S&P Global
Market Intelligence

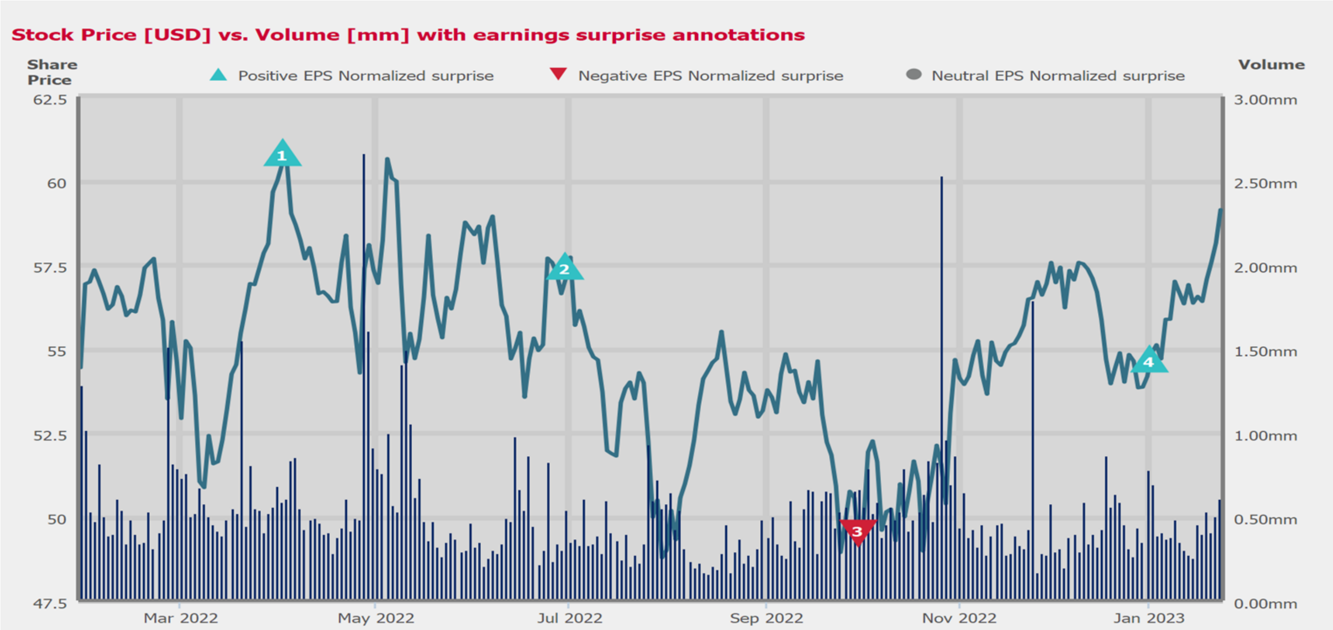
AXIS Capital Holdings Limited NYSE:AXS
FQ4 2022 Earnings Call Transcripts

Thursday, January 26, 2023 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2022-			-FQ1 2023-	-FY 2022-			-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	1.78	1.95	▲9.55	1.96	5.64	5.81	▲3.01	7.49
Revenue (mm)	1062.85	1096.55	▲3.17	1891.00	5229.10	5263.06	▲0.65	5770.90

Currency: USD
Consensus as of Jan-26-2023 10:37 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2022	1.67	2.09	▲1 25.15 %
FQ2 2022	1.53	1.74	▲2 13.73 %
FQ3 2022	0.07	0.03	▼3 (57.14 %)
FQ4 2022	1.78	1.95	▲4 9.55 %

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Call Participants

EXECUTIVES

Albert A. Benchimol
President, CEO & Director

Miranda Hunter
Head of Investor Relations

Peter John Vogt
CFO & Executive VP

Vincent Christopher Tizzio
Chief Executive Officer of Specialty Insurance & Reinsurance

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
BofA Securities, Research Division

Matthew John Carletti
JMP Securities LLC, Research Division

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

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Operator

Hello, and welcome to the Fourth Quarter 2022 AXIS Capital Earnings Call. [Operator Instructions] Please note, today's event is being recorded.

And now I would like to turn the conference over to Miranda Hunter, Head of Investor Relations. Ms. Hunter, please go ahead.

Miranda Hunter
Head of Investor Relations

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 fourth quarter and year ended December 31, 2022. Our earnings press release and the financial supplement were issued last night after market closed. If you would like copies, please visit the Investor Information section of our website at axiscapital.com. We have set aside an hour for today's call, which is available as an audio webcast on our website.

With me today are Albert Benchimol, our President and CEO; and Pete Vogt, our CFO; and Vince Tizzio, CEO, Specialty Insurance and Reinsurance and our future group CEO.

Before I turn the call over to Albert, I will remind everyone that the statements made during the call, including the question-and-answer section, which are not historical facts, may be forward-looking statements. Forward-looking statements including, but not limited to, our comments on January renewals involve risks, uncertainties and assumptions.

Actual events or results may differ materially from those projected in our forward-looking statements due to a variety of factors, including the risk factors set forth in our company's most recent report on Form 10-K and our other reports the company filed with the SEC. This includes the additional risks identified in the cautionary note regarding forward-looking statements in our earnings press release issued last night.

We undertake no obligation to publicly update or revise any forward-looking statements.

In addition to this presentation, may include non-GAAP financial measures. Reconciliations are included in our earnings press release and our financial supplement.

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

Albert A. Benchimol
President, CEO & Director

Thank you, Miranda, and welcome to your first AXIS conference call, and good morning, everyone, and thank you for joining us.

As we commented in our press release, this was a strong quarter to cap a milestone year for AXIS. Over the past few years, during these investor calls, we've shared our journey with you as we work diligently and steadfastly to reposition AXIS to be a leading specialty underwriter and create a stronger, more resilient book of business, while placing the company on a pathway to generating lasting profitable growth.

To accomplish this, we've significantly transformed our business. We drove consistent growth in attractive specialty markets, reduced our exposure to catastrophes and created a faster, more integrated and more efficient operating model. We're a very different company today than we were a few years ago, a focused specialty underwriter delivering steadily improving results.

To be clear, we're not declaring victory, and we're committed to continue increasing our growth, our profitability and our efficiency. But we are progressing into 2023 with accelerating momentum underpinned by years of improved underlying performance, strong positions in our chosen markets and rising demand for specialty coverages. We're confident that we'll not only continue to build on this progress but we're well on our way to taking the business to even higher levels.

Let's get to the results. So notwithstanding another year where the industry was challenged by catastrophes, financial and social inflation, and Russia's invasion of Ukraine. Excluding the impact of mix, we've improved in our key performance metrics.

During the year, we generated record premium production, reduced our expense ratio, grew our underwriting income by 35% and improved our overall combined ratio by 1.7 points to 95.8%. Our specialty insurance business continued to produce excellent results for the quarter and for the year.

For the year, we grew our specialty insurance gross written premiums by 15%, net earned premiums by 18% and underwriting income by 46%, and produced an all-in combined ratio of 89.6%, improving both our loss and expense ratios. For AXIS Re, notwithstanding the finalization of our exit from property and property catastrophe markets midyear as we focus the business on specialty reinsurance, our market presence remains strong and relevant as indicated by recent renewal activity.

I'm pleased to report that we performed very well the 1/1 renewals. We maintained our disciplined underwriting approach and standards, exited nontarget business, all the while remaining close to our customers and brokers.

In the end, we successfully balanced substantially all the nonproperty-related renewals that met our thresholds. We estimated losing less than $10 million of desired renewals due to our exits from property and property cat reinsurance where our shares were reduced. In the end of our, of our addressable nonproperty-related renewals, we estimate a 90% retention ratio, 12.5% rate increases and 7% new business with more than half of the new business coming from targeted credit and surety, cyber and A&H lines. So overall, we achieved mid-single-digit growth ex-FX on the renewed part of the portfolio.

We're encouraged these statistics indicate that our decision to exit the reinsurance property and casualty markets did not materially impact our ability to access and retain the business that we wanted. Our performance during the 1/1 renewal speaks to the value that AXIS Re brings to the market through the knowledge and expertise of our underwriters and the deep relationships that we share with our customers and brokers.

We operate in a competitive environment for sure, and the year is only beginning. But I believe that our performance in recent renewals demonstrates that we have a strong, focused reinsurance business within a broad specialty underwriting company. Importantly, we are in the markets where we want to be and where we have strong positioning that allows us to take advantage of what we expect will be continued favorable conditions for the foreseeable future, buoyed by rising demand for specialty coverage.

We've achieved our plan of rebalancing our business in 2022. On a pro forma basis, specialty insurance made up 71% of our gross written premium, and we should report in excess of 75% this year. Moreover, we're taking concerted actions to sustain our growth and build upon our momentum while delivering increased value to our customers. This includes the launch of our dedicated wholesale division with expanded products and resources, investments in production -- in product innovation and digital capabilities, expansion into lower middle markets and efforts to further leverage our global platform to benefit our strategic partners.

And we've made this progress while cultivating a strong team and a purpose-driven culture that's earned AXIS recognition as the best place to work. We're confident that the best days are ahead for AXIS, and we look to the future with excitement.

On a personal note, it's been a real privilege to lead AXIS during this time of transformation. As we announced last month, after 11 years as President and CEO of AXIS, I'll transition my responsibilities to Vince Tizzio on May 4 at our Annual General Meeting.

In Vince, we have a fantastic leader who I'm confident has the vision, industry knowledge, grit and tenacity to lead AXIS to even greater levels of success. I'm incredibly excited for the future of this company, and I'm confident that with Vince at the wheel, AXIS will be in very capable hands.

On that note, I'm sure you're eager to hear from both Pete and Vince. And so given the CEO transition, we've adjusted our typical call format, I'll now pass the floor to Pete, who will share our financial summary. Vince will then deliver commentary on the markets. I'll come back with some closing comments, and then we'll have our Q&A. But I want to close by saying that for AXIS, I firmly believe that our moment has arrived.

And with that, I'll pass the floor to Pete. Pete?

Peter John Vogt
CFO & Executive VP

Thank you, Albert, and good morning, everyone. This was an excellent quarter for AXIS. During the quarter, we generated net income available to common shareholders of $41 million and an annualized ROE of 4.2%. Operating income was $167 million with an annualized operating ROE of 16.9%.

Diluted book value per share increased $3.45 or almost 8% to $46.95 at year-end. This was principally driven by net unrealized gains reported in other comprehensive income and net income generated. This was partially offset by common share dividends declared.

As noted in our press release, adjusted for net unrealized losses on available-for-sale fixed maturities, the book value per diluted common share would be $55.49. The company produced consolidated current accident year combined ratio ex-cat and weather of 90%, an increase of 0.5 point over the prior year quarter and a consolidated current accident year loss ratio ex-cat and weather of 55.5%, an increase of 1.2 points. Both of these metrics were impacted by mix of business.

This quarter's pretax cat and weather-related losses, net of reinsurance and reinstatement premiums were $64 million or 4.7 points. This compares to $54 million or 4.3 points in 2021. Out of the $64 million of cat losses, $32 million or 2.4 points was due to weather primarily attributable to Winter Storm Elliot. Additionally, we had $23 million attributable to the COVID-19 pandemic. These losses were attributable to a handful of A&H contract, A&H catastrophe XOL contracts in Japan. We have no exposure to other countries in that region.

We also had $9 million of losses due to the Russia-Ukraine war. These losses were in the insurance segment with approximately 2/3 associated with political risk and 1/3 associated with marine war.

Net favorable prior year development was $8 million. This was equally split between the segments. As announced in December, we were pleased to complete loss portfolio transfer reinsurance agreements with Riverstone International for reserves in our professional lines and liability lines in the insurance portfolio. These reserves relate to businesses that we had generally exited years ago.

We acquired the protection at a cost substantially in line with our carried reserves. The net financial impact of the transaction in the quarter was a cost of $11 million including adverse prior year reserve development of $5 million and acquisition costs of $6 million.

We have included an exhibit at the back of our investor financial supplement, which illustrates the income statement financial components of the transaction. As noted in the press release issued by Riverstone on December 15, the transaction covers net reserves for losses and loss expenses of approximately $400 million and provides ground-up cover to a policy limit of $605 million.

The consolidated acquisition cost ratio was 20.6% in the quarter, an increase of 0.2 points over the prior year, and this was driven by an increase in the reinsurance segment, largely offset by a decrease in the insurance segment.

The consolidated G&A expense ratio was 13.9%, a decrease of 0.9 point over the prior year quarter. This was largely attributable to good expense control and net earned premium growth. We continue to focus on our expense controls. This can be seen as our quarterly G&A expense growth rate was only 20% of our net premiums earned growth rate.

The normalized G&A expense ratio in the quarter was 11.9%. This was 2 points lower than the current quarter G&A expense ratio largely due to corporate expenses of $15 million attributable to our CEO transition and performance-related compensation costs.

Reorganization expenses of $9 million were mainly related to the exit from catastrophe and property reinsurance lines of business. Reorganization expenses are excluded from operating income.

And lastly, on a consolidated basis, fee income from strategic capital partners was $12 million in the quarter compared to $27 million in the prior year.

Before I discuss the segments, I'd like to bring to your attention some updates that we made to our lines of business for disclosure purposes. You will see on Page 8 of the financial supplement in the insurance segment, we have made the following updates. Cyber is now a separate line of business. It was previously reported within professional lines. Property and terrorism lines of business have been combined. The new line of business will be referred to as property as our terrorism business mainly covers physical damage and business interruption following an act of terrorism. And lastly, we combined Marine and Aviation into a single line of business.

In addition, also on Page 8, within the reinsurance segment, the catastrophe, property and engineering lines of business are now identified as runoff lines. This update will apply to all our public company disclosures. Prior year amounts have been reclassified in the business descriptions in our financial supplement also reflect these updates.

Now let's move on to our discussion on the segments. I'll start in insurance. Once again, insurance had a strong quarter with good performance across a number of metrics. Gross premiums written increased by 12% to $1.5 billion, making it our highest production quarter ever. The increase primarily related to new business and favorable rate changes in property and liability lines as well as new business in marine and aviation lines and accident and health lines.

The current accident year loss ratio ex-cat and weather decreased by 1.5 points, principally due to improved loss experience in property, marine and aviation and cyber lines. On a run rate basis, it's better to look at the full year loss ratio.

The acquisition cost ratio decreased by 0.3 point in the fourth quarter. Excluding the loss portfolio transfer, the acquisition cost ratio would have been 17.9% a decrease of 1 point from last year. The decrease is primarily related to a decrease in profit commission costs.

The underwriting-related G&A expense ratio decreased by 3 points in the fourth quarter mainly driven by an increase in net premiums earned and a decrease in performance-related compensation costs and personnel costs.

Now let's move on to the reinsurance segment. I'll remind everyone that the fourth quarter is the smallest quarter for gross premiums written for reinsurance, representing just over 10% of the segment's annual gross premiums.

Reinsurance segment's gross premiums written increased by $40 million or 16% compared to the prior year quarter. The increase was primarily attributable to increased line sizes and new business in credit and surety as well as favorable premium adjustments, notably in motor and professional lines. These increases were partially offset by a decrease in catastrophe lines attributable to the exit from this line of business as well as a decrease in liability lines due to timing differences.

The current accident year loss ratio ex-cat and weather increased by over 6 points principally due to changes in mix of business associated with the exit from catastrophe and property lines of business. Additionally, we reviewed our loss cost trend assumptions and given the current inflationary environment, we increased the year-to-date loss ratios in our motor, liability and professional lines of business, and this impacted the quarter by over 1 point.

For a better view on the ongoing run rate of our reinsurance business, I would look at the full year loss ratio for the business ex-property and cat, which is 67.3%, essentially flat from 2021. The acquisition cost ratio increased by 1.2 points, primarily related to changes in business mix, driven by our exit from catastrophe and property lines of business and adjustments attributable to loss-sensitive features driven by improved loss performance mainly in the credit surety business. This was partially offset by the impact of retrocessional contracts.

The underwriting-related G&A expense ratio increased by 1 point, mainly driven by a decrease in fees related to arrangements with strategic capital partners. This was partially offset by a decrease in personnel costs related to our exit from catastrophe and property lines of business.

Net investment income was $147 million compared to net investment income of $128 million for the fourth quarter of '21. In the quarter, investment income from fixed maturities was $105 million, up over 57% from $67 million in the fourth quarter last year as the yield on the portfolio has increased 160 basis points from 1.9% to 3.5% over the last 12 months.

At year-end, as I just noted, the fixed income portfolio had a book yield of 3.5% at a duration of 3 years. Our market yield was 5.6%, 210 basis points above the book yield. I would note that since year-end, rates have declined a bit, and our market yield is now at 5.25%.

Given the duration of our portfolio and the current market yields, we would expect net investment income from fixed maturities to be at least $150 million greater in 2023 than we reported in 2022. Overall, the continued improvement in most operating metrics and positive momentum in our core underwriting book, this was a strong quarter for AXIS.

That summarizes our fourth quarter results. And with that, I'll turn the call over to Vince for market commentary.

Vincent Christopher Tizzio
Chief Executive Officer of Specialty Insurance & Reinsurance

Thank you, Pete, and thank you, Albert, for your earlier comments and kind words. In just a few short months, I will succeed Albert as our company President and CEO. I'm honored to do so and count it a privilege to advance our company strategy, along with our colleagues and build upon further our stakeholders' trust.

I'd like to provide a general view of the market, an overview of our rate performance across our businesses and share our outlook. Let's just jump in. Within our insurance segment, conditions remain largely favorable across most of our measures of production, new business writings. And in most classes, we continue to see rates generally in line or ahead of loss cost trends.

As evidenced in our financial results, our distribution partners, importantly, continue to seek the value of our underwriting specialists, our broad product set and our little platform.

Let me provide more color on our insurance market. During the quarter, there were a number of factors at play with different business lines performing at different points in the underwriting cycle. As an example, we saw firming conditions in many lines such as property, liability, credit and political risk, all of which achieved rate increases in the fourth quarter that were higher than their annual averages.

Further, as Albert has commented in the past quarters, we continue to see deceleration and in some instances, flat to negative rate change in the public D&O and financial institution markets. As a final example, in cyber, we're seeing a moderation in rate achievement, though pricing increases still remain at double digits. I'll speak more to this last point in a bit.

Overall, conditions are favorable as market dislocations continue to drive more risks into the specialty channel. For AXIS, we're continuing to pursue a highly targeted and disciplined underwriting strategy across every line we write, across all channels of our distribution. We remain focused on driving ambitious profitable growth in attractive markets as we continue to provide outstanding service to our broker partners.

Let's get into the numbers in more detail. Within our insurance book, the average rate increases was nearly 6% for the quarter and close to 9% for the year, marking 21 straight quarters of positive rate change and bringing the cumulative rate change for our insurance book to almost 60% since the beginning of 2018.

By region, international produced rate increases of 8% for the quarter and nearly 10% for the year. In North America, rate increases were 4% for the quarter and nearly 8% for the year.

Looking at rate by underwriting division, AXIS wholesale, which is a key area of investment for AXIS generated increases of more than 8% in the quarter and 7% in the year. These results were fueled by a resurgence of pricing across property and select casualty lines.

Property rates were up more than 10% in the quarter and are over 8% for the year. We anticipate this momentum to continue as the market reacts favorably. Casualty lines are averaging an increase of more than 7% with primary casualty strongest at 11% for the quarter and more than 9% for the year. Excess Casualty is up over 4% for both the quarter and year.

I noted earlier that in cyber, we saw a deceleration in rate momentum but continued to experience firm market conditions with an average rate increase of nearly 22%. This is compared to an average year-to-date increase of almost 50%. I will add that within AXIS, we have benefited from compounded rate increase of almost 140% over these past 3 years.

Within professional lines, we saw a decrease of 2% in the fourth quarter. As Albert has remarked in prior calls, public D&O is seeing the most challenging conditions with rates down more than 22% year-to-date. This is driven by a number of factors, including the reduction of IPO and de-SPAC business, while traditional business is exhibiting more modest reductions.

Given the changing factors, we are writing much less public D&O business than we did this time last year, while closely adhering to our risk selection and pricing adequacy standards. Importantly, our London-based professional lines unit, which does not write U.S. public D&O is both growing and achieving average rate increases.

To give a complete picture on the rate front, during the quarter, 88% of our insurance portfolio renewed flat to up. And for that -- for the year-end, that figure was 91%. Overall, new business pricing metrics have been at least as strong, if not better, than renewal pricing.

In summary, we are well positioned to capitalize on favorable conditions across our key insurance markets including a resurgence of rate in certain lines as mentioned. We have deep relationships with our customers, our distribution partners, a strong product set to service all of our channels of distribution and we look forward to the continuance of these results.

Let's turn to reinsurance. Within reinsurance, given the shifts in our property catastrophe market, this quarter was marked by significant disruption. As Peter noted, the -- for AXIS the fourth quarter only represents approximately 10% of our reinsurance portfolio. Nevertheless, pricing in our reinsurance business approximated 11% within the quarter.

We're observing a market reflecting strong steering in the form of pricing, terms and conditions and yes, capacity deployment as evidenced by the 1/1 renewal cycle that went down to the very end. I'll concentrate my comments on the 1/1 renewals, where for us, 45% of our business renewed at that point. Albert spoke earlier about our performance during the 1/1 renewals. I'll spend some time now talking about what we saw on the rate front.

Across our reinsurance book, pricing was up more than 12% with most lines of business seeing positive rate momentum. By way of line, motor performed the strongest with a 24% increase; marine was up 17%, and we produced double-digit increases in A&H at 13%, liability at 11%.

Professional lines was up 8% and credit and surety were flat. To the credit of our underwriting team, we approached the 1/1 renewal season with a focused and disciplined underwriting strategy grounded in our commitment to our chosen markets and with a clear and responsive communication stance with our trading partners.

Stepping back and looking at our business in total, we continue to be encouraged by the favorable rate environment we see across the vast majority of lines that we write, and we anticipate that these conditions will last throughout 2023. We are committed to answering the call from our customers for specialty products, services and capabilities.

With that, I'll turn it back over to Albert.

Albert A. Benchimol
President, CEO & Director

Thank you, Vince and Pete. So there you have it. As we look at the year ahead, our specialty insurance business continues to fire on all cylinders, and we're investing to create new avenues of revenue growth within our key markets.

The reinsurance market is firming up and we're active and engaged participants in our chosen specialty lines. And across both businesses, we're generally seeing favorable market conditions that should sustain throughout the year.
So why don't we open up our Q&A session. Operator?

Question and Answer

Operator

[Operator Instructions] And this morning's first question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

First, Albert, just all the best in your retirement and the next stage of your -- I guess, your career here. First question for you is just maybe digging a little bit on this LPT cover that you bought. A little more understanding as to why you bought it. Obviously, there's a cost to it, not only the costs you booked in the quarter, but just the lack of investment income you're going to have on the cash and invested assets that you transfer over to NSTAR. So maybe a little bit more behind why you thought this was necessary?

Albert A. Benchimol
President, CEO & Director

Thank you, Brian, and thank you for your comment. So Pete is going to get into the details. But bottom line, we felt that this was opportunistically a very good move for us. First of all, from a capital efficiency perspective. It's ROE accretive because of the fact that we're releasing capital, which is helpful. But more importantly, we -- these are lines of business that have given us some issues in the past. We think they're highly exposed to inflation. And so we felt that given the terms that we had, that this was an attractive transaction for us. But Pete, do you want to expand on that?

Peter John Vogt
CFO & Executive VP

Yes. I guess what I would expand on is just overall, Brian, I think it really reduces our reserve risk going forward. This is really centered in the insurance, pro lines and liability from 2019 accident year and prior to that. It includes a number of product lines that we've exited, and it's just good to get that uncertainty off of our balance sheet. And we did it with a good trading partner at what we think was a good price point.

So -- and as Albert noted, it is accretive to the ROE and it does help free up some capital. So all in all, I think these are opportunistic, and we just felt that this was a good opportunity to actually move some of those reserves off.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. And then the second question, just curious, what is your ceded reinsurance program going to look like in 2023? And how could that affect call it, I know you had a pretty decent acquisition cost in your insurance business in the quarter. Could we see higher acquisition cost ratio there on some of your quota shares? How is it going to affect your appetite for property business going forward? Just maybe a little color on what you're expecting that to look like.

Albert A. Benchimol
President, CEO & Director

Yes. I appreciate that. So the first thing I would say is that most of our large programs do not renew at 1/1. So as you may be familiar, our property program renews in May, and then we'll have a professional and casualty programs in the middle of the year. But we certainly renewed a lot of our specialty programs. We renewed our cyber program, so we can give you some insights on that.

By and large, we came in with the capacity that we wanted. We came in, by and large, within the pricing that we expected and that we budgeted for. The one area where we gave up a little bit was on the cyber program. We gave up a point of ceding commission, but that's frankly because we wanted to achieve a 60% quota share, and we felt that, that was the right thing to do. But by and large, I would say that we did not get any surprises.

We've got an incredible team on our ceded side. They stay in touch with our reinsurers all year long. And so we had a pretty good idea of where the capacity was, what the pricing would be, and so we're very satisfied that we got the reinsurance program that we needed in place.

I think going forward, everything that I hear is that obviously, we'll pay market conditions, but we think that we ought to be among the better treated cedents given the history of profitability of our relationships on the reinsurance side. But we'll do those as we get into

May and June, and we'll tell you about it when we do that. But that's already been incorporated in our modeling. It's been incorporated in our pricing, and we feel very good about where we are.

Pete, anything you want to add to that?

Peter John Vogt
CFO & Executive VP

I would just reiterate that last point, Brian, is one, we've already reflected anticipated increased costs or lower ceding commissions in the pricing that we're actually out in the market with on the insurance side. So our guys are on the front foot there.

Operator

And the next question comes from Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I'll jump in on the congratulations and best of luck to Albert on retirement. Hopefully, you get to enjoy watching the weather as a spectator. I guess my first question goes to the catastrophe losses. Have you run an exercise to try and determine what the natural weather catastrophe losses would have been for AXIS had you not exited the property and property cat reinsurance book?

Peter John Vogt
CFO & Executive VP

Yaron, this is Pete. We haven't gone back and said, gee, what would the net cat losses have been if we had not actually exited the program. I guess what I can tell you is what I did look at because I could definitely see it was an interest in the market out there. But if we look at our actual cat loss ratio in the fourth quarter this time, it was materially below our average cat loss ratio in the fourth quarter, whether you look over a 5-year horizon or a 10-year horizon. And that is adjusting that cat loss ratio to take out the impact of COVID in 2020, which we did put some up in the fourth quarter of 2020.

But I mean if I look at an all-in group number, we were down more than 50% from where we had been historically. And I think that's probably the best metric to look at rather than trying to redo the book. I would just say, on a true numbers basis, when you go and look at our fourth quarter's, average the last 5 years, 2017 to 2021 or the last 10, 2012 to 2021. And our loss ratio was down 9 points and 6.6 points on a cat basis. And I think that's sort of a testament to where we're going with our view on natural cash going forward.

Albert A. Benchimol
President, CEO & Director

So Pete, correct me if I'm wrong, but I think if I -- if we just take a look at nat cat to loan in this quarter, it's like around 2-point something nat cat loss ratio?

Peter John Vogt
CFO & Executive VP

Yes.

Albert A. Benchimol
President, CEO & Director

So I think that gives you a sense of our exposure to nat cats compared to where we would have been in the past.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. And then, Pete, I think you mentioned that you took -- you raised the loss picks, made some inflation adjustments, I guess, in the reinsurance portfolio. Were there any adverse prior year development associated with that?

Peter John Vogt
CFO & Executive VP

Yes, Yaron. Right now, obviously, we don't have the Q out so you can't see it. But when we file the K, you'll see all the details by line of business, what the PYD was in the quarter. So I won't get into specifics here. But we really feel good about the view we've got for inflation, as I mentioned, in reinsurance, we moved the quarter up by about 1.25 points. And I do think that you'll see some adjustments when the K comes out as well as the global loss triangles, which we will also get out in the first half of this year.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. Maybe if I can sneak one last one in. Can you maybe talk about the source of the COVID-related losses in the quarter?

Peter John Vogt
CFO & Executive VP

Yes. A couple of things to make sure we clarify there. The losses are all associated with 2022 accident year. And it's primarily associated with the seventh wave of COVID outbreak that happened in the early summer in Japan. We have some Japanese cedents where we provide a catastrophe XOL for A&H. So these are basically per diem hospitalization benefits, and it's a straight simple indemnity benefit. But with the regulatory change there where if you were at home under the [careable] position, it was at "deemed hospitalization", our cedent saw a real spike in these per diem costs and it actually started to hit their cat XOL layers.

So that's what it's associated with. It's a handful of clients that we have in Japan, and we have no other contracts like that in the area. So we're not exposed to other countries.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Got it. And again, enjoy retirement, Albert, and good luck to Vince and the rest of the team.

Operator

And the next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

You guys pointed to looking at the insurance, right, attritional full year loss ratio, which I think was just under 51% as thinking about go-forward modeling. You also mentioned pricing of 6% in insurance in the fourth quarter. I'm not sure where the current view of loss trend is. But when you think about pricing and loss trend, how should we think about the level of improvement you could see from that 51% baseline in insurances in 2023?

Albert A. Benchimol
President, CEO & Director

Well, I think as you pointed out, we have 9% average for the year, 6% in the quarter. But to be fair, we are taking a prudent view on loss trends and inflation. So we think it's in the mid-single digits. So there's opportunities for improvement, but not massive. But I think the book is in a really good place now. To be fair, we're delivering this year a sub-90 combined ratio. We think the book is where we want it to be. The goal for us, frankly, is to write more. At these margins, I mean it's really -- growth is very accretive for us.

So we feel positive about the book that we have, the premiums that we earn, as I said, are basically at or ahead of loss costs. And the goal here is to keep the book where it is and grow.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then in terms of debt, when you guys typically look at debt to prefer to total capital, right, still above 30%. Is the goal still to get that to the mid-20s? And is that a level that you need to see to think about capital return?

Peter John Vogt
CFO & Executive VP

Yes. Elyse, this is Pete. I think as we continue to evolve more into an insurance specialty where we don't necessarily need to have as low a ratio that -- we're going to look to get that ratio, I'd call it, to the mid- to high 20s. And I don't think we need to exactly be there to have any opportunistic plays of what we want to do with capital. But we are looking to get it below 30%, and I would like to see it get into the mid- to high 20s. But before we do, we're probably talking about the share repurchase program.

I'd like to actually see the capital, those ratios get below 30%. But I don't think we need to get all the way to 25%, but I'd like to be comfortably in the mid- to high 20s.

Albert A. Benchimol
President, CEO & Director

Yes. I'd add a couple of comments to that. I think the mid-20s is a good number for a reinsurer with volatile results. I think the kind of company we are. I think if you look at specialty peers, they can afford a higher leverage. But the other thing that I would point to is, as you know, the increase in the leverage ratio came only because of the market value of the bonds and given our high-quality portfolio in 3-year duration, we think there's a significant amount of opportunity for book value growth and leverage reduction simply with the return to par of the bonds that we have in our portfolio.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then you guys have -- we've seen the PMLs come down at most return periods. I did notice the Japan windstorm PML did go up a little bit in the quarter. What's going on there?

Peter John Vogt
CFO & Executive VP

Elyse, this is Pete. I'll handle that. At year-end, we had some of our third-party capital partners. Those are calendar year contracts. And so some of the protection on the property book for reinsurance ended at 12/31 and then the Japanese renewals happened April 1. So you will see those -- those jumped up because we didn't have that outwards protection on the reinsurance book from our third-party capital partners but it will come down again on April 1.

Again, it kind of leaves us exposed a bit on reinsurance if there happens to be a quake in Japan in the next 90 days. However, I'm not too worried about a typhoon in the next 90 days. But that's what that was about. And you'll see that adjust again as we get to April 1.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Albert, all my best to you in retirement as well.

Operator

And the next question comes from Meyer Shields of KBW.

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

I'm going to ask the same sort of question as Elyse but maybe retrospectively. The press release didn't attribute the insurance segment underlying loss ratio improvement to a gap between rate and trend. I'm wondering, is that an accurate reflection of how you've been booking losses?

Peter John Vogt
CFO & Executive VP

Meyer, this is Pete. We've had some benefit of rate over trend. I just think in the quarter, the predominant movement was because we had such good results coming out of those 3 areas due new experience. So we are still seeing a little bit of rate over trend in the insurance segment, but it did slow down in the second half of the year, and the predominant reason was I think those 3 lines of business really had good experience in the quarter.

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

Okay. That's helpful. The second question, so I think also, Pete, you'd emphasize that the loss portfolio transfer -- sorry, applies to product lines that are mostly exited. And I'm wondering if you could break down the reserve development on the professional lines and liability lines or products that you're still in because we've seen the overall numbers, but I'm wondering if there was a material difference in terms of how the exited product lines reserves have performed versus the ongoing longer-term lines?

Peter John Vogt

CFO & Executive VP

Meyer, this is Pete. I had not planned on doing that. Again, when we do our global loss triangles, and we need to make any comment in that document about maybe exited lines, we'll think about maybe adding some color there. But I was not planning on trying to break those reserves out and do them separately for you. As we think about the GLTs, we'll kind of take that advice under advisement and see what we can do to help you understand the ongoing book better.

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

Okay. My advice is worth what you paid and Albert best of luck.

Operator

And the next question comes from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Yes. I'm going to add, of course, the reparatory of people with congratulations to Albert and Pete. Albert, thanks for all you've done and best of luck.

Albert A. Benchimol
President, CEO & Director

So 2 things -- just 2 things I want to add, Pete's name, so don't bury Pete, I'm still around until May.

Joshua David Shanker
BofA Securities, Research Division

That's true. That's true. And of course, I mean, Vince, not Pete, of course, I know Pete. And so my question involves the new disclosure. I'm really happy. I love the new disclosure. And I'm looking at the cyber growth. And you grew fairly strongly in cyber in the first 3 quarters of the year and the growth slowed in fourth. I'm wondering if there's anything we can read into pricing of cyber as the year ended. I got 31% gross premium growth in the first 9 months of the year and just 3 in the fourth quarter. Is there anything we can learn about the markets there?

Albert A. Benchimol
President, CEO & Director

No. Maybe I think what I can do is just give you a context, right? So we've been for close to 2 years now, rightsizing our exposures, and we were very happy taking absolute exposures down while we were benefiting from pricing increases. And as Vince mentioned earlier, we had 20% rate increase in the quarter, we had 50% average rate increase in the year.

So you actually have the same rate of reduction in exposures but you're getting a lower amount of rate increase. And so hopefully, you understand what I'm trying to get to on the math. But I guess if I could just take a bigger picture on cyber. I continue to believe that cyber is going to become one of the most important lines of business for insurance. And whoever you talk to in terms of observers, talk about the strong growth that's expected over time.

But I think we also recognize that it's an important product, but it's a young product. It's emerging. I think that there are -- the understanding of the risk and the tail is growing a lot. I think the industry is doing a very good job of trying to manage around the tail exposure. And as we've told you, we're big fans of the line. We're very good at it. But we want to manage our tail exposure where it is until we get even more comfort around the tail exposures, around reinsurance capacity, around wordings and so on.

So we feel very good about the fact that we are sustaining leadership positions on the cyber side, which I think is a great investment in the future. But on the other hand, we're not going to do it by taking excessive risk in the near term. And so we've got great incoming business. We've got a very strong reinsurance program. And we think that right now, that's the smartest way to approach cyber as we add more comfort around the tail risk.

Joshua David Shanker
BofA Securities, Research Division

Okay. And then second, on similar vein, the new gross premium disclosure. You guys already know what our 1/1 renewals look like. I'm wondering if there's any help you can give us on thinking about the new terrorism/property disclosure versus property only. How much premium decline should we think about in the sum of the former 2 versus the current given what you know about your 1/1 renewals?

Albert A. Benchimol
President, CEO & Director

So I apologize. I don't follow the question. Are you asking about anticipated terrorism and property premiums on the insurance or reinsurance?

Joshua David Shanker
BofA Securities, Research Division

Yes. I mean in my mind that you're not doing property reinsurance anymore, but the new disclosure calling terrorism and property, I think I might be mishandling a 1/1 -- a first quarter reinsurance volumes because I'm making a mistake about things that are terrorism and things that are property. Maybe you can sort of clarify a little bit about what we should expect, the new properties premium. Yes.

Albert A. Benchimol
President, CEO & Director

So number one, I think property premium there's a couple of left -- on the reinsurance side, there's a couple of left over premiums, but we're talking like single-digit millions. We wouldn't worry about that. I think that the combination of property and terrorism is on the insurance side not on the reinsurance side. And I would tell you that our position right now is that we expect to grow property and terrorism going into 2023. We're seeing very strong market conditions in both. And our posture on it right now is that we would expect to see growth in property and terrorism.

Vince, anything to add?

Vincent Christopher Tizzio
Chief Executive Officer of Specialty Insurance & Reinsurance

No, I think that's right.

Albert A. Benchimol
President, CEO & Director

Yes. Yes. Okay.

Joshua David Shanker
BofA Securities, Research Division

And again, in the useless advice category that Meyer just started, is a great opportunity given the new segmentation to give those triangles a look in the K and I fully support that.

Peter John Vogt
CFO & Executive VP

Yes. Thank you for the note, Josh. We will be separating cyber out because it will be in the K now. So when we do the GLTs, you will be able to see cyber separately. So I'm assuming that will be a nice big improvement for you.

Joshua David Shanker
BofA Securities, Research Division

Fantastic. I do appreciate it. And Vince, welcome to the call.

Operator

And the next question comes from Matt Carletti with JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

I just want to follow up on Josh's cyber question. I was -- hopefully you could just peel back the onion a little further. Can you talk a bit about kind of modeling tools, how you view P&Ls, kind of some -- Albert, some of those things you talked about in terms of management of the risk, but just RDSs, maybe how much aggregate rate online has moved. You mentioned kind of pricing over the year, but as kind of you view rate online a few years ago versus now, what are we looking at?

And then lastly, any view on rating agency potential actions or views of the line in terms of how they think about risk aggregation and some requirements it might put in place?

Albert A. Benchimol
President, CEO & Director

Right. Thank you for that. So again, just kind of unstructured answer on cyber. We try to manage our exposure on the front end and on the back end. On the front end, as you know, we've significantly increased our underwriting standards and guidelines in terms of making sure that we don't ensure any more, anybody who doesn't have good cyber hygiene in place.

We've got our own wordings, making sure that we exclude war and infrastructure in our coverages. And then we analyze those, we use, I got to say, at least half a dozen different models, including our own. So I think that we try to make sure that we capture everybody's perspective on that.

And so you can imagine, obviously, we're at Lloyd's, we use the Lloyd's RDS scenarios, we use our own scenarios, and they go through it all. And at the end of the day, as you know, we buy a 60% quota share, we buy an ag stop loss because we feel that right now additional security is a good thing.

So we're certainly not stretching any more than we need to on that one. We let our people go crazy on threats and PML scenarios and just make sure that our wordings cover through it.

Look, my hope is that in this year, the industry will continue to make progress on wordings. We're starting to see some pickup in potential CAD bonds and capital markets participation. So I actually think that this is a line of business that's going to evolve favorably for the insurance industry. But as you've heard me say to Josh earlier, we are continuing to reduce our exposure counts while we're managing the tail. And I think right now, we still have some opportunities for growth in dollars, and we'll do it cautiously.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. And then I mean just 1 follow-up you mentioned wordings a few times. There are a couple of your big peers in the sector have put in some exclusions sublimits on, I guess, systemic risk would be the best term for it. Is that something you guys have taken a look at and active in any way or I think the industry might adopt more broadly?

Albert A. Benchimol
President, CEO & Director

So as I mentioned, I think a number of organizations are looking at wordings. I think that -- and we certainly are among them. As I said, we've already got some limitations in there. I think there's still some work that's being done on the wordings and their coverage and their judicial enforcement.

But again, my expectation is that during this year, we will see additional progress on the wording side. And you can rest assure that we're not going to be standing back and providing more risk and -- assuming more risk than we need to in the market. So my expectation is that we will see progress on wordings and reinsurance capacity developing in 2023.

Matthew John Carletti
JMP Securities LLC, Research Division

Great. Appreciate the color. Best of luck in retirement, and Vince, congrats.

Operator

And this concludes the question-and-answer session. I would like to turn the call to Albert Benchimol for any closing comments.

Albert A. Benchimol
President, CEO & Director

Great. Thank you very much, operator, and thank you all for joining and for your time this morning. Obviously, as you can tell from our results, we feel very, very pleased with 2022. It was a terrific year for AXIS, one in which we took critical steps in bringing forward to life our vision of becoming a leading specialty underwriter. I cannot say this enough. We are in the businesses we want to be and where we are well positioned to take advantage of opportunities in the market.

And that's really due to the hard work of our team, and I want to express my appreciation to our team for their hard work, their commitment, their relentless focus on the profitability of our business. And I want to thank our customers and our brokers for supporting us, for making us part of their business and part of their success. I couldn't feel more optimistic about the future for AXIS. And I look forward to still being here next quarter and reporting hopefully, a good first quarter to you. Thank you all, and have a great day.

Operator

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