S&P Capital IQ

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AXIS Capital Holdings Limited NYSE:AXS

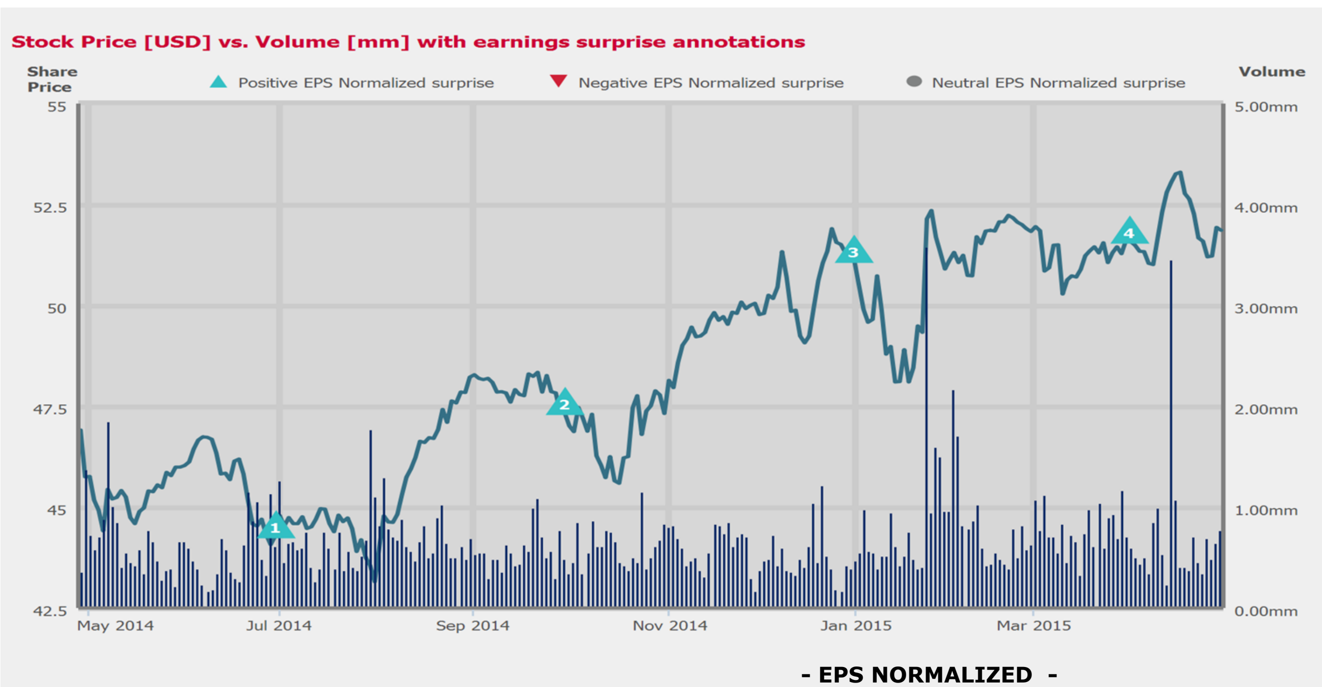
FQ2 2015 Earnings Call Transcripts

Wednesday, July 29, 2015 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2015-			-FQ3 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.94	0.93	▼(1.06 %)	0.95	4.38	4.53
Revenue (mm)	1022.07	946.54	▼(7.39 %)	689.58	3678.49	3730.78

Currency: USD
Consensus as of Jul-29-2015 12:23 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2014	1.19	1.63	▲1 36.97 %
FQ3 2014	1.21	1.27	▲2 4.96 %
FQ4 2014	1.17	1.18	▲3 0.85 %
FQ1 2015	1.23	1.35	▲4 9.76 %

Call Participants

EXECUTIVES

Albert A. Benchimol
President, Chief Executive Officer & Director

Joseph C. Henry
CFO & Executive VP

Linda A. Ventresca
Corporate Development Officer

ANALYSTS

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Macquarie Research

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BMO Capital Markets Equity Research

Christopher Campbell

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Unknown Analyst

Presentation

Operator

Hello, and welcome to the AXIS Capital Second Quarter 2015 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Linda Ventresca. Ms. Ventresca, please go ahead.

Linda A. Ventresca
Corporate Development Officer

Thank you, Keith, 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 second quarter ended June 30, 2015.

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 is (412) 317-0088. The conference code for both replay dial-in numbers is 10068213.

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

Before I turn the call over to Albert, I will remind everyone that the statements made during this call, including the question-and-answer session, which are not historical facts, may be forward-looking statements within the meaning of the U.S. federal securities law. Forward-looking statements contained in this presentation include but are not limited to information regarding our estimate of losses related to catastrophes, policies and other loss event; general economic capital and credit market conditions; future growth prospects; financial results and capital management initiatives; evaluation of losses and loss reserves; investment strategies; investment portfolio and market performance; impact to the marketplace with respect to changes in pricing models; our expectations regarding pricing and other market conditions; and any merger-related statements.

These are important factors that could cause actual results, level of activity, performance or achievements to differ materially from the results -- level of activity, performance or achievements expressed or implied by the forward-looking statements as are further described in the Risk Factors set forth in AXIS' most recent report on Form 10-K and our other documents on file with the SEC.

We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

In addition, this presentation contains information regarding operating income, our consolidated underwriting income and adjusted group and segment results, which are non-GAAP financial measures within the meaning of the U.S. federal securities laws. For a reconciliation of these items to the most directly comparable GAAP financial measures, please refer to our press release and financial supplement, which can be found on our website.

The focus of today's call is a discussion of the financial results for AXIS Capital for the second quarter ended June 30, 2015. As you know, we are a party to an agreement and plan of amalgamation with PartnerRe and we are subject to strict confidentiality requirements as part of the transaction. As a result, we cannot take questions regarding the amalgamation at the conclusion of the prepared remarks. We would respectfully request that you refrain from asking merger-related questions. For information about the pending merger, please see our merger proxy S-4 filed on March 16, 2015, as amended, or visit the Investor Information section of our website, www.axiscapital.com.

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

Albert A. Benchimol
President, Chief Executive Officer & Director

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

Last night, AXIS reported second quarter 2015 operating income of $94 million or $0.93 per diluted share, representing annualized operating ROE for the quarter of 7%. These results are consistent with our preannouncement of July 13.

We ended the quarter with diluted book value per share of $51.81, an increase of 4.3% over the last year. Adjusted for dividends, diluted book value grew 0.3% during the quarter and 6.6% over the last 12 months. Book value growth was held back in the quarter due to the increase in unrealized losses on investments, given a higher government bond yields and the widening of credit spreads.

Joe will go through the numbers, but I'd like to provide some context for this quarter's and half year results.

Excluding the impact of multi-year treaties and FX, our gross premiums are essentially flat for the quarter and year-to-date, with growth in insurance and A&H offsetting declines in reinsurance. In a transitioning market, we continue to focus more on consolidating our position, optimizing portfolio mix under available conditions and improving portfolio construction and underwriting profitability, rather than pursuing aggressive growth in larger markets that offer fewer, attractive opportunities. Still, we continue to achieve good growth within certain business areas that continue to show promise and where we can differentiate ourselves, including casualty and professional lines in our insurance segment and motor in reinsurance.

We reported a respectable underwriting result for the quarter with a combined ratio of 96.9%. Excluding the impact of differences in prior year development in cat losses, which can vary significantly quarter-over-quarter, our current year loss ratio increased by about 2.9 points. This increase in the loss ratio is attributable to rate weakness and loss trends across many of our lines, mix change as we respond tactically to market conditions and higher midsize loss activity.

Our reinsurance accidents year ex cat loss ratio was up about 5 points for the quarter. This is explained by the negative impact of rate and trend across most reinsurance lines, higher midsize loss exposure in property and a shift in mix of business towards higher loss ratio lines.

Secular and cyclical change in the reinsurance market are exerting pressure on profitability in our reinsurance segments, and our team is working diligently to respond to that pressure through proactive portfolio shifts and exposure management. It is a natural consequence of reducing cat business as a proportion of our portfolio that the average attritional loss ratio for the portfolio will increase. However, we believe it is prudent to reduce exposures to less attractively priced volatile lines and protecting more stable portfolio under current market conditions.

I would also note that while current market conditions are difficult, reported results continue to benefit from favorable development of prior year reserves given our historically prudent reserving philosophy.

I'm particularly pleased with the progress in our insurance operations. Here, the ex cat current year loss ratio is up only 0.5 point, notwithstanding industry-wide rate and trend pressures and abnormally high Marine losses for the quarter. These adverse drivers of loss were substantially offset by the favorable impact of our portfolio improvement initiatives, in particular, in professional lines and property, where we also observed better midsize loss activity. We are confident our ongoing progress in the application of data and analytics to improve portfolio construction and underwriting profitability, along with our investments in distribution management initiatives, position us strongly to differentiate our value proposition for all of our stakeholders. Visibility is good on the runway to higher profitability in our insurance segment.

Joe Henry will now discuss our financial results for the quarter. Joe?

Joseph C. Henry
CFO & Executive VP

Thank you, Albert, and good morning, everyone.

During the quarter, we generated positive results, which included an operating income of $94 million and an annualized operating ROE of 7%. Our quarterly diluted book value per common share was $51.81, slightly lower compared to last quarter, but representing a 4.3% increase over the last 12 months. Adjusting for common dividends declared, the increase in book value per share was 6.6% over the last 12 months.

Our quarterly results benefited from continued favorable prior year development in loss reserves, a decrease in our general and administrative expenses and positive results from our weather and commodity markets unit. These factors were offset by a decrease in net earned premiums and an increase in our current accident year loss ratio, which was impacted by an increase in the loss experienced in our Marine lines, as well as other factors that I will explain shortly.

Our positive operating results were offset by an increase in unrealized losses on our available-for-sale investment portfolio, following the increase in government bond yields and the widening of credit spreads in nongovernment bonds, resulting in the small decrease in our diluted book value per share this quarter.

Moving into the details of the income statement. Our second quarter gross premiums written decreased by 3% to $1.2 billion. After adjusting for the impacts of movements in foreign exchange rates, the quarter-on-quarter decrease was 1%, with a decrease in our reinsurance segment, partially offset by an increase in our insurance segment.

During the second quarter, our reinsurance segment top line was down $50 million or 10%, 9% on a constant currency basis compared to the same period in 2014. This decrease was impacted by treaties written on a multi-year basis during the second quarter of 2014, which reduced premium available for renewal during the current quarter.

After adjusting for the impact of multiyear contracts and foreign exchange, our reinsurance gross premiums written decreased by $25 million or 5%. The decrease was primarily driven by catastrophe lines due to timing differences and treaty restructurings and professional lines, following a change in the terms of a large quota share treaty, which affected the timing of premium recognition.

These were partially offset by growth in the motor lines due to favorable premium adjustments and new European business.

In our insurance segment, our top line growth was up by $7 million -- our top line was up by $7 million, excuse me, or 1%. Adjusted for FX, the growth was 3%. Increased premiums written were reported in our professional lines, which benefited from business generated by a new U.S. lawyers liability program.

We also continued our growth in the U.S. Primary & Excess Casualty markets, while our credit and political risk lines benefited from an increased deal flow. These increases were offset by reductions in property lines, which continued to be impacted by very competitive market conditions.

For the first 6 months of the year, our gross written premiums were $2.9 billion, a decrease of 6%, 3% without FX compared to the first half of last year. This decrease was driven by decreases in the reinsurance segment due to the impact of contracts written on a multi-year basis as well as the negative impact of foreign exchange movements.

Excluding the impact of multi-year contracts and FX, we also reported a decrease in agricultural lines as a result of the reshaping of our portfolio, which we discussed with you last quarter, and catastrophe where rates and terms continue to be under significant pressure in the first half of the year.

These decreases were partially offset by growth in our European motor business. The decrease in reinsurance was partially offset by growth in insurance, driven primarily by the same lines of business as the quarterly increase.

Our net premiums written are down 5% for the quarter and 10% for the year, reflecting the decreases in gross premiums written as well as an increase in premiums ceded in our insurance segment, with additional reinsurance protection purchased in our professional lines and changes in the business mix.

Increased retrocessions in our reinsurance catastrophe lines during the first quarter also contributed to the year-to-date decrease.

Our net premiums earned decreased by 6% to $941 million in the second quarter of 2015 and by 5% to $1.8 billion for the year-to-date compared to the same periods in 2014. The decrease's 4% on a constant currency basis related primarily to our reinsurance segment with reductions in the business written in agriculture, catastrophe and professional lines in recent periods as well as increases in premiums retroceded, reflecting the increase in retrocessional covers purchased for our catastrophe business.

Our second quarter consolidated current accident year loss ratio increased 3.4 points to 68.5% compared to the same period of last year. During the quarter, we reported $39 million in natural catastrophe and weather events related to adverse weather losses in the U.S. and Australia, which was comparable to the $36 million of losses we reported in the same period of last year. Our ex cat and weather current year loss ratio decreased by 2.9 points, primarily due to the increase in our reinsurance loss ratio, driven by risk change.

Our reinsurance segment incurred $17 million in weather losses during the quarter compared to $6 million in the same period of last year. After adjusting for these losses, the current -- the segment current accident year loss ratio increased by 5.1 points compared to last year's quarter.

There were 2 principal drivers of this increase. First relates to portfolio optimization. In recent quarters, we had commented on our initiatives to change our mix of business to reduce the volatility of our results and to respond to difficult market conditions in shorter tail lines of business. These portfolio optimization efforts have led us to reduce our premiums written in lines of business, such as property and catastrophe, and increased business written in less volatile lines, such as motor. In addition, we have increased the amount of retrocessional protection we purchased for the catastrophe lines, as discussed earlier.

As a result, you will notice in the PML disclosures included in our financial supplement, our peak industry catastrophe exposures have decreased significantly over the last couple of quarters. While these actions have an impact of increasing the attritional loss ratio during the quarter with relatively low catastrophe and weather losses, we believe that we will ultimately be successful in achieving a stronger, less volatile book of business.

The second factor that weighed on our loss ratio this quarter was the impact of lower rates as the reinsurance market continues to be impacted by the pricing pressures of current excess supply of available capital.

During the second quarter, our insurance segment reported $22 million in catastrophe and weather losses, down from $30 million during the same quarter of 2014. After adjusting for these losses, our insurance current accident year loss ratio was slightly higher by 0.4 point, notwithstanding significant pretax losses of $40 million in our Marine book, driven by the impact of large industry offshore energy loss events.

This resulted in the Marine reported current year loss ratio being significantly higher than its historical average. While this line of business can, from time to time, be exposed to significant loss events, I would like to point out that this line of business has been historically very profitable for our company.

The segment also reported a higher loss ratio in the credit and political risk lines, reflecting a cautious stance we've taken in the face of current geopolitical and economic uncertainties, primarily in Europe. This compared adversely to a very low loss ratio for this line of business in the second quarter of 2014, due to the absence of any known loss circumstances.

These increases in current year loss ratio were almost fully offset by the significant improvement in the midsize loss experience in our property lines as well as continued loss ratio improvement in our professional lines, following a significant efforts aimed at reshaping this book over the last 18 months.

For the year-to-date 2015, our current accident year loss ratio was 65.7% compared to 63.7%. We incurred $47 million in pretax catastrophe and weather-related losses, slightly down compared to $50 million incurred last year. Net of cat and weather, our current year loss ratio was 63.2%, up 2.1%, which was driven by the reinsurance segment.

The reinsurance segment current accident year loss ratio, net of cat and weather, was up 3.7 points to 62.4% compared to the first half of last year, primarily due to the change in business mix and lower rates, which I already discussed in the quarterly result.

Our insurance segment current accident year loss ratio, net of cat and weather, was 64%, slightly up by 0.2 point from last year, with the impact of lower rates offset by changes in the business mix and higher midsize losses.

Turning to loss reserves established in prior years. Our results continue to benefit from net favorable loss reserve development, which aggregated to $65 million during the second quarter. Short-tail classes in both segments contributed $40 million of this balance, primarily reflecting better-than-expected loss emergence. For the year-to-date, these short-tail lines contributed $74 million of net favorable prior year reserve development.

In addition, we continue to give weight to actuarial methods that reflect our favorable experience for liability and professional reinsurance business, which contributed a further $16 million of favorable development for the quarter.

Favorable prior year development was also recorded in motor and credit and surety reinsurance lines of $11 million and $7 million, respectively, which was partially offset by adverse loss developments in the insurance segment liability lines of $6 million.

Our year-to-date favorable loss reserve development was $121 million compared to $120 million recognized during the first 6 months of 2014.

During the second quarter and first half of 2015, our acquisition cost ratio increased modestly by 0.3 points and 0.5 points respectively compared to the same periods in 2014. Increases in the reinsurance segment, driven by loss sensitive features in reinsurance contracts, primarily due to prior year loss reserve releases and higher acquisition costs paid in certain lines of business, were largely offset by decreases in the insurance segment, primarily due to changes in business mix.

Our G&A ratio was 15.8% for the quarter compared to 15% last year, driven by a decrease in our net earned premium. In dollar terms, our total general and administrative expenses were lower this quarter, primarily due to adjustments in the executive stock compensation awards and lower performance-based incentive accruals, which were partially offset by expenses related to the amalgamation with PartnerRe of $8 million, an increase in cash settled share-based compensation following an increase in the company share price and $2 million related to ongoing expense reduction initiatives, which we have previously discussed with you.

Overall, the company reported underwriting income of $57 million and a combined ratio of 96.9% for the second quarter. On a year-to-date basis, our underwriting income was $158 million, with a combined ratio of 95.3%. Net income was $89 million for the quarter, down slightly from $92 million in the first quarter of 2015 and down from $115 million in the second quarter of last year. The most significant driver of the decrease was the contribution to net investment income by our other investment portfolio. Other investments contributed $14 million during the quarter versus $31 million last quarter and $32 million in the second quarter of the prior year.

In the aggregate, the total return on our cash and investment portfolio for the quarter was flat, including the impact of foreign exchange movements, were down 0.3%, excluding foreign exchange movements.

The total returns for the current quarter were impacted by the decline in pricing of our fixed maturity portfolio as a result of the increase in government bond yields and the widening of credit spreads on nongovernment bonds. The impact of the decline in pricing was limited, however, by the short duration of our fixed maturity portfolio.

We continue to hold a high quality, well diversified portfolio, with cash and investment -- invested assets totaling $14.7 billion at June 30, down approximately $0.1 billion from March 31 and down $0.9 billion from a year ago. The decrease from the previous year was due to the repayment of our senior notes in December 2014 and a decline in pricing on our fixed maturity portfolio. The duration of our fixed maturity portfolio was 3.2 years at June 30, up slightly from 3.0 years at March 5, 2015. Our fixed maturities weighted average credit rating remains unchanged at AA-.

Our results this quarter are also impacted by the deconsolidation of our third-party capital vehicle, AXIS Ventures reinsurance Limited, following the early adoption of new accounting guidance dealing with the consolidation of variable interest entities. The adoption of this guidance impacts the presentation of our results with effect from January 1, 2015, and while it did not have an impact on net income or cumulative retained earnings, we no longer consolidate this entity's assets and liabilities on our balance sheet and no longer show the noncontrolling interest adjustments in our statement of operations.

The increase in our intangibles this quarter reflect the impact of the acquisition of Ternian Insurance Group, a leading provider of health plans and other employee benefit coverage for hourly and part-time workers, which we completed in April of this year.

Our total capital at June 30, 2015, was $6.9 billion, including $1 billion of senior notes and $628 million of preferred equity, an increase of $0.1 billion from $6.8 billion at December 31, 2014. The increase was primarily due to net income generated in the first half of the year, partially offset by the increase in unrealized losses on investments.

During the first quarter, we announced that effective January 1, 2015, the share repurchase authorization program was increased to $750 million of the company's common shares effective through December 31, 2016. However, as we previously discussed with you, following the announcement in January of the signing of the amalgamation agreement with PartnerRe, we have suspended our open market share repurchase program until the closing date of the amalgamation transaction. While we strongly believe that the merger with PartnerRe would create a number of new opportunities for our clients, brokers, shareholders and employees, we have continued to progress on the strategic goals and expansion opportunities initiated before the merger announcement. We have made a lot of progress on our ongoing expense reduction initiatives and expect to see early benefits of these to start impacting our results from the second half of this year. In addition, our Lloyd's unit is making good progress in the London market and we have significantly expanded the capabilities of AXIS Ventures, our third-party capital vehicle.

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

Albert A. Benchimol
President, Chief Executive Officer & Director

Thanks, Joe.

Moving to market conditions. The environment continues to remain challenging. While overall rates are still falling, there are a few pockets of pricing stability and there remain some good opportunities for profitable growth in many insurance lines of business.

Across our insurance lines, our average price decline in the quarter remained at the same 3% level we experienced in the first quarter of the year, and not much different from the minus 2% we recorded in the second quarter last year. In many lines, pricing is responding to carriers chasing still attractive business, where pricing remains adequate following 3 years of increases. However, we are now reaching level in certain lines, including global property and some cat-exposed property lines in the U.S., where the industry has given back almost all the pricing gains achieved since 2011. As a result, our production is down meaningfully in a number of larger property-related lines.

Many London market specialty lines, including international property, onshore and offshore energy, are continuing the double-digit declines we observed in the first quarter. We would hope that the recent spate of large losses in offshore energy would dampen the decline of that line, but that has yet to be seen. Certainly, the aviation market's response, post the terrible results of the prior year, is quite anemic.

Professional lines rates, overall, are reasonably stable, though competition seems to have picked up a bit recently, with an average price decline in the 1% range over the past quarter.

Rate pressures in our D&O lines have increased a bit in the second quarter, with renewal rates down approximately 3% to 4%. Rates on primary layers stabilized in the quarter to flat pricing versus an increase of 4% in the prior quarter.

Aggregate E&O rates were up 1% in the quarter, led by large account business.

On the other hand, we continue to see reasonably good conditions in the U.S. umbrella and excess market, where prices are stable after many years of increases, as well as professional lines for small accounts and selected professions, certain middle-market programs and renewable energy, among others. We've targeted these areas for growth through our distribution management initiatives and have had good success with new business pricing and quality consistent with that of our renewals.

Turning to reinsurance. The major themes have not changed, with challenging market conditions in most classes of business and regions. This is in line with the lower cost capital attracted to the market and less sensitivity to volatility in evaluating exposures. Rates were down overall. This is coupled, in some cases, with some expansions in terms and conditions, such as an unlimited wind hours clause or reinstatement provisions. Increased ceding commissions and multi-year commitments continue to be in demand.

We are managing our portfolio appropriately, shifting where we can to preserve our risk-adjusted return and remaining resolutely focused on managing our exposures. Thus, we remained active in opportunistically purchasing retro protection.

As I noted, conditions have been increasingly challenging in reinsurance markets. However, I'm optimistic we're approaching an inflection point in the deterioration of terms and conditions, given recent developments. In particular, lower pricing in the June 1 Florida renewals generated a strong increase in demand. But most reinsurers, including AXIS, were not inclined to increase capacity on offer terms. As a result, many programs needed to be remarketed. While that did not stop the slide, it did result in price reductions that were in the single-digit range as opposed to the double-digit declines that we've observed in recent renewals. Likewise, reinsurers are starting to push back on request for higher ceding commissions and cedings are not getting all they're asking for.

Finally, as you've seen across a number of companies, core ex cat reinsurance combined ratios are increasing as a result of market conditions. These recent developments would indicate to us that declines from here should be a bit more moderate. Indeed, our July 1 renewals, which represent a bit more than 10% of our annual reinsurance premiums, did provide a few attractive opportunities.

We recorded a 9% increase in premiums on the expiring portfolio on an annualized premium basis. We pulled back where business no longer met our return requirements, primarily in the catastrophe line of business, but these reductions were more than offset by new property business in the Middle East and increased participation in attractive liability account. We start from a strong base and are comfortable with the profit potential of the portfolio we've written.

The trend toward reduction in the number of reinsurer participants on panels also persists, and we remain well positioned to benefit from this trend, given our financial strength, broad multiline product offerings and global presence.

To conclude, AXIS Capital is a financially strong and strategically well-positioned company, with 3 strong and diversified businesses today including Reinsurance, Accident & Health and Specialty insurance. Our strategic initiatives position us to deliver stronger, more stable stream of earnings and outperform in a transitioning market. We're confident there are many improvements that we can achieve independent to the property and casualty pricing cycle. We continue to make good progress in these initiatives, and that was evidenced in this quarter's results.

While I do not have much news to report on our amalgamation with PartnerRe, I would note that on our conversations with our major shareholders, we received strong support for the merger and the significant strategic and financial benefits that would result from combining our 2 companies, leading to immediate accretion in EPS and ROE and double-digit EPS accretion and ROE in 2017. This view is also supported by proxy advisory firms and we are continuing to communicate with our shareholders to encourage them to vote in favor of the amalgamation.

With that, let's open the call for questions. Again, I ask that you respect our requirements not to engage in questions relating to the merger. Operator, please open the line for questions.

Question and Answer

Operator

[Operator Instructions] And the first question comes from Ryan Byrnes with Janney.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Just wanted to talk a little bit about the reinsurance treaty for the professional lines book. Last year, you noted you ceded about 40% of that business, and that was kind of an uptick from the year before. Just wanted to see how that -- how you're protecting that book going forward?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, we have -- we're currently in the renewal of that book of business. We continue to aim for a quarter share protection of that book of business, and that's in the market right now.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Got you. Okay. And then just moving, I guess, quickly over to capital management. I guess, regardless of the vote outcome, is it possible to get to -- to start repurchase after the vote? Or is it actually after the closing? I just want to make sure I understand the timing of when that could resume.

Albert A. Benchimol
President, Chief Executive Officer & Director

I think that the plan that we had with regards to the merger was that we would be repurchasing immediately after the close because they would be -- you'd have different shares of 2 different companies. And we wanted to make sure that the combined shareholder base of both companies benefited from the repurchase program. So it would be after the close.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Okay. And then just my last one. I know that you guys cited business mix and kind of pricing as a pressure in the underlying loss ratio in the reinsurance segment, but were there any kind of one-timers there? Was any Marine pressure there? Or I guess -- or again, I hate to ask for kind of run rate answers, but again, it was fairly elevated from year-over-year and sequentially, but just wanted to see if, was there anything else in there? Or is that something that, again, I would imagine those pressures should persist going forward.

Joseph C. Henry
CFO & Executive VP

No, Ryan. It's Joe. There wasn't any one-timers in terms of Marine losses impacting the reinsurance portfolio. We had a slight uptick in loss activity in the property lines of business. We have actually increased in the expected loss ratios in some lines of business to actually be more conservative. And we would probably continue with that until we see something that tells us differently. But the answer to your question is there's nothing really unusual in the reinsurance loss ratio.

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, if I could add to that. We mentioned to you in the first quarter that, unlike in prior years, we were going to book the agro line at 100% through the first 3 quarters rather than estimate profitability. Last year, I think, we were probably in the low 90s at this stage last year, and we're not doing that. Certainly, as we have more visibility in the third quarter, we may respond at that point or start to respond at that point. The second issue that we discussed with you is that in our credit and surety line, we also wanted to take a more prudent approach in booking that business in anticipation of more difficult, potentially more difficult economic conditions. So in both those areas, I would say that there was a choice on our part to book more conservatively ahead of any potential losses. But I think, if you go back to the 5-ish point increase in the quarter and somewhere, a little under 4 points for the year-to-date, when you think about the rate and trends, which is somewhere between 1 and 2 points and mix, which is close to 3 points, that basically explains the entire amount of the increase in the loss ratio. We continue to feel good about the way the book is developing but obviously, it is appropriate to reflect the changes in rate and trends. And as cats, with a very low loss ratio comprises a smaller percentage of the overall portfolio, by definition, the loss ratio comes up.

Joseph C. Henry
CFO & Executive VP

Ryan, it's Joe. I'll just add to what Albert said there, on the agriculture side, our experience to date has indicated that basically, the tact we're taking is actually prudent.

Operator

The next question comes from Charles Sebaski with BMO Capital Markets.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

First question is on the A&H business. I know this is one of the growth initiatives for you guys, but didn't seem to be a lot of growth in it this quarter. I'm just kind of wondering where you see that business? And if it is at a breakeven or profitable biz place at this stage in time?

Joseph C. Henry
CFO & Executive VP

Charles, it's Joe. You're right. Agriculture hasn't shown a lot -- I'm sorry, Accident & Health hasn't showed a lot of growth through 6 months of the year. But remember, we had a large quota share reinsurance treaty, which was terminated in 2014. So that impacts the comparison. We've actually had some very good experience with new treaties on the 1st of July. So in short, in answer to both of your questions, in terms of performance, the technical ratio's performing very well. Overall, it's hitting the objectives that we had for profitability. And we expect that by the end of this year, we will have seen a significant growth in the A&H line for the year.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. Then on the large loss that you had, the Marine loss, I'm just curious, has there -- are you guys having any higher retentions now in these lines of business than maybe years back? I guess, if I look back over the last couple of years, kind of here and there, you have a large noncat event come through. I'm just wondering, I know you've rebalanced some of RI side for cat exposure. I guess, how do you view that on the primary side?

Joseph C. Henry
CFO & Executive VP

Charles, several years ago, we had a lower retention in some of those lines, of the Marine lines, that increased a few years ago, and we've actually brought that down a bit since then. So I don't know if that gives you a picture but, again, we had lower retentions many years back but due to market conditions, we've actually increased retentions. But I just want to point to the fact that if you look at the last 5 years itself, we've actually had a combined ratio in Marine below 80% and actually, offshore energy even better than that.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. And then, just finally, on the reinsurance book, on the liability business, seems to be a pretty stark year-over-year contraction. Was this one of the multi-year programs? I guess, I see it at $58 million versus $83 million last year. I'm just wondering, any thoughts on that.

Albert A. Benchimol
President, Chief Executive Officer & Director

There's always lumpiness in some of these treaties. In fact, when you look through, as we mentioned earlier, there was some reduction in the first half. There's a big increase in the July 1 renewals. So there is some lumpiness in some of these contracts.

Operator

[Operator Instructions] And we do have a question from Christopher Campbell with Keefe, Bruyette, & Woods.

Christopher Campbell

I do have a question on rates and loss cost trend. For stand-alone AXIS, how would the current delta between rates and loss trend compare to underwriting margin benefits expected from internal underwriting and expense initiatives?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, let me start with that. As I mentioned to you earlier, the -- notwithstanding the fact that we had significantly higher Marine losses and the fact that, again, loss trends in rates -- let's start with the basis that in a more difficult market, reductions in average rates, by definition, is going to increase your loss ratio. And likewise, we continue to assume ongoing loss trends. So the a priori impact of rate and trend is somewhere between 1 and 2 points at any year. You try to offset that with mix, better underwriting and so on, but you start with 1 to 2 points of rate and trend. We also mentioned the fact that we had close to $40 million worth of Marine. And so under normal -- of Marine losses, so under normal circumstances, you would actually expect the book to report a loss ratio, which is somewhere, and I'm just going to use a range, for example, of between 2 and 4 points. The point is that the actual reported loss ratio was only up by 0.5 and the reason for that is that we've been achieving the targeted underwriting improvements that we've been discussing with you, in particular, with regards to the professional lines book, you'll recall the CMS portfolio, where we're booking, I believe now, at least a couple more points improvement. And with regards to our property book, where we've made some significant improvements in terms of the sizing of our exposures, the concentrations that we have in terms of micro zonal concentrations, so we've been seeing the improvement that we've expected to see in both professional lines and the property lines. And as I mentioned to you, we are rolling out this data and analytics to all parts of our book. So we're very pleased to see that the benefit that we were counting on have, in fact, occurred. And that's what's allowed the loss ratio, the ex cat current year -- current accident year loss ratio, it's what's allowed that loss ratio to increase by only 1 -- by 0.5 points. When in fact, under normal circumstances, you would expect that increase to be north of 3 points because of the Marine and the pricing and loss trends.

Christopher Campbell

Great. That's very helpful. And just a secondary question, kind of still stand-alone AXIS. With the shift away from property cat lines and so your PMLs are coming down and then you're shifting more to shorter tail lines, such as motor, how would we view this in terms of a stand-alone ASR and increasing capacity? You had mentioned earlier that there was a $750 million ASR that was announced in January before the amalgamation agreement. How much additional capacity would that free up in AXIS' book, on a stand-alone basis?

Albert A. Benchimol
President, Chief Executive Officer & Director

Christopher, if I may, I'll just establish though the premise for the question. We had originally announced a $750 million authorization from our board, which is a requirement, of course, to initiate any share repurchase programs. And it had been our intention prior to the announcement of the merger that we would return to our shareholders essentially all of our operating profits for the year in the form of dividends and share repurchases. And that continues to be our goal subject to the close of the merger, where we would in fact reinitiate share repurchase program. You're absolutely correct that what we have done in the last several months, is reposition our portfolio in the face of market conditions to reduce volatility and improve stability of the earnings. As a result of that, certainly, we've -- as you can see in our financial supplements, we've made meaningful reductions in our PMLs as a percentage of equity. We've reduced the amount of cat exposed to highly capital-intense lines, which certainly means that our capital efficiency has increased, both -- so both the accumulated earnings and the improved efficiency of our capital would promote ongoing share repurchases as soon as we restart the program.

Operator

The next question comes from Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

Two quick questions. The first question relates to, I guess, the energy losses. I tried asking this question on another call. Hopefully, you can educate me. Can you talk about what are -- what the typical rate on line might be on this business? Or what the typical ROEs are in a typical year for these lines of businesses?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, certainly, if you look at our energy book and our Marine book, it's had very good double-digit ROEs on average, certainly, not this quarter. And as I mentioned -- as Joe mentioned, if you look back over the last 5 years, we've got a combined ratio under 80% for the overall Marine book, so that's done very well. Amit, the reason you may have difficulty in getting a standard answer is it really depends on the type of coverage that you're providing, whether you're providing a big primary layer, whether you're going on the excess layers and so on. So I think it's difficult to specify an individual price. Different Marine lines have different exposures to cat and so that would also increase the pricing based on the expected exposure to cat of the location of some of these offshore platforms. So it's very difficult to give you an average number that actually applies to the book in general.

Amit Kumar
Macquarie Research

Okay. I guess the only other question I had was I think Joe mentioned some modest adverse development in liability and I didn't quite catch that. Can you just expand on that comment?

Joseph C. Henry
CFO & Executive VP

There's really not much to tell there, as it's just a couple of claims from older accident years that just developed adversely, nothing big. We just took the adverse development rather than taking it out of existing reserves.

Amit Kumar
Macquarie Research

And what is the dollar amount?

Joseph C. Henry
CFO & Executive VP

It's about $6 million.

Operator

The next question comes from [indiscernible] .

Unknown Analyst

Numbers question, I'm sorry if I missed it. The corporate segment, if I strip out the $8 million of amalgamation, I ran sub-$20 million for the quarter, which seems pretty low. Anything unusual going there? Or should we think about that as a run rate?

Joseph C. Henry
CFO & Executive VP

No. We did have a reversal of a share based compensation accrual in the second quarter, which was about $8 million, so that is unusual.

Operator

[Operator Instructions] All right. There are no more questions at the present time. So I would like to turn the call back over to management for any closing comments.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you, operator, and thank you all for participating on our call. And we look forward to catching up with you soon. Have a great day. Bye-bye.

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