S&P Capital IQ

CONTENTS

AXIS Capital Holdings Limited NYSE:AXS

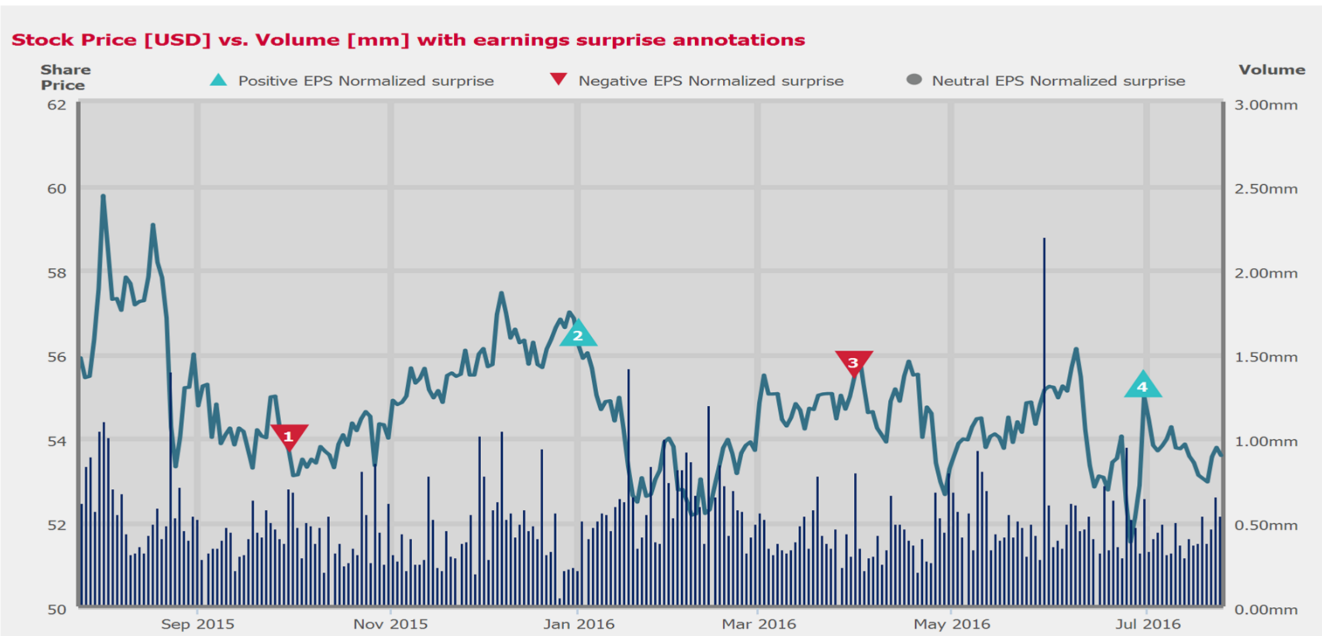
FQ3 2016 Earnings Call Transcripts

Thursday, October 27, 2016 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.04	1.78	71.15	1.10	3.93	4.45
Revenue (mm)	711.40	595.43	(16.30 %)	610.25	3964.05	4008.61

Currency: USD
Consensus as of Oct-27-2016 1:04 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	0.72	0.51	(29.17 %)
FQ4 2015	1.13	1.23	8.85 %
FQ1 2016	1.08	1.07	(0.93 %)
FQ2 2016	0.32	0.51	59.38 %

Call Participants

EXECUTIVES

Albert A. Benchimol
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Joseph C. Henry
CFO & Executive VP

Linda A. Ventresca
Corporate Development Officer

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Presentation

Operator

Good day, and welcome to the Third Quarter 2016 AXIS Capital Earnings Conference Call and Webcast. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference call over to Ms. Linda Ventresca, Investor Relations. Ms. Ventresca, the floor is yours ma'am.

Linda A. Ventresca
Corporate Development Officer

Thank you, Mike, 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 third quarter ended September 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 10092851. 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 the statements made during this call, including the question-and-answer session which are not historical facts may be forward-looking statements. Forward-looking statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from those projected in the forward-looking statements due to a variety of factors, including the risk factors set forth in AXIS' mostly percent report on Form 10-K filed with the SEC on February 25, 2016. We undertake no obligation to update or revise publicly any forward-looking statements. In addition, this presentation may contain non-GAAP financial measures. Reconciliations are included in our earnings press release and financial supplement, which can be found on the Investor Information section of our website. With that, I'd like to turn the call over to Albert.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you, Linda, and good morning, ladies and gentlemen. Thank you for joining us today. Last night, AXIS reported third quarter operating income of $161 million or $1.78 per diluted share with annualized operating ROE of 12% for the quarter. The continuous improvement that we are seeing in our results reflect strength in both our underwriting and investments. Adjusted for dividends, diluted book value per share grew 4% in the quarter and 14% over the past 12 months. During the quarter, we returned over $157 million in capital to our shareholders through share repurchases and common share dividends, repurchasing 2.5% of our shares outstanding at the end of last quarter. Through 9 months, we've returned to shareholders $490 million or 158% of year-to-date operating income in the form of dividends and share repurchases, reducing our share count by 8.8%.

Overall, we reported a consolidated combined ratio of 92.6%, a 4 point improvement relative to the same period last year, benefiting from light cat activity and continued favorable prior year reserve development. Each of our 3 major businesses, insurance, reinsurance and Accident & Health, reported solid underrating profits and year-over-year improvements. We are highly encouraged that the various metrics that we are monitoring to measure our progress reaffirm that AXIS is on a strong path forward. This quarter demonstrates tangible results of progress in our key strategic initiatives. With a more focused business model, improving sourcing and underwriting operations, a solid balance sheet and strengthened market presence, we are well positioned to find attractive business even in a challenging environment and to drive superior shareholder returns in a transforming insurance marketplace. With that, I'll turn the call over to Joe, who will walk us through the results. Joe?

Joseph C. Henry

CFO & Executive VP

Thank you, Albert, and good morning, everyone. During the quarter, we generated strong results featuring net income of $177 million and an annualized ROE of 13.2%. Our operating income for the quarter was $161 million and annualized operating ROE of 12%. Both our net income and operating income this quarter benefited from continued good underwriting performance, a low level of catastrophe and weather-related losses, continued favorable prior year reserve development and excellent performance from our investment portfolio. The strong growth in book value per share in the quarter to $59.77 was driven by net income and an increase in unrealized gains on our available-for-sale investment portfolio, which primarily reflected the tightening of credit spreads, partially offset by strengthening of the U.S. dollar against the pound sterling.

Moving into details in the income statement. Our third quarter gross premiums written increased by 2%, with growth in our insurance segment offset by a decrease in our reinsurance segment. Our insurance segment reported an increase in gross premiums written of $69 million or 11% in the third quarter compared to the same period in 2015. Increased premiums were largely driven by new business written in our property and A&H lines. The increase in our property lines was driven by growth in our London book, including MGA program business. The increase in Accident & Health was due to new health business written in North America and in the Middle East. Our reinsurance segment reported a decrease of $45 million or 14% in gross written premiums in the third quarter of 2016 compared to the same period of 2015. The decrease was largely due to timing differences, which impacted premium growth in our professional, liability and property lines where the restructuring of 3 large quota share treaties affected the timing of premium recognition. Adjusting for timing differences of $51 million, reinsurance gross premiums grew 2%. Net premiums written decreased by 12% in the third quarter of 2016 compared to the same period in 2015, with an increase in our insurance segment offset by a decrease in our reinsurance segment.

Insurance net premiums written were up 14%, driven by growth in premiums written and a decrease in the ceded ratio. The ceded ratio decrease was due to changes in our Accident & Health programs, partially offset by increased quota share premiums ceded in our liability and professional lines. Reinsurance net premiums written decreased by 45%, reflecting the decrease in gross premiums written in the quarter as well as the impact of new retrocessional cover entered into with Harrington Re, which increased premiums ceded in our liability and professional lines.

On a year-to-date basis, reinsurance net premiums were up 7% compared to 2015. As discussed in Q2, we have been ceding more of our reinsurance premiums to strategic capital partners in recent quarters. Our expectation has been that, on balance, our reinsurance net premiums written would show mid-single-digit growth, and our year-to-date figures are consistent with this. Net premiums earned increased by 2% in the third quarter of 2016 compared to the same period of 2015. The increase in net premiums earned reported by our reinsurance segment was largely driven by strong premium growth in our liability, marine and other as well as our catastrophe lines in recent periods, together with the favorable impact of premium adjustments in our credit and surety lines recorded in the quarter. The growth was partially offset by increased premiums ceded in our catastrophe and property lines as well as the impact on our liability and professional lines of the new retrocession to Harrington Re. Net premiums earned reported by our insurance segment in the third quarter were comparable to the third quarter of 2015.

Growth in premiums written in recent periods, primarily in our Accident & Health lines, was largely offset by an increase in our professional lines ceded reinsurance programs. Our third quarter consolidated current accident year loss ratio decreased by 0.8 points to 65.1% compared to the same period of 2015. During the quarter, we incurred $22 million or 2.3 points in pretax catastrophe and weather-related losses, net of reinstatement premiums, primarily attributable to U.S. weather-related events. Comparatively, we incurred $43 million or 4.7 points, primarily attributable to the Tianjin explosion and U.S. weather-related events during the same period in 2015. Our ex cat and weather, current accident year loss ratios increased by 1.6 points to 62.8% with increases in both segments.

The insurance segment current accident year loss ratio ex cat and weather increased by 2.8 points from 60% to 62.8%. The increase was largely attributable to growth and change in mix of business within our A&H line of business, where we responded to opportunities in international markets and wrote more business that carries a higher loss ratio, but a lower acquisition expense ratio. We consider this to be attractive business, and we are pleased to report that our A&H business reported a positive contribution to our underwriting results for the quarter.

In addition, the insurance segment's loss ratio was impacted by adverse rate and trend, largely offset by a decrease in the midsize loss experience, particularly in our marine lines. Our reinsurance segment current accident year loss ratio ex cat and weather increased slightly by 0.4 points from 62.3% to 62.7% due to the ongoing adverse impact of rate and trend, partly offset by the recognition of better-than-expected recent attritional loss experience across our long-tail lines of business. Year-to-date, our current accident year loss ratio increased by 2 points to 67.8 compared to the same period 2015, driven by a 2 point increase in the cat loss ratio. During the year, we incurred $145 million of cat and weather-related losses compared to $90 million in the same period of 2015. After adjusting for these events, our current accident year loss ratio was 62.5% in both years. The adverse impact of rate and trend together with business mix changes were offset by a decrease in the midsize loss experience in our insurance, marine and property lines.

Turning to loss reserves established in prior years. Our results continue to benefit from net favorable loss reserve development, which amounted to $76 million during the quarter. Prior year releases came from all lines of business in both segments and predominantly recent accident years for short-tail lines and older accident years for medium and longer-tail lines. Our year-to-date favorable loss reserve development was $224 million compared to $166 million recognized during the first 9 months of 2015. During the 3 months ended September 30, 2016, our acquisition cost ratio increased modestly by 0.4 points compared to the same period in 2015. Our reinsurance segment's ratio increased to 26.1% due to the impact of retrocessional contracts, an increase in the amount of business written on a proportional basis together with slightly higher acquisition cost associated with certain lines of business.

In addition, the 2015 ratio included the benefits of fees from strategic capital partners, which are now included in other income or offset against G&A expenses in 2016. Decreased acquisition costs in our insurance segment were driven by the higher ceding commissions following the expansion of our professional lines reinsurance programs and lower acquisition cost for the A&H business, which had a higher loss ratio. Our G&A ratio for the third quarter was 15.3% compared to 15.7% in the same period in 2015. While foreign exchange and higher earned premium contributed to that improvement, we continue to see the benefits of expense initiatives that we put in place. That combined with the benefits of strategic capital partner arrangements and lower performance-based compensation have resulted in reduced expense in the quarter and year-to-date.

Overall, we reported underwriting income of $104 million and a combined ratio of 92.6% for the third quarter. On a year-to-date basis, our underwriting income was $213 million with the combined ratio of 95.7%. Net investment income was $117 million for the quarter, an increase of $71 million from the third quarter of 2015. The increase was attributable to our alternative investment portfolio and is primarily due to the strong performance of the equity markets, which positively impacted both hedge fund and credit fund performance. We view the 9 months result as meeting our expectations for the period.

In aggregate, the total return on our cash and investment portfolio for the quarter was 1.1%, including and excluding the impact of foreign exchange. The total return in the current quarter benefited from the downward shift in the sovereign yield curves and tightening of credit spreads on investment grade and high-yield corporate debt. During the quarter, we repurchased an additional $126 million worth of our common shares comprised of $125 million purchase pursuant to our board authorized share repurchase program and $1 million relating to shares purchased in connection with the vesting of restricted stock awards. At October 26, 2016, the remaining authorization under the repurchase program approved by the Board of Directors was $375 million.

As some final comments on our results, I'd like to reiterate our strong underwriting performance this quarter, including continued strong performance by our reinsurance segment and improved performance by our insurance and A&H businesses. In addition, we continue to make progress towards achieving and realizing the benefits of strategic goals that we have discussed with you in prior quarters. In this regard, I would like to direct you to the additional disclosure we have provided in our financial supplement relating to our activities with our strategic capital partners, including details of premium ceded to Harrington Re by our reinsurance segment as well as details of fee income generated.

Finally, we would like to take this opportunity to provide you with an update on Hurricane Matthew. While it is still early days, we currently expect our after-tax net losses in the range of $45 million to $60 million related to Hurricane Matthew. Industry losses for the event range from $3 billion to $7 billion. The wide range is indicative of the recent nature of the event and the significant flood element, which is not considered in all industry estimates. We have exposure in both our insurance and reinsurance segments. Our estimate of insurance losses are heavily influenced by expectations of loss from commercial flood coverages, primarily in the Carolinas. Our estimate of loss from our reinsurance segment primarily derive from cedents in Florida, where losses may arise from lower layers of reinsurance programs. Overall, AXIS Re is underweight the sources of loss expected for the reinsurance market, and our estimates are indicative of this. 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 market conditions, they remain very competitive and challenging. But we also believe we are seeing signs that corrective action is starting in some lines that need it, and the pace of rate reductions is generally declining. We're not predicting an immediate recovery, but more of an approaching stabilization. For example, our insurance rates on average were down 3% overall for the quarter as compared to down 4% in both the second quarter of this year and the third quarter of 2015. Casualty lines in the U.S. were the strongest, particularly in wholesale markets, with positive rate change in the mid-single digits. Professional lines are flat to down modestly and property-related lines down at the mid- to high single-digit range, while international specialty lines remain weakest with reductions often in the double-digit category. Overall, market conditions were best for us in our U.S. division with rates flat on average in the quarter as positives in casualty lines were offset by reductions in property. This compares to market rates that were down 2% in the second quarter this year and down 4% in the third quarter of 2015. We are managing our insurance activities to optimize outcomes under these conditions; emphasizing service, responsiveness and claims management as our key differentiators. We are targeting risks that remain attractive, pushing for greater balance in our portfolio and shrinking those areas where we are not satisfied with the risk-adjusted returns.

Our insurance segment gross premiums written in the quarter were up 12% over the prior year on a constant currency basis. Over half of that increase came from our Accident & Health operations, where we continue to build the scale that will allow us to deliver consistent profitability. The remaining insurance business was up 5% as growth in property, professional and liability lines more than offset reductions in marine and energy, terrorism and aviation as well as our last year's exit from the Australian retail markets.

Our risk appetite, which continues to be increasingly data-driven, continues to deliver a portfolio comprised of more small to midsize business, lower net lines, lower volatility and improving profitability metrics. Moving on to reinsurance. The major themes in the market remain the same as in recent periods as we continue to see competition across most lines and geographies. However, as we've discussed with you in recent calls, we're observing a number of positive indicators. We've begun to see pockets of resistance to further softening in rates and terms. In particular, recent quota share renewals had difficulty in increasing ceding commissions, and we are seeing slowing rate reductions in excess of loss placements, driven by abundant market capacity and generally good underlying experience.

Nevertheless, we also see some large cedents becoming more opportunistic in their buying behavior, which will require our underwriters to continue to demonstrate smart and disciplined underwriting. The talk at Monte Carlo, CIAB and currently in Baden Baden indicates that reinsurers are more intent on holding the line. The next few weeks will be telling. We continue to enhance our position in the reinsurance markets, getting closer to our cedents, providing a broad set of solutions to help them succeed. We’re managing micro cycles across portfolios while expanding our products and opportunity set, including mortgage insurance, where we are off to a good start and expect to see positive contribution in 2017.

We're observing a number of our clients continue to view reinsurance as a vehicle to strengthen their capital position via risk transfer. This is especially true with certain insurers subject to Solvency II. Our team is working to provide unique and tailored solutions for each client. There also continues to be a trend across reinsurance buyers to consolidate programs across lines of business and geographies and often smaller panels. We believe these trends will bode well for our client-centric approach, delivering a full spectrum of reinsurance solutions.

Overall, we are pleased with the progress we're making in the cornerstones of our AXIS Re strategy: getting closer to the customer, utilizing analytics to improve the portfolio and accessing multiple sources of capital and distribution. As announced earlier this year, we established Harrington Re, a new Bermuda-based reinsurance company sponsored by AXIS in partnership with The Blackstone Group. We've begun to place risk with Harrington Re, which represents the latest installment in our strategic capital partnering activities. Harrington is the vehicle through which we match a longer-duration asset portfolio with medium to long-tail business. This transaction is an integral part of our larger alternative capital strategy, which is designed to match the right risk with the right capital. In this context, we view Harrington as a great opportunity to share premium where the asset portfolio can be better aligned with the underlying risk. It represents a win for all stakeholders involved.

For us, Harrington Re provides, first, a broader platform to underwrite risks, support key clients and grow relationships with our clients and distribution partners; second, capital flexibility through a permanent and growing capital base; and third, additional fee income through overrides and profit commission. It's an important part of our strategy to assemble a broad portfolio of third party capital partnerships. And over time, we will look to increase the portion of our business that we share with our partners.
In conclusion, we are pleased to see the continued improvements in our operations and results, demonstrating our progress in further strengthening AXIS's position as a leader in specialty insurance and reinsurance. Our path forward remains organized around delivering a differentiated value proposition characterized by underwriting expertise, responsiveness, creativity and outstanding claim service; our risk appetite and portfolio construction informed by disciplined application of data and analytics; a solid balance sheet complemented by a broad team of high-quality capital partners; and an effective platform staff or professionals who are among the best in our business. We are encouraged by recent metrics and committed to execute the strategy to position AXIS as a stronger, more profitable company providing outstanding products and services to our clients, rewarding careers to our employees and superior returns to our shareholders. With that, let's open the call for questions. Operator, please open the line.

Question and Answer

Operator

[Operator Instructions] The first question we have will come from Jay Cohen, Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Two questions. I guess, first on Harrington Re. With Harrington, you mentioned one of the benefits is capital flexibility and not just Harrington, I guess, but your other capital partners, third-party capital partners. Should we expect, because of that flexibility, buybacks to remain above earnings as we've seen over the past year or so?

Albert A. Benchimol
President, Chief Executive Officer & Director

I think in that area we are always responsive to the opportunities that we have. And so if there is an opportunity to grow for and utilize more capital than is released by third-party capital partners, then we won't do that. If we find that there is less opportunity, then certainly, we will reduce our capital. I think to that effect, Jay, our track record with regard to capital management, I think, is among the best in the industry. We've been increasing the efficiency of our capital through lowering the volatility, which, as you know, is very capital heavy, through the growth of third-party capital partnerships and through the way that we have changed our portfolio. And we will continue to do that. But I think our view is, obviously, there is an opportunity to grow capital at a strong return for our shareholders, that would be our preference. And if not, we will reduce the equity that we have if we can't use it. But we will continue to grow third-party capital as a percentage of our overall capital that is utilized to support the risk that we produce.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's helpful, Albert. And then, I guess, also on Harrington, the fees that you generated, really 2 sub questions. How do you determine what percent of those fees come in the form of fees and what come in the form of offsets to expenses? And then the second part of that question is can you give us some advice on how to model those fees going forward?

Albert A. Benchimol
President, Chief Executive Officer & Director

I can try. So the way we look at it is that those revenues that are overrides specifically tied to the premium that we are generating, we view those as appropriate to offset against our G&A expense. Those components that are more volatile and responsive to profitability, profit shares and so on, we think belong in other income. And that's generally the way we look at it. And this is something that we are doing not just for Harrington, but for the totality of third-party capital. In fact, we're unlikely to provide any details about those because they are a portfolio of third-party capital partnerships. So you'll get a consolidated number. Historically, I think it's going to be approximately 2/3 of the fees are going to be considered offsets to G&A and a third are going to be considered in other income. But again, the other income number is likely to be more volatile because it really depends on profit commissions and performance, which, by definition, will move around up or down based on actual activity.

Operator

Next we have Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

First on Harrington Re as well. There was about $100 million sourced for them in the quarter. I believe you guys said that they were going to be writing about 0.25 to 0.3 premium to surplus. Given that, was there an element that we saw higher premium this quarter since this vehicle was launched later in the year, I guess? How do we just think about the premium production for that vehicle as we go into 2017?

Albert A. Benchimol
President, Chief Executive Officer & Director

That's fair. I think the difference -- I think it's particular to our own accounting standards in which we recognize all of the written premium up front. I know that on quota shares, there are some companies that choose to recognize the quarterly amount in each quarter. We recognize the production on day 1 and then set up a UPR and then earn it over the period, which is by the way why our accounting for multiyear treaties has generated a perceived increase in our gross written premiums compared to some others, because others are not recognizing all the premiums up front and we are. So what you're seeing is the totality of the written premiums that are expected to be earned over the next 12 months in the quarter. So it's not a quarterly number, it's the upfront number. We continue to anticipate that on an annual basis we will cede to Harrington somewhere in the area of point of a quarter to a third of their capital. So that has not changed.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. Thank you. And then in terms of the reinsurance premiums also, you guys mentioned about $51 million due to timing in the quarter. When should we see was that renewal shifted to another quarter? How should we think about that for modeling purposes?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, we kind of explained that in the first half of the year. We told you that the growth that we were showing was accelerated by some timing factors, and by the end of the year, it would balance out. And so what you are seeing here is really the other side of the growth that we showed in the first half of the year. So we always indicated that our growth for reinsurance for the full year would not be at the level indicated in the first half. And this is what you're seeing.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. Great. And then just kind of more high-level margin question. Through year-to-date, your underlying margins probably are about flat overall with last year, some improvement in insurance and [indiscernible] and reinsurance. We are about a year into the margin improving plan that you guys laid out at this time last year, I guess. Are you where you kind of thought you would be on an overall basis and by segment? And then given the still competitive insurance and also reinsurance market and I know you are making still some shifts in your business mix, but how do you think about the level of margin improvement we can see between now and the end of 2017?

Albert A. Benchimol
President, Chief Executive Officer & Director

Actually, we're very pleased with the progress that we have. And as I said, the metrics that we are following are giving us the right detail. So I know that Joe will provide some additional details with regards to mix of business, but let me tell you the way I look at it. Each of our 3 businesses is doing better year-over-year than we've had. And I know that the insurance numbers have been affected by a mix of business with regard to A&H. But let me give you some additional color. The combined ratio for A&H is down 4 points in the third quarter versus the third quarter of last year, down 5 points year-to-date versus '15. However, the mix of business in A&H changed and therefore, there is a higher loss ratio there. And overall, by the way, the A&H loss combined ratio is higher than the insurance combined ratio. And since A&H is now a bigger part of the premium base of insurance, it’s had a mixed impact. So A&H is doing better. If you look at insurance, excluding A&H, the loss ratio ex cat for the current calendar year is flat.

The combined ratio ex cat for the current calendar year is flat for the quarter. And on a year-to-date basis, it improved by 2 points. So we are comfortable with the fact that insurance is also improving on a going-forward basis. Reinsurance is optimizing the portfolio in a difficult market. It's doing all the right moves with regard to the shift in the portfolio, with regard to the use of third-party capital. And here again, we are comfortable with the improvements that we've seen in A&H. So each of those 3 numbers, as far as we're concerned, show very good progress. The mix of business is what's causing some of these ratios to look different. And of course, as we are also growing more fee business, which is improving the results, that contribution from fee business is not making its way in the combined ratio. So the combined ratio is also not reflecting the full improvement that we are doing in our operations as reflected in the fees.

Joseph C. Henry
CFO & Executive VP

Elyse, it's Joe. The only thing I'll add to that is that if you want to get into specifics of the insurance current accident year loss ratio ex cat and weather, it was 62.8% in the quarter. It was 60% a year ago. Of that 2.8 point increase, 2.5 points relates to the mix issue that Albert just talked about for A&H. If you want to look at rate and trend within the insurance segment, it's about 1.8 points of a headwind this year. On reinsurance, it's about 0.7, and the fact that we've held our ex cat and weather loss ratios on a year-to-date basis where they are even with what I just referred to with respect to A&H is reflective of the progress that Albert was just referring to.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's great. And then just one last question. We've seen a little bit of heightened M&A activity in the space of late. If you can just give us a little bit of an updated view on what type of transactions you might consider for AXIS.

Albert A. Benchimol
President, Chief Executive Officer & Director

First and foremost, our strategy is based on organic growth, organic development, new business generation and continued improvement in our mix of business, and that has to be our core strategy. And I'm pleased with the way we are executing on that. Obviously, every company receives visits from bankers with big books with every single possibility around. We of course listen. But beyond that, I'm not sure it's appropriate to discuss the conversations that we are having.

Operator

Charles Sebaski of BMO Capital Markets.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

I guess, the first question on just for some clarity to understand on the fee income. Why is the offset to G&A as opposed to sort of as a ceding commission override, which would come through the acquisition expense ratio? Why isn't that being captured in the reinsurance division as all other reinsurance would be?

Joseph C. Henry
CFO & Executive VP

Charles, it's Joe. So last year, as you know, we offset those types of fees against our acquisition cost. This year, when we implemented Harrington Re, we took a hard look at how we were accounting for the costs and just said, it would be a better representation to offset them against the actual expense that we were incurring. So we have underwriting fees, we've got override fees, we've got management fees, we've got profit commissions, performance fees. There are a lot of different types of fees. And frankly, we just went through all of them and determined that part of them would be better offset against G&A and part of them would be better shown as other income. So it really is just reflective of a new view and in effect a more accurate view of where the original expense is incurred. So we reflect, if you will, the offset against those specific line items. And as Albert said before, about 2/3 of those we would expect to be offset against G&A going forward and about 1/3 of them would be other income in our income statement.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

All right. Next is, on the Accident & Health, Albert, I think you mentioned that you kind of said in our 3 businesses and I think, highlighting that Accident & Health is kind of a third business, yet it's incorporated into the operating results of the insurance business. And you kind of gave some detail that was helpful on the performance there and what insurance would look ex A&H. If it's a third business and you want us to look at it ex A&H, why wouldn't that just be stripped out? Like why don't we have a third operating reporting line that we can just see and track actual A&H business and then insurance as insurance?

Albert A. Benchimol
President, Chief Executive Officer & Director

That's a good point. It's a materiality issue, and certainly, always was expected that once it reached a certain amount of materiality, it will be appropriate to split it out. So I think it's simply a question of time and scale.

Charles Joseph Sebaski
BMO Capital Markets Equity Research

All right. I guess, finally, on currently what you guys are doing, I guess, in the quarter and what you are seeing here in the fourth quarter. What would you say that the current accident year, what are you writing business at in current accident year ROE perspective? I guess, maybe on an allocated capital basis, obviously, the operating ROE and ROE were really strong in the quarter, but there is a lot of things that went on favorable development. I guess, what the current writing, where are you thinking or would you ballpark the current underwriting?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, I think we've given that indication before and we believe that the current year is generally written in the mid- to high single-digit ROEs, which is where we continue to see the 2016 business being written.

Operator

Next we have Meyer Shields of KBW.

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

Albert, one big-picture question. I think you're clearly doing the right thing with Harrington Re, but I'm wondering, in your view, how vulnerable is medium or long-tail pricing -- medium or long-tail lines pricing to the introduction of alternative forms of capital compared to what happened to property cap rates?

Albert A. Benchimol
President, Chief Executive Officer & Director

I think that there are 2 components to it. One is supply and demand and the other is of capital pursuing any kind of business. And the other is the ultimately is the right price because whoever provides the capital at some point is still going to need to be paid for their fees and their expenses and the claims that go forward. And whether that capital is alternative or industry capital, interest rates always have a significant impact because long-tail losses are obviously -- generate over time of more investment income. And so we've always had this allocation of or this connection between available investment returns and available -- and the pricing on casualty. So I think those things don't change. My view on this is that whether we like it or not, there is going to be a growing amount of third-party capital in the industry. And the successful companies are going to be the ones that make money in whatever market conditions result as a result of the capital conditions and optimize their sourcing opportunities and their portfolios in the best way possible. I tend to believe that because of the capital that there is out there, we are going to have less of the old cycles of up and down. And so people who just wait for the pricing to improve to make money may wait a long time. I think we need to make money under the current market conditions, and at AXIS, that's what we're doing. We are organizing ourselves. We are selecting the right risks. And we are building portfolios that will make money in the current market conditions.

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

Okay. Thanks. That's actually very helpful. The second question just with regard to the insurance segment mix shift. Does that have any implications for either trend or capital requirements?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, A&H, as you know, requires a lot less capital than the insurance -- the rest of the insurance lines, the property casualty insurance lines, which is why it delivers a very acceptable ROE or a better -- a very attractive ROE even with a higher combined ratio than you would have in the normal P&C business. And again, that's why sometimes it's difficult when we think of an ROE perspective from an outside perspective to look at a higher combined ratio. The initial reaction to a higher combined ratio might be that this is negative. But if that higher combined ratio is attached to a lower capital requirement, you can actually achieve a very nice ROE, which is why we are very pleased with the development that we've seen in the quarter and the year-to-date, notwithstanding the fact that it’s had a modest negative impact on the insurance combined ratio.

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

Okay. And on the loss trend?

Albert A. Benchimol
President, Chief Executive Officer & Director

I think the loss trends are going to be dependent on the individual lines. I think we follow those. For the moment, we don't see any significant difference in the loss trends that we see across most of our lines.

Operator

Next we have Amit Kumar of Macquarie.

Amit Kumar
Macquarie Research

Just a few follow-up questions. The first question I have is on the level of reserve releases. I was wondering if there was any release which came from a prior large loss or large cat?

Albert A. Benchimol
President, Chief Executive Officer & Director

No, Amit. For the most part, this is normal releases from '14 and '15 accident years and short-tail lines, property and marine, and older accident years 2015 -- I'm sorry, 2010 and prior on the longer-tail lines. Nothing unusual in the releases themselves. As I mentioned in the script, it really came from all lines of business in both segments and for the most part from all accident years. So there's no unusual item in the reserve release itself.

Amit Kumar
Macquarie Research

Got it. That's helpful. The second question I had was again going back to the discussion on Harrington. I think the capital was $600 million. At that time, you had said that you look at adding to the capital down the road and maybe do other things. Has that thought process changed? Or are we just looking at the $600 million for now and any other additions in 2017? Can you just update on that front?

Albert A. Benchimol
President, Chief Executive Officer & Director

No, currently the capital at Harrington is $600 million, which we consider very satisfactory for what we need right there right now. My response from the Harrington and frankly all of third-party capital is we'll size these things over time if they are necessary. We will continue to increase the amount of capital that we partner with, but not necessarily with Harrington.

Amit Kumar
Macquarie Research

Got it. That's helpful. The third and final question and maybe this ties Harrington to Elyse's question on size. Earlier today, we were discussing the same thought process on another conference call as to what level of size makes a difference. I recall at Monte Carlo, you had made a statement that you would look at anything in the $3 billion to $5 billion range in terms of partners. Has that thought process changed with sort of Harrington picking up speed? Or is that the same thought process as we head into 2017?

Albert A. Benchimol
President, Chief Executive Officer & Director

I think that that cause the -- that interview and article I think were taking things out of context. I went back and reread the article and again, that was very clear that what I said was that our strategy is focused on organic growth. And that continues to be what we want to do. The question was what kind of size would a company like AXIS, what kind of size of an acquisition, and on a theoretical basis, I said, well, given our size, given our capital, these are the things that we theoretically could do. That was not an indication that we were planning to do an acquisition of that type. And other than a theoretical question that if AXIS were to make an acquisition, what kind of size acquisition would be comfortable for AXIS. But I repeat the core statement that I made in that interview, which is that our strategy is based on organic growth, recruiting new teams, developing our staff, opening up new markets and lines of business. We are, of course, going to review the various options that are available in the market, but our strategy is an organic one.

Operator

Next we have Ryan Byrnes of Janney.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Most of mine have already been taken. But I had one. When you guys were talking about focusing on organic growth going forward, we can't really dig into it, but just want to get your thoughts on your launch of your Lloyd's platform. Obviously, it's been a pretty tricky market over the last couple of years, but just wanted to see where that is and where you think that can get to maybe the next, I guess, 3 to 5 years?

Albert A. Benchimol
President, Chief Executive Officer & Director

And as you know, we started the Lloyd's platform about 2.5 years ago. And the reason for that fundamentally is that we wanted to be able to leverage the licenses that Lloyd's had all over the world and to also see some business that we were not necessarily seeing. We don't think of Lloyd's as a separate business. We've always had a large international business out of London. And in fact, a lot of the growth that we saw at Lloyd's was really our transferring our own business to the Lloyd's platform. And we also have seen some new business opportunities. So when we think about what we are doing internationally, we are not going to be reporting or talking about Lloyd's as a separate business but simply talking about it in the context of our international specialty lines, which use a number of distribution channels, including branches and balance sheets in Ireland, in Singapore and elsewhere in the world. Lloyd's should be really viewed as a very efficient use of regulatory licenses.

Joseph C. Henry
CFO & Executive VP

Ryan, the only thing I will add to that is, just for the record here, we've written about $120 million in business through 9 months in Lloyd's. And as Albert said, we've seen some new business. Approximately $20 million of that $120 million is business we haven't seen before.

Operator

[Operator Instructions] The next question we have comes from Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

Just follow-up on the -- a question on the reserve. We have seen some sort of slowing reserve releases or some taking reserve charges on primary carrier side. I just wonder how closely are you with your cedent and because you have very strong reserve releases in the past. And I just wonder do you see any sign that would cause any of the concerns?

Joseph C. Henry
CFO & Executive VP

Short answer is no. We obviously spend and you're referring here to the reinsurance, I believe, since you're talking about our cedents.

Kai Pan
Morgan Stanley, Research Division

Yes.

Joseph C. Henry
CFO & Executive VP

We do, as part of our normal monitoring of our business, as part of our every renewals, we go back, we evaluate the conditions, the underwriting, the book of business. We are very satisfied that we have the right understanding, the right reserving for the books of business that we write. You can rest assured that when we see individual companies either reduce their reserve releases or take a charge, the first thing we do is go and identify if something that we had already booked for or if not, are we on the account. I can tell you that it's part of our normal process. And to date, we are very comfortable with the way we are staying on top of our business.

Operator

Ian Gutterman of Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

I just want to follow up a little bit on some of the insurance growth and just get a little bit more context. The growth in the property business, I think you said it was out of London. Can you just talk a little bit more about what that is? I guess, I would have thought London property would be a pretty tough business right now.

Joseph C. Henry
CFO & Executive VP

So Ian, 2 things. One, we have an MGA operation basically in London. It started up a couple of years ago with Lloyd's. And we've added resources in that area. And frankly, we've just seen better opportunities. So this is just natural growth of a initiative really started up 2 or 3 years ago.

Albert A. Benchimol
President, Chief Executive Officer & Director

I would add, Ian, that this is very consistent with going after smaller insureds and smaller accounts. And so, in fact, you are absolutely correct in expecting that for the large accounts that are most at risk to the rates pressures, we've seen reductions in that area. But you've also heard that we were shifting our book of business to smaller accounts that were less prone to the competition, that were less volatile, and we're seeing that and we are pleased with the progress that we're making in the transition of our property book to smaller insureds, smaller lines and less volatility.

Ian Gutterman
Balyasny Asset Management L.P.

I get that. Okay. And then on the A&H growth, did you -- maybe I missed it, did you say how -- was that sort of the core insurance claims growing or was there a big reinsurance component to that?

Joseph C. Henry
CFO & Executive VP

It's actually mostly reinsurance in both our international operation and our U.S. operation, Ian. We've done some additional business in the Middle East. And frankly, we've written some new business in the U.S. on the reinsurance side. Most of it is coming on the reinsurance side.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. And then on Harrington, I'm looking at, I guess, it's Page A of the supplement where I think that's a newer slide about strategic capital partners. And it looks like essentially everything you're ceding off the reinsurance segment either shows Harrington or other strategic partners. Can you just explain first what does other strategic partners mean? Is that other third-party capital? And am I right adding this all up that basically you're not buying any retro, I guess, if you will, from any traditional company that is all either a partner or Harrington?

Albert A. Benchimol
President, Chief Executive Officer & Director

That's a very observant of you. What you see on that slide is only people with whom we have an underwriting relationship and we share our risk with them. We do have other retro that we purchased. But that is not reported on that page. It's reported in the cessions, I believe.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. I just, when I add it up, I think the net premiums you showed here were equal to the net premiums for the reinsurance segment. So it looked like it was 100% of it.

Albert A. Benchimol
President, Chief Executive Officer & Director

Okay. I'm sorry about that. That's my mistake.

Joseph C. Henry
CFO & Executive VP

It's not a large piece of it, though, the other normal retro business that we do.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. Okay. And then just to clarify Elyse's question earlier. Obviously, you said you booked the quota share up front. So we shouldn't expect it to spread out for this quarter. But was there sort of a up front bigger than normal quota share cession this quarter because you're getting started and we shouldn't expect $100 million going forward the next few quarter because of their capacity? I'm trying to get just to how much bigger than normal this was. Was there sort of an upfront load to it?

Joseph C. Henry
CFO & Executive VP

My recollection is that there is both small amount of retro, but not much to it. I think the way to look at it is on an annualized basis. So you think about the annual premium that we're ceding to Harrington to be about 25% to 30% of their capital. And what you're saying here is what we've got for the 6 months reflecting what we're going to need to do for the year. You should not expect that there would be a similar amount in the fourth quarter because most of those contracts were written up front. These are quota share contracts, so they tend to be recognized upfront. There may be a small amount in the fourth quarter, but you'll see though the written numbers being very front-loaded and then those written premiums being earned over a period of time.

Ian Gutterman
Balyasny Asset Management L.P.

Right. And maybe let me word it a little bit better. I worded that poorly. As I think about what I think the annual cession to Harrington will be, should it be about that divided by for each quarter or is it going to be biased towards Q3 and Q1 when the bulk of normal renewals are? Just trying to model it better.

Joseph C. Henry
CFO & Executive VP

I would suggest that if we are saying 30% of $600 million, you're thinking about an annualized number of $200 million of written premium. And depending on when the contracts are written, it might differ by quarter, but they should add up at the end of four quarters on a 12-month basis to be around that number. It will be less than that, of course, for 2016, since we only launched Harrington half year.

Ian Gutterman
Balyasny Asset Management L.P.

[indiscernible] I just want to make sure it wasn't -- in that $200 million example, that it wouldn't be $50 million per quarter, if we should think sort of normal seasonality of reinsurance ceding and do more in Q1 and Q3 and less in Q2 and Q4. It's okay. I can follow up offline.

Albert A. Benchimol
President, Chief Executive Officer & Director

That make sense.

Operator

Next we have Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Most of my questions have been answered. I guess, I had one, maybe part industry, part AXIS question on reserving, if I could. So if I look more of your underwriting income is reserve development this year versus last year and overall development is up in notional terms as well. For a lot of folks, as some comments have indicated on the call, we've seen development trend slower, favorable development trend slow. And if I look at the more recent accident year for the industry, they don't look as good as the older years did a few years out and there haven't been that many property losses, at least in the last few years, which has been good for accident year results. So -- and then when I look at year results for the last few quarters, generally, at least relative to my estimates, they've come in a bit light. Pricing is not improving, which would seem to imply that future earnings altogether are becoming more relying on development at a time when these industry trends don't look great. So I'm just trying to square all that together. And maybe there is something about your book that's a little different or something that I'm missing there just in terms of how you are repositioning. So if you could help me sort of square those things that would be really helpful.

Joseph C. Henry

CFO & Executive VP

Mike, if you don't mind, I'll ask you to kind of restate your question. There was a lot in what you've said and I'm not sure how much of that was an observation versus question. If you would reframe the question, I'd be happy to answer it.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Sure. So if reserving trends are becoming less favorable and your earnings are more reliant on reserve development, can you give us some indication of your comfort that those reserving trends are going to continue to come through? And if so, I guess, from where, given that, that would sort of imply that that would be sort of different than the industry overall.

Joseph C. Henry
CFO & Executive VP

Okay. I guess, I would take exception to the fact that our earnings are dependent on reserve development. I think that what you're saying with regards to AXIS, I can't speak for anybody else, is our reserving philosophy. And we've always said that no matter what the estimate is in any one year, we will take -- we will book a higher number than that. Because we think it's the prudent thing to do. And the reserve release, and we've also said that we would take bad news early and that we would be slow in releasing good news. That is our philosophy. It's been consistently applied for a long time. One of the results of the strategy is that if you only compare current year results, then by definition, we are going to book a higher number than the industry. That's not that we're less profitable, it's that we choose to book a higher number than the rest of the industry in the current year results. We will be consistent. And the second issue is that as far as we're concerned, reserve releases are simply a question of timing of profits. It doesn't create profits. The profits are created on the day that you underwrite the policy. And what we choose to do is to simply recognize some of that profitability in the current year and wait until we are more sure of the result to recognize the balance of it. And so our strategy and our approach to reserving, by definition, will mean that if we do it consistently, there should be reserve releases going forward. Now there are 2 components to reserve releases. The first is what is the midpoint of the actuarial estimate and the second is what are you booking above the midpoint of the actuarial estimate. In the absence of change in the actuarial estimate, then whatever you booked above the midpoint of the actuarial estimate should come down over time as reserve releases. The change in the actuarial estimate up or down is another component of the change. And I would say that for most of the industry, most of what you have seen in reserve releases is that change in the midpoint. There may be other companies that book more than the midpoint, I can't speak to that. What I will tell you is we have 2 components to our reserve releases. One is the change in the midpoint and the second is the release of that additional number that we chose not to take on day 1. Our strategy should result in a more consistent pattern of releases, but, of course, there is no guarantee of that.

Operator

Well, at this time, we are showing no further questions. We'll go ahead and conclude today's question-and-answer session. I would now like to turn the conference back over to management for any closing remarks.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you very much for participating in our quarter. We're obviously very pleased of the improvements in our performance. We're especially pleased of the large growth in our book value in the quarter and year-to-date. And we look forward to reporting to you further progress as we move forward. Thank you.

Operator
And we thank you, sir, also and to the rest of the management team for your time also today. The conference call is now concluded. At this time, you may disconnect your lines. Thank you, take care and have a great day, everyone.