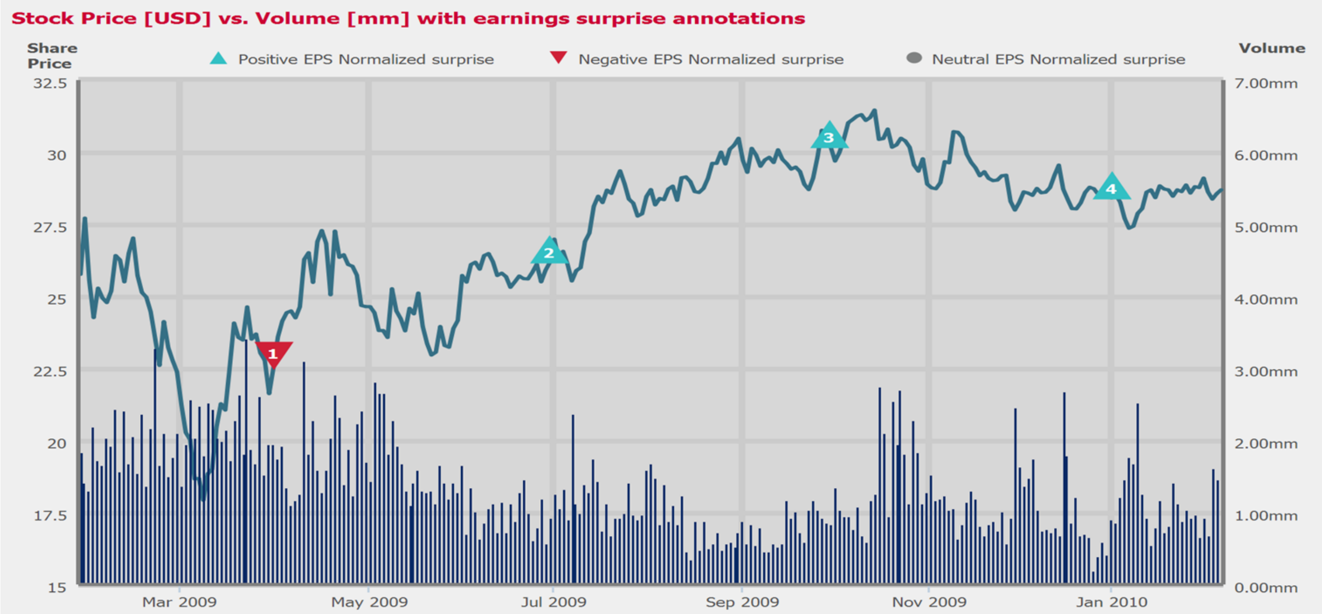
S&P Global
Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS
FQ1 2010 Earnings Call Transcripts
Tuesday, April 27, 2010 12:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ1 2010-			-FQ2 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.68	0.67	(1.47 %)	1.22	4.06	4.60
Revenue	-	-	10.47	-	-	-
Revenue (mm)	1125.78	1243.64	-	749.60	3017.30	3131.25

Currency: USD
Consensus as of Apr-27-2010 8:33 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2009	1.11	1.05	1 (5.41 %)
FQ2 2009	1.17	1.22	2 4.27 %
FQ3 2009	0.80	1.05	3 31.25 %
FQ4 2009	1.31	1.83	4 39.69 %

Table of Contents

Call Participants

EXECUTIVES

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

John R. Charman
Chairman & CEO

Linda Ventresca

ANALYSTS

Beth Malone
Wunderlich Securities

Dan Theriault
Portales Partners

Ian Gutterman
Adage Capital

Matthew Heimermann
J.P. Morgan

Sam Hoffman
Lincoln Square Capital

Shobha Frey
Putnam Investments

Terry Shu
Pioneer Investment

Vinay Misquith
Credit Suisse

Presentation

Operator

Good morning, and welcome to the Q1 2010 Axis Capital Holdings Limited conference call and webcast. All participants will be in a listen-only mode. (Operator Instructions) After today's presentation, there will be an opportunity to ask questions. (Operator Instructions) Please note, this event is being recorded. I would now like to turn over the conference to Linda Ventresca. Ms. Ventresca, the floor is yours ma'am.

Linda Ventresca

Thank you, Mike. Good morning, ladies and gentlemen. I'm happy to welcome you our conference call to discuss the financial results for Axis Capital for the quarter ended March 31st, 2010.

Our earnings press release, financial supplement, and quarterly investment supplement were issued yesterday evening after the market closed. If you would like copies, please visit the industrial information section of our Web site, www.axiscapital.com. We set aside an hour for today's call, which is also available on audio webcast through the Investor Information section of our Web site. A replay of this 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 439424. With me on today's call are John Charman, our CEO and President; and, David Greenfield, our CFO.

Before I turn the call over to John, I will remind everyone that statements made during the call, including the question-and-answer session, which are not historical facts, may be forward-looking statements within the meaning of 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, derivative contracts, policies and other loss events, general economic capital and credit market conditions, future growth prospects and financial results, evaluation of losses and loss reserves, investment strategies, investment portfolio, 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 risk, 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 factor section in our most recent Form 10-K on file with the Securities and Exchange Commission. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. In addition, this presentation contains information regarding operating income, which is a non-GAAP financial measure within the meaning of the US Federal Securities Laws. For reconciliation of these items to the most directly comparable GAAP financial measure, please refer to our press release, which can be found on our Web site. With that, I would like to turn over the call to John.

John R. Charman
Chairman & CEO

Thank you, Linda, and good morning, everyone. And thank you for joining us. By now, you will have seen our first quarter results, which we view as strong. For the quarter, we reported net income available to common shareholders of $112 million or $0.79 per share as well as operating income of $96 million or $0.67 per share. Our diluted book value per common share increased by 31% over the last 12 months, and by nearly 3% from year-end to $34.56. These results were achieved despite the challenges presented by a remarkably high level of worldwide cat [ph] losses for the first quarter of this calendar year. The annualized return on average common equity for the first quarter of 2010 was just over 9%. And the annualized operating return on average common equity was 7.7%.

Our gross written premiums for the quarter were up approximately 8%, although this was not evenly distributed across the company. The insurance raised approximately 10% within a comparatively stable reinsurance market, whereas prime insurance was up about 2%. As we have always maintained, we will turn away from business that does not meet our high standards for underwriting profitability. And we will write business, which is capable of producing an appropriate balance of risks and rewards. We will continue to take full advantage of good opportunities where we can find them.

Our consolidated combined ratio for the quarter, an important measure of profitability in that core property and cash re-underwriting operations, was 98 % and included estimated net losses of approximately $153 million in the Chilean earthquake, European windstorm Xynthia, the Australian storms, and the severest case of US winter storms.

We are a major participant in the wholesale commercial PNC markets. And as such, we expect to have exposure to catastrophes like these. We do view these events as normal events. However, the less normal part of the cat loss activity is the frequency that has occurred within this first quarter.

Our prudent risk management efforts have served as well as we have produced good quarterly profitability despite the accumulated impact to these catastrophes on consolidated underwriting profitability for the quarter. This is a strong result for our business with an overall bias towards short term lives. Further, our underwriting results for the quarter reflected a favorable impact of recovering from the global financial crisis as we have returned to stability and more normal expectations for loss and credit rated - credit related lines of business.

Finally, for the quarter, our investment portfolio delivered a total return of 1.8%, including net investment income of $105 million. We bought back $287 million of shares in the first quarter at an average valuation of 87% of average diluted book value per share for the period. Given the current insurance and reinsurance market outlook, we do buying back shares when they trade at this current range as an effective use of our excess capital.

With that, I'll now like to turn over the call to David to discuss these financial results in more detail.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Thank you, John and good morning, everyone. As John mentioned, we are pleased with our results this quarter. Despite an unusually high level catastrophe activity for the first quarter, we delivered an annualized operating return on average common equity of 7.7% for the quarter.

Our diluted book value per share continues to increase, reaching an all time high of $34.56. Net income for the quarter was $112 million or $0.79 for diluted share, compared with $116 million or $0.78 per diluted share for the first quarter of 2009.

Operating income, which includes the impact or realized gains and losses on investments, was $96 million or $0.67 per diluted share, compared with $156 million or $1.05 per diluted share for the first quarter of 2009.

Turning to our top line, our consolidated gross premiums written were $1.4 billion, up 8% from the first quarter of 2009. This was driven by our reinsurance segment where we saw select opportunities for growth. Gross premiums written in our reinsurance segment were $1.1 billion this quarter up 10% from the first quarter of last year. Excluding the impact of foreign exchange rate movement gross premiums in the segment were up 8%. The increase was driven by new rival American surety, reinsurance business, and select growth in European motor reinsurance business.

Our property premiums also increased as a result of new business opportunities as well as a shift in the renewal date for one significant treaty. Virtually offsetting was a reduction in our liability insurance premium. This reduction was primarily due to the renewal date on a single pro-rata treaty covering excess and umbrella business moving to the second quarter of 2010. We also saw a small decline in the catastrophe reinsurance premium as we deliberately reduced our aggregate exposures to European windstorms.

Gross premiums written in our insurance segment were $373 million, up 2% from the prior year quarter. The increase was driven by select US middle market property opportunities and our energy line.

These increases were partially offset by reduced aviation premiums due to a shift in renewal date for certain business to the second quarter of 2010. Further, a $12 million reduction in gross premiums written, as part of a claims settlement on a prior year credit and political risk policy, more than offset premiums written in this line during the quarter. In the quarter, consolidated net premiums written and net premiums earned increased 7% and 5%, respectively. This primarily reflects the impact of the previously mentioned increase in gross premiums written.

Total underwriting income for the quarter was $28 million, compared with $97 million in the first quarter of 2009. Our combined ratio for the quarter was 98.3% versus 86.6% in the prior year quarter. The primary driver of the increase in our combined ratio was an increase in our current accident year loss ratio from 71% in the first quarter of 2009 to 79% this quarter.

There are a few items to consider here. An unprecedented frequency of national catastrophe event in a first quarter has been the hallmark of 2010 to date. And this is reflected in our current accident year loss ratio. The most significant loss event in the quarter was the 8.8 magnitude Chilean earthquake in February 2010. Our estimated net losses for this event are $100 million, and our net of the impact that related reinstatement premiums of $6 million. This estimate is within our initial announced range of net losses for this event. At the time we pre-announced the range of net losses for the Chile earthquake, we also provided a range of net loss estimates for European windstorm Xynthia, which represented a smaller industry loss event.

There were few other small industry loss events during the quarter that were not included in our pre-announced estimates. Collectively in the quarter, we recognized $47 million of estimated net losses related to European windstorm Xynthia, Australian storms, and US winter storms. Estimated net losses for Xynthia are within our initial pre-announced range. The Australia storms were the most significant of the smaller events for us. The impact of reinstatement premiums in the quarter related to the smaller industry loss events were de minimis.

In contrast, catastrophe losses in the first quarter of 2009 were far less significant than those in the first quarter of 2010. The impact of the increased catastrophe activity in the quarter was largely contained within our reinsurance segment where the current accident year loss ratio increased to 89.5% for the first quarter of 2010, compared to 72.8% in a comparable period of 2009.

The current accident year loss ratio in our insurance segment declined from 68.4% for the first quarter of 2009 to 60.9% in the first quarter of 2010. Partially offsetting the catastrophe-related increase in our current accident year loss ratio was a reduction in the expected loss ratio for our trade credit and bond reinsurance business. The 2009 accident year loss rate on this line business was elevated as a result of the impact of the global financial crisis.

In addition, our current accident year loss ratio for the quarter benefited from a reduced frequency and severity of individual risk losses in our property and energy insurance lines relative to the same period last year. The current accident year loss ratio also showed improvement relative to the same period last year as we continue to incorporate more of our own historical loss experience for short-tail lines of business. The impact is a positive one because our actual loss experience has generally been better than we initially expected.

Finally, in recognition of the increasing maturity and credibility of our own historical loss experience for medium and long-tail lines, we placed increased weight on our own historical loss experience when establishing our expected loss ratios for the 2010 accident year. As our historical loss experience has generally been lower than initially expected, this has led to lower expected loss ratios for the 2010 accident year. The impact of this change was most notable for our professional lines insurance and reinsurance businesses, where we also took into account a substantial recovery from the global financial crisis.

During the quarter, our estimate of net reserves from prior accident years continued to develop favorably with prior year net reserve reduced by $81 million this quarter. Of this amount, $25 million was from our insurance segment, representing a positive impact of 9.9 points on the segment's loss ratio.

Our reinsurance segment posted $56 million in net favorable prior period reserve development, representing a positive impact of 12.8 points on that segment's loss ratio. Over 60% of the net favorable reserve development this quarter was generated from our short-tail lines. The balance was primarily was from professional lines insurance and reinsurance business for the 2006 and prior accident years.

Moving on to expenses, our acquisition cost ratio increased 1.4 points to 16.7% this quarter relative to the prior year quarter, largely driven by business mix changes and in non-recurring adjustments for premium taxes. Our G&A expense ratio for the quarter was 14.3%, 1.3 points higher than the comparable quarter of 2009, but down slightly from 14.6% for the fourth quarter of 2009.

As I noted in the latter half of 2009, strategic initiatives, such as our new ANH division, have introduced some upward movements in this ratio. As we continue to invest in new initiatives, we would expect our G&A expense ratio to be near this level until our investments are fully leveraged from an operating perspective.

Turning to our investment portfolio, in aggregate, the total return in our cash and invested assets for the quarter was 1.8%. This was comprised of net investment income of $105 million, a positive change in net unrealized gains and losses of $80 million, and net realized gains of $15 million. The total return was driven by a stable interest rate market, continued contraction in yield spreads for many fixed income sectors, and for the underlying loans within our credit fund investments.

Additionally, a positive equity market benefited our hedge fund and equity holdings. Our net unrealized gains at quarter end stood at $159 million. Net investment income of $105 million for the quarter represented a 5% increase year-over-year. The impact of the general decline in yields during the past 12 months was offset by higher average investment assets, further narrowing a credit spread, and positive returns on higher average hedge fund investments.

Our cash and fixed maturity portfolio produced $93 million of net investment income this quarter, comparable to the prior year quarter. Improved returns on our other investments portfolio, with the primary driver of the net investment income increase, contributing $16 million to net investment income in the first quarter of 2010, compared to $7 million in the comparable 2009 period. In comparison to the fourth quarter of 2009, net investment income decreased $14 million in the current quarter.

Again, returns on our other investments were the primary driver of this variance. This contributed $25 million in the fourth quarter of 2009, compared to $16 million in the first quarter of 2010.

Net realized investment gains totaled $16 million in the quarter in comparison to net realized losses of $41 million in the first quarter of 2009. The 2009 balance emanated largely from other than temporary impairment charges, whereas OTTI charges were only $6 million for the first quarter of 2010.

Our fixed maturity investment portfolio, which represents 80% of total cash and invested assets, remains well diversified with a weighted average credit quality of AA. The duration of our fixed maturity portfolio was maintained at approximately three years.

At the end of the quarter, we have cash and cash equivalent balances of $1.5 billion or 12% of total cash and invested assets. This includes proceeds from our recent senior notes issuance that will be deployed as asset classes with higher returns going forward.

With respect to foreign exchange during the quarter, changes in exchange rates resulted in foreign exchange gains of $8 million, compared to negligible gains in the prior year quarter. The gains in the current quarter were largely associated with the reduced US dollar equivalent of our euro and sterling denominated net liability balances following the depreciation of those currencies in the quarter.

In late March, we took advantage of the favorable interest rate environment by raising $500 million in additional capital for a 10-year term through a senior note issuance. These notes bear interest at 5.875% and will mature on June 1st, 2020 unless we exercise our option for early redemptions. Our total capitalization in March 31st, 2010 was $6.4 billion, including $1 billion of long term debt and $500 million of preferred equity.

Our financial flexibility remains strong, with a debt to total capital ratio of 15.6%, a debt and preferred total capital ratio of 23.5% and total capital in excess of rating agency requirements. We remain strongly capitalized for the risks we hold and the risks we are targeting, and continue to prioritize appointment of capital in underwriting opportunities. Our capital management approach balances the obvious rating agency and regulatory capital requirements, with plans for reinvestment in our business and opportunistic capital requirements. Importantly, it's also considered on a long term basis. We were presented with an excellent opportunity to introduce additional debt capital into our capital structure at a very attractive after-tax cost.

We also purchased 9.6 million shares of common stock in the open market for $287 million during the quarter and 87% of average diluted book value per share for the quarter. Subsequent to the end of the quarter and through December 23rd, we repurchased a further 1.9 million shares of common stock for $60 million. We believe these capital management activities are in the best interest of our shareholders at this time, particularly given current depressed valuations. We currently have approximately $194 million of remaining authorization for common share repurchases.

In our quarterly financial supplement, we've updated information with respect to our group PNLs and associated estimates of industry losses as of April 1st at various return periods. We remain within our tolerance levels for these risks. Our European wind aggregates continue to decrease this quarter due to planned reductions, partly in response to deteriorating rate environment. Our Japanese windstorm and earthquake aggregates are also reduced due to reduced lines on a few large reinsurance treaties.

To summarize, we believe we are well-positioned to take advantages of opportunities that may arise as the global economy continues to recover. In our view, we are in excellent financial position, with ample capital for the risks we hold, and we are well-placed to fund any targeted growth activities or new opportunities. With that, I'll turn the call back to John.

John R. Charman
Chairman & CEO

Thank you, David. And certainly, the major loss events of the quarter should serve as a healthy reminder to the industry. The differentiation of market pricing is not sustainable at its current level, even more so when one considers looming inflationary pressures coupled with investment income declines. Unfortunately, I do not anticipate this reality being recognized before the year-end, absent of major catalysts of change.

As you know, our first quarter is heavily influenced by the activity of our reinsurance portfolio. The vast majority of our reinsurance business in continental of Europe, which represents about one-third of Axis' risk annual premium volume renews on the 1st of January each year. This port was renewed with acceptable pricing and that levels of expected profitability not dissimilar to last year. The most significant areas of growth for our new Latin American surety business within our trade, credit, and bond reinsurance line and the motor reinsurance lines of business where opportunities were presented in select countries.

Approximately 15% of our European reinsurance business renews after the 1st of January. And as the year progresses, we're expecting more downward pressure than we saw at the beginning of the year. At the 1st of January renewal, property cat reinsurance business continued to be attractively priced. But the expectation of increased competitive pressure in Europe prompted us to rebalance our worldwide capital (inaudible).

In North America, any price reductions at the 1st of January renewal did not materially alter expected margins. Property cat reinsurance remains one of the most professionally priced lines of business in the market. The April 1st property cat reinsurance renewals, which were dominated by Japanese renewals, came off about 5% bringing them back to last year's pricing. Much of this business was already created by the time of the earthquake in Chile. Hence, any market resistance to price reductions was muted. We have yet to see a material impact from this event on pricing, although we may see some firming and smaller exposure signs as the year progresses.

The two major Australian storms have generated back up covers to replace exhausted cat limits. Smaller, more vulnerable companies have purchased these covers at higher prices. The next significant renewal from major seasons with Australian exposure is the 1st of July renewal, and our expectation is that the market will react with some combination of higher pricing and higher attachment points.

In our reinsurance segment, the balance of the year will be dominated by activity in the US marketplace. Property reinsurance treaties in the US are expected to see continued modest deterioration from the pricing level of the 1st of January renewal. We do not expect this to have a material impact on expected margins. Clients are naturally pushing for more favorable terms and conditions, but only marginal changes are being granted. Regrettably, the third party of reinsurance business in the US, mainly professional lines, and other cash view of reinsurance lines are not reacting to reductions in investment income already signs of inflation as we might expect.

Terms and conditions are for the most part renewing is expiring. However, constraints imposed by reinsurance with respect to controlling, utilization of minutes are under some pressure from seasons who are coping with the challenging and competitive insurance marketplace. The insurance marketplace, which was stabilized in the first half of 2009, continued on a track of gradual and increasing competition. Primary (inaudible) lines, which is another significant feature for us, remained an outline with the greatest price reductions.

Generally, terms and conditions as well as for excess coverage remains stable in terms of trade holding firm. Rate change across our insurance portfolio during the first quarter was marginally negative. This is a marginally positive change across the portfolio in the fourth quarter of 2009. Because of differences in mix of business between the two sequential quarters, the rate changes are not directly comparable. However, the trend is negative across most insurance lines and we expect to see a continuation of this negative trend through the balance of the year, absent of major catalyst.

Against the backdrop of a competitive market underwriting - sorry, excuse me - against the backdrop of a competitive market, underwriting our performance remains paramount. And we expect to continue to out-perform. We remained focused on accessing as many diversifying risks as possible to evaluate. We have invested steadily over the year in ensuring that we have the people and tools to identify and execute on the opportunities, which may be available. We have been and will remain extremely cautious with respect to primary cash of the process business.

Our single largest investment over the last year has been in the build-up of a major new specialization in global accident and health. Towards the end of the first quarter, we launched our AMH insurance operations in the US, and we expect good trading activity from this new business as we progress towards 2011. Stepping back for a moment, we expect the balance of the year for the future continued competition, particularly in the insurance marketplace. Activity in our insurance segment is less predictable given the variable rate of competition in the insurance marketplace.

The reinsurance marketplace has exhibited a reasonably sensible and professional level of competition. And at the beginning of the year, our reinsurance operations still benefited from a handful of meaningful dislocation opportunities. However, I would like to say that that I believe we are better prepared to compete for quality of well-rated business in the global marketplace than in any previous time in our history. Regardless of where our premium volume ends up for the year, we are confident that we are maintaining our high quality, diversified underwriting portfolio, and we will continue to generate significantly positive cash flow and markedly the underwriting profits.
And with that, I'll open the call up to questions. Thank you.

Question and Answer

Operator

Thank you, sir. We will now begin the question-and-answer session. (Operator instructions) At this time, we will pause momentarily to assemble our roster. The first question we have comes from Vinay Misquith of Credit Suisse. Please go ahead.

Vinay Misquith
Credit Suisse

Hi, good morning.

John R. Charman
Chairman & CEO

Good morning, Vinay.

Vinay Misquith
Credit Suisse

If you are to totally understand what your exposure is to the Transocean rig sinking?

John R. Charman
Chairman & CEO

Yes. We’re involved with the Transocean as the contractor. Transocean was the contractor for BP. And then some subsidiary investors called Endarco [ph] and Merrix. And we’re involved we the package, which we expect-we've had a 25-year relationship with Transocean. They’re an excellent contractor and have had a very good record.

So we’re involved in the physical damage. And we’re involved in things like label removal debris and collision liability, as well as some contingent operator’s after expense. That comes under the package policy. And then there’s an excess liabilities policy, which we write. And the total indemnity on the excess liability policy’s around $700 million. That’s made up of a number of different layers. And we have (inaudible) layer of $150 million, excess $50 billion.

So today you have a whole bunch of different interests, which are normal within a package policy for a drilling contractor. And we specified coverage. And then either excess of those amounts or other coverages are borne directly by the owners of the well - of the operation, which is BP, Endarco, and Merrix. We have reinsurances fully applicable for it. We are a major participant in the offshore energy marketplace as you know. We have retention of around about $8 million, give or take a bit. And we have an initial gross assessment of around $60 million. And that is going to be based on a market loss of around $800 million.

Vinay Misquith
Credit Suisse

Sure. Let me understand this correctly. You said that the gross loss is maybe around $60 million, but your net retention would be around $8 million because you have some reinsurance on this. Is that correct?

John R. Charman
Chairman & CEO

Yes. We have a lot of reinsurance coverage that’s applicable to this type of exposure. And we don’t expect these - well the worst case basis to breech out reinsurance limits.

Vinay Misquith
Credit Suisse

Okay. Great. So the $8 million can reasonably be expected to maximum loss on this? Okay. That’s great.

John R. Charman
Chairman & CEO

Yes. But, Vinay, don't forget that we're looking at a major loss here. We're looking at a major loss of around about $800 million, give or take a bit, at the end of the day when you add in all of these different coverages.

Vinay Misquith
Credit Suisse

Sure.

John R. Charman
Chairman & CEO

It's going to be very interesting because it's well spread through the market, through the offshore energy market.

Vinay Misquith
Credit Suisse

Did you expect it to have an impact on pricing?

John R. Charman
Chairman & CEO

Yes.

Vinay Misquith
Credit Suisse

Okay, that's great. Second question was on the expenses, especially on the primary insurance side. I believe David here mentioned that there was one-time premium factor of price because - should you help me understand that? Secondly, I believe you also said that you expect the level of expenses for the company as a whole to remain flat over the next three quarters. Could you expand on that, please?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Sure, Vinay. Good morning also. On the first item, we had a one-time item related to premium taxes that was rather small, but it did affect the ratio slightly, which is why I commented on it. And obviously, we don't expect that to continue or be in effect for the rest of the year. On the G&As - another effect is on the acquisition cost. On the G&A front, I think I've been talking about this now for several quarters, and we spent a good part of last year building ANH and building investments in our infrastructure.

And so, as John mentioned in his comments, we're now announcing, obviously, our ANH business are beginning to write businesses, albeit at a low level in 2010. But those expenses and the buildup of that business for people associated with it have been trickling into our expense numbers throughout the course of 2009. And they'll be there in 2010 as we start to ramp that business up. But I think the final point - as I said in my comments, I think we're in a level where we will stabilize that expense number for the rest of the year. I don't think we will see any increases on that number for these items.

Vinay Misquith
Credit Suisse

Thank you.

Operator

The next question we have comes from Terry Shu with Pioneer Investment. Please go ahead.

Terry Shu

Pioneer Investment

Yes. Hi, John.

John R. Charman
Chairman & CEO

Hi, Terry.

Terry Shu
Pioneer Investment

A comment on your outlook for profitability on an accident year basis. You talked about your renewals and what you expect gradual - continued gradual pressure on rates. You said that overall, the business you've written, the profitability has basically hung in there.

You also went through in the beginning explaining why the accident year loss ratio on the first quarter was lower. I think you talked about using your own experience and also the reduced frequency and severity in the individual risk area and last year's insurance loss ratio being elevated by the credit prices. I caught them, right? So when you add all of that up looking at this year and next as you earn out the premiums written and barring extraordinary cats, can we say that the profitability, the underlying accident year loss ratio is a good guide for your profitability? Can we extrapolate that?

John R. Charman
Chairman & CEO

Well I wish it would be, but I can't comment like that.

Terry Shu
Pioneer Investment

In a broad sense, in a very, very broad sense.

John R. Charman
Chairman & CEO

I'd say, I think it has clearly shown. There's actually the excellence in our - the consistent experts in our underwriting performance. And bearing in mind, we're largely short to medium-tail business. We have substantially reduced, not that we have a large participation in cash in the business in any case. You heard me banging on for the last three or four years about the excessive and absurd competition that's been thrown at that marketplace.

I think absent major losses, there's no reason to believe that our accident underwriting performance shouldn't continue for the next two or three years. We're working even harder to try to make sure that we maximize whatever opportunity we can, wherever we can find it globally, in whatever product lines that we're currently deploying our capital to.

Terry Shu
Pioneer Investment

Thank you. I asked this because I don't think there is a - am I correct, general appreciation of the fact that your underlying profitability is higher because of the mix of the business that you talked about.

John R. Charman
Chairman & CEO

Yes, I would agree with that comment, Terry.

Terry Shu
Pioneer Investment

Thank you.

John R. Charman
Chairman & CEO

Thank you.

Operator

The next question we have comes from Matthew Heimermann of J.P. Morgan.

Matthew Heimermann
J.P. Morgan

Hi. Good morning, everybody.

John R. Charman
Chairman & CEO

Good morning, Matt.

Matthew Heimermann
J.P. Morgan

A couple of questions. First, David, I was curious if you could give us similar to what you've done in prior quarters, just the loss ratio picks for the trade credit reinsurance political risk and then the DNO line in the insurance and reinsurances so we can contrast the report we've been seeing prior as we enter about the last ratio?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Right. You're asking for the first quarter of '10?

Matthew Heimermann
J.P. Morgan

Yes.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

And I think I've given this out in combined ratio-

Matthew Heimermann
J.P. Morgan

I think you're correct, yes.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

-which I have. So just starting with the professional lines areas in the insurance space, we're at 88% for the first quarter for the combined ratio, and on the reinsurance side, still a bit elevated at 107. And then on the reinsurance credit environment as I commented on my remarks, That's come down substantially but still a little high in the quarter at 98%. And these are just first quarter number. We are premium earned. And the political risk has also come down from last year, but still a little bit elevated as we're settling out some claims, and that's at $131 for the quarter.

Matthew Heimermann
J.P. Morgan

Okay. That's all. Thank you for that. Another question, just related to the loss ratio, I guess. As you're incorporating, you're on experience in your last ratio effects. Given that the markets fundamentally is different today from a pricing standpoint, are we at point where going into much of your good experience potentially create some risk going forward?

John R. Charman
Chairman & CEO

Well, the call says risk and everything. But let me answer that. I can again that (inaudible) bang on over the last five years about the solidity of our price monitoring process. and the weaknesses embedded in the rest of the industry where a lot of these companies will not even try to price monitor new business. They're taking it. We have a very exhausted process that is throughout the company, throughout both sides are on their own business.

It very (inaudible) about capturing real information about, about real changes within individual risk, and also the experience of those risks. So I believe that, we're now eight years old, and we have growing experience in those lines of business. And then think about the waiting of our portfolio which is still, for the vast majority in the short to medium term lines.

I think it's the perfectly natural thing to do and the very appropriate thing to do because I think our numbers show the strength of the underwriting behind them.

Matthew Heimermann
J.P. Morgan

One way to reiterate the comment you're making is that, as you make the shift, you view the risk as you don't have fear. The downside of the risk is you don't have the development you've had in the past but you still feel like there's a margin of error within the tech [ph] themselves. Is that a reasonable way to think about it?

John R. Charman
Chairman & CEO

We still like to think we're conservatively reserved. We haven't changed our view. I think that what we may be doing is finding that we maybe a variance with some of the market sector, that's all.

Matthew Heimermann
J.P. Morgan

Okay. That's awful. And one last one is on the, just with respect to the professional (inaudible) premiums in the quarter, I think you said there was a variance for liability reinsurance in the course. I just wanted to know whether or not there were any conclusions to drop from the insurance side of professional lines still going up although reinsurance is starting to go down?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Sorry, Matt, I'm going to have to-can you repeat that for me? I'm sorry.

Matthew Heimermann
J.P. Morgan

I didn't know if there was an underwriting conclusion to be drawn from the standpoint that I think insurance professional liability writing were off to 6% range, insurance was down 6%. And I don't believe that you mentioned in your opening comments that that was subject to any of the renewal rate changes? There might be nothing, I just figured that up.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes. I think I wouldn't take anything away from that. I think the business is performing well. And I think some of the renewal rate movements are probably jumbling up those ratios a little bit.

Matthew Heimermann

J.P. Morgan

Okay. Thank you.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

But before you go, I do want to come back on the ratio I gave you on political risk, just to be clear about that. Because that number was, I'm thinking, on its own, it's a little bit high. But I just to remind you in my remarks when I made that comment about the $12 million of premium related to credit and political risk, so there's very little premium in the quarter related to that line of business. And so when you look at that combined ratio, it is higher. But there's very little revenue against that.

Matthew Heimermann
J.P. Morgan

What's the (inaudible) and premium loss on that political risk side?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

It's about $339 million, in that range.

Matthew Heimermann
J.P. Morgan

Okay. Thanks again.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Okay.

John R. Charman
Chairman & CEO

Thanks.

Operator

The next question we have comes from Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital

Hi. Good morning, John.

John R. Charman
Chairman & CEO

Good morning, Ian.

Ian Gutterman
Adage Capital

I guess just to follow up on the Axis (inaudible) questions. John, can you clarify where data fix benefit from the low individual risk losses. Because there's obviously a lot of moving parts as far as credit crisis takes obviously should be coming down after a few years in mixed business and using more of the experiences, a lot of things that are (inaudible). I wonder if you could help us, how much lower in all of those individual risk losses that or work the other way and go for it?

John R. Charman
Chairman & CEO

And I think, Ian that you would not, because you heard us say in previous quarters that we expected the activity relating from the financial crisis to have impacted our own seven going into the prices, away from the nine years. We strongly believe that there was substantial improvement in ’10. So you would expect that to reflect that in the way we’re looking at our lost (inaudible).

Ian Gutterman
Adage Capital

Yes. I saw, agree with that. I expected that part, but I can’t - but I’m trying to figure out how much - how much of the improvement in this quarter was reflecting those issues and how much was the lack of individual risk events this quarter. I'm trying to see if I can try to part those two out. You see what I'm saying? I understand that there may even be further if we continue to go forward as I pray to Jesus. But there'll probably some offsetters if the individual risk normalized back there.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

I think there're a lot of moving parts to that (inaudible). It's very difficult to zero in on any particular number. I mean, I think the lack of reverse losses was positive for us in the quarter. And there are other things in the quarter that were also in positive that I commented on. And I think I revisited that. But yes, absolutely. We're back to the run rate where we would normally look to be in.

Ian Gutterman
Adage Capital

Well that's what I just wanted to say. It's actually looking at lifetime and reinsurance that we've - the last time, you were at this type of accident years as cat was - of the first half of what's happened. So it would almost imply that's all the current crisis - the drag is gone. You know what I mean? And price has gone down to mostly in that time so I would have thought there could be a drag from that. So I guess that was the price you get all the way back. But maybe some of that is the lack of confidence.

John R. Charman
Chairman & CEO

Okay. Thank you.

Ian Gutterman
Adage Capital

Okay, okay. Just another one, just as far as your capital capacity, how do you think about what's your governing restraint at this point as far as excess capital? Is it PNL? Or is it premiums? Is it preserved to share clause? What's your gating factor as far as how you think about your (inaudible)?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

It's mostly going to be rating agencies. As I said in my commentary, and then followed behind by - perhaps looking more into the future, what regulatory changes come down the fight. But it's always (inaudible) the season the first stop.

Ian Gutterman
Adage Capital

I guess what I mean by that is when you run the rating agency models, what's the first thing you hit as far as - basically what - and strength as the one that produces all those excess capital. Is it reserves? Is it the PNL? Is it something else?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Well, I'm not going to get into those little details this morning, Ian. But all of those things, obviously, factor into an analyst that we'll go through as well as our rating agencies we'll use.

John R. Charman
Chairman & CEO

I think it was importantly set, which takes a long term here as well, we expect just a bit.

Ian Gutterman
Adage Capital

The very first. And then just lastly, replica, the motor business you're growing here, can you talk a little bit about what that was? Usually, I don't think of that as being a very attractive line. But I was wondering if you won't improve there.

John R. Charman
Chairman & CEO

I think we have some select opportunities, but limited number of geographic locations. You're really looking at a balance because we exited - we moved away from some French rate of business. And we have opportunities elsewhere, notably in the UK.

Ian Gutterman
Adage Capital

Okay. Was it Excel Oil [ph] or (inaudible)?

John R. Charman
Chairman & CEO

A bit of both.

Ian Gutterman
Adage Capital

A bit of both. Okay. All right. Thank you.

John R. Charman
Chairman & CEO

Thank you.

Operator

(Operator Instructions) The next question we have comes from Beth Malone with Wunderlich Securities.

Beth Malone
Wunderlich Securities

Thank you. Could you talk - is there any impact-?

John R. Charman
Chairman & CEO

Hi. Good morning.

Beth Malone
Wunderlich Securities

Good morning. Is there any impact from the Icelandic volcano on either aviation or in general, do you think?

John R. Charman
Chairman & CEO

No, in short. No, we don't expect there to be any.

Beth Malone
Wunderlich Securities

Okay. Thank you.

John R. Charman
Chairman & CEO

Thank you.

Operator

And the next question we have comes from Shobha Frey with Putnam Investments.

Shobha Frey
Putnam Investments

Hi. I just wanted to clarify the trans-ocean rig loss estimate. I had read somewhere that some - total market loss estimate would be $1.6 billion since rig loss is a total loss of $600 million. There could be liability losses of $1 billion. I just wonder if you can come up with how you came up with $800 million loss estimate.

John R. Charman
Chairman & CEO

Well, we've come up with it after 35 years of experience, I suppose is the easy answer, as an initial loss when there isn't any real information. So forgive me for saying that. But we've looked at - your $1.6 billion maybe simplistically just the sum of all the different coverages of the - the translation and the owners at their disposal.

What we've done is to really look initially at the coverages and see the ones that we believe - for instance, we know that the rig sank away from the well and the pipelines, and the local infrastructure on the seabed. So there's a very good likelihood that the - either - as I said, partly damaged all that other subsea equipment. But secondly, there's a very high likelihood that the - they wait - the owners will not have to remove the rig.

So there are lots of moving parts out there, if you'll forgive me saying so. But it's just our initial view about where the likely number will settle at. But as I said earlier, we - we believe our loss will fall and our loss estimate were still well within our reinsurance coverage.

Shobha Frey
Putnam Investments

Okay. And just to clarify, in terms of the liability, is that environmental clean-up liabilities? Are you able to-?

John R. Charman
Chairman & CEO

You have pollution - the pollution liabilities are borne by the owners of - not the contractor at all, as I understand it, are borne by the BP, the Endarco, and Merrix.

Shobha Frey
Putnam Investments

Okay. They didn't only buy a reinsurance (inaudible), is that right?

John R. Charman
Chairman & CEO

Yes, it is - well, BP doesn't. BP has been self-insured since 1987, regrettably. Although in this case, I'm happy as you'd expect me to be. But certainly, the Japanese company buys coverage, which should be in the market for a long time. But it's not significant and will not be a material asset to the market for that Japanese portion of the ownership. You could probably say it's largely self-insured.

Shobha Frey
Putnam Investments

Okay. All right. Thank you very much.

John R. Charman
Chairman & CEO

My pleasure.

Operator

The next question we have comes from Dan Theriault with Portales Partners.

Dan Theriault
Portales Partners

Good morning. Thank you.

John R. Charman
Chairman & CEO

Good morning, Dan.

Dan Theriault
Portales Partners

Good morning. I was a little surprised at the pace of the share repurchase from the first quarter given the high level of abnormal CapEx activity. And I guess I'd like to speak to that. And I'm wondering if that philosophy is going to be accepted to the remaining authorization.

John R. Charman
Chairman & CEO

Well, I think that whilst - I'll say something first, and then David can chip in on the (inaudible). But yes, of course, there is an abnormally high level of CapEx activity, whether it's $16 billion or $18 billion. At the end of the day, it's going to take a while to work out. But our financial stability was very strong. Our underwriting profitability was good. Our market shares were probably below where we would have expected them overall. And I can't believe we're quite surprised that our share price is not where it should have been. So it was a great opportunity for us. I think we managed everything appropriately, as we said earlier, from an underwriting standpoint. So it's a good opportunity for us.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes, I would just add timing wise to that part of your question. We have a track record of repurchases in this part of the year. You won't see that activity out of us during the middle part of this year. And if you look at our track record, we tend not to do a lot in the - what I'll call the bitter, riskier area of the year when we're in the hurricane season, the US windstorm season. So I think, as John said, it was a good opportunity for us to access our shares at a good discount. And we took advantage of it.

John R. Charman
Chairman & CEO

Yes.

Dan Theriault

Portales Partners

I agree.

John R. Charman
Chairman & CEO

Good share price out there.

Operator

The next question we have comes from the line of Sam Hoffman with Lincoln Square Capital.

John R. Charman
Chairman & CEO

Good morning, Sam.

Operator

Mr. Hoffman, your line may be muted, sir.

John R. Charman
Chairman & CEO

Can you hear me?

Sam Hoffman
Lincoln Square Capital

Yes.

John R. Charman
Chairman & CEO

Okay.

Sam Hoffman
Lincoln Square Capital

I actually have three questions. The first is can you comment on your decision to reserve about $150 million for the catastrophes in the quarter with this further to the - on the storms or conservatism? And what's your level of confidence in that-?

John R. Charman
Chairman & CEO

Let me do that (inaudible). That's what we would normally do. Yes, we looked at the different catastrophes that have occurred. And as I said, you're talking about industry ranges of between $16 billion and $18 billion, which is a hell of a lot of money. And because of the nature of certain - like the Chilean earthquake, there isn't a lot of information that's come out even today.

But what we do is we do a ground up exercise that when we look at our total exposures, we then look at where those exposures are, whether they're primary, local companies. We then look at whether they're national companies. And then we look at whether we're reinsuring international companies that we partnered with their business in Chile. And then we make appropriate judgments based on our experience as well as direct contact with all the seasons, some on a very regular basis. So I would like to think that we've been very conservative in our estimates for the combined cats that have occurred in the first quarter. Sam, if that answers your question?

Sam Hoffman
Lincoln Square Capital

Okay, correctly.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes, Sam, but if I could just - because I want to make sure based on your commentary. When we pre-announced the losses that we only pre-announced losses related to the Chilean earthquake and in the smaller windstorms in Xynthia. And so, the $150 million total losses for the quarter aren't directly comparable to that pre-announcement, if that's what you were trying to do.

For Chile, we're in the range that we announced, and the same for Xynthia. And you have to have the other-

John R. Charman
Chairman & CEO

We have a (inaudible).

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Right.

Sam Hoffman
Lincoln Square Capital

Yes, okay. Second question is you ended the quarter with $1.5 billion of cash, and presumably, a significant amount of that coming from the debt offering. Can you talk about your plans to deploy that cash?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Sure, yes. I mean - it's just - it's a function of where the quarter end landed. We raised that money very late in March, Sam. By the time we got into the company, we were right on top of the quarter end. So, as I said in my comments, we're going to take that cash and redeploy it into higher earning assets in our invested assets portfolios. And that's ongoing in the month of April.

Sam Hoffman
Lincoln Square Capital

Okay. And finally, we estimate making an assumption for how much earnings you made on the cash that the yields on your fixed-income portfolio, excluding the cash decline by that 20 to 25 basis point in the quarter. And so, can you comment on that and whether you expect that to persist going forward?

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Well, we don't expect that 20 basis point decrease to persist going forward every quarter. But I think we've seen a drop in rates over the course of the last year. We think book rates, at this point, are probably stabilizing. Given the commentary I made earlier, I think there might be some - still some good news left in, perhaps, spreads [ph] as they commented on. But I think the book yield, where we're at now, is probably going to be around where the rates will be going forward.

Sam Hoffman
Lincoln Square Capital

So your new - your new money [ph] rates for that equal to your portfolio yield and fixed-income.

David B. Greenfield
Former Chief Financial Officer, Principal Accounting Officer and Executive Vice President

Yes, in the range.

Sam Hoffman
Lincoln Square Capital

Actually, there was one more item that - did you comment on aviation? Was there a non-renewal or was that - has shifted into the second quarter?

John R. Charman
Chairman & CEO

Yes, it barely wasn't material in terms of numbers. It was our contract that just shifted dates. That's all.

Sam Hoffman
Lincoln Square Capital

Okay. Thank you.

Operator

The next question we have is a follow-up from Matthew Heimermann of J.P. Morgan.

Matthew Heimermann
J.P. Morgan

Hi. Hopefully, just a quick one. Just with respect to Chile, can you give us a sense of what the - do you have a sense of total one that's exposed. In other words, what the worst case would be and whether or not there's any quota share within that. Or (inaudible) share, I should say.

John R. Charman
Chairman & CEO

One of the things that's important to understand, Matt, with the Chilean loss is that people naturally are concerned about deteriorating numbers. I think that the people who are placed at risk for that deterioration of the pro-rata guide - are the pro-rata treaty underwriters, which we're not. We're the accident loss underwriters. So your question in terms of - sorry, I forgot where you were going with it.

Matthew Heimermann
J.P. Morgan

I just was curious if - when - relative to the $150 million, which is - or $125 million, sorry, which is the high end of the range, I believe, for Chile that you gave. How did that correspond to worst case?

John R. Charman
Chairman & CEO

Well, I'm not sure what the Chilean worst case is, if you don't mind me saying so, as an industry loss. But we've seen ranges at between $3 billion and $8.5 billion. So, I really believe, of course I - if we total that (inaudible) limit, then it would be a very different matter. But we don't believe that's the case. We've been extremely conservative in looking at the local covers where we've just fully reserved everything on limits exposed.

And then the broader regional covers, we've looked at them individually. We've spoken to the (inaudible), we've got our own information through and we've reserved around about 70% of those limits in full.

And so, the third part, if you'll forgive me saying so, is the international companies who have got some of this regional exposure. And we know those clients well. They're professional re-insurers. They tend to have their portfolios more centered around Santiago than where the - the loss actually occurred. And I think we've been very conservative on looking at the erosion of those layers.

So, I'm pretty comfortable - but I'm pretty comfortable to where we are. And as I said, we don't write pro-rata cause that's where the deterioration, if it comes, is going to happen.

Matthew Heimermann
J.P. Morgan

Okay. I guess just to ask this a different way, then. If the industry loss ends up being $10 billion, not $8.5 billion, is your $125 million - your $125 million, technically, has some room to move then.

John R. Charman
Chairman & CEO

I think there's comfort within the totality about our cap [ph] reserves by the quarter.

Matthew Heimermann
J.P. Morgan

Okay. Thanks.

John R. Charman
Chairman & CEO

Thanks, Matt.

Operator

It appears that we have no further questions at this time. I will hand the conference back over to management for any closing remarks.

John R. Charman
Chairman & CEO

Well, it just remains to me to thank everybody for taking the time to hear us this morning. And we look forward to talking to you in three months' time. Take care.

Operator
We thank everyone for your time. The conference is now concluded. At this time, you may disconnect your lines. Thank you.