S&P Global
Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS

FQ4 2012 Earnings Call Transcripts

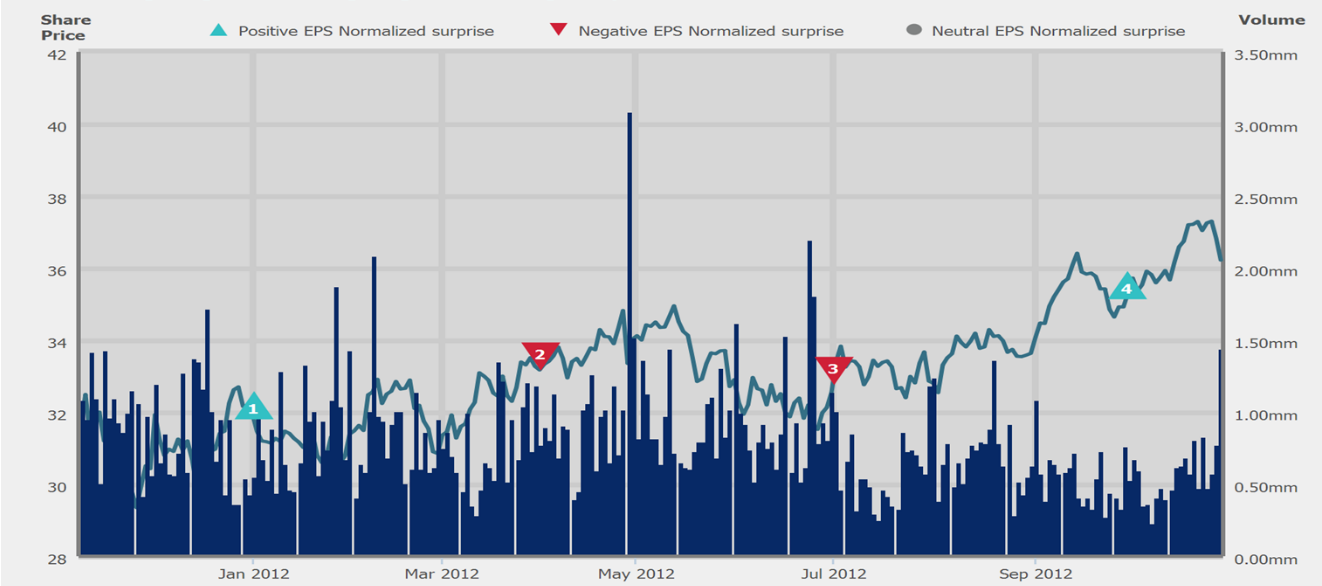
Tuesday, February 05, 2013 1:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2012-			-FQ1 2013-	-FY 2012-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	(1.18)	(0.23)	NM	1.01	2.50	3.41
Revenue (mm)	613.19	518.10	(15.51 %)	1407.03	3488.95	3337.46

Currency: USD
Consensus as of Feb-05-2013 12:38 PM GMT

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



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2011	0.41	0.53	1 29.27 %
FQ1 2012	1.09	1.07	2 (1.83 %)
FQ2 2012	0.96	0.90	3 (6.25 %)
FQ3 2012	1.04	1.63	4 56.73 %

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Call Participants

EXECUTIVES

Albert A. Benchimol
President, CEO & Director

Joseph Christopher Henry
Consultant

Linda Ventresca

ANALYSTS

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Presentation

Operator

Good morning, and welcome to the Q4 2012 AXIS Capital Holdings Earnings 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 am happy to welcome you to our conference call to discuss the financial results for AXIS Capital for Q4 and the year ended December 31, 2012. Our earnings press release and financial supplements were issued yesterday evening after the market closed. If you would like copies please visit the Investor Information section of our website at www.axiscapital.com.

We've set aside an hour for today's call which is also available through an audio webcast through the Investor Information section of our website. A replay of the teleconference will be available by dialing 877-344-7529 in the US. The international number is 412-317-0088. The conference code for both replay dial-in numbers is 10023433. With me on today's call are Albert Benchimol, our President and CEO, and Joseph Henry, our CFO.

Before I turn the call over to Albert I will remind everyone that statements made during this call including in the question-and-answer session which are not historical facts may be forward-looking statements within the meaning of the US 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 in 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 and our consolidated underwriting income which are non-GAAP financial measures within the meaning of the US federal securities laws. For a reconciliation of these items to the most directly comparable GAAP financial measures please refer to our press release which can be found on our website. With that I'd like to turn the call over to Albert.

Albert A. Benchimol
President, CEO & Director

Thank you, Linda. Good morning, everyone, and thank you for joining us today. We experienced strong results across most parts of our company in Q4 but these were fully offset by the impact of Storm Sandy, leading to a small loss. Given 2012 included one of the largest US storm events in history and that we started the year with much higher exposures in the US Mid-Atlantic and Northeast regions, we believe an operating income of $422 million for the year, representing an operating ROE of 8.2%, to be an acceptable return.

During the year we returned nearly all of our earnings to our shareholders, increased our dividend for the ninth year in a row, and ended the year with book value per share of $42.97, a 13% increase over the year. Looking beyond the impact of Sandy, our financial and operating results were very strong. Our full year consolidated accident year loss ratio excluding the impact of catastrophes was down more than 4 points. The result primarily benefitted from improved attritional losses including a lower level of large, non-cat losses relative to last year.

And the market environment for our business remains increasingly attractive. At this point, most classes in our insurance segment are experiencing improvement with variances by geography, product and layer. Our insurance segment had a record year in terms of premium production despite reduction in cat-exposed MGA business underway through the second half of the year. During 2012, we advanced a number of important business initiatives including renewable energy and global accident and health, all the while continuing to lay the groundwork for further profitable growth in 2013 and beyond.

In an improved market, I am confident we will continue to find a growing pool of risks that meet or exceed our requirements throughout our reinsurance operations. Within our reinsurance business, pricing and conditions were generally more stable at acceptable levels, and we focused our energies on rebalancing our portfolio with a view towards improving our overall risk-adjusted returns and establishing major new specialty reinsurance initiatives which are now benefitting from major market dislocations.

As we enter 2013 it appears the primary insurance market is experiencing more favorable momentum while much of the global reinsurance market seems to be stable at acceptable levels of profitability. Our position as a well-balanced hybrid insurance and reinsurance company gives us excellent insight into the opportunities and challenges of each market. Relative pricing power shifts between the reinsurance and insurance side of the industry are not a major concern to us as we are strategically positioned at both ends of the market to deliver the optimal consolidated portfolio for our shareholders at any point in time.

With that, I'll turn the call to Joe Henry to discuss our financial results in more detail, and then I will come back and discuss market conditions and outlook. Joe?

Joseph Christopher Henry
Consultant

Thank you, Albert, and good morning, everyone. As Albert noted, Storm Sandy was the headline event for the industry this quarter and our operating results were naturally impacted. Our financial supplement provides a detailed breakdown of the impact of Sandy. In total, this event adversely impacted our underwriting income by $328 million, and consistent with our preannouncement, the after-tax impact of our net income available to common shareholders was $301 million.

While Sandy resulted in the recognition of an operating loss for Q4 we are pleased with our full year results and are optimistic about increased opportunities to create value for shareholders. We produced underwriting income of $263 million in 2012 and posted an operating ROE in excess of 8%. Our diluted book value per common share, a key metric in measuring the value we generate for our shareholders, increased by $4.89 or 13% for the year.

Moving into the details of the income statement, our Q4 gross written premiums were up 13% to $752 million. The majority of this growth came from our insurance segment. Consolidated net premiums written were up 5% in the quarter. A number of factors contributed to a higher seeded ratio in insurance including changes in our reinsurance purchasing effective in Q2; cost to reinstate our reinsurance protection driven by Sandy; and business mix changes.

Our consolidated net premiums earned grew 1% in the quarter. Growth in our accident and health initiative continued to be a key driver of the increase, though tempered somewhat by the reinstatement costs and changes in reinsurance purchasing in our insurance segment that I just mentioned; as well as the repositioning of our catastrophe reinsurance portfolio in our reinsurance segment this year. Our consolidated current accident year loss ratio increased by 8.3 points to 86.4% this quarter. Natural catastrophe-related losses impacted the ratio in this period as well as the corresponding period last year.

Included in our estimate of losses this quarter is a $331 million provision net of reinstatements for Storm Sandy, which contributed 38.7 points to the Q4 ratio. Our aggregate estimate for events of the first 9 months of 2012 - the impact of the severe drought conditions on US crops, the Q1 and Q2 US weather events and Hurricane Isaac - developed favorably in the quarter, driving a 3.3 point reduction in the loss ratio.

Comparatively our Q4 2011 results included aggregate pre-tax net losses net of reinstatements of $139 million or 16.8 points related to the Thai floods as well as an increase for cat and weather events for the first 9 months of that year. Eliminating the impact of these items, our accident year loss ratio decreased by 10.3 points this quarter. Reductions were evident in both insurance and reinsurance, and I'll address each separately in my segment commentary.

Turning to loss reserves established in prior years, we continue to benefit from net favorable development which aggregated $64 million this quarter. This amount primarily relates to property and professional lines of business and largely reflects better-than-expected loss emergence. In addition, we began to recognize favorable development for our insurance liability business this quarter. At this point, we believe that our oldest accident years are now at a stage of expected development where we can give weight to methods that reflect favorable actual experience. We limited this action to our insurance liability book, recognizing that reporting lags for reinsurance business means that reporting patterns could be inherently longer and to our oldest accident years. Given the volume of business on our oldest accident years - and that's 2002 and 2003 to be specific - the development recognized was only $6 million, and I bring this to your attention only because it is the first time we are releasing liability IBNR reserves.

Our acquisition cost ratio decreased by almost 2 points quarter-over-quarter, with the biggest reduction in insurance where seeded commissions increased as a result of both the reinsurance purchasing changes we made earlier in the year and reinstatement costs this quarter. The quarter-over-quarter increases in general and administrative expenses were largely driven by performance-related compensation costs. This quarter reflects a bonus accrual higher than that of Q4 2011, commensurate with our substantially improved performance year-over-year. Excluding the impact of bonuses, the increase in our total G&A expenses was consistent with a 5% increase in headcount. Most of this increase in personnel was associated with underwriting activity. Taken together, these items produced an underwriting loss of $74 million and a combined ratio of 112.2% for the quarter.

For the full year our gross premiums written were up 1% with offsetting movements by segment. Insurance premiums were up $188 million or 9% with growth evident in almost all lines of business and generated through a combination of new business opportunities, targeted initiatives, and improving rates. This growth was largely offset by a reduction in reinsurance primarily driven by the repositioning of our catastrophe portfolio throughout the year. Net written premiums were down a modest 2% driven by the higher seeded ratio in insurance. Net premiums earned were up 3% for the year, driven by growth in insurance in recent quarters.

Our consolidated combined ratio of 96.2% included 12.7 points net of reinstatements related to Storm Sandy, the impact of the drought on US crops, the Q1 and Q2 US weather events and Hurricane Isaac, and 7 points of net favorable prior year reserve development. Excluding these items and the impact of the 2011 cat events our current accident year loss ratio improved by 4.4 points with both insurance and reinsurance contributing.

Taking a closer look at our insurance segment, gross written premiums were up 11% for the quarter to $580 million. Excluding the impact of the reduction in cat-exposed MGA business, growth was 17% and came from our professional lines and liability business as well as other property unit. Professional lines growth predominantly related to our European business where our professional indemnity book grew notably this quarter. Continued growth on our US excess and surplus lines umbrella business where the rate environment is increasingly attractive drove the increase in liability.

Net premiums written were down 1% quarter-over-quarter with the increase in gross premiums written offset by a 7 point increase in the segment's seeded ratio. Approximately 2 points of this increase was due to higher costs to reinstate our reinsurance protection driven by Sandy. The remainder was driven by seeded reinsurance and business mix changes. Net premiums earned in our insurance segment were up 3% from the prior year quarter with our accident and health initiative contributing the majority of this growth.

The current accident year loss ratio in our insurance segment was up 20 points to 88.9% this quarter with the variance driven by cat activity. The Q4 2011 ratio included 7.6 points for cat events, largely related to the Thai floods. In comparison, this quarter's ratio included 41.5 points related to Storm Sandy and an aggregate reduction for events of the first 9 months including Hurricane Isaac and the Q1 and Q2 2012 US weather events. Excluding these catastrophe- and weather-related amounts, the ratio for the segment improved by nearly 14 points.

This reduction was primarily attributable to significantly better attritional loss experience on our short-tail property and energy lines. The frequency of large property and energy losses was particularly notable in Q4 2011 with 5 claims triggering net losses of $5 million or more. Comparatively, we only had one such claim this quarter. Favorable experience on our credit and political risk business as well as rate increases and business mix changes also contributed. Net favorable prior-year development in insurance was $40 million or 10.5 points this quarter compared to $29 million or 7.8 points for Q4 2011. Commissions related to reinstatement premiums contributed approximately half of the 2.2 point reduction in the segment's Q4 acquisition cost ratio with the remainder driven by the increase in the magnitude of seeding commissions.

For the full year our insurance segment reported 9% and 4% growth in gross and net premiums respectively. The 96.0% combined ratio included 13.9 points related to Storm Sandy, the Q1 and Q2 US weather events and Hurricane Isaac, and 7.8 points of net favorable reserve development. Excluding the impact of our catastrophe- and weather-related losses, the segment's current accident year loss ratio improved by 5.6 points due largely to the lower level of large loss activity on property and energy lines and improved loss experience in our credit and political risk book. Rate increases and changes in business mix also contributed.

Turning to our reinsurance segment, it's worth noting that Q4 is the quietest production quarter for this segment and typically accounts for less than 10% of annual premium volume in advance of the busy 1/1 renewal date. While a few lines of business showed gross premiums written increases I'd caution that the majority are driven by adjustments to our premium estimates and reinstatement premiums. Perhaps the one movement worthy of note is the reduction of property business which was driven by changes in clients' buying habits. That is a trend we've been seeing for a few quarters now. Certain seedents are increasing retentions and/or consolidating programs. Earned premiums for Q4 were comparable with those of the prior year.

While the current accident year loss ratios for Q4 2012 and Q4 2011 were comparable at 84.4% and 85.3% respectively, both ratios were notably impacted by catastrophe activity. This quarter's ratio included 33.6 points for Storm Sandy and a 3.1 point reduction for events in the first 9 months, primarily for Q2 US weather events and Hurricane Isaac. In comparison the Q4 2011 ratio included a total of 24.0 points for the Thai floods and an increase in loss estimates for events of the first 9 months of that year. Excluding these items, the reinsurance segment's Q4 current accident year loss ratio decreased by 7.4 points, largely due to reduced exposure and loss experience related to aggregate excess of loss property reinsurance.

Net favorable prior-year development in reinsurance was $24 million or 5.2 points this quarter compared to $49 million or 10.3 points in Q4 2011. For the full year, our reinsurance segment reported a 7% decrease in both gross and net premiums, and earned premiums were down 1%. These reductions primarily reflected the rebalancing of our catastrophe portfolio throughout the year. The 89.4% combined ratio includes 11.8 points related to Storm Sandy, crop losses, Q1 and Q2 US weather events and Hurricane Isaac, and 6.6 points of net favorable development.

Excluding the impact of catastrophe- and weather-related losses I mentioned, the reinsurance segment's accident year loss ratio improved by 3.6 points, largely attributable to a reduction of losses from aggregate excess of loss property reinsurance contracts. Partially offsetting this were business mix changes as well as a higher loss ratio for our trade credit and bond reinsurance business reflecting the uncertainty around the economic environment in Europe.

The acquisition cost ratio for the year was up a point as business mix changes resulted in earned premiums reflecting a greater proportion of quota share business. The rebalancing of our cat portfolio led to a reduction in excess of loss premiums as did our decision to reduce participation in un-capitalized motor excess of loss business in the UK.

Net investment income was $87 million for the quarter, down from Q3's $104 million and from the prior-year quarter's $102 million. The most significant driver of the quarter-over-quarter and year-over-year comparison was the contribution to net investment income made by our other investments portfolio. Other investments contributed $15 million during the quarter versus $34 million in Q3 and $25 million Q4 last year.

Income from our fixed maturity portfolios including cash and short-term investments was $76 million for the quarter, up from $73 million in Q3 due to the growing contribution from our short-duration, high-yield investments but somewhat lower than the $79 million earned in Q4 2011. Net investment income for the year was $381 million, higher than last year's $362 million despite significantly lower global interest rates and tighter credit spreads during 2012. The increase in annual net investment income was driven by our other investments portfolio which contributed $88 million to net investment income in 2012 compared to $32 million last year.

In aggregate, the total return on our cash and investment portfolio for the quarter was 0.7% inclusive of foreign exchange impact. For the year, the total return of our cash and investments portfolio was 5.4%, benefitting from the strong other investments total return of 11.1%. Our net unrealized gain position improved [from] $250 million to $381 million after realizing $127 million in net gains. Yield spreads continued to contract for investment-grade and high-yield fixed maturity issues during the quarter while the US Treasury intermediate maturities section of the yield curve was relatively unchanged. While the contraction in spread has positively impacted the unrealized gain position of our fixed maturity portfolio during the quarter, the result will likely be lower net investment income going forward as the fixed maturity book yield of 2.6% converges with the market yield of 1.6%.

Moving to the balance sheet, cash and invested assets totaled $14.4 billion at year end versus $14.2 billion at the end of Q3 and $13.5 billion a year ago. Our fixed maturity portfolio, whose average credit quality remains at AA- continues to be our largest asset class comprising 83% of cash and invested assets. The strategy for our fixed maturity portfolio is to continue emphasizing spread sectors, the largest being corporate and US agency mortgage-backed securities. During the quarter our allocation to agency residential mortgage-backed securities was reduced with the proceeds invested in investment-grade corporate debt, commercial mortgage-backed and US Treasury issues including TIPS.

Our Eurozone sovereign exposures are limited to Germany, the Netherlands, and Austria. Given the market's focus on the Eurozone we have included our exposures to this region in the investor supplement. Our holdings of Eurozone corporate debt totaled $279 million including no exposure to European banks, and have an average rating and duration of A- and 2.6 years respectively.

Our total capital as of December 31, 2012, was $6.8 billion, up 5% from $6.4 billion at year end 2011. Common shareholders' equity stood at $5.3 billion, up from $4.9 billion at the end of 2011 due to net income and valuation improvements on our available for sale investment portfolio exceeding our share repurchase activity and dividends. The modest reduction in our diluted book value in the quarter, less than 1%, was primarily driven by Storm Sandy. A change in accounting for dividends also contributed to this reduction.

We demonstrated continued resilience this quarter and believe our strengths include a solid capital base, high-quality and liquid investment portfolio, sound loss reserves, and a diversified global franchise in both insurance and reinsurance. While existing market conditions present some attractive opportunities for expansion, our newly-authorized common share repurchase plan of $750 million available through 2014 provides us with good capital management flexibility. We will continue to evaluate our capital position in light of market opportunities and look for the most attractive means to accrete value to our shareholders whether it be via expansion of our product offerings and geographic footprint and/or a return of capital. With that, I'll turn the call back over to Albert.

Albert A. Benchimol
President, CEO & Director

Thank you, Joe. We're very encouraged by the overall trend in insurance pricing and market conditions. As you all know, large complex property, energy and ENS umbrella lines have trended up for 7 quarters now, while professional and casualty lines have joined the positive trends in more recent quarters. Favorable trends have been most pronounced in the US but other markets are following.

Overall, rate change across AXIS Insurance for Q4 averaged +4%. This continues the progress we've seen all year with an average of 3% in Q1, 4% in Q2, and 5% in Q3. Year-on-year change for the entire portfolio was 5% for the whole book. Of course, there remains a wide variation across different lines and markets. Our retention ratios are also a couple of points higher than they were in 2011, which is a good outcome for business we know well in an improving market.

In our US Division, the overall rate change for the quarter was +9%, slightly lower than Q3's 11%. There's been some question as to the impact of Sandy on pricing. What we can say at this point is that pricing was stronger in December than it was in November, which is good news. ENS umbrella and excess casualty also continued the strong double-digit pricing momentum we'd seen in the prior quarters.

In our International Division, which includes a number of specialty lines, the overall rate improvement for Q4 is +3%, down from 4% in the prior quarter. Because of the diversity of specialty lines in this division there are wide variances in rate changes. The modest slowdown in rate change for our portfolio in Q4 is principally driven by slowing [grade] increases in a couple of lines and continued weak pricing in aviation and terrorism. Globally, across AXIS Insurance the large property and onshore energy classes are indicating an average rate change of +8% in Q4, although this includes very few post-Sandy renewals. Importantly, these lines are currently priced some 16% higher than they were in Q1 2011.

The professional lines, after turning the corner to overall positive rate improvements for our portfolio in Q3, most classes continue to show signs of rate strengthening with Q4 rate improvement averaging 2%, gaining momentum relative to the 1% increase in the prior quarter. The transition in this marketplace varies again by geography, product line, and attachment point.

We have no reason to believe that pricing momentum in the insurance markets will subside given the various pressure points for earnings in the industry; and indeed, we expect continued broad-based improvements. Admittedly, prior pricing turns in this industry have been characterized by short, intense spikes following a capital-depleting event and lasting only a few quarters. Nevertheless we are more confident in saying it's different this time.

In our view, the demonstrable increase in frequency and severity of large loss events over the past few years, steadily declining industry profitability, and the absence of any good news on investment income means the industry really has no choice but to focus on continued improvements in underwriting performance. In addition, companies like AXIS who have a strong ENS and wholesale component to their offerings benefit from the portfolio re-underwriting and refocusing undertaken by standard market companies, increasing both our volume of opportunities and the pricing at which we can win new business.

The global reinsurance marketplace was generally at equilibrium with the exception of a few lines. There is some pressure on lines that have shown strong profitability and have attracted new capacity in recent years. On the other hand, there's also some upside pressure on pricing for loss-affected property treaties and lines with recent major loss activity including Sandy-affected treaties, agriculture, and marine. Against this backdrop some of our newest reinsurance product initiatives, including marine and agricultural reinsurance, are manifesting themselves into better opportunities earlier than originally planned.

As Joe noted, in recent renewals culminating with the January 1 cycle, there was a trend among large, multinational buyers to modify reinsurance purchasing resulting in consolidation of programs, reduced reinsurance buys, or increased retentions. In a number of areas, pricing power seems to be shifting away from purely being on the reinsurer's side to a more balanced relationship as seedents benefit from bigger balance sheets and drive to recapture profitability in improving lines. While reinsurers continue to benefit from improved pricing at the primary level there is occasional some pressure on seeding commissions.

Despite these headwinds, for the 55% of AXIS Re's 2012 expiring premiums which were renewable on January 1, we grew the overall premium by about 5% and added more balance to the portfolio. About

15% of the expiring premium was non-renewed or canceled, but this was more than offset by renewal increases and new business at 19% of the expiring premium.

As of now we have more positive indications than negative ones with respect to the pipeline for the balance of the quarter and believe that when all is said and done growth over expiring renewals will exceed the 5% that we've just mentioned. Renewals for our new agricultural reinsurance business in particular are not fully reflected in this growth figure since most of that business will be bound later in the quarter.

We had strong growth in our continental European reinsurance business which had more than 80% of its business renewable at the beginning of the year. Despite a challenging market environment there we strengthened our position across a broad array of seedents and maintained the expected profitability of the portfolio. Of note, we've taken a leadership position in addressing recent developments in the UK motor market.

We introduced modified terms and conditions which allowed us to generate growth in our motor reinsurance lines. We also added more revenue and balance to our European property cat portfolio. Outside of Europe, restructurings of a number of large reinsurance programs drove modest reductions in property and liability lines. In our global property reinsurance portfolio we are well positioned to continue to increase our return per dollar of risk throughout the year by focusing on core markets and core clients, and the incorporation of new metrics in our analyses.

We also had a strong start to the year in our accident and health business, with estimated January A&H reinsurance premium volume up 56% over expiring. Our international reinsurance expansion continues to progress and growth at 1/1 was well balanced across catastrophe and quota share business. Europe and Asia also made large contributions to the growth.

In addition to successful reinsurance renewals for A&H, we continued to see momentum in our A&H insurance production. With the recent US election result it would seem the Affordable Healthcare Act will be part of the US landscape in one form or another. This creates opportunities for us to introduce new compliant products to the market as well as reinsurance opportunities which open up in the market for a relatively new and nimble carrier as opposed to the larger incumbents. With an expanded portfolio of products we expect primary insurance will drive A&H growth in the US in 2013.
And so to conclude, we're optimistic about our prospects for 2013. The combination of our strong franchise development initiatives over the last months and years, including our geographic expansion, new agriculture and marine reinsurance initiatives, and reentry into select casualty markets as well as steadily improving market conditions should in our opinion all converge to generate higher premium production, better portfolio balance, and improved underwriting margins absent unusual loss activity. And with that, Operator, I'd like to open the lines for questions.

Question and Answer

Operator

[Operator instructions] Our first question comes from Michael Nannizzi at Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I had one question, Albert. It sounds like you've gotten a decent amount of rate improvement here over the last several quarters, and I think Joe's comment was that the underlying margin improvement in insurance was mostly related to a lack of non-cat weather. I'm just trying to understand how much of that margin improvement was, if we can decompose it, attritional loss, lower attritional loss, rate-driven margin or mix? And just one follow-up, thanks.

Albert A. Benchimol
President, CEO & Director

Very little of the improvement relates to rates. We started turning around rates in 2012. We expect that rate will have a significant improvement in 2013 but for the most part it's really due to lower attritional losses and large losses this year compared to last year, particularly, as I mentioned, in Q4. In addition to that our credit and political risk business, and you know, we had very few incidences - we actually had no incidence of claims during 2012 and we had a couple of losses which we weren't quite sure about as to whether or not we were going to end up with an indemnity on them and we actually didn't. And that allowed us to take that down in Q4. So on credit and political risk alone, that had a 22 point impact on the loss ratio for that line of business, which combined with the lower attritional and large losses really resulted in one of the best quarters we've had with respect to insurance losses in quite a long time. Does that help?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Absolutely. So the rate you're getting now then we should start seeing the impact of that on margins in the coming quarters.

Albert A. Benchimol
President, CEO & Director

Correct.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And then could you talk a little bit about on the reinsurance side, you mentioned bond insurance and trade credit losses - taking those loss picks up versus last year because of conditions in Europe. Can you elaborate a little on that? Thanks.

Albert A. Benchimol
President, CEO & Director

Yes, it's simply, you know, we actually don't have additional claims. It's more we've just got a bit more conservative on the reserving side, so I believe we pushed the expected loss ratio up by 10 to 12 points just to make sure that we're covered in the event that the economic situation continues to deteriorate in Europe. So that's not actual losses, it's just a more conservative stance on the reserve side.

Operator

Our next question comes from Gregory Locraft at Morgan Stanley.

Gregory Locraft

Morgan Stanley, Research Division

Just to follow up on the last question, the underlying improvement was excellent in the quarter ex-Sandy. You gave some good detail on the large claims and I just wanted to sort of come back at you on that. There were 5 claims a year ago that were $5 million or more. This quarter there was only one claim that was $5 million or more?

Joseph Christopher Henry
Consultant

That's correct.

Gregory Locraft
Morgan Stanley, Research Division

Okay, so then I guess just we should take the $20 million, divide by premiums earned and that's almost 2.5 points. And you don't expect that to… I guess was last year an anomaly or was this year an anomaly?

Albert A. Benchimol
President, CEO & Director

We would think looking at last year it was more of an anomaly last year. If you look at the large loss and attritional ratios over the last 2 years, Q4 2011 was the spike. So I would say it was more 2011 than it was 2012.

Gregory Locraft
Morgan Stanley, Research Division

Okay great, that's helpful. So therefore this is a better look at what the underlying should do. You don't have rate yet in the book based on the last answer, and political risk, I mean sort of what occurred last year should not be recurring going forward either, right?

Albert A. Benchimol
President, CEO & Director

You would think that as well. I just caution you to be careful about assuming that the experience that we had in Q4 is going to continue going forward in the future. We would expect attritional and large losses, attritional losses in particular to improve as rates begin to factor in 2013 but we're not going to have as low a level of loss activity in the future as we had in Q4 2012. So I'd just be careful about assuming that.

Gregory Locraft
Morgan Stanley, Research Division

Okay, but even so the underlying in the 80%'s is a very reasonable assumption for us going forward, and rates still on the come.

Albert A. Benchimol
President, CEO & Director

Yes, I think that's fair.

Gregory Locraft
Morgan Stanley, Research Division

Okay, perfect. Jumping to just the cat load which I mean how in the world do we think about this going forward from our modeling perspective? We tend to use 3-, 5- and ten-year average loads in the model but the last few years are throwing everything off. How do you guys think about it as you build the model forward?

Albert A. Benchimol
President, CEO & Director

It's interesting, Greg. You know that our median cat loss ratio is 0. If you go back to the last twelve years, half of those years have actually no meaningful cats and then we've gone as high as 40 odd points in 2011. So it's unfortunately one of the factors that drives the volatility in our results. And so if you look at it historically we're certainly going to be wrong by assuming that we get the median. Likewise the peak is very extreme, but certainly if you look at the averages across the years somewhere in the high single-digit, low double-digit has been our mathematical average. I caution you that I would never, nor would Joe, ask you to model on that basis or predict on that basis because of the volatility but that's the way it is. And not only that, we will also have normal quarterly volatility because as we earn our premiums over each of the calendar quarters you're going to have more or less even premiums earned but you're going to have a very different cat experience in the various quarters. Obviously an earthquake could happen to us at any point in time, but we'll tend to have the winter European wind season, we'll tend to have the late summer/early fall US wind season, and so there's going to be some quarterly volatility that comes with that. Unfortunately there's very little that we can do or should do from a GAAP basis to modulate that volatility.

Gregory Locraft
Morgan Stanley, Research Division

Okay, great. And then last one is just on the payout ratio which we define as buybacks plus dividends divided by op income - we sort of have you running at about 100%, that's where you were for the year partly because of how bad Q4 was due to Sandy. Is that the right ratio to keep you at going forward? How do you think about capital deployment?

Joseph Christopher Henry
Consultant

Let me jump in on that one. For the most part we feel 2013 presents some pretty good business opportunities for us. So we've given you guidance that in terms of buybacks we'd look at a range of 50% to 100% of net income in the year. We would guess that next year we're going to probably be at the lower end of that range. I don't know if that helps you but we really just have to balance the new business initiatives, the new opportunities that Albert and I referred to against a total return of that to shareholders. So I would say that ratio is going to go down a little bit in 2013.

Operator

Our next question comes from Vinay Misquith at Evercore Partners.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

So I just wanted to go back to the question of the accident year and their combined ratio ex-cat. Looking at this more from a full year basis rather than the Q4 basis, I'm just curious whether the full year had a lower level of larger losses and whether there were some one-time items or does this set [ph] a real base that we should work from?

Albert A. Benchimol
President, CEO & Director

We'd really have to kind of go through it. If you look at the numbers of large losses they are clearly less prevalent in 2012. And from my understanding and hearing what some of the other companies have been talking about, I think it's a consistent trend that you're seeing across the industry. I think many companies have been reporting current non-cat ratios that are a little bit better than expected as they've been recognizing in Q4 the full benefit of the full year. There are certainly things that we are doing where we try and reduce some of that, so for example in 2011 in particular and in 2010 a little less so we had a much larger book of aggregate excess of loss treaties in the Midwest and those certainly were very loss impacted. As you know and Joe has mentioned we've reduced our exposures to that peril and in fact what we had in 2012 was both a smaller base of exposed premium in that area and in addition a much better loss improvement. So we're always doing things to try and improve the mix of our book of business, so there's a bit of that, but there's also just the natural good luck and volatility that we'll get with regards to large loss events.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Sure, fair enough. Do you have a number, some sort of estimate as to how much this year was more favorably impacted than a normalized number?

Joseph Christopher Henry
Consultant

Yes, on the reinsurance side it's about 3 points, Vinay. On the insurance side it's about the same, and if you want to look at it in the aggregate it's about 3 points.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Sure. And this is just talking about this year versus the normalized or is it this year versus last year?

Joseph Christopher Henry
Consultant

This is this year versus last year, not necessarily the normalized.

Albert A. Benchimol
President, CEO & Director

Yes, so from a bad year to a good year. So the right number is probably somewhere in between.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Okay, that's helpful. Having a look at this year now, '13, you have some business mix changes and you have some rate changes. How do you see the combined ratio moving? Do you expect it to be down or do you expect it to be roughly flat because you've grown more in the casualty lens?

Albert A. Benchimol
President, CEO & Director

Well, I'm not sure that we're really good at giving guidance but let me give you a couple of insights. One of the things that we're looking at in the combined ratio is both the loss, the acquisition and the G&A expense. We're very focused on making sure that we've made a lot of investments in our company, in our initiatives, in our platform and that's certainly driven some of the growth in the G&A ratio. One of our commitments in 2013 is to make sure the G&A ratio stays flat so that we find that right balance and we don't do that. I think acquisition expense ratio is one that in a market like this one it tends to creep up very, very slowly, so flattish to maybe a little bit higher is a possibility but I don't see that as being a meaningful driver one way or the other. With regards to losses, I think as Joe mentioned earlier we would expect to see the rates drive a little bit of improvement on the attritional type but we'll stay out of the conversation with regards to the frequency and severity of large loss events and cats.

Operator

Our next question comes from Dan Farrell at Sterne Agee.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

Can you spend a minute just talking a little bit more about the global crop build out? I believe you said in your comments that because of conditions you were able to sort of accelerate the build out. Can you just expand a little more on that and maybe talk a little about how we should think about the ultimate size of that business, how you think the profitability of that business will be on a normalized basis given the rate that you're getting?

Albert A. Benchimol
President, CEO & Director

It's a good point. We brought on some additional, well let me take a step back. Historically on the reinsurance side we had a very small crop book, mostly excess of loss in the US and a little bit of Canada, very little internationally. During the summer we brought on some additional resources, a very smart individual to really expand on that area because we believe that crop is one of the areas that clearly is going to be a growth component as agriculture, food products and so on take on a bigger part of the economy both locally and internationally. So the intent was to build a balanced international book. What's happened since then of course is that we had the US drought which has significantly increased the focus on coverages, pricing limits and so on in the US. So whereas what we were initially planning on was a gradual increase going from $15 million and then growing that, say what you will, $25 million, $30 million then more in future years, we think that overall 2012 we could end up going from $15 million to… And I'm going to give you a wide range because a lot of these things either happen or they don't, but we could go $15 million to $30 million, $40 million, $50 million, even more in the first year which is certainly more than we anticipated. Over a 3- to 5-year period could this be a couple hundred million dollars plus book? Absolutely. But it was always our intention that this would be a gradual growth, gradual expansion over time and that what we would try and do is provide a book that, rather than having the excess of loss book only that we had in 2012 and prior, that we would have a more balanced book that would include both quota share as well as excess of loss. And that would be not simply in the US and Canada but include Latin America, Asia, and so on and so forth. So that is our strategy going forward. If you play the portfolio construction, if you have the right balance between quota share and excess of loss this could be on average a low 90%'s combined ratio business. But obviously as with any new initiative the growth curve is never smooth - it tends to be opportunistic. You take the growth opportunities where you can find them. But I can tell you that when we brought on Peter in the summer of 2012 we weren't thinking $50 million, $60 million in 2013 and now numbers like that are in fact in the realm of possibility for us.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

That's very helpful. And just one additional question on the accident and health business - can you update us on your view of the ramp of profitability on that? I believe previously in 2012 that was still running at a loss; I think you commented about that transitioning to breakeven in 2013 and then improving from there. Is that how we should still think about it?

Albert A. Benchimol
President, CEO & Director

Close, but my recollection was that we said that it would continue to be a drag on earnings in 2013 and that we would view A&H as being a positive contributor in 2014. We remain of that view.

Operator

Our next question comes from Jay Cohen at Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Thank you. A couple questions: I thought the news that you guys were starting to release old IBNR from your liability book, that was a pretty notable change given that you haven't done that. I'm wondering if you can give us a sense of what the size of that reserve base is - so we're talking for your liabilities business your total IBNR.

Albert A. Benchimol
President, CEO & Director

Yes, we've got it on one of these pages so I'll just come up and do that. Can I have you either ask a different question or ask another question to come in, and we'll make sure that when we pull up that page, we'll come back to you, Jay?

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Absolutely, Albert. Joe, when you talked about the net investment income you mentioned getting good returns in the short-duration, high-yield area. That seems like an oxymoron to me - I'm wondering what exactly are you talking about.

Joseph Christopher Henry
Consultant

Well our portfolio there, Jay, a year ago was I believe about $500 million and I think we've increased it to pretty close to $900 million. While the returns on that have declined a little bit the asset base is up substantially from where it was, so that's what generated it. It's really 2 different factors - one going one way, one going the other, but the amount of investible assets in there, our strategy has been to increase the amount of investments we have in short-term, high-yield debt.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

When you say short-term, what kind of maturity are we talking about?

Joseph Christopher Henry
Consultant

It's really 2 years and it's corporates.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Okay. And let me just throw a last quick one in: I guess there was a recent satellite launch failure. Can you say if you have an exposure to that failure?

Joseph Christopher Henry
Consultant

We don't.

Albert A. Benchimol
President, CEO & Director

Yes, we got out of that business a few years ago so it's not something which is of relevance to us right now.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Great. And if you can get that other answer that'd be great, but no rush.

Albert A. Benchimol
President, CEO & Director

I know that that information is available on the triangles on our website. So you've got all of our liability numbers broken out as a separate triangle on our website, so I know the information is there.

Operator

Our next question comes from Ryan Byrnes at Langen McAlenney.

Ryan J. Byrnes

Janney Montgomery Scott LLC, Research Division

I just wanted to get your thoughts on your Sandy loss, and as you guys have reshaped your prop cat book I just wanted to get your thoughts on how the loss came in. Obviously it's kind of in your Mid-Atlantic P&L zone - I just wanted to get your thoughts on how you re-underwrote the book.

Albert A. Benchimol
President, CEO & Director

Let's talk about Sandy perhaps in terms of how we think about what was affected and what wasn't. I think the reinsurance loss per se was not an unreasonable loss given our market share, given our book of business; and as you know, we had reduced our Mid-Atlantic and Northeast exposure so that was fine. I think where we also had, with us the issue is that we also had a meaningful insurance exposure in the area, and in particular our large accounts and Fortune 1000 property book which by definition is a commercial book and which again by definition tends to have concentrations in urban centers where a lot of these Fortune 1000 companies have their offices. And notwithstanding the best zonal management which clearly can be improved and will be improved over time, there tends to be an aggregation that makes an urban event of this type almost binary because all of these properties tend to be highly correlated. There's no question as we look at our portfolio going forward, I will be looking at the way we think about some of these aggregations in smaller subzones, and that may include portfolio moves or that may include more reinsurance purchasing. But I think one of the broader views which I think you're addressing here is the fact that historically when you look at AXIS, we have historically been a very commercially-focused organization and our books of business, both on the insurance side and the reinsurance side, are commercial. And obviously when you have an event like Sandy which a much, much higher component of the loss went to the commercial markets. A company like AXIS, because of its commercial focus is going to appear to have a larger percentage of the loss than we would normally have with catastrophe events that have a more average distribution between personal lines and commercial lines. And I think therefore the unique nature of the event when combined with the nature of our book of business, the commercial focus on the one hand and the fact that we do have strong position in the Fortune 1000 area, really made for Sandy to be a larger market share for us than you would usually expect. I think one of the factors in addition to the portfolio constructions and subzonal limits that I discussed earlier that we were already working on pre-Sandy is the fact that we had determined to provide more diversification between our commercially-focused insurance book of business and our reinsurance book of business. And one of the things that Jay and his reinsurance team have been working on in 2012 was actually to incorporate more personal lines cat exposure into our cat book than we originally had. Unfortunately of course by the time Sandy hit we were still very, very early on in that transition of the composition of the cat exposure. So over time I would hope that we would find less "1 to 1" correlation and aggregation between the insurance book and the reinsurance book as it relates to commercial versus personal; and clearly we will be making some additional improvements to the way we think about some of these concentrated exposure zones.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Okay, great, and then just one other one. I guess as you guys say your capital management returns may be on the lower end this year, as you guys think that pricing is getting better for the business, what kind of accident year ROEs would you expect would be underwritten for 2013? What kind of range would you guys think it would be in?

Albert A. Benchimol
President, CEO & Director

I think if you look at 2013 overall it's moving above from what we had in 2012, which was I would say a high single-digit ROE. The problem that you have of course is that although the underwriting is significantly improving the contribution to the ROE, we're affected by the fact that interest rates are lower this year than they were last year. And just to give you a sense, for a portfolio of our size, every 25 basis points of interest rate in our portfolio is approximately 50 basis points of ROE whereas every combined ratio point is approximately 16 or 17 ROE points. So it takes approximately a 6:1 balancing between the effect of interest rates on our portfolio - and by that I mean we've lost some 200 basis points of investment yield over the last 5 years - and to be able to fully offset those 400 basis points, we'd need something like 6 combined ratio points of improved combined ratio results. So all that to say while the combined ratio is going to improve, hopefully improve and leads to better ROEs, we're still fighting the headwind of interest rates.

Joseph Christopher Henry
Consultant

Jay, it's Joe Henry, I just wanted to come back to your question before. As far as reinsurance is concerned we have approximately $800 million in IBNR reserves up for liability for all years. About $70 million of that relates to accident years 2005 and prior. On the insurance side it's about $300 million in total IBNR reserves; about $30 million for accident years 2005 and prior. And I'm not picking out 2005 for any particular reason, just to give you an idea of some of the older accident years… If you're still there.

Operator

Our next question comes from Joshua Shanker at Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I just wanted to point out, and I realize there's been a lot of questions about margin but I think this is the best quarter on a core basis since the inception of the company which is wonderful but of course it makes us curious. In terms of thinking about the property and marine book and the credit and political risk book, can we talk about combined ratios in Q4 '11 versus Q4 '12 to try and figure out basically the math on how we get there? Or maybe you can't give that out?

Joseph Christopher Henry
Consultant

Which books? You said the credit and political risk and what was the other one?

Joshua David Shanker
Deutsche Bank AG, Research Division

The credit and political risk book and the property and marine book. Can we get comparative combined ratios?

Albert A. Benchimol
President, CEO & Director

Well, property and marine is really on a combined basis, so there's just so many different property and marine lines that I think it would be difficult to give you a single one. The credit and political risk book is in and of itself not huge but it did have a much lower combined ratio in Q4, and I'm pulling that out.

Joseph Christopher Henry
Consultant

We're digging for it here.

Albert A. Benchimol
President, CEO & Director

Yes, we're digging for it as we speak.

Joshua David Shanker
Deutsche Bank AG, Research Division

And that's due to prior-quarter favorable developments?

Albert A. Benchimol

President, CEO & Director

The capital risk solution is the fact that we were holding some events, some losses for a couple of events which as Joe noted turns out that they were able to be closed. I believe that we had approximately 15 points of lower combined ratio excluding prior year developments in the credit and political risk book, and if you exclude prior year developments… I think you wanted it without prior year developments, so it was about a 15 point improvement quarter-over-quarter excluding prior year developments.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay, let me give you the scenario: you said on Greg's question that he wasn't so far off to talk about run rate combined ratios in the 80%'s. Philosophically, if we're talking about run rate combined ratios in the 80%'s is there need for improved pricing?

Albert A. Benchimol
President, CEO & Director

I think that what we talked about was ex-cats so I think that there's a significant volatility component to cat which we need to get charge for. And the other issue is what I mentioned earlier, which is that although historically the industry is delivering about as good a combined ratio as it has historically, the ROE is very low because of the impact of interest rates. And I've just mentioned the 400+ basis point impact on ROE that lower interest rates are giving you, and therefore I think that we have no choice as an industry to deliver combined ratios that are lower than what we have historically to offset the fact that there's no investment income.

Joshua David Shanker
Deutsche Bank AG, Research Division

So help me understand that. It just seem that these are phenomenal results, and so it's just trying to figure out whether or not this goes on into the future. I think you have nothing to worry about in ROE if you can keep this up.

Albert A. Benchimol
President, CEO & Director

Well, thank you for that. What I will tell you is we looked at each of these lines. When we look at the reserves and the results for each of these lines we look at them individually, and we look at each one of these numbers on their own. We look at the losses, we look at the developments, and each one of these numbers passes the test of multiple levels of review including that of our new Chief Actuary who's come in and given us a fresh look at everything. When we start with these things we don't have a conclusion in mind. We start with these numbers and we come up with individual results by line. When we put it all together it ended up that it was a very good quarter, and when we pushed back on it was very clear to us that we could identify large losses and catch up adjustments during the year for things that we had booked for but ultimately didn't need, and that included things like revisiting some of the cat events that we had during the year where in retrospect we didn't need the initial IBNRs that we put up; and in other cases, in a number of lines where… And these are quick visibility lines, right? You're talking about energy, aviation, property lines and so on, where 12/31 if you don't have the loss you know you don't have the loss. And so we went back and looked at it all and it just ended up that 2012 was a very strong year from both an attritional and a large loss year. We are not saying that this is the level that we expect every year. There is volatility in our results but the results that you see for the quarter and for the year reflect our best understanding of the experience that we observed this year.

Operator

Our next question comes from Raymond Iardella at Macquarie.

Raymond Iardella
Macquarie Research

I just wanted to maybe touch a little bit more on the A&H business. I know, Albert, in the past you've talked about the technical ratio being profitable but the G&A kind of being the drag here. So I guess kind of what are you thinking in terms of growth needed to get to that 2014 positive contribution from A&H?

Albert A. Benchimol
President, CEO & Director

That's a fair question. I don't think that our view has really changed much from what we said before, which is an earnings base approaching $300 million is what we need. And just to give you a sense of that, we wrote approximately $160+ million of A&H business in 2012. I told you that we were very encouraged by the January 1 renewals as well as some of the new business that we're writing. I do not expect that we will hit the $300 million written let alone earned in 2013 but if we continue the trend that we have and we can build on the renewal book in 2014 we should hit it then.

Raymond Iardella
Macquarie Research

Okay, that's helpful. And then maybe just going back to capital management, and I know, Joe, you suggested sort of 50% to 100% is the right way to think about total capital deployment, but I guess my question is I know you guys are getting good growth and rates are going up but why can't you potentially deploy 100% of your operating earnings and still grow the business?

Joseph Christopher Henry
Consultant

I'd just jump back to the opportunities we have themselves. There are several across different fronts involving different amounts of capital and frankly we just want to be conservative about the guidance that we're giving out. It might be that we hit the top end of that range but right now the guidance that we wanted to give is that we're going to stay a little bit conservative and see how these opportunities develop.

Albert A. Benchimol
President, CEO & Director

I think there's 2 things here. One is the fact that the market is about as good as we've seen it in a long, long time. And there is no doubt that with the conditions that are available right now, with a large number of business that is making its way to the market because for the first time in a long time a lot of the current incumbents are either getting out of the line of business or significantly reducing the size of the coverages that they make. There's a lot of new business that for the first time is going to be available to the market. Now is not the time to pass on those new opportunities because once they find their place in a new carrier it'll be more difficult to access that business. So one really has to take advantage of the opportunities when they present themselves. Secondly, and this is really in the range of the vast amount of options to us, we have to recognize that 2012 was a transition year for AXIS. We wanted to make sure that we had gone through our executive transition, that we had gone through the repositioning of our book. I think we are in an incredibly strong position today and we are today prepared to consider things that maybe we weren't willing to consider as openly in 2012, including perhaps one or 2 small bolt-on acquisitions which might complement our book of business, maybe accelerate some of our new initiatives. Obviously if any of these become available clearly that would be a use of our capital that just regular, organic growth wouldn't have. So what we're telling you is we think there's a wider range of opportunities available to us in 2013. That doesn't mean that there will be an acquisition. That doesn't mean that there will be a huge growth rate, but we think that those things are within the realm of the possible and we want you to be aware of that. Now as we did last year, every quarter we'll take a look at how much capital we've been able to generate. We'll look at the opportunities and we'll update you on our expectations. But we just want to be as complete and forthcoming about how we see 2013.

Operator

We have time for one more question which will be from Matthew Heimermann at JPMorgan.

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

A couple questions - one is just the compensation expense in the quarter, you addressed it in your opening remarks but I guess are we at a point where we are a little bit more run rate on the expenses? I was thinking about them 2012 versus 2010 given obviously 2011 is going to be depressed by some of the events in Q1 of last year.

Joseph Christopher Henry
Consultant

Matt, a couple of things. One, you remember that we had transition costs in 2012 of $34 million which was about one point to our expense ratio.

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

No, that's fair - I was actually just looking at the G&A excluding what gets characterized as corporate, although obviously that's in the G&A ratio as well.

Joseph Christopher Henry
Consultant

Yes, as Albert mentioned I think you should expect to see our expense ratio stay somewhat stable or decrease slightly as we go forward. It depends on how much premium volume is generated but for the most part I'd expect it to be stable.

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

Okay. And then just in terms of thinking about, and I guess this goes to mix - I mean mix has been from your comments a positive contributor to underlying margins as you've started to earn that mix change. As you think about some of the new opportunities that might present themselves, I'm just curious are those things that would continue to help… Should we think about mix continuing to be something of a tailwind over time or depending on where you grow, are some of these new opportunities potentially slightly in different margins, in different return compositions and then therefore might from a mix standpoint mute or mitigate any of that?

Albert A. Benchimol
President, CEO & Director

Matt, thank you for bringing the issue of return because I think it's much more an issue of return and efficient use of capital and risk and return than it is margin. In fact, I would say that if you look at the book of business in 2012, as you know, we cut back on a number of excess of loss lines which are priced to a lower ratio because we felt that either because of the risk-adjusted returns available, the volatility that it contributed and so on, we actually cut back on higher-margin business whether it would be cat and so on. And some of the steadier business may have higher combined ratios, lower margins, but they're much more efficient users of capital and on an ROE basis they actually enhance the ROE. I think as we look forward we will be looking as much if not more on the impact on ROE as we are on margin. So we may in fact grow business that has a higher combined ratio business but which has a significantly better ROE, and a good example is the A&H business. We think the A&H business on average is a low- to mid-90%'s combined ratio business, which is clearly a higher combined ratio than we would expect to see in a number of our more volatile property lines, the marine, energy, and so on and so forth. But that higher combined ratio provides a substantially improved ROE and balance to the overall portfolio. So as we think about these opportunities it's really about efficient use of capital, it's about risk-adjusted returns and ROE as much if not more than simply the underwriting margin.

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

Okay, that's fair. And then I would assume you'd throw crop or global ag in that context as well, then.

Albert A. Benchimol
President, CEO & Director

Absolutely. As we add more balance to the crop obviously you end up with a higher combined ratio in the quota share crop book but net-net you end up with less volatility overall and you end up with a more stable book of business and a very attractive ROE over time.

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

Okay. And then qualitatively we spoke to this but I guess when we think about this whole capital growth tradeoff, I mean how much growth… I guess some of these lines you're talking about being capital efficient; I kind of feel like they're long-term investments that will be made, there's more certainty around this. So when you start talking about growth are we talking about potentially more historically traditional businesses to you and that's where the uncertainty around the capital allocation is going to come from?

Albert A. Benchimol
President, CEO & Director

That's an interesting question - let me break it up into different pieces of the business. As we indicated in our various comments, what we are seeing right now is a real transition back towards the wholesale and ENS markets in a number of lines of business. As the standard carriers are refocusing, retrenching, cutting back on limits this provides a very attractive opportunity for growth in the wholesale market, for growth in the ENS market. And certainly 2013 sounds to us like a really good time to take advantage of that for the reasons that I enunciated in an earlier question. But that's just the nature of the wholesale and ENS market. There's a lot of volatility both in terms of the market opportunities and pricing and there's also volatility in the losses. But clearly that is one that I think appears to us as a growth opportunity in 2013. But this is a book of business that we will always underwrite to a profit and if it makes sense to grow we will; and in some cases if it doesn't make sense we won't. The other thing that I mentioned is that there are some initiatives that we originally thought were more of a longer-term growth idea, whether it would be crop insurance being a good example or marine reinsurance being another example. Those are looking to us now as they are going to be a little bit faster up the growth curve as we anticipated. Other areas of growth are going to be much more moderate because I feel we really do view these as a longer-term plan and our reentry into the casualty programs in the United States is a good example of that. We are only now starting to establish our presence, putting in the offices, seeing the opportunities but we don't see the casualty business as being a spike growth opportunity for us in 2013. A&H we've already described to you as a multi-year plan. Some of the very strong growth that you all observed in Q4 on the professional lines, for example, most of that actually came from Europe and it's the result of a multi-year effort of developing the relationships, building the staff. So I'm not sure that I can give you a single answer. Every one of our opportunities, every one of our books of business has a different cycle to them and so we are just going to have to respond to each of those opportunities as we think is best at the time.

Operator

This concludes our question-and-answer session. Would you like to make any closing remarks?

Albert A. Benchimol
President, CEO & Director

Well, thank you very much. 2012 was an eventful year but overall a positive one for AXIS. Thank you very much for following us and we look forward to hopefully a series of positive conference calls as we go into 2013. Thank you.

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