S&P Global
Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS

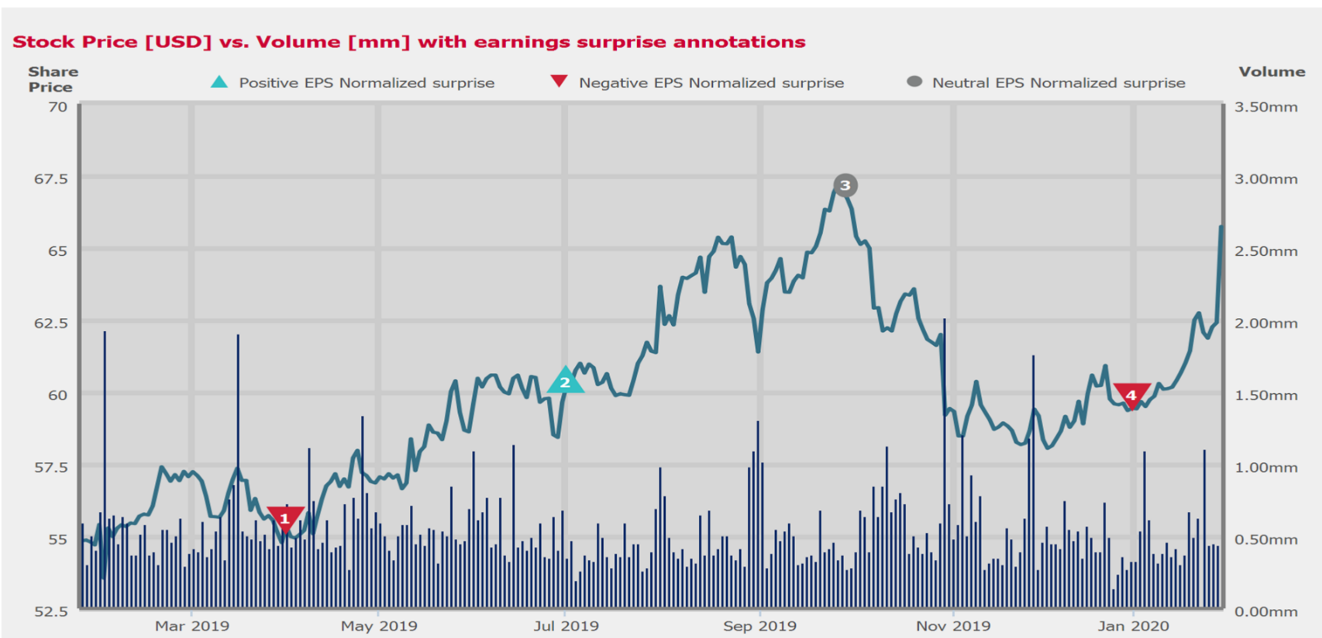
FQ4 2019 Earnings Call Transcripts

Thursday, January 30, 2020 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-			-FQ1 2020-	-FY 2019-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	0.18	0.05	(72.22 %)	1.38	2.72	2.52	
Revenue (mm)	741.78	786.15	5.98	1966.91	4624.99	4489.62	

Currency: USD
Consensus as of Jan-30-2020 10:39 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	1.39	1.24	1 (10.79 %)
FQ2 2019	1.31	1.62	2 23.66 %
FQ3 2019	0.18	(0.39)	NM
FQ4 2019	0.18	0.05	3 (72.22 %)

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Call Participants

EXECUTIVES

Albert A. Benchimol
CEO, President & Director

Matthew Jay Rohrmann
Head of Investor Relations

Peter John Vogt
CFO & Executive VP

ANALYSTS

Amit Kumar
The Buckingham Research Group Incorporated

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

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

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Presentation

Operator

Good morning, and welcome to the Fourth Quarter 2019 Axis Capital Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Matt Rohrmann, Head of Investor Relations. Please go ahead.

Matthew Jay Rohrmann
Head of Investor Relations

Thank you, Andrew. Good morning, ladies and gentlemen. I'm happy to welcome you to our conference call to discuss our financial results for Axis Capital for the fourth quarter and year ended December 31, 2019. Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you'd like copies, please visit the information section of our website.

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. With me today are Albert Benchimol, our President and CEO; and Peter Vogt, our CFO.

Before I turn the call over to Albert, I'll 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. Forward-looking statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from those projected in the forward-looking statements due to a variety of factors, including risk factors set forth in Axis' most recent report on Form 10-K as well as the additional risks identified in the cautionary note regarding forward-looking statements in our earnings press release issued yesterday evening. We undertake no obligation to update or revise publicly any forward-looking statements.

In addition, this presentation may contain non-GAAP financial measures. For the purposes of this call, we believe the best way to discuss our operating results is on ex-PGAAP basis, which is a better representation of the run rate performance of our business. Reconciliations are included in our earnings press release and financial supplement.

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

Albert A. Benchimol
CEO, President & Director

Thank you, Matt. Good morning, and thank you for joining our fourth quarter earnings call.

Getting right down to it, we did not deliver the financial results that we planned for this year. But at the same time, we remain confident that the extensive repositioning of our portfolios and investments in our talent, organization and digital capabilities will shortly deliver the performance and value creation our team and our shareholders expect of us.

In a few minutes, Pete will speak about the quarter, but my opening comments will focus on our full year performance and year-over-year trends.

Our performance this year suffered from a busy Japanese typhoon season and poor crop conditions in United States. We also received increased loss notices from prior period catastrophes throughout the year from both Typhoon Jebi as well as the Florida hurricanes. Additionally, we saw higher-than-planned losses in our aviation and property lines. The various loss events were entirely consistent with normal industry volatility for these lines and our market shares, although we recognize that the growth of our business in Japan, while a good decision for the long term, came at a bad time, just before the beginning of a record Japanese typhoon season.

Nevertheless, even with all of these headwinds, our portfolio actions have still delivered meaningful progress, with a reduction of 1.1 points to our current year ex-cat loss ratio, including 1.5 point reduction in insurance and a bit below 1 point in reinsurance. This brings the reduction in our consolidated ex-cat loss ratio to more than 3 points over a 2-year period.

We've also continued to grow our highly attractive fee business with our strategic capital partners, generating more than $80 million in fees this year, a 65% increase over the $48 million that we collected in 2018.

Our teams have been diligently managing and repositioning our portfolios to deliver a stronger, more stable underwriting result and the ex-cat accident year combined ratio trends are coming down year-over-year with lower intra-year volatility.

Across our portfolio, we've been reducing limits, increasing attachment points where appropriate, canceling unprofitable business and changing mix to focus on the more attractive subsectors of risk classes as well as reducing PMLs. Where we felt that we could not make sufficient improvement to our performance quickly enough, we exited businesses. We're confident that this will lead to lower loss ratios in 2020 and beyond.

We were able to replace most of the premium volume lost in canceled or exited business with growth in lines with pricing that met or exceeded our target requirements. However, even with the strong rate increases observed this year, many lines still are not priced at adequate levels, and we prefer to wait for sufficient pricing before pursuing growth in those markets. Thus, earned premiums were down modestly this year, and that puts some pressure on our G&A ratio, although we were able to meet our G&A ratio targets with good expense control. And we continue to look for additional opportunities for cost savings.

We will nevertheless sustain our investments in digital and analytics capabilities. Our digital capabilities have been much appreciated by our top distribution partners, leading to new business growth in the desirable small accounts that we're looking to grow.

With all of this work to further remediate our portfolio, we enter 2020 with a stronger book that is less volatile than in prior years. We are leaner and more digitally enabled, and we continue to be well positioned in the markets that are seeing the most significant pricing corrections.

While we are disappointed in our 2019 financial results, we have a clear line of sight to stronger earnings. Our teams are aligned, committed and determined to sustain the improving trends in our portfolio.

I'll now turn the call over to Pete, who will take us through the financials, and I return with the review of market conditions before opening the call to Q&A. Pete?

Peter John Vogt
CFO & Executive VP

Thank you, Albert, and good morning, everyone.

During the quarter, we incurred a net loss attributable to common shareholders of $10 million, for an annualized ROE of a negative 0.8%. On an ex-PGAAP basis, our operating income was $7 million, generating an ex-PGAAP annualized operating ROE of 0.6 point. Our results this quarter were adversely impacted by a number of items, including pretax cat and weather losses net of reinstatement premiums of $140 million. As we recently announced, these losses were driven by Japanese Typhoon Hagibis, Australian wildfires and regional weather events in the United States, an increase in the current accident year loss ratio ex-cat and weather in the reinsurance segment due to loss experienced in agriculture, predominantly related to poor weather conditions that impacted our U.S. book of business. Also negatively impacting us was a decrease in net favorable prior year reserve development in the reinsurance segment, attributable to elevated loss experience in the '17 and '18 accident years for property and cat lines, including loss creep associated with Hurricane Irma, consistent with industry trends.

And lastly, diluted book value per share decreased by 0.8 point in the quarter to $55.79. This was principally driven by the small operating gain being offset by investment losses and common dividends.

Some positive highlights for the quarter include a significant improvement in the current accident year loss ratio ex-cat and weather in the insurance segment, largely due to a decrease in loss experience associated with almost every line of business.

Net investment income of $118 million for the quarter also helped.

With respect to the Novae transaction, in the quarter, the net drag on operating income from PGAAP, VOBA DAC adjustments was $3 million after tax, approximately $0.03 per share. As we have previously disclosed, we expect the VOBA DAC impact to be minimal from this point moving forward. As Matt mentioned, we believe the best way to discuss our results is on an ex-PGAAP basis, which is a better representation of the run rate performance of our business. This is relevant for our group results and our insurance segment results this quarter. The impact of PGAAP on the reinsurance segment was not material. Accordingly, all my remarks regarding the quarterly operating performance for group and insurance will be on an ex-PGAAP basis.

Moving into the details.

At the group level, the current quarter consolidated ex-PGAAP combined ratio was 107.4%, a decrease of 11.2 points from the fourth quarter of 2018. The cat loss ratio in the quarter was 12.1%, largely driven by Japanese Typhoon Hagibis, as I mentioned earlier. This ratio was down from 22.5% in the prior year, which included Hurricane Michael and the California wildfires. The decrease of 3.2 points in the current accident year loss ratio ex-cat and weather was attributable to the insurance segment, while the reinsurance segment stayed relatively flat compared to 2018, given the results coming from the U.S. crop business.

The consolidated ex-PGAAP acquisition cost ratio was 22.5%, and that is comparable to the prior year. The consolidated G&A expense ratio of 11.8% increased by 0.5 point compared to the fourth quarter of 2018. The increase in the G&A ratio was driven by the decrease in net premiums earned. On a normalized basis, the G&A ratio for the quarter was 13.6%. The difference between the reported number and the normalized number is a reduction of variable comp taken during the quarter. The consolidated G&A expense ratio for the year was 13.9%. This was 14.3 on a normalized basis. The normalized year-to-date ratio was in line with our previously communicated 2019 target of a mid-14s SG&A ratio.

We remain on track to achieve net savings related to our transformation program of $100 million compared to our 2017 run rate. However, in addition, we continue to drive other expense actions to improve our G&A ratio, and we continue to focus on achieving a mid-13s run rate by the end of 2020 and going into 2021.

Fee income from strategic capital partners was $23 million this quarter compared to $6 million in the prior year quarter. The fourth quarter of 2018 was impacted by lower profit commission income due to the 2018 catastrophes. This important part of our business continues to grow well. As Albert noted, year-to-date, fees aggregated to $80 million this year, up from $48 million last year.

Now we'll move to the segments.

Let's begin with insurance.

The insurance segment reported an increase in gross premiums written of $41 million in the fourth quarter. We saw a good new business opportunities in both liability and professional lines as well as some growth in marine. The insurance ex-PGAAP combined ratio was 95.2, which is 13.8 points lower than the same period last year. This quarter, pretax cat and weather-related losses were $20 million, primarily attributable to worldwide weather events, and that compares to $92 million in the same period of 2018.

The insurance segment current accident year loss ratio ex-cat and weather decreased by almost 7.5 points. This was driven by improved loss experience in property and aviation lines associated with the repositioning of those portfolios as well as improved loss experience in marine and credit and political risk. The ratio was also positively impacted by rate and trend in the quarter, although we did not fully reflect the better rate over trend and our loss ratios for our liability and professional lines of business. Lastly, the ratio was negatively impacted by changes in business mix as property business now comprises a smaller percentage of our book. Regarding this last point, the positive offset to that mix impact on the ex-cat and weather loss ratio has been a decrease in the current accident year cat loss ratio.

The insurance segment's ex-PGAAP acquisition cost ratio was 22.3%, which is just over 1 point increase from the prior period. This was predominantly driven by an increase in profit commission expense. The G&A ratio increased by 1 point compared to the fourth quarter of 2018, driven by the decrease in net premiums earned due to the repositioning of the portfolio rather than expense growth.

Now let's move on to the reinsurance segment.

The reinsurance segment reported an increase in gross premiums written of $48 million in the fourth quarter, mainly driven by new business opportunities in liability and A&H, together with some prior period premium adjustments. The reinsurance combined ratio was 113.5%, which was 10.5 points lower than the same period last year. Pretax cat and weather-related losses net of reinstatement premiums were $120 million, primarily attributable to Japanese Typhoon Hagibis, Australian wildfires and regional weather events in the United States. This compared to $177 million in the same period of 2018.

The reinsurance segment current accident year ex-cat and weather loss ratio of 68.9% was 0.6 point higher compared to the fourth quarter of 2018. The increase included over 5 points related to the loss experience in agriculture, predominantly due to poor weather conditions that impacted the U.S. book of business, partially offset by improved loss experience in a number of lines, particularly in property, and a benefit from change in business mix. The reinsurance segment acquisition cost ratio of 22.6% was 1.5 points lower than last year, principally due to adjustments related to loss sensitive features, the impact of retrocessional contracts and changes in business mix. The G&A expense ratio decreased by over 1 point compared to the fourth quarter of 2018, mainly due to additional fees from strategic capital partners.

Net investment income of $118 million was comparable to the fourth quarter of 2018, but had a slight increase in income from fixed income maturities and an improvement in income from alternative investments attributable to hedge funds. Our current book yield is 2.8%, and our new money yield is 2.4%. And the duration of our portfolio is approximately 3.2 years.

With respect to capital actions. In December, we issued $425 million of junior subordinated notes at a favorable rate. In January, $225 million of the proceeds were used to redeem all of our Series D preferred shares. We intend to use the remaining proceeds from the December notes, along with the $300 million in proceeds from the notes we issued in June of last year, to repay our $500 million of senior notes maturing in June of 2020. Because we prefunded the cash required to redeem the $225 million of preferred shares as well as repay the $500 million coming due in June, total capital in our year-end balance sheet was elevated by $725 million. Adjusting the year-end balance sheet for the redemption of the preferreds and the repayment of the senior notes, our pro forma year-end debt would be $1.3 billion and our preferred shares would be 550 million, resulting in a pro forma debt plus preferred to total capital ratio of 28%.

That summarizes our fourth quarter results.

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

Albert A. Benchimol
CEO, President & Director

Thank you, Pete.

Let's do a quick overview of market conditions and we'll then open the call for questions.

In short, we're seeing pricing momentum accelerates across substantially all of our markets.

Let's begin with insurance.

The average rate increase on renewed business across our insurance portfolio was 11% in the fourth quarter. This compares to 8% in the third, 7% in the second and 5% in the first quarter. For the full year, our consolidated insurance business averaged rate increases of more than 7% on a gross basis.

In the quarter, our U.S. division was our strongest market, with average rate increases of 14%. Excess casualty achieved a 24% increase, and primary casualty was up 11%. And in both lines, we had strong [indiscernible] growth on a gross basis, but cautiously maintained our high quota share sessions in the year.

E&S property rates were up 16%. Notwithstanding these strong increases, we actually shrank the book over the year as we looked to rightsize our property exposures and manage our volatility.

Our U.S. program business, which focuses on homogeneous books of smaller accounts, achieved a 6% increase.

Overall, rates in our U.S. division were up more than 10% on average for the year.

Within our North American professional lines division, rate increases continued to accelerate to an average of 7% in the quarter. Rates were strongest in our commercial management solutions unit, with average increases of 17%. In addition, our Bermuda AXIS in the Canadian specialty insurance businesses both achieved double-digit rate increases. Our E&O and cyber lines saw much more modest pricing action, averaging about 1%. Overall, our North American professional lines division achieved average rate increases in excess of 4% for the year.

In our London-based International Insurance division, rates were up more than 12% on average in the quarter. And just as in recent past, there was a wide range of increases across the book. The average rate increase across our renewable energy book was 29% in the quarter. And we achieved 20% increases in both aviation and global property. In addition, we saw increases of 15% across our professional and casualty lines and 11% across our marine business. On the other hand, terrorism and political and credit risk were essentially flat.

The average rate increases in the international division for the full year were 7%. Notwithstanding this strong market conditions, we nevertheless reduced our international book by 14% in the year. We took meaningful corrective action on underperforming portfolios, especially in property, as we build a more balanced book. The reduction in property lines and exited businesses was partially offset by strong growth in marine lines and more modest growth in other lines.

Overall, across the entire insurance book, about 92% of the book renewed flat to up this year.

Let's now move to reinsurance.

The fourth quarter is not big for renewals. So we'll focus on January 1, when we renew approximately half of our annual reinsurance premium.

Overall, we measured average renewal rate increases in the mid-single digits over the whole book, with more modest increases on average in pro rata business and high single-digit increases in nonproportional business. However, there was a very wide range of outcomes based on geography and line of business.

Within our Asia Pacific division, excluding the Japanese market, which is renewed primarily in April 1, recent results were generally good, and thus, renewals were soft, with average rates down a couple of points.

In our EMEA LATAM division, excess of loss contracts were up double digits, driven by liability and motor business, while proportional business was up closer to the mid single-digit range in lines such as motor, property, liability and professional lines. Catastrophe and A&H lines were relatively flat in EMEA LATAM.

Within our North America division, our total P&C book, excluding A&H, experienced high single-digit increases in excess of loss business and mid-single-digit increases on pro rata business, with the strongest increases in property, professional lines and casualty. Separately, our A&H book was up in the low single digits.

In our Global Markets division, which includes global specialty lines and Lloyd's, rates generally responded to recent loss experience. For example, aviation renewals were up more than 40% and engineering was up close to 15%, while other lines were in the low to mid-single digits.

Overall, we maintain a high level of discipline, focusing on profitability and portfolio balance. As a result, we reduced premiums in all markets other than the U.S. where we felt pricing was more adequate. When all is said and done, we expect the January 1 renewal premiums to come in about 10% below expiring volume, but with an improved price technical ratio even as we shrank the property cat portfolio to achieve that better balance and lower volatility.

Looking forward, we expect the Japanese cat market, which renews on April 1, to respond positively to the high loss activity that we saw in the last 2 years. In our experience, Japan has been a responsible market. We expect substantial rate increases to reflect an expectation of greater frequency and severity of events going forward and improved returns on risk. We intend to manage our exposures and take advantage of improved pricing to start generating an adequate return on the 2019 investment we've made in this key market.

As to mid-year Florida renewals, there's still a long way off, but certainly, we would expect double-digit increases with higher rates on treaties that have delivered meaningful adverse development on prior year losses.

In all upcoming renewals, our goals will be the same, to improve the quality and profitability of our book of business, support the best accounts and strengthen Axis Re's positioning with clients and brokers. Over the last couple of years, we've clarified our reinsurance strategy and strengthened service standards and execution. We're very pleased with the recent improvements in our customer engagement surveys and intend to continue advancing our leadership in global reinsurance.

So market conditions are highly encouraging. But as I noted earlier, despite strong increases to date, many lines are still not at attractive levels. And it will take 1, 2 or even more cycles of renewal increases before we see a uniformly healthy and sustainable market. Thus, we now believe that rate increases will last through 2020 and very likely longer. That will be excellent for AXIS, as we expect we'll be able to generate strong profitable growth under the anticipated market conditions given our positioning in our core markets. Moreover, as the bulk of the required exits of unprofitable business is now behind us, that new business generation should begin to flow more visibly to our top line.

Before I conclude, I'd like to return to our underwriting performance of this year and the path that we must achieve -- we must take to achieve required profitability.

As we discussed with you, we believe we must deliver combined ratios in the mid-90s to deliver adequate ROEs. Notwithstanding our full year combined ratio in 2019, we see a clear path to delivering on this target given all the remediation work that we've carried out in recent years.

Our financial results in 2019 reflect the portfolio we wrote in 2018. But we're starting 2020 with a very different book of business: better price, smaller limits and more balance, with much less runoff business and catastrophe exposure. We believe that absent unusual loss activity, we can deliver accident year ex-cat loss ratios that are 2 to 3 points lower. And our mean expected cat losses should come in 1 to 2 points lower, given the reductions in our loss curves. We've also eliminated a large amount of high commission business, which combined with a different mix of business, should reduce our average acquisition expense by 1 to 2 points. We know there are no guarantees in the world of insurance. But everything we see in our book and in our markets makes us increasingly confident that we can deliver on our goals, and our team is determined to make it happen.
And with that, let's please open the line for questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from Amit Kumar of Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

I've got a few questions. Just starting with the insurance segment. I know you talked about overall underlying XX improvement. How should we think about insurance segment underlying XX? And maybe also talk about the discussion on kind of the medium-sized losses as well as drag from nonrenewed business.

Albert A. Benchimol
CEO, President & Director

That's fair. Peter, do you want to take us through that?

Peter John Vogt
CFO & Executive VP

Yes. So Amit, your question was specifically around insurance. Now if I think about insurance, one of the best ways to look at it might be just to look at the full year. And the full year 2019 for insurance, the ex-cat loss ratio was at 57%, and that full year has what I would consider to be a pretty good result of midsized losses. I know we've talked about that in the past. And to me, those are losses that are in the book and they'll be there on a go forward. So if I started that 57%, one of the things that we know is hitting that is the amount of remediation we did in the insurance book, that, that 57 includes about 2 points of hit from the exited lines of business, so if I look just year -- if I look at the year without the exited businesses, it actually ran at a 55%. We do think the exited businesses will still hurt us by 0.5 point as we go into 2020. So if I'm starting at a 57% for insurance, I think that can come down by 1.5 points just from the exited businesses. And then if I look at the positive impact of rate and trend, which we got for the full year there last year and we're continuing to see as we enter 2020, I think that is at least another 1 point to 1.5 points. And then we look at underwriting actions that we've taken where we've canceled business, especially in our facilities book, that will help the ex-cat loss ratio as well as the acquisition ratio. And so I can see us really getting to the insurance group running in that mid-50s type ex-cat loss ratio.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. That's actually very helpful. But the second question I had was, Albert, you talked about the opportunities. And I guess you're faced with an interesting conundrum where pricing is going to go up materially at 4 1 and 6 1, but you're trying to bring down PMLs. How should we -- I know it's early days. How should we think about 4 1 and 6 1 PMLs versus 1 1 [uneven] 2019 PMLs?

Albert A. Benchimol
CEO, President & Director

I want to be clear, Amit. There's no conundrum here. It's all about managing our exposures down. And the business that we're going to keep being more balanced and more profitable. And that's exactly what we're working towards. I think with regard to the Japanese market, I think it's less of reducing PMLs there, and just making sure that we're in the right layers of the towers and making sure that we're adequately priced. I think in Florida, my expectation is that the Florida market will be highly disrupted in the mid years. As you know, there's a lot of M&A. There's a lot of change. There's a lot of concern. I expect there will be opportunities. And again, it will be important for us to support the best accounts. I expect that there will be some business that we will get off from. But at the end of the day, what I can be sure of is that the July 1 portfolio will be much more balanced and a much better price than it was before.

Amit Kumar
The Buckingham Research Group Incorporated

Okay. Last question, and I'll stop. Q1 to date, any thoughts on aviation losses, coronavirus disruption or any other losses out there which could potentially impact Q1 numbers?

Albert A. Benchimol
CEO, President & Director

Amit, I'm going to give you my entire risk section of the 10-K. I think that we don't have anything unusual in terms of losses that wouldn't be reasonably expected within our assumed attritional loss ratios. I know that there are a lot of questions around the coronavirus. And let me address that right now. We certainly, in our A&H book write a range of business and within that range of business, most of it would not be exposed to the coronavirus. There are 2 places where that might be. One is, we do write a book across the world of excess mortality. Those are generally for life companies. Those are generally based on the entire population and require a meaningful increase above the annual average expectations, and those attachment points are relatively remote. So we do not believe that, certainly, at this point in time, with the data that we're seeing, that this would be an effective portfolio. We do have one exposure which we acquired as part of our corporate citizenship. We own a $10 million World Health Organization Pandemic Response Bond, and that's $10 million. We bought it in 2017. It starts to pay out at a 250 fatalities and runs out at 2,500 fatalities. So that's a bond that we've identified. There are currently about 130 fatalities. So clearly, you're getting close to starting to have a loss on that bond. But at the end of the day, it's $10 million, and it's a limited amount in the context of our overall portfolio. As of now, we are not aware of any other exposures or any other losses in our portfolio that would not be reasonably expected in our attritional loss ratios. One more comment, Amit. I've got my lawyer in my room, so I want to be clear. We will not update this on a weekly or daily basis. I'm just giving you that information now.

Operator

The next question comes from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

So a couple of quick ones here for you all. But I'm just curious. Property lines, obviously, you've been tricking a lot. Will that continue to shrink in 2020, your property exposures? You continue to try to mitigate volatility? Or will you see opportunities there at some point?

Albert A. Benchimol
CEO, President & Director

So the first thing I want to do is I want to give a shout out to our teams because they did an incredible job over the last 2 years of changing the book. There is some change, but it's a change that we've already identified. So for example, at the 1 1 renewals, there were a handful of facilities which we notified cancellation, and we've already pre-advised that there are some facilities that are renewing through the first half of the year where we've already told people that we would not be renewing them. So it's already anticipated, but it's not fully captured in the 2019 numbers that we've given you. So I would say that there is still some top line reduction to be seen in the property book. But the good news from our perspective is we've identified all of those. We've already taken action. So we've gotten clear visibility of how we're moving forward on property.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then, Albert, with respect to your Lloyd's business, I guess maybe a couple of questions on that. One, what is your capacity going to look like for 2020? And what do you expect out of that business? And then also, just your perspective on the Lloyd's market. I know there's been some additional stamp capacity that was given out. Do we expect the same type of rate and price discipline there through 2020 and maybe to '21?

Albert A. Benchimol
CEO, President & Director

Right. So let me address our numbers. So we expect modest -- modest growth, not much growth because that Lloyd's book is where we've had some of the largest corrections. But no issue there. I think the interesting thing is with regard to the market. The market and the leadership of the Lloyd's market is very clear, that it is going to continue to push for more improvement in the market. I don't have to list for you. You know it better than I do. The number of companies that have shut down, exited facilities, reduced limits. So this is not 1 or 2 people in the market saying, we want to improve our book. This is a uniform approach to improvement in the market. I expect that will continue. Certainly, everything that I hear in the Lloyd's market is that it will continue.

There were a handful of syndicates, absolutely, that were granted increased limits. But to be fair, those were the markets that you would want to see growing, markets that have historically demonstrated a top quartile performance, strong discipline. So to your point, Brian, I don't believe that the increased capacity granted to those syndicates should be viewed as troubling development in the market.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then just one last one for you, Albert. I'm just curious. Given all the changes that we made, et cetera, et cetera, what do you think the kind of run rate, underlying kind of return on equity of your company is now, given current interest rates?

Albert A. Benchimol
CEO, President & Director

Well, we have been targeting for a couple of years now minimum double-digit returns in the 10%, 11% plus range. Admittedly, we haven't reached it. But we think that everything that we've done still gives us more confidence today more than ever that we can reach those low double-digit returns.

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes. But I guess, I guess given the pricing environment that we've got right now, which 2 years ago, I don't think it was anticipated. Wouldn't have been maybe better than that 10%, 11%?

Albert A. Benchimol
CEO, President & Director

Yes, I was giving you actually more -- I was giving you more calendar year estimates. I think if you look at what pricing is. I would say that the pricing right now. And again, some lines are good, some lines are great, some lines are not good enough. But I would say, on average, it's in the low teens return on capital from a pricing perspective.

Operator

The next Question comes from Meyer Shields of KBW.

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

One, I guess, small ball question. It looks like on a sequential basis, the Japanese PMLs rose. And I guess I was a little surprised to see that because the primary cat renewals are [4 1s]. I was hoping you could talk about what was going on underneath there?

Albert A. Benchimol
CEO, President & Director

Very simple. It's the year-end covers. We changed the reinsurance and retro numbers that we acquired, so this is just a new book based on the new cat reinsurance and retro covers that we have in place.

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

Okay. That's helpful. One quick question with regard to your first quarter capacities. Is there still exposure to Australian losses, the wildfire losses? Or is that all captured in the fourth quarter, assuming no new fires?

Albert A. Benchimol
CEO, President & Director

Our read of those treaties are that many of them are -- include hours clauses. So there are new hours periods that are going to be coming in, in the first quarter. So it's very possible that the market will experience some bush fire losses in the first quarter, but I think it's too early to tell.

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

Okay. And then I think this is an accounting question. But we've seen rate increases accelerate over the course of 2019. When we look at the quarterly progression in 2020, should we assume that the rate trend gap would similarly expand over the course of the year as those accelerating rate increases are earned in?

Peter John Vogt
CFO & Executive VP

Meyer, this is Peter. Yes, every time Albert talks about the rate environment, he's really talking about gross written premium in that particular quarter. So it takes the following 4 quarters to see that earn in. So we should see acceleration through 2020 when we think about that.

Operator

The next question comes from Yaron Kinar of Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

My first question goes back to the cat losses for the year. Can you maybe tell us how much in excess of normalized or expectations they were?

Peter John Vogt
CFO & Executive VP

First, I'd say -- it's a good question. We really don't give guidance. And so -- and we really never shot out what our cat load would be. But the one thing that I would say, even though I'm not giving guidance, as we look at the portfolio that we have today, especially with all the changes that we've made, even going into this 1.1, and especially when I look at the net PML reductions, especially in the 105 part of the curve, we actually look at our mean modeled expected cat loss ratio really improving from what we've seen over the last couple of years and where it's been. And you can see that in the net PML. So I would take what we saw in '19 and -- as something that we should see come down as we go forward.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. Beyond the 1.1 to 2 points that Albert had called out in the prepared remarks?

Peter John Vogt
CFO & Executive VP

Well, as I look at the cat loss ratio over the last 7 years, it was about 9 points. If I look over a longer period, 7.5, obviously, last year. But I do think that as I look into 2020, we should be coming down from that 7.5 by a good 1 to 2 points, which would actually be down materially from the 9 points that I see over the last 7 years as an average.

Albert A. Benchimol
CEO, President & Director

So Yaron, you'll understand our reticence to project cat. I mean it's the most unpredictable of all line. What we can tell you is that when we look at the cat curves, and we report to you a lot on the PMLs, -- on PMLs, but when we're thinking about a year, where we're thinking more about the aggregate annual loss curves. And when we look at those, we've taken them down several points over the last 3 years. And we've taken it down -- just this year alone, the AAL curve around the mean in the [1 in 5], 1 to 2 points alone just this year. And so I think using the 5-year average, in my own mind, is overstating it because, on the one hand, '17 and '18 were horrendous years, and they were with very different cat curves. So I would argue that we're optimistic that we can see meaningful improvement in our cat results. And I would point you to the insurance book this year, with a smaller property book and frankly different managed. You're already starting to see some evidence of a lower cat loss experience in the insurance book. But again, it's impossible to talk about cat on an annual basis. We're really talking about modeled losses and averages over the year.

Peter John Vogt
CFO & Executive VP

Yes. And again, looking at our PMLs, you can look at the 1 and 250 PML from the third quarter to the fourth quarter is down about 30%. And that wasn't just a 1 and 250 move. It was through the curve.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Right. Okay. And then my next question goes to the reinsurance segments underlying your accident year loss ratio. So I think it was, what, 69%. You called out about 5 points of crop losses there. So if I compare to 4Q '18, I think you called out like 8 points of extraordinary items back then, and that was kind of a 69% as well. So I'm just trying to figure out what the other 3 to 4 points of maybe headwinds were this quarter. Or how should I think of the attritional loss rate at -- in the reinsurance segment?

Peter John Vogt
CFO & Executive VP

Yes. That's a good question. And as Albert said, we -- we're -- especially given our business, we really don't give guidance. And I would note that Matt mentioned at the outset, we undertake no obligation to update or revise publicly these forward-looking statements. And these statements involve risks and uncertainties and assumptions that could be affected by a bunch of factors. Having said that, if I look at the full year reinsurance, which is probably the best way to look at it. That's running at a 64%. And when I look at that 64% ex-cat loss ratio, the agriculture contributed almost 1.5 points to that. And I'm not going to do a, let's exclude midsize losses. So we'll keep all the loss, midsized losses in there. But that was really an extraordinary event on our U.S. crop business. So if I adjust a little bit for that, and then I know we also expect to see the benefit from a number of underwriter actions taken in 2019, as Steve Arora came in, brought in a new team, and they really reshaped the book during 2019. And that actually followed onto 1 1 as we saw the -- as we're going to see a decrease in that GWP. We do think that, that 64 should be able to come down to a low 60s type ex-cat loss ratio on a run rate basis.

Operator

The next question comes from Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Yes. So I listened to prepared commentary, I think, Albert, you said that the new book of business should help to lower the loss ratio by maybe 200 to 300 basis points next year. I don't think that was a forecast. You were just sort of giving some sense of proportion. But when I listened to the price increase you spoke about, there were plenty of double-digit rate increases and certainly high single-digit rate increases. It leads me to be concerned about the back book to some extent. Can you talk a little bit when we see the

10-K, what the development is going to look like for years 2015 through 2018, particularly excluding the cat elements of the losses?

Albert A. Benchimol
CEO, President & Director

So let me refer to the increases. I think that in many cases, we're making assumptions. So 2 things. One, the pricing is on a gross basis, not a net basis. And as I mentioned earlier, some of those lines, we have a high quota shares. So our average rate increase on a net basis is a little lower, not much, but a little lower than the gross basis. But more importantly, in those lines of business where we are seeing the biggest increases in terms of property, in terms of liability and some of the D&O lines, we're pricing in and reserving in substantial increases in loss trends, not because we are concerned about our back book, but because we recognize, like a lot of people in the industry, that there is more uncertainty around a number of these loss trends, and we would rather be more prudent in booking the -- a number in 2020 or 2019. And if it turns out that we -- that it's better, we will be very happy to release reserves as we have in the past. We just don't believe that we should be overly aggressive or optimistic in setting these loss estimates as we go forward.

But if your answer is, given that your loss -- that your pricing increases appear so strong and that your projected improvement in loss ratio is more modest, does that mean that you're taking a cautious approach to reserving going forward? The answer is, yes, we're absolutely taking a cautious approach going forward just as we have in the past.

Joshua David Shanker
Deutsche Bank AG, Research Division

And can you give any descriptors around how the 2015 to 2018 liability reserves will look when we see the triangles?

Albert A. Benchimol
CEO, President & Director

Look, we give you some information on a quarterly basis. I hope you'll understand that -- the first triangle will be in the 10-K. There will be other triangles more detailed in '18. We have a process whereby the 10-K gets reviewed and gets approved. That has not happened yet. And I'm reticent to provide guidance on what the 10-K will say prior to having it reviewed through our normal processes, but that should come out shortly, and you'll have the information.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And given where the stock currently trades, can you talk a little bit about the balance between market opportunity and putting capital to work in growth versus repurchasing your own stock?

Peter John Vogt
CFO & Executive VP

Josh, this is Peter. I'll take that. First thing I'd say is our capital position at the end of the year is very strong. We feel very confident about our capital position. I know there's been some questions. We come out of '17 with HIMM, the purchase of Novae. And where we sit at year-end 2019, we feel really good about where our capital position is. Having said that, where we're seeing the market today and where we're seeing opportunity, we really are looking at putting most of our capital right now towards organic growth for good opportunity. If that doesn't materialize and we don't see good market opportunities, obviously, we'll look at the other aspects we can do for capital management. But right now, we feel a very solid balance sheet at year-end, and we're looking forward to growing in some good markets as we head into 2020.

Operator

The next question comes from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, Albert, is going back to, Albert, some of your commentary. When you were talking about some of your insurance line, you said that you did not fully reflect price exceeding trends for some of your liability lines. Can you just give us a sense of where you're booking trend to? And where you see it? And I guess, it goes back to Josh's question. As you're thinking about the 2 to 3 points of improvement, how you kind of see loss trend developing for some of those longer tail liability lines, like what you booked it out in the fourth quarter and kind of an outlook for 2020?

Albert A. Benchimol
CEO, President & Director

No. When you look at our longer tail lines, I mean the trends can be anywhere from 4% to 7%, and so that's generally it. But again, I think from a reserving perspective, I don't think that we would be reflecting the net price increase versus the loss trends. I think that -- no, I don't think I know that we will be booking more of an uncertainty factor in the loss ratios as we go forward. And then with a little bit more visibility. Obviously, our actuaries will have more comfort. But you are hearing everything that we're hearing. And we think it's inappropriate to assume the most optimistic assumptions. But back to your earlier question, our long tail lines are -- trends are anywhere from 4% to 7%.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then you mentioned some good pricing momentum in the reinsurance market at January 1, and seems like you also think that will continue as we go to mid-year. In terms of AXIS' own outbound reinsurance purchasing, have you guys changed any -- how you're purchasing your reinsurance in 2020 in response to higher pricing that you would have to pay on that coverage?

Albert A. Benchimol
CEO, President & Director

Yes. That's a fair question. Do you want to start with here? So I think that we have a number of contracts that we renew across the entire year. Obviously, you -- we spoke earlier in this call about some of our regional PMLs being affected by differences in contract structures that we did in our retro book. So for example, we found aggregate coverage to be much more expensive this year. So we decided to change the structure to include more regional structures, more top and drops, other things so that we could be more efficient in the purchase of our reinsurance as we go through each of our major renewals. We have a big property insurance property, property cat buy in May. We are currently reviewing all of that. And what I will say is, in the last couple of years, I've been incredibly impressed with our risk funding and ceded re people. They've been -- the analytics that they've brought to the game, the visit, the transparency, the engagement with their -- with the actuaries with the underwriters. We will be watching this literally to the last minute, evaluating all options and then making sure that we select and execute on the best option for the company. So we -- all I can tell you is we're very open-minded about making changes as we go at every renewal to make sure that we optimize the book at every point in time. I will say that there are going to have to be some changes because the book is different. And I think that as we reflect a different book, our needs are going to be different. And so we fully expect to keep our ceded re people very busy, but we're very optimistic that we will get great terms or at least as good a term as we could get in the market in the upcoming renewals.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And one just quick numbers question. Relative to the $100 million of saves, where do you guys stand at the end of 2019 so we can think about what's left for 2020?

Peter John Vogt
CFO & Executive VP

Yes. So Elyse, we're well tasked to get that. So we actually had $73 million in run rate by the end of 2019. However, I would say that my commentary where I talked about where we think we have to guide our G&A ratio over the next couple of years is really important. I think when we set out even our target of saving the $100 million 2 years ago, we were not anticipating as much remediation in our books as we did do. So our premiums are a bit lower than we thought at that time, yet we're still committed to those G&A ratios. So while I don't anticipate any major programs or anything, we continue to look at every way we can to bring down our cost through other efficiencies that we're getting throughout the organization.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Albert Benchimol for any closing remarks.

Albert A. Benchimol
CEO, President & Director

Thank you. And thank you all for your time this morning. And again, if I could just repeat the key message.

We believe we're starting 2020 with a very different book of business than the one we wrote in '18. Moreover, on a daily basis, our team is working hard to continuously improve our book, and I do want to thank them for their significant efforts. You have our commitment that we will do everything in our power to deliver on our goals in 2020. Thank you.

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