S&P Capital IQ

CONTENTS

AXIS Capital Holdings Limited NYSE:AXS

FQ4 2010 Earnings Call Transcripts

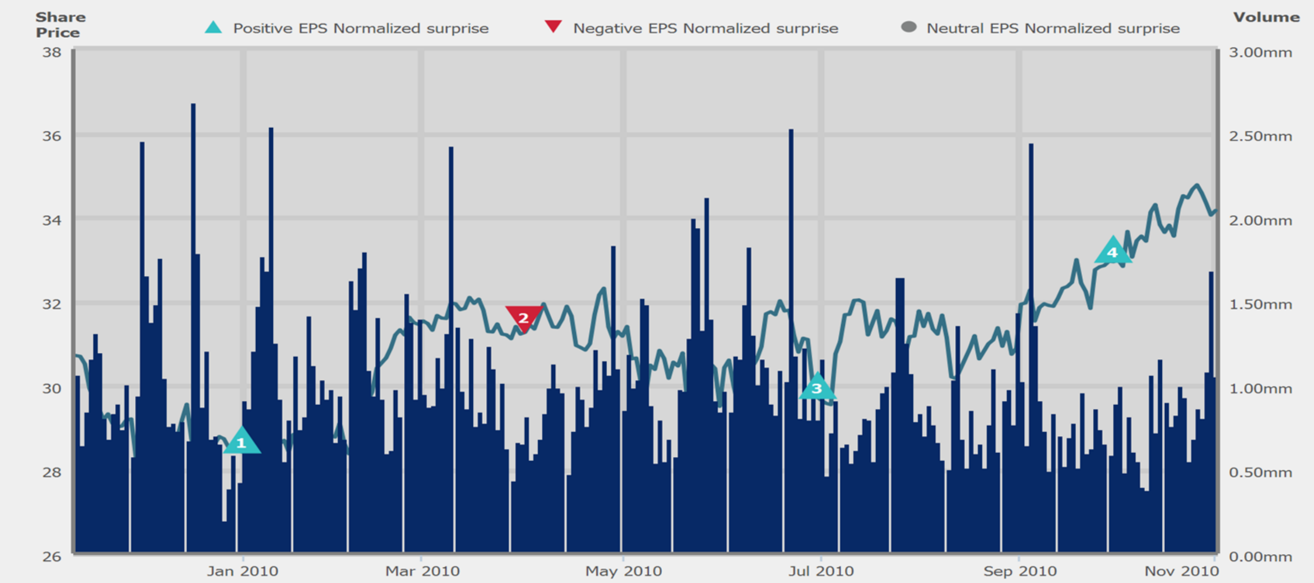
Wednesday, February 09, 2011 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2010-			-FQ1 2011-	-FY 2010-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.20	1.41	▲17.50	1.03	4.39	4.60
Revenue (mm)	577.00	757.32	▲31.25	1122.07	3222.03	2947.41

Currency: USD
Consensus as of Feb-09-2011 1:49 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2009	1.31	1.83	▲1 39.69 %
FQ1 2010	0.68	0.67	▼2 (1.47 %)
FQ2 2010	1.19	1.33	▲3 11.76 %
FQ3 2010	1.10	1.22	▲4 10.91 %

Call Participants

EXECUTIVES

Albert A. Benchimol
President, Chief Executive Officer & Director

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Linda Ventresca

ANALYSTS

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

Elizabeth C. Malone
Wunderlich Securities Inc., Research Division

Gregory Locraft
Morgan Stanley, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

Keith F. Walsh
Citigroup Inc, Research Division

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

Presentation

Operator

Good morning, and welcome to the Fourth Quarter 2010 AXIS Capital Holdings Ltd. Earnings Conference Call and Webcast. [Operator Instructions] I would now like to turn the conference over to Linda Ventresca, Investor Relations. Ms. Ventresca, please go ahead.

Linda Ventresca

Thank you, Amy, 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 quarter and the year ended December 31, 2010. Our earnings press release, financial supplement and quarterly investment supplement were issued yesterday evening after the market closed. If you would like copies, please visit the 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 in the U.S., international number is (412) 317-0088. The conference code for both replay dial-in numbers is 447044.

With me on today's call are John Charman, our CEO and President; and Albert Benchimol, our CFO. Before I turn the call over to John, I will remind everyone that statements made during the call, including the question-and-answer session, which are not historical facts, may be forward-looking statements within the meaning of 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 related to catastrophes, policies and other loss events, general economic capital and credit market conditions, future growth prospects, financial results and capital management initiatives, devaluation 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 cause actual results to differ materially from our 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 statement whether as a result of new information, future events or otherwise. In addition, this presentation contains information regarding operating income, which is a non-GAAP financial measure within the meaning of the U.S. Federal Securities laws. For a reconciliation of this item to the most directly comparable GAAP financial measure, please refer to our press release, which can be found on our website. With that, I'd like to turn the call over to John.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Good morning, everyone, and thank you for joining us. We are pleased with the strong results we are reporting today, as they continue to demonstrate the robustness of our diversified global franchise in the face of extremely challenging market conditions.

Our operating return on average common equity for the full year was 12.4%, and our growth in book value per share for the year was 17%. Over the last five years, our average annual operating return on common equity was 18.3%, and our compound annual growth in book value per share was 16.5%.

Following the easing of the global financial crisis, we resumed share repurchase activity in late 2009. And since then, we have repurchased nearly 28 million shares for $868 million at an average price per share of $31.38. In 2010 alone, we returned approximately $820 million to shareholders through both share repurchases and dividends. We have accomplished all of this despite an extremely volatile global economic environment, a challenging Property and Casualty Insurance operating environment and a few relatively active and costly catastrophe years. Overall, we are pleased with our solid performance through this challenging period, as well as our significant investment in the franchise during the same period that will result in scalable, accelerated growth when the P&C market improves.

I am delighted to introduce and welcome Albert to his first of very many earnings calls. Albert's achievements speak for themselves as a seasoned, highly successful industry veteran. He is a critical addition to the AXIS senior management team. Albert, a very warm welcome. And with that, I'll turn the call over to you.

Albert A. Benchimol
President, Chief Executive Officer & Director

John, thank you, and good morning to everyone. If I may be allowed a personal comment before I start, I've long admired AXIS, a strong competitor and intelligent client. Now that I'm here, I can honestly say that the company looks even better to me from the inside. I'm looking forward to working closely with you, John, and the strong management team at AXIS to continue the outstanding record of achievement established since the founding of this company.

I must also thank you and our colleagues for helping me talk about a very strong quarter for my first conference call. This fourth quarter of 2010 delivered operating income of $1.41 per diluted share, and this equates to an annualized operating return on average common equity of 14.3% this quarter.

And for the full year, operating income per diluted share of $4.60 equates to a 12.4% operating return average common equity. While these figures are below those of the prior year, they were achieved despite an increasingly competitive market and significant catastrophe losses.

Separately, capital markets continued their healing process, allowing for the realizations of gains from our portfolio. Inclusive of net realized gains, fourth quarter net income was $264 million or $1.99 per diluted common share, delivering a 20.2% annualized return on common equity. For the full year, net income was $820 million or $6.02 per diluted share, equating to return on average common equity of 16.2% and leading to a new record book value of $39.37.

Moving to the income statement. Fourth quarter gross premiums written were up 11% to $635 million. The increase driven by strong growth in our insurance professional lines and to a lesser extent, reinsurance property and European motor reinsurance. Overall, Insurance was up $26 million or 5 1/2%. Reinsurance was up $35 million or 34%, but this was driven by a couple of large contracts. The fourth quarter is not meaningful in terms of reinsurance renewals, and we would not infer too much from this quarterly growth rate.

As you are aware, AXIS modified its reinsurance purchasing in the first half of 2010, and this had the impact of reducing ceded premiums, thus, net premiums written at a significantly larger 37% growth rate year-over-year. Fourth quarter net premiums earned grew 6%, Insurance was up close to 8% while Reinsurance was up about 5%. These premium earned growth rates are lower than premiums written due to the earnings pattern of our various lines of business.

In 2011, we expect the net premium earned will grow at a much faster rate than net premiums written as the effect of lower premium sessions work their way through our income statement. The underwriting income fell 38% to $133 million this quarter while the combined ratio, 85.6%. Within these figures, the Insurance segment reported lower underwriting income of $68 million and a combined ratio of 79.5%.

The prior year quarter included a $28 million benefit from the finalization of an indemnity contract exposed to longevity risk. Excluding that benefit, underwriting income from ongoing Property and Casualty Insurance business would have improved some $10 million.

The insurance accident year loss ratio improved substantially in the fourth quarter, benefiting from a lower loss ratio for the Credit and Political Risk book, as well as better Marine results. In the segment, we put up approximately $18 million and this was primarily IBNR for the Queensland floods in the fourth quarter. Separately, our estimate of net reserves from prior accident years continue to develop favorably, delivering a favorable impact of 10 1/2 points on the segment's loss ratio.

As for the Reinsurance segment, it reported a quarterly combined ratio of 84.9%, an underwriting income of $65 million, a 50% decrease from the prior year quarter. This decline in profitability is attributable to several catastrophes, including the many weather events in the U.S. Estimated losses from the Queensland floods in the fourth quarter were de minimis for the segment at approximately $4 million.

Of note, however, new information caused us to increase our estimate for the New Zealand earthquake by $51 million to a new total of $138 million. These losses were partially offset by a $12 million reduction in our estimate for the first quarter Chilean earthquake, which we now estimate will generate net losses of approximately $110 million after reinstatement. As you know, earthquake losses are notoriously difficult to estimate in the short term. And while adjustments are not necessarily welcome, they are part of our business and certainly not limited to AXIS.

The cat activity led to a 12 1/2 point increase in the reinsurance current accident year loss ratio. In our Reinsurance segment, reserves of prior accident years also continue to develop favorably, providing a favorable impact of 10.9 points on the segment's net loss ratio. Our quarterly net investment income was down some 9% from the prior year to $108 million as the effect of lower yield on fixed income securities make their way through our portfolio.

It's an industrywide phenomenon, and I'm afraid we don't have a good short-term prognosis for this line. Given our short bond duration, we have a relatively high turnover in our portfolio, and every new dollar invested is locked in at rates substantially lower than those of our maturing securities.

The book yield on our fixed-income portfolio was 3.3% as of December 31, 2010, down from 3.9% at year end 2009. Yet, the yield at market of our portfolio as of last week was only 3%, even after the recent run-up in rate, so we will continue to face some headwinds on this front. Net investment income includes income from the other investments portfolio, which is comprised of the company's alternative investment.

The contribution from other investments, the net investment income, was $25 million this quarter, essentially unchanged from the prior year. In the aggregate, the total return on our cash and investments portfolio for the quarter was negative 0.3%. Within that, the alternative investments included in other assets generated a total return of 4.9% for the quarter.

This quarter's small negative total return was driven by an increase of approximately 50 basis points in the three- to five-year part of the U.S. Treasury curve. Credit spreads were largely unchanged during the quarter. The other items of our income statement are relatively straightforward. Interest expense is up due to the $500 million debt issued in March 2010. And we achieved a lower effective tax rate due to the changes in distribution of profits by taxable jurisdiction and utilization of prior valuation allowances on capital gains.

Moving on to the full year results. Gross premiums written for the full year was up 5% to $3.75 billion, essentially all on the strength of higher professional lines, Marine and Property business in the Insurance segment. Insurance was up 8% while Reinsurance was up only 1%. Full year net premiums written grew 12%, given the changes in ceded premiums I addressed earlier, and this essentially affected only the Insurance segment.

Finally, consolidated net premiums earned were up 6% within which Insurance was up 4.1% and Reinsurance, 6.5%. The full year consolidated underwriting income fell 22% to $409 million for the year, driven by the same opposing factors that affected the fourth quarter, leading to a full year combined ratio of 88.7% as compared to 79.3% in 2009.

Within that, the Insurance segment recovered strongly from the economic crisis in 2010 with underwriting income of $210 million as compared to $84 million in 2009. The two key drivers of improvement were the Credit and Political Risk line and the fact that we put behind us the indemnity contract exposed to longevity risk.

The improvement in the underwriting result is not reflected in the combined ratio, as longevity risk loss was not included in the combined ratio. The combined ratio for Insurance was up modestly in 2010 to 82.8% from 81.4%. During the year, the current accident year loss ratio fell 14 points on the strength of improved Credit and Political Risk business. However, prior year reserve releases declined from the prior period and accounted for 9.8 points of benefit as compared to 18 points in the prior year.

The acquisition expense ratio also increased modestly as a result of the changes in our reinsurance purchase. The Reinsurance segment results were significantly affected by the various catastrophes, and underwriting income fell for the year by 55% from $440 million in 2009 to $199 million in 2010. The combined ratio increased to 88.6%. Various earthquakes, floods and other weather events led to cumulative claims in excess of $350 million after reinstatement premium, as compared to immaterial cat losses in the prior year. And this alone led to the year-over-year decline as most other lines showed improvement.

The current accident year loss ratio increased 12 points for the full year. Favorable prior year net reserved development for the Reinsurance segment remained strong and had an 11 point favorable impact for the combined ratio. Let me address here the general administrative expense, which grew 48% in the fourth quarter and 28% for the full year. It is best to combine these with corporate expenses as they are both of one kind.

In the aggregate, they grew $80 million or 22% to a total of $450 million for the year. More than 40% of that increase is due to the higher bonus accrual for the year, most of which hit the fourth quarter result. Our company's philosophy is to recognize performance. And our board determined that our short-term and long-term performance achieved in a difficult year warranted a larger-than-target bonus payout.

Other than that, salary and other benefits increased 11% due to higher headcount. By comparison, our headcount grew 13% in the year to 978 individuals at year end. This growth in headcount reflects our various initiatives, including geographic expansion and the build-out of our new Accident and Health business. Other expense items generally grew proportionately to our business.

The full year net investment income fell 12% in the year to $407 million for the reasons outlined earlier. Within this total, income from the other investments portfolio was $65 million. In the aggregate, the total return on our cash and investments portfolio for the year was 5.5%. And within this, the alternative portfolio and other investments generated a total return of 12.1% for the year.

As to the other items, interest expenses and taxes changed for the reasons discussed earlier. FX had a significant turnaround year-over-year due to the strengthening of the U.S. dollar. But since much of the impact of FX on our income statement is offset by opposing entries in the comprehensive income account of equity, it does not have a significant impact on the book value of our company. The net of all these items, preferred dividends, and a major turnaround in net realized gains was net income available to common shareholders of $820 million, a 78% improvement over the prior year.

Moving on to the balance sheet. Our balance sheet grew 7% in the year to $16.4 billion and all changes are very consistent with our activities during the year. Cash and invested assets grew as a result of strong positive cash flow from operations, as well as a $500 million debt issue in the early part of 2010, offset by $122 million of dividends and the repurchase of shares for $699 million.

Cash and invested assets totaled $12.6 billion, over $1 billion higher than the prior year end. There is substantial data on our portfolio in the financial supplement. I would limit my comments to the fact that this is a high-quality, liquid portfolio. Cash, U.S. government and agencies and AAAs make up 55% of all invested assets and cash. There is a small 7% allocation to equities and alternative investment, and this will likely increase some as we look to add diversification and balance to the portfolio. Overall, at year end, our fixed maturities and equities had net unrealized gains of $159 million.

During the quarter, the most visible change in our fixed maturity portfolio was a reduction in U.S. Treasury and U.S. agency debt holdings in favor of U.S. agency mortgage-backed security, as these latter securities offered better yield for the same credit risk. Municipal bonds have been in the news lately. Our holdings of municipal bonds at year end totaled $713 million or under 6% of total cash and investment. These holdings have an average rating of AA at an average maturity of seven years. Approximately 3/4 of them are revenue bonds that have dedicated cash flows. We are comfortable with these exposures and, in fact, have added modestly to these holdings during January based on valuation.

There are no other changes of note to the assets, as the various entries have grown in line with our business. You'll note the absence of securities lending collateral as we discontinued this activity earlier and completely out of this in 2010. The goodwill amount increased but this was due only to an FX revaluation.

Asset, liabilities, these too are consistent with the growth of our business. Reserves grew in line with our business and the nature of our incurred losses. Gross reserves aggregate to $7 billion while net loss reserves are $5.5 billion, an increase of $309 million year-over-year, even as we recognize approximately $313 million in favorable reserve development during the year. This reduction in prior year reserves had a positive impact of 10.6 points on our loss ratio. This compared with favorable reserve development of $423 million in 2009, benefiting the combined ratio by 15.2 points in that year.

Of this year's release, $118 million was from our Insurance segment and $195 million was from our Reinsurance segment. Approximately $181 million of the group's consolidated net favorable reserve development this year was generated from short-tail lines and reflect the recognition of better-than-expected loss emergence, a further $117 million relates to our professional lines Insurance and Reinsurance businesses.

As discussed in prior quarters, we are continuing to incorporate our own experience into our ultimate expected loss ratios for accident years 2007 and prior, with less weight given to industry benchmarks. We have yet to do this in any meaningful way our liability lines with longer development tails. We continue to remain strongly capitalized for the risk we hold and the risk we are targeting. Our total capital at December 31, 2010, was $6.6 billion, including $1 billion of long-term debt and $500 million of preferred equity. Our financial flexibility remains very strong with debt-to-total capital ratio of 15% and a debt-and-preferred-to-total capital ratio of 22.6%.

You'll note in our quarterly financial supplement that we included updated information on our PMLs [probable maximum loss] as of January 1, various return periods for peak industry cat zone. We've also provided estimates of industry exposures at these turn periods. You'll note that while our exposures have not changed much since the third quarter of this year, they did grow year-over-year as a result of changes in our reinsurance program, as well as other model changes. We are nonetheless comfortable that these exposures are consistent with our approved risk appetite and return targets at different return periods.

We continue to manage our capital for the benefit of our shareholders. During the fourth quarter, we repurchased 7.8 million common shares for $277 million at an average price of $35.63 per share. For the full year, we repurchased 21.8 million common shares for $699 million or $32.02 per share for a valuation of 81% of our year end 2010 diluted book value.

Given depressed market valuations for the industry and lack of attractive investment and underwriting alternatives, we continue to believe that share repurchases are one of our most attractive investment alternatives and in the best interest of our shareholders. We expect to continue share repurchase activity in 2011, although with our founders' warrants coming due in November, we have some flexibility in how we execute our capital management activity. As of February 4, we had approximately $593 million of remaining repurchase authorization.

In December, we also announced that our board of directors approved a 10% increase in our quarterly common share dividend of $0.23 per share. We began paying dividend in 2003. We have increased our dividend every year and view dividends to shareholders as an important part of the value proposition we offer. This is the end of my remarks, I look forward to speaking with you again in future quarters. And with that, I will turn the call back to John.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Thank you, Albert. And I will begin my market commentary with an overview of our reinsurance renewals at the important January 1 renewal date. Approximately half of AXIS Re's 2010 expiring premium was renewable in January. At this renewal, we estimate our AXIS Re underwriting yield premiums were up 5% over last year.

Overall, we estimate that currency adjusted premiums were up 8%. There could be other activity in the quarter that will impact top line for the segment, but these estimates generally give a good indication of how we are faring in the marketplace.

The growth of this renewal emanated from our European motor proportional reinsurance line of business. We were opportunistic in this line with a number of entries and exits, as well as shared changes. Modest price softening was experienced across almost all reinsurance classes on a risk-adjusted basis. And commissions generally increased marginally for pro rata treaties. Short-tail excessive loss pricing was down 5% to 10%. The exception being smaller Asian markets, which experienced greater pricing pressure.

Reinsurance rates were broadly stable for long-tail classes, but underlying price reductions translate to risk-adjusted rates down approximately 5% to 10%. Changes in terms and conditions were not material, but the market is continuing to experience increased pressure on terms and conditions. Overall, the reinsurance market provided sufficient capacities for most types of business.

The strength in capital position of virtually all competitors and the continued drive for diversification by both geography and product increased competition significantly regardless of the rating and the capability of the new entrants. There were more examples of insufficient pricing being accepted by the market. Having said that, there were many cases where brokers or cedents drove pricing pressure disproportionately, and the reinsurance market rejected these terms. In our opinion, discipline and professionalism in the reinsurance market was better than we feared and much steadier than the primary market.

We observed strong signs of pushback from the market on long-tail lines. And we hope this momentum strengthens and is directed to the broader reinsurance market. As we look forward in the reinsurance market, we expect slight price reductions in Japan at April 1. We also expect that the U.S. Property reinsurance renewals from May through July will be positively influenced by the impact of model change from two major catastrophe modeling firms.

We believe that if implemented by the industry in advance of mid-year renewals, the price erosion, which might otherwise occur in U.S. wind placements, upon reflection, should stop and reverse. D&O reinsurance, while suffering some pricing erosion due to primary competition and slight commission increases, is benefiting from lower levels of class-action activity.

General casualty lines continue to erode by virtue of loss cost inflation, exceeding rate change. Therefore, even in instances where reinsurance rates remain flat, we are experiencing margin erosion. Loss cost inflation and declining investment income should lead to increased rates, but markets are not reacting to these factors. We are determined to minimize the impact of this erosion on our portfolio.

Moving on to the insurance markets. The overall rate change for our Insurance segment during the fourth quarter is estimated at around minus 7%, which is a slight deterioration over the prior quarter and consistent across all divisions and classes. Because of differences in mix of business between the two sequential quarters, the rate changes are not directly comparable. However, the trend remains negative across most insurance lines, and we expect to see a continuation of this negative trend through 2011, absent of major catalyst.

The only class of business which has experienced meaningful positive rate change, as expected, is the offshore energy class following the Deepwater Horizon loss. Overall, our renewal retention rates remain among the highest we have seen, as we remain focused on maintaining business that we know well. Growth in our Insurance segment is primarily being driven by new business from our investments in newer businesses such as A&H and geographies such as Canada and Australia.

We continue to maintain an extremely conservative posture with respect to Primary Casualty business, having exited from this area of the casualty marketplace earlier in 2010. Of course, you will be aware that there have been a number of loss events in the last few months in Australia. Albert has already provided you loss estimates for the events for Insurance and Reinsurance in the fourth quarter of 2010.

With respect to loss events incurred during January of 2011, there are three to consider and there are only two of these which we view as significant to the market at this time. These are the flooding in

Brisbane and Cyclone Yasi. Based on the minimal information available today, it is too early to provide any meaningful loss estimate for these first quarter events. But they are most likely to be Reinsurance events for us rather than Insurance.

Whilst on the topic of Australia, there is a broader comment I would like to make about the reinsurance market's approach to this part of the world. In my opinion, reinsurers' approach to the catastrophe business here has been an exception to the discipline that has otherwise been displayed by the reinsurance market over the last several years.

Despite the significant cat loss activity over the last four years in Australia, the market has so far ignored the fundamental need to restructure reinsurance programs so that the pricing and profit potential are more appropriate relative to the exposure and volatility presented by the region. Our current posture with respect to the Australian market is colored by this view. The allure of diversification benefits has been a false one as far as Australia is concerned, as I'm afraid in other non-peak cat exposure zones as well.

On a more positive note, with respect to A&H, we have made good progress in our new A&H business. As we enter 2011, we have been successful in producing estimated gross premiums of approximately $70 million from our Accident and Health operations. At this stage and as planned, we are principally producing global A&H Reinsurance business, as we continue to make good progress in building out our insurance platform where form and rate approval is critical.

In conclusion, we continue to operate on the basis that we do not expect to see a turn in the market until 2012, but we are attaching a higher probability of a turn in the market during 2012. We continue to work very hard to maintain a high quality, diversified underwriting portfolio that will continue to generate significantly positive cash flow and market-leading underwriting profits.

As we review our underwriting portfolio, we are focused on remaining well capitalized, well diversified and globally nimble, all with the expectation that we will significantly accelerate growth following any material hardening that may occur within the insurance or reinsurance markets. As markets’ margins contract, we believe that good, coordinated, well-managed, diversified underwriting businesses that trend towards the short- to medium-tail lines will continue to outperform.

We do not currently anticipate significant growth in our underwriting portfolio during 2011. And we do not see significant opportunity in the investment markets at the moment, particularly given our conservative posture with respect to interest rate risk. Meanwhile, current market valuations for Property and Casualty insurance and reinsurance companies, including our own, remain at historic lows. And in our view, share repurchase continues to represent a compelling return to shareholders.

Therefore, as Albert indicated, we are likely to continue to prudently return capital to shareholders as long as the market continues on its current track. We believe we will continue to generate strong book value growth for our shareholders as we strive for underwriting margin, manage risk more sharply each day, position our investment portfolio for rising interest rates and prudently manage our capital.
That concludes our prepared remarks for today. And, operator, could we open the line for questions please?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Keith Walsh at Citi.

Keith F. Walsh
Citigroup Inc, Research Division

John, just first on professional liability, I mean you guys are obviously an important player in that market, and just some of the anecdotal information now, it's become a lot more competitive in the last year or so. Where do you still see rate adequacy within that line?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I've seen there's some sensitivity. But, firstly, let me give you a broad answer, not just about professional lines. I have signaled throughout last year that we have invested very heavily over the last two or three years in infrastructure, our systems, our people, our geography and our products. And I told you that I was going to squeeze as much out of that spending as I could in terms of producing good, solid revenue from our diversified operations. So getting to your question about professional lines, just to give you some insight, we have over 20 lines globally within the Professional Lines portfolio. And we have been working very hard with regards to making sure that our penetration within all of our lines, not just Professional Lines, is as strong as it can be given market conditions. There isn't one significant line within those 20 lines that has increased materially. It's been a general improvement. As far as rating is concerned, you've heard me say before that our underwriting pricing monitoring is one of the strongest and most robust in the industry. And I'm still very comfortable about the pricing we're achieving, as well as the risk selection throughout that portfolio. And I think our underwriting figures, our underlying figures show that.

Keith F. Walsh
Citigroup Inc, Research Division

Around retention, your comments there, it's kind of similar for a lot of the carriers, it seems very strong in the industry. I just want you to help me understand, why is that, at this point in the cycle? I would have thought the opposite with such a price competitive market that actually retention -- a lot of business would be moving around between carriers. It seems the opposite is happening.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Well, Keith, I've been around for donkey's years. But to me, it seems the signal that we may be nearing the bottom of that pretty aggressive market cycle. Because at the end of the day, clients are becoming more concerned about leaving existing carriers where they've built up good relationships, good understanding and good banks at the end of the day. So on the Insurance side, I think the Insurance side generally has been seeing much higher retention levels, which is a good thing for the industry. But it is signaling, I think, greater sensitivity throughout the industry to continuity, which is a good sign.

Operator

Next question comes from Beth Malone at Wunderlich Securities.

Elizabeth C. Malone
Wunderlich Securities Inc., Research Division

I know you talked about Australia and the potential impact in the first quarter. But could you comment on Political Risk as relates to Egypt? And also the weather in the U.S., is this going to have any effect?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

As far as the weather in the U.S., having been in Atlanta over Christmas, and it snowed for the first time on Christmas Day since 1880, goodness knows what's happened to the weather patterns in the U.S. But let me deal with Egypt, the Middle Eastern exposure first, because there are concerns of contagia. And first thing to say that we have no exposure to the Middle East in our Investment portfolio. With respect to our underwriting portfolio and based on what we know today, we do not expect any material losses and believe that any losses are likely to be covered within our loss picks. We've not seen any activity in the Middle East thus far that is likely to produce losses in our Credit and Political Risk portfolio. Political violence is not a material peril for our portfolio. Our exposure is not in urban areas. The exposure we have to the areas' exposure to government action, which is traditional political risk, confiscation, expatriation, nationalization, deprivation, as well as sovereign risk, and credit-related nonpayment and nonperformance risk. In both instances, we do not anticipate material losses based on what we know today. And we have extremely up-to-date information from our clients in that region. Importantly, our policy construction allows for significant recovery potential with access to substantial collateral. The exposures underpinning these policies are generally assets which are critical to the future well-being of the state, mostly the energy industry. Our Political and Credit Risk portfolio (sic) [Credit and Political Risk portfolio] is one for which we expect to have losses from time to time, as you know, but to be profitable over the long term. Our inception to date loss ratio is an outstanding 50% as of year-end 2010, and this fully includes the impact of the global credit crisis. And total limits outstanding in Egypt are not material relative to our capital base. So I hope that that gives you some flavor about that. And as far as the weather in the U.S., I'm not aware of any materiality apart from personal inconvenience.

Elizabeth C. Malone
Wunderlich Securities Inc., Research Division

Do you see the changes or improvement in global economy having an impact on your business in terms of the claims frequency, or your ability to release reserves? Is that being affected by that and could that be a trend that creates more positive result?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I think that the global financial crisis and the recession that the world moved into, dramatically adversely affected the demand for insurance products and all of the knock-ons then through the reinsurance marketplace. So any recovery in the global economy, as well as recovery of commodity prices is geared to have a positive impact on our industry. The trouble is it takes a while to feed through. Unemployment levels are still materially high throughout the world, and those have to reduce to really spark economic activity, which will then bring back the demand, which is essential for so many of our products. We've got a way to go yet there. At least, it's not negative.

Elizabeth C. Malone
Wunderlich Securities Inc., Research Division

And then one last clarification, on the alternative investments, you commented that it had a 4% total return. Is that 4% just for the fourth quarter? Or was that an annualized rate of return?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

No, the rate of return was an actual rate of return for the fourth quarter of 4.9%. For the full year, it was 12.1%.

Operator

The next question comes from Josh Shanker at Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

In terms of looking at the press release, you made the comments about the high losses in 2009 in Political Risk and the low losses this year, and that being the change in the combined ratio. I want to know if you can walk through the moving pieces. I just want to know if this anomalistic, if that was anomalistic, if they're both anomalistic? How do we work that?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Let me just remind you, Josh, if I may, that with the onset of the financial crisis, we took a conscious decision to withdraw from underwriting Political and Credit Risk in 2008 because we were unsure of what the increasing volatility that was occurring through the global capital markets, and then the pricing of credit and the reality of the impact on a going-forward basis. So we stepped back for two years, and we spent that valuable time just monitoring our existing portfolio and managing it, which was time well-spent as you can now see with the out-turn of our financial numbers on that Political and Credit Risk business. As you know, we've re-entered that business slowly in the early part of 2010 with the improvement in the global capital markets. And since then, we have had a great many submissions. And to sum those up, they've been much better in credit quality. They've been much cleaner transactions, there is better collateral and better access to collateral, underlying collateral. So the portfolio, in my view, is a much stronger portfolio than we've had previously, not that the previous one was inappropriate, but just was constructed in different economic times. The pricing of the portfolio relative to risk, I think, is better. We did very well, I believe, in 2010 getting back revenue within that portfolio. But naturally, as the capital markets are recovering and credit is easing, Josh, we saw a substantial amount of refinancing going on, which obviously affected net writings. But at the end of the day, it gives us a much stronger portfolio going forward. But obviously, those restructurings are essentially taking away revenue for us. So we are continuing to build that portfolio slowly. We're continuing to make sure that we are accessing business in the right geographies and in the right economies, and it continues to be a very valuable portfolio to us. And it has moved back to normalization, which I consistently said would happen through 2008 and 2009, and then going into 2010, 2011. So I'm very pleased with the performance of the portfolio, the construction of it, the size of it and the quality of it.

Joshua David Shanker
Deutsche Bank AG, Research Division

I'm more interested in understanding how the moving pieces of losses work, however. If you look at the -- I'm just looking at the press release here and you talk about the improvement in loss ratio being due to improved loss conditions in the Political Risk business. But even though you've increased your business, there's not that much business to write, as you say the credit markets are improving. I look at your premium numbers, there's not a lot of premium associated with that Political Risk business.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I think I just explained that, Josh. And I know Albert wants to come in. But I want to come in back after Albert.

Albert A. Benchimol
President, Chief Executive Officer & Director

I think just to give you some numbers, I think, as you know, last year was a crisis year in Political and Credit Risk. And the company booked a loss ratio north of 130 last year. That ratio went down significantly almost half to approximately 70 points of loss ratio for the current accident year. And so when you're earning a substantial amount of premium, that has a significant impact. Don't forget last year, we earned a larger amount of premium, which John was referring to. It was a larger book with a larger loss ratio. This year, we have a smaller book with a significantly lower loss ratio. And we focus on how this impacts the combined for the total company. The other way to answer your question, originally, is that 2009 was extremely above average and abnormal, and 2010 is still above the average. You've heard John say that the loss ratio, historically, has averaged, including the price this year, has averaged in the low-50s. And the 70s that we're putting in today, clearly, are above that. So it's a slow reduction in the loss ratio as we see the experiences improve over time. Did that help you?

Joshua David Shanker

Deutsche Bank AG, Research Division

Is that IBNR that's coming down or is that case?

Albert A. Benchimol
President, Chief Executive Officer & Director

Most of our experience at any time is IBNR.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Josh, just to give you -- I want to come back in, because we've talked about this line of business for four years consecutively now. And just to give you some idea of activity, we had 765 submissions in 2010, of which we bound 52, which is 6.8% of the submissions, and we've got 88 submissions pending. So we're seeing a lot of business. But as I said, our risk appetite is very clearly defined. We remain cautious, and the transactions are of a good quality and high-quality. So I'm pretty comfortable with that.

Joshua David Shanker
Deutsche Bank AG, Research Division

And given Albert's comments, you'd expect the loss ratio to even come down further?

Albert A. Benchimol
President, Chief Executive Officer & Director

As long as conditions continue to improve, Josh, we're not making future projections. But if the trends continue, there's no reason why they wouldn't. But we have to wait until we see actual facts on the ground before we change our allotments.

Operator

The next question comes from Vinay Misquith at Credit Suisse.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

On the Australia loss, I appreciate that it's too early to provide some estimate. But just looking at the little loss of, what, $138 million, should we think it's significantly lower than that number? Or should we think it's pretty close to that number?

Albert A. Benchimol
President, Chief Executive Officer & Director

Vinay, they're two different events in two different geographies. Please allow us the time to get the data and give you a meaningful number. Throwing a number that's not based on data is not going to be helpful to you and certainly not helpful to us.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

I understand that you have a primary insurance operation in Australia. Just curious as to why the flood losses in Brisbane would not be impacting you?

Albert A. Benchimol
President, Chief Executive Officer & Director

Mostly professional liabilities, but there's a small amount of property exposure. But that's not the fundamental exposure, it's a Professional Lines book mostly.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

The second question is on the Professional Lines. Thanks for the earlier comments, but could you give us a sense from who are you getting your business from? Because that line has been growing for the last two quarters. So just curious, because we hear that new business normally moves at a lower pricing than the old business. So how are you getting that? Is it made up of existing clients?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

As I said, Vinay, we have 20 lines that we underwrite within that Professional Lines portfolio in different geographies and by different classes. And so by definition, these move around. We've been saying that we have invested heavily in our new geographies over the last two years. And we're making progress within those respective marketplaces. And as I keep on saying, we've spent a huge amount of money over the last two, three years investing in our people, and our staff, and our products. And we are squeezing very hard, but we're squeezing it to the underwriting standards we have consistently had over the last 10 years, which I think are market outperforming, and they're easy to see. So we've also got reductions in some of those lines of business. So it's not something to get your knickers in a twist about, quite frankly.

Vinay Gerard Misquith
Crédit Suisse AG, Research Division

One last question, if I may for Albert. The share repurchases, you mentioned that the warrants are coming up some time in November. So should we expect a lower pace of share repurchases in the first half of the year while you wait for the warrants to come up at the end of the year?

Albert A. Benchimol
President, Chief Executive Officer & Director

I'm not sure that I would give any projection of that type because after all, we know where they are. And we can always speak to those owners and negotiate a transaction prior to November. And we can still choose to allocate our budget between open market purchases, as well as warrants. The only thing that I wanted to indicate was, really, to remind people that there were warrants outstanding, that they will mature, and that we do have some flexibility. Either way, whether we buy the warrants or we buy the common stock, since they're already fully reflected in our diluted share count, it will have the same benefit of improving the diluted shares outstanding and book value per diluted share.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Coming back on the Professional Lines, just to make you feel more comfortable, because I always like to make you feel comfortable. Most of the growth is coming from outside of the U.S., if that helps you.

Operator

The next question comes from Greg Locraft at Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

I wanted to just understand, John, your increased confidence in the 2012 cycle turn. You certainly -- that, as well as the midyear U.S. wind commentary. It seems to me that you're in the markets and seeing something changing that's giving you confidence that the pricing degradation is nearing an end. Where is that coming from?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

It's a sense that I have because unlike most other CEOs in our industry, I'm a little bit closer to the day-to-day activity that's actually taking place, as opposed to what they're being told is taking place. And that covers the reinsurance industry, as well as the insurance businesses. My sense tells me that I think the market is really nearing the bottom. It is beginning to get pushed back, both to clients and brokers. Of course, you still have outliers. But it's giving push-back about the scale of the margin erosion that has been occurring over the last three years. And that comes through a number of different things. Brokers, I think, are beginning to have greater difficulty in placing, they're coming back to us more and more, trying to fill out layers on the primary side. And I just sense the market has become weary of giving away its margin. I think that will show during the course of this year in the financial statements you're going to see from the industry. And I expect, as we go through the year, you're going to start seeing some deterioration, not only in the back years, but also in the current accident year activity. And I think the reinsurance market has got to the bottom of its trough as well. We knew 2011 is going to be a really difficult year, but we're strong enough at AXIS to deal with it. We're the strongest we have ever been in our 10 years of history. But I really do believe by the end of this year, the market will be in a very different mood than the conciliatory mood that it's been in for the last two or three years.

Gregory Locraft
Morgan Stanley, Research Division

As I sit here, I'm looking at the results. And you put in, call it a low-teens or a 12 1/2-ish kind of an ROE. You're feeling better about the underwriting environment into next year. Yields are at historic lows and you're earning very little on that side of the portfolio. And I guess, I'm sitting here wondering, is 12 about the lowest -- given the cats this year were the third worst you've seen since inception, I mean is 12 about the lowest we can go this cycle in terms of the ROE?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I'm not going to forecast obviously, but let me give you my personal insight, because an awful lot of people in the industry are trying to talk down earnings into single-digit numbers. I personally believe that to be completely inappropriate, both as a manager of an underwriting business, as well as an investor. And it may signal to you very clearly that we haven't changed our performance targets. And as I said earlier, in my view as a company, because of the diversity we have by product and by geography, throughout reinsurance and throughout insurance, and the strength of our underwriting, which has been extraordinarily consistent over the last 10 years, and our ability to penetrate markets and get better margin than most other people, I'm pretty comfortable about 2011. We had $400 million of cat losses in 2010 and yet I think we've still produced very credible financial performance. So I think other people have more to worry about than we have.

Gregory Locraft
Morgan Stanley, Research Division

On the investment portfolio, are we near -- given the move-up in yields that we've seen, our calculation is you've got less than 3% on, let's call it, your traditional non-alternatives book. Should that line item begin to move forward or move upward from here? Just given where reinvestment rates are now?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, I indicated to you that equities and alternative aggregate to about 7% of the portfolio. I think, given where the risks are right now, we feel that adding to the equities and the alternatives actually reduces the overall risk of the portfolio and adds diversification. So I'm certainly not projecting a coupling of that allocation. But I think a modest increase of that allocation makes sense, given where we see the risks and returns available to us in the capital markets.

Gregory Locraft
Morgan Stanley, Research Division

Actually, my question was more on the other side of the portfolio, more of the traditional fixed-income stuff. Are we near the trough of the reinvestment rate being below what's rolling off for that particular book? Because it looks like we're sitting at a 2.8-ish number now, which is well below risk-free rates at this point.

Albert A. Benchimol
President, Chief Executive Officer & Director

The book yield in our portfolio is 3.3%. The market yield's 3%. So I think in the near-term we're still looking at a continuing decline in available rates and that will have an impact. I think how far and when rates change, it seems that everything that I'm reading right now, and you may be reading the same, or different is everybody talks about rising rates, but everybody's projections for the next couple of quarters seem to be more or less in the range that we are today. So it's not obvious that as the monies roll in right now, we will do it quickly. I think from a market-yield perspective, there is no question that we are, today, beyond the trough that we had in the fourth quarter. And I will confirm that statement. Where it'll go, up or down, from where we are today, frankly, I'm loathe to project.

Operator

The next question comes from Cliff Gallant at KBW.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

The primary U.S. casualty, the line that you exited last year. I was just curious how that book is developing? And if we do start to see a turn, is that an area where you would consider re-entering?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I think it's very interesting, some of the press that there’s been today about another company that has had to put some major additions to, strengthening to their casualty portfolio. Absolutely no surprise to me, as you know. I think that our casualty portfolio has moved in exactly the direction we believed it was going to be. And we're comfortable about the reserves that we put up and the loss picks we’ve put up. So I don't have an issue with it. Don't forget, we've been reducing it since the peak of 2006. And so the reality, even if there was a major deterioration, which I don't expect across the entire industry in casualty, it's really not material to us.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

And would you consider increasing exposures, say, for example, if that one competitor were to change their own behaviors in the market?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I think that we monitor that market very closely like we monitor all of it, and we're opportunistic. And if we see the risk-reward characteristics of that business, which I believe has been fundamentally underpriced and mismanaged by so many of my competitors, if that comes back into risk-reward characteristics, we'll come back in.

Albert A. Benchimol
President, Chief Executive Officer & Director

Cliff, let me add a modest comment to that. As you know, the company wrote casualty earlier and starting shrinking it. The company's policy with regards to primary casualty business is they have not touched those reserves since inception, they've had a chance to review and release reserves on the property side, on the professional management side. But since inception of this line of business, we have not harvested $1 of reserves.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

When you made your comment earlier about things looking better from the inside than what you'd seen from the outside, is that the type of thing that you were referring to?

Albert A. Benchimol
President, Chief Executive Officer & Director

What I was saying is that, you asked about how that book was developing, and what I'm telling you is that the company continues a very conservative reserving philosophy with regard to this book. And so the balance sheet, we believe, is very well-protected because to the extent that we've seen any positive development in the early years, those have not been released because of the concern that has been expressed by John with regards to where this industry is going.

Operator

Our final question comes from Matthew Heimermann, JP Morgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

I was a little surprised about how significant the increase you mentioned you would see on your one-one renewal portfolio. So could you give us a sense of what the growth or change in that portfolio would be if you strip out the motor piece, which seemed to be something you emphasized as driving some of the growth?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

As I say, the growth in the motor was opportunistic. If you really -- I keep coming back to the investment we've been making in our businesses and geographies, and the fact that we're growing out those investments. When I look at where the growth is coming from throughout our Insurance portfolio and throughout our Reinsurance portfolio, the Reinsurance portfolio is pretty flat. But again, we're pushing very hard. We have really good security. We have good people in good geographies. So we can stand our own ground and there's a lot of journey within that business. On the Insurance side, the primary side, we’ve said before that it's obvious that the Marine side got a boost from the Deepwater energy loss. Property, we've had a number of initiatives to really focus in some key areas where we were underweight. And we've got traction in certain geographies. Steady improvement back into the credit and political risk market is helping us. Our Professional Lines, I've talked about because we've got 20 well-diversified products within that line. So those are the sort of areas that we're really being able to find some traction. But don't forget that we monitor this stuff really closely. We think we're pretty good at selecting risk in the market and finding opportunity. So I'm not concerned about growth.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

The other question I have for you is related to Professional Lines. I guess, just to be curious, the primary side growing and you've spoken as to why the Reinsurance side is coming down or has been coming down, if you look at it on an annual basis. And I guess, I don't find that particularly surprising. Is it fair to say that when we think about your exposure to Professional Lines, that we should think about it increasingly kind of migrating to the Insurance, the direct side of things, all else equal?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

That seems to be trending that way. And it's natural because it's a pretty good line of business for us. We reduced the quota share that we had on a lot of our Professional Lines D&O business during the course of 2010. And I'm sure a lot of my peer group out there are probably doing the same thing. So it's natural that some of that business is migrating back and being retained by the primary companies.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

There are a couple of companies I've spoken to in the last couple of months who have mentioned that in their professional books, not all classes, but they've seen some hiccups in things like lawyers and accountants. And I don't know how significant that is as a percentage of your book. But just be curious if across those 20 classes, whether or not there are any that you're maybe less optimistic about or more cautious on?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

It's not an easy question to answer because we're in so many geographies, and different markets have different characteristics with different exposures and volatilities. But what I can say is I'm very comfortable with the portfolio of Professional Lines business we have. We have exceptional people within that group that have been with us since nearly the inception of the company. They risk-monitor the hell out of that business. They report back to management about how that business is being managed. This is not happening in isolation. It's planned expansion and planned growth, and it's planned performance. So I'm not worried about it.

Operator

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

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Well, thank you, everybody, again, for taking the time to listen to us and to ask the questions that you have. I hope you enjoyed it, and we very much look forward to seeing you at the next quarter's earnings. Thank you again.

Operator
This concludes today's conference. Thank you for attending. You may now disconnect.