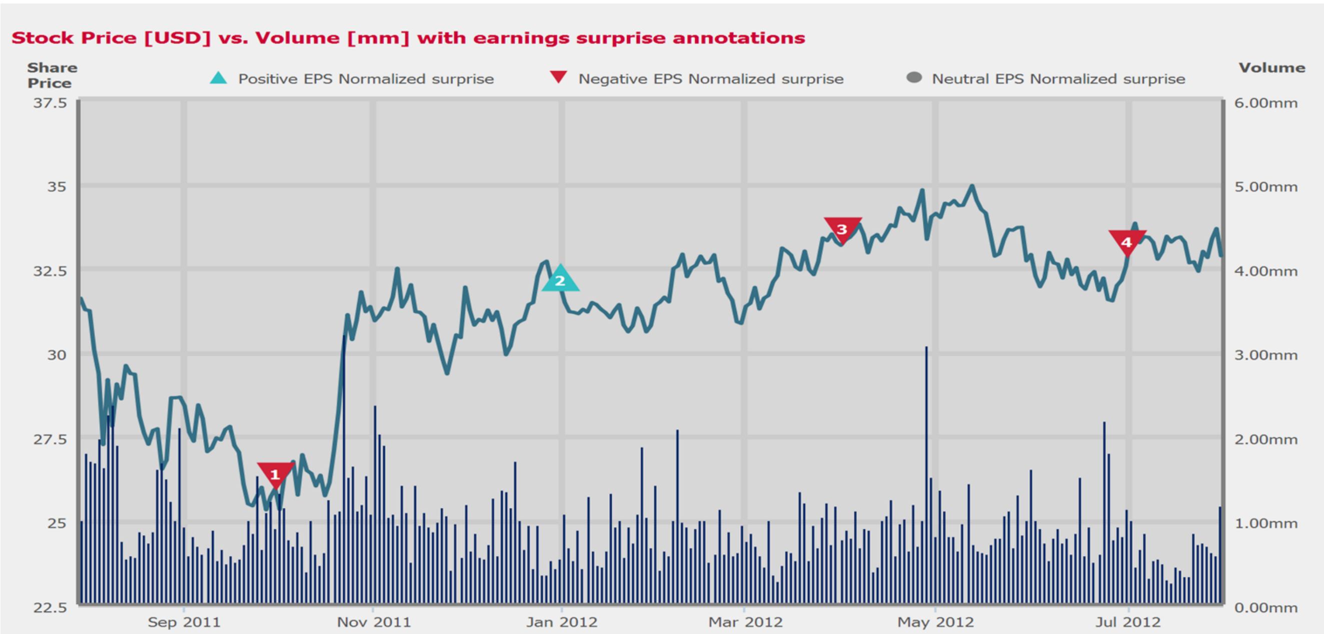
S&P Global
Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS
FQ3 2012 Earnings Call Transcripts
Thursday, November 01, 2012 2:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ3 2012-			-FQ4 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.04	1.63	56.73	0.95	4.35	3.77
Revenue (mm)	750.24	650.60	(13.28 %)	620.74	3501.92	3645.37

Currency: USD
Consensus as of Nov-01-2012 11:18 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2011	0.78	0.74	(5.13 %)
FQ4 2011	0.41	0.53	29.27 %
FQ1 2012	1.09	1.07	(1.83 %)
FQ2 2012	0.96	0.90	(6.25 %)

Table of Contents

Call Participants

EXECUTIVES

Albert A. Benchimol
President, CEO & Director

Joseph Christopher Henry
Consultant

Linda Ventresca

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Gregory Locraft
Morgan Stanley, Research Division

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Ryan J. Byrnes
Langen McAlenney

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Presentation

Operator

Good morning, everyone, and welcome to the Axis Capital Q3 2012 earnings conference call. [Operator Instructions] Please note that today's event is being recorded.

I would now like to turn the conference call over to Ms. Linda Ventresca, Investor Relations. Ma'am, you may begin.

Linda Ventresca

Thank you, Jamie, and good morning ladies and gentlemen. I am happy to welcome you to our conference call to discuss the financial results for Axis Capital for the third quarter ended September 30, 2012. 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 one 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. The international number is 412-317-0088. The conference code for both replay dial-in numbers is 10018984.

With me on today's call are Albert Benchimol, our President and CEO; and Joseph Henry, our CFO. Before I turn the call over to Albert, I will remind everyone that statements made during this call, including the question-and-answer session, which are not historical facts, may be forward-looking statements within the meaning of the U.S. federal securities laws.

Forward-looking statements contained in this presentation include, but are not necessarily limited to information regarding our estimate of losses related to catastrophes, policies, and other loss events, general economic, capital and credit market conditions, future growth prospects, financial results, and capital management initiatives, evaluation of losses and loss reserves, investment strategies, investment portfolio and market performance, impact to the marketplace with respect to changes in pricing models and our expectations regarding pricing and other market conditions.

These statements involve risks, uncertainties and assumptions which could cause actual results to differ materially from our expectations. For a discussion of these matters, please refer to the risk factors section in our most recent Form 10-K on file with the Securities and Exchange Commission. We undertake no obligation to update or revise publicly any forward-looking statements whether as a result of new information, future events or otherwise.

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

With that I would like to turn the call over to Albert.

Albert A. Benchimol
President, CEO & Director

Thank you, Linda, and a good morning to everyone. We are pleased with our results for the third quarter. Our quarterly operating income of $201 million or $1.53 per share represents an annualized operating ROE of 15.2%. Our diluted book value reached an new all-time high of $43.57 per share, an increase of 7.4% in the quarter and 17.6% over the last 12 months.

We benefited from the low-level of catastrophe activity and the favorable impact of strong equity markets on our overall investment returns but these aside, our businesses are operating at a high level. Underwriting results across substantially all units showed good fundamentals. Where we affected changes in business mix, it was generally to favor lines and markets showing continued improvements. We also sustained progress in a number of initiatives we have been cultivating for some time.

I will now turn the call over to Joe to review the financials. I will comment further on market environments, business activities later. Joe?

Joseph Christopher Henry
Consultant

Thank you, Albert and good morning, everyone. This quarter, we generated an annualized 16.9% return on average common equity and operating ROE of 15.2%. In addition, quarterly diluted book value per common share increased by more than $3 per share in the quarter. Our results benefited from a quiet catastrophe environment and a low-level of large losses as well as continued favorable prior year developments.

Valuation improvements on our available for sale investment portfolio and share repurchases executed at a discounted book value also contributed to these excellent actual results. Our strong underwriting results absorbed the impact of U.S. crop losses and hurricane Isaac during the quarter, a testament, in our opinion, to the value of diversification by geography and product in our underwriting portfolio.

We view this, coupled with the superior risk selection capabilities of our underwriters as critical to driving superior returns for our shareholders. This is especially the case, given the persistency of the low interest rate environment and the lack of sufficient compensation for taking additional risk in the investment portfolio.

Moving into the details on the income statement. Our third quarter gross premiums written were up 2.2% to $848 million. Growth emanated from our insurance segment where premiums were up $36 million attributable to a number of lines. The real growth story in the insurance segment is impacted by targeted reductions in MGA produced, cat-exposed business as we have made a tactical decisions to supply the market with cat-capacity on a more fungible basis.

The reallocation of this capacity unfortunately does not occur perfectly in tandem. Partially offsetting growth in insurance was $24 million decline in reinsurance segment premiums. Group net premiums written were down 3% in the quarter. Changes in our reinsurance purchasing effective last quarter, as well as the business mix changes contributed to a higher ceded ratio in insurance.

Our consolidated net premiums earned were up 3% this quarter. This growth was driven by insurance, including our accident and health line which has continued to increase production since we launched the product offering in 2010. This growth was partially offset by a reduction in reinsurance driven by repositioning of our catastrophe portfolio throughout this year.

Our consolidated current accident year loss ratio improved by 11.4 points during the quarter primarily due to a quieter catastrophe environment. Also, lower launch losses this quarter including reduced exposure and loss experience related to aggregate property reinsurance of regional companies in the U.S. benefited the current year. Partially offsetting these improvements were losses of $40 million related to the impact of severe drought conditions on U.S. crops which I will expand upon shortly.

In the quarter, we continued to benefit from net favorable prior year reserve development of $60 million reported in the quarter primarily from short tail lines. Our acquisition cost ratio increased a point quarter-over-quarter as business mix changes across both segments continued to earn out.

Let me address the third quarter increase in general and administrative expenses at this point. A large portion of the overall increase relates to performance related compensation costs as our annual incentive compensation accruals move in tandem with visibility on our operating results as the year unfolds. Excluding the performance related accruals, our G&A ratio was up 0.5 point. Taken together, these items produced excellent underwriting income of $155 million and a solid combined ratio of 85.3% for the quarter.

For the 9-month period, our gross premiums written were down a modest $42 million or 1%. This reduction was primarily driven by the repositioning of the catastrophe portfolio throughout the year in our reinsurance segment. Insurance gross premiums written for the year-to-date increased. Growth was associated with a more favorable rate environment and new initiatives gaining traction. Net premiums written were down slightly at 4% driven by the higher ceded ratio of insurance that I mentioned earlier. Net premiums earned were up 4% for the 9 month period driven by growth in insurance in recent quarters.

Our consolidated combined ratio of 90.8% includes 5.3 point net of reinstatements related to the first and second quarter U.S. weather events, the impact of the drought on U.S. crops and Hurricane Isaac and 7.1 points of net favorable reserve development. Excluding these items our 9-months current year accident year loss ratio improved by 2.6 points with improvements in both insurance and reinsurance.

Taking a closer look at our insurance segment. Gross premiums written were up 7% for the quarter. This growth came from our new accident and health line as well as liability and professional lines. Liability growth came from our U.S. excess and surplus lines umbrella business, professional lines growth came from newer initiatives notably our U.K. and Irish professional indemnity and our design professional and environmental initiatives.

A&H premiums were up in excess of 30% with A&H insurance in the U.S. contributing strongly to the growth. Partially offsetting these increases was a 14% reduction in property premiums. While property insurance was down for the quarter due to the property MGA reduction, it was up modestly for the year as new initiatives, such as renewable energy and the improving rate environment offset the reduction. We expect that future MGA related reductions will be similarly offset as we take advantage of the improving rate environment in our other property class.

Net premiums written were comparable quarter-over-quarter with an increase in gross premiums written largely muted by a 4 point increase in the segments ceded ratio. A large portion of this increase was driven by the higher session rate on professional lines business, after the renewal of our quota share reinsurance program last quarter. Mix changes also contributed. Most notably, in relation to growth in our liability business, where we cede a significant portion to our reinsurers in order to manage our exposure to long tail lines.

Net premiums earned in our insurance segment were up $28 million or 8% from the prior year quarter with our accident and health line contributing the majority of this growth. The current accident year loss ratio in our insurance segment improved 10.2 points in the quarter, primarily attributable to lower cat activity. The third quarter 2011 ratio included 10.1 points for Hurricane Irene and Tropical Storm Lee, while this quarter's ratio includes only 1.2 points of cat related losses related to $10 million for Hurricane Isaac and $5 million reduction in our estimate for second quarter of 2012 U.S. weather related events.

Net favorable prior year development in insurance was $32 million or 7.9 points this quarter compared to $33 million or 8.8 points in the third quarter of 2011. Changes in business mix including the growth of our accident and health business contributed to the 0.8 point increase in the acquisition cost ratio for the quarter. Our accident and health business is heavily weighted towards quota share reinsurance at this stage and therefore carries a higher commission rate than the rest of our insurance operations.

For the 9-month period, our insurance segment reported 8% and 5% growth in gross and net premiums written respectively. Excluding the impact of the catastrophe losses, the 9-month accident year loss ratio improved by 2.8 points, due mostly to a lower level of large loss activity, business mix changes and rate increases.

Turning to our reinsurance segment. Gross and net premiums written were both down 7% in the quarter. July 1 renewals dominate the third quarter and includes significant property renewals in the U.S., Australia and New Zealand. Pricing was flat to up 5% during the first renewal after a full round of increases last year. Our cat premiums were down $18 million for the quarter with approximately half of this amount due to the renewal timing of Japanese business which was extended in the third quarter of 2011 following the earthquake and tsunami, but renewed this year in the second quarter.

Premiums from our property line which includes proportional and per risk business declined during the third quarter as more cedants increased retention of business and competition increased driving less favorable economics.

Our reinsurance segment had a net reduction in premiums in the credit and bond line where growth was more than offset by reductions in premium estimates from certain cedants and competitive pressures. Our liability reinsurance premiums increased due to a variety of factors. Premium adjustments on prior year treaties accounted for $6 million or almost half of this increase in this line of business. The remainder of increase was attributable to line size increases on certain treaties and increases in expected writings by certain of our clients.

Reinsurance premiums earned were down 1% in the quarter driven by year-to-date catastrophe repositioning that I highlighted earlier. The reinsurance current accident year loss ratio for the quarter was 11.9 points lower than for the third quarter of 2011. The third quarter of 2011 ratio included 10.8 points of catastrophe losses related to Danish flooding, Hurricane Irene and the aggregate increase in first half events.

Comparatively, our results this quarter included $40 million related to the impact of severe drought conditions on U.S. crops, $10 million for Hurricane Isaac and $22 million combined reduction in loss investments, net of reinstatements for the first and second quarter U.S. weather related events. In the aggregate these amounts contributed 6.1 points the ratio.

Let me provide some additional information to put our crop losses in context. Historically we have not been a big player in crop business. We write a small volume of crop reinsurance business internationally and the 2012 portfolio includes some U.S. exposure. Our business is primarily written on an excess of loss basis. When we write on an excess of loss basis, we are being paid to take on severity risk from our clients and therefore expect lumpy results from time to time. Our $40 million provision reflects our full exposure for the U.S. drought. There will be no further impact on our financial results for this year from the U.S. drought condition.

For the accident year-to-date, our underwriting loss for this line including the impact of U.S. drought is $34 million. Since inception and through the end of this third quarter, earned premiums from our property insurance business totaled $143 million and had a technical ratio of 67%. In the last few quarters, we indicated we have a new global agriculture reinsurance initiative underway. We expect a continuous a track record of success for this line generated across a much broader global book of business. The timing certainly feels right now to bring our global reinsurance platform and expanded underwriting capability in this area to meet the demands created by prominence of agriculture in developing economies and the recent developments in the U.S. crop market.

Excluding the cat losses and the crop loss, the reinsurance segment third quarter current accident year loss ratio decreased by 7.2 points, largely due to the reduced exposure and loss experience related to the aggregate property reinsurance contracts for regional companies in the U.S. that I mentioned earlier.

Net favorable prior year reserve development in reinsurance was $29 million or 6.3 points this quarter compared to $46 million or 9.7 points in the third quarter of 2011. The reinsurance acquisition cost ratio was up a point in the quarter largely attributable to business mix changes resulting in earned premium reflecting a greater portion of quota share business. The reduction in our catastrophe business this year was the primary driver of this change. Also contributing was our decision to reduce participation in motor excess of loss business in the U.K., shifting the balance of the motor reinsurance portfolio to proportional business.

For the 9-month period, our reinsurance segment reported 9% decrease in both gross and net written premium. Earned premiums were down 2% reflecting the reposition of our catastrophe portfolio. The 83.7 combined ratio includes 5.5 points related to first and second quarter U.S. weather related events, crop losses and Hurricane Isaac and 7.2 points of net favorable reserve development. Excluding the impact of catastrophe and weather related losses I mentioned, the reinsurance segment accident year loss ratio improved by 2.3 points largely attributable to reduction of losses from regional aggregate property reinsurance contracts.

Net investment income was $104 million for the quarter, up from the second quarter's $74 million and the prior year quarter's $49 million. Net investment income improvement in the quarter was driven by the strong return from other investments of $34 million compared to net losses of $2 million and $30 million in the second quarter of this year and the third quarter of 2011, respectively.

Hedge fund performance was the major driver of the increase in net investment income from other investments during the quarter. Year-to-date net investment income contribution from our other investment portfolio was $72 million for a total return of 9.3%. Income from our fixed maturities, cash and short-term investments was $73 million this quarter down $5 million from the second quarter of this year and $10 million from the third quarter of 2011 due to lower reinvestment yields.

In aggregate, the total return on our cash and investment portfolio for the quarter was 2.1%, inclusive of foreign exchange impact. During the quarter, net unrealized gains on our fixed maturities and equity holdings increased by $149 million to $395 million. Additionally net gains realized in the quarter totaled $51 million due principally to changes executed in the fixed maturity portfolio. Yield spreads continue to contract for investment-grade and particularly high yield fixed maturity issued during the quarter while the U.S. Treasury intermediate maturity section of the yield curve was relatively unchanged.

In general, the longer the maturity, the more significant the price improvement for these spread sectors. While the decline in yield and spreads positively impacted the unrealized gain position in our fixed maturity portfolio during the quarter, the result will likely be lower net investment income going forward as the fixed maturity book yield of 2.7% converges with the market yield of 1.4%, as most global central banks maintain policies aimed at keeping rates low for a protracted period of time.

The net of all these items and the G&A variants I discussed earlier was a strong quarterly operating income of $201 million or $1.63 per diluted share and net income available to common shareholders of $223 million or $1.82 per diluted share. This equates to an annualized operating ROE of 15.2% and a net income ROE of 16.9%.

Moving to the balance sheet. The total assets increased 1% in the quarter driven by growth in our investment portfolio arising from investment of operating cash flows and valuation improvements. Cash and invested assets totaled $14.2 billion at quarter end versus $13.9 billion at the end of the second quarter. Our fixed maturity portfolio whose average credit quality remains at AA minus continues to be our largest asset class comprising 83% of cash and invested assets.

The strategy for our fixed maturity portfolio is to continue emphasizing spread sectors, the largest being corporates and U.S. agency mortgage backed securities. With a non-U.S., governments, we continue to increase our allocations to emerging market local currency debt while reducing European sovereign debt.

We reduced Eurozone sovereign and corporate debt exposure in the quarter after a strong rally in these sectors. Our Eurozone sovereign exposures are now primarily limited to Germany, the Netherlands and Australia. Further information on our current Eurozone holdings can be found in our investor's supplement.

In summary, the investment portfolio performed in line with expectations during the quarter and year-to-date but remains challenged to maintain current levels of net investment income and in this historic low yield environment. Our total capital at September 30, 2012 was $6.9 billion up 6% from $6.4 billion at year-end 2011. Common shareholders equity stood at $5.4 billion at quarter end, up from year-end 2011 due to net income and valuation improvement on our available-for-sale investment portfolio exceeding our share repurchase activity and dividends.

We repurchased 5.2 million shares at a discounted book value in the third quarter for an aggregate cost of $179 million. Our diluted book value reached the third consecutive record high this quarter, reaching $43.57 per diluted share. With our strong capital base, a high quality and liquid investment portfolio, sound loss reserves and a global diversified franchise in both insurance and reinsurance, it is our belief that we will continue to benefit from available market opportunities and accrete value to our shareholders.

With that I will turn the call back over to Albert.

Albert A. Benchimol

President, CEO & Director

Thank you, Joe. Let's begin with a commentary on the rate environment. Overall, we are encouraged by the continued pricing environment in the primary insurance market where we are seeing the most promising increases particularly in the U.S. The improvements now extend across most classes and geographies in our insurance portfolio with a number of lines now seeing great improvement compounding upon prior year increases.

The rate change across Axis Insurance for the third quarter was 5% with equally encouraging trends in retention ratios. This continued the progress we have seen all year with an average increase of 3% in the first quarter and 4% in the second. Of course, there remains a wide variation across different lines and markets. In our U.S. division, the overall rate change for the third quarter is 11%, in line with the second quarter. Property classes which dominated the division are experiencing their sixth quarter of rate improvement and our casualty lines are now matching or in some cases even exceeding increases achieved on property lines.

The strongest improvement is coming from E&S umbrella and excess casualty. The standard market companies that allowed surplus lines risk in to their portfolios are now re-underwriting that business and generally backing away from accounts they sought to write in softer market conditions. This is all occurring as an increasing number of wholesale carriers are cleansing their own portfolio. These factors are all supporting substantial premium and rate increases for larger, tougher risks moving back into the E&S market.

In our international division, which includes a number of different specialty lines, the overall rate improvement for the third quarter is 4% but there are wide variations in this highly diversified portfolio. Most property lines are showing high-single digits to low-double-digit rate increases. Excess casualty lines are showing mid-single digit increases while terrorism and aviation lines continue to erode.

In professional lines, which have been the slowest to make the turn we are now seeing more consistent discipline with the overall average price change obtaining positive territory in the quarter with a 1% increase. Almost all classes, with the exception the U.K. professional indemnity and professional lines in Bermuda are now indicating flat or increasing rates. The primary D&O market in the United States, in particular has shown a strong trend of rate firming, while mid and high excess layers remain under modest pressure.

We have no reason to believe that pricing momentum in the insurance markets will subside, given the various pressure points for earnings in the industry, and indeed we expect continued broad-based improvement. That improvement in the insurance markets also accrues to the benefit of our reinsurance operations. For pro rata business we are sharing in the primary rate increases achieved by our cedants. Excess of loss reinsurance business has generally been stable. There is some upside pressure on loss affected property treaties and there is also some givebacks in lines that have shown strong profitability in recent years and attracted new capacity such as international credit and bond business.

From my perspective, this is an expected development. Over the past few years, in the lines of business in which we operate, we have seen pricing and profitability hold up better in reinsurance than on primary insurance. However meaningful capacity, historically low loss trends and increased retentions by primary insurers should bring about a more even balance of relative power between insurers and reinsurers. That should result in some stability in the excess of loss markets at reasonable levels of profitability for reinsurers.

For us, generally stable excess of loss reinsurance pricing against the backdrop of a steadily improving insurance market makes for a good environment. As you know, about half our businesses is primary specialty insurance and as I noted earlier, we expect a continuation of recent favorable market trends and where we buy reinsurance to protect our own insurance business, we expect our overall cost to be flat or perhaps down a bit.

On our global reinsurance business, we are benefiting from the gradual strengthening in the primary insurance market where it is available, while in the excess of loss business we expect to be able to maintain reasonably good levels of profitability.

My optimism doesn't rest solely on improving market conditions. We are also making progress on a number of initiatives which would contribute to profitable premium in future periods. Our accident and health business which we have discussed in prior calls continues to make strong progress with gross written premiums up 29% on a year-to-date basis. As you know, we have targeted a diversified portfolio of both insurance and reinsurance A&H business. While our early production was almost exclusively on the reinsurance side, we are pleased that we are now seeing growing contributions from the primary insurance A&H business which has required a longer startup period.

We also highlighted the global agricultural reinsurance initiative at Axis which we expect will become an important specialty area in our reinsurance segment. As Joe noted, we have had profitable history in this line but has not been a major area for us. Across Axis re, we only wrote about $14 million of property insurance business through the first 9 months of this year.

Our expansion efforts this line will find us addressing increased demand almost certain to come from the U.S. and developed markets as well as growth opportunities in emerging markets. With our recently expanded capabilities harnessed to our global platform we expect will assemble an attractive global agricultural portfolio.

In addition to these 2 strategic initiatives, we are also investing in international expansion in Asia and Latin America and in product development within our recognized areas of expertise to add more value to clients and distributors and target new markets segments. Because we are strategically positioned in both the insurance and reinsurance markets and have great talent and resources in both areas we believe we are well-positioned to navigate both markets, optimize our portfolio and therefore deliver superior risk-adjusted returns to our shareholders.

Before opening up the call to questions, I would like to address the potential impact of the highly unusual and dangerous Superstorm Sandy. Our thoughts and prayers go out to the victims of the storm and their families. I know many of you on the call are still without power or water and many homes and offices are not yet accessible. It will be a while before the full extent and cost of the damage is tabulated, but from what we know today this is likely to generate a meaningful earnings impact but not one that we believe will have a significant effect on our capital nor on our ability to serve our clients and partners and distributions and to grow meaningfully in a market we expect to show continuing improvement.
Thank you. Operator, I would like now to open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Matthew Heimermann from JPMorgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

I guess it's an indirect Sandy question but with some of the changes you made to, on the reinsurance portfolio and obviously there has been reallocation of capacity broadly, how should we think about your northeast mid-Atlantic exposure today? I guess, specifically, how should we think about where those exposures are, both in aggregate and then also, where those exposures are generated? Regional cat, clients, large national cat clients, per risk, facultative, the direct side of things and just how things play out where you think most likely, from those buckets you will see losses emerge?

Albert A. Benchimol
President, CEO & Director

Right. I think when you look at the cat exposures generally for Sandy -- and I think it is probably worthwhile talking about the fact that Sandy is a unique and unusual storm. So making any early predictions with regard to Sandy is probably fraught with risk but with regard to where our exposures are, in more cat exposed, if you would, segments of the loss curves, I would say that a majority would be on the reinsurance side versus the insurance side. And that’s because of course there is more balance in the insurance book, there is individual per risk coverage that will apply in the insurance book. We also have, as you know, reinsurance protection in our insurance books. So on the low end of losses, it is balanced. As soon as you get to more of a cat exposed event, the potential losses start to shift more towards the reinsurance area.

With regards to our reinsurance book, our book is more toward the national accounts, more towards the commercially oriented national accounts. It doesn’t mean that we do not have regional account. But we tend to have generally national accounts and commercial bent towards our reinsurance book.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Then is there much facultative or per risk we should worry about outside of or when you said national accounts with commercial bent, was that kind of catch all for all forms?

Albert A. Benchimol
President, CEO & Director

I would say, that’s right. Obviously there is some per risk on the facultative side. We don’t do a lot of facultative. What little we do on the global wholesale markets out of London, tends to be actually more within our specialties that we write out of London. Our reinsurance operation doesn't have a large facultative presence, but it does have per risk covers. So you may have some exposure coming out of individual per risk covers.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Okay, that’s helpful. Then just when we think about where the exposures have come in the mid-Atlantic Northeast, is that across the board or are there some more targeted exposures that you have actually pulled in that potentially, whether or not they help in aggregate, I am sure the reduction helps in this type of scenario but just curious where those declines occurred?

Albert A. Benchimol
President, CEO & Director

Matt, I presume you are asking about the fact that over the last 18 months or so, we have made some repositioning of our cat book. Is that what you are referring to?

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Yes, and I am specifically looking at mid-Atlantic, Northeast, for that's one of the big impacts, less so with the other regions, more so just staying at the top.

Albert A. Benchimol
President, CEO & Director

Well, just again, on a background basis, as you know and we have indicated this to you now for a number of quarters, we felt that having reviewed our cat portfolio, given the events of 2010, 2011 we took a fresh look. And in some cases we found that our cat book didn't have the kind of balance that we wanted it to have. As you pointed out, we felt that our exposure in the mid-Atlantic and Northeast was higher than we wanted it to be. And as you have pointed out, we have made some meaningful reductions to our exposures, which have translated into some downward shifts in our PML curves in the mid-Atlantic and the Northeast. So obviously that speaks to the fact that there is less exposure today in that book than there would have been 18 months ago. It doesn't mean there is business no exposure but there is less exposure.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Okay, and then, just on the loss ratio excluding development and disclosed catastrophes. At the beginning of the year, you talked about when there was perceived margin, adverse margin variance, that there was some change to the reserve process for how you were going to establish IB&R. I think especially around property side of the business, both insurance and reinsurance. Are we starting to see the benefit of that now in 3Q in the sense that was with low attritional losses and that you are actually, in some of that IB&R, you might have held in prior quarters is not necessarily being held to the same extent now? And I was just curious because obviously there is some mix going on too. So I am just trying to discern what's what.

Albert A. Benchimol
President, CEO & Director

Thank you for raising the question because I wasn't sure what you meant when your report this morning. A standard line here, we have not changed our approach to reserving. I think it is an important statement. What happened in the first quarter was really a judgment call in the first quarter, and a judgment call we made in the first quarter was that although we saw light experience, we were not yet prepared to change our, what I would call attritional loss ratios. That's really the only issue, and so obviously, we have seen a partial release of that, if you would, over the last 2 quarters. But that is not a major contributor to the overall improvement in the loss ratios that we put up in the third quarter.

Operator

Our next question comes from Greg Locraft from Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

Initially, I will just apologize, because I am going to be in the go-forward outlook part of questioning. How do you think about share buybacks, capital deployment, et cetera in light of the uncertainty surrounding Sandy? Eqecat looks to have just doubled their estimated loss, by the way, for the event, in terms of their range. So how do you think about that as for sort of getting arms around this loss?

Albert A. Benchimol
President, CEO & Director

I guess the short answer is, the uncertainty regarding Sandy's is going to be resolved in the next few weeks. I don’t think that we need to make more of that than it needs to be. Our attitude towards, share repurchases is the same, which is we will take a look at our capital position. And again, although we are not prepared to discuss what kind of loss Sandy will be, we remain confident that it will not prevent us from having a strong capital position and participating in the markets going forward. I think the real issue for us is comparing the opportunities going forward to the extent that if we see strong opportunities, my preference is to use that capital to write new business to the extent that we have less of an opportunity to write it to use our capital to write good business. Again, as long as you guys want to sell to us for less than book value, we are a happy buyer. So I think what I would suggest is, let's take a look at what the fourth quarter looks like, let's take a look at what the renewals look like and I will give you more clear guidance as we get into the first quarter. But what I told you generally at the beginning of this year was that we felt that we would give back to our shareholders somewhere between 50% and 100% of our earnings this year between repurchases and dividend. Certainly we are on line to do that to be closer to the hundred. I think at this point in time, because we are expecting an improved market, I would like to believe that opportunities will be such that it will be a smaller range of share repurchases but we are leaning towards continued share repurchases, but exact amount will be dependent both our capital and our opportunities.

Gregory Locraft
Morgan Stanley, Research Division

Okay, great. Then secondly, how does the Sandy just in the trenches, how does that impact the January 1 renewal discussions. There was sort of a glide path that we picked up at Monte Carlo and Baden-Baden and then you dropped this in the system. At what point does it trigger a different type of discussion as we get towards the January 1 renewal date? Obviously that’s a reinsurance question.

Albert A. Benchimol
President, CEO & Director

Right, and obviously this is moving target but what I say is this. The feeling that we had in Monte Carlo and Baden-Baden was, excuse the term, mushy. There wasn’t really a lot of momentum one way or the other and generally when you have that kind of environment, it's very likely that the buyers and the brokers would try and push for some further reduction. I think if anything Sandy, reminds people that there is valuable protection to be purchased and if nothing else, it will reinforce stability, potentially clearly in the Northeast and some loss affected account, some pricing increases. But at the very least, I would hope, that it would the end any talk of any erosion in excess of loss pricing.

Operator

Our next question comes from the Vinay Misquith from Evercore Partners.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

The first question is on the PMLs. The 150 PML for Northeast storm is about $55 million. Just curious whether that includes primary insurance as well as reinsurance?

Albert A. Benchimol
President, CEO & Director

All of our PMLs are group PMLs. So they include all of our exposures whether they come from the primary or the reinsurance side.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Okay, that’s helpful and just looking at the Hurricane Sandy, would you think it's close to 150 a storm, 120 a storm. How would you look at that?

Albert A. Benchimol

President, CEO & Director

I have no idea. Again, I think it's dangerous to try and make guesses right now as to the full extent. Look, the one thing that I think needs to be made very clear is that this is an incredibly unique and unprecedented event. I think that it's dangerous to take a look at Irene or any prior events and try to multiply the loss from Irene and so it equates to whatever you believe is Sandy. There is a lot of factors here that probably we should point out. Amongst the unusual features, as we had record storm surge in a highly concentrated high-value region. This storm was unusual, both in its spread and its slow speed which increases the area and the intensity of damage. Obviously from everything that you have seen, most of the damage has come from storm surge. Not that much wind, obviously we have seen some wind but not as much as you would in a typical coastal event. If that’s the case, I think the distribution of losses are going to be different. It is very likely that for a number of personal lines, most of that storm surge damage is going to be covered by the national flood insurance protection. Therefore we will likely see a smaller percentage of personal lines contributing to this loss than commercial lines. We did some work here on our own and we looked at all the major losses going back 11 years or so and the spread of loss between commercial and personal and auto. On average, personal lines are about 60% of the reported insurance cat loss. Commercial is about 40%. However where you have losses that tend to be predominantly storm surge, whether it’s a significant component of federal program protection and just to give you an example, Floyd and Allison, back in '99 and 2001. In those situations commercial losses were 70% of the overall cat loss. So you are now moving away from what is usually more predictable personal lines to the commercial area. The commercial area, because it tends to be very lumpy, there are some very large treaties or risks covered. There is no standardization. You have got manuscript coverages. You have got different definitions. It is almost impossible to reach a pre-event or 25,000 foot view of what commercial losses will be. I believe that the variability around estimates here is going to be high. So as I said, in my response to Greg, I think we will have that uncertainty resolved over the next few weeks and we will deal with that. But at this point in time, I think it is dangerous at best to try and guess where to pin down where the storm will be.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Sure thing. I just want to follow-up on that. Given your PMLs for the one in 50, one in 100 year event for the Northeast, how large of an industry event were you focusing for the 50 and the 100 year event?

Albert A. Benchimol
President, CEO & Director

Again, I am not even sure that, that matters because when you look at the way the PML curves are drawn, you are dealing with hundreds of thousands of individual scenarios. Again I am not even sure that any of those 100,000 scenarios perfectly matched with what Sandy is. I will say one thing. The way we visit this area, we think of this as a mid-Atlantic storm. New York is part of the mid-Atlantic region. Last summer when we discussed with you our various approach to PML modeling, we were clear in providing and in fact, it's on our website. Our definition of U.S. wind zones and the mid-Atlantic, for us, covers Delaware, Maryland, New Jersey, New York, Pennsylvania, Virginia, D.C., West Virginia. So it is somewhere in my mind along our mid-Atlantic curve, but I would not presume to guess where on that curve it would be.

Operator

And our next question comes from Ryan Byrnes from Langen McAlenney.

Ryan J. Byrnes
Langen McAlenney

Just to mix it up a little bit, obviously you guys have decided to cut property risk over the past couple of quarters. I just wanted to see how far along the reentry process you guys are for the property and cat books. I guess how much longer should we potentially looking at to decreases in these books?

Albert A. Benchimol
President, CEO & Director

I think there is two ways to look at this. When you are talking about property you are very likely speaking about the insurance book. I would go back to Joe's prepared remarks. The issue here is not moving away from property, it's repositioning the way we access the property risk. Let me take this back a little bit. Historically when we did not have the footprint that we have today, we used the MGA relationships to access all kinds of risks including significant amount of cat-exposed property risk. Today when we look at our strategy, our position, we clearly have a much better footprint, significantly better distribution and access to risk. And MGAs continue to be a very important part of our strategy because they can help us access risk that we do not easily access on our own, either because of the very special nature of the relationships that the MGA has or in some cases very unique skill sets that the MGA has, and we will continue to use the MGA distribution channel for those risks that where we did not have the best expertise or the best relationships. But for those MGA relationships that were predominantly cat-exposed property we feel confident that we can now access that risk on our own, frankly, with much better granularity, much better control. So the first thing that you need to do is to release the MGAs and then replace that with your own business. That's what we are doing now. We are not looking to reduce property but as Joe put in his prepared remarks, that replacement doesn’t happen at the same time. So over time I would see the property line grow. This scenario where we have a very strong expertise -- and again the events of the last few years, including Sandy continue to demonstrate the need to have specialized, standard and non-standard property coverages and we will participate in that space.

Ryan J. Byrnes
Langen McAlenney

Okay, great, and then quickly just my last one. You talked about the European credit and bond market, I guess as we approach the one-one renewals, just wanted to see if your appetite has changed at all for that business.

Albert A. Benchimol
President, CEO & Director

Our position in that business hasn’t changed which is that we look at conditional probabilities and we look at pricing. Certainly, as you know, we have been a very large player in that area. It's been a profitable area for us and we appreciate being one of the leaders in the global reinsurance markets for credit and bond business. But the environment that we are in right now is one of higher conditional risk and we believe that an environment of higher conditional risk, you a, manage your exposure and b, require better prices for that risk. To the extent that we don’t know that 2013 will be materially different in outlook. I think a cautious outlook remains appropriate.

Operator

Your next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick questions here. First one is just a quick numbers one. Were there any crop losses in last year's third quarter, just for comparability purposes? So I have the $40 million related on a year-over-year basis.

Joseph Christopher Henry
Consultant

Brian, it's Joe. I don’t have that number to hand but from recollection, I believe we were profitable in crop in 2011. We have got it here, just give us a second, we will pull it out.

Brian Robert Meredith
UBS Investment Bank, Research Division

The $40 million number, just can you clarify that? That was your total incurred loss from crop or that’s your underwriting loss?

Joseph Christopher Henry
Consultant

That was the total incurred loss.

Brian Robert Meredith
UBS Investment Bank, Research Division

So while you are looking up that one, Albert, just one other quick question here. What is currently the breakdown of reinsurance versus primary in your A&H book and then as I look out here, the $300 million goal there, what kind of percentage breakdown would you envision that being reinsurance versus the direct or primary?

Albert A. Benchimol
President, CEO & Director

The goal is to have a book that is a little bit over half, say 50% plus will be reinsurance and somewhere in the mid to high 40s will be insurance. So we were looking for actually a reasonably balanced book of business. But where we are right now it is a substantially reinsurance loaded. As I look at our numbers right now, I wouldn't be surprised if it's 80, 20 but I will calculate these numbers right now.

Joseph Christopher Henry
Consultant

And Brian, just to come back to you, in 2011 our crop premium was $15 million, not very different than what it was this year. Our total loss ratio including IBNR was 56.7%.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay, so relatively small. Great.

Albert A. Benchimol
President, CEO & Director

It stays at 20% of the $150 million of written premium that we have had in 2012 A&H. A little over $30 million is currently insurance, the rest is reinsurance. So 20% is the current number.

Operator

[Operator Instruction] Our next question comes from Jay Cohen from Bank of America.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes. Just a follow-up on the A&H side. Albert, is that business profitable or do you expect that business to be profitable this year?

Albert A. Benchimol
President, CEO & Director

Again I think you need to take a look at it from 2 perspectives. I would say the technical ratio versus the G&A ratio. From a G&A ratio, from a technical perspective that business is profitable today. But as you know we have put up a very large infrastructure here that frankly the current G&A load is not yet supported by the volume that we have. So we will continue to growth that and we believe, as we have said before, that the marginal return on the business will be able to absorb all of the G&A by the end of 2013, such that in 2014, we hope that the combined ratio for A&H will in fact be below hundred. But right now, we are satisfied with the technical ratio, if the G&A load, which will over time be spread over a larger premium base.

Operator

At this time, I am showing no additional questions. I would like to turn the conference call back over for any closing remarks.

Albert A. Benchimol
President, CEO & Director

Well, thank you for your attention. Obviously a very strong quarter for us. I think it positions us well for the future. The uncertainty of Sandy will obviously be resolved over the next few weeks. But we are actually looking forward to a very strong 2013. So I look forward to speaking with you soon with more good news. Thank you all.

Operator
Ladies and gentlemen, that concludes today's conference call. We do thank you for attending. You may now disconnect your telephone lines.