S&P Global
Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS

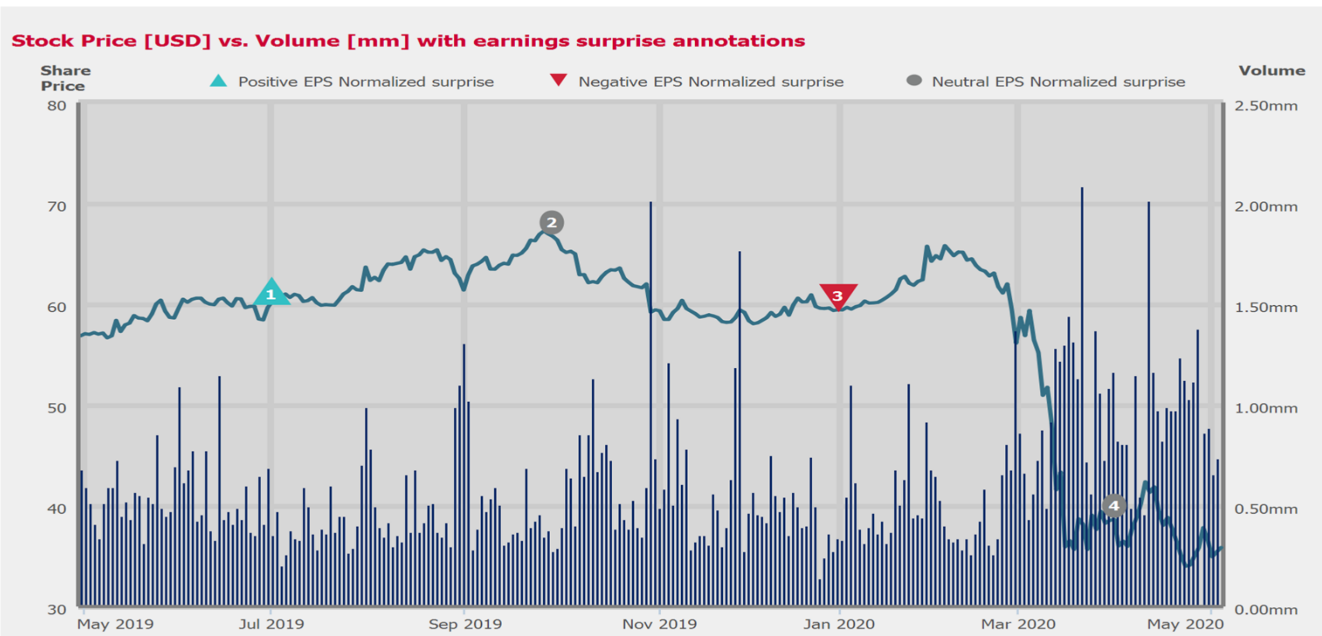
FQ1 2020 Earnings Call Transcripts

Tuesday, May 05, 2020 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(1.56)	(1.94)	NM	0.78	0.76	5.25
Revenue (mm)	1937.25	1679.04	▼ (13.33 %)	1108.30	4441.48	4554.38

Currency: USD
Consensus as of May-05-2020 10:40 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	1.31	1.62	▲1 23.66 %
FQ3 2019	0.18	(0.39)	NM
FQ4 2019	0.18	0.05	▼2 (72.22 %)
FQ1 2020	(1.56)	(1.94)	NM

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Call Participants

EXECUTIVES

Albert A. Benchimol
CEO, President & Director

Matthew Jay Rohrmann
Head of Investor Relations

Peter John Vogt
CFO & Executive VP

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Douglas T. Eden
Eden Capital Management LLC

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

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

Philip Michael Stefano
Deutsche Bank AG, Research Division

Ronald David Bobman
Capital Returns Management, LLC

Unknown Analyst

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Presentation

Operator

Good day. And welcome to the Q1 2020 AXIS Capital Earnings Conference Call [operator Instructions].

Please note, today's event is being recorded. I would now like to turn the conference over to Matt Rohrmann of Investor Relations. Please proceed, sir.

Matthew Jay Rohrmann
Head of Investor Relations

Thank you, Eric. Good morning, ladies and gentlemen. I'm happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the first quarter and period ended March 31, 2020.

Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you'd like copies, please visit the Investor Information section of our website at axiscapital.com.

We set aside an hour for today's call, which is also available as an audio webcast. This is also available through our information -- Investor information section of our website.

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

Before I turn the call over to Albert, I'll remind everyone that the statements made during this call, including the question-and-answer session, which are not historical facts, may be forward-looking statements.

Forward-looking statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from those projected in the forward-looking statements due to a variety of factors, including the risk factors set forth in the company's most recent report on Form 10-K and other reports, the company files with the SEC. This includes the company's Form 10-Q for the quarter ended March 31, 2020, which will be filed after date of this call, as well as the additional risks identified in the cautionary note regarding forward-looking statements and our earnings press release issued yesterday evening. We undertake no obligation to update or revise publicly any forward-looking statements.

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

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

Albert A. Benchimol
CEO, President & Director

Thank you, Matt. And good morning, everyone. Thank you for joining our earnings call. On behalf of AXIS, I'd like to begin by expressing our heartfelt sympathy to the families and loved ones of all those whose lives and livelihood have been tragically cut short by the pandemic. Over the past few months, the world we know it has been upended, and we must now work together to navigate the unprecedented challenges brought on by COVID-19. And yet, heroes have arisen everywhere, and we at AXIS feel immense gratitude for the brave individuals who are on the front lines, fighting the pandemic and putting both their own and their families' lives in peril.

Within AXIS, our foremost concern has been with the health and safety of our colleagues. We also believe very deeply that our industry fulfills a vital social purpose to help people when they're down and to help individuals, businesses and organizations rebuild in times of crisis. We proudly stand by a promise to our customers, partners in distribution and our communities. We're reviewing each claim on an individual basis, and where our policies do provide coverage, we're already making payments to help our insurers overcome financial setbacks.

I'm proud to say that we've seen the best of AXIS in these last few weeks. We sustained a high level of responsiveness to our producers, as we partner with them to help our common clients manage risk in these highly uncertain times. The investments we've made over the past years to update our technology platform and implement our digital transformation have allowed us to shift seamlessly to remote work protocols. And by all accounts, we've maintained a high level of service that our producers have come to expect of us. And separately, we're also continuing to support the relief efforts underway in our local communities.

I'm most thankful to our team who have met the challenge with resilience, grit and grace. We're convinced that we've enhanced the AXIS brand with our service over the past 6 weeks.

We'll spend a large part of this call discussing our exposure to COVID-19, its impact on our results and our plans for managing through the global crisis. But an essential component of this discussion is the state of our company at the start of the pandemic.

We entered 2020 strongly positioned along 4 key attributes: we have the strongest capital adequacy we've had since 2016; we had a prudently constructed investment portfolio, with over 84% of assets in investment grade bonds. And while our portfolio experienced a negative return in the first quarter, given the recovery of markets, we are now in positive return territory for the year-to-date in our portfolio.

We also have an outstanding team and a technology platform that allows us to operate remotely without any reduction in our capabilities. And we have the best balanced book of business in the history of our company, the result of many years of portfolio repositioning and reduction in cat volatility.

Now while in the last couple of years, our progress in demonstrating the benefits of this repositioning has been slower than we had wished, we believe that our results this quarter provide tangible proof that we're now delivering on our goals. We use as our key metric to monitor our progress in underwriting, the ex-PGAAP, ex-cat current year loss, acquisition and G&A ratios, and we delivered strong progress along each of these metrics.

Our consolidated PGAAP, ex-cat current year combined ratio was 93.6% this quarter, 4 points lower than the prior year, not only sustaining but accelerating the progress that we've achieved in prior quarters. This attritional underwriting result, along with much lower peaks on PMLs and cat loss curves over recent years, positions us well for continued improved performance.

I hasten to add that like with any carrier, there will always be some quarterly volatility in our results, but we're now working off a much better base.

Let's now discuss the financial impact of COVID-19. As shared in our pre-release, we're projecting $300 million in cat losses, with $235 million coming from COVID-19. AXIS was among the first to provide a more comprehensive estimate of COVID losses this quarter. We saw no reason to wait. We conducted deep reviews of our policies and programs within our insurance segment and found that the vast majority of our business does not respond to the current situation. While we do have some contracts that provide the cover, the majority of our business includes physical damage requirements from business interruptions, clear virus for pandemic exclusions and sublimits in terms of coverage. Where we do have exposures, we believe that we have a good understanding of our potential losses for our first-party business.

For the reinsurance segment, we use various approaches to determine the company's net claims provision. We review in our various property, catastrophe and A&H contracts and made a number of judgment calls based on the nature of our clients' business. We supplemented these with conversations and loss indications we see from clients. We further since checked our estimates using a variety of industry insured loss estimates, market share analyses and catastrophe modeling analyses.

While our loss provision of $235 million is, of course, subject to change given the uncertainty of the situation, we believe it appropriately reflects potential losses that have been incurred, assuming the shelter-in-place remains through July 31. I would like to credit our team for the tremendous effort required that has -- and gone into to prepare this estimate. We did not take a provision for third-party business. Frankly, we haven't seen anything yet there. And we expect that it'll take several quarters, if not years, for the full impact of COVID-19 to be realized. That's another reason we expect that market pricing will continue to remain strong, to allow the industry to absorb the higher losses that are expected to emerge from this pandemic over time.

To conclude my introduction, it was a tough quarter as the pandemic took its toll on our underwriting and investment results. We're not alone in facing the challenges of pandemic, but I'm confident that we outperformed in many ways. The AXIS team continues to make progress in its underwriting, grew in attractive lines and sustain high service with customers and producers throughout the pandemic. I'm very proud of our performance this quarter.

Pete will now walk us through the financials, and I'll come back to talk more about pricing and have our Q&A. Pete?

Peter John Vogt
CFO & Executive VP

Thank you, Albert. Good morning, everyone. To echo Albert's comments from earlier, our hearts go out to everyone whose lives have been directly affected by COVID-19. We find inspiration every day in the heroism displayed by the health care workers, early responders and essential workers. Like Albert, I'm impressed by the way our staff has come together to advance the business, support our customers, as well as support the relief efforts in our own local communities.

I'll now proceed with the update. As you heard from Albert and saw in our earnings pre-release last week, our consolidated quarterly performance was heavily influenced by COVID-19 and the adverse impact it had on both our underwriting and investment results.

During the quarter, we incurred a net loss attributable to common shareholders of $185 million and an ex-PGAAP operating loss of $161 million. During the quarter, we reported $300 million of pretax net catastrophe and weather-related losses, including $235 million for COVID-19. These COVID-19 losses increased our consolidated combined ratio by 21.3 points in the quarter. As Albert noted, these reserves were established following detailed reviews within both segments.

In those instances, where we identified COVID-19 as a likely cause of loss, we established loss reserves in the first quarter. Our losses from COVID-19 are largely attributable to property-related coverages, but also include event cancellation and A&H coverages.

Our current estimate assumes the shelter-in-place remains in effect through July 31 of this year, and this applies to both of our business segments. The vast majority of our reserves are IBNR.

Our subject -- our estimates are based to a higher-than-usual level of uncertainty because of the inherent difficulty in making assumptions around COVID-19 due to the lack of comparable historic events, its ongoing nature and far-reaching impacts. These assumptions include the nature and the duration of the pandemic, its effects on human health, the economy and our customers, the coverage provided under our contracts and by ceded reinsurance, the evaluation of loss, and the impact of loss mitigation actions.

In addition to the loss provisions associated with the pandemic, we also incurred a full limit loss of $10 million related to the WHO pandemic risk-linked swap. This loss is reported through the other insurance-related income line in the income statement.

Excluding the effects of COVID-19, we incurred $65 million of pretax cat and weather losses in the quarter, primarily associated with U.S. weather events, U.K. flooding and Australian wildfires.

Moving beyond COVID-19, the first quarter saw a continued improvement in the company's ex-cat underwriting results. We believe the best way to discuss our results is on an ex-PGAAP basis, which is a better representation of the run rate performance of our business. Our ex-PGAAP current accident year combined ratio, ex-cat and weather, decreased by over 4 points as the repositioning of the portfolios in both segments, including the exit from certain product lines in the insurance segment earned through.

The consolidated current accident year loss ratio, ex-cat and weather, was 57.1%, a decrease of 1.8 points attributable to the progress in both segments. We reported net favorable prior year reserve development of $6 million in the quarter, of which $4 million came from Insurance and $2 million from Reinsurance. The consolidated ex-PGAAP acquisition cost ratio was 22%, a 1.5% decrease from the first quarter of 2019.

The consolidated G&A expense ratio was 14.5%, a decrease of almost 1 point compared to the first quarter of 2019. Reduced G&A ratio was largely driven by decreases in personnel costs, professional fees and travel and entertainment expenses. The normalized G&A ratio for this quarter was 14.6%. We continue on track to achieve our annualized run rate expense reduction of $100 million started in 2018. However, given the uncertainty of the current situation, we have planned additional savings targets throughout the rest of this year.

Fee income from strategic capital partners was $16 million this quarter compared to $20 million in the prior year quarter.

Now I'll move into the segments. Let's begin with Insurance. The Insurance segment reported an increase in gross premiums written of 11% for the first quarter. This increase principally came from the professional lines, liability, property and marine lines, largely attributable to new business and favorable rate. This is the second quarter in a row we reported growth in the Insurance segment as we move beyond the portfolio actions taken in 2018 and 2019.

This quarter, pre-tax cat and weather-related losses were $178 million. The COVID loss estimate was $135 million and is primarily associated with property-related coverages, but also include event cancellation coverages. Virtually all of the reserves are IBNR.

The insurance segment had meaningful improvement in the ex-PGAAP current accident year combined ratio ex-cat. It improved by over 5 points, down to 92.3 for the quarter. This is the second quarter in a row where we have seen over a 5-point improvement in the insurance segment ratio. The current accident year loss ratio, ex-cat and weather, decreased by 2 points in the quarter. The decrease was due to improved loss experienced in marine and aviation, together with continued impact of rate over trend. These improvements were partially offset by an increase of about 1 point due to business mix as professional lines and liability businesses now represent a greater proportion of our portfolio, relative to the property business.

While the greater proportion of professional lines and liability business adds about 1 point to the ex-cat loss ratio, these lines benefit the ex-PGAAP acquisition cost ratio because they have lower net acquisition costs. The change in business mix accounted for about half of the over 2-point decrease in the ex-PGAAP acquisition ratio for the insurance segment.

Now let's move on to the reinsurance segment. The reinsurance segment reported a decrease in gross premiums written of $242 million for the quarter. We had a decrease across a number of lines as we look to better balance the portfolio. These were partially offset by increases in liability and accident and health lines, driven by rate increases and new business under favorable market conditions. The quarter pre-tax cat and weather-related losses were $122 million, primarily attributable to COVID-19. The COVID-19 loss estimate was $100 million and was primarily associated with property-related coverages as well as some medical expense and travel coverages.

The current accident year loss ratio, ex-cat and weather, decreased by over 1 point compared to the first quarter of 2019. The decrease was due to favorable impact of changes in business mix, due to less motor and agriculture business earned in the quarter, together with improved loss experience in aviation. The acquisition cost ratio was almost 1 point lower than last year due to changes in business mix, the impact of retro contracts, partially offset by adjustments related to loss sensitive features.

Net investment income of $93 million in the quarter was $14 million lower than the first quarter of 2019, primarily due to lower hedge fund returns. The hedge funds are part of our alternative asset portfolio, will report on a current quarter basis. At quarter end, our total alternative portfolio was just under $700 million, of which about 70% reports on a 1 quarter lag. We expect the impact of those first quarter returns to be reported in the second quarter.

Our current book yield is 2.7%. Our current new money yield at quarter end was 2.9%. Our current new money yield is 2.3%, and the duration of our portfolio continues to be approximately 3.3 years.

Loss associated with an equity method investment of $24 million for the quarter was attributable to negative investment returns achieved by the investee.

With respect to capital actions. As discussed during our last earnings call, in December, we issued $425 million of junior subordinated notes at a favorable rate. In January, $225 million of the proceeds we used to redeem all of our Series D preferred shares. We intend to use the remaining proceeds, along with the proceeds raised last June, to redeem our $500 million of senior notes maturing this coming June. Adjusting for the repayment of the June senior notes, our pro forma quarter end debt would have been $1.3 billion, resulting in total capital of $6.1 billion. Our pro forma quarter end leverage ratios would be total debt-to-capital of 21% and total debt plus preferred of 30%. Both of these ratios are up about 2 points from year-end pro forma comparables.

After we repaid the senior notes in June, we have effectively and efficiently refinanced our long-term debt over the past 2 years and have no long-term debt maturing until 2027. Because we had an overlap of debt, we had temporarily higher interest costs of $7 million in the quarter. This will disappear on a go-forward basis after the second quarter.

Diluted book value per share decreased by $6.01 in the quarter to $49.78. This was principally driven by the net loss, net unrealized losses and common share dividends. That summarizes our first quarter results.

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

Albert A. Benchimol
CEO, President & Director

Thank you, Pete. Let's do a brief overview of market conditions and outlook and then we'll open the call for questions.

Overall, the momentum in market firming is accelerating and spreading to just about every line in market. For insurance, this is a continuation of pricing improvements that we've now seen for 10 quarters. For reinsurance, I'd say that it's only recently that we've seen real pricing momentum take hold. This difference is what drove the top line divergence between our insurance and reinsurance segments.

Our strong 11% growth in insurance speaks to both our satisfaction with our current portfolio and the improved terms that we're seeing. On the other hand, we did not always get the rate that we were looking for at the January 1 reinsurance renewals. In many cases, we reduced our participation or exited certain treaties. But the April renewals were a different story. We'll get to that later.

But first, let's start with insurance market conditions. Overall, across the entire insurance book, we saw average rate increases of 10%, about twice what we achieved in last year's first quarter. Our U.S. division once again saw the strongest pricing actions, with average rate increases of almost 15%, primarily in Excess Casualty achieved average increases in excess of 20%. E&S property rates were up 15%, and our U.S. programs business, which focuses on homogeneous books of smaller accounts, was up almost 5%.

Within our North American professional lines division, pricing also continued to accelerate, and rates were up over 7% in the quarter. Now most of our business units within professional lines saw double-digit pricing increases. However, our Global Cyber and Technology line exhibited modest price action at a bit over 1%, impacting the average.

While cyber and tech are not yet generating the same increases that we're seeing in other areas of our professional lines division, we are starting to see upward movement in rates there too.

Within our commercial management Solutions unit, we saw strong rate improvement with average increases of more than 17%. Public and Private D&O showed impressive average increases of over 40% and 25%, respectively. We're definitely entering hard market territory in these lines.

In addition, we saw strong double-digit increases in our financial institutions and Canadian specialty businesses, while our Bermuda AXIS business was up 18%. In our London-based international insurance division, rates were up more than 8% on average in the quarter. We saw double-digit increases across property, professional and casualty lines, renewable energy and aviation. Our marine and political risk lines were up on average by 5% with marine cargo seeing increases of more than 20%. To give you a sense of the momentum in our markets, across the entire insurance segment, the March rate change was the strongest in the quarter, averaging 15%. Overall, in the quarter, 95% of our insurance business renewed flat to up. Interestingly, 40% of our renewals by volume experienced rate increases of at least 10% and almost the 1/5 of our renewals achieved rate increases of more than 20%. These are by far the best numbers we've seen in over a decade.

Looking forward, we see no indication that rate activity will subside. Indeed, as I noted earlier, with COVID-19-related claims emerging over the next few quarters, ongoing low interest rates and the specter of social inflation overhanging the industry, the motivation to sustain pricing discipline is high. There is talk that exposure growth may face headwinds in the coming quarters. Given the difficulties some insurers and brokers are facing with the pandemic, they might find it easier to renew with incumbent carriers. Thus, renewal retentions may increase as new business slows.

On the other hand, two of the characteristics of a hardening market are better incumbents to look to reduce limits and standard carriers tend to kick complex business back into the E&S market, and that's our sweet spot. So I think we'll need to see -- we'll need to wait and see a little bit more before taking a view on these positions.

In our mind, there's better visibility within reinsurance. There, we expect more demand as insurers look to buy additional protection and tighter supply as reinsurers are also looking to manage their capital and their risk appetite. This should drive stronger reinsurance conditions in upcoming renewals.

The April 1 reinsurance renewals were generally encouraging. We observed meaningful improvements across all lines with the exception of Asian non-cat business, which is a relatively small part of our book.

In Japan, earthquake pricing was flat, and with flat coverage averaged on -- it had rate increases on average of over 50%. Although, on a risk-adjusted basis, we see that increase more in the range of 20% or so. We use the renewals to reduce our exposure on low attaching treaties as we continue to push for a more balance in our portfolio. We also renewed U.S. Casualty business, where we achieved double-digit rate increases and a small aviation book, where rate was up over 40%.

As we look ahead for the June renewal season, there was talk of 20 -- 10% to 20% pricing increases in Florida. But now, it looks likely to be stronger than that, with better terms and conditions. It is a fast-developing situation, and it is promising, but we will have to wait and see how it develops.

I expect reinsurers, including AXIS to show appropriate caution. We'll evaluate treaty by treaty, making sure that we select the right business and the right partners for long-term profitability. And whether it's insurance or reinsurance business, our focus will remain on enhancing the balance and profitability of our book. We intend to sustain the improvement trends in the underwriting results, and we believe that the current environment offers an excellent opportunity for us to do so.

Before I open the question period, I do want to speak a bit about how we're managing through the pandemic. We've advanced 3 key operating priorities. The first is to sustain operating capabilities and client centricity. The second is to minimize the downside. And the third is to prepare for the recovery.

Regarding the first, as I noted earlier, our investments in our technology platform and digital capabilities have paid off in helping us to seamlessly transition to a remote work model. All of our staff have work-from-home capabilities, and our platform is strong. Importantly, the feedback that we're getting is that our service and responsiveness have been sustained at high levels.

We intend to limit the downside, so as we emerge strong and participate fully in the eventual recovery. We've modified our appetite in certain lines and markets, looking at limits, imposing exclusions and generally making investments and underwriting decisions with the understanding that no one truly knows how long or how bad this pandemic will be, both in terms of human and economic hardship.

We also cut our expense budget to help protect our profitability in 2020. We identified $50 million in expense cuts. This includes deferring noncritical hires and delaying certain projects as well as the natural attrition in travel and entertainment, given remote working. But we also know that the world will eventually emerge from this crisis, and we expect there will be significant opportunities when economic activity picks up again. So we are continuing to invest in the future, enhancing current coverages and developing new ones, accelerating investments in digital capabilities and processes and continue to invest in our brand and our franchise with our key producers.

To conclude, we're coming off 3 years of aggressive efforts to strengthen our business. We've made significant changes and believe the hardest part is behind us. We've taken the right actions, and we're seeing meaningful and tangible progress in our results. We entered 2020 in a strong state of readiness. And while the pandemic is a challenge for AXIS, our industry and our communities, we face that challenge with confidence and optimism that we will manage the downside, preserve our strengths and emerge strong on the other side. And throughout all of this, we will continue to be there for our clients and partners in distribution, every step of the way.

Finally, a recent piece of news. Some of you may have noticed that shortly before this morning's call, A.M. Best announced that it has revised its rating of AXIS to A (Excellent), from "A+" (Superior). Their reasoning is that our operating performance over the past 5 years hasn't met their expectations. I've got the report here in front of me. In this report, A.M. Best credits AXIS in a number of areas: AXIS maintains levels of risk-adjusted capitalization that places us in the strongest category on both a standard and stress-tested basis; A.M. Best noted that AXIS has a favorable business profile and a solid spread of risk by both line business and geography. It says we have a well-developed and comprehensive enterprise risk management program, and that it's embedded throughout the organization. But in operating performance, they dropped us from -- they dropped us to adequate. So in short, our lower operating performance over the past 5 years is the basis for A.M Best downgrade.

Well, we're the first to agree that our progress has been slower than we desired, it is disappointing to see this rating action after we're seeing such encouraging underwriting results from the significant actions that AXIS has taken during that time to strengthen our business. That said, we accept responsibility, and we're committed to doing all that we can so that we can earn back that superior rating.
And with that, let's please open the line for questions. Operator, back to you.

Question and Answer

Operator

[Operator Instructions] Our first question today will come from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here. First, I wonder if you could talk a little bit about how much of your business interruption coverage actually has a positive or a virus endorsement on it? And did you book all that in the quarter? And then conversely, how much of your kind of exposure -- property exposure has -- doesn't have any virus exclusions?

Albert A. Benchimol
CEO, President & Director

Okay. Let me see if I can take it. There are, of course, a -- let's focus on the insurance one. And it's really 2 different markets. One is the U.K. market, one is the U.S. market. In the U.S., we have property exposure that generally comes from our E&S book, our program book and some binder business. The program book and the binder business have ISO virus exclusion language. So that's out. Our E&S book, I would say, 80% of our E&S book has -- as the AXIS forms with the virus exclusion. We do have some policies that are broker policy -- broker warnings. We've gone through every single one of them. We've identified what's exposed, sublimits and so on and so forth. And we've taken the exposures for that.

In the U.K. business, there is some local business that we write and then there's some general property business. In the U.K., in particular, the cause of loss is denial-of-access through the government program. And so we've gone through all of our book. We only have a limited number, I would say, a handful of programs and binders that provide this coverage as a buyback and what we've done there is we've reviewed every industry, frankly, against the list that was provided by the government in terms of the closures. We've reviewed those policies. We've looked at where there's sublimits. And in many of those were small accounts with very small sublimits in terms of dollars. And in those cases, we generally assume, as I said, through July 31. In most cases, that was longer than even the sublimits, so we use the sublimit to estimate our losses and where not, we've made some prudent estimates of the claims there.

The only remaining piece, as I said, is the global property book. There, that book is -- over half of it is excess above any sublimit. We've gone through every policy that's for casinos, hospitality, hotels, restaurants and so on and so forth. We reviewed the business. We've looked at where the BIs are, where the exclusions may or may not be, and we took a charge against that. So by and large, we believe that we've done a comprehensive review of all of our property exposures, where there is BI, where there isn't, and we're comfortable that we've identified all of the policies where there is coverage.

Brian Robert Meredith
UBS Investment Bank, Research Division

That's great. And then I'm wondering, Albert, if you could talk a little bit about trade credit and then maybe political risk exposures. That's an area that I know a lot of people in the market think there'll be some pretty meaningful losses. What's your exposure to that area?

Albert A. Benchimol
CEO, President & Director

So we have trade credits and political risk in 2 areas. Trade credit, as you know, we have a small book on the reinsurance book. Now that book is one that we've reduced significantly over the last several years. We literally have $20 million of net written premium in the trade credit area, and it was multiples of that a few years ago. So we really cut that one back. We think that one's handled well. I think it's a little early to provide an estimate of the potential damage. And the reason for that is that there's significant potential impact from government's actions. As you know, a number of European countries, the governments are coming in and supporting that business, taking a share of the losses. So there's a number of areas there to look at.

We do have some surety business that we look at on the reinsurance book, that we feel is going to do well. It really -- even in the last financial crisis, it was not hurt. And so we think the conditions of the surety book will do well.

On the insurance side, we do have some credit and political risk. In our Lloyd's credit and political risk book, about 60-plus percent of that book is concentrated in energy, in sovereigns -- excuse me, and in financials. And then the rest is literally very small shares of metals, defense, infrastructure and so on. So let's take look at the big areas.

In our energy book, about half that book backs emerging market purchases of energy. And we just don't see loss exposure as a company -- as countries are going to want to import oil and they're going to want to pay for it. So we don't see much there. The other half of that energy book generally supports state-owned or state-sponsored energy companies. And again, we think that after having reviewed that book, we think we're in a good place there. We literally have $200 million of exposure to E&P companies. We've evaluated their book, their hedging program, their production in terms of costs, and most of them can do very well even in the $20 and $30 range. And of course, there's some exposure there, if they don't, but by and large, we feel that, that portfolio is very well managed.

I think on the sovereigns, again, we think that those are usually [MOFs], guarantees of support we think they'll manage. On the financials, these are really to support letters of credit, funds transfers between countries. And again, we don't see the banking system being impacted by this. And so we continue to believe that, that book is good. And frankly, when you get down to the smaller shares, I think it's generally strong -- strong obligors and small shares with a very good reinsurance program. So for the moment, again, I think it's early to tell, but we don't see that book as being particularly at risk. Of course, we would expect to see some losses, but we assume there's going to be losses every year. It could be higher, but I think it's way too early, again given the potential government support and other actions to make an estimate there.

In our CRS book, we do a lot of project finance. Again, those projects are continuing to go on. We've taken a look at the take-or-pay contracts. We've taken a look at the production costs. And very little of that is in terms of production and exploration. Where we are in energy, it has a lot to do with pipelines and so on. So again, we see these things continuing. We've got a large book of renewable energy projects in development. We think these continue for all of the reasons that we expect. We do have a small book of airline financing. There, the vast majority of the airlines that we do business with are government sponsored or government owned. We're monitoring the situation, obviously. We also have collateral, as you know. So again, I think that under foreseeable, even an extended recession, we think that book will be in good shape. But again, given the government support and the uncertainty -- that -- I think it's too early to really take a strong view there. But we think that book is well constructed. It's well reinsured. The limits are much, much, much smaller than they were in the last global financial crisis. So we're there, but we think we're in good shape.

Operator

Our next question will come from Meyer Shields of KBW.

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

Great. Albert, I was hoping you could update us on expectations for premiums and maybe unusual loss experience in the motor reinsurance book?

Albert A. Benchimol
CEO, President & Director

I'm sorry, could you repeat that question?

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

Yes. I'm just trying to understand how we should think about premium volumes and I'll say, maybe better-than-expected near-term experience in motor reinsurance because of the sales replace orders?

Albert A. Benchimol
CEO, President & Director

Right. So we don't really do any reinsurance of motor business in the U.S., it's mostly our European book. Some of that is XOL, some of it is quota share. We certainly expect that there would be some volume reduction in that going forward. On the other hand, we also expect that the negative impact of premium reductions would also be offset by improved experience, and there's less -- since there's less driving going forward. It's a book that we continue to reduce. I think you --

I believe that Peter spoke in his remarks about how that went down again at January 1. So it's not a large book for us, and we're not exposed to what's happening in the U.S.

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

Okay. And I may have missed this. I'm trying to get the timeline of the $50 million of planned expense reductions in response to pressured exposure units?

Peter John Vogt
CFO & Executive VP

So I'll handle that, Albert. Meyer, we came in kind of under our expectations in the first quarter by a little bit. But for this year, we've actually redone our budgets in the expectation that revenue may be less. And just through what we're seeing right now, obviously, our travel and entertainment, as we can see it, starting in the second quarter is way down and just because of the stay-in-place orders, we're going to see a lower expense run rate. And as we project out the rest of the year with where we're focusing our energies, we believe that we'll be able to drop kind of about $50 million from what our budgets were for the year.

The one thing I would say is my expectation is as we get back into a normal work environment going to 2021, some of that T&E is going to go back up. Some of the jobs that we may have put delayed hirings on because it's a little bit difficult to hire some people in places right now, given stay-at-home. We'll ramp that back up. But we did a bottoms up. We feel really good about at least the short-term nature, and we will manage it going into 2021 based upon what we see for the rest of this year.

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

Okay. Is the $50 million an annualized number? Or is that the actual expected diminished savings -- sorry, diminished spend?

Peter John Vogt
CFO & Executive VP

Yes. It's really annualized through the cost of our entire year. So you'll see some more of that come in the last 3 quarters of the year.

Operator

Our next question will come from Yaron Kinar of Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

First question, just as a mortgage reinsurance book, can you maybe offer us a little more color on how it's structured, both with regards to the GSE reinsurance and the PMI reinsurance? And then maybe also just talk about, because of the stress scenarios that you've run, what the impact there would be? And maybe some of the underlying assumptions behind these stressed scenarios?

Albert A. Benchimol
CEO, President & Director

So if we look at our mortgage reinsurance book, it's primarily the government-sponsored entities. I think less -- I'm going to say, look, somewhere between 5% and 10% is private, but the vast majority of our book is there. So in terms of that book, what we've done -- the good news about that book, as you might imagine, there's a lot of data on it, there's a lot of rating agency models. So we stressed it, using the rating agency stress models all the way to the top. And we feel that under a wide range of scenarios, that book still generates a profit. There is always an extreme scenario that is beyond anything that's in the plans right now, where it would start to make some losses. But for a very wide range, that portfolio should be continuing to generate some profits.

I think the second question was with regard to the scenarios that we used. Pete, you may want to go through that because it's a combination of both the impact of the closures as well as the economic environment, correct?

Peter John Vogt
CFO & Executive VP

Yes. So we did run multiple scenarios with the company to test our veracity through some various scenarios. We did a full bottoms-up economic scenario, where we've taken and stressed the books and the asset portfolio to one, the global financial crisis and then double the financial -- the global financial crisis. And we laid out assumptions with regard to GDP, with regard to market indices, both the credit markets and the equity markets, unemployment rates, pandemic rates as into the amount of infection rate, the increase in mortality rate, the unemployment rate. So it's very full scenarios and ran that through all of our books of business to get a view as to what we think could impact the company both on a top line, the loss line and on the asset side. So we're doing that to help us plan as this current situation evolves. But the teams have done a good job. So we've got a lot of guideposts to align us to take actions over the rest of the year.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Got it. And then my second question. I realize it may be a bit challenging, but I'm going to give it a try, anyway. So the $235 million of COVID losses in the quarter assumes that the shelter-in-place really left at the end of July. Do you have any sense of what those losses would look like, if the stay-in-place orders were to extend another month? Or if we had another round of shelter-in-place orders coming later in the year?

Peter John Vogt
CFO & Executive VP

In our scenario planning that we did do, one of the key assumptions was the duration of the stay-in-place. And so we have a view as to what that could be. Obviously, I think it starts to drive into account more coverages, like Albert said. But it would not be -- wouldn't be prudent for us to actually take those numbers and just discuss them. Right now, we're using them for modeling purposes, but we do have ideas of our underlying books. We reviewed the contract languages and all the coverages in lines of business where we think there's exposure. And we have a sense of what that could be, but it would be really speculative to provide any numbers.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Understood.

Albert A. Benchimol
CEO, President & Director

Peter, maybe it makes sense to provide a little bit of cover. So on the one hand, in a number of our accounts, we've already gone through the limits, right? So there are some sublimits in many cases, sometimes 3 months, sometimes dollar amounts. In most of those cases, we're already through those. So whether this happens again or extends longer, I think that we'd be okay there.

The other thing is that the area where we have our biggest exposure, as we've just discussed with you, is really in the U.K. book. And there, we do have a catastrophe cover internationally, where the attachment point is $75 million. There's a retention for $75 million. And there, we're already more than 2/3 into that tower, just with these numbers here. So we think that there is -- there's also some additional areas that give us comfort that the potential deterioration here -- it has some factors that could mitigate it.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Got it. And just to be clear, you say you're 2/3 of the way into the $75 million attachment?

Albert A. Benchimol
CEO, President & Director

In the U.K., yes.

Peter John Vogt
CFO & Executive VP

In the U.K. Yes, that was a good point, Albert. I should have mentioned that tower protection in the U.K.

Operator

Our next question will come from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question on the business interruption side, how can we think about losses that could stem from your reinsurance book? So if you pick it up to your property cat programs, do you have any color on your insurers and the virus exclusions that they might have or just thoughts around some of your insurers attaching into their property tax covers, on the BI covers that they actually provide and will kick in for COVID?

Albert A. Benchimol
CEO, President & Director

So Elyse, obviously, when you're in the reinsurance business, you're one step removed. And so I think that's just the nature of the business. I think what we did -- I feel very good that what we did was quite comprehensive based on where there is -- so let me just give you a sense of it.

The first thing we did, of course, is we identified all of our affected property treaties, whether they were quota share or XOL or property cat. We also look at our A&H book and evaluated that. We looked at where there was coverage. We then evaluated what was exposed. Just to give you an example, for example, on the property book, we scaled both the property, property cat book into countries because different countries have different exposures than others, and into clients and into whether they were lower level policies and a higher level policies. And so just to give you a sense, more than 60% of our policies on the property, property cat side or exposure -- I mean, not policies but exposure, we think is not affected at all because of the nature of the customers, either because they're personal lines businesses or exclusions. And so we feel pretty good that we were able to do that. We looked at Canada, we look at the U.K., which are countries where people are concerned. And again, we've got very few limits exposed there. So we've done that. We've then gone through individual accounts. We called our customers. We got feedback from our customers. We read what you read and talked to brokers, about who may have a book of business and not, evaluated those, modeled those and went through it. And then we -- so that was the bulk of the analysis. And then we kind of sense checked that analysis using some modeling, market share, what is the loss for X? What is the loss for Y? And so those are the ways that we evaluate it. As you know, we do provide some pandemic A&H covers. But as I'm sure you also know, these are really not meant to be loss protection covers, but really more Solvency II covers. So they attach very high. And there, what we did is, we're continuing to monitor the all mortality levels of the various countries, and we're comparing those with the attachment points of the various treaties. So we think we've gone into a reasonably granular level of detail to be able to estimate those various losses. Same thing on the travel book. So I think that understanding the limitations of being a reinsurer versus being an insurer, I believe that the announcement that we've done was very comprehensive.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. Then my next question on the prior year development slowed in the quarter. And can you just give us a sense of what years on the development came from? If you added any lines or years or maybe it was just a result of the reserves that were viewed in the quarter?

Peter John Vogt
CFO & Executive VP

Yes. We're always -- as we look through the reserves this past quarter, Elyse, given a lot of the uncertainties we're seeing right now, especially when it comes to social situation and the COVID-19 situation, we did see some positive development coming out of the property book as well as the motor book. But we thought it prudent as always, since we like to take the bad news early and wait on the good news, that we really did put some reserves up on the liability side, especially given the current situation. So again, we're being prudent with that, but we basically -- we did see positive development in motor and property, but we put much of that back up on the liability lines in both insurance and reinsurance.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And what was the size of the amount you put up on the liability line?

Peter John Vogt
CFO & Executive VP

I don't have that number in front of me. We can get that right back to you.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then in terms of the insurance segment, you guys have talked about, like, the one-off business of the Novae business, kind of the negative impact on your margins, going down as we kind of get through the first half of this year. I'm assuming, that comment still applies? And then could you just give us a sense of the magnitude of the impact we saw in the first quarter that could dissipate later on this year?

Peter John Vogt
CFO & Executive VP

Sure. So on the insurance side, Elyse, the ex-cat loss ratio was impacted by just under 1 point negatively by the runoff book. As I mentioned at year-end, that runoff book had about $50 million of UPR. It's down to just slightly over $30 million, and that will just run off the rest of the year, probably with a $15 million, $10 million, $5 mil kind of run off the rest of the year. But that did hurt us. That was a negative to the insurance ex-cat loss ratio by about a little under 1 point this first quarter.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then one last quick one on expenses. So you guys have the $50 million this year that you just highlighted on the call. And then there is about, what was it, $30 million, that we still have left of that $100 million to come through this year?

Peter John Vogt
CFO & Executive VP

Yes. Yes. And we've got line of sight to that, Elyse. We've actually accelerated some of that. So I do think that $100 million will be achieved. And again, that's off the run rate 2017 base. And then we've just taken our annual budget right now and dialed it back due to the uncertainty in the current situation.

Operator

[Operator Instructions] Our next question will come from Ron Bobman of Capital Returns.

Ronald David Bobman
Capital Returns Management, LLC

I had a question about reinsurance protections. And I'm sort of trying to understand what a carrier insurer is sort of thinking and might have to do as far as buying additional property cat reinsurance covers. And sort of the context of, if COVID losses currently or ultimately could utilize some portion of the carrier's cat tower? Does that insurer need to buy sort of effectively third event cover now, so it has the protections for the balance of the year? Could you walk through the thought that I'm touching on?

Albert A. Benchimol
CEO, President & Director

Yes. I think generally, I would say that it will be a choice that different carriers will make, right? So in some cases, if they use the tower, they can use most reinsurance policies, not all of them, but most reinsurance policies, have a reinstatement provision there. And so they would buy another tower. I think different companies will make their individual choices. I don't know that we can generalize -- I don't know that we can generalize right now, if everybody -- first of all, we don't know that a lot of people are going to get into their towers is number one. I think one of the things that I mentioned earlier is that we don't think that this is -- that these losses are going to spread through the industry like peanut butter. There's a lot of businesses, personal lines, others, U.S. exclusions, whatever, where it's unlikely to happen. I think if you've got certain countries or certain programs, where you've got that exposure, I think, is where that's likely to happen. And at that point, I think it will become the decision of each management team to determine what they want to do with their reinsurance purchases. I'm not sure that we can provide better insight than that.

Operator

Our next question will come from Doug Eden of ECM.

Douglas T. Eden
Eden Capital Management LLC

With the shares trading at such a discount to tangible book value, do you see any value in repurchasing shares at these levels for EPS accretion?

Peter John Vogt
CFO & Executive VP

Doug, this is Pete Vogt. We currently do not have a stock repurchase program in place. And given the current situation, as we're kind of like in the middle of a cat that's still evolving, I don't think it would be imprudent for us right now to put a repurchase plan in place and to repurchase any shares. We would really -- given the movement in the evolving situation. So we don't have any plans to repurchase shares right now.

Operator

[Operator Instructions] Our next question will come from Gerald Fine of MCN Group.

Unknown Analyst

How confident are you on policies that have been written with specific exclusion for the viruses, on business interruption will hold up? Don't you expect all this to be litigated and the political nature of it and the target that we all could be? How confident are you, those specifically will hold up?

Albert A. Benchimol
CEO, President & Director

That's a fair question. And let's agree that for the moment, we're talking about a hypothetical. My view here is that, if you were to do this, you would so hurt the insurance industry that it would end up being an industry that requires a bail out. I mean that's exactly the issue. If we -- and I think that regulators and legislatures when they realize the full negative impact of what this would mean, I think they would step back. Because at the end of the day, I think the very simple question that one has to ask every legislature and every regulator is, okay, you want to take all of our capital to pay for this where we don't have coverage. So when the hurricane hits Miami, how do you want the insurance industry to respond, now that it no longer has capital? And that's the issue. The issue is that the downside of making that decision is, it's so bad, number one. And number two, I think that has been recognized by Republican senators in their letter to the President and so on, is basically saying that this goes against the Constitution of the United States. It's very likely to have to go to the Supreme Court, which means that, the insurers are unlikely to see any benefits from an action of this sort for many years. And so why would you want to do all that, when there are much better mechanisms to support the economy?

Unknown Analyst

Are you reserving money for legal expenses, assuming that, we have some politically-minded insurance commissioners and attorney generals coming at the industry, with a target painted on your back? Is that part of your reserving technique to build up your reserves for legal expenses?

Albert A. Benchimol
CEO, President & Director

So the first thing that I would say is, if that were to happen, we wouldn't be the first company in line to go against this. This would be a massively funded movement by the entire insurance and reinsurance industry. So thank God, we wouldn't have to pay for it all ourselves. But to be specific, we do have a budget in this $235 million charge for defense cost because we do believe there will be additional litigation to defend our position.

Operator

Our final question will come from Phil Stefano of Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Congrats on the underlying improvement. I guess, I wanted to ask a question around the A.M. Best action. And the extent to which forward projections that you're making may have been included or not included in how they contemplated, taking the action that they did. And I guess -- when we're thinking about the sustainability of the underlying improvements, and it feels like, there is more tailwinds to come as the negative impact from Novae continues to burn off. Should we read anything into how they're thinking about the sustainability of the improvement, just based on the news we got this morning?

Albert A. Benchimol
CEO, President & Director

Look, let me not mince words here. We're obviously very disappointed by the A.M. Best action, again, especially because we believe we have turned the corner, and we're starting to show tangible results. So I'll start my answer by saying that I cannot speak. Nobody at AXIS can speak on behalf of A.M. Best, and they will need to explain this. But let me say this. Everything that I see in terms of A.M. Best communication speaks to the prior 5-year operating return, not the forward-looking return. In fact, the report that I have in front of me actually says that there are improvements coming down the pike. So I will leave it to A.M. Best, but my expectation is that this is based on a backward-looking performance and not on a forward-looking performance. But you also made a reference in your question about ongoing bad news because of the remaining business. Let me give you some comfort there. We have taken all of the actions necessary to curtail the business that hurt our results in the past. And we've discussed this earlier. We're already now at, frankly, an ex-cat combined ratio that this company hasn't delivered since 2013. And so we've moved in the right direction. We've identified the business that we have decided to eliminate. Peter announced a little while back that, that hurts the loss ratio by a little under 1 point, but there's, again, very little left. I do want to provide you the assurance that there is nothing left in our books that we believe needs to be addressed in terms of -- there's a book of business here, what are we waiting for? I -- there were areas in the past where we had to wait from January 1 to the next January 1 to nonrenew a binder or this or that. But when we look at the book of business today, and in fact, you can see it in the growth of insurance, insurance is now on the front foot. It's growth mode in a hard market. So we're not looking for -- we're not looking to cut back there. We cut back again on our property and our property cat exposures at January 1 in the reinsurance because we wanted to make sure that we would bring the volatility -- the potential volatility of the book down.

So to the extent that we can, I do want to express my confidence that we've taken the actions necessary to get rid of the business that's been hurting us. And other than this $30 million of premium that Peter spoke about, we're feeling very confident and very optimistic about our outlook.

Operator

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

Albert A. Benchimol
CEO, President & Director

Thank you, operator. So I want to thank everybody for your time this morning. So notwithstanding the challenges of COVID-19, the 4-point improvement in our ex-cat current year combined ratio, I think, speaks to the hard work that we've done over the last several years. I think we're starting to see consistent and meaningful improvements. Obviously, we're very disappointed by the A.M Best action, which really speaks on a backward-looking basis, and not a forward-looking basis. I think our team is doing an incredible job in -- during the shelter-in-place. Our service is great. As we look to the future, in the months ahead, we're remaining focused on limiting the downside. We're going to practice expense discipline. We're going to continue to deliver great service to our customers. I believe we're taking all the right actions, and I believe that AXIS is well positioned to manage through the pandemic and come out strong on the other side. So we do hope -- we look forward to reporting more positive news in upcoming calls. Thank you very much, and please stay safe.

Operator

The conference is now concluded.

Albert A. Benchimol
CEO, President & Director

Operator, thank you.

Operator
Thank you very much for attending today's presentation. You may now disconnect.