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AXIS Capital Holdings Limited NYSE:AXS

FQ1 2014 Earnings Call Transcripts

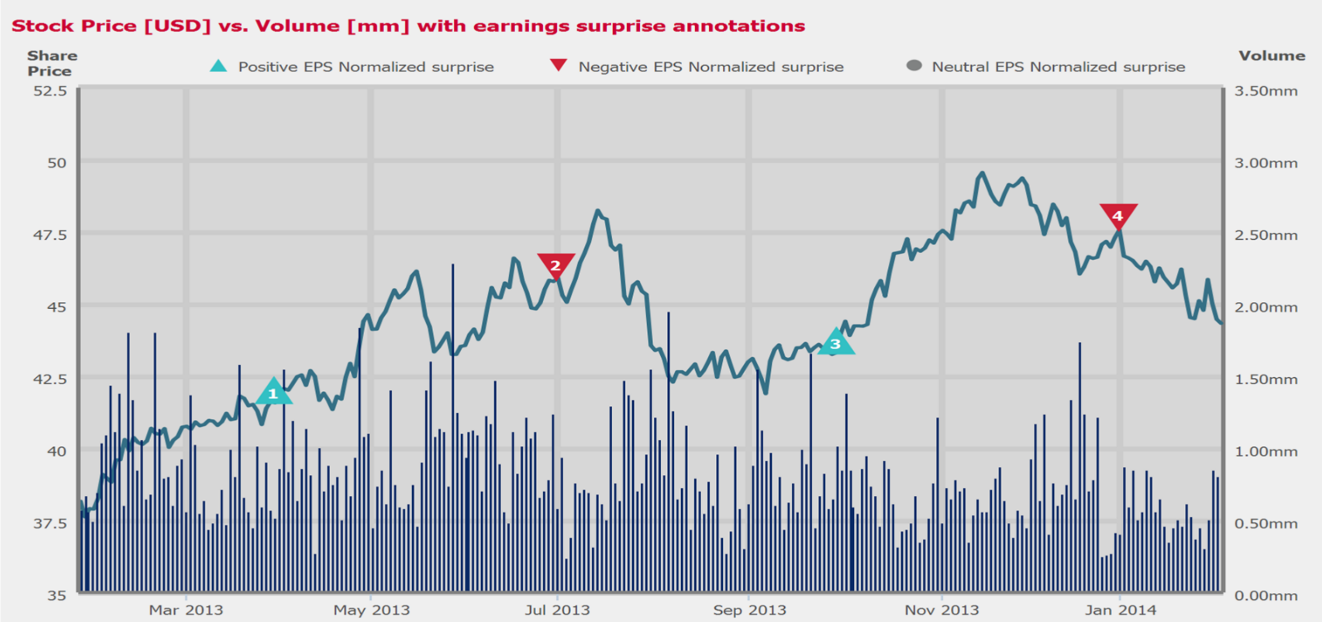
Wednesday, April 30, 2014 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ1 2014-			-FQ2 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.33	1.24	▼(6.77 %)	1.22	4.65	4.77
Revenue (mm)	1648.93	1664.58	▲0.95	1064.23	4176.12	4338.71

Currency: USD

Consensus as of Apr-30-2014 11:04 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2013	1.19	1.92	▲1 61.34 %
FQ2 2013	0.49	0.43	▼2 (12.24 %)
FQ3 2013	1.21	1.74	▲3 43.80 %
FQ4 2013	1.47	1.41	▼4 (4.08 %)

Call Participants

EXECUTIVES

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Joseph C. Henry
CFO & Executive VP

Richard T. Gieryn
Former General Counsel and Corporate Secretary

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Presentation

Operator

Good morning, and welcome to the First Quarter 2014 AXIS Capital Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Rick Gieryn. Please go ahead, sir.

Richard T. Gieryn
Former General Counsel and Corporate Secretary

Thank you, Laura, and 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 First Quarter ended March 31, 2014. Our 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. A replay of the teleconference will be available by dialing (877) 344-7529, United States. And the international number is (412) 317-0088. The conference code for both replay dial-in numbers is 10042444.

With me on today's call are Albert Benchimol, our President and CEO; and Joe Henry, our CFO. Before I turn the call over to Albert, I will remind everyone that the statements made during this call, including the question-and-answer session, which are not historical facts may be forward-looking statements within the meaning of the U.S. federal securities laws.

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

For a discussion of these matters, please refer to the Risk Factors section in our most recent Form 10-K on file with the Securities and Exchange Commission. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.
In addition, this presentation contains information regarding operating income and our consolidated underwriting income, which are non-GAAP financial measures within the meaning of the U.S. federal securities laws.

For a reconciliation of these items to the most directly comparable GAAP financial measures, please refer to our press release, which can be found on our website.

With that, I'd like to turn the call over to Albert.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thanks, Rick, and good morning, ladies and gentlemen. Thank you for joining us today. Last night, AXIS reported its first quarter operating income of $137 million or $1.24 per diluted share, an annualized ROE of 10.6%. We entered the quarter with diluted book value per share of $47.13, an increase of 3% from year end 2013. And we returned over $200 million in capital to our shareholders through share repurchases and common share dividends, repurchasing over 3% of our shares outstanding at the end of last year.

Results are down from last year's exceptional performance. While both quarters had very low cat activity, this year's quarter was impacted by higher property losses in the Insurance segment, including attritional and midsize losses in our U.S. Property book. In comparison, last year's first quarter had very low property loss experience.

In addition, as we indicated last quarter, we've maintained appropriately prudent loss picks for our U.S. D&O insurance business as we restructure that portfolio. We're pleased to report that we are making good progress on this front, and we expect to see the benefits of our actions gradually reflected in our future results. Overall, we reported a solid combined ratio of 91.9%.

We also continue to make significant progress in optimizing our risk-adjusted returns through portfolio balance and diversification and building new sources of profitable growth. Our Accident & Health unit is continuing to import -- improve profitability, getting closer to its goal of breakeven, bringing on significant new business and achieving a better portfolio balance between Insurance and Reinsurance. And while it's still early days, other recent initiatives such as our third-party capital management units and weather and commodities market unit are showing positive contributions to our profitable growth trajectory. As we mentioned before, we also recently reentered the U.S. primary casualty market and are achieving good momentum in this area.

This was our first quarter of underwriting for our new syndicate at Lloyd's. These initiatives will significantly expand our access to international specialty lines, and we are now seeing business we had not seen previously. We're also recently brought on a new health care professional liability chain. While the market is generally getting more competitive, there still remain opportunities to write attractive business in our established lines of business.

I will discuss market conditions in more detail after Joe covers our quarterly results. Joe?

Joseph C. Henry
CFO & Executive VP

Thank you, Albert, and good morning, everyone. During the first quarter, we generated solid results with an annualized operating ROE of 10.6%. In addition, quarterly diluted book value per common share, a key metric in measuring the value we generate for our shareholders, increased by $1.33 per share or almost 3% in the quarter to a record high of $47.13.

Our quarterly results benefited from a quiet quarter with respect to natural catastrophe and weather-related losses as was the case in the comparative quarter of last year. In addition, the continued growth in our book of business and net favorable prior year reserve development contributed positively to our results. These positive factors were partially offset by higher insurance property loss ratios reflecting, among other things, an increase in midsize and attritional loss activity.

In addition, our results continue to be impacted by higher underlying loss ratios for the professional U.S. Insurance D&O business, which we discussed on last quarter's call and which continues to earn in 2014.

Moving into the details of the income statement. Our first quarter gross written premiums were up 4% to $1.8 billion, with growth emanating primarily from our Reinsurance segment.

In the Reinsurance segment, our top line was up $70 million or 6%. Our quarter 1 2014 gross premiums written were significantly impacted by the level of contracts written on a multiyear basis, specifically in the property, catastrophe and motor lines. After adjusting for the portions of the written premium that relate to future underwriting years, gross written premiums were comparable to the premiums written in the same period in 2013. After excluding future year premiums, increases were noted in motor, reflecting growth in our European business written on a proportional basis and agricultural lines, which reflected timing differences of certain renewals and our continuing initiatives to grow this line of business. These increases were offset by decreases in our professional, property and catastrophe lines primarily due to higher season retentions, treaty restructurings and nonrenewals due to pricing.

In our Insurance segment, our top line was up $5 million or 1% compared to the same quarter in 2013 and primarily reflects growth in the liability and credit and political risk lines. Our liability lines continue to contribute positively to our top line growth, primarily due to new business opportunities in the U.S. wholesale excess casualty markets which also benefited from increasing rates and the continued growth of the U.S. primary casualty market, which the company reentered during 2013.

Credit and political risk growth reflects new business written during the quarter. These were partially offset by decreases in property lines, which were impacted by timing differences for renewals of certain contracts and increasingly competitive market conditions and modest decreases in Accident & Health, driven by the loss of a large cedent which was largely offset by new business and increased shares of existing programs.

Our first quarter consolidated net premiums written were up 6%, exceeding the growth rate for gross premiums written. This if similar to what we reported over the previous 3 quarters and reflects the changes we made in the reinsurance purchasing program in our Insurance segment. These changes in our reinsurance buying program included reductions in the quota share session rates for significant parts of our professional lines and liability books, a reduction in the cost of our property pro-risk and cat protections and higher retentions for both Property and Marine.

Our net premiums earned were up 8% to $946 million for the quarter, with growth in both the Insurance and Reinsurance segments. Insurance increased by 12%, primarily driven by professional, accident and health and liability business written in recent periods, as well as the positive impact of the reductions in the ceded reinsurance programs discussed earlier.

Reinsurance growth of 5% primarily reflects business written in prior periods in the professional lines, growth in the motor proportional book and the continued expansion of the agriculture business. This growth was partially offset by decreases in catastrophe and Credit and Surety lines.

Our first quarter 2014 consolidated current accident year loss ratio increased by 5.7 points from 56.4% to 62.1% compared to the same period of last year and was driven by increases in both the Insurance and Reinsurance segments.

Our Insurance segment current accident year loss ratio increased by 9.3 points to 64.8%. This increase was driven by the following 3 key drivers: first, an increase in the current accident year loss ratio in the Property lines which were impacted, among other factors, by a higher level of midsize and attritional losses during the quarter ended March 31, 2014; secondly, higher loss ratios in our Professional Lines relating to certain parts of our D&O business written in the United States, established during the fourth quarter of 2013 following recent loss experience. This increase primarily relates to business written during 2013 which continues to be earned during 2014. And thirdly, a change in the mix of business written by this segment.

Our Reinsurance segment current accident year loss ratio increased by 2.5 points to 59.7% during the first quarter of 2014, primarily due to a change in mix of business written by the segment relative to the comparative quarter of last year. This was partially offset by a decrease in the level of attritional losses incurred across most lines of business in this segment.

Turning to loss reserves established in prior years, we continue to benefit from net favorable loss development, which aggregated to a net $43 million this quarter. Short-tail classes in both segments contributed $29 million of this balance, primarily reflecting better-than-expected loss emergence. During 2013, we began to give way to actuarial methods that reflect our actual experience for liability Reinsurance business, and this resulted in a release of a further $6 million of favorable development in the first quarter of the current year. Other notable movements include net favorable development in the Reinsurance Professional Lines of $6 million and in the Insurance Credit and Political risk lines of $4 million.

During the first quarter of 2014, our acquisition cost ratio increased by 1.6 points quarter-over-quarter from 16.6% to 18.2%, and the increase was primarily driven by our Reinsurance segment. The increase in the acquisition cost ratio for the Reinsurance segment was primarily due to variances of the accruals for loss sensitive features in underlying contracts and higher acquisition costs paid on certain lines of business. Accruals related to loss-sensitive features reduced the segment's acquisition cost ratio in the first quarter of 2013. However, these features had a lesser impact in the first quarter of 2014.

The Insurance segment noted a modest increase in the acquisition cost ratio, driven by a change in the mix of business and the reduction in commissions earned due to lower ceded commissions -- excuse me, premiums -- lower ceded premium.

The increase in the general and administrative expenses were primarily due to personnel-related expenses driven by a higher headcount as well as professional and business costs related to various growth initiatives across the company. The increase in the general and administrative expenses was offset by the growth in net premiums earned, resulting in a comparable G&A expense ratio relative to the prior year quarter. Taken together, these items produced underwriting income of $109 million and a combined ratio of $91.9 million for the quarter.

Net investment income was $83 million for the quarter, down from $114 million in the fourth quarter of 2013 and down from $109 million in the first quarter of last year. The most significant driver of the decrease was the contribution to net investment income by our other investments portfolio.

Other investments contributed $17 million during the quarter versus $41 million in the fourth quarter of 2013 and $43 million in the first quarter of the prior year. The decrease in net investment income from other investments was primarily due to a decrease in the income from hedge funds, which benefited from the strong performance of the equity markets during the fourth quarter and the first quarter of last year. Income from our fixed maturity portfolios, including cash and short-term investments, was $74 million for the quarter compared to last quarter's $78 million and $71 million in the prior year quarter.

In aggregate, the total return of our cash and investments portfolio for the quarter was 1.1%. The positive total returns for the current quarter were due mainly to price improvements on our fixed maturities portfolio as a result of falling U.S. and euro interest rates and continued spread tightening.

We continue to hold a high-quality, well-diversified portfolio with cash and investment assets totaling $15.4 billion at March 31, up approximately $0.6 billion from December 31 and $0.9 billion from a year ago. The increase is primarily due to proceeds from our new senior note issuance, which I will discuss later. The duration of our fixed maturity portfolio was 3.0 years at March 31, down slightly from 3.2 years at the December 31 and 3.1 years at the end of March 2013. Our fixed maturities weighted average credit rating remains unchanged at AA-.

Our total capital at March 31, 2014, was $7.3 billion, including $1.5 billion of senior notes and $600 million of preferred equity, an increase of $500 million from $6.8 billion at December 31, 2013. The increase is primarily driven by our first quarter issuance of $250 million of 2.65% senior unsecured notes, which are due for repayment in 2019; and the issuance of $250 million of 5.15% senior unsecured notes, which are due in 2045. The net proceeds from these offerings are expected to be used towards the repayment of $500 million of our 5.75% senior unsecured notes which mature on December 1, 2014. As such, the increase in our debt-to-capital ratios is expected to be temporary.

The change in our capital position also reflects the net income generated during the quarter and the increase in unrealized gains on investments due to the downward shift in sovereign yield curves and the tightening of credit spreads during the quarter. These are almost totally offset by the continuation of the share repurchases under our board-authorized share repurchase program as well as the payment of common dividends.

During the quarter, we repurchased 4 million of our common shares for a total cost of $179 million. As of last night, we had purchased an additional 0.8 million of our common shares for the month of April for the total year-to-date cost of $216 million. We currently have $550 million still available under the repurchase authorization limits set by our board and expect to continue to be active in this area throughout the second quarter.

Our strategic expansion opportunities continue to progress, and we remain optimistic about our prospects. During the quarter, we commenced the operations of our new syndicate at Lloyd's, AXIS Syndicate 1686, which we believe will provide us with exciting new opportunities through the access to Lloyd's worldwide licenses and extension -- extensive distribution network.

Our new third-party capital initiative, AXIS Ventures, commenced business on January 1, 2014, with the writing of a fully collateralized catastrophe cover. The first quarter results of their operations have been included in our consolidated statement of operations. We expect this vehicle to enter into additional reinsurance transactions throughout the rest of this year.

We believe that our diversified global franchise and strong balance sheet will continue to allow us to take advantage of market opportunities as they emerge.

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

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you, Joe. With respect to market conditions, after 3 years of attractive pricing improvements in the industry, we've seen leveling off of pricing overall with modest decreases across some of the property and specialty lines. However, despite a slowdown in pricing, there remain good fundamentals and opportunities for profitable growth in many insurance lines of business.

Within our Insurance segment, the overall AXIS insurance rate change for the first quarter of 2014 was plus 1%, flat with last quarter's plus 1% level but down from the 5% achieved in the first quarter of last year. Rate changes across U.S. lines were generally stronger than changes in international lines, and rates overall are still at or ahead of loss trends for U.S. business.

In our U.S. division, overall rates continued in a positive direction for the 12th consecutive quarter, and we also maintain strong renewal retentions across all lines. The overall rate change was plus 4%, down slightly from 5 -- plus 5% last quarter. In Property, E&S and the middle market were essentially flat, while the large accounts in risk managed property experienced modest declines in the low single digit range. The weakening of property pricing reflects abundant capacity and a lack of recent cat events.

Other U.S. business experienced positive rate change. Casualty continues strong, with U.S. excess casualty up in the range of plus 10%. This was one of our stronger growth businesses in the first quarter.

In our international division, the overall rate change was down 3% for the quarter, which is consistent with the rate decline achieved last quarter, but this represents only the second quarter of rate declines after 3 years of sustained rate increases. As usual, there were wide variations in rates depending on the line of business or geography. Of the 14 separate lines we monitor, 8 were down, 1 was flat and 5 were up. Lines with rate reductions included global property, with an average 10% rate decline; and energy, with close to 5% decline. These conditions are consistent with the general pricing cycle, as these lines have experienced strong pricing activity in the last few years and few major market losses in addition to new incremental capacity.

Aviation and terrorism are continuing their long decline in the face of low loss activity. While we've seen a couple of large aviation losses in the last few months, including the Asiana incident in San Francisco and the recent disappearance of Malaysian Flight 370, there remains substantial overcapacity. And absent further significant loss activity, we do not expect any noticeable reversal in these trends. Areas showing positive rate movement include Marine liability and the Canadian property.

In our Professional Lines division, the overall rate change was plus 1% for the quarter, equal to last quarter's rate activity. U.S. and Bermuda business achieved a plus 2% rate change, while international professional lines rates were flattish in the quarter. Across almost all products, rate increases on primary layers continue to be meaningfully higher than rates on excess layers. For example, in U.S. financial institution products, primary D&O achieved double-digit increases while overall primary business averaged plus 3%, but excess business was down 1%.

Within commercial D&O, we achieved rate increases in excess of 10% on the U.S. primary book. Excess layers were relatively flat, and side A coverages remain soft, such that the overall U.S. D&O book averaged rate increases of about 4%.

Our E&O lines produced about a 2% positive rate change on aggregate. The larger commercial E&O accounts are seeing increases in the low single digits but are relatively flat on excess layers.

To conclude, the Insurance business still has plenty of opportunities to write attractive business but access to the business and risk selection are increasingly an important differentiator, and AXIS is very well positioned in that regard.

Moving on to Reinsurance. As you know, our first quarter is dominated by the significant January 1 renewal date. Excluding agriculture, approximately 56% of our expiring 2013 reinsurance premium renewed during the quarter. As we discussed in our February conference call, our January 1 renewal delivered approximately a 6% increase in premiums on the expiring portfolio. Overall, abundant capacity, strong balance sheets and consolidation of programs led to lower reinsurance pricing across most regions and lines of business. This started at January 1 and continued through the quarter into the April 1 renewals.

The 3 key themes so far this year are greater retentions from our stronger cedents, consolidation and restructuring of programs and substantial increase in supply coming from both established players and alternative capital. While I am optimistic that, over time, the industry will both develop new products to market as well as rightsize its capital, it appears that in the near term, at least, there is pressure as many reinsurers try to protect their top line and providers of alternative capital attempt to fully deploy their new capacity.

We continue to maintain discipline in our underwriting and have pulled back from certain opportunities when they no longer meet our return requirements. That said, we are starting from a strong base of profitability, and we continue to write and renew business with acceptable levels of profitability.

Agriculture renewals occur across both the first and second quarter. During the first quarter, approximately $80 million of crop premiums expired and were up for renewal, and we wrote about $100 million on renewals on new business. More is being written in the second quarter, and we will report final numbers on our next conference call. Meanwhile, this business is proceeding in line with expectations.

Primary premiums for the industry are down year-over-year as lower commodity prices are reducing values at risk. On excess of loss programs, we're seeing reductions of up to 10% on loss-free accounts. Most premiums for us in the first quarter were U.S. MPCI business, and we plan and expect to balance that with more non-U.S. business over the rest of the year.

The U.S. reinsurance market experienced rate reductions and increased ceding commissions in response to significant competition and abundant market capacity. Clients are consolidating programs and changing structures in order to lower reinsurance costs. Nevertheless, as I noted, U.S. Reinsurance business has generally been reasonably attractive. And while margins are compressing, many lines and programs are still generating adequate margins and meeting hurdle rates.

For U.S. property reinsurance, commercial insurance rates began leveling off at January 1 with increasing their momentum through April 1. Capacity for purposed reinsurance is abundant, but some discipline remains for Gulf Coast and Southeast to wind and flood exposures. For U.S. Professional Lines, clients are generally retaining more business on their balance sheets. We're seeing increased competition from new entrants offering smaller lines as falling markets. Our position as an established lead market in many of these areas has helped with many of our longer-term client relationships. Reinsurers are sometimes paying more ceding commissions on professional lines and liability business. However, this is generally offset by primary rate improvements in the low to mid-single digits in several of these lines, such that technical profitability is staying reasonably stable.

Our April 1 Asian renewals were mostly dominated by Japanese property reinsurance business. Market conditions and rates generally deteriorated faster than expected. Many clients consolidated programs and combined previously separate wind and earthquake XOL covers. We also observed significant new capacity from both existing and new competition.

As a result, ceding commissions on pro rata programs increased, wind and flood excess of loss rates declined 10% to 15% and earthquake excess of lost rates declined to the mid-teens. You will recall, of course, that pricing in these lines were much stronger post the tsunami and earthquake.

Despite these difficult market conditions, we believe rates in Asia are generally still adequate and meet our requirements. AXIS Re Asia Pacific continues to make strides in boosting our strategic profile in the Asian market. Looking forward to the upcoming June 1 and July 1 renewals which are dominated by U.S. catastrophe excess of loss renewals, we expect continued softening of rates. We expect to see reductions in the range of 10% or greater and continued strong showing by alternative capital providers. Florida is not a large part of our book and we have excellent relationships, so I expect we will fare better than most.

AXIS is very well positioned to outperform in a transitioning market. As a hybrid insurer and reinsurer with a wide range of products, strong relationships, superior ratings and a global platform, we see a wide variety of opportunities.

We are not dependent on any one line or market and can afford to remain disciplined and pursue only that business which we consider to be profitable and additive to our portfolio. While we are seeing some pressure on reinsurance margins, we also get the benefit of better terms on the reinsurance that we purchase so we have excellent balance.

Before I close my prepared remarks, I'd like to update you on recent management changes at AXIS. We continue to attract high-quality talent. David Phillips recently joined us as our new Chief Investment Officer. I've worked with David in the past, and I'm confident that given his proven track record, he will contribute significantly to the success of AXIS going forward.

In addition, as most of you are aware, we recently announced the retirement of Dennis Reding as Chief Operating Officer. Jack Gressier has assumed his position, while Peter Wilson, who is formerly President of U.S. Insurance and has extensive management experience operating global insurance platforms will succeed Jack as CEO of AXIS Insurance. These management transitions highlight the deep bench of talent in AXIS, and I have great confidence in the abilities of both Jack and Peter to succeed in their new roles.

Of course, I have to mention that Dennis Reding's contribution to AXIS have been invaluable. Since Dennis joined us in 2002, he has established our U.S. operations and has been an integral part of our growth. We are fortunate that he will continue to maintain an important presence at AXIS as a senior adviser and member of our Executive Committee.
With that, let's open the call for questions. Operator?

Question and Answer

Operator

[Operator Instructions] And our first question today will come from Amit Kumar of Macquarie.

Amit Kumar
Macquarie Research

Just a few sort of clarifications on the U.S. D&O book. Would it be possible to sort of quantify that number, what you mentioned, I guess, in the 3 key drivers? And what I was trying to do was also looking at your global triangles, I'm trying to figure out what is sort of the reserve base for the U.S. D&O separately and what might be the initial loss pick for that piece? Could you sort of -- maybe let's -- help us put this issue to bed and give some comment on those numbers?

Joseph C. Henry
CFO & Executive VP

Let me jump in first, Amit, on the loss ratios for the CMS business. As you recall in the fourth quarter last year, we strengthened our loss reserves for the 2012 and 2013 accident years. We bumped the loss ratios for 2012 to 93%, and we bumped the loss ratio for '13 to 90%. Despite the fact that we've had excellent experience in the first quarter of the year, we've kept the loss ratio for that -- for the 2014 year at 89%. So what you have is you have the unearned premiums from 2013 earning through at those higher loss ratios. And the new business, we kept at a higher loss ratio despite the fact that the underlying business was -- behaved very, very well in the first quarter. As a matter of fact, I can jump into just a couple of metrics along those lines. Our attachment -- and this is related to the restructuring of the business. Our attachment point on the business that we discussed on CMS has actually increased about 11% to $20 million. Average limits have decreased about 7% to $7 million. Specifically on the public D&O business, our average attachment point has increased 80% to $45 million. The average limit has actually stayed flat. Public D&O represents about 34% of our portfolio today versus 51% of the portfolio at the first quarter of 2013. And as far as rate changes are concerned, Albert mentioned this but I'll just say in terms of primary public D&O and primary ancillary lines, our average increase was 13.4% in Q1.

Amit Kumar
Macquarie Research

Okay, got it. And I guess on the last call and when looking at the transcript, you mentioned that the U.S. D&O premiums at that time were $50 million. Was that for 2013? Or what was that $50 million number which was given last -- on the last call?

Joseph C. Henry
CFO & Executive VP

Yes. That was basically the CMS book of business, the U.S. primary public D&O business within that.

Albert A. Benchimol
President, Chief Executive Officer & Director

Amit, within the U.S. Professional Lines book, the CMS book, it's actually a much broader book. We write both excess policies, fiduciary policies, ancillary lines, a number of business. But the book that really caused us the biggest problem was really the primary portion of that book, which we said that was approximately $50 million annually. And that clearly is the book that's given us the most trouble which we have been working through. And as you can hear from Joe's statistics, our people have worked hard to make immediate changes in that portfolio. And I think also interesting is the fact that the reported losses in the quarter versus expectations were also quite good. But the reality is we're not going to react very quickly to that from a reserving perspective. I think -- we believe the prudent thing to do is to continue to book that business at the higher loss ratios, make sure that we've got it right, make sure that we've got it contained and notwithstanding some early indications, make sure that the trends are sufficiently powerful that we can then comfortably reduce the ratios. So that's the policy decision we've made to be prudent in booking this business as we're going through this restructuring of the portfolio.

Amit Kumar
Macquarie Research

Got it, and that makes perfect sense. The only other question, and I will requeue, were there any additional sort of uptick in the claims activity? I know we talked about that in the last call. I think what you're saying is that you have been conservative and that's why you see this. But beyond that, has that book been silent in Q1, or has there been any other changes in terms of loss cost trends?

Joseph C. Henry
CFO & Executive VP

No. Amit, it was very silent in Q1. As a matter of fact, we only had one claim over $5 million and that actually related to prior years. So the straight answer to it is no, we've had very low loss activity in the first quarter.

Operator

Our next question will come from Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So just spoke with Joe. Do you -- I've missed the buyback since April 1. What was that number?

Joe? I'm sorry I missed the buyback number since April 1. Do you have that number handy?

Joseph C. Henry
CFO & Executive VP

Right, it's $37 million.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

$37 million. Okay, great. And then did you quantify -- or could you quantify how much of an impact the noncat property losses had in Insurance in the first quarter?

Joseph C. Henry
CFO & Executive VP

Yes, just stay with me a second. So what I'm going to do in answering the question, Mike, is just lead you from last year's accident year loss ratio to this year's accident loss ratio. We talked about it in the script. It was 9.3 points. Remember, again, that we had a very good quarter in the first quarter of 2013. But at 55.5%, the major changes were 2 factors: first, as we just covered, the professional initial expected loss ratio increase was about 3 points of that change. The property was about 6 points in total, and that's a combination of experienced, the losses that we actually incurred, as well as trying to be a little bit more conservative on the reserving side for those losses. So that's 6 points plus 3 in Professional. There are a couple of other factors. Mix impacted it a little bit, with liability and A&H having a larger portion of earned premium. That ticked it up a little bit, and then we also had a -- the Malaysian Air loss in our aviation book of business which ticked it up another half a point. So that's the components of the increase from Q1 '13 to Q1 '14.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. That's really helpful. I guess, I'm trying to figure it out. I kind of went back and looked at the last few quarters and, I mean, you -- very often, I mean, mix has been a factor in kind of talking about the change in the underlying on a year-over-year basis and it's been -- it's definitely been volatile and I know when -- more pronounced initiatives on the crop side, with the expense in loss ratio composition different than a lot of the other business created some noise as well. But I'm just trying to figure out like what -- is this a good snapshot maybe kind of adjusting partially for some of those items maybe to get a normalized, large loss load in Insurance? And then in Reinsurance, I didn't really see anything specifically cited. Are these close to where you expect to be running these businesses, at least, in '14 until some of the professional liability catch-up wears off?

Albert A. Benchimol
President, Chief Executive Officer & Director

Let me address that. I think that there is going to be just normal volatility, and let's talk about property. I think on the Professional Lines, I think we -- as you've got it, Michael, we're going to book it high for a while. And as the UPR runs off over the rest of the year, that will have a smaller impact, but I think you got that piece. I think on the Property, we actually will break it up into 4 different areas. We've got small attritional, midsize attritional, weather-related cat. So we really look at it in terms of different versions. To be fair, in both last year's first quarter and this year's first quarter, there really wasn't any true weather loss or cat loss. So it really relates to the small attritional and the midsize attritional. And if you look at the last 3 years, say, the average of small and midsize attritional is approximately 45% -- mid-40s. And the range quarter-over-quarter has been anywhere from the low 30s to the mid-50s. And in fact, the highest quarter was 56%. It was the first quarter of '12. The second highest quarter was this quarter with 54%. In comparison, the first quarter of last year was a 37%. So it really reflects the volatility that you're going to have with these events. So plus or minus 10% from the average of 45% on attritional -- small attritional and midsized, these were really unrelated fire events. They're -- we look very hard for trends, and so -- it's very difficult to find them. So in this case, I think that it's just the normal volatility that you would expect to see within these small attritional losses. And this quarter was an unusual quarter in terms of frequency, and the first quarter of last year was unusual in terms of favorable. So there's clearly some, I would say, probably 3 points plus of just volatility year-over-year just on those events.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. I mean, I guess -- I know that when you kind of set out to make some changes and improve the business, you talking about reducing volatility, looking for areas of profitable growth. I mean, I'm just trying to -- looking now backwards, I mean, I look at the -- if I compare AXIS to kind of other companies that I cover, I mean, the volatility in underlying from quarter-to-quarter has probably been more here than almost anywhere, other than maybe the pure reinsurers. And so I'm just trying to understand, where are we in that progression? And is -- this volatility in underwriting, has it been somewhat surprising to you, or is it just -- I'm mean, there's noise every quarter and when you look at the numbers, you feel comfortable that you're kind of moving towards the path that you sort of outlined a couple of years back?

Albert A. Benchimol
President, Chief Executive Officer & Director

Michael, that's an excellent question, and let's take it from the broader perspective that you're putting in place. There's no question that we want to move our book to a less volatile book, and we have made a number of changes to move it in that direction, including bringing on some less volatile business. Admittedly, some of that less volatile business does have higher combined ratios, but let's put this on the table right now. From an ROE perspective, these higher combined-ratio businesses are highly accretive to the book of business because they require much less capital and provide a more steady stream of underwriting profitability going forward. And so we think that is absolutely a right move. When I look at volatility, Michael, I look less at the quarterly volatility than I do with the annual volatility. And every year, you go through -- especially on the property and the specialty lines that can be affected by individual risk losses, you can have a situation where you have all of your losses in one quarter and yet end up with the same kind of average on an annual basis. I can tell you from the analyses of the books that we have built over the last 3 years, in all cases, our risk management analyses, distributions and curves all show that the curves are actually getting less dispersed, therefore reducing the volatility around each of those portfolios. And so it's that confidence in a more steady profit stream, lower volatility and lower cat exposure that have really allowed us to embark upon an aggressive stock repurchase program because we can actually afford to be much more efficient in the use of our capital, higher premium to surplus leverage, all of which are resulting in a better ROE longer term. But in our business, I think we have to accept that there is going to be quarterly volatility. Everything that I'm seeing here is generally consistent. The one thing that we have not yet seen to prove out our strategy is demonstrating to you and the rest of our investors that over a period of 2 or 3, 4 cats in the industry, will our percentage of book value lost to those cats be as high as it was in the past? I'm confident that it will not be. And so what we're seeing is the higher attritional loss ratios that you would expect from the more stable business, but you don't see the expected improvements that we expected to see when, in the large cats, we should lose less of our book value than we have in the past. I hope that's helpful in making you understand where we're going.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

No, that's great. And I guess just one -- I mean, on the cat side, I guess, you're -- that is one area -- that is also an area where you have grown in the last couple of years. And with pricing declines, I would imagine that, that exposure is potentially higher now as well than a couple of years ago, is that -- or is that not right?

Albert A. Benchimol
President, Chief Executive Officer & Director

No, Michael, actually, it's not. And one thing that you will -- that you might be looking at is the fact that we've grown in the Southeast. And the reason we've grown in the Southeast is because we were underrepresented in Florida in particular. But if you look at almost all of our exposures, there's always going to be some random volatility on a quarter-to-quarter basis because you take a look at the portfolio you have, and you move that up or down. And I know that in a couple of lines we showed some increases in this quarter versus last quarter. But again, if you go back on an annual basis comparing the end of the first quarter to the end of the first quarter of last year to the end of the first quarter the year before, you'll find that consistency overall as a percentage of our shareholders' equity, the exposures are coming down. The Southeast went up a little bit again because we felt that we were underweight in what is recognized as one of the most attractive markets. But let me give you another piece of data here. We look at not only our individual PMLs by loss events, but we model things like what's our aggregate annual cat result over 100 -- over a 1-in-250 period. So you take all of the cat events, you model what they would do to you as a company for that year and you say, "How much would we lose of our book value in that model?" In the last 3 years alone, we have reduced that exposure by over 30%. The modeled 1-in-250 aggregate cat loss has been -- and this is aggregate, not just individual PMLs. So there's actually more balance in the portfolio. And again, we're doing all of this to generate a more consistently profitable book of business over time.

Operator

And our next question comes from Jay Cohen of BofA.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Albert, could you talk about the third-party capital management business, kind of what's the plan there, and is that showing up in your numbers at all this quarter? And if so, where is it?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes. The plan is -- as you know, we've said this -- we've just started this last year. We're starting slow. We want to make sure that we don't create capacity that we can't use. And so I think what we're doing is very, very targeted. We have -- you can see in the minority interest of our books that there is both a $50 million slug of minority equity, and you can also see in our net income that there is a minority interest, which is basically that share of the underwriting profits that are being ceded to our partners on the third-party capital side. We are looking at 2 or 3 different ways of utilizing third-party capital. One is through individual transactions, B. is through quota shares of portions of our business, both on the cat side as well on the ag side. And Jay and Ben and the team are also speaking to a number of parties about potentially other lines of business that could be of interest to third-party capital. So you should expect that over -- as the year continues that there will be greater capacity provided by third parties and we will be ceding to them various portions of different books of business in ways that make sense to them and make sense to us. Joe, you want to add something?

Joseph C. Henry
CFO & Executive VP

Yes. Jay, just geography, it's in Other income. We're including our weather and commodities business in AXIS Ventures as Other income in our income statement.

Operator

And next we have a question from Vinay Misquith of Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

The first question, I just wanted to get some clarifications on the midsized property loss. So I believe the net impact was 6 points higher this quarter versus the year ago quarter. But you said that the year ago quarter was an abnormally low quarter. How much would you say this quarter was higher than normal? So would that be about 3 points higher than normal?

Joseph C. Henry
CFO & Executive VP

Yes. Vinay, I'd say 3 points is good.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, great. So if I just want to normalize the numbers, it's 3 points. Great. The second point is on the professional liability. You mentioned that the difference was 3 points this year versus last year. Looking at 3 points on the owned premiums in the primary insurance operation, that's about $12 million. And I believe that the premiums earned -- you said that the professional lines premiums is also about $50 million per year, so that's about $12 million per quarter. So it seems awfully high. So that's 100% loss ratio. I'm trying to just square these numbers.

Albert A. Benchimol
President, Chief Executive Officer & Director

No. We write -- actually, what we talked about was $50 million was the primary book. We write about a couple of hundred million dollars in the U.S., and we probably write $800 million, $900 million all in on a gross basis. And so what we spoke to was the problematic book. But we have been increasing just given the fact that the loss trends are moving in a direction in pricing and the professional liability has generally been flat for the last couple of years. You have both a normal trend of pricing increases -- sorry, of loss ratio increases as well as the corrective action that we're doing in -- the corrective action that we're doing in the primary D&O book in the U.S. But we are clearly booking the primary D&O book in the U.S. at very, very conservative loss ratios right now.

Vinay Gerard Misquith
Evercore ISI, Research Division

Sure. So the subject premium is not $50 million, it's more like a couple of hundred million dollars?

Joseph C. Henry
CFO & Executive VP

No, it's not.

Albert A. Benchimol
President, Chief Executive Officer & Director

That's Correct.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. And so just looking forward in the future, I mean, I understand that this year is going to be a higher loss ratio for the business and so you'll probably see the 3 points higher maybe for the next couple of quarters. But should we expect the full 3 points lower next year once you've repriced the business, or is that too optimistic?

Albert A. Benchimol
President, Chief Executive Officer & Director

I think we should look at 2 things. As I'm thinking about this right now, obviously, the comparison is to the 2 quarters that had the very best ratios last year. So the toughest comparison is going to be in the first and second quarter because we started to raise the ratios in the third quarter and of course, we had the corrective action in the fourth quarter. So you wouldn't see that bump up in the fourth quarter because it's already been taken. So just to give you a sense of the geography of the comparisons. The second issue is that as we work through the UPR from last year, that's going to be affecting our results of this year. I think we have to be realistic and expect that we're not going to take the book exactly to where we want it in a single renewal. My guess is that as we work through this, it'll take us probably 2 renewals to get the book ideally to where we want it. So I think that you're going to see progression through '14 and through '15 and kind of the ideal numbers, if you would, will be in '16. But you should see progression in terms of the ratios starting on a comparative basis from the second quarter of this year because we already booked them higher in the second quarter -- sorry, the third quarter of last year, fourth quarter of last year. We're running through the heavier numbers in '14. And then in '15, you'll start to see the improvement through the better-quality book that we're writing in '14 into '15 and then through a second layer of renewals to really get the book to where we want it, providing more progress in '16 from the book that we write in '15.

Vinay Gerard Misquith
Evercore ISI, Research Division

Sure, that's helpful. And then just one last question. You've talked a lot about sort of remixing the portfolio into a low-volatility business. And I think I'm trying to look at my model and saying, "Well, I have the same level of cats in there." So when you look in terms of budgeting for your cats, what's the normalized cat number you have -- like for the company as a whole or if you want to give it by segment, that's helpful.

Albert A. Benchimol
President, Chief Executive Officer & Director

I'm sure it will be very helpful, but we've never disclosed it before. So obviously, we'll -- I always have a hard time disclosing cat losses in this because of the differences in the book of business. I would say that we are expecting that, as a percentage of premiums, cat losses would be lower going forward than they have in the past. But we're not prepared at this point in time to disclose cat losses for each of our books.

Operator

And next we have a question from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Albert, a couple of quick questions here for you. The first one, just with respect to the comments on your kind of Southeast wind and the increasing exposure there. Should we expect you to continue to kind of balance that portfolio, maybe even increase at midyear renewals?

Joseph C. Henry
CFO & Executive VP

Well, 2 things here. One is it really will depend on the conditions and the opportunities available to us in the midyear renewals. So I think it's very much a reaction to, will the business available to us optimize our portfolio or actually make it worse and more peaky? I don't think that we have any appetite for any significant growth in any of our PMLs, but would there be a few million dollars up or down based on opportunities? That kind of volatility would be normal volatility in terms of optimizing each renewal. But we do not have a strong appetite for any kind of significant increase in any of our PMLs.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then my -- I guess my second question on the A&H business, kind of what's the kind of near term outlook for that given the 5% reduction in gross written in the first quarter?

Albert A. Benchimol
President, Chief Executive Officer & Director

Don't make too much of this decrease. Because as Joe pointed out, there was a significant quota share that was nonrenewed in the first quarter. And to their credits, our A&H team was able to replace a substantial amount of that nonrenewal. And I have no doubt that the very, very successful new business generation that our company has had in the past and into the first quarter will continue through the rest of the year. So we're still projecting meaningful premium growth through the rest of the year.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. So there was like an unearned premium that went out in the first quarter that hurt it?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes. We -- as you know, when you start the business, you end up with relatively lumpy, large contracts. This was a large reinsurance contract, and I have to maybe give a little story here because I'm actually quite proud of what happened here. This is a perfect example of how we add value to our clients. This was a privately held company that had grown perhaps a little too fast, had some surplus stress. We provided significant advice in terms of the way to renew it, in terms of the mix of business and so on. And we prepared to offer -- and we were able to offer them a quota share. As that business grew, they actually -- and improved, they actually offered us a larger quota share which we took. They were successful to the point where they actually grew and needed some incremental capital, and we made a small investment in that company to help them grow, to fund that growth. Subsequent to that, they were sold. In fact, the transaction just closed this week or last week. And the new owners are keeping the book essentially net. And although we are losing some premium, we are actually going to make a significant gain on the investment that we made in that company. So over the short life of our A&H division, they were able to help at least this one company significantly improve their profitability and outlook. They made underwriting profits on the reinsurance treaty for a couple of years, and they made a significant capital gain on the investment that we made in that party. So it's actually a very successful story for us, and I have no doubt that by the end of the second quarter, the disappearance of that reinsurance treaty will not be noticeable in our numbers.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then Albert, just one last question here. Are there any parts of your business you think you can strengthen through M&A right now or have any desire to?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes. It's interesting, I've said this before. We're actually very fortunate in that we already have a very wide range of products and a very good geography. So we have absolutely 0 need of M&A to achieve our strategic goals. That said, there may be opportunities where there are opportunities for scale or to increase in one area or the other. But I can very easily see our strategy as moving forward and succeeding without an acquisition just as I can also easily see an opportunistic acquisition that makes us perhaps a little bit bigger or a little bit more efficient in one or the other books. It's purely opportunistic.

Operator

And our next question is from Ryan Clark [ph] of Janney Capital.

Unknown Analyst

Just quickly, with the small A&H transaction, were you guys interested in pursuing that as well? Or is that a price issue or just want to try and figure out why that wasn't attractive for you guys to look at?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, we see a lot of opportunities, and they've got to go through a filter and they need to make sense to us. And there are always some businesses that seem to make sense to somebody else more than it does for us. And we will -- we're interested in growing. We're interested in making acquisitions to grow our A&H business, but it's got to be a transaction that makes sense to us and ultimately creates value for you, our shareholders. Sometimes, we can do it and we pursue them. And sometimes, it doesn't look as attractive to us and we choose to pass.

Unknown Analyst

Okay. And then again, this is from a broader perspective. I would say there's been some news down on the island of some potential mergers and acquisitions. Just want to get your thoughts broadly about a consolidation in Bermuda and maybe the potential willingness to look at potentially, I guess, dilutive book value deals.

Albert A. Benchimol
President, Chief Executive Officer & Director

We get paid for growing book value. At the end of the day, that's the only thing that matters, and growing book value ideally at a very attractive rate with relatively low volatility. And as you know, that's been the essence of our strategy for the last 2, 3 years in terms of the volatility, although it's always been the core of our strategy to grow book value. I think that as a general guideline, acquisitions can have a "1-year" dilutive impact as you go through paid fees. Sometimes, it takes you a year or 2 to achieve all the efficiencies. But at the end of the day, it's got to make sense from an -- on an NPV perspective from day 1. And there are some acquisitions that might be okay if they're dilutive in the first year, if you can make it up by the second year or so. But a transaction which is long-term dilutive is really hard to -- it's hard to reconcile.

Operator

And the next question will be from Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First, just to follow up on the A&H. And do you have sort of -- is the 300 to 500 annual premium still the target that you can achieve your targeted profitability in that business?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, that's right. I think that, as we've said before, we think an earned premium base north of $300 million is what's required to achieve underwriting profitability not because of the losses or the acquisition expense but basically to pay for the platform to generate those premiums. So I do believe that an earned premium base in excess of $300 million is that magic level for underwriting profitability, and then $500 million and so on for achieving your running rate target ROEs in the mid-teens. That continues to be our view. The market has changed significantly and -- especially in the U.S. in terms of the nature of the opportunities with the Affordable Care Act and so on and so forth, and we're always modifying our tactics on the ground. But the $300 million and the $5 million levels that you've discussed are still good benchmarks.

Kai Pan
Morgan Stanley, Research Division

Great. Then on the investment side, so with the new hire, David Phillips, will there be any change in terms of your asset allocation as well as the sort of investment process?

Albert A. Benchimol
President, Chief Executive Officer & Director

No. I think to be fair, we should give David an opportunity to review what there is. But you might expect that we would not have hired a CIO who had philosophies and risk appetite that were meaningfully different than what we had. So I think that the core of the strategy is essentially the same. Will there be changes here or there? I would expect that we would have some new ideas and some new insights, but I would think that these would be changes at the margins as opposed to a fundamental change in our reserve -- in our investing processes or risk appetite.

Kai Pan
Morgan Stanley, Research Division

Lastly, do you have any sort of exposure to the Ukraine situation?

Albert A. Benchimol
President, Chief Executive Officer & Director

I presume that what you're referring to would be political risk or credit risk. We have a very, very small amount of exposure in terms of our credit and political risk book in our credit risk solutions. We've reviewed those. We think those are continuing to perform well. They are key and core to the Ukrainian economy, and we don't believe that we are at any noticeable risk at this point in time.

Operator

And the next question will come from Meyer Shields of from KBW.

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

Two, I think, unrelated questions. First, when we look at AXIS Ventures, should we expect that to be a sharing of sort of the historical AXIS book? Or are there lines of business or accounts that would go there that maybe wouldn't fit as well on AXIS paper?

Albert A. Benchimol
President, Chief Executive Officer & Director

Both. Jay likes to -- Jay Nichols, who's the CEO of our Reinsurance division, has an expression that I adore, and that is that we are the juncture where risk meets capital. And there are multiple sources of capital that we have. One is our own capital. Some of it is our reinsurance capital, some of it may be third-party capital. We have an outstanding distribution platform here using both insurance and reinsurance. And there are a number of risks that we have access to, which may be too much for our own equity, and so it would very easy to take the benefit of our ability to access that business and share that business with the reinsurers or with third-party capital. There may be third-party capital providers who have a very specific risk appetite with whom we would be sitting down. And we'd say, "You know what, this is not a business that we have historically pursued. But if it's a business that you're interested in, let's see if we can find some of that for you." So it's really a combination of the 2. It's a partnership between ourselves and our third-party capital providers, and we will share with them both business that we write on our own that we've written historically. But there is a very good possibility that we could sit down with them, identify lines of business that are attractive to them and help them access that business.

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

Okay. Is there any way of teasing out the fees that you collect versus your ownership share of the actual performance?

Albert A. Benchimol
President, Chief Executive Officer & Director

Obviously, it's not material right now. But over time, I think we're going to have to find a way to provide those kinds of insights to you.

Operator

With that question, we will conclude our question-and-answer session. I would like to turn the call back over to Albert Benchimol for any closing remarks.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you very much, operator. Well, to all, thank you for your time and we will continue on our strategy and our stock repurchase programs. And as always, if you have some additional questions, please feel free to call Joe or Roger and we will answer your questions. Thank you.

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