S&P Global
Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS

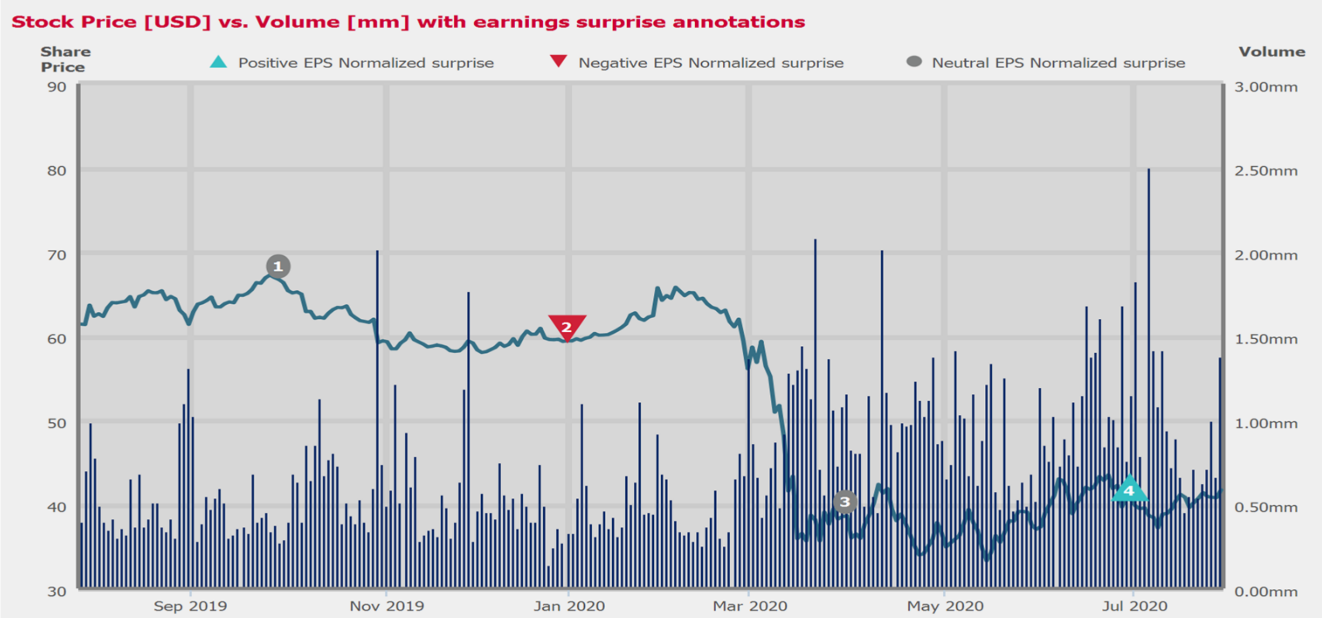
FQ2 2020 Earnings Call Transcripts

Wednesday, July 29, 2020 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.36	0.84	133.33	0.50	0.52	4.86
Revenue (mm)	1089.10	1055.93	(3.05 %)	897.10	4541.13	4863.90

Currency: USD
Consensus as of Jul-29-2020 11:11 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	0.18	(0.39)	NM
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 %

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

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Gulfside Asset Management, LLC

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Wells Fargo Securities, LLC, Research Division

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BofA Merrill Lynch, Research Division

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

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

Presentation

Operator

Good day, and welcome to the Second Quarter 2020 AXIS Capital Earnings Conference Call and Webcast. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference call over to Mr. Matt Rohrmann, Investor Relations. Mr. Rohrmann, the floor is yours, sir.

Matthew Jay Rohrmann
Head of Investor Relations

Thank you, Mike.

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 second quarter period ended June 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 today 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 for the quarter ended June 30, 2020, as well as 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. And good morning, everyone, and thank you for joining our second quarter earnings call. I'm pleased to report the positive momentum that we've seen in our underlying performance over the past few quarters continued into this most recent period. We're highly encouraged by the sustained progress, which follows several years of rigorous efforts to enhance our market positioning, reshape our portfolio, reduce volatility and increase our operating efficiency with investments in technology and a company-wide focus on expense discipline.

As we noted in the press release, we saw meaningful improvements in our underwriting results in the quarter. Underwriting income increased year-over-year, notwithstanding higher cats and lower prior year development. Our reported current accident year combined ratio, excluding catastrophes and weather-related losses, of 91.4% is a nearly 5-point improvement in core performance compared to the prior year quarter. This includes a 1.7-point decrease in our current year ex-cat loss ratio, more than a 1-point improvement in our acquisition costs, and a 2-point reduction in our G&A ratio. And for the 6-month period, our reported current year ex-cat combined ratio of 92.3% reflects core performance that was more than 4.5 points better than the prior year.

While the combined ratios I've noted are GAAP reported figures, the year-over-year improvements in core performance are based on ex-GAAP figures, which I believe provide an apples-to-apple reflection of our progress on acquisition expense. We haven't reported quarterly or half year ex-cat accident year combined ratios this low since 2013. This is tangible evidence of the work that our team has done over the past few years to strengthen our portfolio is bearing fruit.

The improvements in our loss ratio is due to a combination of enhancements to our portfolio, change in mix and runoff of discontinued books of business as well as the interest rates that we're earning.

And even as we're delivering good growth in attractive lines, we're focused on limiting volatility and controlling expenses. While it may have taken longer than we wanted, we're convinced that this new level of profitability is not only sustainable but one upon which we can continue to improve beyond simply the impact of rate.

Stepping back and as I've said this in past calls, we believe that our hardest work is behind us and that AXIS is poised to capitalize on the best market conditions that the reinsurance industry has seen in more than a decade. We have the most balanced book in the history of our company. And given our leadership in our chosen markets and our very strong relationships with our producers, AXIS is exceedingly well-positioned to reap the benefits of the favorable market environment. We worked very hard to get to this point. And with firming conditions and pricing momentum across virtually every line of business that we write, we have the wind at our backs.

Before passing the call to Pete, I'd like to mention a few words on the impact of COVID-19 on our company. You'll recall that AXIS was among the first to provide a more transparent and granular estimate of COVID losses. We conducted in-depth reviews of our policies and programs and found no reason to wait in sharing our conclusions with you. We took a charge of $235 million in the first quarter. So far, we've seen no surprises, and this estimate continues to hold. Pete will speak more on this during his financial update.

While there was no impact of COVID on second quarter underwriting results, it did affect our investment income due to the one quarter lag in reporting performance of some alternative investments. Nevertheless, our high-quality portfolio experienced a meaningful recovery in the quarter, contributing to our strong 11% growth in book value to $55.09 per share.

Finally, I'd like to add that despite the unprecedented upheavals sparked by COVID-19 as well as societal challenges, including increased racial tensions in the U.S. and throughout the world, our teams have come together more than ever. We've been seeing the best of AXIS. I'm proud of our team and deeply appreciative of their tireless work, the way that they're working today to strengthen our business, support our clients and partners and distributions, to promote a collaborative and inclusive culture within AXIS and help make a positive impact in our local communities.

In summary, this was a solid quarter for AXIS where we continue to see meaningful improvements in our performance. We feel good about where our business is today and even better about where we're headed. Peter will now walk us through the financials, and I'll come back to talk more about pricing and have our Q&A. Pete?

Peter John Vogt
CFO & Executive VP

Thank you, Albert. And good morning, everyone. As Albert noted, this was a quarter where we continued to see sustained improvement in our financial performance.

During the quarter, we generated net income available to common shareholders of $112 million and annualized ROE of 10%. We generated operating income of $72 million and an annualized operating ROE of 6.3%. Underwriting income in the quarter of $87 million was 11% over the same period last year with both segments contributing positive results.

In the quarter, we kept our COVID-19 loss estimate steady at $235 million as well as the first quarter write-down of our WHO pandemic swap of $10 million. This doesn't mean we've been standing still. We are constantly evaluating our estimates and the underlying assumptions. As we continue to monitor developments across the world and gather more data, we are getting more granular with our analysis and we are refining our views. At this point, while it is early days, we remain comfortable with our provisions.

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

We have also carried out detailed analysis of our exposure in lines of business that may also have been impacted such as professional lines, liability and credit lines. As you know, we are proactive in establishing reserves where warranted. But based on current facts and circumstances, we have no basis for making additional provisions in these lines at this time. For example, in our Insurance segment, claim notifications are running favorable for casualty and professional lines compared to recent years at the same stage of development. We have prudently not reacted to these favorable indications at this stage.

In addition, as part of our normal process, we established IBNR for systemic risks, which give us further comfort that our provisions are reasonable at this time. We will continue to rigorously and carefully monitor developments and establish reserves, if needed, when it's appropriate to do so. Lastly, I would remind you that all estimates are subject to a higher-than-usual level of uncertainty because of the inherent difficulty in making assumptions around COVID-19 due to the lack of comparable historic events, its ongoing nature and far-reaching impacts.

Moving into the details of our group-level numbers. During the second quarter, we continued to see improvement in our company's underwriting results. Our consolidated combined ratio this quarter of 94.7%, a decrease of 1.4 points as compared to the prior year. Our current accident year combined ratio ex-cat and weather decreased by 4.6 points as the repositioning of the portfolios in both segments and the exit from certain product lines in the Insurance segment earned through.

The cat and weather loss ratio in the quarter was 3.5%, largely driven by the U.S. weather-related events this quarter. This compared to 2.3% in the second quarter of 2019. Given the significant increase in weather activity and the civil unrest experienced by the industry this quarter and the minimal increase in our cat and weather loss ratio, it appears the repositioning of our property portfolios is delivering the intended impact.

We reported net favorable prior year reserve development of $3 million in the quarter, mainly related to the Reinsurance segment. Overall, we had positive reserve development in short-tail lines, but this was offset as we strengthened insurance liability reserves and, to a lesser extent, the pro lines reserves. The strengthening in reserves for the insurance liability is attributable to an uptick in adverse signals mainly focused in our U.S. excess casualty and program books of business, our prudent reserving philosophy of reacting to adverse signals immediately while delaying recognition of favorable trends.

The consolidated G&A expense ratio was 12.7%, a decrease of 2 points compared to the second quarter of 2019. And total G&A expenses declined by $25 million.

As we discussed in the first quarter, given the uncertainty of the year, we cut $50 million from our 2020 expense budget. A significant portion of these savings came through in the second quarter. The savings were driven by lower personnel costs, including deferring noncritical hires, reduced travel and entertainment costs, lower office costs, and delaying certain projects. If I adjust the quarterly G&A and add back what are temporary expense reductions, a normalized G&A ratio would have been approximately 14%.

In the quarter, we achieved our previously announced target of $100 million in net run rate savings compared to the 2017 run rate. This was related to our transformation program. However, we have not stopped there and continue to improve our operating efficiency through leveraging our global platform while advancing our processes and technology. Operating efficiency and expense control remain important goals of ours, and we continue to target a G&A ratio of the mid-13s for 2021.

Moving on. Fee income from strategic capital partners was $16 million this quarter compared to $19 million in the prior year quarter.

We'll now discuss the segments. Let me first start with Insurance.

The repositioning of our Insurance business is demonstrating real traction with an all-in combined ratio of 94.2%. The Insurance segment reported an increase in gross premiums written of $69 million or 7%. This is the third quarter in a row where we have reported growth in the Insurance line as the largest portfolio actions are behind us. The increase came principally from professional lines, property, marine and liability lines largely attributable to new business and very favorable rate changes, which Albert will address later. The increase was partially offset by a 3% drag from exited lines of business as well as less business opportunity in primary casualty and the credit political risk lines due to the global economic slowdown.

The current accident year loss ratio ex-cat and weather decreased by just over 3 points in the quarter compared to the second quarter of 2019. This was due to the impact of favorable pricing over trends and improved loss experience in our property and aviation lines associated with the repositioning of those portfolios as well as the exiting from certain books of business. In addition, we saw reduced loss experience in the credit and political risk lines. The current accident year combined ratio ex-cat and weather decreased by more than 7.5 points as the lower loss ratio was complemented with an almost 4-point reduction in G&A ratio due to the expense actions mentioned earlier.

Let's now move on to the Reinsurance segment, which delivered another strong quarter with an all-in combined ratio of 90.2%. The Reinsurance segment's gross premium written of $679 million for this second quarter was comparable to the same period in the prior year. However, this year we are seeing firming conditions across substantially all of our lines of business. We had decreases in gross premiums written in our catastrophe, agriculture and A&H lines as we look to better balance the portfolio.

These decreases were partially offset by increases in motor, liability and professional lines driven by rate increases and new business at favorable market conditions. This quarter, pretax catastrophe and weather-related losses net of reinstatement premiums were $20 million primarily attributable to weather-related events this quarter. This compares to $11 million in the same period in 2019.

Net investment income of $45 million for the quarter was $93 million lower than the second quarter of 2019. This was primarily attributable to negative returns from our alternative assets. As Albert mentioned, there is a one quarter reporting lag on this asset class, so the performance is indicative of the first quarter market activity. Lastly, we had reduced investment income from fixed income instruments as compared to the prior year.

Our current book yield is 2.5%, and our new money yield is 1.6%. The duration of our portfolio is approximately 3.4 years.

Interest in income of equity method investments of $7 million represents the company's share in Harrington Re's income for the quarter, which was attributable to positive investment returns.

Diluted book value per share increased by $5.31 or 11% in the quarter to $55.09. This was principally driven by net income and net unrealized gains partially offset by common share dividends.

With respect to capital actions, following 2 debt issuances in 2019 that raised $725 million, as you recall, we redeemed our Series D preferred shares of $225 million at par this past January. And in the second quarter, we repaid unsecured senior notes of $500 million at maturity in June, which lowered our debt plus preferred total capital ratio to 28.1%. Now that we have finished refinancing our debt, on a go-forward basis, our interest expense will decrease by $5 million on a quarterly basis as compared to what was reported this quarter.

Finally, I will add that we feel good about our current capital position as we entered the year in a strong position with capital in excess of AAA levels. And at this moment, we have the ability to grow into the hardening market. 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 we'll then open the call for questions.

As I noted in my upfront comments, we continue to see accelerated improvement in pricing throughout our business. For our Insurance segment, we're now into 11 consecutive quarters of rate increases. For reinsurance, the pricing actions have [become] more recently, but we're seeing positive momentum picking up now.

So within the Insurance segment, we saw average rate increases of almost 15% across the book in the second quarter. That compares to about 10% in the first quarter of this year and 7% in the second quarter of last year. Through the first 6 months, the average rate increase is 12 -- a little over 12%.

In our U.S. division, it once again delivered the strongest pricing increases this quarter with average rate change of almost 17%. In excess casualty, we're seeing hard market conditions highlighted with -- by average rate increases in excess of 30%. E&S property rates were up 19% and primary casualty increased by 11%. Our U.S. programs business, which focuses on homogeneous books of smaller accounts, saw increases of more than 6%.

Within our North American professional lines division, pricing also continued to accelerate and rates were up by more than 13% in the quarter. Our commercial management solutions unit is also in hard market territory, with average rate increases of more than 30% in the quarter. Notably, public D&O, where we're essentially an excess writer, showed impressive rate change at 60%.

In addition, we saw strong double-digit increases in our Canadian specialty businesses, Bermuda excess and in financial institutions. Accident & Health was up more than 12%. Even cyber and tech, long laggards in pricing, are starting to show rate increases.

In our London-based international insurance division, rates were up 13% on average during the quarter. Renewable energy, where we're a market leader, was up more than 20%. Professional and casualty lines were up about 17%. Aviation was up 16%. And the marine, political risks and property books averaged about 10%. But within that, several sublines outperformed, with marine cargo up more than 25% and global property up 20%.

Overall in the quarter, 97% of our total insurance business renewed flat to up. More than 60% of premium renewed experienced rate increases in excess of 10%. And within that, fully 35% of the book had rate increases in excess of 20%.

Let's move to Reinsurance. We estimate that our renewed business was priced up about 12% overall in the quarter, with the cat business up close to 20% and the non-cat business up close to 10%. We've already covered in our last call the Japanese April 1 renewals where quake was flat, but wind was up more than 50%. For the June 1 renewals, we saw the best market conditions in more than 10 years, with tightening terms and conditions in addition to higher pricing. We saw lower layers up about 15%, while upper layers increased as much as 60% depending on loss experience. Our own book was up about 20% on average at the June 1 renewals.

Nevertheless, we reduced our order book as part of our strategy to manage risk, optimize the portfolio and better position ourselves for the upcoming January 1 renewals. For the July 1 renewals, we saw positive momentum across almost every line of business that renewed, although it did vary by line and region.

Overall, reinsurance is clearly participating in the rebound, sharing in the underlying rate increases on subject business, and also benefiting from improvements in reinsurance terms and conditions. In AXIS Re's case, we've used these recent renewals to continue upgrading the quality of our portfolio, and we think that we're well-positioned to capitalize on the improving market. Importantly, we're seeing improvements in wordings in terms and conditions in both insurance and reinsurance, and that will help loss ratios beyond the impact of rate.

Looking forward, we believe the favorable conditions that we're seeing will very likely sustain well into 2021, and there's growing consensus that it will extend even beyond that. We see several reasons for this. First, we're dealing with an underlying social inflationary period that is putting pressure on prior year reserves and adds uncertainty to outlook. Second, interest rates are about as low as they've ever been, creating substantial headwinds for investment income. And third, it's our expectation that the effects of COVID-19 and its economic repercussions will be felt over a number of years. This is not -- or these are not AXIS-only issues. The industry is facing several challenges to its profitability and need sustained strong pricing to deliver an adequate return on capital within the difficult social and economic environment expected over the next few years.

For AXIS, we continue to be encouraged by the conditions that we see. We're fortunate to be well-positioned in some of the markets that are experiencing the most meaningful improvements. Moreover, we're seeing an almost across-the-board increase in the number of opportunities that are being presented to us across our company.

Of course, we're cognizant that a rising tide lifts all boats, and we're not satisfied by rate alone. As I noted earlier, we're committed to sustain our progress in optimizing our portfolio, increasing our operating efficiency, and leveraging technology to better serve our clients and partners in distribution.

In short, the current market environment we're seeing has a lot of opportunity. And to the credit of our team, despite the pandemic, we've seen no drop-off in productivity. Within both segments, we're everywhere that we choose to be. And we believe that we have one of the best-positioned books for today's market and that AXIS is poised and ready to grow where we want to do so. We've worked hard to get to this place, and our team is ready to capitalize on the opportunities that stand in front of us.
And with that, let's please open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions] The first question we have will come from Brian Meredith, UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

First, I'm curious, can you talk a little bit about your capital position? I know you've got your debt to capital down, which is great. But just kind of looking forward, where are you in the process of reducing your volatility? Where are you right now from a capital position where you feel comfortable that you can kind of really ramp up growth for this hard market?

Peter John Vogt
CFO & Executive VP

Brian, this is Pete. Let me hit that with a couple of things. One, we do feel good about where our capital position is. We have rebuilt it and actually the -- both rating agencies when they looked at our ratings, actually mentioned that we have a very strong capital position. So we do feel good about the capital position going forward and some of the work that we've been doing, so we can actually feel better about it going forward.

As Albert mentioned, we brought down our PMLs especially at the low end of the curve. So you can see in the supplement, you'll see the 1-in-50 total AAL but also especially the Southeast Wind are both down from prior year. And as we looked at our reinsurance purchasing for property in the second quarter, we did not review -- renew our cat bond, which really helped the 1-in-250, but we actually replaced it with more protection at the lower end of the curve.

So I can tell you when I look at the lower end of the curve, our AALs are actually down from 2019 levels by 20% in the 1-in-5, 1-in-10, and 1-in-20. And actually in the Southeast Wind, we're down by over 30%. So we do feel good that we're more protected going into wind season this year. So we're more protected going into wind season, and we had our capital levels back over AAA entering this year. So we feel really good about the capital position right now, Brian.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's terrific. And then just quickly, you mentioned that some of the businesses you exited had a 3% headwind in the Insurance segment premium growth. Curious, was there any impact from the runoff lines on the underlying loss ratios in the Insurance segment?

Peter John Vogt
CFO & Executive VP

Yes, there still was. I'll point out we got about -- still got about $30 million of unearned premium on that book. Especially this quarter, we had about 2 points on the combined ratio really centered in the loss ratio, Brian. Really came out of some losses coming out of the whole business that we exited. And so if I take out the exited business, the ex-cat loss ratio for insurance would be just about 2 points better than the reported 55.6%.

Brian Robert Meredith
UBS Investment Bank, Research Division

Right. That's terrific. And then last one for Albert, I'm just curious, Albert. When you set your COVID-19 loss estimate here, what are your kind of assumptions with respect to the international BI losses? I know there's something going on right now with the FCA. Does that matter at all to you all? And just kind of thoughts around that.

Albert A. Benchimol
CEO, President & Director

Yes. So let's talk about the FCA and what's happening in the U.K. As you know, they're reviewing all the wordings. And just to set the table here, our expectation is that the arguments will be finished this week. We probably will get a response sometime in September. And then that will probably go to appeal, and no idea when those appeals will be resolved.

But let's talk about what it means for us. There's a whole range of outcomes. And Brian, some of them could be very favorable to us in terms of some of the assumptions that we made in our reserves, could end up being not as necessary. But certainly, they could also look at it more adversely than we looked at it.

But I think what's really important is to remember that in the U.K., we have a cat program that attaches at $75 million. And with regard to the $235 that we took in Q1, I think we mentioned to you somewhere $50 million, $55 million is allocated to the U.K. So when you think about the net impact to us on the insurance book, maybe in the worst case, there could be $20 million, $25 million. But I think we've got real containment on the U.K. side on insurance.

Obviously, that could also have a little bit of impact on the reinsurance side, but we don't have a large cat book in the U.K. So I think the FCA judgment ultimately would have a limited impact on us if it went against us. But it's still early days.

Operator

Next we have Meyer Shields with KBW.

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

I think this is a question for Pete. I was hoping you could run through, maybe give us a little more color on the reserve adjustments for the longer-tail liability and professional lines?

Peter John Vogt
CFO & Executive VP

Yes, Meyer. So in the quarter, it's mostly on the insurance liabilities side. We strengthened those reserves by about $17 million. And it was really focused on, I'll call it, some adverse signals we were seeing coming out of the '17 and '18 accident years. As you know, early on in the development of our reserve process, when we see some negative signals, we'll react quickly to it. And on the pro line side, we saw some adverse signals both in insurance and reinsurance. And again, we strengthened those in the single digits. Again, that was centered more on the 2018 accident year.

And so all in all, that probably added up to about $27 million of strengthening, actually close to $30 million of strengthening through those 3 lines. And then we had really favorable development continuing in property and credit and surety that offset that. So we ended up with just a small positive development reported in the quarter.

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

Okay. I know this is an impossible question, but should we assume that, that longer-tail line strengthening is like a onetime adjustment, assuming that reality doesn't get worse?

Peter John Vogt
CFO & Executive VP

Yes. I mean we peg our reserves to what we think the ultimate is going to be. So we are keeping our eyes on those '17 and '18 years. Again, before COVID came around, we kept talking about social inflation. We think we've caught up with that, but we are keeping our eye on that. But we think that, that is an appropriate reserve level on a go-forward basis. But as new developments come, especially if we want to stay in front of things, like I said, we do react to adverse before we actually show the positives. The last thing I'd say is since 2017, we have been getting significant rate on our liability book on excess casualty and primary casualty. So the -- when I look at the '18, '19 years and '20 year, they're at a much level -- better level of premium than we saw at, call it, the '15, '16 year.

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

Okay. That's very helpful. Albert, just think of this question. When we look at the Southeast U.S. hurricane P&L on a sequential basis, it's up. Is that the cat bond? Is there anything else playing a role there?

Albert A. Benchimol
CEO, President & Director

Yes. So if you look at it, I think it's down year-over-year. So if you look at July 1 to July 1, it's down meaningfully year-over-year across every period. And with regards to the difference between Q1 and Q2, it's as Pete noted earlier, the different reinsurance program that we purchased. And so we emphasized protecting ourselves in the more frequent periods, and we decided not to renew our cat bond. And since the cat bond was attaching at a high level, you can see this impact in the 1-in-250 going up. But that's the impact, and we think right now, we think we've built a better book across the curve.

Operator

Next question we have will come from Elyse Greenspan of Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, I guess, goes back to one of the earlier questions. You had said that there was about 2 points on the insurance loss ratio from some of those runoff lines in the quarter. Can you just remind us, I thought maybe it was the first half of the year? Or when do you expect to kind of have those fall off your books?

Peter John Vogt
CFO & Executive VP

So Elyse, this is Pete. As I mentioned at the beginning of the year, we had right around $50 million of UPR that -- of those exited books. It's down to about $30 million now. But by the end of the year, it will be de minimis. That will run off pretty much. It will be like low single digits.

But I would say one of the losses we had in the quarter was a client that was to be ended in 10 days, and then all of a sudden, they had a claim. So I do think that we're keeping our eye on this. We've projected it out as a fairly high loss ratio, but it should be done by the end of the year. We'll have single-digit UPR into 2021.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Great. And then I guess a follow-up to that, you guys are running at about kind of a 55% underlying loss ratio on insurance through the first half of this year, right? So if we kind of neutralize for that 2 points, I guess that would put you at around 53%. So you're getting a lot of rate in your insurance book, so is that the right pace to think about improvement off of in 2021? I guess, with some assumption, rate counterbalanced against loss trends within that thought process?

Albert A. Benchimol
CEO, President & Director

Yes. So we're starting, Elyse, to look at these things going forward. Basically, we've had 12% average rate increase through the first 6 months, a little bit more than that. And if you take just as a placeholder an average trend of about 5 points, so that would indicate that there would be 3, 4-plus points of improvement in the loss ratio. My expectation is that we'll probably be cautious in terms of some of these outlooks around systemic loads around loss trends. So I'm not sure that we would see the full benefit of those 4 points immediately, but that doesn't mean that they might not develop over time. So we've got that. We've got the drag that we've got on the discontinued operations in the Insurance division alone, which we also think could be an improvement. And then there's the ongoing improvements in the book of business as we go forward. So we're feeling very optimistic about the trend of improvement going forward from here.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. Great. And then on the capital side, you guys made a point, right, of saying you feel confident in your capital position for what feels like a pretty good market that we're heading into for 2021. So as we think about you guys have brought down your leverage, but as we think holistically, is there a right -- a rule of thumb that we could look at for premium equity or premium to capital basis for all of assets? Or maybe thoughts around insurance and reinsurance that we should think about? What incremental writings that your current capital base?

Albert A. Benchimol
CEO, President & Director

I would look at it from 2 perspectives. I think as Pete mentioned, our portfolio is increasingly capital-efficient given the way we're managing the cat book. And importantly, one of the things that we are very focused on is making sure that our growth, as we take advantage of this market, is balanced growth. We're not going to be looking to go extreme on the tail on any one of the areas. So right now, everybody in this company is looking forward to meaningful growth as we enter into 2021. And into 2021, we don't see us having any capital limitations on the growth that we're seeing with regard to the opportunities that we want to take advantage of.

And then of course, we've also got the benefit of having a meaningful third-party capital business, which would allow us to make sure that we take advantage of all of the opportunities that are available to access. And at that point, we can decide whether we want to monetize that opportunity through the retention of underwriting risk and income or increasing essentially risk-free fee business.

So in both cases, we think we've got opportunities to increase our profitability going forward. But at this point in time, given where our people are sizing the opportunities, we don't see ourselves as being limited.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then one last one, when you guys set up your COVID loss last quarter, I believe you had mentioned taking some event cancel covers through the middle of July. So given that we're obviously not fully back to normal, can you just talk to the potential for losses on that business to pop up in the third quarter?

Peter John Vogt
CFO & Executive VP

Yes, Elyse, this is Pete. We are not big in the event cancellation business at all. We literally had 2 contracts, and they're both associated with the Olympics. So we're just looking at that one event, and we feel good about the reserve, the loss provision we have up. But for us, that's the only event we're really looking at.

Operator

Next we have Josh Shanker, Bank of America.

Joshua David Shanker
BofA Merrill Lynch, Research Division

The first one, looking at the renewal season and what you're saying about rates in various areas, one thing that we're very understanding of is this cash going through the PML. Can you sort of explain how the pricing improvements related to decline in property cat reinsurance? And whether 2Q '20 is a period of time to be taking more exposure rather than less exposure in the cat markets?

Albert A. Benchimol
CEO, President & Director

So 2 thoughts there. We think the cat markets are now -- they were pretty inadequately priced. We think right now, they're probably somewhere in the teens, which we're happy to take, and it's important as part of our overall book of business. But these are not the pricing opportunities that we had back in 2002, 2003 when it made sense to overweight it. So that's the way that I would put it in the short term.

But I think it's really important that we put this in the context of our own longer-term strategy. And Josh, you're very familiar with this. Our goal has been to move away from what was a very volatile book of business that was built in the noughts. And what we want to do is build more of a specialty portfolio on both insurance and reinsurance that has strong results that are more stable and less volatile.

And so I want to be very clear about this. We are not going to look to double and triple down in the cat market because that is not what we're aiming for in this company. What we're aiming for in this company is to deliver a profitable, stable book of specialty risks. And so yes, we will certainly grow our cat exposures in this market in a balanced way to take advantage of it. But we have a very clear expectation of our appetite for cat and for our portfolio in general.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Okay. And then unrelated question, looking at companies that have reported so far, most companies that reported have a very low paid-to-incurred ratio during the quarter as the slowdown in COVID has maybe slowed payments, maybe slowed claims, and there's a lot of IBNR. And your net loss reserve was flat from 1Q '20. Were there any unusual large payments you made for claims in the quarter? Should we expect that for this COVID period, we should see a low paid-to-incurred ratio? Do you have any thoughts there?

Peter John Vogt
CFO & Executive VP

Yes. Probably -- this is Pete. The only thing that I would suggest we had paids in the quarter associated with the Japanese cats. So that flowed through this quarter, and that would be affecting that ratio, Josh.

Joshua David Shanker
BofA Merrill Lynch, Research Division

And if I exclude those, are you also experiencing unusually low paid-to-incurreds under the current conditions in the market?

Peter John Vogt
CFO & Executive VP

Yes. Overall, I don't have the exact number in front of me, but we can get back to you on that exact one. I'd say what's been a little bit more interesting is we saw lower frequency coming in. And that could be just due to lower losses or could be due to just us not being able to get the -- just slowdown in the reporting of claims. And we did not recognize that at all in the quarter.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Okay. And the Japanese cats, you're fully paid out on those for the most part?

Peter John Vogt
CFO & Executive VP

No. No. We're not fully paid out. We just made -- some payments were made in the quarter.

Operator

Next we have Yaros Kisar (sic) [Yaron Kinar] of from Goldman Sachs.

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

Hello, can you hear me?

Albert A. Benchimol
CEO, President & Director

Yes.

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

Okay, sorry about that. Yes, so I guess my first question actually goes back to the fixed income yield. I think the quarter-over-quarter compression, like 25 basis points or so, it seems a little greater than I would have expected for this type of duration. Any comments as to the moving parts there, and what would have led to that level of compression?

Peter John Vogt
CFO & Executive VP

Yes. It actually compressed about 22 points in the quarter. This is Pete. And where we saw that come through is one, about 15% of that portfolio is associated with floaters. So while we were actually getting some good rate increases in 2018 due to the floats -- floaters resetting higher, those floaters are based off LIBOR. And so they reset lower really right in the quarter, so that impacted us. And we also -- the maturity profile of the portfolio, we just had some maturities come up this particular quarter, and so they got reinvested at a lower rate.

So I wouldn't say the 22 bps drop in the quarter is going to be an indicative run rate going forward. It just happened to be some specifics in this quarter.

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

Okay. That's helpful. Then on the BI debate, can you give us any sense of what the limit of that U.K. reinsurance treaty is? Or how much protection you have once you get to that $75 million attachment point?

Peter John Vogt
CFO & Executive VP

This is Pete. I know we've looked at it. It's got a couple of layers to it. And in the most extreme circumstance, we didn't feel we'd go through the top of the tower. That's what I can tell you, Yaron.

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

Okay. Okay, and then maybe one broader and conceptual question. Given the improvement that you've already achieved in the underlying combined ratios and the rate environment we're seeing now, is this the point to start prioritizing growth over further improvement? Or are you still more focused on the improvement over growth, or both achieved at the same time?

Peter John Vogt
CFO & Executive VP

Well, this is Pete. I'll just start with that, then I'll let -- I'll ask Albert to pile on. But I would just say that especially overall, one, we've repositioned the portfolios. And if I think just about insurance, they're at 7.2% growth. The exited line was about 3% drag. And I guess I would say lower business opportunity in areas affected by the economic slowdown, so that being primary casualty, credit political risk, we really saw about a 3% drag from that.

So in the lines we really want to grow in, we were growing into the double digits. And so we do feel that we're poised for growth there.

And on the reinsurance side, the second half of the year is more of a quiet time. But the team is geared up and is looking at growth as we go into 2021 to take advantage of the hardening markets. Albert, would you like to add on to that?

Albert A. Benchimol
CEO, President & Director

I think that's right. Look, I think on the Reinsurance side in particular, you will have noticed that those reductions actually came mostly in the first quarter as we were nonrenewing certain books that we felt would not be part of our book going forward. So we believe that we've made all of the big moves, whether it's on the Insurance or Reinsurance side. We're certainly looking to continue improving the book, but we're also, as we mentioned during our prepared remarks, we're incredibly well-positioned in the markets that are seeing some of the best improvements. We've got great relationships with our clients and our brokers, and we are looking to take advantage of the growth opportunity.

Operator

Next we have Douglas Eden, ECM.

Douglas T. Eden
Eden Capital Management LLC

Congratulations on a solid quarter. A bit more comfort -- with a bit more comfort this quarter, it sounds like, regarding the company's coverage exposure to COVID and with tangible book value of more than -- it appears to be about $51 a share, would it be accretive to EPS instead of investing some of the new money at the low 1.6% yield that, Steve, you mentioned to allocate a portion of this to returning additional capital to shareholders? Maybe by repurchasing some of the shares that are trading at currently about 80% of tangible book?

Peter John Vogt
CFO & Executive VP

So thank you. You're asking 2 very good questions. But first -- I'll answer the second one, which means -- which is that it makes no sense to us, given where we are with our profitability, book value and opportunities that we're trading there. So just -- that just does not make any sense to me. But the other issue, Douglas, would be that if we were not looking to grow our underwriting book at acceptable and attractive returns, you would be absolutely right. If the only use for that capital was to invest at 1.6%, the right call would be to buy back stock. But we see the use of that capital not just investing at 1.6% but to write an underwriting business, which is probably the best we've seen in a decade.

Douglas T. Eden
Eden Capital Management LLC

Sure. I missed -- I'm sorry, I missed maybe the oversees. I missed the first part of the answer about did you -- I heard you mention the -- it makes sense to keep writing business at these hard rates -- at these hard market rate levels and get more of a return there. But what did you say about repur -- with the stock trading so low to tangible, did you say it does not make sense to repurchase some of those shares?

Peter John Vogt
CFO & Executive VP

No. What I said was I agreed with you that the stock price was very attractive, especially given the opportunities ahead of us.

Douglas T. Eden
Eden Capital Management LLC

Okay. And as it relates to repurchasing shares?

Peter John Vogt
CFO & Executive VP

Right now, we believe that we can create more value by growing our franchise and taking advantage of the growth opportunities that we have in the insurance and reinsurance markets in which we participate.

Douglas T. Eden
Eden Capital Management LLC

Okay. That's fair. And as a fairly large shareholder, I think maybe it doesn't have to be either/or. I think maybe a combination of both could make sense. I mean if the stock is so attractive trading at such a discount compared to some of our peers and with our low debt position, I think now is the time that it could make sense. It just seems ridiculously low.

So I'm in your guys' corner. We're all on the same team, but I think it doesn't necessarily have to be an either/or. I think maybe it could be a hybrid of both with a 20% discount to book.

Peter John Vogt
CFO & Executive VP

Look, I agree with you that the price of the stock does not make sense. And I'd be happy to talk to any investor who wants to analyze our book, our reserves and our opportunities. This price does not make any sense to us either.

Douglas T. Eden
Eden Capital Management LLC

Thank you very much. Keep up the good work.

Peter John Vogt
CFO & Executive VP

Thank you.

Operator

Next, we have Adam Starr, Gulfside Asset Management.

Adam Starr
Gulfside Asset Management, LLC

Just approaching the volume and growth from a different angle, if we look how much of your business is shrinking and how much is growing, you've certainly mentioned the price activity and the appeal that certain lines have today. Where do the lines cross over? And where do you start to see the growing lines more than offset the business you've non-renewed or discontinued? Is there a way of looking at it from that standpoint?

Albert A. Benchimol
CEO, President & Director

Adam, I'm sorry, I'm not quite sure I understand the question. Because if you look at our insurance book...

Adam Starr
Gulfside Asset Management, LLC

It's growing very nicely.

Albert A. Benchimol
CEO, President & Director

No, but -- so I'm not sure I understand what you mean by the growing point. Our disc ops or our canceled lines probably took a 3-point negative impact on gross written premium this quarter. But as the rest of the lines went up 10 points, so that net-net, it was a positive 7. So I believe that we've crossed the line over there. So I'm not sure I understand your question.

Adam Starr
Gulfside Asset Management, LLC

Well, when we look at the reinsurance business, you're kind of neutral. And that brings down the overall company growth rate below the growth of price that you're getting. So you're actually shrinking exposures, which isn't necessarily a bad thing. But all your prices grow. You're not -- and if business is so attractive today, one would assume that there's an incentive...

Albert A. Benchimol
CEO, President & Director

Hello?

Operator

Gentlemen, I'm showing the line is connected, but it seems as if there is a disconnection somewhere. We'll go ahead and proceed to the next question, Josh Shanker.

Albert A. Benchimol
CEO, President & Director

Let me at least address the question as I think I understood it. Again, I think if we look at the reinsurance book, it was flat. And we explained that one of the areas for that was that we curtailed our cat book. And I believe that the financial supplement provides the reduction in that book.

I would say 2 things. I would say that on the one hand, we have been cautious about our cat book. And as I mentioned, we are going to look to grow our overall cat position but within a balanced portfolio. That would be the first comment that I would make.

The second comment that I would make is that there are still a number of markets in the world that are not moving sufficiently on the reinsurance side where the opportunities are in the single digits. And we do not believe that that's the best use of our capital. So if we see those opportunities, we will certainly want to take advantage of it. But we're very focused on making sure that the growth comes in from adequately and attractively priced business.

Operator, I'm happy to go to the next question.

Operator

Yes, sir. It will be a follow-up from Josh Shanker, Bank of America.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Thank you for letting me a second one. It's not a question, but a comment. Albert, you said you'd be happy to talk to any investors about the status of your reserves. I can tell you that Matt does a great job explaining, but I just want to make a suggestion. You could really benefit from changing your disclosure on the reserves to make them more granular. The basic analysis doesn't do justice to what you're talking about.

Albert A. Benchimol
CEO, President & Director

Thanks for that. And you know what, we'll sit down with you and we'll take a look at what it is that you're looking for, and we'll see if we can be helpful.

Joshua David Shanker
BofA Merrill Lynch, Research Division

Thank you.

Operator

And gentlemen, it looks like we have Mr. Starr back in the queue.

Adam Starr
Gulfside Asset Management, LLC

Yes. I'm sorry, we got cut off. And if you were answering me, I didn't hear it, so I hope I'm not wasting everyone else's time. But when do you think you'll start to see unit growth as well as price growth across the board, both primary and reinsurance?

Albert A. Benchimol
CEO, President & Director

That's a fair question. And I would say that we would be looking that on the Insurance side very likely as we enter the rest of this year. And I would say that on Insurance and Reinsurance, I would expect both of those to happen next year in 2021. It will of course depend on the market opportunities, but that would be our outlook.

Adam Starr
Gulfside Asset Management, LLC

But you'll be pretty much done with the nonrenewal process and the sorting out the existing exposures?

Albert A. Benchimol
CEO, President & Director

Generally, yes. I want to be comprehensive in my response to you. There are a number of treaties where we are expecting to see increases that would get us to adequate levels coming out of the January 1 renewals. If they don't, then we will of course have to take corrective action. But our expectation is that if these trends continue, if the markets start to equilibrate at reasonable double-digit ROEs, then we would be very happy to resume growth. But it will be obviously treaty and risk dependent.

Adam Starr
Gulfside Asset Management, LLC

I appreciate your answers.

Albert A. Benchimol
CEO, President & Director

Thank you.

Operator

So there are no further questions at this time. We will conclude our question-and-answer session. At this time, I'd like to turn the conference call back over to Mr. Albert Benchimol for any closing remarks. Sir?

Albert A. Benchimol
CEO, President & Director

Thank you very much, operator. And thank you to all of you for joining us this morning.

And just to conclude, obviously, we feel really good about our second quarter results. And as I hope, we communicated even better about our future and our outlook. We've got a very well-positioned book and market conditions are working in our favor. And we're growing significantly with our strategic partners.

And again just to my team, despite the pandemic, the teams continue to rise to the challenge. They've done a great job, and we're providing exceptional service to our clients and partners in distribution while living our values at AXIS. I couldn't be more proud of our team.

So thank you all once again, and we look forward to continuing to update you on our progress on individual calls and in our future earnings releases. Thank you, and operator, that ends our call.

Operator

All right. Thank you, sir. And we also thank you and the rest of the management team for your time.
Again, the conference call has now concluded. At this time, you may disconnect your lines. Take care, and have a great day, everyone.