S&P Global
Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS

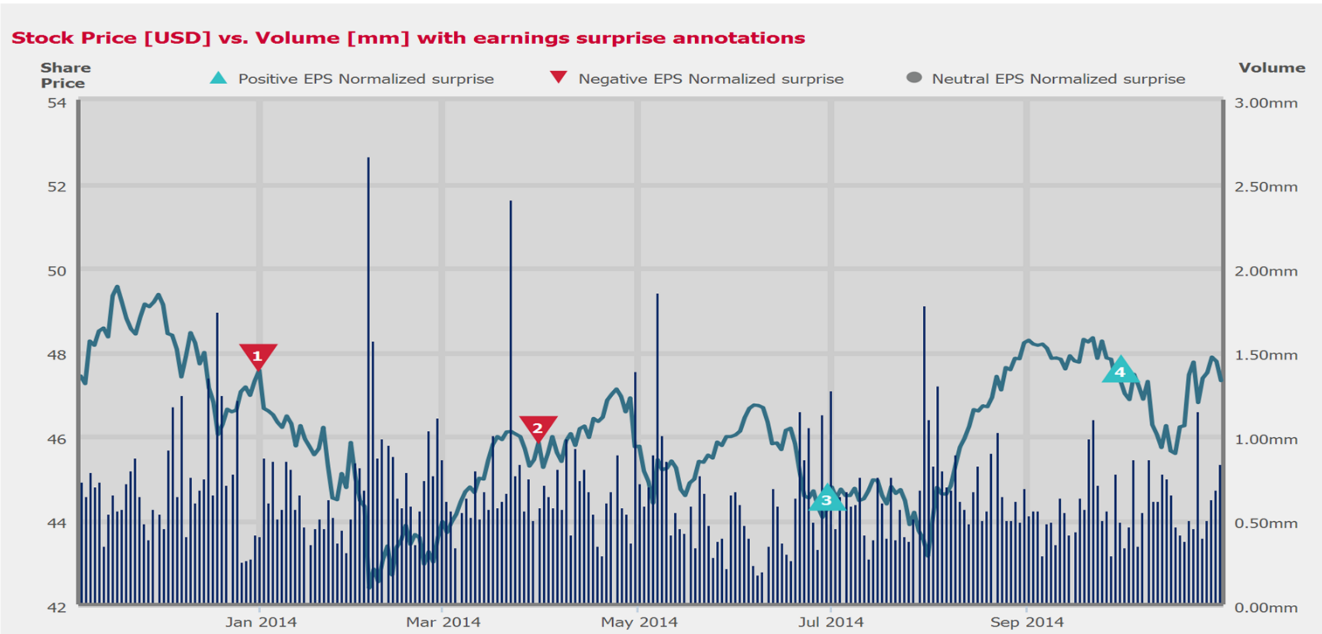
FQ3 2014 Earnings Call Transcripts

Thursday, October 30, 2014 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2014-			-FQ4 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.21	1.27	4.96	1.17	5.30	NA
Revenue (mm)	743.33	687.22	(7.55 %)	666.56	4122.92	NA

Currency: USD
Consensus as of Oct-31-2014 11:01 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2013	1.47	1.41	(4.08 %)
FQ1 2014	1.33	1.24	(6.77 %)
FQ2 2014	1.19	1.63	36.97 %
FQ3 2014	1.21	1.27	4.96 %

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Call Participants

EXECUTIVES

Albert A. Benchimol
President, CEO & Director

Joseph Christopher Henry
Former Executive VP & CFO

Richard Thomas Gieryn
Former Executive VP, Secretary & General Counsel

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Joshua David Shanker
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Kai Pan
Morgan Stanley, Research Division

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

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Presentation

Operator

Hello, and welcome to the AXIS Capital Q3 2014 Earnings Conference Call and Webcast. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Rick Gieryn. Sir, please go ahead.

Richard Thomas Gieryn
Former Executive VP, Secretary & General Counsel

Thank you, operator. Good morning, ladies and gentlemen.

I'm happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the third quarter ended September 30, 2014. 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, www.axiscapital.com.

We set aside an hour for today's call, which is also available as an audio webcast through the Investor Information section of our website. A replay of the telephone conference will be available by dialing (877) 344-7529 in the U.S., and the international number is (412) 317-0088. The conference code for both replay dial-in numbers is 10053135.

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 the question-and-answer session which are not historical facts may be forward-looking statements within the meaning of the U.S. federal securities laws.

Forward-looking statements contained in this presentation include, but are not necessarily limited to, information regarding our estimate of losses relating to catastrophes, policies and other loss events; general economic capital and credit market conditions; future growth prospects; financial results and capital management initiatives; evaluation of losses and loss reserves; investment strategies; investment portfolio and market performance; impact to the marketplace with respect to changes in pricing models; and our expectations regarding pricing and other market conditions. These statements involve risks, uncertainties and assumptions which could cause actual results to differ materially from our expectations.

For a discussion of these matters, please refer to the Risk Factors section in our most recent Form 10-K on file with the Securities and Exchange Commission. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition, this presentation contains information regarding operating income, our consolidated underwriting income and adjusted group and segment results, which are non-GAAP financial measures within the meaning of the U.S. federal securities laws. For a reconciliation of these items to the most directly comparable GAAP financial measures, please refer to our press release and financial supplement 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

Thanks, Rick, and good morning, ladies and gentlemen. Thank you for joining us today. Last night, AXIS reported third quarter operating income of $133 million or $1.27 per diluted share at annualized operating ROE of 10.1%. We ended the quarter with diluted book value per share of $49.88, an increase of 12% over the last year. Adjusted for dividends, diluted book value grew 14% over the past 12 months. We achieved a strong result, notwithstanding weak equity markets, which held back our investment income in the quarter. In addition, we returned $179 million in capital to our shareholders through share purchases and common share dividends in the quarter and $556 million year-to-date, thus returning to shareholders 126% of year-to-date operating income in the form of dividends and share repurchases.

AXIS delivered solid underwriting results, reflecting low cat activity, ongoing favorable reserve development, a broadly diversified portfolio of risks and a more holistic approach to risk management. We're also starting to observe favorable outcomes from some of our targeted portfolio enhancement activities.

Overall, we reported consolidated combined ratio of 92.2%, including 2.2 points of cats and 6.7 points of favorable prior year reserve development. Like most other participants in the crop business, we did accrue additional reserves in response to the dramatic drop in agricultural commodity prices over the summer, and this is reflected in our combined ratio.

However, we also purchased some hedges and ceded some of the rest of third-party capital providers, such that our ultimate net loss was meaningfully reduced from the gross result. While the benefit of these transactions is included in our consolidated earnings, they are not reflected in our reported combined ratio. Adjusting our results to reflect the positive impact of these actions on our net retained underwriting results, the adjusted combined ratio for our company for retained risk would improve to 90.5%, and the adjusted combined ratio for our Reinsurance business improves to an attractive 78.3%.

We continued to make progress on a number of initiatives during the quarter, including our Lloyd's syndicate, our new medical malpractice unit, the reentry into U.S. primary casualty, our weather and commodities business and AXIS Re ventures, and the contribution of our A&H business remains around breakeven for the second quarter in a row. Our Accident & Health team is working diligently to optimize the balance between the Insurance and Reinsurance and between U.S. and international and to expand product and distribution across geographies.

We also continue to make progress in analytics and expense control initiatives that will drive underlying improvements in our results, independent of the vagaries of the P&C cycle.

With that, I'd like to turn the call over to Joe to discuss our financial results for the quarter. Joe?

Joseph Christopher Henry
Former Executive VP & CFO

Thank you, Albert, and good morning, everyone. During the quarter, we generated good results with an annualized operating ROE of 10.1%. Our quarterly diluted book value per common share, a key metric in measuring the value we generate for our shareholders, increased by 0.4% to $49.88 per share. The growth in our diluted book value per share over the past 12 months was 12%. When our dividends declared of $0.27 per quarter are added to the growth in book value, the total value created for our shareholders over the last 12 months was almost 14%.

Third quarter results benefited from a reduction in the level of national catastrophe and weather-related losses compared to the same period of last year and the continued favorable prior year development in our loss reserves. These positive factors were offset by an increase in our current accident year loss ratio, for reasons I will explain shortly, and a decrease in net investment income, which was impacted by a decrease in returns from our alternative investment portfolio.

Other notable items in our quarterly results include a large increase in foreign exchange gains driven by the impact of the significant appreciation of the U.S. dollar on our foreign denominated liabilities and a sizable increase in realized gains on our investments which reflects sales of common stocks, which have seen significant appreciation during 2013 and 2014.

Moving into the details of the income statement. Our third quarter gross premiums written decreased modestly by 1% to $897 million, with decreases in our Insurance segment being largely offset by growth from our Reinsurance segment. In our Insurance segment, our top line was down $19 million or 3% and reflected decreases in Accident & Health due primarily to timing differences and Professional lines where the decreases reflect the continued reshaping of our U.S. D&O portfolio. These decreases were partially offset by our aviation lines, which were positively impacted by the timing of renewals of certain policies and new business.

In our Reinsurance segment, our top line was up $12 million or 3%. The increase was driven by our liability lines of business and was primarily due to a multi-year quota share treaty with an existing client, which generated $35 million of premium related to future years. This increase was partially offset by decreases in the agriculture, Professional and Property lines which reflected nonrenewals, treaty decreases and changes to premium estimates.

For the first 9 months of the year, our gross premiums written were $3.9 billion, a growth rate of 2% compared to the first 9 months of 2013. This increase was driven by growth in the Reinsurance segment of 6% and was significantly impacted by the level of contracts written on a multi-year basis in the liability, property, catastrophe and motor lines, with premiums written of $131 million relating to future underwriting years.

Growth in the Reinsurance segment premiums was partially offset by a decrease of 2% in the premiums written in the Insurance segment. Our consolidated net premiums written were down 4% for the current quarter. The reduction was driven by an overall decrease in written premium as well as increased ceded premiums due to the increased reinsurance protection purchased primarily in our Insurance Professional lines of business and the impact of changes in the business mix.

Our net premiums earned increased by 2% to $966 million in the third quarter of 2014. Increases were noted in both segments with insurance increasing by 3%, reflecting the continued growth over our Accident & Health book, business written in recent periods in the liability and Professional lines and the positive impact of the reductions in our ceded reinsurance programs implemented during 2013.

Reinsurance increased by 1% with the growth in liability, motor and Professional lines being the most noteworthy. Our year-to-date growth in net-earned premiums of 5% to $2.9 billion was primarily impacted by the same lines of business as a quarterly increase, with the continued expansion of our agriculture business also adding to the year-to-date growth in the Reinsurance segment.

Our third quarter consolidated current accident year loss ratio increased 2.3 points to 63.8% compared to the same period of last year. Our year-to-date loss ratio was comparable at 63.7%. In our Insurance segment, the third quarter 2014 current accident year loss ratio increased 8.8 points to 64.7%.

Q3 2013 was a very quiet quarter with regard to losses incurred. The current quarter was impacted by natural catastrophe and weather-related losses of $19 million, attributable primarily to weather losses in North America. In addition, the loss ratio was impacted by higher underwriting loss ratios for the property classes of business, reflecting recent loss experience and the change in the business mix with a shift towards less volatile lines of business that carry a higher loss ratio.

It should also be highlighted the actions we have taken in reshaping of our U.S. D&O portfolio during the current year have resulted in a positive quarterly loss ratio variance on this line of business compared to the prior quarter and Q3 2013.

For the year-to-date, the current accident year loss ratio for Insurance is 66.7%, up from 63.8% for the comparable period of 2013, generally driven by the same factors I just discussed. For our Reinsurance business, the third quarter 2014 current accident year loss ratio was down 3.6 points to 63%. Current quarter's results included an insignificant amount of losses related to natural catastrophe and weather, compared to $51 million net of reinstatements incurred in Q3 2013. Net of cat and weather-related losses, the current accident year loss ratio increased primarily due to an increase in the agriculture loss provisions following a significant drop in commodity prices, in particular, corn, during the quarter.

Now as you're aware, we hedged some of our exposures to agricultural price variations. During the quarter, the variations in the prices of agricultural commodities produced positive mark-to-market returns on our derivative hedge positions of $8 million. The increase in the value of our agriculture hedges is reported as part of other insurance-related income, in line with the applicable U.S. GAAP rules.

In addition, we ceded a portion of our agricultural book to our third-party vehicle, AXIS Ventures Reinsurance Limited. AXIS Ventures is a variable interest entity and is consolidated on our financial statements. As such, the impact of the session, which is positive to AXIS during the quarter, is included in amounts attributable to noncontrolling interests. After the benefits incurred from the hedge and sessions to AXIS Ventures, the net pretax impact of these agricultural losses on the quarterly net income attributable to AXIS Capital was $22 million.

We realize that the accounting rules may make the full understanding of the movements in our Reinsurance segment difficult. As such, in order to aid you in evaluating the performance of this segment, we have added an additional page in our financial supplement, which provides more information on the impact of the session to AXIS Ventures and the agricultural hedges on our Reinsurance segment end- group results. As Albert indicated earlier, adjusting for these offsets, the adjusted reinsurance loss ratio would be 47.5% and the adjusted reinsurance combined ratio would be 78.3%, a 3.8 reduction from the reported combined ratio of 82.1%.

Other notable items that contributed to the variance in the reinsurance current accident year loss ratio included changes in the business mix, which was primarily offset by a reduction in attritional losses, most notably in the credit and surety lines of business.

For the first 9 months of the year, the current accident year loss ratio for reinsurance decreased by 2.5 points to 61% on a reported basis, primarily driven by the reduced level of natural catastrophe and weather-related losses.

Turning to loss reserves established in prior years, our results continue to benefit from net favorable loss reserve development, which aggregated to $65 million during the third quarter. Short-tail classes in both segments contributed $61 million of this balance, primarily reflecting better-than-expected loss emergence.

In addition, we continue to give weight to actuarial methods that reflect our favorable experience for our Reinsurance professional lines, which contributed $10 million reflecting lower ultimate loss estimates, primarily for accident years 2010 and prior. Our year-to-date favorable loss reserve development was $193 million, compared to $177 million recognized during the first 9 months of 2014.

During the third quarter and the first 9 months of 2014, our acquisition cost ratio increased by 0.8 points and 1.2 points, respectively, compared to the same periods in 2013. Increases were noted in both segments. However, they were more pronounced in Insurance due to the changes in the mix of business and reduced commissions received, given the changes in our ceded reinsurance programs. The increases in Reinsurance were primarily driven by higher acquisition costs paid on certain lines of business, as well as variances in accruals for loss-sensitive features in underlying contracts.

Our total general and administrative expenses increased, driven by personnel costs, professional fees and other related expenses associated with the continued build-out of the company's global platforms. As we mentioned last year, we are incurring incremental costs now which will benefit our expense structure in future years.

Overall, the company reported an underwriting income of $113 million and a combined ratio of 92.2% for the third quarter. On a year-to-date basis, our underwriting income is $349 million with a combined ratio of 91.6%. Adjusted underwriting income for the quarter would be $6 million higher, and the combined ratio is lower after adjusting for crop price hedges and the sessions to [ph] AXIS Ventures.

Net investment income was $67 million for the quarter, down from $115 million in the previous quarter and down from $103 million in the third quarter of last year. The most significant driver of the decrease was the contribution to net investment income from our other investments portfolio. Other investments produced a $3 million loss during the quarter versus a gain of $32 million last quarter and a gain of $32 million in the third quarter of the prior year primarily due to a decrease in income from hedge funds, which was impacted by the weaker performance of equity markets during the quarter.

In aggregate, the total return on our cash and investment portfolio for the quarter was a negative 0.7%. The negative total return for the quarter was due mainly to a decline in prices on our fixed maturity portfolio, as a result of strengthening of the U.S. dollar and the widening of credit spreads on both investment grade and high-yield corporate debt.

We continue to hold a high-quality, well-diversified portfolio with cash and investment assets totaling $15.5 billion at September 30, down approximately 1.1% -- $0.1 billion, excuse me, from June 30 and up $0.7 billion from a year ago. The year-over-year increase was primarily due to proceeds from our senior notes issuance, which was completed during the first quarter of 2014.

The duration of our fixed maturity portfolio was 2.9 years at September 30, no change from June 30 and down moderately from 3.2 years at the end of September 2013. Our fixed maturities weighted average credit rating remains unchanged at AA-.

Our total capital at September 30, 2014, was $7.3 billion, including $1.5 billion of senior notes and $628 million of preferred equity, a decrease of $0.1 billion from $7.4 billion at June 30, 2014.

During the quarter, we repurchased 3.2 million common shares at an average price of $47.48 per share, for a total cost of $150 million. As of today, we have $300 million of remaining authorization under our board-authorized share repurchase program for common share repurchases through December 31, 2015.

As discussed with you previously, provided that market and financial conditions remain the same, we aim to return around 100% of our annual operating earnings to our shareholders through regular dividends and share repurchases.

Our strategic expansion opportunities continue to progress well. We continue to be on target with our growth plans for our Accident & Health unit. Our Lloyd's vehicle is making good progress in the London markets, and we also expanded the capabilities of AXIS Ventures, our third-party capital initiative, during the quarter.

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

Albert A. Benchimol
President, CEO & Director

Thank you, Joe. Let's cover market conditions. In Insurance, we continue to see a leveling off and pricing overall with more pressure on some of the international, property and specialty lines. However, despite a slowdown in pricing, there is rationality in most price action. And as much as it is generally the lines that have performed reasonably well that are seeing the most pressure. They remain good fundamentals and opportunities for profitable growth in many insurance lines of business.

Within our Insurance segment, the overall AXIS insurance rate change for the third quarter of 2014 was down 3%, a change from minus 2% last quarter and down from the plus 2% experienced in the same quarter last year. Pricing declines in Property-related lines drove this result. Casualty pricing remained strong, although rate increases are moderated. Across Property, Casualty and Professional lines, the U.S. is the strongest of the geographies in which we operate with respect to pricing environment. This favorable U.S. market works in our favor, as close to 60% of our global insurance business is generated locally out of our 12 offices spread across the country.

In our U.S. division, overall rate change was minus 1% from flat last quarter after 12 consecutive quarters of positive rate change, and we also maintained strong renewal retention across all lines. Price weakened in most of the Property lines, while Casualty lines continued in a positive direction. Casualty rate increases have begun to slow after steady increases since 2010. Our own underwriting activity has reflected these trends with new business in our U.S. P&C operations primarily comprised of Casualty lines, with the greatest contributions from U.S. Excess Casualty where prices benefited for more than 3 years of rate improvement.

In our Professional lines division, overall, rate was flat, in line with the second quarter and broadly stable since 2012. 84% of the portfolio experienced flat to higher rates. As in previous quarters, rate changes are generally positive on primary accounts while excess layers, which have seen good performance in the past few years, remain under pressure. Classes which require additional rate, such as primary public D&O and film in the U.S. or surveyors in the U.K. PI book, are showing the strongest positive rate changes.

As to international specialty markets, after strong pricing conditions and generally good industry results for close to 3 years, prices began to come down at the end of last year. They were down 8% on average for us this quarter. As usual, there were wide variations in rates depending on the line of business or geography. Energy lines drove most of the change. And while aviation and tourism have historically shown weak price action, we now expect recent aviation losses to provide some impetus for better aviation pricing.

Our international division has delivered very strong underwriting profitability over the years. And even with recent price cuts, we believe that many lines remain reasonably priced. We continue to look for profitable growth and are expanding our opportunity set through our Lloyd's presence and other distribution initiatives. So overall, the Insurance business still has plenty of opportunities to write attractive business. Access to business and risk selection are increasingly an important differentiator in the markets, and from our perspective, AXIS is very well-positioned in that regard.

Moving on to Reinsurance, momentum in the last 18 months has resulted in a shift to what we believe is a buyer's market in most classes of business and regions. Abundant capacity, strong balance sheets and consolidation of reinsurance buying continue to pressure reinsurance pricing across most territories and lines of business. This has been coupled with some movement in terms and conditions. Multi-year commitments are in great demand, broadly impacting all lines of business, and nonconcurrency of terms is more prevalent in the marketplace. As you heard from Joe, we participated selectively at a number of multi-year facilities where it made sense for us to do so.

The declining number of attractive opportunities in property catastrophe, has encouraged traditional reinsurers to move aggressively into Casualty lines, leading to softer terms, most visibly evidenced by increases in ceding commissions. However, in many cases, some of these higher ceding commissions are offset by improvements in primary pricing such that margins are not down as much as would be indicated by the changes in cedes [ph].

While reinsurance terms are not ideal, underlying businesses are performing well across most of our major product lines, as indicated by our current year results. Many areas under pressure are still generating adequate margins, although in some cases there isn't much room left.

As the growing number of cedents look to reduce the number of reinsurers on their panels, we are benefiting to the highly rated global multi-line insurer with excellent service and strong relationships. This, coupled with our innovation and technical strength, is allowing us to better defend our positions and mitigate the worst effects of a highly competitive market.

Looking back on the most recent renewals. We reduced or nonrenewed a number of treaties. We weren't the only ones. And we are beginning see evidence of pushback on pricing, terms and conditions that reached too far. While we continue to anticipate further pressure, we interpret these developments as indications that we are approaching a slower rate of decline in pricing.

In conclusion, there is no favorable tide to lift all boats in a transitioning market. Quality of relationships, brand reputation, service and claims management, financial strength and ratings all influence access to business opportunities. Risk selection, risk management and portfolio construction are paramount in extracting the best performance out of a declining market. In these attributes, AXIS has a strong track record and we are convinced that our investments in data, analytics and employee training will all serve to make us even better. I'm confident of our ability to navigate in these markets and continue to deliver superior value creation for our shareholders. We are not dependent on any one line or market and can afford to remain disciplined and pursue only that business which we consider to be profitable and additive to our portfolio. And while we do see some pressure on Reinsurance business, we also get the benefit of better terms on the reinsurance and retro that we purchase. So we have good balance.

Against the backdrop of more challenging market conditions, we believe our market reputation for superior service, strong capital and superior ratings will allow AXIS to enhance its relative position and access profitable business. We will continue to balance prudent growth and active capital management to deliver the best outcomes for our shareholders. At this point, I'd like to open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions] And the first question comes from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

So, my first question regarding to -- you've been through sort of basis mix shift change towards low volatility, potential high return business. In regard to that transition you have seen partly contributed to the significant rise in the core underwriting margin for the first [ph] quarter -- for like four quarter in a row. I just wonder, are we sort of pretty much done in that process that we would not see such a significant increase in core margin going forward?

Albert A. Benchimol
President, CEO & Director

I think it's a very good point on which -- and your observation is correct. And the best example that I would give you is that we have seen the bulk of it. And as we're moving into our current [indiscernible] premium and moving forward, you'll see less of an impact coming in from the mix, and let me give you a statistic to help you look at that. On a year-to-date basis, we estimate that the change in mix added 1.9 loss ratio points to our results. However, in the third quarter this year, the change in mix was only contributing 1.3 points to the change. So as you can see, we're leveling off, if you would, the growth rate that comes from mix and that should stabilize as we get into 2015.

Kai Pan
Morgan Stanley, Research Division

Okay. That's great. And then, second question is really shifting to your Professional line. There -- in the U.S., there is some reserve issues. Last year you took action on that, and so far, if I heard you right, you actually have some reserve releases in the line, but why now you decided to purchase more reinsurance?

Albert A. Benchimol
President, CEO & Director

Well, the purchase of the reinsurance was done earlier this year. And 2 things I would like to say, the issues with the U.S., the primary D&O book, was less about reserve issues. It was more about the fact that we'd recognize that the profitability of that book of business was not as good as we expected. So we did get make an adjustment in the fourth quarter of last year, but that was mostly for the -- within the period. And then, of course, we carried it forward into 2014 with a higher loss ratio. I think that what we're trying to do, of course, is find the right balance. With the improved terms that we could get on the reinsurance that we purchased, we felt it was a good transaction to modestly increase our sessions in the Professional lines book. And as you know, over the last 3 years, 4 years, we've actually increased and decreased our retentions annually based on what we believed the reinsurance terms were. So there is nothing unusual, if you would, trying to optimize the net position. It was down the prior year. It was up the current year. And again, when we sit own for our renewals next year, we'll determine what is the best way to purchase reinsurance to optimize the book.

Kai Pan
Morgan Stanley, Research Division

That's great. If I can ask last, sort of like a quick question, do you have an exposure on the recent -- the rocket launch failure?

Joseph Christopher Henry
Former Executive VP & CFO

No. We do not.

Operator

And the next question comes from Jay Cohen of Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Securities, Research Division

Obviously, this year you had made some investments in the business. You've been talking about that, and it put some upward pressure on your overhead. As we head into, I guess, arguably, a less robust market -- I hate to use the word "softer," but certainly more competitive, could you see yourselves pulling back from those investments? Should we expect the investments to continue or should they slow in 2015?

Albert A. Benchimol
President, CEO & Director

I presume you're referring to investments in new businesses, or are you referring to....

Jay Adam Cohen
BofA Securities, Research Division

Exactly, New businesses. Again, the money you're spending that's driving up your overhead ratio at this point.

Albert A. Benchimol
President, CEO & Director

Right. Well, the investment in new businesses can be found in a couple of areas, but you're absolutely right with regard to the fact that in a number of our businesses, the G&A ratio is still too high, given the low level of volume in some of those businesses. I'm pleased to say that the businesses that we chose to invest in, we believe, are actually -- make very good sense for our company going forward. So obviously, with regard to A&H, which has been a big initiative going forward, we now feel pretty good because, as we've mentioned now, the results year-to-date are essentially approaching very close to breakeven. They've done very good performance for the last 2 quarters. And we think A&H is -- our decision to enter A&H is not a cyclical decision. Frankly, it's more of a secular decision about the balance of our book of business. Our growth efforts in Casualty are -- make a lot of sense. It's still a very strong market. There are some opportunities, and I think it makes sense to grow that Casualty business. We entered Lloyd's earlier this year. And as I mentioned in my prepared remarks and as you know from the analysis of the business, our international specialty book has been an extremely profitable book over the years. And although there are some pricing pressure there, it continues to be a very attractive book. Now the growth rate in certain lines of business might obviously move up and down based on the opportunities, but the access that Lloyd's gives us to more international markets and more opportunities to write in multiple jurisdictions, I think, is a clear winner. So all of these things make sense. Ag, weather and commodities, that's going to be an area where there is going to be more risk in the world going forward, and clearly there's going to be more demand for those products. So all of these initiatives, I think, make sense to me. If you look at Med-Mal, which was our most recent one, clearly, we believe Med-Mal has seen some pressure. And I don't expect that we'll see huge growth in the next couple of years, but again, longer term, we think it's a very good addition to our overall portfolio -- diversified portfolio of Professional lines. So whereas the pace of growth will, of course, respond to the opportunities as we see them, we feel very good about the strategic rationale behind those expansion opportunities, and we will continue to invest in them. That said, if it means that we have to slow down the growth because it's the right thing to do, we will not hesitate to do so.

Joseph Christopher Henry
Former Executive VP & CFO

Jay, it's Joe. I'll just add a couple of comments to what Albert said here. First, on the new initiatives, if you compare the premium volume written in new initiatives in 2014 through 9 months to where we were 9 months a year ago, it's up about $80 million. So we're getting quite a bit of growth actually coming from those new initiatives. Secondly, with respect to the expense ratio itself, it's at 15.9%. I basically said that there is about half a point in that expense ratio that relates to expense initiatives that we talked about after the second quarter call for things that we will be able to save significant amounts of money in the future. We expect to continue with that in fourth quarter and 2015, but that will begin to show benefits in '16 and '17, and specifically it's around IT sourcing. We have a major initiative underway in that area to basically allow us to save significant amounts of money going forward. So, are we going to have an elevated expense ratio in the short-term? Yes. Is that going to benefit us in the future? Yes, and we're confident that we can get this expense ratio, all things -- all other things being equal, down into the 14% range or below by 2017.

Operator

And the next question comes from Vinay Misquith with Evercore.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

First is in the primary insurance operations. Your accident year loss ratio ex-cats really improved from the first half. Was curious what's driving that. Was it lower D&O? Or was it lower large losses?

Joseph Christopher Henry
Former Executive VP & CFO

Could you repeat that, please? I'm not sure I got that.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Yes, sure. So the accident year loss ratio ex cats for the third quarter in the primary insurance segment was about 60.6, first half of the year. It was roughly about 64, 65. I mean I know the first half of the year had higher level of large losses and higher D&O. So just curious as to what the delta was between the first half of this year and the third quarter as to why it improved so significantly.

Joseph Christopher Henry
Former Executive VP & CFO

So let me give you just some insight into the accident year ex cat and weather loss ratio for the quarter itself. You're trying to get at what's changed in the quarter versus what it was year-to-date, right? So earlier on in the year, we had a property initial expected loss ratio increases. As you recall, we had some property losses. The actual level of those losses leveled off in the third quarter. We've decided to keep our initial expected loss ratios conservative, but that's one of the reasons. I think the second thing is mix of business, as Albert was referring to before. And the third item -- it really is initial expected loss ratios on Property and Professional lines.

Albert A. Benchimol
President, CEO & Director

Yes, in fact, one of the things that we indicated to you was that there would be a heavy influence of the corrective actions in the run-off of the U.S. D&O book in the first half. And just to give a sense of it, the professional lines added 1.5 points to the first half loss ratio for insurance, and they didn't in the third quarter. So we had told you that it was our expectation that the run-off of Professional lines would start to have a visible impact on the loss ratio going forward, and that's happening as we speak. As you know, we still have a little bit of UPR to earn into the fourth and then de minimis amounts will carry on into early '15. But more importantly than the run-off of the UPR is our team is doing incredibly good work at repositioning the portfolio and in making sure that we've got the right balance and the right attachment points, and that really is going well on plan. I can't help but speak a little bit about the fact that there is a lot of talk in the market today about healthcare, D&O and some of those issues creating problems for a number of companies. And I feel compelled to remind you that that's exactly what we were discussing with you when we discussed the fourth quarter results in anticipating some of these trends and taking early action to try and reposition our portfolio as we were seeing these trends happening. So I think that where we are in U.S. D&O is where we want to be, given where we started.

Joseph Christopher Henry
Former Executive VP & CFO

Vinay, it's Joe. I'll just add to that, that on the Professional lines side, just to give you a sense as to improvement in the loss ratio. In the first quarter of the year, we were at 77.9%. In the second quarter, we were at 76.2% on a year-to-date basis. And in the third quarter, we were at 75.6% on a year-to-date basis. So that will give you an idea of the run rate improvement that we're seeing in overall Professional lines. The overall improvement in CMS is actually even more dramatic than that. I'd rather not get into individual loss ratios by line of business, but that will give you a sense that CMS is having a pretty good impact on the loss ratio improvement in insurance.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Great. That's helpful. The second question, I just wanted to follow-up on the 100 to 200 basis point margin improvement. I mean, I think last quarter you said that you could improve the accident year combined ex cats by about 100 to 200 basis points. So I just wanted a clarification. Number one, is -- so is that in 2015? And second is, we've seen the expenses actually go up slightly third quarter. Just wondering if it's still on track to deliver that by 2015? Or is that more of 2016 target?

Albert A. Benchimol
President, CEO & Director

I think the 100 to 200 makes sense, and as such, you're already starting to see the implications of that in the discussion that we've just given you on the loss ratio. And again, I think that there are some things that we will -- on the expense side, that we will absolutely see next year, but there would also be continuing investments. I believe Joe was very disciplined in always saying that we actually expected an increase in our expense ratio in 2015 as we were investing through these items. But as we're consolidating facilities, for example, you're seeing charges in our financials this year, but these are facilities expenses that we'll not have next year. So there'll be a number of initiatives that we will see immediate impact in 2015. Others, and certainly most visibly, the investments that we're making in IT are likely going to be costing us more money in 2015, and we will start to see those benefits in '16 and '17 and future years. But in the aggregate, I expect the expense ratio will actually go up in 2015, but that within individual initiatives, we do expect that some of the initiatives that were executed in 2014 will actually show us clear savings in 2015.

Operator

And the next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here for you. First of all, I wonder if you could talk a little bit about some of these -- the multi-year deals that you've done a couple this year. And I guess the question is, why are we seeing the big increase in multi-year deals? Is that a function of the need to do that in order to secure renewals? Is it a function of you think that pricing is going to continue to get more competitive here going forward? I wonder if you can elaborate that a little bit.

Albert A. Benchimol
President, CEO & Director

Yes. Well, let's first start with the basis that there has always been some amount of multi-year deals in the industry. Number of clients, for example, who take their cat program and they buy a -- they renew 1/3 each year for 3 years and the intent from the client, of course, is to have more stability both in supply and price going forward. So we've always had those. We have a number of policies that have been 2-year policies. So it's not something which is absolutely new, but it's certainly something where we see significantly more demand. In our case, I would say that the vast bulk of what we call multi-year deals are actually 2-year deals. I don't have the number at the tip of my tongue, but I would say that the number of 3-year deals is de minimis. So what we're talking about here is accommodating a client's desire to lock in what they believe are good terms. Obviously, everybody knows that prices do respond to events, and to the extent that they have an opportunity here to lock in good terms, they are happy to do so. In our case, it really depends on the kind of client and the line of business and the profitability that we're looking at. We tend to differentiate clients as opportunistic transactional clients and relationship clients. And certainly for relationship clients where it's our expectation that absent anything really unusual, we would expect to renew those clients in any case. And to the extent that we have appropriate protections in our contracts with regard to change in mix of business or change in the teams or things that would cause us to revisit our appetite for that book of business, if it's appropriately structured, reasonably priced with good relationship accounts, we will do so. On the other hand, for a book of business which we think is "marginal" or for terms that we consider to be too aggressive or where we do not have adequate protections around the shift in the book of business, we will not do so. So it's really being responsive, and in many cases in the Reinsurance business, you do expect that you're going renew it. So if we have adequate protections, we will do so.

Brian Robert Meredith
UBS Investment Bank, Research Division

That was helpful. And then, I guess the second question, so last quarter you gave us kind of a baseline to think of with respect to combined ratio or actually your combined ratio ex cats and kind of the improvement there. I am wondering if you could give us something similar from an ROE perspective. Is the baseline ROE here that you think you can improve upon the kind of 11 percentage that we're seeing right now this year? Is there something lower than that since it's been a pretty light cat year this year?

Albert A. Benchimol
President, CEO & Director

Yes, I would be loathe to provide projections, but fundamentally if you're looking at anywhere between 2, 3, 4 points of combined ratio improvements to where we are, you're essentially looking at -- with prudent capital management and a little bit better leverage, at somewhere in the 200 to 300 basis point improvement in the ROEs. Now again, I hasten to say that we talk about these things independent of pricing. There are a number of other factors that will significantly impact our reported profitability: one being, of course, events; the second is whatever pricing environment we are at the time; and third being the availability of interest rates in the portfolio. So those are the factors. But what we believe is that the actions that we are taking to optimize the portfolio to increase operating leverage and to control expenses should deliver somewhere between 3 and 4 points of improvements in combined ratio by the end of 2017. And at current capital levels, that should be somewhere in the 200 to 300 basis points improvements in ROEs, ceteris paribus.

Brian Robert Meredith
UBS Investment Bank, Research Division

And of that, just curious since it's going to be lower volatility business, how much of that 300 to 400 basis points, if any, is actually lower cat load, lower cat losses?

Albert A. Benchimol
President, CEO & Director

That's a very good point, because on the one hand, we expect that this mix of business, as we've said, is going to cost us. It's a higher combined ratio book of business, so it's another extra point. We would hope to offset that extra point with lower overall cat losses. So for the moment, we're assuming that's neutral. So the increase in the mix is offset by lower average cat losses.

Operator

And the next question comes from Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I have a few questions about AXIS Ventures. When you guys founded it back in November 2013, it was described as a collateralized vehicle which generally to me means it's cat. You said that you expanded the operation this year. Is it no longer a cat vehicle? Or was it always more than cat?

Albert A. Benchimol
President, CEO & Director

It was always intended to be more than cat, it was more than cat, and it remains more than cat.

Joshua David Shanker
Deutsche Bank AG, Research Division

And if I look at it, it was capitalized with $50 million and from the way that the P&L reads, that it received a $6 million loss from AXIS this quarter. Am I -- if I say it that way, am I seeing it correctly?

Albert A. Benchimol
President, CEO & Director

I believe the amount of capital we have in that is a little higher than $50 million, but the $6 million is the right number on the financials.

Joseph Christopher Henry
Former Executive VP & CFO

Josh, there's multiple sells [ph] involved in AXIS Ventures. So there's capital that comes in and there's capital that's removed. So there was initial capitalization from the first transaction, but there are other transactions involved.

Joshua David Shanker
Deutsche Bank AG, Research Division

The transactions that led to the loss, though, I assume is one large transaction?

Albert A. Benchimol
President, CEO & Director

Well, the loss by definition is tied to the agricultural business, which is what we refer to. So the AXIS Ventures has -- again, that piece of business has multiple transactions, most of which were, in fact, profitable. The crop one, obviously, was not this year.

Joshua David Shanker
Deutsche Bank AG, Research Division

And could AXIS have written the crop business that it wrote without ceding that risk to AXIS Ventures? Or were the 2 -- was the transaction that AXIS did to expand the crop part and parcel to having the reinsurance protection from AXIS Ventures?

Albert A. Benchimol
President, CEO & Director

Josh, I'm not sure that I would address it in that way. What I would say to you is that the crop business is business that we were writing in any case and then we shared it. This was not a transaction that we did to satisfy a specific demand from a capital provider. So somebody did not come to us and said, "Here's x dollars, go find me that business." The crop business that we wrote was part of a diversified crop portfolio that we intended to write at the beginning of the year. One of the things that we absolutely believe is that over time companies like AXIS will have a steady supply and a diversified supply of third-party capital. And so as we think about it, it's really critical for us to have a very, very strong, very powerful front end with great people, great service, great brand, recruiting a great number of opportunities. That would be the gross book that we're talking about. At that point, it's really up to us as a company to determine how much of that gross risk that we've taken on board do we want to reinsure with traditional underwriters, do we want to hedge in the capital market, how much do we want to share with third-party capital or other forms of capital, and how much do we want to keep for our own account. All of those decisions are critical decisions in terms of optimizing the risk-adjusted returns for our shareholders.

Joshua David Shanker
Deutsche Bank AG, Research Division

And in terms of the performance year-to-date for AXIS Ventures, do you think this in anyway hurts your ability to find third-party investors who want to invest with you in the future?

Albert A. Benchimol
President, CEO & Director

It's an interesting question. One of the reasons that we've been reasonably slow in growing AXIS Ventures and third-party capital is specifically because we want to make sure that we choose partners who have a very good understanding of the risk that they're taking in a long-term commitment. Two is taking those risks and to partner with us going forward. Nobody should be in the insurance business if they don't expect occasional losses. And so, certainly, the conversation that we have with our third-party capital providers demonstrate a very good understanding of the risks and an appetite to accept occasional losses.

Operator

And the next question comes from Dan Farrell with Sterne Agee.

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

Just a capital management question. Your buyback is outpacing income currently. I think in your prepared remarks, correct me if I'm wrong, you said you still think about capital returns sort of around earnings power. So I'm wondering what that means for the near-term. But then also, when we think about your capital position, you're buying more reinsurance, you've lowered cat aggregates pretty meaningfully and you've diversified the book. Wouldn't that be having a benefit to your overall capital requirement allowing you do capital return in excess of earnings?

Albert A. Benchimol

President, CEO & Director

Absolutely. And Dan, at the end of the day, you have to use as many levers as you can to optimize your risk-adjusted returns. And so, we will absolutely change the amount of risk we take in, whether it's increasing it or decreasing it. And you're seeing the changes both in the mix of business and in the geographic changes in the PMLs. We will increase or decrease the amount of reinsurance and now retro that we buy. And in some cases, we will share some of that with third-party capital, all of which are tools that we need to use to make the best of the business in a transitioning market. You're absolutely correct that to the extent that we can cede business elsewhere or change the input of the risk that we take, we may need less capital. All of those actions are things that we're doing today, which is what has made us comfortable to increase our stock repurchases in excess of our operating income and to do so even in the win season, because we felt so comfortable that our risk management was such that we could afford to reduce our capital and still be in very strong shape. So again, difficult to make any directional predictions, but very much expect us to be active in using all of those levers to optimize our risk-adjusted returns.

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

Great. And then, just a quick question on acquisition ratio. With the increased reinsurance purchase, would you think in the Insurance segment you'd see some downward trend in that? And how long does that sort of take to flow through?

Joseph Christopher Henry
Former Executive VP & CFO

Yes. Dan, it's a difficult one to answer. In general, I would say on our base commission rates there is pressure both on the insurance side and on the reinsurance side. We've had some changes in ceded reinsurance strategy. Within the Insurance segment, as you remember 2 years ago, we were actually keeping more of the business we wrote. Now in certain circumstances, because frankly of market conditions, we're ceding more and getting higher ceding commissions on that. In general, I would say the ceding commissions that we're receiving are helping keeping our acquisition costs relatively flat. I wouldn't see a big increase from where we are now.

Operator

And the next question comes from Meyer Shields with KBW.

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

I don't know if it's fair to talk about a run rate for reserve releases, but we did see a slowdown in the Insurance segment on a year-over-year basis and I was hoping you could talk to that.

Albert A. Benchimol
President, CEO & Director

Meyer, you're absolutely correct. It's totally inappropriate to talk about a run rate for reserve releases. We stand by our position that the reserves that we have today are the reserves that we consider prudent and adequate. And to the extent that our reserves next quarter would identify specific areas where we believe we have more than we need, we would release it at that point in time. That said, our philosophy has always been and will continue to be to reserve the current year prudently, to take the bad news early and to wait until further development of favorable news to release it. That philosophy generally does tend to promote consistent reserve releases. And if you look at our reserve releases certainly, to date, large amount of it really still relates to 2006, 2007 and prior. Obviously, there is some from more recent years, but that would relate specifically to short-tail property lines where within 2 years you know what there is. So we continue to apply the policy of waiting for more maturity before reserve releases, and that gives us comfort with regard to our total reserve position.

Joseph Christopher Henry
Former Executive VP & CFO

Meyer, it's Joe. I'll just add on the insurance side. It looks a little low because it's a net of a couple of different lines of business. We actually had some substantial releases on the Property side, approximately $20 million. And we did have a reason to increase some of our liability reserves from older accident years. Nothing major, just 2 claims we decided to strengthen a bit. So it gave the impression in the third quarter that our insurance releases were a little bit lower than normal, but like Albert, I'm not going to get into predicting what our future reserve releases would look like. That's just more analysis of what's going on behind the scenes.

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

Okay. That's actually very helpful. And sort of bigger picture, I think, Albert, you mentioned in response to Brian's question that the higher sort of core combined ratios of the less volatile business will offset some of the provisions. Does that imply that you have to grow more dramatically than we've seen in 2014 to produce the ROE improvement?

Albert A. Benchimol
President, CEO & Director

I think that it's a -- certainly, in some parts of our business, there is a growth requirement. So we mentioned when we talked about our plan over the summer, there were 4 key points, right? One was improving the quality of the loss ratio, the second was profitable growth, and the third was expense ratio reduction and the fourth was capital efficiency. I think with regard to our new initiatives, there is no doubt that our new initiatives currently are not all -- have not all achieved their target volume. And as Joe pointed out, we've got in excess of $0.5 billion of new initiatives, and they've grown somewhere 17%-plus year-to-date. So they're continuing to grow, and we continue to be confident in their ability to grow into the required scale to achieve their target numbers. And again, I hasten to add that for those, we're generally quite satisfied with the technical ratios. It's really the ability of those businesses to grow into their fixed expenses. With regard to the rest of the portfolio, I'm not sure that we need to grow because we can always balance it through further management of the cat book. I do expect that we should grow some more because I think it will be the right thing to do, but the pace of growth, of course, will depend on the market.

Operator

And the next question comes from Charles Sebaski with BMO Capital Markets.

Charles Joseph Sebaski
BMO Capital Markets U.S.

First question. I guess, Joe, on your commentary on the Professional lines loss ratio improvement throughout this year, I think it's roughly about 230 basis points from the first quarter, you mentioned, to the third quarter. I'm wondering what were the levers that helped achieve that? It seems like a big move in a long-tail liability line in a short period.

Joseph Christopher Henry
Former Executive VP & CFO

Well, I mean there has been some pretty dramatic changes in the portfolio itself in CMS. I can quote a lot of statistics here, but we're changing -- it represents -- today, public D&O represents 39% of our book, as compared to 53% a year ago. So that's a pretty dramatic shift from where we were. There's some significant rate increases that are being achieved in that business. On a year-to-date basis, it's 20%. Frankly, our retention ratios have shrunk pretty dramatically, resulting in the makeup of the book that I just mentioned. Claims development has been noticeably less in the current year than it was last year, just in terms of incurred losses. Through 9 months, in 2014, we've incurred $75 million worth of losses compared to $116 million a year ago. So there are 3 or 4 different points that are driving the improvement in CMS, and CMS is a decent size piece of our overall Professional lines book. So this is actually progressing exactly the way that we anticipated in terms of the profit improvement plan in CMS.

Albert A. Benchimol
President, CEO & Director

And Charles, one more thing on this one. You remember that when we identified the issues in the fourth quarter of last year, we immediately made some changes. And so what you're dealing with is the fact that new business that we're writing this year, we feel very confident as being written at a lower loss ratio. The issue was running off the UPR. And so the amount of UPR that is running off at a higher loss ratio has declined in each of the last 3 quarters. And as that UPR, which has been a very heavy drag, on the loss ratio disappears, you see more of the quality of the rest of the business and more of the quality of the business that we're putting on in the current year. So it's not so much about a significant change in the view of the book, it's the fact that we had an isolated pocket of business which we're running off, and you're seeing the impact of the runoff.

Charles Joseph Sebaski
BMO Capital Markets U.S.

Can I ask about the Reinsurance business? If I look at the new slide disclosure you have pulling out the AXIS Ventures and look at the net premium in the Reinsurance business, it's $290 million. And I think, Joe, you said there's $35 million of multi-year net premium that hit this quarter?

So am I thinking about it right that the outside of that multi-year, an apples-to-apples basis versus last year is the $255 million net premium number for Reinsurance versus 3Q last year?

Albert A. Benchimol
President, CEO & Director

There's no question that the multi-year premiums are causing an increase. And absent the multi-year premiums, there would be some pressure on the reinsurance growth. And that makes perfect sense given current market conditions which you're all familiar with. We are writing less on certain lines of business, and we are not renewing certain contracts, and that's putting some pressure. I think growth in the reinsurance area this year and, certainly, I would expect into next year really needs to take second place to profitability and balance of the book of business. And you have my commitment. We are not going to write bad business, just to show a pretty headline. So Reinsurance may have opportunities to decline next year if we don't find the kind of business that we want. Moving on, what we do with that premium then becomes very interesting because we could choose to keep it net or we could choose to share some of that with third-party capital partners. And we believe that it makes sense to start to establish, as we have, in a reasonable and modest way long-term partnerships with high-quality capital providers. And so we will share some of that so that on a net basis, the impact of the market on our top line revenue generation, top line premium generation, the third-party capital may in fact further accentuate the decline as we share some of that with third-party capital providers. But again, we believe it makes perfect sense to do so both as a risk mitigation opportunity, but more importantly to grow what we believe will be an attractive business model of writing business and then managing that risk, as I said earlier, through both internal retentions, reinsurance, hedging and third-party capital partners.

Charles Joseph Sebaski
BMO Capital Markets U.S.

Can you just tell us by chance what the crop book is marked at for this year currently?

Albert A. Benchimol
President, CEO & Director

At the end of the day, what you had in the third quarter this year was some catchup over some of the modest profits, very modest profits that we had booked in the first half of this year, in addition to recognizing what we believe will be the ultimate impact. Now as I caution you, we are all using the data that we have to make projections. We don't know what -- we have a pretty good idea now that it's October 30 as the price that will be utilized with MPCI, but we don't yet have the details on yield. So we are making some estimates. But at the end of the day, we believe that the 2014 harvest will probably come in for us somewhere at 105 to 110 technical ratio.

Operator

And as there are no more questions at the present time, I would like to turn the call back over to management for any closing comments.

Albert A. Benchimol
President, CEO & Director

Thank you very much, operator. And thank you all for participating in our conference call, and we look forward to speaking with you during the quarter and into next year. Thank you.

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