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Earnings Call

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Presentation

Operator

Good morning, and welcome to the AXIS Capital First Quarter 2023 Earnings Conference Call. [Operator Instructions]. Please note, this event is being recorded. I would now like to turn the conference over to Miranda Hunter, Head of Investor Relations. Please go ahead.

Miranda Hunter
Head of Investor Relations

Thanks, Chad. Good morning, and welcome to the AXIS Capital First Quarter 2023 Conference Call. 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 at axiscapital.com. Joining me on today's call are Albert Benchimol, our President and CEO; Vince Tizzio, CEO of Specialty Insurance and Reinsurance and our future group CEO effective May 4; and Pete Vogt, our CFO.

Before we begin, I would like to remind everyone that the statements made during this call including the question-and-answer section, which are not historical facts, may be forward-looking statements. Forward-looking statements involve risks, uncertainties, and assumptions. Actual events or results may differ materially from those projected in the forward-looking statements due to a variety of factors, including the risk factors set forth in the company's most recent report on the Form 10-K or our quarterly report on Form 10-Q and other reports the company files with the SEC.

This includes the additional risks identified in the cautionary note regarding forward-looking statements in our earnings press release issued last night. We undertake no obligation to publicly update or revise 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. And with that, I turn the call over to Albert.

Albert A. Benchimol
President, CEO & Director

Thank you, Miranda. Good morning, and thank you for taking the time to join us today. Welcome to our first-quarter investor call. As we'll discuss shortly, this was a strong quarter for AXIS. And it gives me comfort to hand over the reins, after nearly 13 years with the company, feeling very positive about the progress that we've achieved and where the company is today. And I feel even better about its future.

Following years of hard work to reposition AXIS to be a more focused specialty underwriter with lower volatility and steady profitable results, we're seeing demonstrable improvements and growing consistency in our performance. This quarter marked yet another period of progress in generating meaningful underwriting income, highlighted by solid results across our core metrics. An all-in combined ratio of 91, operating income of $200 million, and record operating earnings per common diluted share of $2.33.

During a quarter where the industry was impacted by heightened cat activity, we demonstrated the resiliency of our portfolio with total cat losses of $38 million or 3.1 points of cat loss ratio. This compares to our 5-year average first quarter cat loss ratio of close to 4.5 points, excluding COVID and the war in Ukraine. Moreover, we achieved robust premium growth across most attractive lines, buoyed by a general resurgence and rate momentum sustaining profitable pricing.

These results speak to the actions that we've taken in recent years to concentrate our resources and capital on growing a less volatile and more profitable specialty insurance business as well as targeted specialist reinsurance lines, building our brand, and investing in attractive growth opportunities. We continue to focus on shifting our portfolio mix, which should be close to 75% specialty insurance and 25% reinsurance this year.

Indeed, as Vince will discuss shortly, during the quarter, we continued to see excellent performance within our core specialty insurance segment, and we continued to reshape AXIS Re as a specialist reinsurer writing risks that are accretive to the broader access portfolio. Another item that I was pleased to see during the quarter was investment income growth of 47% year-over-year.

Our coupon bond income almost doubled over the prior first period, contributing to a healthy bottom line. And as our relatively short bond portfolio matures, we should be able to reinvest the maturity proceeds at a better rate, driving even greater investment income going forward. In short, the totality of our business is moving in the right direction. As we look to the future, AXIS' leadership positions in some of the most attractive markets in the industry, we're writing the business that we want to write. And we're very well positioned to drive further profitable growth.

In addition, we've been recognized as the best place to work in the industry in both the U.S. and London markets and have received a number of recognitions for our commitment and progress in our corporate citizenship and diversity, equity, and inclusion initiatives. These very strong cultural attributes have aided us in attracting and retaining superior talent to our company, and this gives me even more confidence in our team and our future.

I do want to be clear, there is still a lot more that we can and must do to realize the company's potential to grow small account business and drive further growth across all attractive lines, improve our efficiency, and leverage digital and data and analytics to make better decisions faster, all making up the critical steps forward for AXIS to realize our ambition of becoming a specialty leader within the industry.

And I believe we have the right leader in Vince Tizzio to guide us there. In Vince, we have a great leader who has the vision, specialty insurance knowledge, grit, and tenacity to guide our team to build on the strong foundation that is in place and take AXIS to even higher levels of success. It gives me great confidence to know that I'm leaving AXIS in such capable hands.

And with that, I'll pass the floor to Vince, who'll provide more color on the business. And then we'll go to Pete Vogt, who will review our financial results in detail. After which, we'll be very happy to take any questions you might have. Vince?

Vincent Christopher Tizzio
Chief Executive Officer of Specialty Insurance & Reinsurance

Thank you, Albert. On behalf of all of your teammates, we extend our deep appreciation to you for your leadership. I'm honored to succeed you. Let's discuss our performance during the quarter. Our first quarter results produced a good start to the year for AXIS. Our performance this quarter has reinforced our belief that we are on the right path to earn our place as a consistent provider of exceptional value to our stakeholders.

Market conditions remain generally favorable, but also include a backdrop of economic uncertainty, recent disruption in the global financial banking sector and a high 1Q level of global cat activity. Looking at our underwriting businesses combined, I want to note a few themes before speaking to each of the underwriting segments separately. During the quarter, we effectively executed on a number of our underwriting strategies. I'll highlight just a few.

As respect to risk-adjusted rate, both underwriting segments produced rate increases that were ahead of loss cost with insurance at 9% and reinsurance at 12%. Within our insurance segment, we drove record first-quarter production of $1.4 billion, including a 9% increase in new business premiums, directly aligned with the markets that we have targeted for growth.

AXIS demonstrated continued vigilance in respect to pricing and risk discipline. One example is the reduction of our public commercial D&O business where we found pricing insufficient for the risks we see in this line. Within reinsurance, we continued executing against our stated strategy, repositioning AXIS Re as a more focused, specialist reinsurer producing consistent profits with a less volatile portfolio makeup.

Finally, consistent with what Albert mentioned earlier, advances were made in key leadership appointments, including the hiring of Megan Watt as our Chief Claims Officer; and [Celeste Cook,] as Chief Operations Officer for our underwriting businesses. Taken together, these actions reflect our continued commitment to further execute on our stated underwriting strategy. Let's now turn to our underwriting segments.

During the first quarter, our insurance segment again saw strong results, generating premium of -- premium growth of 7% and all-in combined of 87, an ex-cat current accident year combined of 85 and underwriting profit of $103 million, sharing details across select lines of business. We produced premium growth in the teens or better in our wholesale, cyber, A&H, London-based international divisions. We saw particularly strong growth in our marine, credit and political risk and construction lines.

Gross written premiums for property were up 24% in the quarter, with strong contributions from our property units globally. A further word about our property results. By accessing the property market through our wholesale insurance book, a business that is written on a nonadmitted basis, we believe we can make the most of the marketplace opportunity while adhering to our underwriting standards and volatility targets.

Next, gross written premiums in professional lines were down 27%, resulting from a meaningful reduction in transactional liability business directly tied to the lack of M&A activity. Another contributor in this action is we have taken -- in response, excuse me, to the marketplace dynamics is the unattractive pricing environment in our commercial public D&O business, which I mentioned earlier. Other than in professional lines, where we demonstrated underwriting discipline appropriately given the market conditions, we grew 17% across the rest of our insurance book.

We believe our portfolio in most lines of business is priced adequately and well-positioned for profitable growth. Further, as respects the rate, the 9% increase that we saw in this quarter represents the 22nd straight quarter of positive rate change. Equally importantly, we are encouraged that the achieved rate results cover both our loss cost trends and absorb increases in select outwards reinsurance.

Turning now to our reinsurance segment. Our reinsurance team continued its repositioning of the business to a more focused specialist reinsurer, targeting lines that complement and are accretive to our broader specialty portfolio strategy. The headlines are, for the quarter, we delivered a combined ratio of 91% and generated underwriting profits of $36 million. This was a solid result for the quarter as we further transition into a specialist reinsurer.

During the quarter, we generated gross written premiums of $966 million, which is down 26% from the prior year period. Our available renewals were about $340 million less than last year. Of that, we had a premium retention rate of 83% as we nonrenewed business that in our estimation is not accretive to our overall portfolio. Our renewed business where we achieved an average rate increase of 12%. We also had new business production of $80 million that included credit and surety, cyber and A&H.

April renewals continue to show similar themes to Q1 and that we have continued to see positive rate momentum, yielding about 9%, a consistent retention ratio of 85%, which does include a cutback on one of our ceding during the April renewals, impacting our total retention results. And we continue to add favorable new business to the portfolio. Altogether, this reflects our continued repositioning of AXIS Re to a more targeted, consistently profitable and less volatile specialist reinsurance.

Stepping back to our consolidated business. We are encouraged by our progress and our capability to serve clients in key specialty markets, as highlighted by our growing leadership position in wholesale, the Lloyd's market. Our global practice capabilities, evidenced in cyber, marine, credit, and political risk -- and renewable energy. We are also continuing to enhance the service and value we deliver to our customers through investments in digital, data analytics and growing our presence in the lower and middle market customer segments.

And of course, we remain committed to our expense efficiency initiatives. Our human capital strategy remains core to our overall strategy. We continue to attract new talent, retain top existing talent. And as Albert noted earlier, continued to gain recognition as a top employer with a strong culture and workplace environment. That said, we have much yet to achieve in order to realize our full ambition. The current market conditions, the breadth of our product capabilities, the strength of our distribution relationships, and of course, the quality of our talent gives me confidence that we will deliver on our goals for our brokers, our customers, and shareholders.

And with that, I'll pass the floor to Pete to walk through the financial results in more detail.

Peter John Vogt
CFO & Executive VP

Thank you, Vince, and good morning, everyone. This was a strong quarter for AXIS. During the quarter, we generated net income available to common shareholders of $173 million and an annualized ROE of 16.2%. Operating income was $200 million, our best since 2012. And annualized operating ROE was 18.8%. Diluted book value per share increased $3.36 or 7.2% to $50.31. This was driven principally by net unrealized gains reported, other comprehensive income and net income in the period, partially offset by common share dividends declared.

As noted in our press release, adjusted for net unrealized losses on available-for-sale fixed maturities, the book value per diluted common share would be $56.64. The company produced a combined ratio of 91%, a decrease of 0.5 point over the prior-year quarter. This quarter's pretax cat and weather-related losses, net of reinsurance, were $38 million or 3.1 point primarily attributable to New Zealand floods, Cyclone Gabrielle and other related -- and other weather-related events.

This compares to $60 million or 4.7 points in 2022, including $30 million or 2.3 points attributable to the Russia-Ukraine war. In a quarter where the industry had above-average natural cat activity, we demonstrated our continued focus on reducing volatility. Insurance performed very well, and I'd note that the 3-point cat loss ratio did not benefit at all from the property aggregate cover that was still in place this quarter.

Additionally, on the reinsurance side, of the $13 million of natural cat losses reported this quarter, less than $1 million is associated with the ongoing specialty lines. Net favorable prior-year development was $4 million in the quarter compared to $9 million in the first quarter of 2022. The consolidated acquisition cost ratio was 18.7% in the quarter, a decrease of 1 point over the prior-year quarter, and this was driven by a decrease in both segments.

Consolidated G&A expense ratio of 13.6% was comparable to the prior year. And lastly, on a consolidated basis, fee income from strategic capital partners was $8 million compared to $18 million in the prior year quarter as we no longer see reinsurance cat business to third-party capital partners. Let me move on to our discussion of the segments. I'll start with insurance, which once again had a strong quarter with good performance across a number of metrics.

Gross premiums written increased by 7% to a record $1.4 billion in this quarter. I'm not going into detail on premiums for insurance as Vince laid out what we saw in the first quarter. Overall, I'd just reiterate that we're growing in our most attractive markets. The current accident year loss ratio, ex cat and weather, increased by 1.7 points over the first quarter of 2022. As you'll recall, during our third quarter call, our loss ratios and liability have been increased to reflect heightened loss trends.

So our current quarter loss ratios are generally in line with what we were booking in the second half of last year. The acquisition cost ratio decreased by 0.4 point in the first quarter, primarily related to a decrease in variable acquisition costs associated with property. The underwriting-related G&A expense ratio decreased by 1 point in the first quarter, mainly driven by an increase in net premiums earned.

Now let's move on to the reinsurance segment. Reinsurance segment's gross written premiums decreased by $341 million or 26% compared to the prior year quarter. It may be worthwhile to reconcile the indications that we gave you earlier during our fourth-quarter investor call. During that call, our comments have been in response to questions we received in relation to our ability to access desired business following our exit from cat and property reinsurance.

I'll provide some additional context that we hope will be helpful in understanding our premium results for the quarter. As you know, we were not able to renew the cat and property and engineering business that we exited. This was worth about $200 million in the quarter. We also exited reinsurance aviation on

January 1, which approximated close to $10 million of nonrenewed premium. In addition, there is a loss of approximately $80 million of multiline business associated with the property book, which is often referred to as bouquet business.

This business was centered in the liability book and was not available to us to renew. We do anticipate loss premium from these bouquet businesses -- from this bouquet business of approximately $30 million throughout the rest of this year. As we said on the last investor call, there was an additional $10 million of desired renewals that we anticipated losing due to our exit from cat and property reinsurance.

Additionally, FX and premium adjustments impacted the quarter by approximately $60 million year-over-year. Finally, as we continue to reshape the ongoing AXIS Re portfolio, the GWP is essentially flat year-over-year, an increase in GWP due to rate and new business that is aligned with our current appetite was offset by nonrenewed business that was not accretive to our overall portfolio.

Stepping back and looking at our specialist reinsurance book overall, we remain committed to continuing to prioritize margin over top-line growth and building a strong and more stable and profitable book for the future. The current accident year loss ratio ex cat and weather increased by 3.3 points, entirely driven by the exit from cat and property lines of business.

Excluding the exited cat and property lines of business, the ongoing specialty lines, ex cat and weather loss ratio, decreased by almost 2 points. This improvement was driven by improved loss experience in marine and aviation lines as well as writing more credit surety business in the portfolio, which carries a lower loss ratio. The acquisition cost ratio decreased by 1.6 points, primarily related to the impact of retrocessional contracts and adjustments associated with loss-sensitive features, mainly in the motor lines, where we had some negative development and were able to recoup some of that by lowering acquisition costs.

These decreases were partially offset by changes in business mix associated with the exit from cat and property lines of business. The underwriting-related G&A expense ratio decreased by 0.3 point, mainly driven by a decrease in personnel costs associated with the exit from cat and property lines of business, partially offset by a decrease in net premiums earned and a decrease in fees related to arrangements with strategic capital partners.

Net investment income was $134 million compared to net investment income of $91 million in the first quarter of 2022. In the quarter, investment income from fixed maturities was $118 million, up over 82%, $65 million in the first quarter last year as the yield on the portfolio has increased from 2.1% to 3.7% over the last 12 months. At the quarter end, the fixed income portfolio had a book yield of 3.7% and a duration of 3 years.

Our market yield was 5.4%, a solid 170 basis points above the book yield. In line with what I noted last quarter, given the duration of our portfolio and the current market yields, we continue to expect net investment income from fixed maturities to be at least $150 million greater in 2023, than what we reported in 2022. Let me make a few more comments on investments given recent economic and market events. We continue to maintain our consistent conservative approach to our investments.

And 85% of our portfolio is investment-grade fixed income and cash with an average rating of AA-. Within this high-quality portfolio, we have about 6% or $924 million of commercial mortgage-backed securities, of which 93% is AAA rated and above and the rest is essentially AA-rated. This is a very high-quality portfolio that's performed well for us. We feel good about where we are in the capital stack. You can see details on Page 17 of our financial supplement.

Also within our portfolio, our overall exposure to banks is 7%, with 3/4 of that in G-SIB. Additionally, less than 1% is to regional banks, and they are high quality and tend to be on the larger, more diversified end. We currently do not own any contingent convertibles. Moving beyond the bond portfolio, our total direct exposure to first-lien commercial real estate is $624 million or about 4% of cash and invested assets. 40% of this portfolio is office space with the rest comprised of industrial, multifamily, retail and other space.

These loans were originated conservatively with well-placed properties and loan to values generally below 60%. They are performing well today. Certainly, the backdrop is challenging, but given the quality of the properties and our position in the capital structure, we think the portfolio will continue to perform well. Finally, in our alternative portfolio, we have approximately $300 million or 2% of cash in invested assets invested in highly diversified real estate debt and equity funds.

Industrial warehouses are over 1/3 of the holdings with decent size exposure in multifamily, life science buildings and hotels. 20% of the exposure is to office buildings with almost all of those positions occurring post the onset of COVID. The fund managers all had good track records, and we've marked every quarter based on NAV from our managers. To sum it up, with the overall portfolio, we are satisfied with the risk management that we have around our real estate assets and the overall quality of our portfolio. That summarizes our first quarter results. Miranda, I'll toss it back to you.

Miranda Hunter
Head of Investor Relations
Thank you, Pete. We're now ready to begin the question-and-answer section. [Operator Instructions]. Chad, over to you.

Question and Answer

Operator

Thank you. [Operator Instructions]. And the first question will be from Matt Carletti from JMP.

Matthew John Carletti
JMP Securities LLC, Research Division

Pete, thanks for the additional color on trying to square up kind of the $10 million commentary on the reinsurance top line at last quarter's call and the result this quarter. I just want to make sure I'm understanding it correctly. So you guys said there's $10 million of business that you desired but lost. And then there's another $80 million that -- because of the exit from the property -- property cat lines, you basically deemed as just not available to you. And so it wasn't kind of presented alongside that $10 million that you talked about a couple of months ago.

Peter John Vogt
CFO & Executive VP

Yes, I think that's one way to look -- it's definitely the way I look at it, Matt. When we look at those -- that $80 million because they're packaged product and they're multiline and we were exiting property, those were not going to be available to us at all for renewal. So -- and that number ended up -- it's about, as we said, $80 million, it's split about $60 million in North America, $20 million out of Europe.

Matthew John Carletti
JMP Securities LLC, Research Division

If it wasn't for the exit from reinsurance or kind of the structure of how they're distributed and the relationships, am I right in thinking that, that otherwise largely would have been business that you would have liked to retain?

Albert A. Benchimol
President, CEO & Director

The liability piece, we would have evaluated based on the terms that would have happened, obviously, the property not. But yes, we would have looked at it and explored it. I think it's -- going back to that issue about appetite, the multi-lines, we could not access because of the property component in them, although we actually had a couple of clients put up separate treaties to allow us to stay on the liability piece. So we were happy to see that.

In trying to answer the question of did we harm our franchise by exiting property and property cat? We monitored how much business we quoted for, wanted to have, but ultimately, were told, sorry, we're not going to give it to you. And we identified that $10 million in Q1. And Vince in talking about April 1, there was probably some $30 million that we lost on April 1. So to date for all of the business that is available to us, there were some that we could not write because of the property component, and Pete talked about that.

That was the property, property cat. That was the bouquet business. On the rest, we obviously nonrenewed some business on our own because we were not satisfied with how it fit in the portfolio or the returns, and that was our choice. And then we bid for both renewal business and new business. And to date, we can only identify now some $40 million where we said we wanted the business, and it was not given to us.

Matthew John Carletti
JMP Securities LLC, Research Division

Okay. That's helpful. And then one other, if I could. On the specialty reinsurance, the ongoing reinsurance, it looks like there was $35 million of adverse development kind of professional lines and liability lines. And my question is, could you peel back the onion there a little bit? And what I'm trying to get at is, was this more of an issue where you see what's going on in the environment, in the industry at a high level, inflation and so on and so forth, courts reopening and trying to take some proactive steps to get ahead of something? Or are you seeing something come through in your claims data already that you are reacting to?

Peter John Vogt
CFO & Executive VP

Thanks, Matt. This is Pete. I'll take that. So what we saw in the quarter, you're right, especially in reinsurance, we saw about $33 million on liability, but we also saw about $17 million on motor -- actually $18 million on motor. So I would say that as I look at that, we did proactively carry out an in-depth investigation across all our lines of business to assess the potential impact of elevated financial inflation.

So this is above -- this is different than where we know we have social inflation. So this is financial inflation. We did that proactively just in response to what we've seen in the economic environment over the last year. Overall, the strengthening that we did across our book, all the lines of business we're able to handle it. But when we looked at the reinsurance liability and motor, in particular, they're very long-term in nature when you think about their cash flows.

And so this increase in our financial inflation view hit both those books. Now the motor book is entirely due to our view of the future inflation, the financial inflation. The good news there, as I mentioned on the acquisition cost, we caught about half of that back because of the loss-sensitive features we have in that motor book.

On the liability book, I would say about 1/3 of the $33 million you see on the reinsurance liability book is due to that strengthening of our financial inflation expectation. The other 2/3 were due to the other 2 things that we noted in the [queue,] when you have a chance to look at it. But one, we've been seeing some pressure in the pre-'19 pro-rata contracts from some of our seeds, and so we moved the number up about 1/3 because of that.

And then we had a spiky claim in 2021. And given our propensity to actually not absorb bad news early, that was a pretty spiky claim coming out of 2021 in the liability book. So rather than just absorbing an IBNR, we decided to actually take some negative PYD in that particular year associated with that claim. Does that help understand it?

Matthew John Carletti
JMP Securities LLC, Research Division

Very much so. Yes. Pete. Appreciate it. Great. And Albert, I think it's the last quarter we have you. So I just want to say, wishing you a wonderful retirement and best of luck.

Albert A. Benchimol
President, CEO & Director

Thanks very much, Matt.

Operator

And the next question is from Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

And let me echo congrats to you, Albert, and I hope you enjoy retirement. So my first question, maybe a continuation also on both the loss trend or the higher loss picks in insurance. I think in -- over the course of '22, you'd also called maybe some resetting of picks for the program's business. Is that part of what you're seeing now in the first quarter of '23 as well? Or the increase is completely separate from that?

Peter John Vogt
CFO & Executive VP

No. What I would say, Yaron, this is Pete. I'll jump in here, is we did those increases in the third quarter last year. So they were fundamentally -- what we're seeing in the first quarter of this year is the fact that we've increased them since the first quarter of last year. But where we are with that book, with where we are on the rest of our casualty book is very consistent with where we were in the second half of the year.

I think one of the things that I'll call -- hit that a little bit in the fourth quarter was we had such a good quarter with our short tail lines, which I did point out that, that kind of masked the fact that, yes, we did increase those loss picks in the third quarter. And that's just being consistent with where we've been now in the most recent periods. So nothing new there that I would call out. I just would reiterate that it will be consistent with where we've been in the last few recent quarters.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Okay. And my second question, I think in the prepared comments, you said that you did grow in the marine book in insurance. At the same time, you exited marine and reinsurance. Can you maybe talk about what makes the insurance side more attractive and more interesting for the company to still participate in versus reinsurance?

Vincent Christopher Tizzio
Chief Executive Officer of Specialty Insurance & Reinsurance

This really points to our language around emphasizing the underwriting business that is more aligned to the outlook of our product mix and profit aspiration between the 2 businesses. The positioning of our insurance book aligns more attractively to our portfolio construct aspiration. And so we are leaning more heavily into the insurance marine portfolio from a size and breadth of appetite, but have a very select and nonconflicting appetite within our reinsurance book.

Albert A. Benchimol
President, CEO & Director

If I can just add to that. Bottom line, we've got leadership positions on the insurance side in the specialty lines, including marine. And we can really build a moat around those leadership positions and grow on them, whereas we were just a small player in reinsurance. So if you have to choose what market you're going to be in, you'd rather be in the market where you're a leader with preferred access to risk than just one of many.

Operator

And the next question will be from Josh Shanker from BOA.

Joshua David Shanker
BofA Securities, Research Division

I would -- looking into the next couple of quarters with this issue about tying the property reinsurance to some other lines, how should we think about the impact it's going to have on your underwritings in 2Q and 3Q?

Peter John Vogt
CFO & Executive VP

Well, I know overall, I did mention that we do have about $30 million of that multiline business still to renew the rest of the year, Josh, and that will not be available to us to renew. I think probably about 1/3 of that is going to be in the second quarter and 2/3 of that will be in the third quarter. So that will impact beyond the loss of not renewing any of the property business in the next 2 quarters.

Joshua David Shanker
BofA Securities, Research Division

Okay. And you think that that's the total amount that we should be concerned about and not any more than that?

Vincent Christopher Tizzio
Chief Executive Officer of Specialty Insurance & Reinsurance

Josh, I -- this is Vince. I would say that there is the potential for other impacts. But to date, through the April renewals, we've commented and Albert contextualize the quantum, talking about $40 million out of what we've already booked, but it will obviously depend on the attractiveness of the pricing and the suitability of the terms that we're signing on to, but that is at the moment where we stand.

Peter John Vogt
CFO & Executive VP

Yes, I think that was in...

Joshua David Shanker
BofA Securities, Research Division

Yes.

Peter John Vogt
CFO & Executive VP

Never mind. Go ahead, Josh.

Joshua David Shanker
BofA Securities, Research Division

No, no, no. That's fine. And then the 63% loss ratio underlying in reinsurance in the first quarter was pretty attractive, especially given the different elements of cat being a low loss ratio business coming out. Do you want to give us any help when we look at the 3Q, 4Q, 1Q progression about what we should think is a normal trajectory for where you expect loss ratios in reinsurance to be relative to the past?

I really -- you don't have to give absolute guidance. But if we look at a 60% underlying loss ratio in 2021 before you really started making these changes, how much was that benefiting from the low loss ratio content in cat-like lines?

Peter John Vogt
CFO & Executive VP

Yes. This is Pete, Josh. I'll take that. I think I mentioned it during the first -- during the fourth quarter call, and I'll mention it again here. I do think when we look at the reinsurance segment ex property or property cat, we had guided to it really should be about a mid-60s loss ratio. And that's where I think that we'll see it go. I think this quarter was a good quarter for that particular line of business. Actually, I think all in, I think you said 63. My recollection is it's 65.

Joshua David Shanker
BofA Securities, Research Division

That's right, right. And the 65 on the back half of '22.

Peter John Vogt
CFO & Executive VP

Yes. Yes. So I mean we're going to continue to provide those pages at the back end of the financial supplement for you guys to be able to reconcile this. But I felt it was going to be in mid-60s. And in this quarter, it was at 65.2. Again, we have been getting some rate and trend in that particular book, and we had some good credit surety results in this quarter, but there was nothing special. I do think it should be a mid-60s type of portfolio, Josh.

Joshua David Shanker
BofA Securities, Research Division

And then one quick one, given that obviously, you have like property claims payments going out the door, when should we think that probably the paid-to-incurred ratio in the reinsurance business can get back below 100%?

Peter John Vogt
CFO & Executive VP

That's a hard one to call, Josh, because now you're asking me to actually make a call on when the claim settlement dates and all these things will be done. So I actually don't want to speculate on that one. But as I said last time, it's going to be a while before it gets below 100% because the net earned premiums come down so dramatically.

Operator

The next question will be from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is within insurance. So the 52.2 underlying loss ratio, I appreciate, right, that you guys said it was similar to the picks that you raised in the back half of last year. So is that where you would expect the underlying loss ratio and insurance to trend over the balance of the year?

Peter John Vogt
CFO & Executive VP

Yes. Elyse, this is Pete. I've consistently said a low 50s ex-cat loss ratio is where I expect the insurance group to be, and I'm not coming off that expectation right now.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then sticking with insurance, right, Vince, you said that rate increases are ahead of loss costs at around 9%. Where would you peg loss costs in your insurance business right now?

Vincent Christopher Tizzio
Chief Executive Officer of Specialty Insurance & Reinsurance

Around 8%.

Peter John Vogt
CFO & Executive VP

Yes, we continue to see it in the high single -- mid- to high single digits, so Elyse, depending upon the line...

Vincent Christopher Tizzio
Chief Executive Officer of Specialty Insurance & Reinsurance

Line, but overall. Yes.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then within reinsurance, right, so you guys gave some good color, right, on the adverse development within the specialty line. Did that have any impact on how you were booking the current accident year?

Peter John Vogt
CFO & Executive VP

It didn't affect the current accident year because all those expectations for higher inflation were already built into our pricing expectations. And so they were already built into our expected loss ratios in the book, Elyse.

Operator

And the next question is from Derek Han from KBW.

Derek Han

Just a couple of quick questions. Did you see any D&O losses in the quarter that kind of impacted your core loss ratio?

Peter John Vogt
CFO & Executive VP

So Derek, if your comment is about anything that we adjusted the current accident quarter loss ratio associated with D&O, there wasn't anything special that we did to change our thinking on the underlying loss pick in our professional lines business this quarter.

Derek Han

Got it. Okay. And then my second question is just on the insurance rate increases, it looks like it accelerated to 9% from 6% last quarter. Can you just talk about some of the lines of business that drove that? And then kind of your expectation for throughout the year?

Vincent Christopher Tizzio
Chief Executive Officer of Specialty Insurance & Reinsurance

Yes. I think that there was a good correlation between the gross rate change of 9% that aligned to the books of business that we felt we could push rate. We have seen it evidence, obviously, in property, we saw it evidenced in terrorism. We continue to see though moderating in cyber. Those were core lines, certainly property had some rate change as well that was important and certainly marine more. So that's a good color on the classes and the order of magnitude.

Operator

[Operator Instructions]. The next question is from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of them here. Just quickly, Vince, with the headwind still from the remainder of the year, I guess, particularly second quarter from some of the transactional business that you maybe had last year or this year, I'm just trying to get a sense of where that professional lines declined to 27%. How is that going to progress through the remainder of the year?

Vincent Christopher Tizzio
Chief Executive Officer of Specialty Insurance & Reinsurance

Brian, the 22-odd percent decrease certainly was, as you say, impacted by the absence of transactional liability, which was really about $40-odd million. And so we're obviously being observant to our other product capabilities across our global professional lines abilities. And as those marketplace opportunities open, be it in transactional liabilities or other subsegments, we'll continue to pursue those opportunities aggressively.

In terms of the projected growth, it's too hard to speculate, obviously, as to whether the TL market opens in normal course. We think it's down minimally on 25%, 30-odd percent. But we have a lot of other product arsenal. And as you know, last year, we introduced a dedicated team to our wholesale division from the financial lines group. We've recently added cyber and NPL capabilities to that division. So we have a number of offsets that we're putting into our pipeline, but that's where I would leave it at the moment.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. Second question, Pete, I'm just curious, on the insurance underlying loss ratio here. I appreciate given the trend in where you've got the number. But if I take a look at the mix of business in your insurance, it appears that the mix is shifting more towards what do we consider lower underlying loss ratio kind of business, i.e., property, cyber. Is that something that we could see an impact here going through the year?

Peter John Vogt
CFO & Executive VP

That's a potential, especially with the positivity we have on the property market right now, Brian. However, I would point out we are managing our P&Ls. So our property appetite even in insurance will be somewhat guided by our PML appetite, and we still see real opportunity in the E&S casualty space. But definitely, the drop in pro lines kind of did a little bit of a swing this quarter. So that is something that you can think about as you're thinking about your model the rest of the year. But that is appropriate.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then last question, just curious on capital management. I just want a quick question here. If I look at your debt-to-capital ratios, they're coming down, obviously, as the portfolio comes back here. And given that the volatility of your business should be clearly going down pretty meaningfully this year, why wouldn't you kind of step up and maybe buy back some stock kind of until the market that we're confident in our lower PMLs, lower volatility? What's going on here go forward in our kind of business profile.

Peter John Vogt
CFO & Executive VP

Yes, Brian, that's a great comment. I think I'm going to go back to my standard answer right now is we're going to be opportunistic with it. But I think given the progress that we're seeing ourselves make, it is something that we're going to consider even more as we go forward. But again, we've got an open authorization, and we'll be opportunistic on it. Again, based upon the growth that we can see coming from the insurance side, which would be the #1 use of capital going forward right now because of the attractiveness of the markets. And then we'll take a look at -- I do think our shares are very attractive right now. I agree with you.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then I just want to finish up, Albert, I just want to thank you for all your time. It's been a pleasure working with you and talking with you over the last couple of decades, I guess, and all the best with your retirement.

Albert A. Benchimol
President, CEO & Director

Thanks so much.

Peter John Vogt
CFO & Executive VP

Thanks, Brian.

Operator

And ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Albert Benchimol for any closing remarks.

Albert A. Benchimol
President, CEO & Director

Thanks, Chad, and thank you all for participating. And as you -- we noted earlier, this is going to be my last investor call as CEO of AXIS. And I just want to say that having the opportunity to be the CEO of this company has been the privilege of a lifetime. So I want to thank all of our investors for your confidence and support, our customers for their partnership and friendship.

And to my AXIS colleagues, you worked so hard to bring the company to where it is today. I'm grateful for your commitment and support and for the strong bonds that we've built over the 13 years that I've been at AXIS. I wish you all unlimited success. Thank you all. Chad, that will complete our call. Thank you.

Operator

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