S&P Global
Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS

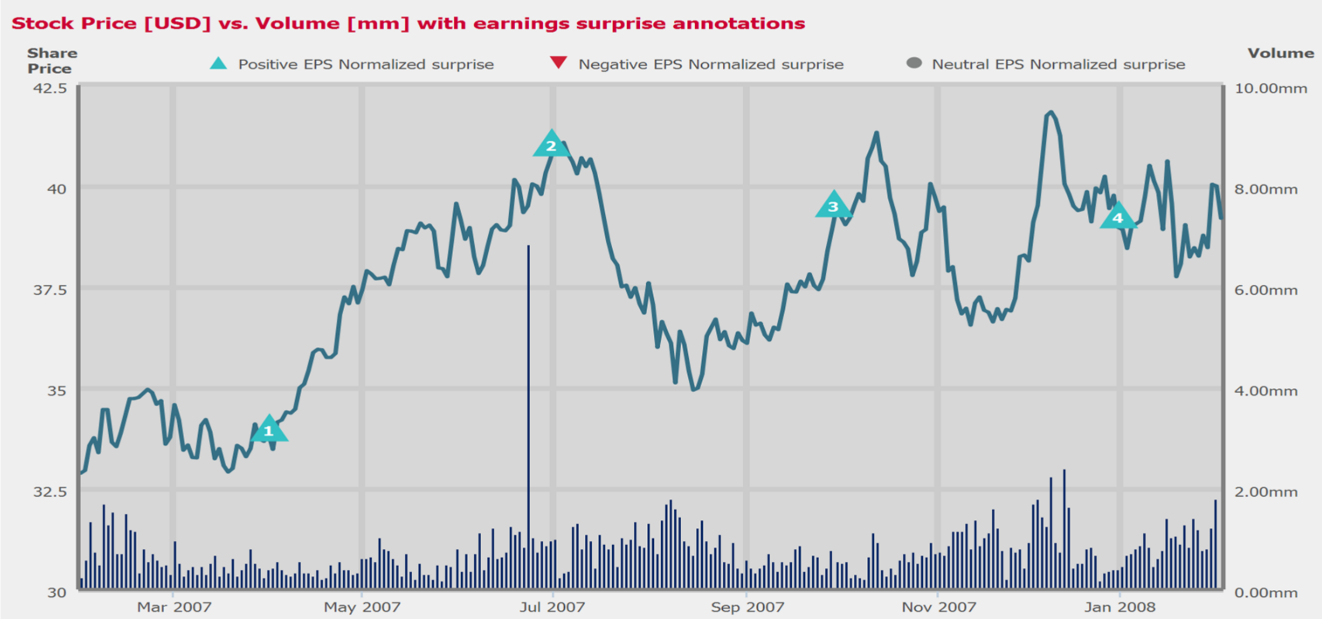
FQ1 2008 Earnings Call Transcripts

Tuesday, April 29, 2008 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2008-			-FQ2 2008-	-FY 2008-	-FY 2009-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.39	1.28	(7.91 %)	1.45	5.46	5.38
Revenue	-	-	(0.22 %)	-	-	-
Revenue (mm)	1094.17	1091.78	-	728.90	2767.22	2679.27

Currency: USD
Consensus as of Apr-29-2008 12:15 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2007	1.18	1.37	16.10 %
FQ2 2007	1.46	1.54	5.48 %
FQ3 2007	1.38	1.66	20.29 %
FQ4 2007	1.53	1.83	19.61 %

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Call Participants

EXECUTIVES

David B. Greenfield

John R. Charman

Linda Ventresca

ANALYSTS

Alain Karaoglan
Banc of America

Ian Gutterman
Adage Capital

Joshua Shanker
Citigroup

Matthew G. Heimermann
JPMorgan

Susan P. Spivak
Wachovia Securities

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CS First Boston

Presentation

Operator

Good day ladies and gentlemen and welcome to the First Quarter 2008 AXIS Capital Holdings Ltd. Earnings Conference Call. My name is Erica and I will be your coordinator for today. At this all participants are in a listen-only mode, we will be facilitating a question-and-answer session towards the end of this conference. [Operator Instructions].

I will now like to turn the presentation over to your host for today's call Ms. Linda Ventresca, Investor Relations Officer, please proceed.

Linda Ventresca

Thank you, Erica. Good morning ladies and gentlemen. I am happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the quarter ended March 31st, 2008. Our first quarter earnings press release and financial supplement were issued yesterday evening after the market closed. If you would like copies, please visit the Investor Information section of our website, www.axiscapital.com. We set aside an hour for today's call, which is also available as an audio webcast through the Investor Information section of our website through May 23rd. An audio replay will also be available through May 9th. The toll free dial in number for the replay is 888-286-8010 and the international number is 617-801-6888. The pass code for both replay dialing numbers is 38608105.

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 would remind everyone that statements made during this call including the Q&A session which are not historical facts may be forward-looking statements within the meaning of the U.S. Federal Securities Laws. Forward-looking statements contained in this presentation includes, but are not necessarily limited to, information regarding our estimate of losses related to catastrophes and other loss events. Future growth prospects and financial results, evaluation of loses and loss reserves, investment strategies, investment portfolio and market performance impact to the marketplace with respect to the changes in pricing models and our expectations regarding pricing and other market conditions.

These statements involve risks, uncertainties and assumptions which could cause actual result to differ materially from our expectations. For 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 U.S. Federal Securities Laws. For a reconciliation of this item to the most directly comparable GAAP financial measure please refer to our press release and Form 8-K issued last night which can be found on our website.

With that, I'll now turn the call over to John.

John R. Charman

Thank you, Linda. Good morning ladies and gentlemen and thank you for taking the time to join us this morning. I am going to begin by making some brief opening remarks, then I will turn the call over to David Greenfield to review our financial results. Following David's review, I will discuss current market conditions.

I am pleased once again to announce that we have achieved our tenth consecutive quarter of record earnings for AXIS. We have earned $238 million in net income and delivered an annualized return on average common equity of 20% for the quarter. Our diluted book value for our common share increased by 19% over the last 12 months and by 4% from year end to nearly $30.

These results were achieved despite the strong negative headwinds presented by a combination of unusually high levels of worldwide risk losses, cat losses and unprecedented turbulence in the financial markets.

With that, I'd like to turn the call over to David to discuss the financials in more detail.

David B. Greenfield

Thank you, John and good morning everyone. As John mentioned, we are pleased with our results for the first quarter 2008 which mark another quarter of record earnings against the comparable prior year period, our tenth in a row. Once again we have demonstrated the powerful earnings potential of the global AXIS franchise.

For the quarter, net income was $238 million, a 4% increase over the first quarter of 2007. Earnings per diluted share for the quarter of $1.48 compared to $1.37 per diluted share for the first quarter of 2007. After tax operating income which excludes the impact of realized gains and losses on investments was $205 million or $1.28 per diluted share, compared to $227 million or $1.37 per diluted share for the prior year quarter.

These results translate through an impressive annualized return on average common equity for the quarter of 20%. Our quarter end diluted book value per share of nearly $30 has increased 19% over the last 12 months and 4% since year end 2007.

Turning to our top line, our consolidated gross premiums written were $1.3 billion, down 3% from the first quarter of 2007. The competitive market conditions continue to present challenges this quarter, although we were still able to identify good profit potential within our areas of focus.

Gross premiums written in our insurance segment were $435 million, relatively unchanged from the first quarter of last year. Competitive market conditions drove exposure reduction in a number of our property and casualty lines. But this was offset by continued growth of our political risk business and renewal rights acquired with the purchase of Media Pro late in the second quarter of 2007.

Gross premiums written in our reinsurance segment this quarter, were $829 million, down 4% from the first quarter of 2007. When you consider the favorable impact of foreign exchange rate movements, this decline would have been approximately 9% and primarily reflected the effect of competitive market conditions in many lines and increased cedant retentions, particularly in U.S. casualty reinsurance lines.

The decline also relates to premium adjustments on prior year proportional and non-proportional treaties. In aggregate these resulted in a negative impact of $11 million this quarter as compared with a positive impact of $12 million in the prior year quarter.

Consolidated net premiums written decreased 4% in the quarter reflecting the previously mentioned reductions in gross premiums written and additional reinsurance coverage purchase within our insurance segment.

In line with these changes net premiums earned were down 4% in the quarter. Moving to our underwriting results overall our combined ratio for the quarter was 81.2%, which was comparable with the prior year quarter. Our consolidated underwriting income for the quarter was $139 million and included $62 million from our insurance segment and $77 million from our reinsurance segment.

Consolidated underwriting income was down 5% relative to the same quarter last year due to a reduced earning a reduced earned premium base. The impact of an unusually high level of individual of property risk losses in the quarter and increased staff cost relative to the same period last year.

These factors were partially offset by higher levels of favorable prior period reserve development in our insurance segment relative to last year.

In the quarter our net our consolidated net favorable reserve development from prior periods was $88 million or 13.4 points. Of this amount $55 million was from our insurance segment representing a positive impact of 18.2 points on the segment's loss ratio this quarter.

This included $33million of favorable reserve development from political risk business mostly written in our early years.

Our reinsurance segment posted a $34 million in net favorable loss development, representing a positive impact of 9.3 points on the segment's loss ratio. Aside from the favorable reserve development from our political risk line for which there are medium tail characteristics, all other favorable reserve development this quarter is related to short tail lines.

As always, we caution against comparing the level of reserve development amongst periods particularly given the varied maturity of our diverse lines of business. It's also difficult to compare accident year loss ratios for similar reasons.

As we have discussed in previous calls, we have been incorporating more of our own loss experience overtime in the establishment of our current accident year loss ratios and this of course will have an impact on potential reserve development in the future. This impact to reserving was naturally introduced first in our lines characterized by short tail and rapid loss emergence. The approach and its affects have been extended overtime to the longer tail lines and do have an impact on comparable period analysis. This approach has affected the establishment of initial estimates of ultimate expected loss for all lines other than professional and other casualty lines.

To date, we have not released reserves from professional and other casualty lines. That is to say with regard to these lines we have not yet taken the view that we have enough operating experience to revise previous estimates of ultimate loss experience from business written in prior years.

For professional lines, which have the shortest tail of our long tail lines, we primarily participate in excess layers. This, in our opinion warrants a more conservative approach. We began underwriting our initial portfolio of professional lines business in 2003 and now have almost five years of experience with respect to this business.

Consequently we believe that we are approaching the point where we can begin to incorporate that experience into our reserving analysis.

Now I'll to discuss our current accident year loss ratios.

Our overall accident year loss ratio for the quarter of 68.3% compares to 66.9% in the first quarter of 2007. There are a number of moving parts which I will discuss here. The increase in the overall accident year loss ratio relates to our insurance segment where the current accident year loss ratio increased 3.3 points to 71.4%.

This increase was largely due to the impact of an unusually higher level of large individual risk losses worldwide in the quarter which by our current estimates exceed $3 billion for the market. These losses emanate from both cat and non-cat perils.

Our estimated net losses from these events in our insurance segments were $25 million or 8.2 points. Aside from this in the insurance segment initial ultimate expected loss ratios for 2008 across our under running portfolio have trended upward relative to those in the same quarter last year to capture the impact of price deterioration in the marketplace.

However, this trend was offset to a certain extent by the continued incorporation of our own positive underwriting experience rather than industry benchmarks in establishing our ultimate expected loss ratios.

Our reinsurance segment current accident year loss ratio for the quarter was 65.6% compared with 65.9% in the first quarter of 2007. The prior year quarter absorbed net losses from windstorm Kyrill of approximately $29 million. Once again our reinsurance segment achieved a good result with even less exposure to the major risk losses and the cat events in this quarter which in total are likely to exceed $7 billion for the market.

In the current quarter the upward trend in the segments initial ultimate expected loss ratios for 2008 introduced by business mix and pricing deterioration was somewhat offset by the incorporation of our own positive underwriting experience in the initial loss picks.

Turning to our G&A expenses, our total G&A ratio for the first quarter was 12%, an increase of 2.9 points over the same period in 2007. This was primarily due to the combined impact of a reduction in net premiums earned in the quarter and the cost of additional staff. As we've discussed previously we've continued to build our capabilities and operations and enhance our technology.

We would anticipate that the current quarter G&A cost of approximately $80 million are more indicative of a normalized run rate for 2008. This of course takes in to account incentive compensation at target level.

Moving on to our investment portfolio, our total cash and investments increased to $10.8 billion at March 31st, 2008, up 3% for the quarter. This increase primarily related to net cash generated from operations of $324 million during the quarter. Our fixed income portfolio remains at high quality with a weighted average rating of AA plus and 91% of securities rated A minus or better.

In the quarter we focused on upgrading the quality of our portfolio and repositioning the high-grade fixed income portfolio, to take advantage of dislocations in certain sectors of the fixed income markets, like super-senior commercial mortgage backed securities, corporate debt and auction rate municipal securities.

We maintain high cash balances at 15% of our total cash and investments, which will provide us with the flexibility to invest in sectors where we believe we are getting more than adequately compensated for the risks we are taking.

Now I will discuss in a bit more detail, some of the quality points with respect to our portfolio. First, with respect to sub-prime and Alt-A collateral, our exposure remains a negligible portion of our overall investment portfolio at $202 million, or 2% of our portfolio with the vast majority rated AAA, or U.S. government agency backed.

Our managers remain cautious with respect to sub-prime and Alt-A exposure. Any securities held in these structured credit areas, remain a very high quality. During the quarter, there was further deterioration in pricing, which resulted in an increase in our unrealized losses. However, these remain minimal in the context of the overall portfolio.

For further details with respect to mortgage and asset backed holdings, I would encourage you to review our financial supplement for the quarter.

We have securities with credit enhancement from the traditional monoline insurers that total $291 million at March 31st, 2008, down from $381 million at year end. This amount represents approximately 2.7% of our portfolio. The estimated underlying credit quality of these holdings, without the guarantee is A+. Our managers owning securities because of the underlying fundamentals of the issuer and not the guarantor support.

Our investment portfolio produced mixed results in the first quarter. Our net investment income for the quarter was $86 million, a decline of 32% over the prior year quarter. The $86 million is comprised of higher investment income from our cash and fixed income investments of $124 million up 20% over the prior year quarter. Which was more than offset by unrealized losses in our other investments portfolio.

Increases in investment income from cash and fixed income investments primarily related to higher investment balances as year end portfolio yields remain constant at 4.9%. Investment unrealized losses from our other investment portfolio of $36 million compared with income of $25 million in the prior year quarter. The comparison of investment income between this quarter and the prior year quarter is difficult.

We experienced exceptional performance in out alternative portfolio in the first quarter of 2007, which you may recall we cautioned against extrapolating forward. With this quarter's performance from the alternative portfolio we would also caution against extrapolating the quarter's losses for the balance of the year as we expect improved performance going forward.

As we discussed on our last earnings call, 2008 is proving to be a challenging year for investments. Our contribution to net investment income from other investments has declined by $61 million from the same period last year. This was largely a result of declines in pricing in senior secured loans which affected the performance of our credit funds and a sell off in equities which affected the performance of hedge funds and funded funds.

The senior secured loan market experienced its worst performance in history, down 5.7% and our managers were not isolated from this sell off in the market. Our hedge fund performance was negative but inline with the performance of major hedge funds indices.

Before I move on to realize and unrealized gains, I would like to add a few additional comments on our other investments particularly as it relates to our accounting and reporting. Much of the performance in our other investments portfolio is impacted by market changes in the fair value of the underlying assets. We account for many of the investments in this portfolio on an equity method. However, as the underlying funds are accounted for at fair value, the equity methods affectively means we are counting for the investments on a fair value basis.

And changes in unrealized gains and losses are then recorded in net investment income. As you well know the unprecedented volatility in the financial markets has cause sharp movements in many asset classes this quarter and our investments were effected by this. In turn, significant declines in fair values this quarter resulted in unrealized losses with a number of our other investments which again are recorded as reductions to net investment income in the current period. We do expect these evaluations to improve going forward and we believe these investments are money good.

Net realized gains for the quarter were at $36 million, and compared with negligible gains in the prior year quarter. These gains are net of $15 million in other then temporary impairment charges. The gains reflect the previously discussed repositioning of our high grade fixed income portfolio. We expect this repositioning will benefit portfolio performance in future quarters.

Net unrealized gains in the investment portfolio decreased from $30 million to $4 million as widening credit spreads more than offset the affects of declining risk free rates which caused prices to decline primarily in our corporate securities.

With respect to foreign exchange, during the first quarter strength in the euro resulted in foreign exchange gains of $20 million versus $2 million in the prior year quarter. We continue to actively manage our euro and sterling exposures. Our interest expense for the quarter was $8 million, in line with the prior quarter end of below the $15 million in the incurred in the prior year quarter. The reduction relative to the prior year reflects the termination of the $400 million repurchase agreement that was in place through the third quarter of 2007.

Returning to our balance sheet, our total net loss reserves extended $4.4 billion and 71% of these net reserves are IBNR reserves. I am pleased to say our balance sheet is as strong as ever. Our shareholder's equity at the end of March was $5.4 billion, an increase of 4% from year end. Total capital to deploy in our globally diversified franchise now stands at nearly $6 billion.

Now, I'll turn the call back to John.

John R. Charman

Thank you, David. I'll now comment on some of the events in the quarter and more broadly on market conditions. Certainly the events of the quarter should serve as a healthy reminder to the industry that we are in, a risk bearing business and that the current irresponsible competition focused in the insurance sector is absolutely irrational and unnecessary, even more so when one considers the back drop of cumulative worldwide losses from individual risk losses of smaller cat events likely to produce insured losses of over $7 billion.

As David discussed in reviewing our insurance segment we have estimated our net losses from world wide risk losses that approximately $25 million we are a major participant in the whole sale commercial PNC markets. And as such we expect to have exposure to large losses like these. We do view these events as a normal event however the less normal parts of the loss activity is the frequency that has occurred within the quarter.

Our prudent risk management efforts including our increased reinsurance, purchasing activities over the last few years, have served as well by appropriately limiting the over all impacts of frequency to our consolidated under running profitability. This has allowed us to reduce our net losses from risk losses in the quarter, to less than 1% of market losses which we estimate exceed $3 billion, a performance I'm very pleased with.

Turning to market conditions, in our insurance segment for all of business lines are under extreme pricing pressure with only one notable exception, we are begin to see some stabilization in the financial institution classes within our professional alliance business. Large account property rate reduction demands starting the range of 20% to 50% with sub limits increasing, but fortunately a limited degree of deductible erosion is occurring. The perspective in some cases Californian earthquake pricing is back to pre 2001 levels, and competing capacity of between 1.5 times and three times that demanded regularly exists for the many property placements.

Offshore energy with significant cat exposure remains reasonably stable. However, in some cases, pressure remains on terms and conditions with increases in wind sub limits being traded for price. U.S. Casualty Insurance business continues to see rate decline unabated.

Rates for DNA business in the U.S., excluding financial institutions continues to decline driven by large reductions from primary under-writers. This deterioration is in flowing into the excess layers but fortunately on a mitigated basis. Competition has increased dramatically across the board; a naive new capacity is still coming into the market.

Another common which history has is it of admitted markets in the U.S. becoming increasingly aggressive on traditional, more complex surplus lines business. In my view the under writing conditions prevailing throughout the insurance market place, as similar to those entering the softest part of the turf between 1997 and 2001. Investors will no doubt painfully remember the substantial value destructions that occurred as a result of the undisciplined and unmonitored under writing activity during this period. In my opinion, this really is a time for investors to strongly differentiate between under writing businesses and revenue generating businesses.

Moving on to sunnier climes as we have noted it for some time the reinsurance market relatively stable of increasingly irrational behavior. Our portfolio continues too be more significantly impacted by cedants retaining more business. Importantly we continue to demonstrate strong leaderships through our non-renewals, and declinations of new business. Because of either pricing concerns or underlying portfolio concerns.

As you know our first quarter is heavily influenced by our reinsurance portfolio in continental Europe, for which the vast majority of the business renews on the first of January each year.

This portfolio was renewed at acceptable pricing and at levels of expected profitability not far off from last year. We were able to continue to grow there in the specialty lines credit and bond and engineering. As we saw better opportunities we did in catastrophe property and motor reinsurance lines.

Combined with our renewals in the U.S. and in the Bermuda base property account, we expect this portfolio will continue to provide attractive returns for the year. The April 1st reinsurance renewals are not meaningful for us, as our analysis indicates Asian business is historically not been attractively priced on an exposure of adjusted basis, especially given the asset inflation that has occurred within the last decade. However as the market commentator we have observed pricing in the larger markets by Japan down on the order of 10% to 15 %.

In our reinsurance segment the balance of the year for us will be dominated by activity in the U.S. market place. On the property front non-proportional property business which is our focus will be dominated by U.S. exposure. We expect reductions for this business through the balance to be consistent with the 5% to 10% decreases experienced at the January 1st renewal.

We do not sense desperation with respect to growth on the part of in the property reinsurance market and there is a reasonable level of resistance to further price reductions including resistance to commission increases. We do feel a floor has been reached this year. Sidecars have gone away or are in run off.

There is likely to be increasing property cat reinsurance demand from base to reduction at the Florida hurricane cat fund and from expansion of Florida depopulation initiatives. Since we are not heavily weighted towards Florida, we do not expect any major top line impact for us.

Rather for our portfolio we expect to incrementally benefit from the impact of increased demand on cat pricing more broadly throughout the U.S. Areas of debate are focused on terms and conditions. For example on the property front, items like coverage of foreign terror and increased hours clauses continue to feature in the debate. Moving on the greatest pressure we are experiencing in our reinsurance segment is coming from my U.S. casualty reinsurance operations, largely driven by the continuing trend of cedants, to retain more of their own business.

In our U.S. general and specialty casualty lines we insist on rating on accounts with unfavorable loss experience, but even these accounts are coming under greater competitive pressure. In the general cash of the area, modest pricing pressure exists for most accounts. Market pressure is more intense on accounts with favorable loss experience and on standard loan comp treaties. In our specialty casualty reinsurance lines, dominated for professional lines for our portfolio, some trends continued in the quarter, while others appeared to have run their cause.

Retentions have stabilized after trendy up over the last three years and reinsurance pricing was down modestly. In the U.S. reinsurance marketplace, major terms have not materially eroded and we are comfortable at that, while we do see some improvements for cedants and more requests for such improvements. The market place is not showing sign of materially softening market.

Stepping back for a moment, we expect the balance of the year to feature continued competition, particularly in the insurance marketplace. As a result of this we expect our premium volumes will be down as we continue to reduce our exposure and presence in unattractive areas and we see less business satisfying our underwriting criteria. We have been very defensive in our insurance segment over the last 18 months and expect to remain so for the foreseeable future.

As for our reinsurance operation, we expect reasonable normality in the performance of our reinsurance segment for the balance of the year. Overall, we are confident that we have maintained a high quality, diversified underwriting portfolio that will continue to generate significantly positive cash-flow and underwriting profits. The game plan for us is to try to maintain margin in difficult trading conditions. Definitely we are not immune to financial market forces and we have seen the impact of the repricing of risk in our results this quarter. The fundamentals underlying our investments remain sound.

Our financial market conditions may impact quarterly investment returns. We can assure you that we are maintaining an appropriately conservative posture with respect to our investment portfolio and that we do not expect to sacrifice continued book value growth overtime.

We continue to rigorously monitor the impact of sub-prime issues, another credit issues on both our underwriting and investment portfolios and remain comfortable with our identified exposures.

While somewhat impacted by our reduction in our net premium loan. The increase in our expense ratio for the quarter also reflects our incubation of major initiatives in our select markets division of our insurance segment. This division is focused on addressing small and middle market specialty business.

To achieve success in this endeavor, we need to achieve speed to market with our products and services. Enhance communications with intermediaries and clients and efficiencies in business processes to allocate capital directivities that have a higher return to risk ratio.

These requirements naturally play greater stress on infrastructure with the potential to increase the level of exposure to operational risk. To mitigate this risk, we are investing heavenly in technology, at the leading end edge of industry processing practices.

We are also retooling business processes with a view towards insuring that our greatest asset our people can perform optimally. What I would like you to take a way with you today is that we remain focused on superior underwriting we are equally focused on driving efficiencies we are conservatively positioned in all areas and we are more than well positioned to benefit from any improvement in market conditions.

And finally on a personal note I am pleased to report that since our last earnings goal I have agreed to extend my contract with the company through to 2013, as you know my heart and soul belong to the company that I founded shortly after 9/11, and my commitment to Axis is absolute.

Regarding the difficult market conditions and with that I would like to quote Winston Churchill, with out market discipline and management over side the insurance industry is like a flock of sheep with out a Shepard, and with that innovation and high standard it's a course however I want top assure you that I am more than confident that my colleagues and I are up to the challenge.

We are all healthy, vibrant challenging and kicking tires where we need to we are determined to continue to accrete book value over time and to out perform our piers with that I would like to open the lines for questions.
Question And Answer

Question and Answer

Operator

[Operator Instructions]. Our first question comes from the line of Susan Spivak from Wachovia. Please proceed.

Susan P. Spivak
Wachovia Securities

Hi, good morning everybody.

John R. Charman

Good morning Susan.

Susan P. Spivak
Wachovia Securities

The superior under writing result really speak for themselves and I think the ROV on an operating basis is still excellent. I think what puzzles me is that levels there just wasn't any share repurchase and historically I know you have been very opportunistic with capital. So if you are not buying back your shares I just want to get into your head and see what are the opportunities that you are looking at and taking that a bit further if Axis were likely to make an acquisition going forward. Do you think could you rank whether it would be Bermuda base, U.S. based or UK or on the continental? That's my question for John. For David you seemed a little bit more cautionary about the reserve releases going forward, should we be worried that the comparisons are going to be a little bit tougher, next year, that's on what you currently been releasing and then going forward on this specialty and professional lines. Could you just review with us what percentage or how much of your reserved are in those lines? And then finally on the technology investment. Is it significant that we should be incorporating that into your expense ratio? Yeah I know it was lot.

John R. Charman

That was a long breath. Well good morning again Susan, and thanks for the question. As far as the share repurchase questions is concerned I think that it's very appropriate with market conditions with the dislocation and potential continuing dislocation we progress through this year that we believe we should hold our capital who knows what opportunities might present themselves. We don't have a fixed view where those opportunities might come from. But we want to be in the best possible positions take advantage of them and we are. David?

David B. Greenfield

Susan I may need some help because you rattled through a number of questions there. But let me first take the one on reserve releases. I wouldn't say that my tone or approach to the reserve releases has changed to any of the comments that I have previously made to you and others about incorporating reserve releases in future performance. What I was merely trying to do is continuing along the path of explaining that as we grow and as we continue to develop our business we are beginning to incorporate more and more of our own experience into our reserving estimates and that will by definition impact the reserving process in terms of the accuracy and also in terms of future releases that could potentially occur. So, that was really more an exercise in trying to show the development of our reserving processes as we continue to grow our business.

Susan P. Spivak
Wachovia Securities

It is more on what you've said on most of the conference calls about the risk involved...

David B. Greenfield

Yes, little deeper this because we are doing little more incorporation of our own data and we want to make sure that you are aware of that but essentially the same messages before --.

Susan P. Spivak
Wachovia Securities

Professional lines?

David B. Greenfield

I didn't get exactly what are you asking us so can you repeat that one.

Susan P. Spivak
Wachovia Securities

Just what percentage of your total reserve now are in those special team professional lines it seems to me that you indicated that now that five years have past we could start to see some releases from those lines?

David B. Greenfield

Well, I think first of all with regard to releases from those lines keep in mind that this five years back those lines were relatively small in the context of our overall business. But certainly your earlier years, we are going to look at coming up soon but the more of activity in those lines have been in the last several years which we still have some more time to let mature. In terms of the percentage of reserves along the areas you asked about in the specialty professional lines, it's roughly a third of the total reserve balances in that area.

John R. Charman

Susan, you can remember that on the insurance side, we bought in Jack Kuhn and his great team of 53 the people at the end of the first quarter of '03. And then secondly, Mike Morrill the majority of Mike Morrill's business in '03 actually was professional lines reinsurance.

Susan P. Spivak
Wachovia Securities

Okay. And then just the technology investments, any should we be incorporating arising expense ratio for that or is that just part of ongoing business expense?

John R. Charman

Let's go David you go ahead.

David B. Greenfield

No, I was just going to remind you my earlier remarks, I mentioned I think a useful run rate for the rest of '08 is about $80 million give or take a little bit. We are making our technology investments as we need to within the context of that overall estimate if you will.

John R. Charman

But it's critical to us Susan because we have to invest for the future and we are substantially positioning ourselves not only for our select markets growth but also generally throughout the company, to give to optimize our efficiency productivity and our capability.

Susan P. Spivak
Wachovia Securities

Okay and then if I could just follow up where one more John, any change in the reinsurance purchases, on the insurance beck, are you staring to buy even more?

John R. Charman

Yes, I have said to you at the last quarter that I never understand why underwriting businesses retain more in sub-cycles. And we'll see how this I have never done that, I have always done and will see how it works through it. So we remain very opportunistic, we remain very demanding with our reinsurers and we will get through the rest of the year.

Susan P. Spivak
Wachovia Securities

Okay, all right I'll let the rest of the line go, I am sure you have lot of a lot more. Thanks guys.

John R. Charman

Thank you Susan.

Operator

Our next question comes from the line of Josh Shanker from Citigroup. Please proceed.

Joshua Shanker
Citigroup

Good morning.

John R. Charman

Good morning Josh.

Joshua Shanker
Citigroup

In terms of sort of philosophical change, I am trying to understand one thing that David said, would was that you start writing professional line reliably back in '03, it's earlier than I thought. At that time on these conference call and even in the prospective, it's clear that you were fairly a vocal critic of long-tailed business, what sort of change about long-tailed business over the year that's made you more comfortable or may be I have misread your comments in the past?

John R. Charman

Well, I think you have misread my comments in the past, Josh with a greater respect, because I have said many, many times in those early years that I after the pooling underwriting results, out of the professional lines markets from the underwriting that took place between '97 and 2001. Which essentially was more about financial guarantee and indemnity policies. The whole that suite of products was completely rewritten and recharged by the market in 2002. And we took advantage of that in 2003 by bringing here I said Jack Kuhn and 50 of his great people in the spring of '03. And we did that because quite frankly there has been a sea change in the way that those products were being written and delivered and priced. And in my view I said it the and I have been very consistent about it since. I believe that those products could be more medium-tailed in their characteristics than long-tailed. I continue to be very conservative and AXIS continues to be very conservative its long-tail cash of the underwriting.

Joshua Shanker
Citigroup

The other question regard to I am not back to where you are of thinking of M&A transaction but in general philosophy is it better to buy companies in the soft market when evaluations are low. But you need harder on their balance sheet or better to buy companies in a better pricing market when balance sheet appear solid but the prices are more expensive?

John R. Charman

You buy companies when opportunity presents it selves and that can be on either side of your two scenarios. But we would only look to those sort of acquisitions too materially enhance or franchise and our earnings power.

Joshua Shanker
Citigroup

In terms of other ways returning to capital you may be right now our share repurchases be the most comfortable. What are your thoughts on increasing dividend?

David B. Greenfield

Josh,we have just increased our dividend our Board increased the dividend last December the quarter ago. So they do consider that during their Board meeting and I am sure that they will consider that again this year but I wouldn't expect the dividend increase any time soon in the next few quarters. So we have been tracking to a dividend change once a year more or less.

Joshua Shanker
Citigroup

And what about perhaps the special after the hurricane season?

John R. Charman

We have got a lot of other things but as I said that we really don't know what's going to happen through the rest of this year there is there is extraordinary competition throughout the underwriting businesses there is great volatility throughout the investment community. And out of that might come lots of opportunity for us so we are not going to commit our selves through our need, forward thinking in that respect.

Joshua Shanker
Citigroup

Alright very good work good luck to you.

John R. Charman

Thank you.

David B. Greenfield

Thank you Josh.

Operator

Our next question comes from the line of Matthew Heimermann, JPMorgan. Please proceed.

Matthew G. Heimermann
JPMorgan

Hi, good morning every one.

John R. Charman

Good morning Matt.

Matthew G. Heimermann
JPMorgan

Thanks, a couple of good questions would you be wanting to discuss with the gross loss look like in the insurance segment just to give us the sense of how that reinsurance is helping?

John R. Charman

You said that two questions what was the second?

Matthew G. Heimermann
JPMorgan

I was going to go one at a time. Second question is I was curious if you could talk about any whether or not there were any or you are planning any significant changes to just the cat XOL program this year. And then the other question was in the fourth quarter you talked about there was a contract written in the fourth quarter of '06 with a 60 month and I wanted to ask whether or not that renewed this quarter or that was a second quarter thing I can talk these looking at the numbers.

David B. Greenfield

I'll take the first and the third. In terms of the gross losses on those events were roughly about little over $100 million is the number there Matt.

Matthew G. Heimermann
JPMorgan

Okay.

David B. Greenfield

So, on that one I can cover you and then the third comment on the reinsurance contract that you are referring to that we mentioned last quarter we didn't renew. We did renew that contract this quarter.

Matthew G. Heimermann
JPMorgan

Okay.

David B. Greenfield

And its in the re-insurance figures.

Matthew G. Heimermann
JPMorgan

Okay, perfect thank you.

John R. Charman

And then with the we are in that special very carefully rated that we are in the process of renewing our properly reinsurance renewals and my previous comments apply as much to what's going out at the moment is what we will continue to do throughout the rest of this year.

Matthew G. Heimermann
JPMorgan

Okay. That's helpful. Thank you very much.

John R. Charman

Thanks.

David B. Greenfield

Thank you.

Operator

[Operator Instructions]. Our next question comes from the line of the Vinay Misquith from Credit Suisse. Please proceed.

Vinay Misquith
CS First Boston

Hi good morning.

John R. Charman

Good morning Vinay.

David B. Greenfield

Good morning Vinay.

Vinay Misquith
CS First Boston

Two questions and firstly this is beat the dead horse but John on the acquisition front, just philosophically would you be looking more outside U.S. say in Asia or would something within the U.S. on the primary insurance and be more attractive to you.

John R. Charman

Well, there are two ends of the spectrum that we've continue have said rather like Media Pro with we are searching very hard to try to find smaller opportunities that create strategic advantage for us, so and we will go wherever we need to and our focus is as much in Asia than the emerging markets as it is quite frankly in the more mature markets of U.S, then at the other end of the spectrum, it has to be an opportunity that would be strategic and would materially enhance not only our franchise capability but also our earnings capability and continue to diversify the products we sell.

Vinay Misquith
CS First Boston

Sure, fair enough. Second question is for David. David on the reinsurance segment if you exclude the last catastrophes in the first quarter of '07 your accidental year loss ratio was about 58.1, this quarter it's about 65.7 but it seems to be a 7 point increase in the accident year loss ratio ex-cat, just wondering, whether you had some lost catastrophes in the reinsurance segment in this quarter?

David B. Greenfield

Well a couple of things I mean first of all, when you are comparing to a year ago we had material in the first quarter of '07 of and then secondly I would tell you in the current quarter as I have mentioned in my comments we did see some normal events if you will in this quarter that affected us but nothing of significance on anyone event that we would comment on specifically so there was some loss activity this year just not at a single event loss level like a Kyrill event.

Vinay Misquith
CS First Boston

Sure, thank you.

John R. Charman

Okay.

David B. Greenfield

Thanks Vinay.

Operator

Our next question comes from the line Ian Gutterman from Adage Capital. Please proceed.

Ian Gutterman
Adage Capital

: Hello everyone, Hi John, I have a couple of questions, first the large individual risk losses in the quarter, you mentioned obviously the frequency was higher than usual, I was wondering if you how much of that is truly random and how much of that might be something secular, just given from what I noticed, a lot of them were commodity related and we know just given in place in the commodity demand that a lot of these factories and mines and so forth are running a lot harder than they used too and may be are more accident prone, do you think that's a trend and we should expect higher losses in that segment in the future and is industry figure that out from a underwriting standpoint stand point?

John R. Charman

I think you have raised an interesting point because the market, I believe is behind the curve in dealing with the increased commodity prices and the way the as you quite rightly say, these companies are working even harder to make sure they maximize their output to take advantage of those pricing circumstances and it certainly has very substantially heightened awareness of the increases risk involved as a result of the activities in the commodities field and I am not sure that is a lesson that was probably broadly been learned around our competitors that has but certainly for us that we are extraordinarily more sensitive to the impact our those ever increasing commodity prices and perhaps a lesson in risk management, in order to make increased profitability from those individual companies. So we are we are taking it very seriously and we don't know whether it's going to be a trend but we are very sensitive to it.

Ian Gutterman
Adage Capital

Okay and thank you very much.

John R. Charman

And that's why again and again we would look very carefully at the reinsurance market to try and help us as a part of our risk management.

Ian Gutterman
Adage Capital

Thank you, very through answer, its kind of way I was hoping you would say. The other question is to push you a little bit on how soft the market is and some of those insurance line you mentioned, and being as bad as the bottom of the last half market. I guess where I struggle trying to understand that comment is last time we saw those we saw loss ratio not combined ratio, loss ration on some of those lines well north over 100 may be 150, 200. Are you suggesting that loss ratio is in part to the industry or price at over 100 at this point. Because it doesn't seem like anyone --.

John R. Charman

As I said that I tend to be a little bit more aggressive in my remarks then most other CEO's mainly because they are so detached from their underwriting businesses that they have got no idea about the reality of what's taking place on the ground floor. I don't think that what happened was during that last cycle if you remember you have observed underwriting competition. That created enormous value disruption between 1997 and 2001.

And that is a occurring today without a shadow of the doubt. The fact that Lloyds can give $1 billion of terrorism capacity to the Middle Eastern entity. There is a 100 miles from Iran for under $700,000 of premium and that is all written within that particular marketplace I hope, I am not having a go at them specifically I'm just using some examples. The fact that a major U.S. property casualty business. Will offer a 50% reduction in price If its allowed to write a 100% of the business. So can cede it to its reinsurers and try to take over rights on it. That sort of behavior I see increasingly more and more on a daily basis.

Ian Gutterman
Adage Capital

Okay

John R. Charman

But go back to the last go back to the last, and we navigate that. we are on top of our game day-in and day-out throughout our. We just stepped back and let them go kill themselves. So but the reality is back in '97 to 2001 you had similar underwriting behavior and lack of management over side. The difference in two between that period and this period you have to remember there was the reemergence of late and liability issues. As best as suddenly reared its ugly head again. And compounded that the soft market conditions heavily and started to play great strain in on the solvency of companies. And then of course thirdly you had the appalling tragedy of the World Trade Centre which was unmodeled and unexpected and $50 billion. So we are only facing in reality I think one of those three pressure points. But so I don't expect extremes of loss pick movement unless there are major losses, unless there are major catastrophe loses occurred at the same time and I have a wonderful expression called Sod's Law and that can normally take place when you least expected. So what I believe will happen is the fact that this year will show continued deterioration steady deterioration of lost picks. Will this companies that are not underwriting in the market place, under the revenue generating and I think it's going to be important to pick that sort of stuff up.

Ian Gutterman
Adage Capital

Okay, great. Very fair answer John, I appreciate it.

John R. Charman

Thank you.

David B. Greenfield

Thank you.

Operator

Our last question comes from the line of Alain Karaoglan from Banc of America. Please proceed.

Alain Karaoglan
Banc of America

Good morning.

John R. Charman

Good morning Alain.

Alain Karaoglan
Banc of America

Two questions, thank you for the clarification on Ian's question and if I may just ask to add some is it are we focusing essentially your comments mostly on large accounts more than smaller and middle market account because also if in 1997 to 2001 the reinsurance market was extremely competitive and facilitating a lot of insurance companies underwriting and this time around you seemed to think insurance market is relatively stable, would that be --.

John R. Charman

That's what I Alain, I have not understood the financials of many companies that I of I've seen that demonstrate on the insurance side that weak under writing activity which was what I was concentrating on because I've said over the last 18 months the re-insurance market has remained pretty stable and has not given the margin to the primary insurers to allow them to gift the sort of margin offered, there are giving and so I would have expected their last picks to begin to reflect much earlier than they get to show. So, I am equally as puzzled as you should be.

Alain Karaoglan
Banc of America

Okay. Now, a follow up question to the accident share loss ratio I think David you mentioned that I believe in insurance but the accident share loss ratio increase by 3.3 points versus last year and that the sort of large losses cost 8.2 points in this quarter, so does that mean that your loss picks are 5 points lower than they were in last year or this to simplify the math to that I am doing?

David B. Greenfield

Yes, my initial reaction will be that the, that you are little too simplified but I don't have, I guess I don't have all that in front for me to follow what your where you were coming, hold on a second, well by that we can take that off call I think rather than fluster around.

Alain Karaoglan
Banc of America

Okay.

David B. Greenfield

I mean, I think in brief it's going to be driven by the comments I made about using our own experience in loss ratio, initial expected loss ratio is also going to be impacted by price deterioration, but you know to reconcile those numbers but we can take that offline.

Alain Karaoglan
Banc of America

Okay, thank you very much.

John R. Charman

Thanks.

Operator

There are no further questions; I will now like to turn the call over to John Charman for closing remarks.

John R. Charman

Well, thank you again ladies and gentlemen's for taking the time to listen to us and I hope that you get a sense of where we are, I hope you'll get a sense of where we are going to be the next quarter and where we are going to be for the rest of the year, but thank you again for the taking the time to listen to us.

Operator
Thank you for participation in today's conference, this concludes the presentation, you may now disconnect. Have a good day.