S&P Global
Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS

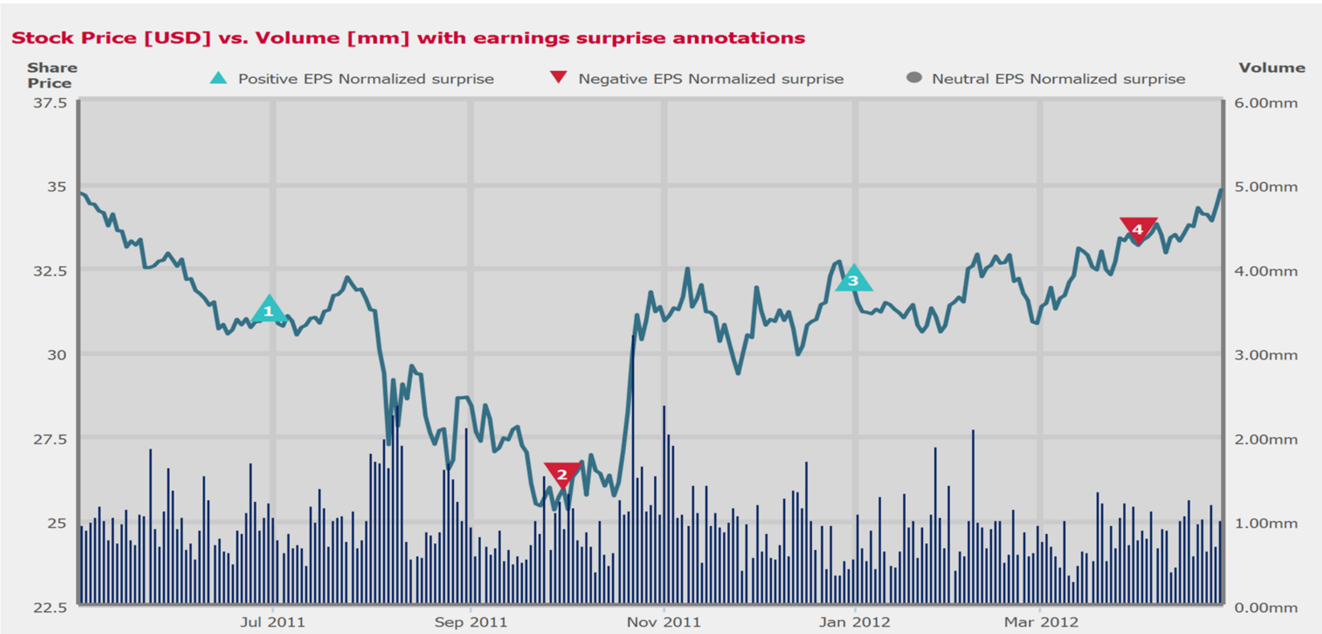
FQ2 2012 Earnings Call Transcripts

Wednesday, August 01, 2012 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2012-			-FQ3 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.96	0.90	(6.25 %)	0.74	3.88	3.88
Revenue (mm)	924.62	801.58	(13.31 %)	776.45	3590.16	3813.77

Currency: USD
Consensus as of Aug-01-2012 12:24 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2011	0.48	0.65	35.42 %
FQ3 2011	0.78	0.74	(5.13 %)
FQ4 2011	0.41	0.53	29.27 %
FQ1 2012	1.09	1.07	(1.83 %)

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Call Participants

EXECUTIVES

Albert A. Benchimol
President, CEO & Director

Joseph Christopher Henry
Consultant

Linda Ventresca

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

Gregory Locraft
Morgan Stanley, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

Keith F. Walsh
Citigroup Inc, Research Division

Samuel Hoffman

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Presentation

Operator

Good morning, and welcome to the Second Quarter 2012 AXIS Capital Earnings Conference Call. [Operator instructions] Please note this event is being recorded.

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

Linda Ventresca

Thank you Laura 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 second quarter ended June 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 an hour for today's call, which is also available as an audio webcast through the Investor Information section of our website. A replay of the teleconference will be available by dialing 877-344-7529 in the U.S. The international number is 412-317-0088. The conference code for both replay dial-in numbers is 10015750.

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 sessions, 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, which is a non-GAAP financial measure within the meaning of the U.S. federal securities laws. For a reconciliation of this item to the most directly comparable GAAP financial measure, please refer to our press release, which can be found on our website.

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

Albert A. Benchimol
President, CEO & Director

Thank you Linda, and before I forget, happy birthday. Good morning to everyone. AXIS has had a very good second quarter. On an operating basis, we earned $0.90 per share, which on annualized basis represents an 8.7% operating return on equity. Our underwriting performance was excellent with a reported combined ratio of 92.3.

Excluding the one-time expenses related to senior leadership transitions in the quarter, our run rate results, which I believe are more relevant for the purposes of our discussion are even stronger, with an adjusted combined ratio of 88.4, and an adjusted annualized operating return on equity of 11.3%.

In addition to the senior leadership transition charges, our results were also affected by the investment markets with lower interest rates and negative equity returns. Our investment portfolio delivered a total return of 0.5% for the quarter. Nevertheless our diluted book value per share grew almost 3% in the quarter to a record $40.55.

Our diluted book value per share growth, including dividends paid, was a strong 12.8% over the last 12 months. The market environment for our business is showing ongoing improvement and we are taking advantage of marketing conditions and our position in the market to improve the balance and risk adjusted returns of our global portfolio.

Our growth is strong in markets that have shown improvements in pricing, and in the lines were investments and products for geographic expansion in recent years is gaining traction. In other areas, which are for the most part stable or showing modest improvement in risk adjusted returns, we have been actively optimizing portfolio composition to expand margin.

In some cases this has come with net premium reductions. But the resulting portfolio provides a more powerful base on which to grow in an improved market. We are confident that we've strategically and tactically positioned ourselves to deliver continued significant value growth to shareholders. At this point, I will pass the call to Joe Henry, our new CFO.

Joe came to us from XL where he was a Chief Financial Officer of the $4 billion insurance business. In addition, Joe was previously CFO at 2 public insurance companies. Joe brings to AXIS 37 years of experience in finance and operations and we are very pleased to have him on our team. Joe?

Joseph Christopher Henry
Consultant

Thank you very much, Albert, and good morning everyone. I'm very happy to be here at AXIS and look forward to helping this company achieve its strategic goals. In 6 weeks it has been very easy to see why AXIS has been so successful in the past and why we feel good about our future. We produced solid results for this quarter, increasing diluted book value per common share by 3% to another record high of $40.55. Our return on average common equity was 13% for the quarter, with operating ROE at 8.7%.

Before I get into detail about our second quarter performance, I would like to note that our results for this quarter were adversely impacted by one-time general and administrative costs associated with senior leadership transitions amounting to approximately $34 million. Absent these charges, our return on average common equity and operating ROE were each 2.6 points higher at 15.6% and 11.6% for the quarter respectively.

In terms of cat activity, 2012 continues to pale in comparison to the extraordinary frequency and severity of international events that was the hallmark of 2011. Our results for this quarter were impacted by U.S weather events including tornados, flooding, hail, windstorms across a number of regions. While it was a light quarter -- light cat quarter for the industry with respect to international catastrophes, U.S catastrophe losses were average, relative to historical industry experience.

We incurred some losses from these events in our insurance segment and we established loss provision in our reinsurance segment based upon our expected share of U.S events of this size. In aggregate, we estimated our losses associated with second quarter U.S weather events at $55 million. More than half of this group estimate is IBNR and almost all of the reinsurance component is IBNR. With that said, let's move into the details of the income statement.

Second quarter gross premiums written were down 3% to $1 billion. Our insurance segment was down 1%, but the decline was due only to timing of a large reinsurance treaty in accident health. Excluding accident health, gross premiums written for the insurance segment were up 4% this quarter. Reinsurance segment premiums were down 7% or $25 million. The second quarter is a lower production period for our reinsurance business. Net premiums written were down 6% in the quarter. While directionally consistent with gross premiums written, changes in our reinsurance purchasing within our insurance segment also contributed.

Consolidated net premiums earned were up 1% this quarter. This growth was driven by insurance including our accident and health line, which has increased production since the launch of the product offering in 2010. This growth was partially offset by a reduction in reinsurance primarily driven by repositioning of the catastrophe portfolio. Our consolidated current accident year loss ratio improved by 9.7 points during the quarter, while last year's ratio included 14.9 points of cat and U.S weather losses. The current quarter's results included $55 million of U.S weather losses net of reinstatements with a 6.4 point impact on the loss ratio.

Net favorable prior year reserve development was $75 million in the quarter compared to $52 million in the second quarter of 2011. Our acquisition cost ratio increased a point quarter over quarter, largely attributable to business mix changes in both insurance and reinsurance. Taken together, these results produced underwriting income of a $120 million for the quarter. Our consolidated combined ratio of 92.3 included 6.4 points in relation to the second quarter U.S weather events, 8.7 points of net favorable reserve development and 3.9 points within the G&A ratio for the senior leadership transition costs I mentioned earlier.

Thus, the combined ratio excluding the one-time senior leadership transition cost was 88.4%. In contrast, our 98.9% combined ratio for the second quarter of 2011 included 14.9 points of cat and U.S weather losses and 6.1 points of net favorable reserve development.

For the 6 month period, our gross premiums written were down a modest $55 million or 2%. This reduction was driven by the repositioning of our catastrophe portfolio in our reinsurance segment, but largely offset by growth in our insurance segment.

Net premiums earned were up 4% for the 6 month period driven by growth in insurance in recent quarters. Our consolidated 93.6 combined ratio includes 5.9 points related to the U.S weather events and 7 points of net favorable reserve development. During the second quarter, our estimate for first quarter 2012 U.S weather events increased by $22 million, net of reinstatements, to $45 million. However, this increase was fully contained within IBNR reserves that we established last quarter.

Excluding the impact of year-to-date catastrophe and U.S weather losses of $100 million net of reinstatements, our accident year loss ratio improved by 1.5 points year-over-year driven by improvement in insurance.

Within our insurance segment, gross premiums written were down $7 million or 1% for the quarter. The primary driver of this decrease was a $31 million reduction in our accident and health line driven by the timing of a large reinsurance treaty. While this timing issue impacted comparisons for both first and second quarter results there is no timing difference in our year-to-date production numbers for A&H, which shows growth of 27%. Excluding accident and health, the rest of our insurance business grew by $24 million or 4% this quarter, and this growth was attributable to a number of business lines. There is growth across most insurance lines due to rate increases. New initiatives, in particular renewable energy and a build out of non-US property and excess casualty lines contributed to the growth.

Professional lines, which recently joined the upward trend in rate, grew principally as a result of the renewal of a large account and new business from targeted initiatives. Net premiums written were down 6%, driven by the reduction in accident and health business in the quarter. Excluding A&H, net premiums were written more comparable with the prior quarter as the 4% top line growth was largely offset by changes in reinsurance purchasing. Most notably, this included a higher session rate on our professional lines quarter share reinsurance program upon renewal this quarter.

Net premiums earned in our insurance segment were up $27 million or 7% from the prior year quarter with our accident and health line contributing over half of this growth. Recent growth in our property and professional line business also contributed. Property growth primarily reflected rate increases along with some new business opportunities, while growth in professional lines resulted from targeted initiatives within our AXIS Pro unit. The current exiting loss ratio for our insurance segment was comparable with the prior quarter with both periods similarly impacted by US weather events. Net favorable prior year reserve development in insurance was $35 million or 9.2 points this quarter compared to $27 million or

7.5 points in the second quarter of 2011. Changes in business mix, including growth in our accident and health business, contributed to the 0.9 point increase in the acquisition growth ratio for the quarter.

Accident and health business has a higher commission rate than the rest of our insurance operations. The G&A increase of $8 million in the second quarter reflects the continued build-out of our global platform and we know that the expenses for this quarter were comparable with the first quarter of this year.

For the 6-month period our insurance segment reported 8% growth in both gross and net premiums written. Earned premium grew 13% with almost half of this coming from our A&H business. The 95.6% combined ratio includes 6.8 points related to the US weather events and 6.5 points of net favorable reserve development. Excluding the impact of the catastrophe in US weather losses, the accident year loss ratio improved by 4 points, due to modestly lowered non-cat property and energy experience, business mix changes and rate increases.

For our reinsurance segment, gross and net premiums written were down 7% and 5% respectively in the quarter. Property and catastrophe premiums represent more than half of the business written in the quarter. Property gross premiums written decreased $10 million as a result of our disciplined approach to the competitive landscape for property per risk business.

Catastrophe gross written premiums increased $10 million compared to the second quarter of 2011, principally due to strong renewals in April related to our Japanese business and accretive new Florida business. We wrote $35 million of Japanese reinsurance business, a $24 million increase in the quarter as some renewals last year were extended to July 1, following the 2011 earthquake and tsunami. Adjusting for timing differences, the Japan increase was $14 million. We wrote $22 million of Florida business, an $18 million increase over the second quarter of 2011. Offsetting these increases was a decrease in motor gross premiums written of $13 million compared to the prior year's quarter, largely as a result of the timing of renewals.

In addition, we had a decline in gross written premium in connection with reducing our catastrophe exposure in the Northeast and Mid-Atlantic regions of the U.S. The decline was a result of the reallocation of capital from lower margin in Northeast and Mid-Atlantic business to higher margin Southeast business. This reshaping of the portfolio is evident in the P&L exhibit provided in our financial supplement, which I will address at a later point on the call.

Reinsurance premiums earned were down 3% in the quarter with a reduction driven by our year-to-date date decrease in catastrophe writings. Partially offsetting this was growth in net premiums earned from motor and trade credit and bond business, reflecting increases in proportional business written in recent quarters.

The reinsurance current year accident loss ratio for the quarter was 16.9 points lower than for the second quarter of 2011. The ratio for the second quarter of 2011 included 18.2 points of catastrophe and U.S. weather losses. Comparatively, our results this quarter included $19 million net of reinstatements for U.S. weather losses for a loss ratio impact of 4.2 points.

Net favorable prior year reserve development in reinsurance was $39 million or 8.4 points this quarter compared to $25 million or 5.2 points in the second 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 quarter share business. The reduction of 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 United Kingdom this year given concerns about loss trend and judicial developments in claim settlement, specifically PPOs.

For the 6 month period, our reinsurance segment reported 10% decrease in both gross and net written premiums. Earn premiums were down 2%, reflecting the changes in our catastrophe book, although partially offset by growth in motor and trade credit and bond business in recent periods. The 84% combined ratio includes 5.2 points related to U.S. weather events and 7.6 points of net favorable reserve development.

During the second quarter, our Reinsurance segment estimate for first quarter 2012, U.S. weather events, increased by $17 million net of reinstatements to $28 million. However, this increase was fully contained within IBNR reserves that we established last quarter. Excluding the impact of year-to-date catastrophe and U.S. weather losses of $47 million net of reinstatements, our accident year loss ratio was comparable to the prior year.

Net investment income was $74 million for the quarter, down from the first quarter's $116 million and the prior year's $100 million. Income from our fixed maturity portfolios, cash and short term investments was $78 million for the quarter, similar to the $81 million in the first quarter, but down from $91 million earns in the second quarter of 2011 due to lower reinvestment yields. The net investment income during the quarter was also impacted by a net loss from other investments of $2 million compared to net income of $40 million in the first quarter and $12 million in the second quarter of last year.

Our investments in hedge funds drove the swing in contribution to net investment income from other investments during the quarter. Despite the negative return for the quarter, these investments outperformed the global equity markets and were in line with our expectations of lower volatility. Year-to-date net investment income contribution from our other investment portfolio was $38 million, producing a total return of 5.1%. During the second quarter, we continued to diversify away from interest rate risk with incremental investments in hedge funds. In aggregate, the total return on our cash and investment portfolio for the quarter was 0.5%, inclusive of the foreign exchange impact.

During the quarter, net unrealized gains on our fixed maturities and equities holdings decreased by $33 million to $246 million. This decline resulted primarily from significant gains realized in the fixed maturity portfolio and the decline in the value of our equity holdings.

We expect net investment income will remain under continued pressure as the fixed maturity book yield of 2.8% converges with the current market yield of 1.9% with many global central banks maintaining policies aimed at keeping rates low for a protracted period.

The overall increase in G&A expenses this quarter of $43 million was primarily the result of the onetime $34 million costs associated with the senior leadership transition that I highlighted earlier.

About $14 million of this amount related to separation payments. The remaining $20 million was accelerated share-based compensation charges associated with previously issued stock awards.

The tender offered for any and all of our Series B preferreds closed during the second quarter. This completed a series of 3 preferred equity transactions in 2012, and resulted in the recognition of a $9 million charge in our P&L, $7 million of that charge related to the call premium paid to Series B bond holders while $2 million represented a write-off of original issues costs.

The $2 million was effectively a geographic move within our equity accounts, moving the issue costs from additional paid in capital to retained earnings without any impact on book value. The culmination of the preferred equity transactions in 2012 resulted in a 42 basis point reduction in our weighted average annual preferred dividend yield.

Our preferred dividends were up about $2 million this quarter; however, this was a one-time increase, reflecting the fact that the initial dividend declared on our new 6.875% Series C shares covered the period from issuance on March 19 through the first payment date on July 15. Going forward, quarterly preferred dividends are expected to be in the range of $8.7 million.

The net of all these items was quarterly operating income of $113 million or $0.90 per diluted share and net income available to common shareholders of $168 million or $1.35 per diluted share. This equates to an annualized operating ROE of 8.7% and a net income ROE of 13% flat. I'll remind you again that both of these ROE figures were adversely impacted by 2.6 points with respect to one-time senior leadership transition costs.

Moving to the balance sheet, total assets decreased 2% in the quarter due to the use of the $394 million of the proceeds from our Series C preferred share issuance received in March to fund the corresponding repurchases of Series A and B preferreds in April.

Our fixed maturity portfolio, whose average credit rating remains at AA minus, continues to be the largest asset class comprising 83% of cash on invested assets. The strategy for our fixed maturity portfolio is to continue to emphasize spread sectors, the largest being corporates and U.S. agency mortgage-backed securities.

During the quarter, we increased allocations to commercial mortgage bank issues, short duration high yield bonds and initiated exposure to emerging market debt. Given investor interest in exposure to the euro zone, we have included details of our exposures to this region in a broader schedule, detailing geographic distribution of investments in this quarter's financial supplement.

Gross reserves aggregated $8.6 billion, while net loss reserves are $6.8 billion. Reserve growth was muted in the quarter as reserves for premiums earned during 2012 were partially offset by paid losses of approximately $90 million associated with 2010 and 2011 catastrophe events.

On a consolidated basis, we recognized $75 million of net favorable development in the quarter. Approximately 90% of this amount was generated from short-tail lines. We have yet to incorporate our own historical experience from our liability lines with longer development tails into our ultimate expected loss ratios in any meaningful way.

Our total capital at June 30, 2012 was $6.7 billion, up 4% from $6.4 billion at yearend and includes $1 billion of long-term debt and $503 million of preferred equity. Common shareholder's equity stood at $5.2 billion at quarter end, up from year end 2011 due to our net income and positive performance from our investment portfolio, exceeding the share repurchase activity and dividends.

We repurchased $2.7 million shares at a discounted book value in the second quarter for an aggregate cost of $90 million. Our book value reached another record this quarter, coming in at $40.55 per diluted share. With our strong capital base, a high quality and liquid investment portfolio, sound reserves and a global franchise in both insurance and reinsurance, it is our belief that we'll continue to benefit from available market opportunities and accrete value for our shareholders.

Before turning the call back over to Albert, a quick word on our P&Ls as noted in our financial supplement exhibit. These numbers fully reflect the changes in our Catastrophe reinsurance book this year including, as I mentioned earlier the reshaping of our portfolio this quarter to take advantage of more attractive returns per dollar of risk in certain zones.

As a reminder, we actively manage our natural peril exposures in a number of ways and within a variety of tolerances. We are comfortably within all tolerances at present and have sufficient headroom to take advantage of market opportunities as they arise.

As we have indicated previously, we will not expand our portfolio at any price, though. We will continue to monitor market conditions and judiciously deploy capacity when and where we feel risk and reward characteristics are appropriate.

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

Albert A. Benchimol
President, CEO & Director

Thank you, Joe. Market conditions in the second quarter continued to show improvements as there is an increasing awareness of downward pressure on industry earnings, including the low interest rate environment, declining favorable prior year reserve development, and increasing loss trends in many lines.

This pricing action is most evident at the primary level with reinsurers generally benefiting from underlying improved conditions. In our insurance segments, we had our best quarter yet in terms of pricing change through this market turn. With overall rates up 4%, which is ahead of the 3% increase achieved in the first quarter of 2012 and the 2% achieved for the rolling 12-month period.

With few exceptions, all lines are showing either flat or increase in rates. Of course, the rate changes vary widely by segment and market. Across AXIS Insurance, the large property and onshore energy classes are showing the greatest improvement, indicating an average rate change of plus 11% in Q2, up from plus 10% in the first quarter of the year and ahead of the rolling 12 months average of plus 9%.

For many lines across the segment, this is the first quarter where we are seeing rate improvement on top of rate increases achieved in the same period last year, and we estimate these property classes are now up over 15% over the last 2 years.

Areas of the casualty market, which have been the most challenging from a price adequacy perspective for some time, continue to show gradual improvement, although the progress is not yet sufficient to support significant expansion of underwriting activity. More specifically, rate in our U.S. division, which is heavily weighted towards the U.S. property market, was up 11% overall, ahead of the last quarter's 9% and the rolling 12 month average of 9%.

In our international division, which essentially comprises our global specialty lines, there is a wide variation from decreases in terrorism and aviation to double digit increases in certain property lines. Overall, the average rate increase was plus 5% in line with the rolling 12-month average.

Our Professional Lines division has been slower to gain traction, but now appears to have turned to corner. This is the first quarter in which overall rate change for the division is flat as compared to down 1% in the first quarter of the year and the minus 7% we averaged over 2011. Leading this price correction are the D&O and E&O products in the U.S.

Our renewal retention rates in our Insurance segments remained stable at historically high level. While that is generally also true of some of our peers, our insurance segment is also well positioned to capitalize on the best opportunities. These include the larger inventory of risks reentering the U.S. excess and surplus lines markets, our standard carriers reorient their underwriting activity and a stronger presence of AXIS in the retail distributed marketplace in the U.S.

Newer initiatives including renewable energy, the design professionals and environmental line and our Canadian and Australian insurance platforms are all making great progress with increasing submissions to review and reasonably good market environments to execute our plans.

In reinsurance, we are benefiting from the underlying primary rate changes achieved by our cedants, which are in our view more or less equal to the underlying loss trends. In the most recent June-July U.S. renewals, we observed rate increases in the low to middle single digits, but these came on top of rate increases last year, which generally achieved double digit improvements.

There has been talk about the quantum of rate increases flattening or maybe declining a bit across the industry and the sustainability of pricing improvements. The increases we are now seeing are generally the second round of improvements, so we are making continued progress. The question in my mind is not whether the rate increases are a point or 2 higher or lower than the prior quarters, but whether or not we can achieve sustained increases over a number of renewals.

I think you'll find that buyers, brokers and insurance companies would all prefer steady and manageable increases over a more volatile market. So, can the industry sustain continued increases? I don't think we have a choice. We are at a juncture where accidental loss ratios are still poor. Interest rates appear to be getting lower and staying there for longer, regulators are asking for more capital, and the industry's cost of capital remains high as demonstrated by price to book valuation.

The industries results reflect calendar year combined ratios in excess of 100% in many lines. Investment income is down meaningfully. Some of us have enjoyed favorable prior year reserve development, but that is not universal and certainly won't buoy industry results forever. The pace of progress may accelerate or falter based on the presence or absence of large losses, but the industry still has a long way to go before it delivers the result that its shareholders expect.

It is with this environment in mind that we are taking advantage of the current market to reposition our overall portfolio for better balance and enhanced risk adjusted returns. While we are giving up some premium in the process, we are making it up with enhanced pricing, higher retentions and new business, the net result of which we believe will be a much stronger position from which to grow our business in an improving market.

The recent July reinsurance rules are illustrative of this repositioning. Approximately 15% of AXIS Re's 2011 expiring premium was renewable in July. At that renewal, we estimated we wrote about $250 million or 12% less than the expiring premium of $284 million. The reduction in the most recent reinsurance renewals and for the year, primarily reflects the realignment of our catastrophe portfolio that has been underway since the beginning of the year to optimize returns as we measure them today, incorporating all of our experience and judgment since our inception.

Notably, we reduced participation in lower margin North East and Mid-Atlantic U.S. business and increase participation in higher margin in South East and Gulf business. Where the opportunities are attractive, we are prepared to make meaningful commitments to growth exposure.

As Joe discussed earlier, we increased our participation in Florida and Japan Cat markets at recent renewals, as we found the market environment attractive and accretive to our Cat portfolio. And as you know, we've also made some other changes to our reinsurance portfolio over the year, including reducing our exposure to European credit and bond business in view of our concerns about the European economy and shifting away from the UK more to non-proportional market in light of the PPO issues Joe addressed earlier.

At this point, we are satisfied that we have substantially completed our desired realignments of our reinsurance portfolio. Within our insurance business, we are also reviewing programs in market segments and reducing exposures where appropriate, but the effect on our top line so far has been less visible due to the offsetting impact of growth and existing lines, new markets and initiatives. As we complete this transitional year, we should end up with steady premium volume, but better balance and higher risk adjusted profitability.

I'd like to spend some time on the topic of new initiatives. You're familiar with our Accident & Health initiatives, and it continues to make good progress in building a global insurance and reinsurance franchise. This quarter's figures aren't a good indicator due to the timing issues, which Joe discussed in detail. But for the year, our $102 million worth of written premium are up 27% over the prior period.

Each month that goes by, we see an increasing number of quotes, and with critical U.S. insurance licensing recently completed, we qualify for more business than we did in the recent past. We're in the early stages of an exciting journey and still on plan to achieve breakeven within 3 years of our launch. While we are not currently a major player in the crop and agricultural business, we have recently established a global agriculture reinsurance initiative, which we expect will become a meaningful global specialty reinsurance franchise for us.

Leading the effort is a highly experienced underwriter with the ability to implement the strategy in Latin America, Asia, and the U.S. This is a particularly opportune time for us to be executing on that strategy given recent events in the industry. And we're continuing to expand internationally, with an increased insurance, reinsurance and A&H presence planned in our Singapore office, now through 2013.

Asia is a large and quickly growing market, and we attempt to expand in those specialty lines where we are already recognized as a global leader.

I'm very optimistic about our future. We believe the exit from the bottom of the property and casualty pricing cycle will continue, and with our repositioned portfolio, broad product offerings and multiple markets, outstanding staff, nearly $7 billion of capital and strong ratings, I believe we're exceptionally positioned to deliver strong growth and superior profitability in the coming years.
With that I'd like to open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question is from Keith Walsh of Citi.

Keith F. Walsh
Citigroup Inc, Research Division

Albert, first question, if you can just help us understand how you execute your plan with the founder of the company being removed as Chairman yet still on the board, how is that not a distraction? I've got a follow-up.

Albert A. Benchimol
President, CEO & Director

I'm not sure I see a problem with that issue. For one thing the strategy that we are executing is really a continuation, a very successful strategy that has evolved over time and you will recall that the strategy that we discussed and the management team that we have in place is one that has been where John was intimately involved and had full agreement all along. So, there is nothing here in terms of the senior management team or the strategy that is in conflict with everything that John has been supporting for as long as he was involved with the company. I don't see an issue there.

Keith F. Walsh
Citigroup Inc, Research Division

It seems like something went awry where he wasn't in agreement with something if there was an issue on his input and why he was removed as Chairman. So I'm not entirely clear how there is not an issue then?

Albert A. Benchimol
President, CEO & Director

Again, the issue is absolutely not with regard to strategy. I believe that our disclosure on the issue was very clear. There was a disagreement between the board and John in terms of how the role of the Chairman should be executed. They tried to resolve those differences. They could not resolve those differences and as a result of that the board determined to ask John to step down as Chairman. That is the only thing that happened and that is what our disclosures reflected.

Keith F. Walsh
Citigroup Inc, Research Division

Okay. Then just second question. If you could just, you mentioned a little bit about your plan how - you mentioned risk adjusted returns. Is your view to make AXIS maybe a little bit less of a volatile player in the market? Maybe if you could just talk about how do you thing AXIS is going to look under your leadership 3 years from now.

Albert A. Benchimol
President, CEO & Director

I think, fundamentally, AXIS has a very, very strong franchise and leadership position in the complex and volatile risks. And we will continue to make our name with a very strong presence in the complex and volatile risks, whether they are in the E&S markets, the property, energy or professional lines. That's where we're good at and that's what the clients and brokers seek us out for.

The issue here, when you do have those complex and volatile lines, is to make sure that you manage the overall portfolio so that the portfolio is balanced and absorbs that volatility. So it's the same lines of business and very likely continued growth in those same lines of business, but balance in the portfolio such that the portfolio itself through the benefit of diversification provides a little bit less volatility, but the reduction in the volatility that we would seek is not in the change in our lines of business, but rather from the balance of the portfolio.

Operator

And the next question is from Dan Farrell of Sterne Agee.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

Just a question on the Accident & Health business, correct me if I am wrong, with most of what you've been doing there so far has technically been in the reinsurance basis, and now that all of your licenses are in place, can you talk about how we should think about the ramp of the insurance portion of that business, what that ultimately looks like? And then also, as the insurance piece of that grows, is there any impact to the acquisition ratio?

Albert A. Benchimol
President, CEO & Director

Dan, let's put the whole initiative in context if we can. We, over the last 2, 3 years, have hired in excess of 75 individuals, we've asked for licenses in the number of countries, we've opened up offices. But as you know, it's a lot earlier to write risk from a reinsurance perspective and an international reinsurance perspective. And so, since we had the skill set in place, since we had the capital in place, we took advantage to frontload our growth, if you would, through reinsurance, and let's be honest, some lumpy reinsurance contracts because that's what is available in the beginning.

But the long-term vision of this company has always been to have a majority of our premium on the insurance side. And if you look at where things are right now, and let me just expand on your question, you could look at our A&H business and break it up into 4 different branches, if you would. The first is international reinsurance, the second is the U.S. reinsurance, the third is U.S insurance and the fourth is international insurance, so really 4 different quadrants.

The volume picked up first on the international reinsurance side, then followed up by the U.S. reinsurance side, a little bit of international and a little bit of U.S., and U.S. being the latest to acquire any business since the licensing issues were tough. The difference between reinsurance and insurance, reinsurance you get multimillion dollar contracts, big large contracts, insurance is small contracts one at a time. So it was always our expectation that reinsurance would be, in the beginning, the larger part of the premium and over time as we grew the licensing, as we grew the presence, we'd be able to pick up and overtake reinsurance with insurance. So that's the story about the build out if you would.

In terms of the acquisition expense ratio, you are absolutely correct. When you go from a reinsurance strategy to an MGU strategy through your own internal distribution strategy, you're consistently reducing the acquisition expense ratio. So over time, as our dependence from what I would call the quick wins of reinsurance and MGU relationships becomes less important, you will see a transitioning reduction in the acquisition expense ratio over time.

Daniel D. Farrell
Sterne Agee & Leach Inc., Research Division

Just one thing, is it fair to say that the people and infrastructure you have in place at this point is sort of where you need it now to support the growth or is there other additions that have to come through?

Albert A. Benchimol
President, CEO & Director

We've had a just-in-time staffing strategy. Of course, you don't want to have a very large sales force in the U.S. if you don't have the licenses in place. The best salespeople won't be very happy joining you and sitting on their hands without the ability to do that. So we try and time our presence, if you would, to those markets for when we can make most use of our personnel. I fully expect that we will grow the staffing of the A&H division over the next couple of years as we follow the opportunities. I made an indication earlier that we would be expanding in Singapore, we'll put a presence in Singapore which will be new, we will clearly be expanding our presence in the U.S. to take advantage now of our ability to write in the substantially all states. But in terms of strategic direction, in terms of where we want to go, we think we have the right footprint right now and it's a question of organic growth and to the staff up to continue to feed our growth over time.

Operator

Our next question comes from Vinay Misquith of Evercore Partners.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

The first question is for Albert. Albert, you mentioned that it should be a better risk-adjusted portfolio as you are reshaping the portfolio. Going forward, do you see the expected returns being slightly lower, because it's more balanced portfolio?

Albert A. Benchimol
President, CEO & Director

I am not sure that that is an equation that we need to make. I think that if we have a better balanced portfolio it allows us to grow across all parts of the portfolio and if we are more efficient in the use of our capital, then we can grow, generally with a lesser need of incremental capital because of the balance and the ROE actually improves.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

To that point, this quarter, the share repurchases were not really that significant, while the top line was down and I believe the top line is going to be down second half of the year in the reinsurance space. Should we expect a higher pace of repurchases in the second half of the year?

Albert A. Benchimol
President, CEO & Director

Well, I think we repurchased $90 million of shares in the second quarter, which was close to twice what we purchased in the first quarter. And we have indicated to you that we would continue to reuse most of our net income to repurchase shares. So, the intent here is to continue to repurchase shares in the second half of the year.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

The one last thing if I may. Within the primary insurance was growth in professional lines and casualty, if you could help us understand this, because I believe you mentioned that in professional lines pricing was now beginning to flatten.

Albert A. Benchimol
President, CEO & Director

That's right. So I think you're asking about growing in a market where pricing is flatter?

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Yes, correct.

Albert A. Benchimol
President, CEO & Director

Yes. The answer to the question this quarter is exactly the same answer we would have given over the last 4 quarters or so, which is that you're absolutely right that in the U.S., in a difficult environment. In fact, we are not seeing a lot of growth. Where we are seeing growth is mostly in our new AXIS Pro, which is the smaller professional area in Europe, in Canada, and in Australia. So we are in fact growing in those areas where we believe the opportunities are appropriate, but if you were to look at our specific U.S. based volumes, most lines of business in the U.S. are in fact not growing, they're shrinking.

Operator

And the next question is from Greg Locraft of Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

I wanted to just -- you're very clear in terms of the reshaping on the portfolio side for reinsurance and you've got some new talent in there as well. Just curious if you guys have an interest in pursuing alternative markets as a source of potential profitability in the future for that one?

Albert A. Benchimol
President, CEO & Director

Thanks, Greg. The first I had to say is I'm very pleased about our new talent, but I'm also very pleased about our old talent. We've got a very, very strong reinsurance shop, it has done a great job for us. Don't forget, that's the reinsurance business that over 10 years has delivered an average combined ratio of 89. It's a superb team.

And Jay is a great addition to that team. I think with regards to alternative capital if you would that's something that we've been looking at for quite some time and we've always, we still have talent in house to in fact do things like that, Mike Steel, who is our Chief Risk Officer, was very heavily involved when he was working at Aon Benfield in that area.

So we have a fair amount of talent there. I think the issue to think about is as we look at a potentially more difficult world, in the future, you really need to get smart about a lot of different things. You need to be get smarter about where you get your business, you need to get smarter about where you get your capital, how you manage your leverage and so on and so forth. So, clearly, the interest that the capital markets are showing in the insurance and the reinsurance space is something that we need to look at and see if we can use it to our advantage.

There is no question that we've all seen the presence of capital markets players whether in bonds or side cars or various vehicles participating in our market. Some of us can choose to look at those as threats. Some of us, as we do, think that this should be seen just as much as an opportunity. And so, it's something that we will look at, although I cannot guarantee you that we will do anything with it, but we will look at it.

Gregory Locraft
Morgan Stanley, Research Division

And then, just shifting gears to a totally separate part. Professional lines, it's a big business for you guys and notably, Chubb and some others have been talking about rising loss trend in those markets, and we're seeing a pricing response across the markets. But what is your take on the professional lines loss trend and how do you guys manage that line in terms of what you're seeing?

Albert A. Benchimol
President, CEO & Director

Right. I think what's really important is to understand what's been driving the losses in professional lines. If you look at the various litigation settlements and so on and so forth, what you've seen is an increasing amount of litigation coming through, but most of these are resolved in the lower layers, mostly defense costs burning through the primary layers, maybe the first excess layer. And so, if you go higher up the towers, and by the way, on the Professional lines we tend to be more of an excess player, different layers depending on the industry, size of the market. But we are generally not the primary players. And so at the excess layers, we really haven't seen the kind of activity that you see in the primary layers, which is why in fact the pricing increases have been more pronounced on the primary side and less so on the excess side. Now, we have a high level of confidence that those pricing increases, while lagging will ultimately catch up. But on the excess side, we really have not seen the kind of activities that have been eroding the profitability of the primary layers.

Operator

Our next question is from Joshua Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Albert, I like your commentary on investment income and what not. Your predecessor said that he felt the next 10 years would be more profitable for insurance companies during the previous 10 and I'm wondering if you concur with that outlook, maybe talk about the next 5 years.

Albert A. Benchimol
President, CEO & Director

Very good question. I share John's optimism about Axis' success opportunities over the next 5 and 10 years. That's no doubt. But I think if you look at the industry and what I will say is the following. As I look at the financial sector, banks, insurance companies, P&C, life and so on and so forth, there is no doubt in my mind that the P&C sector is going to be much, much better positioned for success in the next 5 or 10 years than any of the other major players in the financial segments.

You look at the banks and I really would not want to be in the executive management team in any of the major banks out there. They are dealing with regulatory uncertainty, they are dealing with a huge number of problems. The life insurance industry, which has significant exposure to investment risk is also having issues. The regulators are looking at making significant changes over there. The P&C industry model is a model that has really proven itself over and over again, over 400 years, and certainly through the last financial crisis as a model that works. So I'm actually very confident that on a relative basis at least the P&C segment will be probably better, if not the best segment in the financial services segment.

In terms of absolute results, the next 5 years versus the last 10 years, obviously investment income is a significant component of P&C profitability. You know as well as I do the kind of headwinds that we are facing on that. So I think that will be a challenge from an absolute basis, but our job is to generate the maximum return that we can, given the risk on the interest rates available to us and I have absolute confidence we will be able to do that.

Operator

And our next question is from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions for you. The first one is, just curious on the reduction in P&Ls in aggregate to the mid-Atlantic and Northeast in the Cat reinsurance market. Was that driven by your view of an increase in risk in those areas or was it because rates decline and is it something that's kind of relatively new or could we expect this to kind of go through to one-one renewals as well?

Albert A. Benchimol
President, CEO & Director

Right. I think if you look at some of the places where we reduced in the mid-Atlantic and Northeast, it was mostly in the very, very low priced higher layers and so we were putting up a large amount of capacity for very little return and it just didn't seem to us that it was the best use of our capital and that was really what it was.

Again we are talking about balance in the portfolio and you will see that how we shifted some of our emphasis between the 50-year, 100-year, 250-years segments to really optimize the risk adjusted returns.

I will say this: I'm absolutely comfortable at where we are right now is absent a significant reduction in pricing, the floor of our P&Ls. I think that we are actually looking for growth in that area, but growth when the conditions make sense. As I mentioned earlier, there were some areas, some zones where we felt we may have been a little overweight or given our new perception of risk adjusted return shift does not meet the kind of returns that we wanted, we have taken some action over the last 12 months. You are very familiar with those. Where we are now as far as I'm concerned is a very solid base on which to grow.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. I'm just curious, what changes, if any, has Jay permitted in the reinsurance business since he has got on board?

Albert A. Benchimol
President, CEO & Director

Well, I think Jay has been on board for a grand total of 3, 4 months here. So I think he has been getting his feet under the table, getting to know the people, basically rearranging some of the way we think about the lines of business so we had more of a geographic organization. And what he has done, he's overlaid the product reorganization over the geographic reorganization. So that would be the first thing.

The second thing is clearly, I would say that his presence and insights have been clearly reflected in the Florida, the most recent June-July renewals. He certainly has had a lot of input in how we should think about shaping that portfolio, gave us access to some new accounts that we didn't have as easy access to. The third thing is as I mentioned in my prepared remarks, he has launched a new global crop initiative for our reinsurance business. So I'd say he has been pretty busy for his 4 months.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just one other quick one. Expected maturities for your fixed income over the next 12 months?

Albert A. Benchimol
President, CEO & Director

Well we are currently at approximately 2.8 duration and although everybody says that rates are going to stay low for longer, we are just not getting paid to go longer in duration and the risk that you take for any kind of shock that would take a 25, 50 basis point increase in yields, that could be huge in an interest rate environment as low as this one. So I think that you should continue to see us stay at approximately this area.

Operator

Next we have a question from Edward Foden of Nomura.

Samuel Hoffman

It's actually Sam Hoffman. I had 1 question on credit and bond reinsurance. This week you raised a combined ratio guidance for the second half of 2012 to be up actually 14 points versus the first half from 73% to 87%. My question is, are you booking the loss ratio in credit and bond reinsurance at that level already or should we expect an increase in the second half of this year and 2013?

Albert A. Benchimol
President, CEO & Director

Sam, we have in fact, as you know from the very beginning of the year, increased the loss ratios for 2012 and my recollection is that we are some 12, 13 points higher than 2012 than we were booked in 2011. So we have already been reflecting that on our numbers.

Operator

This will conclude our question and answer session. I would now like to turn the conference back over to Albert Benchimol for any closing remarks.

Albert A. Benchimol
President, CEO & Director

Thank you, operator, and thank you everyone. As I mentioned this was a good quarter for Axis and I'm looking forward to discussing more good quarters with you in the years to come. Of course if you have any additional questions, please feel free to contact Linda. It may be her birthday but she is still working. Have a good one.

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