high level of catastrophe losses, has averaged 14.2% over 10 years. We're navigating a transitioning market, which I will describe in more detail later, and we're proceeding with appropriate caution. All of us at AXIS recognize the absolute necessity to return to operating profitability during the coming year. I can assure you that we are well positioned to do so and our very best endeavors will be devoted to that single cause.

And with that, I would like to turn the call over to Albert for an overview of our financial results.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you, John, and good morning, everyone. The fourth quarter was emblematic of a difficult year. Extraordinary catastrophe activity again marred our results with a $135 million impact from catastrophe-related claims net of reinsurance, taxes and reinstatement premiums in the quarter; and $910 million in the full year. This compares to $41 million and $295 million, respectively, for the fourth quarter and full year 2010. The increase in catastrophe losses explains the bulk of the year-over-year reductions in earnings with higher frequency of large losses, lower pricing and reduced investment income contributing the balance of the variance. Nevertheless, we reported net income available to common shareholders of $80 million for the quarter and $9 million for the year and emerged with our balance sheet strength intact and ready to take advantage of improving market conditions.

While the catastrophes affected the reported results, they did not distract us from the ongoing development of our business. We made significant progress in new lines and markets, including accidents and health, renewable energy, design professionals and environmental, as well as further expansion of our Canadian and Australian operations. We have a well-balanced book of business, and an organization that is anxious to get back to delivering the superior results that have been the hallmark of this company.

Let's get to specifics for the quarter. Consolidated gross written premiums were up 5% to $667 million while net premiums written were up 1%. The lower net written premium growth rate primarily reflects a shift in business mix towards lines where we see the higher percentage of our gross premiums. Consolidated net premiums earned grew 12% in the quarter, reflective of the business written in recent quarters, as well as changes to our reinsurance purchasing programs in 2010. Our consolidated combined ratio for the quarter was 100.5% as compared to 85.6% in 2010. Net catastrophe losses contributed 16.6 points to the combined ratio, as opposed to only 5.3 points in the prior year quarter. X cat, our accident year loss ratio was up approximately 5 points from the fourth quarter of 2010 to 61.3% this quarter. The primary driver of the x-cat increase was the higher frequency of property and energy losses in our insurance segment, with business mix and rate changes also contributing.

This quarter, we recognized net pretax losses of $64 million for the Thai flooding, with our insurance and reinsurance segments each contributing equally to that loss. The net after-tax impact is now estimated to be $60 million. This is higher than that the preannounced estimate of $48 million we gave a few weeks ago. However, since that time, we received additional claim information, which caused us to revise our estimate.

In addition, as you learned from our prior announcement, recent information caused us to add an aggregate of $75 million to our estimate of net pretax losses, net of reinstatement, for catastrophes experienced in the first 3 quarters of the year. This amount relates primarily to the Japanese earthquake and tsunami, for which we recognized a $32 million increase, and the February New Zealand earthquake, where our estimate increased by $31 million.

With respect to Japan, a significant portion of the increase related to our decision to reserve the full limit of our exposure for a large Japanese mutual after consideration of updated loss of devices and market information. Updated information from one season [ph] was also the primary driver of the increase for New Zealand. It is perhaps cold comfort, but we know most other reinsurers involved in these events similarly had to revise their estimates, based on the same late information we received. As I mentioned before, the very nature of these very unique events added to the usual difficulty in quickly reaching an accurate estimate for large and complex catastrophes.

While we have attempted to make reasonable estimates for these losses based on all of the information available to us at this time, it remains that our estimated ultimate losses for Japan, New Zealand, the Thai floods or any large catastrophes are subject to potentially significant changes on the basis of new facts or circumstances. We've discussed the issues with Japan and New Zealand. The complications related to the Thai flood include the complexities associated with the prolonged duration of the event and difficulties associated with estimating potential contingent business interruption losses. Excluding the impact of catastrophes, our underwriting income was $154 million this quarter compared to $173 million in the fourth quarter of 2010.

To provide a little more detail by segment, insurance gross premiums written were up 5% in the quarter and 11% for the year, as growth in our newer geographies and business lines continued. Growth in our professional lines remains largely related to smaller accounts, newer lines and geographic expansion across Europe, Australia and Canada. We are achieving acceptable technical ratios on this business and are therefore satisfied that our business activity is appropriate in what may be considered a difficult market overall.

Insurance net premiums earned increased 13% for the quarter and 18% for the year, reflecting the growth in written premiums and changes to our reinsurance purchasing. Our insurance segment reported a fourth quarter combined ratio of 94.1%. This includes 7.5 points of cat losses and a 7.8 benefit from prior year reserve releases. That total, 94.1, compares to a combined ratio of 79.5 in the fourth quarter of 2010, which included 10.5 points of favorable reserve releases and an absence of significant cats.

For the full year, our insurance segment reported a combined ratio of 97.7%, which included 10.9 points for cats and a benefit of 7.2 points from favorable prior year reserves. This compares to a combined ratio of 82.8 in 2010 and that included a benefit of 9.8 points from prior year reserve releases and again, no significant catastrophes.

The current year x-cat loss ratio was 60.7 for 2011, a 4-point increase over the level recorded in 2010. In order of importance, we would attribute that increase to lower rates, change in business mix and the previously noted increased frequency of property and energy losses.

Turning to our reinsurance segment, gross premiums written grew 5% in the quarter. For the full year, growth was 8%, mostly driven by motor business and credit and bond reinsurance. Our reinsurance combined ratio for the fourth quarter was 101.5%, including 23.7 points of cat reflecting the Thai floods and the adverse development of the earlier cats in the year, as well as a 10.3 point benefit from prior year releases. That 101.5% compares to a combined ratio of 84.9% for the fourth quarter of 2010, and that result included 9 points of catastrophes and 10.9 points benefits from prior year releases. You will also note a modest increase in the acquisition cost ratio for our reinsurance business this quarter. This was driven by higher variable commission on our trade credit and bond reinsurance business in light of favorable loss experience.

For the full year, our reinsurance segment reported a combined ratio of 119.2, inclusive of 41.3 points of catastrophes and an 8.2 point benefit from prior year reserve releases. And this compares to a combined ratio of 88.6 in 2010, which included 17 points for cat and 11.2 point benefit from prior year releases. The current year x-cat loss ratio was 59.9 in 2011 and that's a 2.2 point -- percentage point increase over the level of recorded in 2010. The higher losses on U.S. ag contracts, rate and business mix drove that increase.

Net investment income was $102 million for the quarter, down modestly from $108 million in the prior year quarter. Income from our fixed maturity portfolio, cash and short-term investments was $79 million, down from $87 million in the fourth quarter of last year, despite higher average balances given the downward shift in interest rates. Income from alternatives was essentially flat with the prior year at $25 million. In aggregate, the total return on our cash and investment portfolio for the quarter was 1.3%, inclusive of foreign exchange impact, while for the full year, net investment income was $362 million. And that was down 11% from the prior year, primarily due to lower interest rates and lower contributions from our other investments portfolio.

The total return of our aggregate investment portfolio for the year, inclusive of foreign exchange, was 3.4%. Given many central banks' stated policies of keeping rates low, we expect net investment income will remain under pressure as the fixed maturity book yield of 2.9% converges with the yielded market of 2.2%.

Before moving onto the other income statement items, let me address the reduction in G&A expenses for the quarter. You'll recall that our fourth quarter 2010 figure was impacted by a bonus accrual commensurate with our strong financial performance for that year. In contrast, bonus expenses were down notably in 2011 as incentive compensation naturally moved in tandem with our operating results. Excluding the impact of bonuses, our G&A expenses did increase during the year, reflecting a 9% growth in headcount as well as other costs related to the continued buildout of our global platform.

The other income statement items are relatively straightforward. Our foreign exchange gains for the quarter relates to the revaluation of our insurance-related net liabilities. The amount was primarily driven by the depreciation of the euro against the U.S. dollar during that quarter. However, as I've mentioned in previous calls, we invest in assets with currencies aligned to our liabilities and therefore, much of this gain was offset by reductions in the value of our investment portfolio and that's reflected in our equity accounts. Thus, the net impact of FX movements in our book value during the quarter was negligible. For this reason, we determined it was appropriate to exclude FX from our calculation of operating income, as we did earlier this year.

The net of all these items and preferred dividends was quarterly operating income of $67 million or $0.53 per diluted share and net income available to common shareholders of $80 million or $0.63 per diluted share. This equates to an annualized operating ROE of 5.5% and net income ROE annualized at 6.5% for the quarter. However, for the full year, our operating loss was $154 million or $1.26 per share, while net income was essentially breakeven at $9 million or $0.07 per diluted share.

Moving on to the balance sheet. Our assets grew 8% in 2011 to $17.8 billion, consistent with our activities. Cash and invested assets totaled $13.5 billion at quarter end versus $12.6 billion a year ago. Our fixed maturity portfolio represents 81% of cash and invested assets, down slightly from 83% at the end of 2010. The strategy for our fixed maturity portfolio is to emphasize spread sectors, the largest being corporates and U.S. agency mortgage-backed securities. Investment-grade holdings represent 95% of the total fixed maturities portfolio. We continue to maintain a high average credit quality of AA- with a 2.8 year duration.

Our holdings of sovereign debt issued by governments other than the U.S. totaled $1.2 billion at year end. These holdings had an average rating of AA+ and an average maturity of 3.5 years. These totals are inclusive of $634 million of debt holdings of eurozone countries. However, subsequent to year end, we sold our sovereign debt holdings of France, Spain and Belgium totaling $255 million at values essentially approximating our cost. So as of now, we own approximately $964 million of debt issued by governments other than the U.S. Of this amount, 88% are rated AAA, with the largest being Germany at $248 million and the U.K. at $245 million. As a reminder, we eliminated European bank exposures in our fixed maturities portfolio early in the fourth quarter of last year.

Gross reserves aggregated $8.4 billion, while the net loss reserves are $6.7 billion, an increase of $1.2 billion from year end 2010, primarily due to the higher catastrophe losses this year. On a consolidated basis, we recognized $78 million of net favorable development this quarter and $257 million for the year. Approximately 85% of the group's consolidated net favorable reserve development this quarter was generated from short-tail lines and reflected better than expected loss emergence. The remainder related primarily to our professional lines insurance and reinsurance business as we continue to incorporate our own experience into our ultimate expected loss ratios. As with prior quarters, we have yet to do this in any meaningful way for our liability lines with longer development tails.

Our total capital at December 31 was $6.4 billion, down 3% from $6.6 billion at year end 2010, and this includes $1 billion of long-term debt and $500 million of perpetual preferred equity. Diluted book value per share was $38.08 at December 31, up 3% from September 30, 2011, but down 3% from the year end 2010 level. Common shareholders' equity stood at $4,944,000,000, up from the third quarter but down from the $5,125,000,000 at year end 2010, with the reduction during the year essentially due to share repurchase activity and dividends.

Given continued depressed market valuations for the industry, we took the opportunity to repurchase 1.6 million shares at a discounted book value in the fourth quarter for an aggregate cost of $50 million. And as you are also aware, we announced a 4% increase in our quarterly dividend to $0.24 per share. This represents the eighth consecutive annual dividend increase since we started declaring dividends in 2003. This reflects our strongly held belief that a growing dividend stream is a core component of superior value creation for our shareholders.

Overall, it bears noting that inception to-date, AXIS has raised an aggregate of $2.1 billion in common shareholders' equity. Over this past decade, we have repurchased $1.9 billion of stock and paid out almost $900 million in common dividends. So we've given back to our shareholders approximately $660 million more than we raised and still finished our first decade with $4.9 billion of common shareholders' equity. We are confident that ours remains one of the strongest balance sheets in the industry, underpinned by high-quality liquid assets and prudent reserves. With strong capital of $6.4 billion, we are in excellent position to take advantage of whatever opportunities are available in this market.

And with that, I'll return the call to John.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Thank you, Albert. And I'll begin my market commentary with an overview of the important January 1 reinsurance renewals.

Globally, the reinsurance market was mixed, with pricing conditions varying significantly by line and geography. The greatest firming occurred in the property catastrophe reinsurance line. In the U.S., pricing was up 5% to 15% in peak zones, with greater increases for loss-impacted accounts. Accounts outside the U.S. with significant loss activities through 2010 and 2011 also experienced significant positive rate movement. Property lines lacking cat content were generally stable, but pricing was up where loss experienced warranted this. Overall, the market was slower to adopt RMS version 11 than we had anticipated and in Europe, it had no impact. Generally, European cat reinsurance lines experienced moderate firming and despite continued ample competition for other P&C lines in Europe, the outcome was broadly stable.

In the U.S., despite signs of improvement in pricing for underlying portfolios in casualty reinsurance lines, including the specialty professional lines, these improvements did not seem to be outpacing loss trend. We find ourselves facing a highly uncertain economic environment with potential adverse implications for exposure in our portfolio, yet still on the critical -- we are still on the critical cusp of a broader P&C market turn. This situation demands that we preserve our capital for the best opportunities that will occur throughout this year. With this in mind, we took a firm line on business where market conditions did not allow us to accomplish our profitability objectives and when we did deploy capital, we sought to position our capacity strategically.

In some cases, this meant reduced lines or shares and in other cases, restructuring. Approximately 56% of AXIS raised [ph] 2011 expiring premium was renewable in January. At this renewal, we estimate our overall AXIS repremiums were down 14% over last year and down 13% on a currency-adjusted basis. There could be other activity in the quarter that will impact top line for the segment, but these estimates generally give a good indication of how we are approaching the marketplace. The reductions at this renewal due to nonrenewals, restructuring and share change came from a number of areas. In our property catastrophe reinsurance line, we withheld capacity in key zones, primarily in North America and to a lesser extent in Europe, until market pricing better reflects risks assumed. In our motor reinsurance line, we materially reduced nonproportional motor reinsurance in the U.K. in the wake of the changes in trends related to U.K. claims settlement, namely the institution of the PPS -- the introduction of PPS, sorry. This was offset by increases in more attractive business within our proportional motor account.

Share changes in our credit and bond proportional reinsurance account were driven by our efforts to prudently manage exposure to economically sensitive lines.

Finally, we have been selectively reducing our U.S. general liability reinsurance account as current and foreseeable weak economic trends and low interest rate environment warrant this approach, even more so given the modest price improvements we are seeing.

Following the international catastrophe losses during the first half of 2010, we initiated an intensive review of our approach to nonpeak international cat zones and unmodeled exposures. As a result, our view of what constitutes minimum rates on line in a variety of territories was adjusted materially upwards.

Over the last year, we have aggressively reduced exposure where our requirements were not met. For example, in Australia and New Zealand, we renewed less than 50% of expiring limits last year and we did not write any reinsurance covers in Australia and New Zealand at the first of January as we considered structural changes instituted by the market inadequate. Meanwhile, there was not much change in our already conservative approach to Japan. Significant amounts of international catastrophe business, including Japan, renew at the 1st of April and the 1st of July renewal dates. We expect to see further significant positive changes in structure, pricing, terms and conditions during the 1st of April renewal in Japan, compounding with the already favorable changes in the underlying business there.

From inception to-date, our international catastrophe portfolio has been profitable even with the significant international catastrophe activity of the last 2 years and we believe we have effectively improved the profit potential of this portfolio through the repositioning actions we have taken over the last 15 months. We are well positioned to further enhance this opportunity in the upcoming 2012 renewals.

Moving on to our insurance segment. Most lines of business continued to trends directionally upwards, either showing positive rate movements in absolute terms or less negative movement than previously seen. This is a very important statement given that the market appears to be in cycle change mode, with the improvement in the various lines pacing differently. Both our U.S. and International divisions experienced encouraging overall rate improvement in the quarter. Rates in our U.S. division, which is heavily weighted towards U.S. property, was up plus 7% overall, ahead of the rolling 12-month average of plus 3%. In our International division, which is essentially comprised of our specialty lines, overall rate change was up 3%, in line with the rolling 12-month average. Across AXIS insurance, property and energy classes continue to show significant improvement with high single-digit rate increases.

Specialty classes such as terrorism, marine hull and aviation, however, continued to be written by the market at inadequate pricing levels and do not feature meaningfully in our portfolio, as our participations have already been substantially reduced for some time due to inappropriate margin erosion. Umbrella and excess casualty rates are now increasing across a wide group of industries. However, we remain cautious in our approach to these lines.

Pricing for professional lines across virtually all classes has turned less negative in Q4 after several quarters of increasingly negative rate changes. Rate change in -- for the fourth quarter is down 5% overall, which is an improvement relative to last quarter and the rolling 12 months, both of which are down 7%. In the last month of the year, our underwriters sensed the shift in the market and now feel better able to achieve more favorable rates, terms and conditions than before. As for our newer international insurance platforms, pricing across our portfolio in Australia is up 7% overall, up from a positive 5% for the third quarter and heavily influenced by the property and professional indemnity classes. Our Canadian insurance portfolio, meanwhile, is indicating a very low single-digit decline in pricing.

Looking ahead, we face an array of challenges, not the least of which are the uncertain and volatile global economy and a changing insurance and reinsurance marketplace. However, the relentless race to the bottom of the cycle that we witnessed in competitive pricing may have run its course at long last. As we have said for some time, the eagerly awaited cyclical upturn will not occur all at once. I stress it is cycle change, not an event change. Some business areas will continue to remain under pressure. We expect that the firming process, which has already begun in some products, will be gradual, gaining ground risk-by-risk, product-by-product, geography-by-geography and year-by-year. Unlike a sudden spike in pricing that would follow a major catastrophe, say in the range of $100 billion industry loss for a single event, the current market may require several years to regain some of the pricing eroded over the last 5 or 6 years. As a result, AXIS will continue to proceed with caution. We are well positioned to scale up rapidly in a wide range of business lines and geographic regions, as the opportunities fully arrive. We have the underwriting expertise, the flexibility and the financial capacity to take advantage as positive momentum gathers and markets adjust upwards. The year's feature achievement was the continuing buildout of our AXIS global accident and health line. We envision strong potential for this business and to-date have invested heavily to attract the highest caliber talent and create a modern global infrastructure. Although most of our efforts continued towards laying the groundwork for an eventual full-scale global insurance and reinsurance presence, we have already begun to see a welcome return on our investment. We wrote $128 million of premium in 2011, primarily in specialty health quota share [ph] reinsurance and catastrophe accident excessive loss reinsurance, compared to only $6 million in 2010.

As we enter 2012 knowing that we have finally received the critical regulatory approvals required to kick-start our A&H insurance business, we look forward to expanding that key element of the line. I continue to project that our A&H line overall will be a $300 million to $500 million business by year end 2014 and also be a meaningful contributor to our bottom line.

Since our inception, AXIS has continued to attract and attain -- retain the highest-quality talent, and this has been our greatest strength and source of sustainable and consistent intellectual capital. We have a depth of expertise and a culture of knowledge, entrepreneurialism and collaboration. AXIS has the flexibility, openness and enthusiasm to prosper in an ever increasingly challenging market.

As the market moves forward towards improved underwriting profitability, I am confident this company will be amongst the leaders in not only seizing new opportunities but also maximizing profitability from its global franchise structure. We have excellent underwriting acumen embedded throughout the company and we continue to strengthen our management talent with the view toward meeting the challenges of coming decades.

Since our last earnings call, we made 2 announcements regarding the company's management. On Monday, we announced that Jay Nichols, former President of RenaissanceRe Ventures Limited will be joining AXIS on the 2nd of April as CEO of AXIS Re. Jay is an outstanding long-time reinsurance industry professional with an excellent reputation. I am delighted that he has chosen to join our senior management group as CEO of AXIS Re and in doing so, recognizes the enormous potential of our global reinsurance platform. All of my colleagues and I very much look forward to working with him in leveraging AXIS Re's existing strength and further developing our global franchise.

Further, in December, we announced that on May 3, I will be retiring from my position as CEO and will assume the role of Chairman of our Board of Directors. Meanwhile, Albert will become our new CEO on this date. I remain committed as ever to the continued success of our AXIS. Albert has my full support in his new role, and I expect to continue to contribute meaningfully to the success of our company as I move into my new role as Chairman.

As I have said to a number of people by now, this is an evolutionary process, not a revolutionary one. When I first approached our board over 2 years ago to begin the process of finding my successor, I was motivated by the firm belief that a CEO should not overstay his welcome and that bringing new energy and experience to our company was the best way to ensure that it would continue to thrive. I have absolute confidence in Albert's amply demonstrated skills. Albert and I have been working closely and diligently together to ensure a smooth transition. I am confident that this transition is progressing seamlessly and the company will continue strongly on its journey it so successfully began 10 years ago.

And with that, ladies and gentlemen, operator, I would like you now to open the lines for questions from our audience.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Josh Shanker at Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I guess I have one more quarter with you, John., where I can ask the questions. But I'll get it out, this one at the beginning of the cycle turn. I'm looking at the last 10 years. You guys have done well with 14% ROE, I think, over the long run, if I'm correct on that. But you talked about the momentous year that 2011 was. I looked at this year and almost everybody of your competitors have been left standing. What does that mean for the next decade and can AXIS really hope for the same kind of performance in the '10s as it did in millennial decade?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Yes, and let me tell you, Josh, I think that when I started AXIS back in 2001 -- and looking at pricing levels in 2002 throughout pretty well every product line, in 2005, because of the abundance of global liquidity, because of the substantial leveraging the banks had flooding the capital markets with capital that needed to be put to work, our industry was, I think, substantially affected. And when people reflect on this last decade, I hope they will reflect back to the end of 2005 after Katrina, when the industry was making process towards actually increasing rates generally across the board again after a few years of substantial competition. What happened in 2005, I believe, it interrupted a much steadier state that the industry had got itself into. It also brought in a huge number of new players, many of which actually had no real future at all because they had absolutely no chance, or very little chance in my view, of ever building a global franchise. And I think that because what has happened as a result of the financial crisis with the deleveraging and capital becoming more scarce, people becoming much more risk conscious, especially in our industry, I actually believe our industry as we progress through 2012 and 2013 is going to emerge in much more disciplined, much more risk-aware and much more demanding industry for the future than it has been over the last 10 years. And that's why I actually am extremely positive about the future of AXIS during that period of time.

Joshua David Shanker
Deutsche Bank AG, Research Division

So looking at the risk -- discipline that everyone took following this terrible, terrible year and the fact we don't have bankruptcies this year, does that mean that there's enough for everybody in that market? Or does the herd have to thin a little bit?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I still believe there are far too many players in the marketplace. The capital is sufficient and I think that it -- the industry has shown remarkable resilience in totality to absorb over $100 billion of catastrophe losses at the very bottom of a -- a very aggressive pricing cycle. The real issue with the industry, though, just far too many of us around and we need to be culled.

Joshua David Shanker
Deutsche Bank AG, Research Division

Do you think that's M&A that does that? Or do you think there's capital removed from the market? How does that happen?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I think it's through a combination of a lot of things, not least of which I think shareholders are getting pretty hacked off with the returns of the industry and the outlook. So as an industry, we have to get our act together.

Operator

The next question comes from V.A. Misquith at Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

The first question was actually on the cat exposures. So your PMLs, I think, reduced this quarter slightly on an absolute basis and as a percentage of equity. But since last quarter, and I believe you mentioned during the Jan 1 renewals, you've taken it down a little further. Just curious as to what the rationale behind the lower exposures going forward is.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I think the lower exposures really reflect the fact that we're still not happy with the pricing for cat business generally. You can't put $100 billion of cat losses into the market in 2011 and see what I would consider to be a pretty modest improvement in pricing. I think the reinsurance market as a whole failed to really technically approach a lot of these geographic regions and look at the structures of the reinsurance programs that they were allowing to emerge from these regions, as well as the pricing. It's not just a pricing issue. There are some structural deficiencies, which I think during the course of this year will be resolved. So it was deliberate on our part and we believe that it is better to preserve our capital and get much better returns with the inevitable change.

Vinay Gerard Misquith
Evercore ISI, Research Division

What level of price increases do you think are necessary for you to get to your 25% of equity 1-in-250 PML?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

It's such a broad question, region-by-region, product-by-product, but I can assure you that I felt personally that the market still is some way behind the curve. But I expect that the market will harden because the fourth quarter has again brought catastrophe activity for everybody. It's again brought deterioration over prior catastrophe losses. And we're at the bottom of a very soft pricing cycle that we've been stuck in for the last 5 or 6 years. People have got to get real, and they will get real because they're really looking at the numbers. And so I absolutely expect both markets to continue to move. The reinsurance market will move much more quickly than the primary market.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. That's great. Just a follow-up on underwriting margins, so given what's happened on Jan 1 plus what you expect pricing to be this year versus last year, do you expect the underwriting margins to remain flattish for the company as a whole in '12 versus '11? Or do you expect a small amount of improvement given price increases in property cat [ph] ?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

We, across both insurance and reinsurance, Vinay, that we monitor our prices very carefully. It's a lot easier to do so on the insurance side where, just as a matter of interest, we have over 23 different pricing points globally and by product that we measure. When we started the first quarter of 2011, our overall portfolio was showing a reduction in prices of down 5%. When we get to the fourth quarter of last year, that suite of products -- as I said, over 23 of them, were sharing a price increase of 1%. And out of those 23-odd product lines, only 3 lines were weaker at the end of the year than they were at beginning of the year. And quite frankly, those 3 lines were immaterial in terms of production. So I think directionally, that gives you a pretty good indication of where the insurance market is going.

Vinay Gerard Misquith
Evercore ISI, Research Division

The pricing is still slightly below last quarter trend, do you think, this year?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

On the longer-tail lines, we believe that to be the case. But pricing is increasing there. It just really hasn't gathered the momentum it needs to, but I think you'll see that occur during the course of this year.

Operator

Our next question comes from Matthew Heimermann at JPMorgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

A couple of questions. First, just your comment on the A&H business potentially getting to $300 million to $500 million by 2014, can you just remind us or give us a sense of how much of that is going to be brokered business versus direct business?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, as we've said that we had to really wait for just over 2 years to get our suite of licenses in the U.S. put in place. And so initially, our portfolio has been reinsurance-based rather than insurance-based and naturally, most of that will be brokered-based. In terms of the insurance products, it's a mixture because there will be a mixture of broker-based as well as direct involvement with affinity groups and different distribution channels. It's going to be a mix.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Okay. Any sense of on the insurance side, which should predominate?

Albert A. Benchimol
President, Chief Executive Officer & Director

Sorry. On the reinsurance side or the insurance side?

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

No, on the insurance side.

Albert A. Benchimol
President, Chief Executive Officer & Director

Not in the early stages. I expect us to use both a number of different distribution channels to actually produce the sort of balanced portfolio we need globally. And it is a global portfolio, don't forget, and different markets are going to use either -- are going to use different distribution channels. It could be the banks in some geographic areas, it could be brokers in others.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Okay, that's helpful. And then, just when you look forward, if the market were to get better, how should we think about where you have the most opportunities to expand? And I guess, is that areas where you pulled back like the U.S. [ph] casualty business or aviation, or is it more about areas maybe you built but you haven't been big in historically that would expand?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I would like to think it's an across-the-board opportunity because, as you quite rightly point out, we have not only withdrawn from a number of product lines where we have significant expertise and industry standing because of margin erosion, but we've also pulled back substantially across a whole range of different businesses over the last 2 or 3 years as margin erosion has accelerated. So the way I would characterize the opportunity is the fact that as the market moves forward in terms of its pricing, it substantially opens up our existing portfolios where we can trade a lot more aggressively as opposed to being defensive. And then it also allows us to come back into whole swathes of business that we've walked away from over the last 5 years.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

And then just a quick numbers question for Albert. Can you quantify to any extent, either just an aggregate or by segment, the property and energy impact in the quarter?

Albert A. Benchimol
President, Chief Executive Officer & Director

I think that if you look at the insurance business, first of all, the accident year loss ratio is up about 18 points, around 10 of that after the cat. We would say that the rate impact is somewhere between 2 and 3 points. And the balance of that, 7 to 8 points, is essentially higher property and cat losses. On the reinsurance side for the quarter, there's a few million dollars of additional losses, specifically for the U.S. aggregate treaties. We had less energy losses. We don't really write energy on the reinsurance side. It's really business that we do on the direct side and so the difference in the reinsurance book is mostly the U.S. ag business that contributed to more losses in this quarter. Otherwise, it's the cat that we identified.

Operator

[Operator Instructions] And our next question comes from Brian Meredith at UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just a couple questions here. John, can you comment on the trade credit reinsurance renewal at 1/1? How did that go?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Yes. It went very well because we, at the senior management level because of what was the volatility that we were seeing in Europe, which was heightened during November, we spent a great deal of time with our underwriters debating the class and really trying to dig very deeply into it to see what potential there was for loss and the sort of controls that had been brought into that business by the trade credit and bond insurers to protect their portfolio in the event of the collapse of the euro and the collapse of the eurozone. So what we did, we've turned the portfolio in its entirety upside down. We exited a number of the more peripheral players in that industry, and we spent a great deal of time talking to the 3 major players that control over 70% of the global industry to make sure that we were properly satisfied that they had in place as many corrective actions as they could in the event of what I just talked about. So on a go-forward basis, we were comfortable, as comfortable as we possibly could be, about the defensibility of that business going forwards. The business coming out of the financial crisis, out of 2008, the underwriting years 2009, 2010 have actually been very good, far better than initial expectations. So whilst there's been a little bit of margin erosion, quite frankly, because there were sliding scales in terms of commission -- but that's based on profitability, which we were happy to see. So there were some minor adjustments going into 2011 but not really material. We were much more concerned with the impact of the financial crisis in Europe on the portfolio than we were about arguing over 1% commission or that sort of thing.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay, great. And then could you also give us kind of your thoughts on what's going on right now in the professional liability market, any changes that you've seen in the fourth quarter? Are things getting any better?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

As I said in my commentary that what we have done is we have seen a slowing down of the reductions that were being granted in the professional lines. And I just remind you again we have over 20 different products in the professional lines field and we have huge geographic diversity and our growth really for the last 18 months in that product line has really come, the vast majority has come from our international operations, which we established over the last 3 years and we were just finally getting up to steam. But we are seeing a material slowing down in price aggressiveness in the financial institutions side and I hope that, that will continue to move through the other products within that portfolio.

Albert A. Benchimol
President, Chief Executive Officer & Director

We're still -- we're in it because it's a profitable line for us. We have a great global franchise. We have very, very experienced people that underwrite that business. We have great relationships with our client base. We have a niche area. We're not primary underwriters. We know where we want to be. We know what prices we want to get, and there are very few people with our quality of capital in that area of the market.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then one last one, just curious, your thoughts -- the Thai flood losses have caused some pretty heavy losses at some of the Lloyd's syndicates. Kind of your thoughts on the Lloyd's market right now, opportunities there potentially for you kind of lines of business, particularly as the Thai floods continue to develop here.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I spent 30 years trying to get out of it. I probably know too much about it. But there are some very good businesses in Lloyd's and I have high regard for a number of them, and there are some less good businesses in Lloyd's. The trouble is that you have a mutualized society and with very broad power. So if you're going to go into Lloyd's, go in there with your eyes open, that's all I would say. As long as I am chief executive of this company, we won't. Not for any other reason apart from the fact that as chief executive I am empowered to run my company. I don't delegate the authority to run my company to a third party like Lloyd's.

Operator

Our last question comes from Jay Cohen of Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

John, with the reduced exposure on the cat side that you discussed for 1/1, I'm assuming that frees up capital. And given that and given that your stock's still below book value, should we expect the buybacks to accelerate a bit in 2012 versus the fourth quarter run rate?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I'm going to ask my partner to answer that question.

Albert A. Benchimol
President, Chief Executive Officer & Director

Good morning, Jay. I think our position with regard to capital management really hasn't changed. As you'll recall, we said that we would be taking a look at this thing on a quarterly basis, take a look at the capital that we've generated in every quarter and then determine

[Audio Gap]

but if we feel confident that we will need it then we will get the [ph] stock.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I guess we'll have to see what the opportunities look like then.

Albert A. Benchimol
President, Chief Executive Officer & Director

Exactly right.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Jay, can I just comment on that point of the opportunities because I think I said back in the last quarter that people expect instant gratification in our industry, and I've been saying for a long time the fact this is a cycle change. And I've heard some reports about the market's not as positive going into 2012 as people expect it to be. Let me assure you that everything that I thought would happen, especially on the primary side, is happening and I would love to see it move much more quickly but in a cycle change I know that, that doesn't happen. So we are exactly where we thought we were going to be in the cycle change and we're poised to be able to take advantage of it. I am slightly disappointed with my reinsurance colleagues in terms of our peer group and the way that they approached some of these renewals. But as I said, that is a short-term thing because I'm absolutely convinced as we pull through 2012, when these guys really look at their numbers and really start looking at their pricing and when they start really looking at the outlook that they're going to pull their socks up. So I'm pretty happy about where the market is and the approach for 2012 and I just want to make that clear to you.

Operator

This concludes today's question-and-answer session. I would like to turn the conference back over to John Charman for any closing remarks.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Well, thank you again, ladies and gentlemen, for joining us here today and listening to us. And we very much look forward to seeing you again or hearing you again fairly shortly. Thank you.

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