S&P Global
Market Intelligence

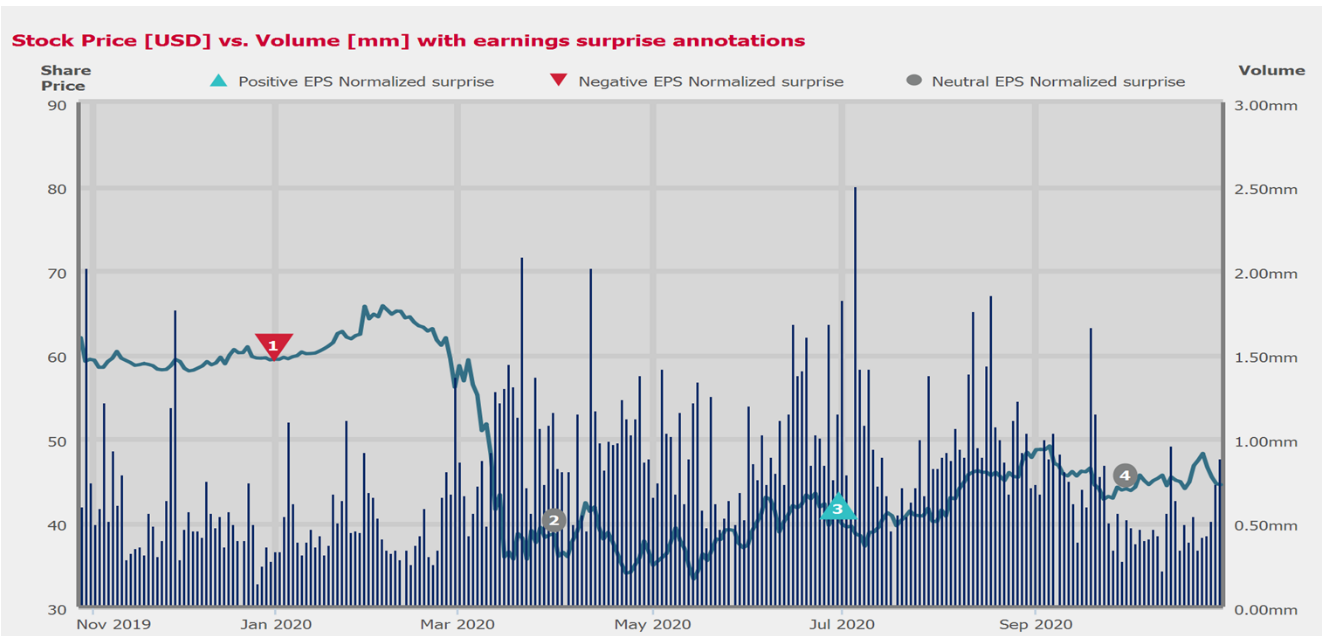
AXIS Capital Holdings Limited NYSE:AXS
FQ3 2020 Earnings Call Transcripts

Thursday, October 29, 2020 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2020-			-FQ4 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.93)	(0.77)	NM	1.01	(0.91)	NA
Revenue (mm)	900.96	815.98	(9.43 %)	831.20	4382.15	NA

Currency: USD
Consensus as of Oct-30-2020 1:02 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2019	0.18	0.05	1 (72.22 %)
FQ1 2020	(1.56)	(1.94)	NM
FQ2 2020	0.36	0.84	2 133.33 %
FQ3 2020	(0.93)	(0.77)	NM

Table of Contents

Call Participants

EXECUTIVES

Albert A. Benchimol
CEO, President & Director

Matthew Jay Rohrmann
Head of Investor Relations

Peter John Vogt
CFO & Executive VP

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
BofA Merrill Lynch, Research Division

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Good morning, and welcome to AXIS Capital Third Quarter 2020 Earnings Call. [Operator Instructions] Please note that this event is being recorded. I'd like to turn the conference over to Mr. Matt Rohrmann, Head of Investor Relations. Please go ahead.

Matthew Jay Rohrmann
Head of Investor Relations

Thank you, Nick. Good morning, ladies and gentlemen. I'm happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the third quarter and period ended September 30, 2020. Our earnings press release, financial supplement and 10-Q were issued yesterday evening after the market closed. If you'd like copies, please visit the Investor Information section of our website at axiscapital.com.

We set aside an hour for today's call, which is also available as an audio webcast. This is also available through the Investor Information section of our website.

With me today are Albert Benchimol, our President and CEO; and Pete Vogt, our CFO. Before I turn the call over to Albert, I'll remind everyone that the statements made during this call, including the question-and-answer session, which are not historical facts, may be forward-looking statements. Forward-looking statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from those projected in the forward-looking statements due to a variety of factors, including the risk factors set forth in the company's most recent report on Form 10-K and other reports the company files with the SEC. This includes the company's Form 10-Q, the quarter ended September 30, 2020, as well as the additional risks identified in the cautionary note regarding forward-looking statements in our earnings press release. We undertake no obligation to update or revise publicly any forward-looking statements. In addition, this presentation may contain non-GAAP financial measures. Reconciliations are included in our earnings press release and financial supplement.

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

Albert A. Benchimol
CEO, President & Director

Thank you, Matt. Good morning, everyone, and thank you for joining our third quarter conference call. This has been a year of 2 stories for AXIS, one of exceptional catastrophe activity, but also one where our repositioning over the past few years, which continues into 2020, is delivering demonstrably strong positive impact.

First and foremost, our hearts go out to all who have been impacted by the pandemic, storms, wildfires and other calamities. We're committed to delivering on the promise we've made to our customers, to stand by them in times of need, with our industry-leading claims service.

On a reported basis, this has been one of our more challenging years, with a combined ratio of 115% in the quarter and 110% for the year-to-date. The reasons are evident to all of us. We're experiencing the impacts from the global COVID-19 pandemic, and this is compounded by a highly active year in terms of natural catastrophes. Indeed, with storms data, 2020 has matched 2005's record in the number of named storms. Our cat losses in the quarter were $240 million or 22 points. For the year-to-date, we've recognized $576 million in combined cat and COVID losses, contributing 18 points to our year-to-date combined ratio.

On the other hand, it's also a year of undeniable progress for AXIS. Our ex-cat current year combined ratio at 92.4% for both the quarter and the year-to-date is clear evidence that our repositioning is delivering tangible results. It's a 5-point improvement over the prior year, continuing the positive trend that we've been seeing for several quarters.

On an ex-cat basis, we're seeing improvement in almost every line. Even in our property and catastrophe lines, our recent risk and volatility reduction activities have served us well. By way of illustration, in 2018, industry cat losses were about $71 billion, and we lost 9.6% of common equity to cats. Last year, industry cat losses were about $50 billion, and we lost 8.3% of common equity to cats. This year, we estimate year-to-date industry cat losses at about $65 billion, excluding

COVID. And while industry cat losses are close to 30% higher than the full-year 2019, our common equity loss to cash this year was down to 7.1%. Even if we had no further cat losses in the fourth quarter, that would make 2020 the fifth worst year for industry cat losses in the history of our company.

However, in terms of common equity loss to cats, 2020 would rank only 10th. This improvement is primarily due to the ongoing reduction of our catastrophe-related exposures, most recently in the frequency end of the curve. While this naturally impacts our overall premium growth, we believe it comes with the benefit of a stronger portfolio that delivers both superior profitability and lower volatility. We're confident that our improving trend can be sustained as we are rigorously pushing for improved pricing and growing where rates, terms and conditions are adequate, but also continuing to exercise discipline, in strengthening, reducing or exiting books of business that do not offer sufficient profit potential. Our industry segment grew gross premiums written by 5%, and we saw strong rate increases as well as significant amounts of new business growth. This was offset by actions we took to prune our portfolio coupled with headwinds we faced due to the economic climate. All in, we're confident that we are growing where we should be and taking disciplined actions where necessary.

Our reinsurance segment had a 23% reduction in gross premiums written in a lower volume quarter. This is the continuation of the repositioning we've been reporting to you since the beginning of this year, accentuated by some timing issues and premium adjustments. On a year-to-date basis, reinsurance GPW was down 12%, in line with the 10% reduction that we reported in the 6-month period. Peter will speak more about the movements by line in this report.

But before I pass the floor on to Peter, I want to highlight that we are effectively executing on the COVID-19 tactical response plan that we shared with you earlier in the year. You will recall the plan had 3 operating priorities, the first was to stand up the organization to sustain operating capabilities and client centricity. Our staff and IT team have responded superbly, and our customers are telling us that we haven't missed a beat. We're receiving and processing more submissions and binding more policies this year even under remote work conditions, a testament to the agility of our team.

The second operating priority was to minimize the downside. This was reflected in lower PMLs across the curve, and increasing our underwriting guidelines to reduce exposure to industries that were most likely to be affected by the pandemic or its economic impacts. A material reduction in our credit lines is a natural consequence of these actions.

And the third operating priority is to prepare AXIS to participate strongly in the recovery, and we're well on our way to doing just that, identifying and adding resources to lines and markets where we expect attractive conditions. All the while, we remain on the sidelines or continue to improve books that are not yet providing the desired results.

As I'll discuss later when I report on market conditions, this is a firming, but not a hard market. Lower levels of favorable development, social inflation, the pandemic, more frequent natural catastrophes and lower interest rates drive the need for substantial price increases. And in many lines, it may take increases beyond 2021 before we reach adequate risk-adjusted returns. This remains an underwriter's market. There are excellent opportunities out there, but there are still many unattractive lines in markets to be avoided.

With the strength of our talent, our positioning in the markets showing the most impressive corrections and our relationships with our producers and customers, we're confident that AXIS is well placed to make the most of the attractive opportunities and to continue to improve our book of business and results as we build a global leader in specialty risks.

I'll now pass the floor to Pete, who will walk us through the financials, and I'll come back to talk more about pricing, and I'll have our Q&A. Pete?

Peter John Vogt
CFO & Executive VP

Thank you, Albert, and good morning, everyone. As Albert noted in his comments, this was a challenging quarter for the company, but it also included strong core underwriting results. During the quarter, we incurred a net loss attributable to common shareholders of $73 million and operating loss of $65 million. High catastrophe and weather-related losses overshadowed the core underwriting results that continue to show improvement. The company produced a current accident year combined ratio ex-cat and weather of 92.4%, which was a more than 5-point improvement over the prior-year quarter.

As previously announced, the quarter pretax cat and weather-related losses, net of reinstatement premiums, were $240 million or 22.2 points, primarily attributable to hurricanes Laura and Sally, the Midwest derecho, wildfires across the West Coast of the United States, the Beirut port explosion and other weather events. I'll provide a bit more color on a couple of these events.

Hurricanes Laura and Sally were combined $120 million event for us, predominantly an insurance event, where we experienced approximately $100 million of insurance losses versus $20 million of reinsurance losses. The Midwest derecho was only an insurance event for us and contributed $45 million to our cat losses in the quarter. In the quarter, we kept our COVID-19 loss estimate steady at $235 million.

As a reminder, the COVID-19 loss provision is associated with property, event cancelation, A&H and pandemic coverages. And as of September 30, the vast majority of the loss provision is still IBNR and the paid amount is de minimis.

During the quarter, the FCA test case ruling was decided. We took this information into account as well as other data as we continue to monitor the level of our COVID loss provisions. While there was some movement between subclasses of business, we remain comfortable with the overall loss provision. I would remind everyone that COVID is an ongoing situation, and we will continue to rigorously and carefully monitor developments across all lines of business and establish reserves if and when appropriate.

Moving into the details of the group level. During the third quarter, we continued to see improvement in our underwriting results. Our current accident year combined ratio ex-cat and weather decreased by over 5 points as the repositioning of the portfolios in both segments starts to earn through. The consolidated accident year loss ratio, ex-cat and weather, of 58.5%, a decrease of over 3 points, with improvement attributable to both segments.

We reported essentially no net favorable prior year reserve development in the quarter. We observed adverse loss experience in our liability and professional lines, and this was offset by favorable releases in some of our short-tail lines. In these times of social inflation, COVID and economic uncertainties, we believe it is appropriate to maintain a prudent approach to our reserves and to stay consistent with our strategy, which is to take bad news early and good news only after it has been confirmed. The consolidated acquisition cost ratio was 21.1%, a decrease of 1.4 points compared to the third quarter of 2019, and again, this was attributable to both segments. The consolidated G&A expense ratio was 12.8%, a decrease of 0.6 of a point compared to the third quarter of 2019.

The total general and administrative expenses decreased by $18 million. As we have discussed in previous quarters, due to the pandemic, we continue to experience lower run rate expenses in a number of areas. The temporarily lower run rate is helping our G&A ratio by about 1 point this quarter.

Moving on to fee income from strategic capital partners, this was $16 million for the quarter compared to $18 million in the prior year quarter. The decrease is due to lower profit commissions.

We'll now discuss the segments. Let me start with insurance. During the quarter, our current accident year combined ratio ex-cat and weather, for insurance, decreased by over 7 points as the repeat positioning of the portfolio continued to earn through. The insurance segment reported an increase of gross premiums written of $41 million or 5% for the third quarter. The increase principally came from good growth in professional lines, accident and health and aviation, largely attributable to new business and favorable rate changes.

This was partially offset by decreases in liability, marine, credit and political risk due to less opportunities driven by the economic climate as well as the runoff of our discontinued lines. The current accident year loss ratio ex-cat and weather decreased by 3.5 points in the quarter compared to the third quarter of 2019. This was due to the impact of favorable pricing over loss trends as well as the improved loss experience in the short-tail lines, largely associated with the repositioning of the portfolio and the exit from certain product lines.

With respect to the longer tail lines, notably professional lines and liability, given the uncertainty of the current situation, we are prudently not reflected the majority of excess rate over trend pricing in our expected loss ratios.

Let's now move on to the reinsurance segment. During the quarter, our current accident year combined ratio ex-cat and weather decreased by 2.7 points, again, as we reposition this portfolio and it continues to earn through. Reinsurance segment gross premiums written of $395 million for the third quarter was $116 million lower than the same period in the prior year. The third quarter is a lower GPW quarter for the insurance segment, typically representing only 15% of the reinsurance gross premiums written in the year.

This year, the quarterly gross premiums written was impacted by our decision earlier in the year to exit the Middle East Accident & Health business and the engineering line of business, which we believe have a positive impact on the bottom-line results. In addition, gross premiums written decreased in motor lines due to premium adjustments and other timing effects. As we look year-to-date, the reinsurance gross premiums written is down 12%, and this is consistent with the trend we have seen earlier this year as we rebalanced our book with lower catastrophe, agriculture and credit and surety business.

The current accident year loss ratio, excluding catastrophe and weather-related losses, decreased by over 2 points in the third quarter compared to the same period in 2019. This was principally due to changes in business mix and improved performance in aviation, professional lines and liability lines. Net investment income of $102 million for the quarter was $14 million lower than the third quarter of 2019, primarily due to the decrease in yields.

Sequentially, we had a bit of a rebound in our alternative portfolio in the quarter as it produced $25 million of net investment income. Our current book yield is 2.3%, and our new money yield is 1.4%. The duration of our portfolio continues to be approximately 3.4 years. Diluted book value per share decreased by $0.34 in the quarter to $54.75. This was primarily driven by the net loss and common dividends declared, partially offset by net unrealized gains.

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

Albert A. Benchimol
CEO, President & Director

Thank you, Pete. Let's do a brief overview of market conditions and outlook, and then we'll open the call for questions. We continue to see acceleration across virtually every line of business that we write. Within insurance, we saw average rate increases of more than 16% across the book in the third quarter. This compares to about 15% in the second quarter, 10% in the first quarter of this year and 8% in the third quarter of 2019.

Through the first 9 months, the average rate increase was a little more than 13%, that's more than double the average increase in the first 9 months of last year. In our U.S. division, we saw average rate increases of more than 16%. Within that, excess casualty reported average rate increases in excess of 25%, while primary casualty averaged over 15%. E&S property rates were up almost 20%. And our U.S. programs business, which focuses on homogeneous books of smaller accounts, saw increases of about 6%.

Moving on to our North American professional lines division. Pricing there also continued to accelerate, and rates were up by close to 17% in the quarter. Our commercial management solutions unit, average rate increases of over 35%. We saw particularly strong rate action across public D&O, where we're essentially an excess writer at more than 55%. In addition, private equity was up more than 40% and privately held companies up more than 30%.

In addition, we're seeing rate increases of about 25% in our Canadian specialty business and 20% for Bermuda excess. Within Cyber and tech, we saw a 6% improvement as rates are now rising to reflect increased claims related to ransomware, among others. Accident and health was essentially flat on low volume this quarter. In our London-based international insurance division, rates were up close to 17% on average in the quarter. Renewable energy, where we're a global market leader, was up more than 35%. Professional and casualty lines were up over 20%, and aviation is finally correcting with pricing well over 55% in the quarter.

Our London marine, political risks and property books averaged a bit shy of 10%, held back a bit by terrorism and offshore energy. Within that group, though, marine cargo continues to outperform and was up almost 25%, as did global property, which was up close to 20%. Overall, in the quarter, 97% of our total insurance business renewed flat to up. More than half of the premiums experienced rate increases in excess of 10%. And within that, over 30% of the book had rate increases in excess of 20%.

Let's move on to reinsurance. There, we're seeing encouraging signs of firming, although not quite as high as insurance, with the understanding, of course, that there are meaningful variances by market. Our year-to-date average rate increase in reinsurance is about 8%. And here too, we saw encouraging acceleration from lower levels at January 1 to about double digits on average as the years developed. Catastrophe in some specialty lines, including liability, are in double digits. Other than those lines, the U.S. and global specialty markets are seeing the strongest rate increases with EMEA and Asia lagging behind.

Nevertheless, while we see pricing and conditions starting to respond to loss trends in reinsurance, we believe they are not yet making up for much lower interest rates, leading to less attractive total returns in some lines. We responded appropriately by reducing our participation in certain treaties and markets, although we're optimistic that conditions going into 2021 will provide opportunities to grow across a number of lines and markets.

Overall, across both insurance and reinsurance markets, we are seeing some impressive numbers in terms of rate change. That said, I caution that with a significant increase in the frequency and severity of weather-related events, social inflation, the uncertainties stemming from the COVID pandemic and significantly lower interest rates, current pricing is approaching adequacy, but does not yet translate into stellar ROEs for the industry. We remain optimistic that we will continue to see progress with the understanding that more rate action is needed and very likely it will take increases beyond 2021 in some lines to get to rate adequacy.

At AXIS, we're leveraging a hybrid model to access risk across the globe and at different points of the risk transfer chain. We seek to grow the parts of our business where we're seeing the best opportunities and create a more balanced and diversified portfolio of risks, delivering an appropriate risk-adjusted return. We're well-positioned in the lines and markets that are seeing some of the strongest pricing momentum and are confident that this will accelerate our progress. We feel well prepared and optimistic for the future. We've delivered meaningful progress in our portfolio results in recent quarters, and we're confident that we can continue this positive momentum through the rigorous execution of our strategy. And with the favorable pricing environment anticipated to extend into 2021 and beyond, market conditions are working in our favor. As we look to the year ahead, it feels like all the pieces are coming into place.
And with that, let's please open the lines for questions.

Question and Answer

Operator

[Operator Instructions] First question comes from Yaron Kinar, Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

I guess my first question goes to the underlying loss ratios in both reinsurance and insurance. Clearly, we're seeing significant improvement year-over-year. I seem to recall that last year, you had called out some midsized losses. Are there any such losses in this quarter's results?

Peter John Vogt
CFO & Executive VP

Yes. Yaron, this is Pete. First, I would like to do one thing before I answer that question. Matt hit me on the shoulder, the derecho event, in my comments, I just want to clarify for everybody, we had $45 million of losses on the derecho, and that was all attributable to reinsurance. Matt hit me on the shoulder, and he told me, I think I said insurance. So just to clarify for everyone, the derecho was just purely a cat on the reinsurance side. So I just want to clarify that first.

And then with regard to your question, yes, last year, in the third quarter, it was a bit spiky. Right now, we're just looking at all losses as performance. We did have some in this quarter, but I would say year-over-year, there was about a 2-point delta there. And so overall, the loss ratio is down over 3 points, I'd say about 2 of that is due to that. The rest of it is good performance. I would also say that, as I mentioned in my comments, especially with regard to insurance, while we're getting rate over trend on the long-tail lines, right now, we're kind of holding our IELRs, our book and our loss ratios essentially flat to last year, just due to the uncertainties associated with the current economic climate as well as COVID and social inflation.

So all-in-all, we feel really good about the improvement we're seeing in the book, but about 2 of the 3 are associated to a large loss. But again, I would look even year-to-date. If we look at our loss ratio year-to-date, it's at like 50% -- it's below 58% for the company, and that's got a fair amount of those normal puts and takes we get on the large loss side. And as we've reunderwritten the insurance portfolio, we have brought the limits down. So we are seeing less of those on an ongoing basis.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Got it. That's very helpful.

Albert A. Benchimol
CEO, President & Director

Yes. The way that I look at it fundamentally is that I think our year-to-date loss ratio is probably just a good base. I mean there's so many puts and takes at this point given some of the positions that we're taking with regard to the current environment. We think we're in a good place with the loss ratios we have.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Understood. And then with regards to holding the loss ratios study compared to last year and for long-tail lines, certainly prudent in this environment of uncertainty. If you maybe give us some color as to how you're thinking about when you cross that threshold of feeling more comfortable with booking these loss trends? Sorry, the rates that you're getting over trend. Is it like waiting for a vaccine to be readily available? Is it getting past the credit cycle? At what point do we become more comfortable to release some of that pent-up margin?

Albert A. Benchimol
CEO, President & Director

Right. So there's 2 components to it, right? One is rate over trend. The second is the fact that we're seeing just less claims activity right now. The position we're taking is that this lower claims activity is probably temporary. We'd love it to be true, but I don't think that's a good basis for reserving. I think that when you look at rate over trends, the rate over trend that we're earning right now was last year's rate over trend, which you'll recall was more like in the 8% range. And so we think that given what's happening in this industry, putting it all in the loss ratio this year makes perfect sense.

I think, obviously, as we go into 2021, we're experiencing much higher rate over trend. And there, I think we're going to start reflecting some of that. We're not going to put it all in the loss ratio. And then over time, as we see a little bit of maturity in these lines of business, we'll take -- we'll start to reflect the positive. But the way I look at it, there's -- no company has ever been punished for reserving prudently and then releasing afterwards.

Yaron Joseph Kinar
Goldman Sachs Group, Inc., Research Division

Agreed.

Operator

Next question comes from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Couple of them here for you. First, Albert, could you talk a little bit about if we do get a double-dip here, if we do get a kind of increase in kind of state home orders and stuff, what kind of the COVID exposure is here going forward? And certainly there maybe some additional event cancelation that kind of get hit where should we -- how should we kind of think about that and put in perspective?

Albert A. Benchimol
CEO, President & Director

I think we're in a good place there. Let me just kind of walk you through some of the numbers, and Pete, feel free to jump in and complement. So obviously, we didn't have a lot of business that was exposed to event cancellation. Frankly, we only had 1 event, the Olympics. We took a partial reserve against the Olympics. If we get it to wave 3, 4, 5 and the Olympics were ultimately to be canceled, obviously, we'd be closer to a full-limit loss on the Olympics, and that full limit is $50 million. And I think we took about 1/3 of that, give or take, in the first quarter.

With regard to policies for businesses that are -- that have business interruption, obviously, we were very quick as were a lot of people to immediately change the wordings of our policies. And in particular, a good bunch of our policies were already in businesses that were canceled or in the process of being canceled. We believe that today, we have reduced the number of policies exposed to the COVID lockdowns in the U.K. by about 70%, simply through the attrition of those policies expiring, not being renewed and/or new language being brought in.

In the U.S., frankly, we've always had both physical damage and virus exclusion, except for a very small number of policies, which are already reserved for. So by and large, I think we're in much better shape right now if there were to be a COVID lockdown. Any more that you want to add to that, Peter?

Peter John Vogt
CFO & Executive VP

No. I just would want to clarify -- I think you did it at the end there. Brian, I think where we had most of the exposure this year was in the U.K. and that's the area where, as that portfolio has turned over as well as it's just turned over that that we've been able to get exclusionary language on renewals as well as other clients that have been non-renewed so that the exposure is down about 70%. And we've always felt good about where we are in the U.S.

Albert A. Benchimol
CEO, President & Director

Yes. That obviously speaks to our insurance book. The reinsurance book is a little bit more difficult to evaluate. But I would expect that many of our customers would have taken similar kinds of corrective actions. So less able to give you specific numbers there, Brian, but we think we're in a better place now than we were certainly at the beginning of this year.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And I had 2 more here quickly. So Pete, I'm just curious, given the difference we're seeing in new money yields versus your current book yields, is there any way you can kind of give us some kind of outlook or guidance with respect to investment income, pressures and fixed income investment?

Peter John Vogt
CFO & Executive VP

Yes. So, Brian, I mean, we're looking at down to 2.3. You'll see sequentially, the rate came down about 0.2 of a point. Again, that was some of the floaters, which are pegged to LIBOR resetting even lower. LIBOR is so low right now, I don't think that's really going to go much lower. So if you look at new money yields are about 1.4 with a 3-year duration, I just think the headwinds there are going to be on the yields, probably at about a 0.1 of a point a quarter or so, Brian, unless we can get an uptick back up into the mid-2s on those yields.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then last question, Albert, for you. So maybe you could talk a little bit about where you are with respect to lowering volatility. And the reason I ask is that, look at you guys, you lost money this quarter, and grand, it was a big cat loss quarter. But if you look, a lot of other companies and P&T companies that are reporting, they're also having large cat losses, but they are actually still making money this quarter. Is there an issue with kind of scale at AXIS that you maybe need some bigger scale? Or you still need to reduce volatility? Maybe give us some perspective on that.

Albert A. Benchimol
CEO, President & Director

Yes. Well, a, I don't think everybody has reported, number one. Number two, as you know, there are different kinds of accounting. Some people put all of their changes in the comprehensive income through their income statement, we don't. So there's a bunch of things. Some people have taken reserve releases. We've just told you that we think of it in this market. It's probably not a good idea to take reserve releases.

So I'm not sure that things are comparable to the decimal point. But let me address your question more broadly. Our goal has been and continues to be to do 2 things; one is to increase the profitability of our non-cat business, and b, to reduce the -- our exposure to the cat business. And that's exactly what we're doing. I gave you some statistics in the early part of the presentation about how we're much less exposed this year than we were last year than the years before that. And we will continue to do that. We were explicit in telling everybody we are not going to be increasing our PMLs into 2021 as -- even with the market growing there. So that would be the first thing.

The second thing is making sure that our non-cat business contributes a bigger piece of profitability. And there, I'm feeling really good about our trends. And obviously, this is not a number that we're going to be reporting on a regular basis. But when I look at the ROE of this company, ex-cat, which is just for the -- just for our own analysis of the drag of cat. Our ex-cat ROE in the third quarter was up over 230 basis points. So the 2 parts of our strategy, increase the profitability of your overall non-cat business. We're making great progress. You see that in the improvement in the ex-cat combined ratio, or we're seeing that the improvement in the ex-cat ROE. And then secondly, continuing to reduce the volatility through more intelligent portfolio construction and net-net simply reducing the amount of cat-exposed business that we have, the net of which is going to be a better result. I absolutely am convinced that scale is not the issue. It's just continuing to work on the 2 levers I've just discussed.

Operator

The next question comes from Meyer Shields, KBW.

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

Great. I guess the biggest -- big-picture question is when should we expect the heightened level of portfolio reshaping to be done? And maybe a simpler way of stating that is given the pricing environment should we expect overall topline growth in 2021?

Albert A. Benchimol
CEO, President & Director

Well, the answer is absolutely. We should expect overall topline growth in 2021. I think that fundamentally, we feel that all of the big blocks of our repositioning are done. I mean we're earning through it, if you would, this year as we're writing it, canceled a number of producer relationships and so on in January 1, which are running through the year and so on and so forth.

I think from now on, it's really about optimizing the portfolio. And as I've discussed with you earlier, we think that there are a number of areas that are not yet reflecting all of the headwinds that we've talked about, and in particular, interest rates.

If we have lines of business in 2021 that are not appropriately responding and not giving us adequate returns, obviously, we will not look to grow those. But if those lines of business are giving us the returns that we want, then we're open to growth in just about every line, subject, of course, to managing the overall volatility of our book of business. Anything you want to add to that, Peter?

Peter John Vogt
CFO & Executive VP

No. The only thing I'd say is, Meyer, you're spot on there. I think as I look especially at insurance, where we did a fair amount through the course of 2019 of shedding some business they had a headwind of about 2.5 points just due to discontinued businesses. That will really be gone this year. So there will be a little bit more of an impact, a headwind in the fourth quarter. But as we get into '21 that should actually be away -- go away from the insurance side. And that segment has actually already started to show good growth as we go forward.

And on reinsurance, we took a lot of the actions in the first half of this year. So, again, as we get next year, I expect to see growth again.

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

Okay. Perfect. That insurance -- yes go ahead. I'm sorry.

Albert A. Benchimol
CEO, President & Director

Meyer, just to be -- I just want to be as complete as I can be. Obviously, we talked earlier about a reduction in our credit-exposed lines being a consequence. There, I think our growth is going to be very much subject to our expectation of where the economy is going. If there's going to be a lot of economic uncertainty, the odds are that we're not going to be looking for huge growth on the credit exposed lines. But I think what matters at this point in time is the book is where we want it to be. And from now on, it's really about, are we getting the risk-adjusted returns, are we getting the risk that we want. And we're open for business in every line.

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

Okay. No, that is very helpful. Pete, you talked in the past about how some business that, I guess, is essentially in runoff, it had something like a 2-point loss ratio headwind in the first half of the year. Was that factor also relevant in third quarter?

Peter John Vogt
CFO & Executive VP

Yes. Again, it's really running off, Meyer. It probably hit -- it did hit the third quarter negatively, but by less than 0.5. So at this point, it's becoming inconsequential. But I mean, the exact math would have it at about 0.4 of a point impact due to the runoff business in the quarter. But at this point, that business is pretty much gone.

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

Okay. That's very good. And final question, if I can. The market, I think, is suggesting a lot of skepticism in catastrophe modeling or maybe just assuming that normalized losses after what we've seen for the past 4 years, are much higher than the historical record. I was hoping you could share your perspective on that specific issue. In other words, how do you feel about the state of the industry's cat modeling relative to expectations in the near term?

Albert A. Benchimol
CEO, President & Director

I think it's a fair observation, right? I mean, if you look at the last 4 years, I think 3 out of the last 4 years have been a disappointment to the industry. And frankly, that's why we've been pushing for pricing on the one hand, but that's why you're also seeing a reduction in our cat premiums, overall. Just look at our reported numbers. You see we're writing less cat even on a gross basis because we're just not feeling that the market is properly reflecting what we believe is an ongoing trend.

I think at some point, that's going to have to change. But I will tell you that our cat writings this year certainly would indicate our agreement with you that we don't think it's there yet. Overall, we are taking the position that we're going to see more frequency and severity of cat losses, which is why it continues to be our strategy to make our exposure to cat events a smaller part of our book.

Operator

Next question comes from Michael Phillips, Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess, kind of continuing on the reinsurance thing. But I think we hear you pretty clearly how your stand is on property cat and pulling away there. But I guess, can you say where in reinsurance, do you see any opportunities that you're looking at for reinsurance?

And then secondly, should we consider what we see the drop in premium growth this quarter? Is that a trough or we can continue to see more as we go forward the next couple of quarters?

Albert A. Benchimol
CEO, President & Director

So I think just looking at projection, Peter, obviously, some of our businesses that we've already canceled is going to affect fourth quarter. So just a lot of that is on the quarter share, as we reported on a quarterly basis. So my expectation is you will see that certainly for the rest of the year. Peter, would you agree with that?

Peter John Vogt
CFO & Executive VP

Yes, I would. But I'd say, Mike, that really, when you're looking at reinsurance, the third and fourth quarter, such a small volume quarter, is it really looking at year-to-date is a better indicator of where we've actually changed the book of business, where it's down 12%. I think this quarter, in particular, there were timings, there was premium adjustments. That's typically what happens in the third quarter and just year-over-year. They were positives last year and negatives this year. So I wouldn't read into the 23% down you saw in the quarter, looked more year-to-date. And I think that gets to how we've been repositioning the portfolio, which I think is the second half of your question. And Albert, if you'd like to address that.

Albert A. Benchimol
CEO, President & Director

Yes. So look, when you look at the big dollar numbers of reductions year-to-date. So we talked about cat and that's already been addressed. Agriculture, same thing with a lot of climate change, there's been a couple of really difficult ag years. We asked for better terms. We didn't get them. There was a big reduction in agro this year. As we're continuing to optimize our portfolio, we felt that we were taking over lines between insurance and reinsurance on engineering, and we determined to get out of engineering on the reinsurance side, so we could offer our customers on the insurance side bigger lines and not have to worry about over lines. We're continuing to optimize the portfolio. And so my perspective on this is that the reductions that we've done in reinsurance are actually all moves that optimize the overall consolidated portfolio.

Going forward, as I said, it's really going to be a question of, will certain markets adjust pricing enough to give us the returns we want. Let's be -- let's -- but when you think about our reinsurance business, over 70% of our business is quota share. And we've just indicated to you that a lot of the lines of business and insurance are becoming quite attractive. So I would expect that a lot of the quota share business, we, as reinsurers, will be able to see that improvement. And we will want to participate in that. So I do think that kind of the year-over-year delta that you're seeing in reinsurance certainly is a trough due to the repositioning that we've made.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Great. And then one more on the reserve side. You mentioned adverse and liability offset by some of the short-tail lines. On the liability, can you say how much of that was on the insurance versus reinsurance? And then tell us about, I guess, how we can get comfortable with the professional lines on the reinsurance side? I think there is certainly some pressure there on reserves. And was there any adverse there and just kind of comfort level with your current reserves on the professional lines and reinsurance?

Peter John Vogt
CFO & Executive VP

Yes. Mike, this is Pete. I'll take that. The changes were really centered or the reserves that we put up on the liability and pro line side were very much centered in the, I'll call it, the '16, '17, '18 kind of accident years. And looking at the pieces, we did have -- we saw some adverse development on the pro lines, about $20 million in total. I'd say 60%, 70% of that was reinsurance, 30% of that was pro lines. And that was really centered in those years, '16, '17, '18. So we're feeling pretty good about where we are from that point forward.

Overall, we do believe the reserves are adequate where we put them at the end of the third quarter. So we do believe that those increases were -- should get us to where we need to be in those -- both those lines of business.

And liability was much more. Liability is one about a $5 million adverse.

Albert A. Benchimol
CEO, President & Director

The other thing that I would say is also really important is, again, looking at the books of business, we really like what we've done in our U.S.-based professional lines and casualty. And I think we've been changing the book. I think we're in the right place. Obviously, we -- through our London-based business, have had some challenges in some of the European professional lines. And as you know, we exited a lot of them. So we feel good that we've either rehabilitated or exited the challenging professional lines in Europe, and we feel very comfortable with our book of business in the states.

Michael Wayne Phillips
Morgan Stanley, Research Division

If I could follow-up on Pete's comment there on the professional liability reinsurance. And you said now at the end of the third quarter you feel comfortable with where you are. Can you maybe qualitatively say compare your level of comfort today versus maybe where you were in that specific line for about a year ago?

Albert A. Benchimol
CEO, President & Director

I would say definitely more comfortable today because, again, our underlying scenes have been getting rate, and again, that's a big quota share book for us. And so I do feel that the underlying business we have there is more profitable today than what it was, and we haven't moved our IELRs. We haven't responded to that. I'd say the same on our insurance side, where we've been getting a lot of rate, especially this year, and we really haven't responded in our IELRs. But overall, I mean, this is on pro lines, sort of the -- on the reinsurance side, I would say, this was the first quarter we've actually had an increase in the PYD, an adverse on reinsurance pro lines. The first half of the year, it was essentially flat. So it was just this quarter responding to what we saw in a couple of years.

Operator

Next question comes from Joshua Shanker of Bank of America.

Albert A. Benchimol
CEO, President & Director

Joshua, you're on mute.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Sorry about that. You laid out a scenario where there will be some lines of business that still at the end of 2021, still won't be rate adequate. So I mean, there's 2 questions. And one is, if we think about 2021, how much of your top line is going to be associated with exposures that COVID-19 has sort of shrunk price lines of business that you're just not interested in writing anymore versus willingness to grow the business? I know that it's going to be impossible for you to lay out all 4 things, but can you go through each of the items, I guess, price on willingness to write certain lines, exposures and willingness to expand? Can you talk about those 4 categories?

Albert A. Benchimol
CEO, President & Director

Yes. And if you don't mind, I'll wrap them up because I think it would be difficult to actually parse it in those ways. So again, probably the most important thing to say is that at this point in time, we are open for business in every single line of business that we're in. We've finished the macro exits. And now it is purely a question of rate adequacy and optimization of the portfolio.

With regard to the optimization of the portfolio, I think we've been very clear that we are not looking to increase our PMLs. We think we're certainly going to get much better returns on property and property cat-exposed lines of business. But our objective is to deliver a more balanced and a less volatile book of business. So we're happy to take all the rates. We're happy to continue to reposition the portfolio to optimize the construction through the utilization of analytics and so on and so forth.

But by and large, we are -- you should not be looking to us to have any kind of meaningful increase in our PMLs. With regards to COVID, I would say, we've never been a big contingency writers, so that's really not -- frankly, after the Olympics, we don't have any, right? So that's pretty straightforward.

With regard to our property and BI-related lines of business, as I've mentioned to an earlier question, we've significantly strengthened our language and exclusion. So we feel good about that.

The real area is what industries are going to continue to be more susceptible to the downsides of COVID and its economic consequences, and there, through our normal underwriting, we will certainly look to be more cautious in the professional lines in the D&O area, potential liability area, potential credit areas. And that's simply making sure that we take risk where we feel that the underwriting is right, the risk is right.

There is one more factor, which we spoke about earlier today, and that is that there is less economic activity, which has been a bit of a headwind. So there's less new construction projects starting. Obviously, a number of small businesses, a number of restaurants have closed down, so that's reduced the renewals of those businesses. But that's less, if you would, our choice and the fact that economic activity has declined. And of course, as the economy recovers, we would certainly expect to participate in that recovery with those opportunities.

But bottom line, I feel really good about where our teams have brought our book of business. I feel really strong about our relationships. We're in all the right markets. The question will be, are we going to get the right pricing that meets our views of loss trends? And in particular, the impact of lower interest rates and the uncertainties. Where pricing is going to give us that, where we can structure policies to protect us against that, we will be looking to grow. And where we won't, we won't, and I expect that you will be happy that we won't want to grow there.

Joshua David Shanker

BofA Merrill Lynch, Research Division

Okay. But that's fairly thorough. And then we just one -- then we would look at lines of business that are absolutely not rate adequate today. Some of them you were writing last year. To what extent -- we can't look at individual lines of business. We have some segmentation in the triangles. But to what extent do you think that you've put a layer of conservatism on those particular lines that you're certain aren't rate adequate, given the current interest rate environment that investors should be confident about the portfolio?

Albert A. Benchimol
CEO, President & Director

I think we've taken the corrective action to make sure that we're doing it right this year. I mean, I think that we've made excellent progress in our reported numbers, and we've just told you, we've taken no credits for rate-over trends in our long-tail lines where interest rates have the biggest impact and where COVID may have an impact. It's also areas where we're seeing some of the strongest rate increases. So we told you, we're seeing 15% plus in primary casualty. We're seeing 30% plus in excess casualty. We're seeing 35% in CMS.

Obviously, we are not going to take all of those increases into the loss ratio on year 1. So I think we're already prudently booking that business, being cautious not to reflect all the rates in 2020. We're certainly not going to reflect all the rates in 2021. But we think that those lines of business, we're taking the appropriate action in reserving them prudently, and we feel good about where they are, and we think many of them are going to get better.

In cyber, we've talked about the fact that ransomware claims are increasing, that this has been a line of business that has not seen a lot of price action. We think in 2021, that line of business will see more price action. And because we think we need to get paid for all of the increased ransomware claims and so on. If we don't get the pricing, we won't grow as much. But we like the business we're in.

Operator

Final question today comes from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question on -- you guys kind of -- obviously, you mentioned you've done a lot of business initiatives, right? So we obviously saw a little slowdown in reinsurance in the quarter. And you pointed to growth in 2021. We're hearing that there's going to be a good amount of retro increases at January 1. So as you think about growing your top line in 2021, how are you thinking about the growth to net and how that might play out 2021, I guess, in reference to 2020?

Albert A. Benchimol
CEO, President & Director

Right. So when you think about our insurance book of business, I know you asked about retro, but let me give you the comprehensive answer. I think when you look at our reinsurance book of business, most of what we write or what we buy is quota share, and so obviously, our reinsurers are getting the benefit of all of the improvements that we're delivering. So I think that, that will continue, whether we increase or decrease our retentions, frankly, is a decision that we'll make at the time. When we see most of our book reinsured sometime in the spring, so we will be reactive to that.

With regard to the reinsurance book, we're actually not a big buyer of retro. As you know, we use third-party capital, but that's mostly quota share. So because we're not a large writer of retro, we don't view changes in the retro market, not a large buyer, I apologize, of retro. Changes in the retro market really don't affect us in a meaningful way.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then your PMLs, every return period, I think, came down in the quarter. You obviously -- I think they came down like last quarter as well. Is that something as you think about 2021, taking into account rate? I think you mentioned earlier in the call that you desire to take down the cat exposure a little bit. Should we expect the PMLs to continue to come down from here?

Albert A. Benchimol

CEO, President & Director

Well, the PMLs in this quarter have a little bit of a benefit because, frankly, with the activity that we've had this year, we've eroded a lot of the aggregate covers. So I think that has an impact on the net PMLs. But I think if you look at where we were at July 1, I think that's probably more of an independent view. And so to my point, I think around the levels of July 1, maybe a little bit lower, is where I would expect it to be.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And my last question, the fourth quarter seems to also be pretty active. We've had Delta, Zeta, the ongoing California fires. You guys just have a little bit of a sense of how we can think about the cat loss, the exposure to some of these events in the fourth quarter. Maybe I know some of them are ongoing, but not looking for an exact number, but more qualitative in terms of your exposure and how we should think about the fourth quarter?

Albert A. Benchimol
CEO, President & Director

Well, you're right. I mean, they're literally just happened. I think, Zeta, they just went through Louisiana yesterday. So -- but I think both of them tend to be reasonably low-level cats. The other thing that I would say is Zeta, in particular, looks like it's going to be following the same path as Laura, which means that there'll probably be some complications in terms of attributing losses to Laura or Zeta. So my guess is that's going to be an issue for the entire industry, certainly not just ourselves.

But that's kind of where we are on it, and we'll see how it develops as the fourth quarter goes. It's interesting. I mean if you look at the last 5 years, give or take, I think mean -- kind of median cat losses were probably around $50 billion for the industry. We think we're probably mid-60s already through the end of the third quarter. So I think that gives you an indication of what kind of year we're having.

Peter John Vogt
CFO & Executive VP

Elyse, the only other thing I'd point out, and this is Pete. When you look historically, especially the '17 and '18 with the wildfires, we had been on a number of large aggregate treaties on the reinsurance side, and we're no longer on those treaties. So we don't have those aggregates in our portfolio anymore. So just as you're looking historically, I thought I'd point that out.

Operator

This concludes our question-and-answer session. Now I'd like to turn the call back over to Mr. Albert Benchimol for closing remarks.

Albert A. Benchimol
CEO, President & Director

Thank you, operator, and thank you to everybody for participating and for your interest and your questions. Clearly, this was a quarter with a lot of noise up and down and sideways. But at the end of the day, I think that AXIS responded very well to the challenges of this year in terms of having a lower exposure than historically to cat. I think that we've made significant progress in our ex-cat book of business. And I think that we are advancing our strategy in building a global leader in specialty risk.

Again, I want to leave you with our commitment that we're focused on our plan. We're disciplined in our underwriting approach. And we're managing our portfolio and positioning our business to thrive in the eventual recovery. We did have a fair number of books of business that we were repositioning in 2020. But we like where we are today, and we are open for business when the pricing and the returns are attractive.

To the -- to my colleagues who are listening today, I want to say thank you. I want to express my appreciation to all of you. You're working hard. Your commitment, your dedication, our clients see and our brokers see it. We see it every day. I just want to thank you all for that.

And so to everybody who joined our call, thank you, and we look forward to reporting to you on our progress in future calls. And thank you, everybody. Operator, this ends our call.

Operator

Conference has now concluded. Thank you for attending today's presentation. You may now disconnect.