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AXIS Capital Holdings Limited NYSE:AXS

Earnings Call

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Call Participants

EXECUTIVES

Clifford Henry Gallant
Head of Investor Relations & Corporate Development

Peter John Vogt
CFO & Executive VP

Vincent Christopher Tizzio
President, CEO & Director

ANALYSTS

Dean Criscitiello

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
BofA Securities, Research Division

Presentation

Operator

Good morning, and welcome to the First Quarter 2024 AXIS Capital Earnings Conference Call [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Cliff Gallant with Investor Relations. Please go ahead.

Clifford Henry Gallant
Head of Investor Relations & Corporate Development

Thank you. Good morning, and welcome to our first quarter 2024 conference call. Our earnings press release and financial supplement were issued last night. 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 on our website.

Before we begin, I would like to invite you all to attend our Investor Day being held the morning of May 30 in New York City and also webcast. If you would like an invitation to the call, please e-mail me at cliff.gallant@axiscapital.com. Joining me on today's call are Vince Tizzio, our President and CEO; and Pete Vogt, our CFO.

In addition, I would like to remind everyone that the statements made during this call, including the question-and-answer section, which are not historical facts, may be forward-looking statements. Forward-looking statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from those projected in the forward-looking statements due to a variety of factors, including the risk factors set forth in the company's most recent report on the Form 10-K or our quarterly report on the Form 10-Q and other reports the company files with the SEC.

This includes the additional risks identified in the cautionary note regarding the forward-looking statements in our earnings press release issued last night. We undertake no obligation to publicly update or revise any forward-looking statements.

In addition, non-GAAP financial measures may be discussed during this conference call. Reconciliations are included in our earnings press release and financial supplement.

And with that, I'll turn the call over to Vince.

Vincent Christopher Tizzio
President, CEO & Director

Thank you, Cliff, and good morning, everyone. Thank you for joining our call. We had a very good start to the year with Q1 marking another strong underwriting quarter of profits and growth for AXIS. We continued to generate consistent double-digit ROE, combined ratios in the low 90s, profitable growth and book value per share growth.

Indeed, our team is playing offense and the positive momentum that we generated last year has continued into 2024 as we further elevated our financial performance across a number of indices. I'm very appreciative of my colleagues for their deep commitment to delivering consistent value creation while providing excellent service to our partners and customers.

Now I'd like to share some of the headlines for the quarter. In a quarter where industry catastrophe losses totaled nearly $20 billion, we produced an annualized ROE of 18.2%, a combined ratio of 91.1%. Importantly, our reserve position at the end of the quarter remains strong, and we feel very good about the actions we took in the fourth quarter.

We continue to achieve double-digit growth by capitalizing on favorable conditions across our chosen markets while exhibiting underwriting discipline and strong cycle management. In the quarter, we generated $2.7 billion in gross premiums written, 11% increase over the prior year. This included $669 million in new business premiums, a 27% increase as we continue to grow in our targeted markets while tapping into new sources of revenue.

Lastly, we reduced our GA ratio by 0.6 point compared to 1Q '23. These results evidence the strengthened path that AXIS is on. Throughout AXIS, there is a clear focus on advancing our strategy and achieving our financial objectives.

I'll briefly speak to several of the core elements that are underpinning our strategy. First, we continue to operate in attractive markets, making decisive choices on where and how to compete. And we're nimbly allocating our resources and capital.

We live in an uncertain world where the risks our customers are facing are growing considerably and they're more complex. Our customers increasingly need tailored risk solutions in managing these exposures. As an example, in the quarter, our U.S. wholesale business saw a 31% increase in submission count with a broad range of exposures that require the technical know-how of our AXIS team and our resourcefulness in meeting our customer needs.

As respect to pricing, in short-tail lines, which comprised 58% of our insurance business, during the quarter, we continued to enjoy good margins and are achieving rate in excess of trend. And as respect long-tail classes, in particular, primary and excess casualty, we are achieving rate that is comfortably ahead of trend. I'd note that these two classes have seen an acceleration of rate increases in our insurance business that were 12% during the quarter.

Reflecting the current dynamic market conditions, we are continually cycle managing our business. Examples of steps we've taken include placing an increased focus on growing our short tail lines, where as noted earlier, we see strong premium adequacy in both new and renewal business, rate over trend and where we have the deep subject matter expertise to address our brokers and customers' needs.

In property insurance, one of our key growth drivers, premium volume grew 28%, excluding terrorism, as compared to the prior year period with new business growing 54%. We recently repositioned our U.S. liability book through the refreshed leadership strategy and by exiting a number of underperforming segments and risks.

As we've discussed in past calls, within our professional lines book, we continue to view pricing as inadequate in public D&O and we're focused on growing premium adequate lines such as our London small D&O and E&O book and our U.S. private D&O business, which both produced double-digit increases during the quarter.

In cyber, we continue the strategic path of pivoting away from small and select delegated business where rates aren't acceptable, and risk mitigation is varied in favor of growing our book of large accounts. In the quarter, we grew U.S. large cyber by 34% and reduced our small and delegated book by 31%. Leveraging our reinsurance book, we continue to grow cyber by well over 100% albeit over a small expiring base. In short, we are focused on driving smart growth and a diversified book that produces strong underwriting income.

I'll now briefly speak to the progress that we're seeing within our underwriting segments. Our specialty insurance book continues to perform very well, achieving a combined ratio of 86.6%, record first quarter premium production of $1.6 billion and record first quarter new business premiums of $481 million.

Moreover, our underwriting income of $123 million was the highest ever reported on an accident year basis. This growth was fueled by double-digit premium increases across both our North America and London-based Global Markets Specialty Insurance division.

Within North America, where AXIS is a leading player in the U.S. wholesale marketplace, key drivers of growth included U.S. property and U.S. excess casualty to just name two examples. These lines were up 43% and 23%, respectively, over the prior year period. In our Global Markets business, where we've both a top 10 leader at Lloyd's by capacity and are ranked as an outperforming syndicate, we continue to see year-over-year premium growth across a number of our lines. To name a few, global property, 32%; renewable energy, 16%.

We're also tapping into new sources of revenue and moving with agility to capitalize on smart growth opportunities. This includes our April 1 launch of the first-ever Lloyd's syndicate to exclusively write energy transition risks. As the world continues to transition to cleaner energy forms, we're anticipating customers' emerging needs in a complex and shifting risk landscape.

Within the U.S., we are seeing clear results of our concerted effort to grow our dedicated wholesale lower middle market unit, which produced a 28% increase in premium volume year-over-year. And we're growing our recently launched inland marine, U.S. marine cargo and U.S. construction business units, and we see plenty of opportunities on the horizon in adjacent geographies where we don't currently play.

With respect to our reinsurance business, we continue to advance our strategy. Demand for our specialty solutions remains high as our 1/1 renewal showed. This included generating $114 million or 12% year-over-year premium growth during the quarter across targeted specialty lines, including credit and surety, workers comp, marine and cyber. We continue to navigate a competitive casualty market, and our approach remains one of disciplined underwriting. We have continued this trend into the April renewals. Pete will unpack our reinsurance results further.

The results that we're generating across both our insurance and reinsurance businesses are grounded in the strength and depth of our distribution relationships. AXIS is being increasingly called upon by our customers for our tailored products, the expertise and acumen of our underwriters and the high-caliber service that we provide.

Second, we continue to rigorously improve how we operate to become a more integrated, efficient company. As I've previously shared through our How We Work program, over the next several years, we are implementing operating model improvements, focused on enhancing organizational efficiency, making investments that empower our colleagues and optimize their productivity while improving service quality, accelerating growth and ensuring more consistent profitable returns are delivered.

We're starting to see clear signs of the positive impact of how we work on our expense base. As an example, in the first quarter, we saw a reduction of 0.6 percentage point in our G&A ratio compared to the first quarter of '23. Indeed, we're becoming faster, smarter and more efficient, a theme that we'll discuss at our upcoming Investor Day on May 30.

Third, we are continuing to invest in building strong capabilities in underwriting, claims and operations. In the past, I've discussed the work we are leaning into to enhance our operating models for claims and operations to more closely align with our underwriting business priorities, and these efforts are continuing to generate positive traction.

In claims, this work includes recruiting top talent to newly created positions to enhance our existing teammates while further optimizing our processes and enhancing our data and analytics capabilities. We're also continuing to strengthen the connectivity between claims, operations and our underwriting business teammates alongside the actuarial team.

Within operations, we are streamlining the organization structure, deepening our digital and automation capabilities and partnering ever more closely with our brokers and our underwriting teams to facilitate the faster intake of submissions and improved response time while keeping with our risk appetite and ultimate profit objectives.

With respect to people, we are continuing to attract great talent to complement our existing team. This includes the recent announcements of new leaders for our wholesale casualty, North American environmental team, North American E&O and U.S. construction units.

In addition, earlier this quarter, we onboarded a new Global Chief Information Officer, who is helping lead our internal efforts to drive business-enabling technology capabilities. We're also growing from within, including recent promotions in our Global Markets executive leadership team and the advancement of a new Chief Commercial Officer.

Lastly, we manage our capital efficiently. This involves our continued focus on maintaining a strong capital position and balance sheet, enabling us to fund profitable growth as well as by returning capital to our shareholders through common dividends and share repurchases. Pete will provide more details on this shortly.

In summary, 2024 is off to a very good start for AXIS. Our team is committed and energized. We look forward to speaking with you at our upcoming Investor Day on May 30 in New York and going into greater detail on many of these subjects.

I'll now turn the call over to Pete to discuss our financials.

Peter John Vogt
CFO & Executive VP

Thank you, Vince, and good morning, everyone. AXIS had very strong performance in the quarter. Our net income to common shareholders was $388 million or $4.53 per diluted common share, which resulted in an annualized ROE of 32.1% and drove our book value per diluted common share to $57.13 at quarter end. Our operating income was $220 million or $2.57 per diluted common share, the highest quarterly EPS in our company's history, which resulted in an operating ROE of 18.2%.

I'll first address the Government of Bermuda's Income Tax Act and the provision referred to as an economic transition adjustment. After detailed analysis, we recorded a deferred tax asset of $163 million in the quarter. This amount was included in net income and excluded from operating income.

Moving on to our consolidated results. Our company-wide gross premiums written grew 11.4% as we continue to see attractive pricing across most lines of business. Our current accident year loss ratio, ex cat and weather, was an excellent 56.4%. Importantly, our loss picks were consistent with the learnings from our in-depth reserve review conducted at the end of last year. Additionally, we did have exposure to the Francis Scott Key Bridge tragedy and this impacted the quarter ex cat and weather loss ratio by about 1.5 points with some loss in both segments.

Pretax cat and weather-related losses, net of reinsurance, totaled $19.8 million or 1.5 points in the quarter. We highlight that for the industry, the quarter was quite active with over $20 billion of global catastrophe losses, and our share of those losses was remarkably small.

Prior period development was nil in the quarter, and we saw very little underlying movement by class of business and by accident year. Given how recently we undertook our deep dive reserve review, we are not surprised to see so little change. We remain highly confident in our reserve position.

Our peak PMLs are large U.S. natural catastrophes, including a California earthquake or a Southeast hurricane. Each of these events remain well below 5% of shareholders' equity at the 1-in-250 year peril mark. While we are taking advantage of market opportunities and growing our insurance property book materially, given our outwards property treaty still has a $100 million event retention, our event PMLs have remained steady over the quarter.

The total expense ratio is 33.2%. And as Vince said, as we execute on how we work, we're confident that we'll see lower expenses in 2024. The quarter included $12.3 million of reorganization expense, which includes the cost of severance as we reduced head count in several areas.

The consolidated acquisition cost ratio was 20.2%. This ratio was higher than the prior year quarter due to a couple of factors, most notably mix of business change favoring short tail lines in our insurance segment and the impact of higher profit commissions being paid on good performing business in the reinsurance segment.

The consolidated G&A expense ratio, including corporate, was 13%, down from 13.6% a year ago, a favorable comparison, which we expect will continue as we execute on How We Work.

Now let's move on and discuss our segment results in more detail. Insurance had a strong quarter. As Vince noted, gross premiums written were $1.6 billion, an increase of 11% compared to the prior year. Across most of our book, pricing remains highly adequate, and we see opportunity to put capital to work at attractive returns above our long-term targets.

The insurance combined ratio was an outstanding 86.6%, including 2.1% of cat and weather-related losses. The current accident year loss ratio, ex cat and weather, was 52%, which compares to 52.2% in the prior year and continues to be consistent across recent quarters. Additionally, the acquisition cost ratio was up over the prior year, but again, consistent with recent quarters, reflecting mix of business change as we favor short tail lines.

Now let's move on to the reinsurance segment. The first quarter accounts for approximately 50% of our annual written premiums and gross premiums were up almost 12% in the quarter as we continue to build our specialist focused business. The quarter was helped by some timing on a few contract renewals, a number of which were new business in 2Q of last year.

Our reinsurance team remains focused on the bottom line, and we are pleased with the much improved consistency in the results. A higher percentage of the rest of the year renewals is in liability lines where we are taking a more cautious and selective approach. And we would expect the full year growth for reinsurance to be in the mid-single-digit range.

Net written premiums declined versus prior year quarter as we are ceding more business to our strategic capital partners. We would expect a ceding percent of approximately 35% to be maintained throughout the year.

The reinsurance combined ratio was 95.8%, above what we consider normalized in the low 90s range. The ex-cat and weather loss ratio of 68% is up 5 points from prior year, being driven by 2 points of upward movement due to the impact of exiting the catastrophe and property lines of business and 3.5 points due to the Francis Scott Key Bridge tragedy in the quarter.

I highlight that our acquisition cost ratio of 23% is higher than the prior year quarter due mostly to the impact of profit commissions associated with loss sensitive features. This year, profit commissions added about 1 point to the acquisition cost ratio in the quarter, and we would expect a normalized 22% for the remainder of the year.

Moving on to investments. We had $167 million of net investment income, up 25% from the prior year in the quarter. The overall outlook is positive as our book yield on fixed income securities was 4.3% at quarter end, while the new money yield was 5.6%, and we continue to generate strong cash flow.

Further, in the quarter, we returned $100 million to shareholders through $38 million of common dividends and $62 million of share repurchases. Given the substantial opportunities in our specialty markets, our priority for capital remains growing our profitable book of business as well as investing in our people, products and operating infrastructure.

In summary, this quarter and throughout the year, we continued to advance our strategic priority to deliver growth in book value. We are committed to building on our organizational progress and optimistic for the future.
And with that, happy to take your questions.

Question and Answer

Operator

[Operator Instructions] The first question is from Dean Criscitiello with KBW.

Dean Criscitiello

I was hoping to get a little bit more color on capital deployment. I know you just mentioned the share repurchases were strong in the first quarter. How could we think about share repurchases for the remainder of the year and next year, given that you said that you would prefer a preference for organic growth?

Peter John Vogt
CFO & Executive VP

Dean, this is Pete. I'll take that. Right now, we really -- as we've talked about in the past, our #1 priority for capital use is growth of profitable business. We do feel and we do know our capital position is very strong right now and we will continue to utilize our current authorized amount of $100 million through the remainder of the year, and I would expect us to use that up over the course of the next few months.

As for other capital deployment, if there's any more actions when it comes to share buyback, we'll be talking with our Board in the next few weeks, and we'll consider other deployment for capital. But right now, we see very attractive opportunities in our insurance business, especially, and we really are looking to put capital to work in growing the insurance business.

Vincent Christopher Tizzio
President, CEO & Director

Dean, this is Vince Tizzio, just to add to Peter's answer. As we think about capital management in the company, we think about our toolkit in a number of different ways. Pete mentioned our share repurchase program, which we've exhausted some $60-odd million part of the $100 million.

Additionally, Pete mentioned investing in the business. You saw the 11% growth that we put forward in the insurance business. You saw the inclusion of a number of new teammates. You saw the mention which is a complement to what we stated in the fourth quarter about new revenue sources. This all takes capital.

And then finally, we have a How We Work program that's being undertaken and in its earliest of days. And that, too, will require capital expenditure as we continue to invest in the new capabilities that we're bringing to bear in order to bring more perfected efficiency to the organization as well as best -- better risk insights that ultimately drive better risk selection. Thank you for your question.

Dean Criscitiello

And my next one was on the insurance liability lines. I appreciate all the color you gave around the corrective actions you've taken in that book. But thinking about growth in the future, what sort of market dynamics are you looking to see in order to sort of reaccelerate growth within that book?

Vincent Christopher Tizzio
President, CEO & Director

Dean, this is Vince again. So firstly, we took a number of strong underwriting actions through the fourth quarter, extending into the first quarter, really in complement to the reserve strengthening action that we executed in the 4Q. That body of work continues.

Our leadership team in North America has worked very hard at reshaping the kind of classes that were willing to have a risk reward that we think is fair. In our primary casualty business in the quarter, we obviously did not grow that business. That was a purposeful action. Our excess casualty business grew, as

I noted in my opening remarks, we have very different underwriting appetites between the two. We have very strong limit management in our excess casualty business and a very strong reinsurance program.

But direct to your question in the primary liability market, that will be a market that we act with caution. We're out in our primary channel distribution through wholesale. We're prosecuting a strategy with a redefined underwriting appetite, and it's a business that will be graduated over time.

Operator

The next question is from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

A couple of questions, I think mostly for Pete. I noticed on the fixed maturity portfolio there's a little step down in the yield in the quarter. Are we near the terminal yield for this portfolio? Or are there some quirks and that should continue to rise as you redeploy shorter or lower-yielding investments into higher-yielding investments?

Peter John Vogt
CFO & Executive VP

Thanks, Josh. This is Pete. Yes, we do expect with the current new money market yield being 5.6% that we will continue to see some increases in the fixed income yield through the rest of this year. That is our true expectation.

I think some of the slowdown you're referencing is if you look sequentially, last year, as rates were rising, remember, we have about 15% of our portfolio in floaters, those reset much more quickly than the rest of the portfolio.

Those floaters have pretty much reset already. And that part of the curve where those floaters sit has been pretty flat for the last 90 to 100 days. And so we didn't get an uplift from the floaters but the rest of the portfolio will continue to see an uplift.

Joshua David Shanker
BofA Securities, Research Division

And then when you exit a business, for a while, the paid losses exceed the incurred losses because you're paying out things, you're not writing new business. And that's generally the case in the reinsurance business. But the areas you exited are largely short tail. And the paid to incurred ratio remains elevated. When do you expect the reinsurance reserve position to normalize and start to build again?

Peter John Vogt
CFO & Executive VP

So Josh, this is Pete. I'll take a couple of questions. You've mentioned when will the reinsurance reserve position normalize again. I'd say the reinsurance reserves, we believe, are solid. And with all the actions we took at year-end, we're very comfortable with.

When you look at the paid to incurred, you can remember the part of that incurred is on a net basis. And so the fact that we're now ceding more premium out in reinsurance actually has the net incurred number looking lower.

So just by the fact that we're paying out those claims from prior years is going to make the reinsurance ratio look odd for quite a number of quarters until that gets normalized. So part of what's driving that is the fact that we are ceding more out, and that's kind of hitting the denominator right now on the reinsurance side.

Joshua David Shanker
BofA Securities, Research Division

And how does the Monarch Re relationship impact that as well?

Peter John Vogt
CFO & Executive VP

Well, Monarch Re is one of our great trading partners right now, and we do cede to them where we were not ceding to them in prior years. And so that's one of the aspects of increasing the cede to 35% on the reinsurance side.

Joshua David Shanker
BofA Securities, Research Division

But does that mean that as long as you're ceding to them for a while, paid-to-incurred is going to be elevated for some time given that the net premiums are going to them instead of -- and the net losses are -- I guess because your net incurred will be smaller going forward because the higher proportion is going out to a reinsurance partner?

Peter John Vogt
CFO & Executive VP

Yes. What we're saying is net earned premium is going to be lower. So net incurred is going to be lower. And then the pays are associated with where we've actually kept more of the business in the past. So it's going to be a bit of a change over the next probably good 6 to 8 quarters.

Joshua David Shanker
BofA Securities, Research Division

And then just bringing up full circle and thanks for all the questions, what does this mean for the long-term trend in the float in the company? Will it be stable for a while because you're paying out claims, because you're ceding more business and therefore, the float doesn't grow like it once did, if you were just holding everything and keeping all of your lines?

Peter John Vogt
CFO & Executive VP

That is true when you think of just the reinsurance business, but overall, our cash flow continues to be nicely positive because overall, we're growing the business on a net written basis in total, Josh.

Operator

The next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I was hoping you could provide more details on like the repositioning in nonrenewals within your North America primary casualty portfolio. I know that was mentioned in the [trained press], but it was also confirmed by the company.

And does that -- I think you addressed your reserves somewhat in the prepared remarks, but does that article also mention -- also allude to perhaps if you're non-renewing and repositioning that book, that you might choose to do another deeper dive into some of those reserves?

Vincent Christopher Tizzio
President, CEO & Director

Elyse, this is Vince. I'm not certain what article you're referring to, but I can speak to what we're doing at AXIS in our primary casualty business and liability classes very specifically.

So first, as I noted already, as part of our reserve strengthening action, we examined liability classes, we identified a number of underperforming segments within our primary casualty business. We undertook a communication strategy with our wholesale business partners, indicating what our appetite and expectation would be around rate as well as our go-forward appetite.

This business is being diversified in terms of class. It is continuing, that will obviously provide, in the near term, an impact to our top line production in that unit in the first quarter. As an example, primary casualty was down some 26-odd percent from the prior year. This is all part of the reshaping that's been expressly communicated to our business partners.

In respect to the reserve review, we feel very confident, as both Pete and myself expressed in our opening remarks about our reserve position. We have no concern whatever that's resulting from the first quarter. We're pleased with both the progression of our primary team advancing our new underwriting strategy. We're pleased with the courtesy of our communication strategy with our wholesale business partners. And so it will take time, but we have a number of other revenue sources to offset that growth.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my second question, if we kind of normalize for the bridge losses, right, which went through the current accident year, I think my question is on the loss ratio with the current accident year loss ratios in both insurance and reinsurance. Are those good modeling points for the rest of the year?

Peter John Vogt
CFO & Executive VP

So Elyse, this is Pete. I'll take that question. I think, one, we don't give guidance, but what I would say is we expect the portfolio for the remainder of the year to be a lot like the portfolio we just had in the first quarter.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then from a top line growth perspective, within insurance, kind of got back to the double-digit growth in the quarter. Does that feel like -- I know there's pushes and pulls to different business lines, but do you feel like you'll see kind of double-digit top line premium growth over the balance of the year?

Vincent Christopher Tizzio
President, CEO & Director

We don't provide guidance, but I think the guidepost I'd leave you with, and we've communicated in the past, is a range, right? We see a range in our insurance business somewhere between 7% and 12-odd percent of growth over the balance of 2024.

We have a number of new initiatives to source produce new revenue streams. We're fairly bullish in our existing premium adequate lines, which is our entire insurance portfolio at the aggregate level, but we're going to cycle manage, Elyse. And so we're not giving guidance, but we have an expectation of continuing to grow our insurance business. And we have a great leadership team and a number of new teammates to help support that ambition.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Vince Tizzio for any closing remarks.

Vincent Christopher Tizzio
President, CEO & Director

Thank you again for joining us today. I'll express again my appreciation to the AXIS team for producing an excellent first quarter. We believe that the strong premium growth, new business generation that we're producing are signs of what is more to come. We're very pleased with the first quarter.

I want to thank all of you for taking time to join us today and we look forward to having the opportunity to speak with you in more detail at our Investor Day on May 30. Thank you very much.

Operator

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