S&P Capital IQ

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AXIS Capital Holdings Limited NYSE:AXS

FQ4 2017 Earnings Call Transcripts

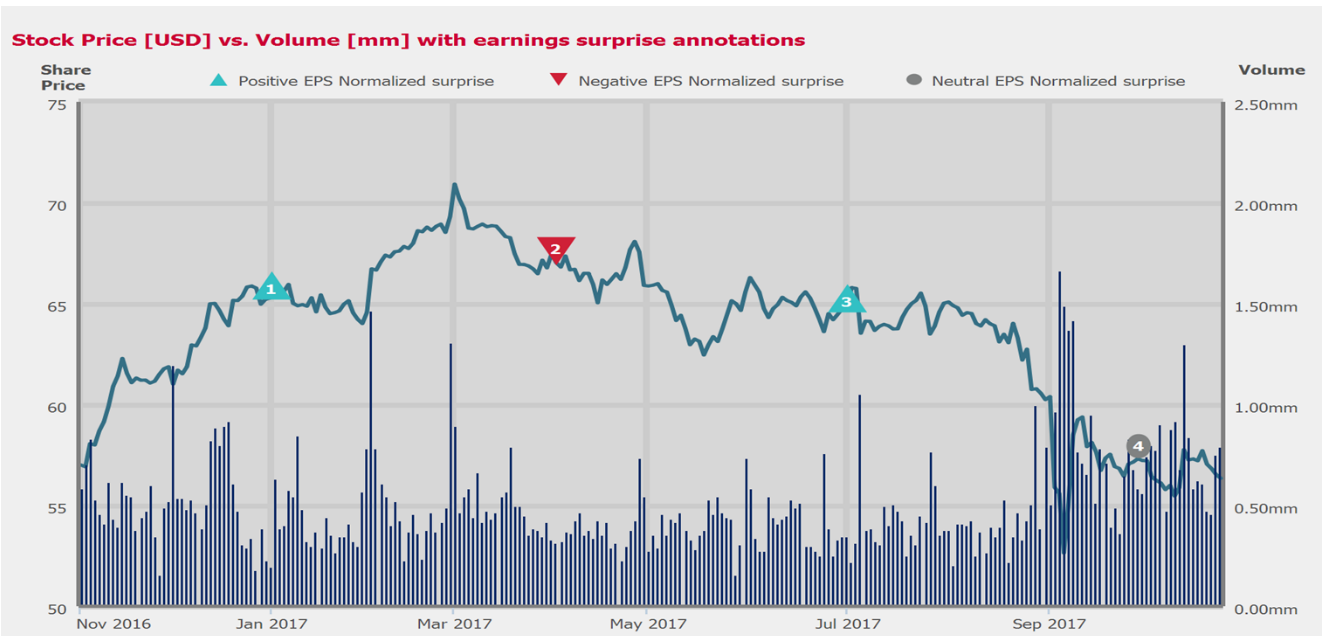
Thursday, February 08, 2018 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2017-			-FQ1 2018-	-FY 2017-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.26	0.24	(7.69 %)	1.38	(3.16)	(3.15)
Revenue (mm)	549.41	729.42	32.76	1729.93	3847.12	4027.14

Currency: USD

Consensus as of Feb-08-2018 11:28 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2016	0.94	1.14	21.28 %
FQ1 2017	0.84	0.59	(29.76 %)
FQ2 2017	1.16	1.31	12.93 %
FQ3 2017	(5.42)	(5.35)	NM

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Call Participants

EXECUTIVES

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Linda A. Ventresca
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Peter John Vogt
Chief Financial Officer

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Presentation

Operator

Good morning, and welcome to the Q4 2017 AXIS Capital earnings conference call.

[Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Linda Ventresca, Investor Relations. Please go ahead.

Linda A. Ventresca
Head of Corporate Development & Chief Transformation Officer

Thank you, Kate, 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 fourth quarter and the year ended December 31, 2017. Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you would like copies, please visit the Investor Information section of our website, www.axiscapital.com. We set aside an hour for today's call, which is also available as an audio webcast through the Investor Information section of our website. A replay of the teleconference will be available by dialing (877) 344-7529 in the United States, and the international number (412) 317-0088. The conference code for both replay dial-in numbers is 10115814.

With me on today's call are Albert Benchimol, our President and CEO; and Pete Vogt, our CFO.

Before I turn the call over to Albert, I will remind everyone that the statements made during this call, including the question-and-answer session, which are not historical facts, may be forward-looking statements. 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 the risk factors set forth in AXIS' most recent report on Form 10-K, Form 10-Q and other documents on file with the SEC as well as the additional risks identified in the cautionary note regarding forward-looking statements in our earnings press release issued on February 7, 2018. We undertake no obligation to update or revise publicly any forward-looking statements.

In addition, this presentation may contain non-GAAP financial measures. Reconciliations are included in our earnings press release and financial supplement, which can be found on the Investor Information section of our website.

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

Albert A. Benchimol
President, CEO & Director

Thank you, Linda, and good morning, everyone. Thanks for joining us today.

I'm happy to welcome Pete Vogt to his first call as our CFO, having taken over from Joe Henry after his retirement at the end of 2017.

Let me begin with some initial observations, after which Pete will run us through the details of the financial results, and then I'll come back and provide some comments on the market.

2017 was a year of 2 themes for AXIS: a challenging year in terms of market conditions and financial results, but a very strong year in terms of organizational development and market positioning.

Last night, we reported operating income of $20 million or $0.24 per diluted share for the quarter and an operating loss of $265 million or $3.15 per diluted share for the full year.

We finished the year with diluted book value per share of $53.88, a decrease of 7.5% from the prior year. The drivers of operating performance were the same in both the fourth quarter and the full year. The cumulative effect of ongoing price reductions, the Ogden rate change in the U.K., higher non-cat losses

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in property and a near-record cat year for the industry, including record California wildfires in the fourth quarter.

Our book value was also impacted in the quarter by the change in the U.S. tax law, which caused us to write down our deferred tax asset by $42 million or $0.50 per share.

Before Pete walks you through the details of our financial results, which we recognized are more complicated this quarter, as for the first time they include the operations of Novae and purchased GAAP assumptions, I do want to share a couple of observations to put these results in context.

The reported figures mask a number of positive signals throughout the year. Amid an epic year for insurance industry cat losses, which at approximately $120 billion is second only to 2011. The impact of cats on our combined ratio and book value was much less than it was in the 2 previous $100 billion-plus cat years. It's a result of our efforts to reposition our portfolio and reduce the volatility of our earnings. Our experience this year was well within the range of our peer group for all of the events. We saw more work to further reduce our susceptibility to volatile cat losses. But the results of this year confirm we're on the right path.

Importantly, our progress also continued on our other lines. Indeed, other than property and property cat lines that suffered high attritional losses this year, our core ex-cat technical results improves. In insurance, the aggregate ex-cat technical ratio for all lines, other than property, fell by almost 2 points in the year, as underwriting actions more than offset market price reductions.

In reinsurance, the full year ex-cat technical ratio for all lines, other than property and catastrophe, also improved by 1 point, even with the impact of the Ogden rate change on the U.K. motor book.

This is tangible evidence that our efforts to deliver improved underwriting results are bearing fruit. And we've already taken actions to improve our property book, including the exit of U.S. retail property and insurance at the beginning of 2017 and additional portfolio enhancements at the January 18 renewals across the portfolios. Thus, we believe our property portfolio is better positioned today than it was last year. Beyond financial results, it was a stellar year in terms of organizational progress for AXIS. We took bold actions to enhance the quality of our underwriting, expand our franchise and establish leadership and relevance in key markets across the globe, including recruiting top talent, enhancing our data and analytics capabilities, opening new offices, increasing third-party capital and closing on the acquisition of Novae.

With regard to Novae, notwithstanding the impact to the record third quarter cats, our experience to date gives us confidence that all other outcomes will exceed our initial expectations. The early stages of the integration are going well. The market has welcomed our new position as a top 10 player in the London market for global specialty risks and, indeed, we were able to control substantially all of our renewals since the merger. We secured finality on the 2015 and prior reserves. We now believe synergies will exceed our initial estimate of $50 million, approaching $60 million by 2020. And pricing conditions are much better than we expected when we developed our initial projections, with us very optimistic that Novae will deliver substantial strategic and financial benefits to AXIS. Through all these actions, we completed in 2017 our transformation from an intelligent provider of capacity for volatile lines in a hard market to a relevant and respected leader in key core markets, including top 10 positions in the U.S. wholesale E&S markets, North American professional lines and the London market for global specialty lines while we're a top 15 global reinsurer of P&C lines.

We've never been better positioned with our clients and partners in distribution nor had more tools at our disposal to deliver improved results to our shareholders. We're also encouraged by recent changes in market conditions, which I'll cover after Pete reviews our financial results in more detail. Pete?

Peter John Vogt
Chief Financial Officer

Thank you, Albert, and good morning, everyone.

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During the quarter, we generated a net loss of $38 million, with an annualized ROE of negative 3.3%. Our operating income for the quarter was $20 million, with an annualized operating ROE of 1.7%. The drivers of the difference between our net loss and operating income for the quarter were the following items not included in operating income: a tax expense of $42 million related to the reevaluation of our net deferred tax asset associated with U.S. tax reform; and transaction and reorganization related expenses of $21 million; and FX losses, although these are partially offset by gains in the balance sheet.

Of course, the quarter started with the closing of the acquisition of Novae on October 2, 2017, which means the full quarter of Novae results are included in this quarter's results, the first such quarter.

A few items related to the acquisition weren't mentioned before I walk through the various aspects of our results, including purchase accounting adjustments and the finality achieved with respect to Novae reserves for 2015 and prior years.

The purchase price for Novae of $616.9 million was allocated to the assets acquired and liabilities assumed of Novae based on estimated fair values at the closing date. In our 8-K of January 29, we provided supplemental information on the historical results for Novae as well as PGAAP adjustments. We identified purchased intangibles, including value of business acquired, VOBA, and finite-lived other intangible assets. VOBA represents the present value of the expected underwriting profit within policies that were enforced at the closing date of the transaction and was estimated at $208 million after tax. Finite-lived other intangible assets, primarily related to distribution networks, were estimated at $107 million after tax. We also identified indefinite-lived intangible assets related to Lloyd's of London syndicate capacity of $79 million after tax and goodwill of $54 million. The allocation of the purchase price to the assets acquired and liabilities assumed of Novae were based on estimated fair value at the closing date. Other notable purchase accounting adjustments included the write-off of the deferred acquisition cost asset of Novae balance sheet as the value of policies enforced on that date are covered and considered within VOBA.

Consequently, our underwriting income in the quarter includes the earnout of premium attributable to the unearned premium reserve of Novae as of October 2nd, without the recognition of associated acquisition costs. This stack would have normally been amortized in acquisition expenses. So we estimate that the consolidated acquisition cost, on an as-if basis, would have been approximately $33, million higher, resulting in an approximate 22% acquisition cost ratio versus the consolidated 19.5% that was reported.

I will discuss this impact to our 2 segments later in my remarks. Amortization of intangibles of $53 million was mostly driven by amortization of the VOBA of $50 million. This expense affected the company's operating net income, but was not included in the results of the segment underwriting results. As we disclosed earlier, we expect the majority of the VOBA to be amortized during 2018. Following the closing of the acquisition early in the fourth quarter, we advanced work initiated by Novae prior to our transaction with a view to significantly reduce reserve risk by transferring all 2015 and prior reserves in a reinsurance to close transaction. We completed this transaction. And in line with our findings during due diligence, this transaction generated positive economic value that is reflected in the opening balance sheet.

Moving on to a discussion of our results. Our operating income this quarter border weight of an elevated level of catastrophic losses, including the wildfires in Northern and Southern California and losses associated with an aggregate excess of loss reinsurance cover. Further, our accident year underwriting results were adversely impacted by higher attrition, which featured in particular, lines already in runoff. These factors were partially offset by increased net-earned premium, continued favorable prior year development and strong investment income.

Moving into the details of our income statement. Our fourth quarter gross premiums written increased by 50%, with an increase in both reinsurance and insurance segments. Our reinsurance segment reported increase of $80 million or 65% in gross premiums written in the fourth quarter 2017 compared to the same period in 2016. The increase was attributable to: favorable prior year premium adjustments and reps of $25 million; favorable current year premium adjustments of $18 million in our agriculture line; food organic growth in new business of $37 million, spread among our number of lines; and the additional Novae reinsurance premiums in the fourth quarter of approximately $4 million.

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On a year-to-date basis, our reinsurance segment reported gross premiums written of $2.4 billion, an increase of $178 million or 8% compared to 2016, attributable to our cat, agriculture, property and motor lines, partially offset by a decrease in our credit and surety lines. We believe a year-to-date perspective provides a more meaningful view of premium growth.

Our insurance segment reported an increase in gross premiums written of $286 million or 47% in the fourth quarter compared to the same period in 2016. This increase included gross premiums written of $241 million attributable to our recent acquisition of Novae. In addition, gross premiums written increased by $45 million or 7% attributable to good growth in our accident health, professional lines and liability lines, offset by a decrease in our property lines, following our exit from U.S. retail insurance operations last year and a decrease in our marine lines, largely driven by timing difference and nonrenewals.

For the 12 months ended December 31, 2017, gross premiums written were $3.1 billion, an increase of $408 million or 15% compared to gross premiums written of $2.7 billion for 2016. This increase included gross premiums written of $241 million attributable to our acquisition of Novae. In addition, gross premiums written increased by $166 million, or 6%, primarily for the reasons noted above for the quarter as well as an increase in our aviation lines associated with the acquisition of AVIABEL completed earlier this year.

Consolidated net premiums written increased by 57% in the fourth quarter of 2017 compared to the same period in 2016. Insurance net premiums written increased by 48% compared to the same period in 2016. Excluding the impact of our recent acquisition of Novae, net premiums written increased by 11%. This growth reflects the increase in gross premiums written together with a decrease in premiums ceded in our property lines.

Reinsurance net premiums written increased by 93% compared to the same period in 2016, reflecting the growth in gross premiums written in the quarter, together with a decrease in premiums ceded due to timing of premiums ceded in the same period in 2016.

On a year-to-date basis, reinsurance net premiums written were comparable to 2016. In 2017, we increased our premium ceded to strategic capital partners, particularly in our cat, credit and surety, agriculture liability and pro lines, offsetting the growth in our GWP.

Our fourth quarter consolidated current accident year loss ratio increased by 8% -- 8 points to 74% compared to the same period in 2016. During the quarter, we incurred catastrophe and weather-related losses, net of reinstatement premiums of $133 million or 11.2 points, principally due to the California wildfires, together with losses associated with an aggregate excess of loss reinsurance cover. Comparatively, we incurred catastrophe and weather-related losses net of reinstatement premiums of $59 million or 6.4 points in 2016.

Our fourth quarter current accident year loss ratio, ex-cat and weather, increased by 3.2 points or 6 -- to 62.8%. Our insurance segment current accident year loss ratio, ex-cat and weather, increased by 5.8 points to 61.4% from 55.6%, principally due to an increase in attritional loss experience in our property lines, increased attritional loss experience in our aviation line and increased attritional loss experience in the Novae marine line, together with the adverse impact of rate and trend. I would note that our attritional property experience was exceptionally good in the fourth quarter of 2016, and that impacts the quarter-on-quarter comparison by about 3.5 points.

These negative factors were partially offset by changes in business mix within our A&H line, where we responded to opportunities to write more limited benefits insurance business in the U.S., which carries a lower loss ratio but higher acquisition expense ratio.

Our reinsurance segment current accident year loss ratio, ex-cat and weather, increased by 1 point to 64.6%, particularly due to the ongoing impact of the Ogden rate change on our motor lines and attritional losses associated with the legacy Novae discontinued lines.

Year-to-date, our consolidated current accident year loss ratio increased by 16.7 points to 84.1%, driven by a 14.8 point increase in the cat loss ratio. During the year, we incurred $835 million of pretax

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catastrophe and weather-related losses, net of reinstatement premiums compared to $204 million in the same period in 2016.

After adjusting for these events, our current accident year loss ratio increased by 1.9 points to 63.7%, primarily driven by the Ogden rate change and a higher year-over-year property losses. These 2 items had a 3-point impact on our current accident year loss ratio year-over-year.

We believe our year-to-date perspective, which is not impacted by the vagaries introduced from quarter-to-quarter distorting comparable period analysis, provides a more meaningful view to our current accident year loss ratio, ex-cat and weather. On a year-to-date basis, our insurance segment current accident year loss ratio, ex-cat and weather, increased by 1 point to 61.6 from 60.6, principally due to an increase in attritional loss experience in our property lines, mainly in lines discontinued by AXIS, together with the adverse impact of rate and trend.

This was partially offset by improved experience in other lines. In fact, in aggregate, excluding property, the business delivered an improved current accident year loss ratio, ex-cat and weather. On a year-to-date basis, our reinsurance segment current accident year loss ratio, ex-cat and weather, increased by 2.9 points to 65.9 from 63, principally due to increased large loss experience in our property lines and the Ogden rate change in our motor lines. Here again, lines other than property and motor, delivered improved year-over-year underwriting results.

Turning to loss reserves established in prior years. Our results benefited from net favorable loss reserve development of $57 million during the fourth quarter, with $38 million attributable to reinsurance and $18 million attributable to insurance. During the fourth quarter, acquisition cost ratio decreased by 0.9 points compared to the same period in 2016.

Our reinsurance segment acquisition ratio decreased 3.2 points to 22.7% from 25.9%, primarily related to the favorable adjustments related to loss-sensitive features and changes in business mix as well as the impact of reinstatement premiums, adjustments earned in the quarter. On an as-if basis, without PGAAP adjustments, the acquisition ratio would have been 24%. Our insurance segment's ratio increased by 2.1 points to 16.6% from 14.5%, primarily related to business mix, partially offset by increased ceding commissions. On an as-if basis, without PGAAP adjustments, the acquisition ratio would have been 20.6 points.

Our G&A expense ratio in the fourth quarter decreased by 5.8 points compared to the same period in 2016, relating to both segments, principally associated with a decrease in performance-related compensation cost as well as an increase in net earned premium. In the fourth quarter, fee income from strategic capital partners was $8 million included as an offset to G&A expenses compared to $7 million in the prior year quarter. Our G&A expense ratio for the full year of 13.9 is low. Normalizing our G&A for unusual items throughout the year and considering a full year impact of Novae, G&A of approximately $700 million for 2017 is a good base to use.

This base would've produced a 14.9% G&A ratio in 2017 full year. Our balance sheet is strong, and today, we have more sources of capital available to us than we've ever had in our history. AXIS is well positioned to continue to support clients across our portfolio and lines we feel we can get appropriate return on our capital. During the quarter, we issued $350 million of 4% senior notes. We used a portion of the proceeds from the issuance of senior notes to repay a Novae term loan and to use a further portion of the proceeds from the issuance of senior notes to repay and redeem our senior notes due on April 1, 2019.

As previously disclosed, we have suspended share repurchase for the balance of 2017. We expect this will continue through 2018. As was the case following other major cat loss years, we are focused on restoring our capital levels held prior to the 2017 catastrophes and Novae acquisition.

We closed the acquisition of Novae during the third quarter of 2017. We are working diligently to implement our future-ready operating model to support our underwriting strategy. We expect now to achieve run-rate cost savings of $60 million. We expect to achieve these savings, approximately $30 million to $35 million in 2018, cumulatively a $50 million to $55 million in 2019 and the balance in 2020.

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We would expect to incur nonoperating charges of approximately $50 million, of which $15 million has already been spent and most of the rest will be spent in 2018.

To conclude, 2017 was a busy year. And we're now looking forward and focused on creating value in 2018.

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

Albert A. Benchimol
President, CEO & Director

Thank you, Pete. Let me spend a few minutes going into the details of the market and recent price changes we've seen across our business.

As we expected, the market responded positively to the substantial cat losses and deteriorating profitability in other lines. Pricing started picking up in October and accelerated through December, which was the strongest month of the year, with insurance pricing averaging 3.5% in that month. Not surprisingly, lines in markets that were the most affected saw the strongest price action. The average insurance rate increase for the fourth quarter approached 3%. It was strongest in our U.S. division, where we achieved average increases of 6.9% overall, with solid double-digit increases in E&S property and increases approaching 6% in casualty. In our International insurance division headquartered in London, the average rate change for the fourth quarter was 3.3%, but the range was very wide. Including double-digit increases in cat-exposed property and onshore renewable energy, down to modest declines in aviation and terrorism. On average, in London, specialty lines achieved great increases of 4.3%, while professional lines were up 2.2%.

Our U.S. and Bermuda professional lines division was close to flat, with 2/3 of the premiums renewing flat to up and the remaining still had modest declines. As in recent quarters, primary layers achieved price increases while pricing softened, as coverages moved up the tower, reflecting recent loss experience. The positive market momentum continued into January across our insurance book where we renewed over $600 million of insurance premium, including both the legacy Novae and AXIS books, at average rate increases of 4.1%. The reinsurance markets also experienced broad improvement. As you've heard elsewhere, in the 1:1 cat renewals, we generally observed pricing in the flat to up 5% range in loss-free accounts, and 5% to 15% in loss-impacted business, with some exceptional examples of 30% price adjustments in some cases where it was required. As you know, the majority of the loss impacted cat book will renew later, between April and July, and we're optimistic that rate increases will continue through those renewals.

Property treaties are also responding with increases that are consistent with cat exposure and recent loss experience. We're seeing the beginning of price activity in other lines. Professional lines in casualty quota-share treaties are generally renewing flat or at a 1 to 2 point reduction in the seat. Our overall January 1 quarter share renewals in the U.S. averaged about 1 point of lower-ceding commission.

In excess of loss lines, we're seeing average price increases in the mid-single digits, with the exception of European motor excess of loss treaties that have averaged in excess of 30% in our case. This, of course, makes up for the year of unprofitable results that follow the changes in the Ogden rates and brings the profitability that booked back to acceptable levels.

Overall, we believe the reinsurance business renewed in '18 should deliver better technical results than the expiring book, absent unusual frequency or severity. I would add, that notwithstanding the higher property cat reinsurance pricing, cat business will be less critical to our net results than it was in prior years, as we are now ceding over 50% of our growth cat reinsurance premium, up from 42% in 2017. And continue to work with strategic capital partners to ensure we could provide substantial and consistent capacity to our [indiscernible] across the number of lines and geographies. We currently have access to about $1.9 billion of third-party capital, with about 55% dedicated to property cat reinsurance and the rest across a variety of other lines. In 2017, we ceded almost $500 million of premium and collected $36 million in fees. This represents rates of growth of over 60% in 2017. And given our greater capacity available in '18, we would expect further growth in both these important metrics. With our strong balance sheet and access to substantial third-party capital, we are very well placed to take advantage of improved

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market conditions and leverage our enhanced market positioning to make the most of available market opportunities.

But while we welcome the much-needed changes in market conditions, we are also determined to continue our ongoing efforts to improve our own profitability under any market condition. All of our actions, including the recently announced organizational changes to align our accident and health units to our core insurance and reinsurance businesses, the creation of a group underwriting and analytics unit and the integration of our finance and IT functions into more centralized centers of expertise are meant to increase our agility and efficiency in the marketplace and empower our underwriters, claims experts and actuaries to better serve our clients and partners and distribution, construct more profitable portfolios and deliver better outcomes to all of our stakeholders. We're confident AXIS can do very well in this market. With our enhanced positioning, better tools and analytics and a focus on delivering stronger underwriting results, we believe we can construct a portfolio that delivers a double-digit ROE with lower volatility. With improving results as the impact of discontinued lines fades away during the year and more recent business earns out through our income statements.
And with that, we'd be happy to answer your questions. Thank you.

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Question and Answer

Operator

[Operator Instructions] The first question comes from Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

So my first question, Albert, is on the pricing commentary. And it looks -- can you talk a bit more about the market dynamics in both traditional as well as alternative market? And what gives you confidence the momentum can continue?

Albert A. Benchimol
President, CEO & Director

Well, certainly, if you look at the last 4 quarters, what you will see is that the rate of decline that we were experiencing in the first, second and third quarters of 2017 was already improving. I'm not saying we have increases, but the rates of decline were smaller and smaller as we were going through it. And essentially, what we were saying was the market already started to respond to what is obvious to all of us, which is that the business was simply not profitable enough and we needed to get paid more. 2017 fourth quarter, I believe, was -- the cats were the momentum to really push everybody into thinking we need to do something. And we started seeing that in the fourth quarter. And as I mentioned, we started seeing a little bit more improvement into the first quarter. So our position has been that we are certainly not anticipating a hard markets like we've had in the past. I think there's just too much capacity for that, especially in the cat world. But I believe that there is a real recognition in the industry that we need to get back to acceptable profitability. And given where the pricing is now, I think we need to see some more. It's not going to be 10%, 15%, 20%, 25%, that's not what we are talking about. But what we're talking about is I think that we need to continue to see, in some cases, mid-single digits, in some cases, higher. But I believe there's a recognition by brokers, by companies and by insurance companies that, that needs to happen. The impact of the alternative capital in my mind is to dampen the increase, in particular, on the cat business. I think that January 1 certainly answered all of the questions about the sustainability of alternative capital. It's there, it reloaded, it increased its desired price, but certainly not by doubling it. And so I think we're seeing a new normal with regard to alternative capital and catastrophe, in particular. I think that this is likely the environment that we're going to continue seeing through 2018.

Kai Pan
Morgan Stanley, Research Division

Great. As the pricing actually is improving gradually, but you're still -- continue to pulling back on the property underwriting, especially if you look at PML, it's reduced by 20%. And could you talk about the philosophy behind that? And would that impact your overall business mix that would be making your -- like underlying combined ratio or even higher going forward?

Albert A. Benchimol
President, CEO & Director

That's a fair question. I think that we have been working on our property and property cat book for a number of years now, reducing the overall exposure. So if you look at PMLs, in general, they are a multiyear reduction in PML. I would like to split our property strategy, if you would, in 2. 1 is in the property book in the insurance and other is in the cat. I think the property book in the insurance is one where we've been working very hard to change the nature of that book to improve the profitability of that book and to reposition it. And one of the issues that you will see in 2017 is increases in the experience and property, but a large part of that loss comes from business as we've identified earlier that we exited at the beginning of '17. So a lot of the negative experience that we had in 2017 is actually down to discontinued property lines, which will have a significantly lower impact in 2018. We believe that with regards to the insurance book, that we will actually be able to improve our overall underwriting results and

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our overall underwriting of, not just for property but for insurance in general, with regards to a change in our approach to property. So I think that's in a good place now and will continue to improve as we apply our new tools and approach the pricing and construction to the rest of the book. I think with regards to reinsurance, that's one where we are taking our cat exposure down overall. And I think, there you are right, to the extent that you're writing less cats premium, in a non-cat year, you're not going to do as well as somebody who writes more cat premium. But we believe that, overall, we will end up with a portfolio that will have better ROEs. Let's be honest. Where the world is right now, with the alternative markets driving the price for cat, cat is no longer offering insurers strong double-digit returns. And so we have to make sure that we allocate our capital appropriately for the risk and returns that are provided by the cat business.

Kai Pan
Morgan Stanley, Research Division

Great. Last one, if I may, on tax reform. You've ceded about 20% to your offshore ceded and how do you change that program? And because you said you see no material impact to your overall effective tax rate going forward.

Albert A. Benchimol
President, CEO & Director

Pete, why don't you take that?

Peter John Vogt
Chief Financial Officer

Kai, this is Peter. If you look at our book of business, today we're about over $6 billion in premium. About $2 billion of that's coming out of North America. And as you note, about half of that was ceded to -- was ceded offshore in 2017. What we have done is canceled those quota-share treaties and so now all $2 billion of that premium will stay in North America. We don't see a real impact to our ongoing tax rate, because the $1.1 billion, it's -- if we're talking about 15% of our overall portfolio. So it's not a substantial -- it's an important part of our operations, but not the majority of our operations. But I would also tell you that, the half of the business that were staying in the U.S. now has a reduced tax rate from 35% to 21%, and so the business that's staying there will achieve a lower tax rate. And we don't expect that overall, when we aggregate it all up, we'll see a material impact in our tax on a go-forward basis.

Kai Pan
Morgan Stanley, Research Division

Is 4% still a good run rate?

Peter John Vogt
Chief Financial Officer

We don't like to give a forecast on a go forward, but I would say we should be consistent to what we've seen in the past.

Operator

The next question is from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

First couple of questions, following up on some of the market commentary. How much did your business potentially grow by on the reinsurance side at January 1? And from the commentary that I've been hearing in the market, it seems like part of the reason that people think momentum might continue to June and July is because of multiyear covers are potentially haven't gone up for renewal. How big of a portion of AXIS book is multiyear covers? And do you share that view, I guess, that business, either

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written on a multiyear or some business that's not coming up until June or July, do you think that we'll see the same level of price increases we saw at January 1?

Albert A. Benchimol
President, CEO & Director

So that's multiple questions. Let me deal with one at a time. I think with regards to the reinsurance book overall, I think if you look at it year-over-year, the first thing that we do is we look at the expiring treaties, we adjust them for FX, which obviously, given the weakening of the U.S. dollar in the last 12 months, that was a little bit more than in the prior year. But in U.S. dollars, I would say that we had expiring premium of about $1.5 billion and we renewed about $1.5 billion. So there was a fair amount of movement in our books. There were some cancellations and nonrenewals. We increased our share in some, we decreased in others. We had some new business. But the net of it all is approximately a flat book year-over-year.

With regards to pricing as we go forward, I would say 2 things. One is, we didn't see as a percentage has much increased because most of the book that was renewed in January 1 was essentially European and with less experience. But the books that you're going to see in April and May, June are going to be more cat-exposed, so by definition you'll see more of those 10%, 15%-plus increases coming through simply because that's consistent with what we saw in January 1, but with the appropriate mix. I take your point on multiyear treaties, but I would say the following on multiyear treaties. If you look at pricing in cat, in particular, where we are now, given where the rates are, we're probably somewhere in late '15, early '16 pricing, right? So it's not like we've made a huge recovery yet. I still believe that there should be more to go. But if you had a treaty that was priced in '14 or '15, it's probably at levels that are not inconsistent with what you see today. So those multiyear treaties might actually renew flat because they didn't take the dip down, but they're not pricing the correction either. So I think you really have to take a look at where those multiyear treaties were written, what happened in those lines of business in the interim, and I don't think it's a foregone conclusion that you're going to see material increases in multiyear treaties. I would say that in our own experience, First of all, we wrote less multiyear business in '17 than in '18. So we have less of that. But when you look back on the last 4 years -- last 4 or 5 years, and you look at the multiyear business that we wrote, on a net basis, that was a net positive for AXIS. Because in the last 5 years, we were able to lock in prices for 2 or 3 years in some cases when the annual renewals were actually done at lower prices. So multiyear treaties can be a very good way of managing the overall profitability of your book. I think we did it well. But I wouldn't reach any immediate foregone confusion until you dig deeper into when and in which lines those multiyear treaties were written.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, that is helpful. In terms of some of the purchase accounting adjustments, as we think about '18, you guys talked about a $33 million benefit going through acquisition cost in the segment level. Is that something that we'll see come through as a benefit also in 2018?

Peter John Vogt
Chief Financial Officer

Elyse, this is Pete. Yes, we will see a benefit to the acquisition cost come through, through '18. It will be a little bit lower because we wrote that $209 million of the Novae deck off when we closed its balance sheet on October 2. So we'll see a number come through. It won't be that exact number. It's going earn off in relation to their unearned premium reserve at that point, but we will see a benefit come through there, so we'll keep you in mind with that as we go through the year, but we will see our acquisition cost ratio be a little under, what I would call, a normal run rate through the year. Now, I would say that offsetting that, the VOBA, which we disclosed a couple of weeks ago, of $171 million amortization in 2018, will also show that running off each quarter. I will tell you that the VOBA, we do expect to amortize about 65% of that in the first half of the year, probably split evenly between the quarters, with a little bit more in the first quarter and the other 35% running off in the second half of the year, with again, a little bit more in the third quarter than the fourth quarter.

Elyse Beth Greenspan

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Wells Fargo Securities, LLC, Research Division

Okay, that's -- and then as we think about 2019, I guess, just because of the PGAAP adjustments, the acquisition ratios will book higher because we won't see the benefit come through.

Peter John Vogt
Chief Financial Officer

Yes. When we get to '19 and we're looking year-over-year, it will look higher, because by then, we'll get into what I'll call a run rate state, which is why I think what we'll do is continue to give you some guidance as we go through the quarters this year and what our real as-is acquisition cost run rate is.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, that's great. And then, at the start of the call, you guys mentioned kind of reaffirming, and if not, more positive about the Novae deal than when you announced. I know you had pointed to some level of accretion figures in year 1 and year 2. Did that take -- did that take into account the potential -- at this point, there is probably some lower-level of investment income due to the reserve to close deal? Or is maybe the higher expense saves offsetting that? I'm just trying to think through the modeling impact of the reserve to close as well as the higher expense saves as we think about 2018.

Albert A. Benchimol
President, CEO & Director

Yes, Elyse. I think that when we look at Novae overall, we really do believe today that we're going to get better than we actually projected, both strategically and financially, and let me give you a few insights on that one. So we've now been kind of inside the doors of Novae since July of 2017. And I can tell you that we have found absolutely no negatives. One of the things that people are always concerned is once you get inside, we have found no negatives, in fact the staff is very strong. We've been able to build a great team, which is the best of both. And I feel very good about that.

One of the things that we model, of course, is, we're going to lose some business. I can tell you that to date, we haven't lost any real business and we've maintained control of substantially all of our renewals. I want to be clear. Some of those renewals we chose not to renew for all the right reasons, but it was really under our control. Secondly, I would say that when we did our projections, we thought this was going to be a flattish year for pricing, and we're now looking at mid-single digits pricing. So I would say that the pricing assumptions are better than we originally modeled. The synergies, as we've pointed out, we thought we'd be about $50 million. We thought -- we think now they're going to be about $60 million, so that's a positive. And with regard to the RITC, Elyse, you're absolutely right. We're thinking that the transfer of the premium probably makes for low single-digit investment income offset, but when you think about what that means in terms of finality on the reserve and reducing reserve risk, we think that was a good trait for us. So net-net, you're right, probably the higher synergies and the investment income kind of close to offset each other and everything else is a net positive.

Operator

The next question is from Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Albert, you talked about the increases in the motor book and that -- how that book has now reached pricing adequacy. To what extent are you maintaining business in lines that are not currently at pricing adequacy, because you believe over the longer term, they will be adequate as pricing evolves to a proper view?

Albert A. Benchimol
President, CEO & Director

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Josh, I'm sorry, I just wanted to make sure I properly understand your question. Are you asking essentially about staying in certain lines, but temporarily reducing premiums? I'm not sure I understand.

Joshua David Shanker
Deutsche Bank AG, Research Division

For staying in certain lines, you know they're inadequate because you have a longer-term view that they won't be inadequate forever.

Albert A. Benchimol
President, CEO & Director

Okay, well, that's a fair question. I think, as you can see, there is a normal amount of attempting to stay in a market and not to be ruled by the immediate market, but really take a look at what is it going to look like over the medium to long term. And of course, part of what we do as good insurers and reinsurers, is if we believe that a business is good longer term, but not currently, we manage down by either reducing our exposure temporarily or by buying more reinsurance or a number of things. But there are times when you look at a market and importantly, you look at your own position in that market and you say, "Am I going to be a winner in this market? Are we going to generate strong and consistent profitability long term?" And if you realize that, that market is not going to do that for you, you've got to take the tough actions. And I would say that over the last 3 years, we have done a number of these actions. And let me go through a few of them. You, of course, recall that we got out of the Australian market when we realized that we didn't have the scale to succeed in that market. We've got out of the Canadian retail property market. We just announced last year that we were getting out of the retail property and retail casualty markets in the U.S. because we felt we had much more firepower and more potential in the E&S and wholesale markets. We announced in December that after many years of losses for the market in onshore energy, we weren't seeing the kind of progress that we wanted to see, so we were reducing that. So I think that we've made a number of calls on lines of business where we did not see long-term profits opportunity. And we will make the tough calls when we need to make that. In other areas, we've practiced what I believe is good cycle management where we are reducing our shares, but staying in the market while we find ways to either improve our profitability or look for more improvements. If the improvement does not happen, we will take whatever action is necessary. But for the moment, I think that we've shown the right balance of cycle management in terms of reducing, but staying in markets that we think are good long term, of taking tough actions and exiting market that we do not believe are good long term for AXIS. But also importantly, we haven't talked about it, investing in new businesses and growing in new businesses that we believe are going to provide substantial opportunity going forward. We've already spoken about A&H being a success story for AXIS. And as we noted, we wrote $500 million of that business and it's profitable, and we think that's going to continue. We've been doing great strides in new lines with great promise like renewable energy, what we believe we are top 5 in the world. We have leadership positions in fiber, where we believe we're top 5 in the world. So there are also a lot of other lines with great long-term potential where AXIS has done very good work of implanting itself as a relevant and leading insurer in lines that we believe have positive futures.

Joshua David Shanker
Deutsche Bank AG, Research Division

Do any of those lines currently have pricing that's below adequate level of returns, but you're more confident longer term will resolve that?

Albert A. Benchimol
President, CEO & Director

If you're asking are all of our lines delivering target ROEs today, the answer is no. But we are working on those, both through pricing actions, portfolio construction and other efforts to get them to where they need to be. And if they're not, we will take additional action, whether that's either further underwriting actions or exits. But we will take care of that as we move forward.

Operator

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The next question is from Meyer Shields of KBW.

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

Just a couple of brief modeling questions. First of all, did the reinsurance enclosed arrangements have any impact on underwriting profits in the fourth quarter?

Albert A. Benchimol
President, CEO & Director

No, it didn't, Meyer. It was actually all pushed back to the opening balance sheet.

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

Okay, perfect. And second, historically, the excise tax on premiums that were ceded offshore from the U.S., were those reported in the tax line or in one of the expense categories?

Albert A. Benchimol
President, CEO & Director

It's in the acquisition expense line.

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

Okay. And then -- go on, I'm sorry.

Albert A. Benchimol
President, CEO & Director

We put expense -- we put expenses that are tied to -- variable expenses tied to variable volumes are associated with the acquisition expense.

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

Right, no, I'm not suggesting that it's inappropriate. I just wanted to know what is that for in the model. And then third, just broadly speaking, we've heard some sort of inconsistent [indiscernible] about accelerating loss trends in some casualty lines and I'm just wondering if you could talk about what you're seeing?

Albert A. Benchimol
President, CEO & Director

I think certainly the most obvious places have been in commercial auto. And certainly, we've seen that, too. You may recall, Meyer, we are not very aggressive on commercial auto. It's a very small part of our book. And in fact, we reinsured, I think, to 90%. So whatever adverse we've seen on commercial auto, had not had a material impact on us. And it's also been the part of the casualty market that has accelerated the most in pricing. So that's happening. I think what you will see, just to give you an even broader answer, is that there is certainly appropriate levels of concern around casualty. I mean, we've got social inflation going on. We've got a lot of -- as a market, a lot of limits in casualty. We're seeing increased class actions on the professional line side. And so those are the kinds of factors that are making people recognize that we need better pricing in those markets. And that's what's been driving pricing in the casualty markets. I will tell you that, in fact, in 2017, we did not grow as much as we thought we would in casualty because although we saw pricing increases, we did not think they were adequate for the rates that we -- for the loss trends that we were seeing. And so in fact, we slowed down our growth in casualty growth because we didn't get the pricing increases that we thought we should get. That's improving a little bit now, but I can say that in '17, we took action. And with regards to -- D&O and E&O,

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you're also starting to see some increases in the primary layers reflecting the loss activity that we're talking about here.

Operator

The next question comes from Jay Cohen of Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

I guess, for Peter, 2 questions. One is, can you talk about the new money yield you're seeing out there relative to your portfolio yield?

Peter John Vogt
Chief Financial Officer

Yes, Jay, it's Peter. Right now we're seeing our new money is getting invested at a slightly higher yield than we have on the overall book yield. Our new money yield is about 2.7%, and the overall book yield is about 2.5%.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's a -- finally, a good comparison.

Peter John Vogt
Chief Financial Officer

Yes, yes. We agree with that.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Secondly, amortization of intangibles, there's a lot of moving pieces and I did miss them on the call, so I apologize if you've answered this. But can you actually give us a sense of what the quarterly pattern will be over the next couple of years for this amortization?

Peter John Vogt
Chief Financial Officer

Yes. Probably -- we did talk about it a little earlier, Jay, but that's okay. The biggest part of the amortization is going to be the VOBA. It was -- in the fourth quarter, it was $50 million of the $53 million. So we think about the VOBA -- if you look at the disclosures we gave out a couple of weeks ago, we expect $171 million of that to amortize in 2018. And I really think we'll see 60 -- probably about 65% of that in the first half of the year, Jay.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Actually, I did catch that, sorry. Beyond the VOBA, I guess, the other intangibles, the amortizations will be relatively small?

Peter John Vogt
Chief Financial Officer

Yes, actually, if you go back to the disclosures we put out on the 29th on Page 6 of the disclosures, we actually give it by year breakdown for the other ones, and they are pretty small because they amortize over such a long period.

Operator

There are no additional questions at this time. This concludes our question-and-answer session.

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I would like to turn the conference back over to Albert Benchimol for any closing remarks.

Albert A. Benchimol
President, CEO & Director

Thank you, operator, and thank you, everyone, for joining us. As Pete said, 2017 was a year with a lot of moving parts. But what I feel very good about is that we entered the year with an integrated company with Novae and the rest of our operations. I think we started to see some of the benefits of our underwriting actions in '17 in terms of being able to demonstrate that our technical ratios, x property were actually coming down, even in the face of reduced pricing. I think that we are entering '18 with a very strong sense of purpose and improved market position, and the sense that we can truly make progress and deliver on our improved shareholder return. So I look forward to reporting to you on that in future quarters. Thank you for joining us.

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

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