S&P Capital IQ

CONTENTS

AXIS Capital Holdings Limited NYSE:AXS

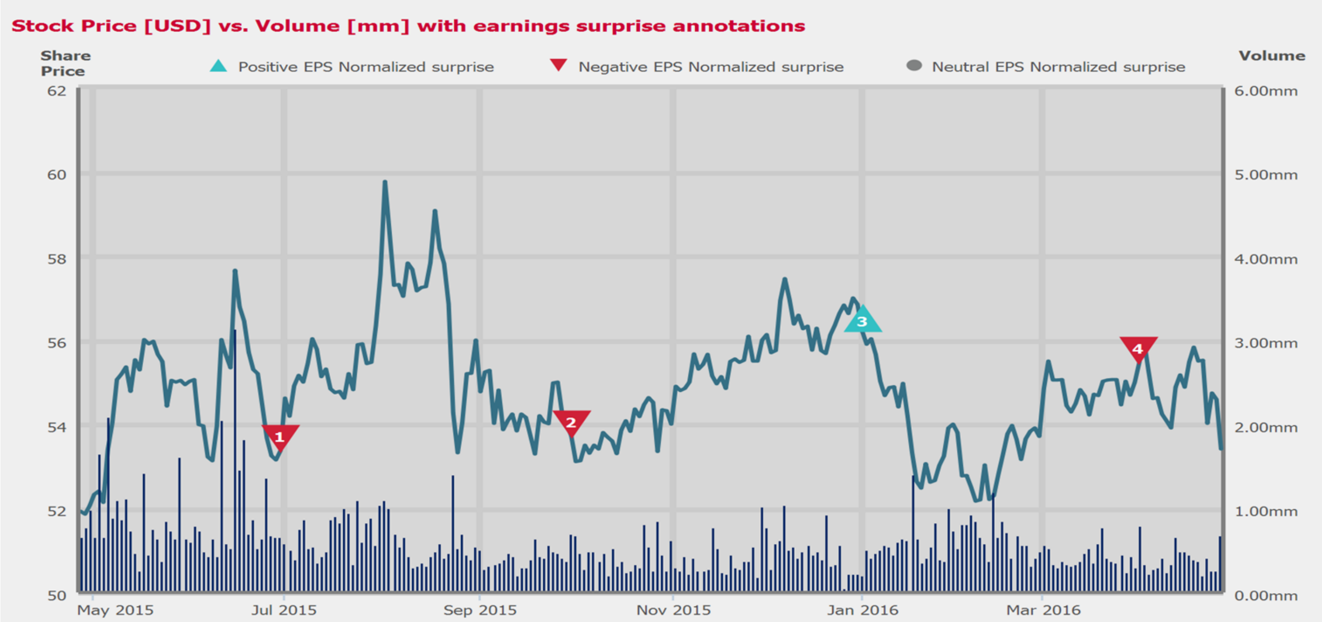
FQ2 2016 Earnings Call Transcripts

Wednesday, July 27, 2016 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2016-			-FQ3 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.32	0.51	▲59.38	0.84	3.47	4.41
Revenue (mm)	983.53	1007.35	▲2.42	715.67	3996.33	4050.66

Currency: USD
Consensus as of Jul-27-2016 11:02 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2015	0.94	0.93	▼1 (1.06 %)
FQ3 2015	0.72	0.51	▼2 (29.17 %)
FQ4 2015	1.13	1.23	▲3 8.85 %
FQ1 2016	1.08	1.07	▼4 (0.93 %)

Call Participants

EXECUTIVES

Albert A. Benchimol
President, Chief Executive Officer & Director

Joseph C. Henry
CFO & Executive VP

Linda A. Ventresca
Corporate Development Officer

ANALYSTS

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Kai Pan
Morgan Stanley, Research Division

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Presentation

Operator

Good morning, and welcome to the Second Quarter 2016 AXIS Capital Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

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

Linda A. Ventresca
Corporate Development Officer

Thank you, Carrie, 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, 2016.

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 10088680.

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 laws.

Forward-looking statements contained in this presentation include, but are not limited to, information regarding our estimate of losses related to catastrophe policies and other loss events; 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 model; and our expectations regarding pricing and other market conditions.

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.

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

Albert A. Benchimol
President, Chief Executive Officer & Director

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

Last night, AXIS reported second quarter net income of $119 million or $1.29 per diluted share and operating income of $47 million or $0.51 per diluted share.

As noted in our preannouncement of July 18, this quarter was impacted by 20 catastrophe and weather events, leading to $104 million of second quarter catastrophe and weather losses.

We ended the quarter with diluted book value per share of $57.62. Growth in diluted book value per share adjusted for dividends, which we believe is the best measure of value creation, was up 3% in the quarter and 14% over the last 12 months.

Joe will shortly the review the financial results in more detail. But before that, I'd like to put our quarter's results into context.

The insurance industry occasionally experiences quarters with unusual catastrophe frequency or severity, and this was one of them with over $19 billion in estimated insured losses.

Our estimated market share of the losses is consistent with our position in the lines and geographies exposed and meaningfully lower than our average share in prior years. We're pleased that our actions in recent years positioned our portfolio to better absorb catastrophe and weather activity and deliver strong book value growth.

Importantly, all relevant metrics in our second quarter and year-to-date results demonstrate clear progress along the various initiatives focused on delivering a consistent attractive return to shareholders.

In addition to a lesser impact from catastrophes and weather than we would've experienced a few short years ago, our accident share loss ratio and combined ratio, excluding the impact of catastrophes and weather, improved over the quarter and the year-to-date, even as we and the rest of the industry experienced weaker pricing.

A significant highlight of this quarter was the launch of Harrington Re, co-sponsored by AXIS Capital and Blackstone with total capital of approximately $600 million and an A.M. Best rating of A-. This important development significantly advances our 21st century approach to capital management, whereby we complement our own balance sheet with a broad range of third-party capital to deliver enhanced capacity, innovation and tailored solutions to our clients and brokers.

With Harrington Re, AXIS will be able to deliver more capacity to profitable opportunities, have enhanced capital flexibility and generate an attractive flow of fee revenue.

Our commitment to intelligent capital management was further demonstrated by the repurchase of $127 million in stock during the quarter. So far this year, we've returned $332 million to our shareholders in the form of dividends and share repurchases, representing 223% of year-to-date operating income.

If current conditions hold, we intend to continue repurchasing stock for the remainder of the year and into the foreseeable future.

We're pleased with our progress along strategic and operational initiatives and are focused on continuing the diligent execution of our plans to position AXIS as a leader in specialty risks, delivering superior value creation to its shareholders.

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

Joseph C. Henry
CFO & Executive VP

Thank you, Albert, and good morning, everyone. During the quarter, we generated good results featuring net income of $119 million and an annualized ROE of 9%. Our operating income for the quarter was $47 million and annualized operating ROE of 3.6%.

Our net income this quarter benefited from a strong performance from our investment portfolio, including realized gains, foreign exchange gains, continued favorable prior year development, a decrease in our ex cat and weather current accident year loss ratio and lower general and administrative expenses.

These positive factors were offset by an elevated level of catastrophe and weather-related losses in the quarter.

Despite the headwinds to net income, book value per share grew 3% in the quarter, favorably impacted by an increase in unrealized gains on our available-for-sale investment portfolio, which reflected downward shifts in sovereign yield curves and tightening of credit spreads, partially offset by strengthening of the U.S. dollar against the euro and sterling.

Before I get into specifics, I'd like to provide some context for premium growth in our reinsurance segment both in the quarter and year-to-date. First, there were some significant transactions, which I'll explain shortly. The more moderate growth adjusting for these transactions primarily reflects expansion of our relationships with key customers.

Second, we have increased retrocessions, which are reflected in the ceded premium ratio of our reinsurance segment increasing in the quarter to 10%. Half of these cessions were to third-party capital providers, and that will increase in the second half of the year and beyond with our new Harrington relationship. It is our expectation that Harrington will be writing at a net premium to capital ratio in the range of 0.25 to 0.3:1, and this will be entirely sourced from AXIS.

There will be increased impacts on our financial results prospectively as our third-party capital activities ramp up, including a growing stream of fee income.

Moving into the details of the income statement. Our second quarter gross written premiums increased by 11% with growth reported by both of our reporting segments. This number is inflated by multi-year treaties and timing variations. Adjusting for these, gross premium growth would be 5%.

In the second quarter of 2016, our reinsurance segment top line was up $109 million or 26% compared to the same period in 2015. Treaties written on a multi-year basis, primarily in our liability line of business, had a significant impact on our premiums written with approximately $37 million of quarterly premium variance attributable to future underwriting years.

A significant professional lines client changed their treaty from an excess of loss to a quota share structure, which resulted in $30 million of additional premium.

Timing differences of approximately $19 million also had a favorable impact on our premium growth this quarter, primarily in our professional lines, where the restructuring of a large quota share treaty affected the timing of premium recognition.

Adjusting for these items, our gross written premium grew $23 million or 5%, most of which was increased participations on existing treaties as well as a small amount of growth in our property catastrophe and liability lines.

Our insurance segment reported an increase in gross written premiums of $23 million or 3% in the second quarter compared to the same period in 2015. Increased premiums from new business written in our property lines were partially offset by a reduction in our professional lines due to the recent exit from retail insurance operations in Australia.

For the 6-month period, gross written premiums were up 14%. Adjusting for multi-year and timing differences, we estimated that figure would have been 10%.

Net premiums written increased by 6% in the second quarter of 2016 compared to the same period of 2015. An increase in the reinsurance segment was partially offset by a slight decrease in the insurance segment. Adjusting for multi-year and timing differences, volume would be down 4%.

Reinsurance net premiums were up 17% in the second quarter of 2016 compared to the same period in 2015, reflecting the increase in gross written premiums in our liability, professional and catastrophe lines, partially offset by the increase in premium ceded, principally in the catastrophe and credit and surety lines.

Insurance net premiums were down 1% in the second quarter of 2016 compared to the same period of 2015, impacted by an increase in the premiums ceded following increased reinsurance protection purchased principally in the professional lines.

Net premiums earned increased by 1% in the second quarter of 2016 compared to the same period of 2015. An increase in the reinsurance segment was partially offset by a reduction in the insurance segment.

The increase in net premiums earned reported by our reinsurance segment was largely driven by growth in business written in our liability, marine and other and catastrophe lines in recent periods, partially offset by an increase in reinsurance purchased in our catastrophe and property lines.

The decrease in net premiums earned reported by our insurance segment was primarily driven by a reduction in business written in our marine lines in recent periods as well as increases in premiums ceded in our professional lines, partially offset by growth in our accident and health lines.

Our second quarter consolidated current accident year loss ratio increased by 6.5 points to 75% compared to the same period in 2015, driven by a 7.6% increase in the cat loss ratio. This was driven by an elevated level of catastrophe and weather-related losses.

During the quarter, we incurred $109 million or 11.7 points on our current accident year loss ratio in catastrophe and weather-related losses, net of reinstatement premiums compared to $39 million or 4.1 points of such losses in the same period of 2015.

In our preannouncement last week, we reported losses of $104 million for Q2 2016 events, including $41 million for our insurance segment and $63 million for our reinsurance segment related to events that occurred in the second quarter, including the Fort McMurray wildfires, U.S. weather events, Japanese and Ecuadorian earthquakes and European floods.

In addition, for the current quarter, we reported $5 million of losses attributable to development of first quarter U.S. weather events.

Our ex cat and weather current accident year loss ratios improved to 63.3% compared to 64.4% in 2015 with decreases in both segments. The insurance segment's current accident year loss ratio ex cat and weather improved by 1.3 points to 63.2% compared to the same period in 2015, primarily due to a decrease in midsize loss experience in both our marine and property lines.

Our reinsurance segment current accident year loss ratio ex cat and weather decreased by 1% to 63.4% compared to Q2 2015, primarily due to the recognition of better-than-expected recent attritional loss experience and business mix changes across various lines of business.

Year-to-date, our current accident year loss ratio increased by 3.5 points to 69.2% compared to the same period in 2015, driven by a 4.3 point increase in the cat loss ratio. We reported $124 million of cat and weather-related losses compared to $47 million in the same period of 2015.

After adjusting for these events, our current accident year loss ratio improved to 62.4% compared to 63.2% in 2015. The decrease was due to an improvement in midsize loss experience in our insurance, marine and property lines together with the recognition of better-than-expected recent attritional loss experience across various lines of business, partially offset by the adverse impact of rate and loss trends.

Turning to loss reserves established in prior years. Our results continue to benefit from net favorable loss reserve development, which amounted to $78 million during the second quarter.

Short-tail classes in both segments contributed $27 million of this balance. In addition, our professional, insurance and reinsurance reserve classes reported $15 million, our motor reserve class contributed $17 million and our liability reinsurance reserve class contributed $15 million of net favorable prior year development during the quarter.

Our year-to-date favorable loss reserve development was $148 million compared to $121 million recognized during the first 6 months of 2015.

During the 3 and 6 months ended June 30, 2016, our acquisition cost ratio increased modestly by 0.5% of a point and 0.8% of a point, respectively, compared to the same periods in 2015, driven by increases in our reinsurance segment. Our reinsurance segment ratio was 25.1%. However, after adjusting for the impact of loss-sensitive features due to favorable prior year development reported in the quarter, the ratio would be 23.9% and is comparable to 2015.

It is important to understand trends in our results when it comes to the treatment of prior year business that includes adjustable sliding scale commissions based upon loss experience.

In the periods that loss experience is favorable, our results will show an increase in favorable prior year development and the current accident year acquisition cost ratio -- excuse me, in the current year acquisition cost ratio. For Q2 2016, this primarily relates to our professional and motor lines of business.

Decreased acquisition costs in our insurance segment were driven by higher ceding commissions following the expansion of our reinsurance programs, which were partially offset by higher commissions in certain lines of business.

Our G&A expense ratio in the second quarter was 15.4% compared to 15.8% in the same period of 2015. On a year-to-date basis, our G&A expense ratio was 16% compared to 16.9% in the same period of 2015.

Removing the effects of some onetime items in both periods, expenses declined due to lower direct and performance-based compensation.

Overall, we reported underwriting income of $10 million and a combined ratio of 102.2 for the second quarter. On a year-to-date basis, our underwriting income was $109 million with a combined ratio of 97.2.

Net investment income was $92 million for the quarter, an increase of $43 million from the previous quarter and is comparable to the second quarter of 2015. The improvement from the first quarter reflects a return to hedge fund performance to more normal levels.

In aggregate, the total return on our cash and investment portfolio for the quarter was 1.2%, 1.4% excluding the impact of foreign exchange. The total return in the current quarter benefited from a downward shift in the sovereign yield curves and tightening of credit spreads on investment grade and high-yield corporate debts, partially offset by the decline in the British pound and euro FX rates.

Our net income reflected a large increase in foreign exchange gains, driven by the impact of the appreciation of the U.S. dollar on our foreign denominated liabilities as well as realized gains on our investment portfolio.

During the quarter, we repurchased an additional $127 million worth of common shares, comprised of $125 million purchased pursuant to our board-authorized share repurchase program and $2 million relating to shares purchased in connection with the vesting of restricted stock awards. At July 22, 2016, the remaining authorization under the repurchase program approved by our Board of Directors was $500 million.

We continue to make strong progress on the strategic goals and expansion opportunities with our $100 million investment in Harrington Reinsurance Holdings Limited, the parent of Harrington Re Limited.

As I'm sure you're all aware, a subsidiary of AXIS Capital has been appointed exclusive liability manager for Harrington Re. This role will involve responsibility for negotiating and sourcing reinsurance business for recommendation to the management of Harrington Re.

We noted previously that the impact of third-party capital activities will ramp up through the balance of the year-end. Commencing with the next quarter, we will provide disclosure with respect to premiums ceded to Harrington and other capital providers as well as the fee income generated.

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

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you, Joe. Turning to industry conditions. As we look forward, notwithstanding the high loss quarter we just experienced, we expect market conditions to remain generally challenging with localized firming where there is no escaping the needs for improvement.

In our insurance business, renewal rates were down 4% on average as compared to down 3% in the earlier quarter. Casualty lines in the U.S. are strongest with positive rate change, while professional lines are flat to down modestly, and property related lines down the most.

The London market is the most competitive with international property and energy lines still down double digits. We're managing our activities accordingly, emphasizing service, responsiveness and claims management as our differentiators.

In the reinsurance market, we are encouraged by increasing signs of discipline, at least in North America. You'll recall, we expected this in the most recent renewals, and we have observed that.

Most Florida renewals were completed flat to minus 5% and some accounts renewed at better terms.

Following the June 1 renewals, there was strong demand for capacity that was generally only provided at higher terms.

In professional liability lines, cedents and brokers were pushing for better terms and ceding commissions, but generally faced strong pushback, especially from established industry leaders, and a number of placements were not completed, even at flat ceding commissions.

While we are not expecting across-the-board reinsurance price increases in the immediate future, we believe we are close to a floor, especially in North America.

We expect Europe to be a bit more competitive and smaller international markets, the most challenging of all, as capacity continues to exceed demand.

Approximately 10% of AXIS Re's 2015 expiring premium was renewable in July. For us, volume and price technical ratios were essentially flat with expiring as we managed our book to protect balance and profitability.

Through these renewals, we continue to see an encouraging contraction of reinsurer panels as cedents position themselves to retain high-quality capacity to support their strategic positioning and growth.

AXIS Re does very well in that environment as we provide outstanding product expertise, service, capacity and cooperative claims management.

As Joe noted, much of our reported growth in reinsurance gross premiums written for the second quarter and year-to-date was related to multi-year deals and timing, such that our growth in estimated gross annual premium was close to 10%.

You'll also observe, however, that we are ceding more of our reinsurance premiums, leading to mid-single-digit growth in net reinsurance premium. This increase in cessions will accelerate in the second half of the year as we start sharing some of the risk with Harrington Re, and that will happen through quota shares of business that we write for ourselves to ensure the right kind of alignment between ourselves and our capital partners.

Increasing our cessions in both insurance and reinsurance is consistent with our 21st century capital management philosophy. We intend to respond constructively to our clients and brokers when terms and conditions make sense, all the while expanding our risk funding flexibility and matching risks with the best source and form of capital. We fully intend to leverage our intellectual capital and relationships to do more for our clients than brokers on the one hand, provide attractive risk return opportunities to investors across the globe and enhance our ROE in the process.

Our path to leadership in specialty risks rests on a customer-centric front end, characterized by expertise and responsive service, an efficient operating structure that delivers decision-enhancing analytics and multiple sources of risk funding to maximize capital flexibility and operational leverage.

We've made great progress along these 3 pillars, and we remain committed to executing on this strategy for the benefit of our clients and brokers, shareholders and employees.
And with that, let's open the call for questions.

Question and Answer

Operator

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

Kai Pan
Morgan Stanley, Research Division

First question, Albert, you mentioned in the past few years, you have been optimizing the portfolio for lower volatility business and second quarter cat is kind of realized cat of that strategy. So can you expand a little bit more on the performance of portfolio versus expectations? Because -- if the 3.6% operating ROE is still not ideal, do you see further reduction in the cat volatility?

Albert A. Benchimol
President, Chief Executive Officer & Director

Thanks for that question, Kai. I would separate that question into it 2, which is how do we feel about the changes in our cat book volatility; and secondly, what are we doing to improve our overall ROE? So we'll take a look at this quarter, and this quarter is really -- every event and every quarter is a single data point. And so, of course, you don't want to generalize just from 1 quarter. But if you take a look at where we were in the 2010 to the 2012, '13 period and you look at the various cat quarters and the cat events that we had, our average market share of loss in that period was a little above 1.1%. Our share of loss in this quarter is 0.5%. If you look at the second quarter of 2013, which was another second quarter with multiple events, that wasn't -- that was a quarter with approximately 10 to -- $12 billion to $13 billion of cat events across the industry. In that quarter, we reported $140 million of cat losses or 1.1% share of the reported losses in that quarter. And if you then turnaround -- and by the way, that was also about 15 points of cat losses in the second quarter of 2013. If you look at the 2016 second quarter, this is a quarter where people are estimating $18 billion to $20 billion, we're using a $19 billion number. With that $19 billion, our market share of loss is not 1.1% like it was in '13, but 0.5% . The combined ratio impact of those events was not 15, but 10.7, and the book value loss was lower. So I feel good that we have had significant change in our sensitivity to catastrophe events across the world. Does that mean that we're happy with where the portfolio is now? Of course, not. We could always improve it, and we will continue to do so. But I think that in this one event, and again, it's a single event, we want to see more quarters to demonstrate that. But certainly, if you look at the second quarter of '16 compared to what our cat book did in the 2010 to 2013 period, I would say that the exposure is about half of what it was then. Now with regards to the overall profitability, you're absolutely correct, we are not happy with the overall ROE. And we will continue to work on our portfolio to improve the profitability of our portfolio as we go forward. And there, I'm very encouraged by what we're seeing in 2016. And as we mentioned in our prepared remarks, our loss ratio is down over a point in the second quarter and 6 months, notwithstanding the fact that over the last 12 months, we and the industry have experienced, I'm going to say, approximately 1.5 to 2 points of adverse rate in trend. So we're continuing to work on the portfolio, and we will continue to improve on that area. We are continuing to make decisive actions with regards to nonperforming portfolios. You've seen us get out of Australia. You've seen us get out of global excess casualty. We are continuing to monitor our portfolios to determine if further action might be necessary in one or the other lines of business. We're growing our subscale businesses, we're making intelligent use of reinsurance, and we're optimizing our capital efficiency, and you can certainly expect us to do more as we go forward. Finally, a good chunk of that disappointment continues to be with regard to investment volatility. And what we have done with regard to that is we have shifted our investment portfolio to what we believe to be lesser volatile investments as we've moved away from hedge funds and moved over to more illiquid long-term assets like private equity, real estate debt and so on. So we have a full slate in front of us. I think the progress to date is good, but we certainly are anticipating to continue on that path and deliver not simply satisfactory, but superior ROEs.

Kai Pan
Morgan Stanley, Research Division

That's very comprehensive. Then follow-up on the insurance segments. You saw core loss ratio improving year-over-year for the first quarter -- both first quarter and second quarter, but we can see the second quarter, actually, the underlying loss ratio is higher than the first quarter. I just wonder if that 6 months yield is probably -- is a better indication of the trend -- current trend? And also, any other opportunity to improve the core loss ratio in the current pricing environment?

Albert A. Benchimol
President, Chief Executive Officer & Director

The reasons for the second quarter over the first quarter is we had more midsize losses in the second quarter than the first, so you're always going to have some volatility. But overall, again, I feel good about the fact that the loss ratio has come down for the 6 months and the second quarter. With regards to ongoing improvements, I'll go back to my earlier answer. We're continuing to apply analytics to guide our underwriting activities, and we expect to continue to see results from those portfolio improvement activities.

Kai Pan
Morgan Stanley, Research Division

Okay. Lastly, on the expense side, are we still on track to achieve the $50 million expense savings by 2017? And beyond that, any other sort of potential opportunities?

Joseph C. Henry
CFO & Executive VP

Yes. Kai, it's Joe. We're very pleased with the progress that we've made on the expense side. If you compare our year-to-date expense ratio drop, you can see it's down about $20 million. So we're well on our way to achieving the $50 million that we outlined in prior periods. And frankly, we're taking some additional actions to continue to improve upon that. So we're very comfortable with progress made on the expense side.

Operator

Our next question comes from Charles Sebaski of BMO Capital.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

First question, I guess, just a little more clarity on Harrington Re and how the flow-through is going to be? I think, Joe, you said they expect to write at 0.25 to 0.3, so that would be a little under $200 million. So should we think that your reinsurance book is going to grow by $200 million? And then that would be ceded off? Is that conceptually how that's going to work?

Albert A. Benchimol
President, Chief Executive Officer & Director

I think you have to separate the front end from the back end. I think the front end will grow or shrink based on the opportunities available to us, and then we will turn around and cedes business to Harrington in the scale that both Joe and you have estimated. I think whether we grow or not on the reinsurance side, it still makes sense to cede premium to Harrington Re. We get the opportunity of leveraging our front end, we get the opportunity of earning fees, and we have the opportunity of establishing multiple sources of risk funding, which are, I believe, critical to the success of the company going forward.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. And it'll all come out of the reinsurance section then as opposed to your primary book where you might have a reinsurance program with Harrington Re? Will they be getting any access to the primary or is it all on the reinsurance side?

Albert A. Benchimol

President, Chief Executive Officer & Director

Charles, that's a very good question. We will -- predominantly, they will see the bulk of their business coming in from AXIS Re's book, but Harrington will also be given an opportunity to participate in our established reinsurance panels. And so that will also be a source of revenues to Harrington Re.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

Okay. And just a little follow-up. I appreciate the clarity on the share of loss in the back years versus this. But I guess -- and you mentioned you felt your $19 billion loss estimate was in the middle of the industry estimates. I guess I thought it seemed a bit high. It seemed that a lot of the competitors that were announcing industry losses were more in the $14 billion to $16 billion range. And I guess I'm just curious on what your overall sensitivity of your loss pick is, the $104 million, to that end industry loss as it develops over time?

Albert A. Benchimol
President, Chief Executive Officer & Director

Charles, I haven't gone through every report in detail, but my understanding is that many of the other companies were giving you the total of the cats that they were reporting for. So their geographic expansion, the businesses that they're in may have caused them to include or exclude a, cat whether it's in Ecuador or in Japan or Europe, and that I think is the basis for the difference. We have been, for as long as I recall, a global company, and so we do participate in Japan, we do participate in Latin America, in Europe, in America. And therefore, we like the spread that we get as a result of this, but it also means that when there are global catastrophe events, we will include them in our book. And so what you see in the $18 billion to $20 billion that we are telling you is the total for all of the events that we've named, and we continue to believe that those are reasonable numbers. Joe?

Joseph C. Henry
CFO & Executive VP

Charles, the only thing I would add to that is we've taken a very close look at each of these events. And if for some reason, the events deteriorate, in other words, the loss estimates go up, we will not participate on a proportional basis to how others might be affected in the industry.

Operator

Our next question comes from Christopher Campbell of KBW.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. My first question is just with Harrington now in the market. Is this going to change AXIS' reinsurance underwriting appetite?

Albert A. Benchimol
President, Chief Executive Officer & Director

No. It's exactly the same underwriting appetite. And I think a clear feature of Harrington for us is we only share business with Harrington that we are writing and retaining the majority of that business. So if it's not good for us, it's not good for Harrington. And if it's good for us, we believe it'll be good for Harrington. So we will continue to size our portfolio appropriately. We will continue to underwrite with the underwriting discipline that is core to our strategy. But we also do recognize that today, we have the equivalent of $600 million of extra capacity. So where the risks are appropriate, we will be happy to take a larger share knowing that Harrington will share in that.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And will you -- so you have $600 million funded currently. Will you continue additional fundraising in that vehicle? And then how should we think about the premiums written to fee income for modeling?

Albert A. Benchimol
President, Chief Executive Officer & Director

Right. I think that we are -- part of our strategy is to expand our sources of third-party capital. So we may certainly at some point in the future do a second round for Harrington. We may look for other sources of capital for different risks than those that are currently targeted by Harrington. And as Joe mentioned earlier in our third quarter supplement, we will introduce information with regards to managed premium. You'll see exactly how much we write gross and net, and we will also disclose, on that sheet, the fees that we are collecting as part of our third-party capital initiative.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's very helpful. And just 2 more minor questions. Just a little surprised by the reinsurance property cat and the insurance commercial property growth. Can you give a little bit more details behind these opportunities and what you're seeing?

Albert A. Benchimol
President, Chief Executive Officer & Director

My understanding is they're both up on a gross basis and both down on a net basis. And so -- and what we're doing is optimizing the net portfolio, of course.

Christopher Campbell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Perfect. That makes sense. And then just the final question is with the more competitive pricing environment and reserve releases were up about 140 bps year-over-year. So just for the more significant lines driving that, what accident years are those releases coming from?

Joseph C. Henry
CFO & Executive VP

On the reinsurance side, the releases are coming from virtually all accident years with the exception of 2015. We had some development on a property loss there. And for the most part, on the insurance side, it's the same story. We had 1 or 2 earlier accident years in which there were adverse developments, but it relates to an unusual transaction. It has nothing to do with actual development. So for the most part, favorable development is coming from all accident years in those lines.

Operator

[Operator Instructions] Our next question comes from Ryan Byrnes of Janney.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

I want to follow up a little bit on the prop cat, I guess, gross growth and -- but net declines. Just wanted to understand the strategy there and maybe what kind of retro purchases you're buying there? Just trying to get a little further understanding of that strategy.

Albert A. Benchimol
President, Chief Executive Officer & Director

I think the strategy on the cat reinsurance business is, again, a combination of not gross and retro, but gross, retro and third-party capital. So part of our premiums are not simply shared in the retro market, but through third-party capital. As you know, there is appetite in the investment community for catastrophe risk, and we share it with them also. I go back to the point that I made earlier, which is that it's important for us to make sure that we are responsive to attractive opportunities in the market. The front end really needs to be about serving our clients and brokers and making sense and writing business when it makes sense; and then secondly, on the back end, having diversified sources of risk funding. And so we are certainly going to continue to look for opportunities to serve our clients and brokers on the front end. But in many cases, we don't expect that, that will result in a net increase because we will be sharing those risks with capital partners. Joe, you want to add to that?

Joseph C. Henry
CFO & Executive VP

Yes. Ryan, just to comment on the insurance property growth, which was about 7% in the quarter, it's really due to 3 reasons: one, as you know, we participated in some new facilities as of the first of the year. Those 2 broker portfolios have a property element to them. Secondly, in renewable energy, we actually rewrote a major account, which gave the impression of creating more growth than maybe, we actually did. And then third, on the Lloyd side, we're actually seeing -- with our new Lloyd's capability, we're actually seeing a lot more smaller accounts, which are helping to diversify our portfolio. And then on the ceded side, we've actually changed our reinsurance program to the point where we're now excess of $5 million as opposed to excess of $10 million as we've been in the past. So there's been some growth, but as Albert pointed out, we're ceding that back out on the reinsurance side. So hope that helps.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Okay. Yes, it does. And then quickly just moving back to Harrington as well. How long should that take to get it to scale, again, of that 0.25 or 0.3:1? Could that be done in the next 12 months? I imagine it could be possible. And then secondly, I just also want to understand what their kind of prop cat kind of PML tolerance would be?

Albert A. Benchimol
President, Chief Executive Officer & Director

One of the values of creating a company like Harrington is that, in fact, you can ramp up the volume immediately simply by sizing the quota share that we have with them. And you're absolutely correct that we expect Harrington to reach their premium to capital leverage in the first year, and we will grow that as they grow their capital. The second question related to their PML appetite, and Harrington is substantially focused on mid- to long-tail lines, and that is -- the cat book is not a large part of that book. They will have some small cat exposure for diversification purposes, but Harrington needs to be considered really as a mid- to long-tail line reinsurer.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Okay. Great. And then, Joe, just one quick little nitpick one. Corporate expenses, kind of, they're running mid-20s, they bumped up a little above $30 million this quarter. Was that something to do with Harrington ramp up or just other onetimers?

Joseph C. Henry
CFO & Executive VP

It's actually more due to reallocation between our segments and corporate. The total expenses really have gone down, as I mentioned before, but we decided to keep certain expenses at a corporate level as opposed to allocate them to the businesses. So if you look at the business expense line, it's actually down, offset by the increase on the corporate expenses.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Sure. But that relationship should continue though, so I guess a bit more into corporate, a little bit back into the segments?

Joseph C. Henry

CFO & Executive VP

Yes. I think the run rate you're seeing for corporate expenses should hold.

Operator

And 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
President, Chief Executive Officer & Director

Thank you very much for participating in our conference call, and we look forward to speaking with you again later. Have a good summer. Bye-bye.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a great day.