AXIS Capital Holdings Limited NYSE:AXS

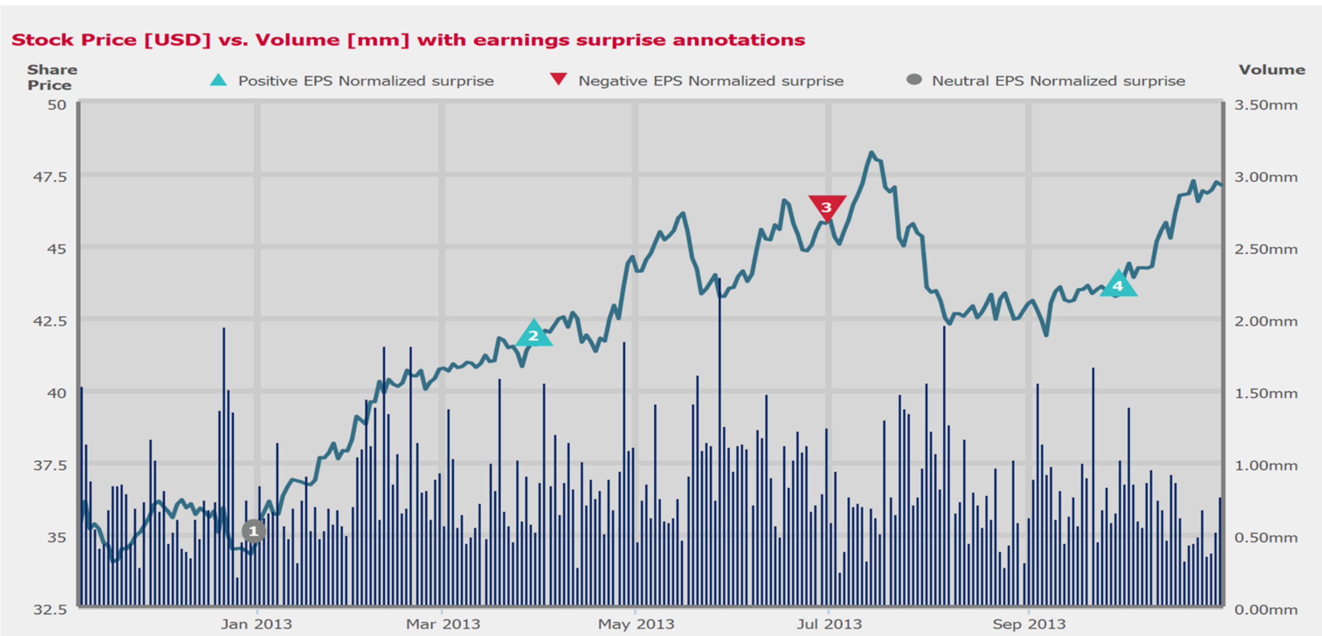
FQ4 2013 Earnings Call Transcripts

Wednesday, February 05, 2014 2:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2013-			-FQ1 2014-	-FY 2013-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	1.47	1.41	(4.08 %)	1.23	5.56	5.49
Revenue (mm)	563.78	647.96	14.93	1641.07	3898.00	3928.20

Currency: USD
Consensus as of Feb-05-2014 1:04 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2012	(1.18)	(0.23)	NM
FQ1 2013	1.19	1.92	61.34 %
FQ2 2013	0.49	0.43	(12.24 %)
FQ3 2013	1.21	1.74	43.80 %

Call Participants

EXECUTIVES

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President, Chief Executive Officer & Director

Joseph C. Henry
CFO & Executive VP

Linda Ventresca

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Presentation

Operator

Good morning, and welcome to the AXIS Capital Q4 2013 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

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

Linda Ventresca

Thank you, Amy, and good morning, ladies and gentlemen. I am happy to welcome you to our conference call to discuss the financial results for AXIS Capital for the quarter -- for the fourth quarter and the year ended December 31, 2013. Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you would like copies, please visit the Investor Information section of our website, www.axiscapital.com.

We set aside an hour for today's call, which is also available as an audio webcast through the Investor Information section of our website. A replay of the teleconference will be available by dialing (877) 344-7529 in the United States, and the international number is (412) 317-0088. The conference code for both replay dial-in numbers is 10039141.

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

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

For a discussion of these matters, please refer to the Risk Factors section in our most recent Form 10-K, on file with the Securities and Exchange Commission. We undertake no obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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

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

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you, Linda. Good morning, everyone, and thank you for joining our call. On balance, we delivered a good quarter and a good year, benefiting from strong diversifying growth, improved pricing in many lines, lower cat activity, continued reserve releases and a strong performance on our equities and alternative investments.

After-tax operating income for the quarter was $159 million and annualized ROE was 12.3% on an operating basis. Our gross written premiums were up 10%. This is the product of our continued effort on 2 fronts: first, we've shown strong growth in improving market segments, particularly in the U.S.; and second, we're seeing ongoing returns from the substantial investments we've made in new initiatives of recent months and years.

For the year, we reported a 13% increase in gross written premiums, a combined ratio of 91%, operating ROE of 12.1% and operating income of $633 million, as compared to ROE of 8.2% and operating income of $422 million last year. We grew diluted book value per share adjusted for dividend by 8% and returned substantially all of our income to our shareholders through the repurchase of stock and the growing stream of dividends.

While it was a good year overall, we know we can do better. Our second quarter was impacted by an accumulation of small and midsized cat and weather events. And this fourth quarter was adversely impacted by exposure to rising claim costs for the U.S. D&O business in recent accident years.

I assure you that we're all focused on making the changes in our portfolio necessary to reduce the likelihood of these types of issues.

That said, it is a reflection of the strength of our company that these disappointments were easily absorbed without significant impact on our overall financial performance, that we took the necessary actions to address them and finished the year stronger than ever. We face the future with confidence and optimism.

Joe will take you through our results in some detail, and I'll return with market commentary and outlook. Joe?

Joseph C. Henry
CFO & Executive VP

Thank you, Albert, and good morning, everyone. During the quarter, we generated good results with an annualized operating ROE of 12.3%. In addition, quarterly diluted book value per common share, a key metric in measuring the value we generate for our shareholders, increased by $1.20 per share, or almost 3% in the quarter.

Our results benefited from a very benign quarter with respect to natural catastrophe and weather-related losses compared to the same quarter last year, which was significantly impacted by Storm Sandy. In addition, the continued growth in our book of business and favorable prior year reserve development contributed positively to our results, but were partially offset by an increase in large and attritional losses incurred in property lines affecting both segments, our Insurance U.S. D&O line and our Reinsurance segment's agricultural line. The D&O losses incurred also led to an associated increase in the underlying loss ratios for that line of business.

For the full 2013 year, we produced underwriting income of $428 million and posted an operating ROE in excess of 12%. Our diluted book value per common share increased by $2.83, or almost 7% for the year.

Moving into the details of the income statement, our fourth quarter gross premiums written were up 10% to $826 million, with growth emanating from both of our segments.

In our Insurance segment, our top line was up $26 million, or 5%, reflecting a continuation of the trends noted throughout the year. The Accident & Health line continued to contribute substantially to the top line growth during the quarter, bringing the annual increase in this line to almost $108 million. Growth in our non-U.S. Professional Lines business reflects our continued global expansion. Liability also continued to show growth, driven by the U.S. wholesale excess casualty market. These increases were partially offset by reductions in marine and aviation, which were driven by some rate reductions and timing differences. Our Property line showed a decrease in gross premiums written, driven by the previously discussed reductions in cat-exposed business written through MGAs, our repositioning of this book, which has now been completed.

In Reinsurance, our top line was up $47 million, or 27%. Growth was driven by Professional Lines, reflecting new business with a significant cedent. New business was also noted in the property lines.

This increases were partially offset by decreases in agriculture and motor lines due to negative premium adjustments, as less businesses was written by our cedents than initially expected.

2012 included reinstatement premiums related to Storm Sandy, which drove the current quarter's decrease in the Property catastrophe line, while engineering was impacted by the non-renewal of a large treaty.

For the full year, we reported gross premiums written of $4.697 million -- excuse me, $4.697 billion, an increase of $557 million, or 13%, compared to last year. Our Insurance segment contributed $2.559 billion, an increase of 11% for the year, while our Reinsurance segment increased by 17% to report gross premiums written of $2.138 billion.

Our quarterly consolidated net premiums written were up 25%, exceeding the growth rate per gross premiums written. Similar to prior quarters, the difference is driven by a number of factors with changes in reinsurance purchasing in our Insurance segment having the biggest impact. This included reductions in the quarter share session rates for significant portions of our Professional Lines and liability books, a reduction in the cost of our property per risk and property cat protections, and higher retentions for both property and marine. Changes in business mix with increased writings in lines of business where we do not purchase significant reinsurance also contributed.

Our net premiums earned were up 10% for the quarter, with growth in both Insurance and Reinsurance segments. Insurance increased by 18%, primarily driven by prior quarter's premium growth in the Property lines and continued expansion of our Accident & Health business. Reinsurance growth of 4% primarily reflects the annual year-to-date increase in the agricultural line.

Our fourth quarter consolidated accident year loss ratio decreased 23.3 points, from 86.4% to 63.1%, compared to the same period of last year, primarily due to the decrease in the natural catastrophe and weather-related losses mentioned earlier. The current quarter's loss ratio includes no significant natural catastrophe or weather-related losses with the recognition of $5 million of weather-related pre-tax losses being more than offset by favorable development of $10 million on losses related to weather events incurred earlier in the year. In contrast, the comparative quarter included losses of $303 million net of reinstatements primarily related to Storm Sandy, which contributed 35.4 points for the fourth quarter 2012 ratio.

After adjusting for the impact of these items, our current accident year loss ratio increased by 12.6 points quarter-on-quarter. Increases were noted in both Insurance and Reinsurance segments. Excluding the impact of natural catastrophe and weather-related losses, our Insurance segment current accident year loss ratio increased by 17.8 points. The increase was driven by 2 primary factors. First, we experienced an increased level of large and attritional losses, primarily in our U.S. D&O and property lines. Secondly, the recent claim expense observed in the D&O lines has led us to increase our 2013 underlying loss ratios for this line of business.

Similarly, after making the natural catastrophe and weather-related adjustments, our Reinsurance segment experienced an 8-point increase in the current accident year loss ratio. This increase was led by an increase in large and attritional losses in our property line of business and large losses in our agriculture line. Agriculture losses were related to the impact of unfavorable weather conditions and commodity pricing in the U.S., as well as natural catastrophes in India. A change in the business mix also contributed to the increase, although to a lesser extent.

For the full year 2013, the change in the current accident year loss ratio is less pronounced. For the year, the consolidated accident year loss ratio decreased by 5 points from 68.5% to 63.5%. After adjusting for the natural catastrophe and weather-related losses, which contributed 5.4 points and 12.7 points to the 2013 and '12 loss ratios, respectively, the current accident year loss ratio increased by 2.3 points. The increase can be attributed to a change in the mix of business, the increase in the amount of large and attritional losses incurred relative to last year, and the strengthening of the insurance D&O lines.

Turning to loss reserves established in prior years, we continued to benefit from net favorable development, which aggregated to a net $43 million this quarter. Short-tail classes in both segments contributed $43 million of this balance, primarily reflecting better-than-expected loss emergence. During the quarter, we continued to give weight to actuarial methods that reflect our favorable experience for liability and reinsurance business, which contributed a further $20 million of favorable development. Our motor and credit and political lines contributed an additional $18 million. The favorable experience was partially offset by adverse development in our insurance D&O line. Our total prior year losses relating to Professional Lines increased by $30 million following adverse development in our Insurance segment on the 2011 and '12 accident years, U.S. D&O business.

We've had a number of movements in Professional Lines -- in our Professional Lines book for the quarter and for the year, and I would like to take the time now to review with you. First, as a broad comment, our Professional Lines reserves for 2010 and prior accident year have held up well over time. We have only had to take specific actions with respect to a few claims related to the credit crisis impacted business. This was the case in the second quarter of the year. There has been no further adverse development in the 2010 and prior reserves in either the third or the fourth quarter of 2013. However, going into the second half of the year, claims started to trend up in our U.S. D&O book for 2011 and '12. We made some adjustments to prior years, but these were not material to our results in the context of overall favorable development for the Professional Lines portfolio.

In the fourth quarter, higher levels of claim activity continued. This caused us to perform a deep dive into the entire U.S. D&O book, the net result of which was an adjustment in our view of the loss experience for that book for 2011 through 2013. Again, during the quarter, we added $32 million to prior year reserves and another $30 million to our full year estimate for 2013. The $30 million fourth quarter addition contributed 70 points to the fourth quarter loss ratio, but only about 1.5 points to the full year loss ratio.

We are comfortable that we have reacted quickly and prudently to the information at hand. Our Professional Lines book has nearly $700 million in IBNR on $1.1 billion of net premiums earned for the 2011 and 2012 years. And our 2013 year is currently reserved at a 76% loss ratio substantially, all of which is IBNR.

Our full year 2013 favorable development was $219 million which compares to $245 million recognized in 2012. During the fourth quarter, our acquisition cost ratio increased by 1.8 points quarter-over-quarter, from 16.8% to 18.6%, with increases noted in both segments. Insurance segment increase is primarily driven by reduced commissions received due to changes in our reinsurance programs discussed previously, as well as mix of business changes which were partially offset by decreases due to a reduction in the business written through MGAs. The Reinsurance segment increase is driven by higher acquisition costs paid on certain lines of business, which includes a shift in the mix of business written towards proportional lines, which carry a higher acquisition cost ratio.

The increases in general administrative expenses were primarily driven by personnel-related expenses driven by higher headcount, as well as the professional and business costs related to various growth initiatives across the company. The increase in G&A expenses was more than offset by the growth in net earned premiums, which reduced our overall G&A ratio compared to the prior year quarter.

Taken together, these items produced an underwriting income of $94 million and a combined ratio of $92.5 million for the quarter. Net investment income was $114 million for the quarter, up from $103 million in the third quarter, and up from prior year quarter's $87 million. The most significant driver of the increase was the contribution to net investment income by our other investments portfolio. Other investments contributed $41 million during the quarter versus $32 million in the third quarter and $15 million in the fourth quarter of last year.

The majority of our other investments portfolio is hedge funds, which benefited from the strong equity markets during the fourth quarter and throughout 2013. Income from our fixed maturity portfolios, including cash and short-term investments, was $78 million for the quarter, similar to last quarter's $75 million and $76 million in the prior year quarter.

Net investment income for the year was $409 million, 7% higher than last year's $381 million. Similar to the quarterly movements, the increase in annual net investment income is primarily due to the contributions from our other investments portfolio.

In the aggregate, the total return on our cash and investment portfolio for the quarter was 0.9%. For the year, the total return on our cash and investments portfolio was 1.6%. The positive total returns for the current quarter and the year were driven by strong returns from our equity and hedge fund holdings, tempered by price declines on our fixed maturity portfolio caused by rising global interest rates. Rising global interest rates caused the yield to maturity to increase to 2.3%, from 1.6% at the end of last year.

We continue to hold a high quality, well-diversified portfolio with cash and invested assets totaling $14.8 billion at year end, consistent with the prior year quarter and up $0.4 billion from a year ago. The duration of our fixed maturity portfolio was 3.2 years at year end, consistent with the prior quarter and up slightly from 3.0 years at the end of last year. Throughout 2013, our portfolio maintained a weighted average credit rating of AA-.

Net unrealized gains on the portfolio decreased by $5 million during the quarter and by $240 million during the year to $135 million at year end. These movements were driven by rising global interest rates during 2013, offset partly by the strong performance of global equity markets and by spread tightening on the U.S. high-yield corporate debt portfolio.

Our total capital at December 31, 2013, was $6.8 billion, including $1 billion of long-term debt and $0.6 billion of preferred equity, comparable to $6.8 billion at December 31, 2012. Our capital position reflects the net income generated during the year and preferred share activity, which was offset by common share repurchases and dividends and the decrease in unrealized gains in investments due to an upward shift in sovereign yield curves during 2013.

During the fourth quarter, as previously anticipated, we restarted our share repurchase program. In the last 3 months of the year, we repurchased 2.3 million shares for a total cost of $113 million. This brings our total repurchases for the year to 10.8 million common shares or 9% of our shares outstanding at the beginning of the year, at an average price of $43.61 per share for a total cost of $472 million.

During December 2013, we announced that effective January 1, 2014, our Board of Directors has authorized the repurchase of up to $750 million of the company's common shares. This effectively resets our repurchase authorization limits and allows us to effect repurchases under this new plan in open market or privately negotiated transactions through December 31, 2015, depending upon market conditions.

In addition, we also announced an 8% increase in the quarterly common share dividend to $0.27, continuing our proud tradition of annual dividend increases for our common shareholders.

Our strategic expansion opportunities continue to progress and we remain optimistic about our prospects. During the fourth quarter, we launched our new third-party capital initiative named AXIS Ventures. While AXIS Ventures did not commence operations until January 1, 2014, we received investment capital from our third-party investors before the 2013 year end, which has been reflected as part of noncontrolling interest balances in our consolidated balance sheet. We continue to believe that our diversified global franchise and strong balance sheet will continue to allow us to take advantage of market opportunities as they emerge.

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

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you, Joe. Turning to market conditions. Notwithstanding the well-publicized reduction in pricing trends, there remain reasonably good fundamentals in many insurance lines and markets after 3 years of positive rate activity across many parts of our business. The U.S. remains the strongest market, driving almost all of our growth in 2013.

Average price increases in our Insurance business in 2013's fourth quarter came in at a slower pace than that observed earlier in the year, with the overall portfolio showing rate change of plus 1%. For our international division, rate as a whole in the fourth quarter was down 2%, but the average does not provide adequate color as the specialty lines, which comprise the division, were typically mixed. Of the 16 separate lines we monitor, 8 were up in the quarter, 3 were flat and 5 were down, with the most significant declines, not surprisingly, in aviation, terrorism and offshore energy. For the full year, the average rate change was up 2%. We anticipate pressure on overall rate for the division in the coming year as the weaker lines should continue their trend, while those that have exhibited pricing improvements over the last 3 years will begin to taper off.

In our Professional Lines division, rate change was 1% overall, plus 1. But again, with wide variations by product and layer. For the U.S., pricing across all units was positive, with the exception of Side A coverages where recent results have been quite strong. Rate increases on primary layers continue to be more consistent and higher, up 6% overall for nonfinancial institutions and plus 3% overall for financial institutional products.

Excess layers across products in the U.S. are up 2% overall. Bermuda excess lines continue to experience low-single digit rate declines, in line with the trends throughout the year. A number of classes continue to suffer from excess capacity, including small miscellaneous professional liability, large account D&O and international professional covers for asset managers and private equity.

On the other hand, classes which have seen higher-than-expected claims activity in recent history, such as public company D&O, are seeing much higher rate increases.

The general trends for 2013 Professional Lines, more broadly, indicate a slow softening for 2014. But we expect the increases to continue where they are required, including in areas where we are taking corrective action.

In our U.S. division, all lines remain in positive rate change territory with a plus 5% rate change for the division overall, our 11th consecutive quarter with positive rates. While pricing momentum has faltered in property lines, we still achieved average rate increases in the low to single mid-digit -- single digit range depending on class and geography. Our Casualty business, however, continued with strong rate improvement at or near double digits.

Submissions in this division remained up over 20% and retentions are good. While property pricing will likely continue to slow in 2014, we expect ongoing improvement outside of property. We continue to enhance the overall quality of our insurance book with solid rate adequacy, strong underwriting discipline, while prudently expanding our product offerings to achieve greater scale and diversification.

As for Reinsurance, the recent January 1 renewals reflected the supply/demand imbalance with a substantial increase in alternative capital, a larger equity base of traditional reinsurers and their strong desire to diversify away from the beleaguered catastrophe markets, confronting greater retentions and reduced demand from buyers.

While the greatest impact on pricing was in the U.S. property catastrophe renewals, for the most part, declines matched those already granted in the midyear 2013 renewals. More broadly, the overall, market experienced margin compression in the face of deterioration and pressure on ceding commissions. Against this backdrop, we leveraged our strong technical capabilities and position with clients to write targeted business and made some shifts in our overall reinsurance portfolio. As a result, we believe our actions offset much of the compression in industry margins.

Despite the headwinds, for the 50% of AXIS Re's 2013 expiring premium renewable in January, excluding agriculture, we grew premium about 6%, roughly flat on an annualized basis after adjusting for multiyear premiums, and we added more balance to the portfolio. About 30% of the expiring premium was nonrenewed or canceled, but this was offset by increases at renewal and new business.

The renewable base for our agricultural reinsurance line, which we introduced to our product offering as we entered last year, is in excess of $120 million in the first quarter. This renewal remains very much in process and will be completed later in the quarter. Despite some pressure introduced by declines in commodity prices, we are expecting growth in this area for increased shares and new business and the U.S. as we renew this new product line of ours.

About 2/3 of our January 1 renewal volume is written out of our Continental European Reinsurance business, which sees more than 80% of its business renew on that date. There, we lost some volume due to both less purchasing by many multinational clients, as well as the withdrawal on our part where experience was poor or pricing declined to unacceptable levels.

Renewal volume was up 2% on the back of a few multiyear policies where we believe we secured attractive terms. But after adjusting for these, we were down about 1% on an annualized basis. I think we did a commendable job in protecting the profitability of the book, giving up less than 2 points in technical margins, while reducing volatility with more pro rata and less cat business.

Outside of Europe, we maintained premium volume overall. Seasons were quite aggressive in pushing terms and price but, still, discipline was generally maintained in most lines of business and good relationships ensured continuity. The ability to find new business, unless new to the market, was a challenge. One observation I would make is that there was a clear difference in the terms of engagements with core reinsurers as opposed to more generic or less well-rated capacity.

Core reinsurers, including AXIS, often benefited from earlier allocations and better terms while following markets often wrote business at lesser terms. Going forward, we expect current market conditions to sustain through the year. On the other hand, we do not expect similar reductions in property cat pricing in the April and June, July renewals.

Recall that this January's renewal price reduction simply serves to give the January customers the benefit of pricing achieved by other clients in last year's spring and summer renewals. We're optimistic that rate reductions from hereon will be more modest.

Notwithstanding the evident increase in competition, we remained very well positioned to protect our book and our margins. We have excellent relationships with our clients and brokers. We continue to work on shaping our portfolio across multiple dimensions, and we are more proactive in managing exposures and hedging risk through retro arrangements and the use of capital market instruments. We are confident in our ability to navigate through this market.

More broadly, underwriting excellence has been a hallmark at AXIS, and it remains our key strength and differentiator in shifting markets. Our underwriters distinguish themselves by their expert knowledge of their markets and their responsiveness. We're investing heavily to enhance our strong underwriting culture and provide our underwriters with the tools and resources they need to succeed.

We react quickly when faced with new data, as we did with our U.S. D&O book this quarter. But our goal is to reduce the likelihood of such events with enhanced data and analytics and dilute their impact with a broader, more diversified, more balanced book of business. Our recipe for outperformance is straightforward: maintain one of the strongest teams in the industry, reinforce the strong relationships we have with clients and brokers to access and retain good business, use improved analytics and tools to optimize the portfolio and make intelligent use of hedging tools to further enhance risk-adjusted returns. We have the capital and balance sheet to support our growth and ample earnings power to absorb the occasional large loss and still deliver strong results. It's a winning formula and one we intend to execute for the benefits of our clients and shareholders.

With that, we're ready to take questions.

Joseph C. Henry
CFO & Executive VP

Just before we open up for questions, I just like to correct one thing that I said during my prepared remarks and clarify one other point. As far as the additional $30 million of losses for 2013 U.S. D&O, that was 7 points to the loss ratio, not 70. I understand I said 70, it's 7 points. And also for the Professional Lines for 2011 and '12 years, we have $474 million in net IBNR on unearned premium of $1.1 billion. The $700 million was a gross number. So again, $474 million net IBNR on net earned premium of $1.1 billion for the '11 and '12 accident years.
With that, Amy, I will ask you to open it up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Mike Nannizzi at Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just on the professional liability reserves, is there any consistency between what you did here and the reserve adjustments you made, I think, it was for '05 and '08 in the first quarter of '13? I think, it was -- yes, I think, it was '05 to '08.

Albert A. Benchimol
President, Chief Executive Officer & Director

Mike, it's a separate issue. The reserve adjustments we made in the second quarter of the year related to the credit crisis years; this relates to accident years '11 and '12. As I said during my remarks, we see no further development on the reserve that we set up in the second quarter -- in the third quarter and fourth quarters of the year.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And can you give us a little color on what -- is there a theme in terms of what happened in the fourth quarter and what impacted '11, '12 and your decision to take the loss ratio, the pickup for this year, a type of case, anything that we can understand kind of what's underneath?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, Mike, I understand. Look, the development in our U.S. D&O book this quarter was clearly a disappointment. And at the very least, we you owe you an understanding of what happened in terms of context. Let me start by saying our Professional Lines book is an important class of business for us. And last year, we wrote, I guess, some $900 million gross, $600 million net. It's a broadly diversified portfolio, by customer, by product, attachment points, geography. We've made lots of money in that book of business over the years. And we're rightly considered the leading underwriter of professional lines by our clients and their distribution partners. If you take that 9$00 million, I'd broadly categorize this book into 3 major sections: miscellaneous professional liability, essentially E&O; financial institutions; and the U.S. D&O book. The issue at hand here is really contained within the primary components of the U.S. D&O book. As Joe just mentioned to you, obviously, within the financial institution's book, we had a couple of cases go against us on the FI book, but the 2010 and prior has continued to behave well overall. So what we had were a couple of isolated cases. But that really has nothing to do with the actions that we took in the fourth quarter. And again, going back to the primary D&O book, we were never a large writer of primary D&O in the U.S. However, in 2009, we believe that the stress in the industry presented an opportunity to increase our penetration of that primary business. Since then, we grew the book from over $20 million in annual gross premium to the current $50 million level. In these early years, we didn't see anything alarming in our reported claims that would indicate we needed to take any kind of reserve actions. However, as Joe noted earlier, we started to see claims pick up a little bit, actually a lot in the second half of 2013. And although we made some adjustments in the third quarter in the context of the overall book of business and the overall reserve for Professional Lines in -- for the '12 and prior, it really wasn't material to us. But the fourth quarter really brought on some new data to us and we saw higher level of claim activity continuing. And we performed a deep dive in the entire U.S. D&O book, the net result of which was this adjustment in our view of the loss experienced for that book in the '11 through 2013. And as Joe said, we added $32 million to the prior year reserves and we decided to add $30 million to our estimate for the full year '13. Obviously, we're not pleased with the development. We've developed a comprehensive action plan to remediate this book as quickly as possible, and it's already in effect. We've made changes to our underwriting, our pricing, claims monitoring and actuarial amounts to that book. And we'll keep very close eye on it to ensure that we get the results we expect. I believe we responded to these developments promptly and decisively. We've established what we believe to be prudent reserves, so as to minimize the risk of revisiting this issue in future periods. I would also add that in performing our various analyses, we identified some positive indications in other parts of our Professional Lines book for the 2011 and '12 years. As you would expect, this is a broad book. And a broad book of this type would give you both good and bad news emerging within the diversified portfolio. However, consistent with our established practice at AXIS, we believe it is still too early to take any action on these favorable indications. So all you're getting is the bad news here. We're taking the situation very seriously and we're taking firm action. But we must also remember that this issue is contained to a $50 million book within a profitable and broadly diversified $4.5 billion company and that, notwithstanding making what we believe to be prudent adjustments to our estimates, our company still report a combined ratio of 92.5% in the quarter and 91% for the year, and operating income of over $600 million. This is not good news, we're not happy to talk about it, but we're going to confront it, we're going to take care of it, and we're going to put it behind us.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. I mean, I guess, my question is, is there -- do we know -- I mean, obviously, you have a big book. It's very diversified, lots of different places, geographies, placements and towers. But is there an underlying trend that we can say, oh, that makes sense. That's the U.S. D&O. That's clearly limited to the primary layers. So that's why whatever this trend is, it's not relevant to the international book reinsurance higher working layers. And something just so we could say, oh, it makes sense that it's in this one book, and then decisive corrective action has been taken. And we don't have to think about how this is relevant to other books?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, Mike, that's a very good question. I think the answer here really lies in the composition of that book. As I mentioned to you, it was a small book that we were growing, and frankly, it's a composition in terms of industry, concentrations in terms of experience, is not a proxy of the industry. And in fact, the fact that it isn't the proxy industry served us well in the early years, and then we saw no frequency of severity in '09 and '10. And in '11 and '12, as we were looking at the industry going through the Chinese reverse mergers, we were looking at M&A defense, we were observing all of these issues happening in the industry, and we were seeing no evidence of that in our book. And so when you have a book that is not a proxy of the industry, sometimes it works for you, and unfortunately, sometimes it works against you. And what happened was it worked for us by and large through 2012. But what happened in 2013 was that the severity of frequency that we were seeing was really hitting our books. And we were seeing it a lot in tech. We were seeing it a lot in health care. And as I've said, we did the deep dive, and we said, this is a small book. There are about 400 accounts here for about $50 million of premium, and the average limit is about $10 million. And so what we did is we made a modest increase in the assumption of frequency of severity of that book. And again, if you take a look at this book and you assume that these books had a little over $100 million, 400 accounts, if you simply add about 3 full limit losses per year, that explains the entire increase that we've done. So it's a small book, and we -- honestly, we underestimated the volatility of the small book, and we should have accounted for the greater volatility inherent in a small book. And as I mentioned, 3 additional limit cases a year account for the entire increase in the reserves. So that's what happened here. With regard to the other book, and I think it's a fair question, why is that not an issue in your other book? The other book is supremely well diversified. On average, the limits that we offer are significantly lower, and it's really diversified by class, by industry, by country. And so I think that the totality of that book really behaves in a very different way than what is a small relatively undiversified, relatively unbalanced book with regard to the industry. That kind of composition works for you in certain markets. It works against you in others.

Operator

The next question comes from Cliff Gallant at Nomura.

Clifford Gallant

Actually, that last answer was pretty thorough. I appreciate that. But I was curious about the -- when you said you did the deep dive during the quarter, if there was any, I guess, more granularity about what kind of trends you did see that would be -- might be useful to think about that line of business.

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes. Again, I think, as you might imagine, we have been scratching our head on this one. This is simply a change in the assumption of severity -- of frequency of severity and by adding a couple of cases a year because the frequency that we saw in '13 basically said we have to reevaluate our assumption of frequency of severity for that portfolio as a whole. We just said, you know what, we just need to assume we're going to have a little bit more bad luck in that portfolio going forward, and we reflected that in our loss picks.

Operator

Our next question comes from Josh Shanker at Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

A couple of things which are related. I want to talk about the business mix issue and also talk about growth trajectory for Accident & Health and other smaller businesses and ultimately their effect on the trajectory of the expense ratio. So obviously, they're small right now, but still the expense ratio is higher than it was a year ago. When should we start expecting some amelioration in that number? And what sort of long-term plan or shorter-term plan are you thinking about as involves business mix?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, a couple of things that I would say. If you look at our expense ratio, one is we are clearly seeing long term, and I think we should expect to see long term in that, an increase in the acquisition expense ratio for the company for 2 reasons. We probably had a lull in the -- in our MGA business last year. As you know, we have been repositioning our MGA book overall, and we're now growing it back up again, and MGAs generally have a higher acquisition expense ratio. And we're also ceding less reinsurance, and we get less benefits of ceding commission. And so you have that. And so I expect that trend will sustain. With regard to the G&A issue, and let's take A&H in particular because that's a large enough book to discuss on its own. We said all along, we needed to be in excess of $300 million worth of earned premium to be able to leverage those expenses across the book and achieve a combined ratio below 100%. I don't have a problem with achieving a technical ratio in the low to mid-90s. The issue is taking that infrastructure that we're putting in place. And as we've said, our expectation is that by the end of the year, we will have reached that balance between earned premium on the one hand and technical margin and overall expense. I will also say that as a general practice, Josh, we will always have a handful of new initiatives, and we will always invest in new offices. This is the R&D of our business. The R&D of our businesses is bringing on people, establishing a presence, building. So right now, and I've said this before, we still have challenging expense ratios in Canada and Australia as we're expanding that area. You've heard that we bring on new teams. In fact, just recently, this week, we announced that we were bringing on a new health care team. And we're not going to be writing a dollar of business with this team before the middle of the year at the very earliest, and it'll be a slow growth as we go through that. So that's going to continue going forward. The overall expenses of the company, in my mind, are likely going to have another factor. And that factor is the investments that we are making currently as we transition from a small, midsize company to a larger company. And we have some short-term investments that we need to make to make that transition, including investments in IT, including investments in how we are delivering our services across the organization. And I would expect continued growth in our expenses as we make those investments, many of which cannot be capitalized over the next couple of years. But as we are looking at our numbers going forward, we're optimistic that the investments that we will be making over the next couple of years will start to provide a meaningful investment in terms of bending down the cost structure of this organization in future years. Is there anything you wanted to add, Joe?

Joseph C. Henry
CFO & Executive VP

Yes. Josh, just 2 things on A&H. Our gross premiums for the year were about $269 million, which was slightly above our plan. The mix of business between insurance and reinsurance was about 30-70. But as we move forward, Chris and team expect that -- that actually, we'll move towards more of a 40-60 mix with a lower expense ratio. And just to maybe report on what happened during 2013, the G&A expense ratio for A&H itself came down by 7 points. So even though A&H is a bigger part of our earned premiums and had a higher expense ratio, over time, their expense ratio will come down. So I don't know if that helps at all.

Joshua David Shanker
Deutsche Bank AG, Research Division

It does, it does. And on the loss ratio side, you mentioned business mix. I assume the business mix change is largely a decline in aviation, aerospace and increasing casualty. I just wanted to, like, understand what's driving the -- and I realize obviously there's the -- through 9 months '13, you increased the loss pick there for the Professional Lines. But on the business mix issues, is that principally what you're getting at when you say that the loss ratio was higher based on business mix change?

Albert A. Benchimol
President, Chief Executive Officer & Director

I think that's right, and I'll expand on that just a little bit, Josh. But that's a very good point. One of the things that we're looking to do here is to significantly increase the capital efficiency of our book and reduce the volatility. So there are a number of lines of business that we've introduced recently that are very steady lines of business but with higher loss ratios or -- a good example would be A&H, which is a very steady line. But that's contributing, in fact, to the growth in the loss ratio for the insurance industry. Another area that you, that you will see that we've grown is we've grown the motor book in the reinsurance area. Again, that's a high-loss ratio, low-expense ratio, very stable book of business. We've added, just last year in the reinsurance area, over $100 million of agricultural reinsurance business, most of it quota share. Again, that's a higher-loss ratio business. So all of these -- and I want to parse the 2 of them because you can argue that the lines that I've just discussed are high ratio -- high loss ratio but low volatility. You also have casualty, which is high loss ratio and higher volatility, and so I wanted to make a point of distinguishing between the 2. Yes, we are seeing very good growth opportunities for us in our U.S. excess and umbrella book. That is clearly a higher-loss ratio business, but the -- that is approaching very attractive profitability levels. So all of those things are creating a shift in the mix of business to a slightly higher, long-term loss ratio but also significantly reducing the volatility of the book. And I want to give you one more piece of data. Over the last 2 years, Josh, we increased our premiums by about 15%. Over the same last 2 years, we reduced our shares outstanding by 16%. So we've been able to grow the book, diversify the book and return all of our profits to our shareholders as a result of having a much better capital efficiency in our portfolio.

Operator

The next question comes from Vinay Misquith at Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

The first question is sort of related to the U.S. D&O book. If I heard correctly, you have $50 million of premiums. And did you mention that it took the losses up by $30 million this year, so that seems to be a 60-point charge on the combined ratio?

Joseph C. Henry

CFO & Executive VP

Absolutely. As I've said, this is an unbalanced book. And if you have a $10 million line, 3 full limit losses is $30 million. And the problem with that book is that it's a -- it is small and it cannot absorb an increase in the frequency of volatility. And that's a real issue. Now again, I think what's really important is that when you have over 20 different portfolios of Professional Lines across the company, some are going to perform a little bit better, some are going to perform a little bit worse. But the totality of the portfolio, when you get the benefit of the balance and the diversification in that portfolio, the totality of that portfolio continues to perform very well. And as I've said earlier, we saw a lot of positive indications for '11 and '12. We chose not to take them. So you're getting all the bad news and none of the potential good news. We think that's the right thing to do. We think the right thing to do at this point in time is having identified the issue that we made significant actions on the underwriting side, on the claims monitoring side, on all of the other issues. Our underwriters are working very hard to rebalance this portfolio. They're obviously going to be looking very strongly at pricing, at mix and everything else. But in the context of it, this book, '11, '12 and '13, is going to have very unattractive loss ratios. But we think that those unattractive loss ratios are prudent. We can't guarantee anything, but we've done everything we could to make sure that the likelihood of this thing hitting us or hurting us in 2014 and on is highly unlikely. We're -- I think we're taking all the right moves, including taking a prudent view of what those years might be.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, that's helpful. The second question is just looking at -- so I think the full year accident year loss ratio x cat is the more proper way to look at things. But that was hurt by higher property loss abroad in the -- both in the Insurance and Reinsurance segment and higher ag losses this year. Looking forward to next year and looking at where pricing is going, should we see flattish margins next year versus this year? How much of a negative impact did ag and the property losses have in full year losses this year?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, good questions, Vinay. And I think the first thing that we need to say, because I don't know if you actually heard it clear enough is we actually had a very profitable year in ag. But all of the losses came in the fourth quarter as there were some adjustments in premium. There was a significant premium reduction after we got the final border rows [ph] from our clients. We did get losses coming out of India, and then we had a small, as well, excess of loss in the U.S. piece. But net-net, we reported a profitable underwriting year in the ag book. It's just that the losses tended to come in the fourth quarter. With regard to the property books, as I was -- there's always going to be some volatility. One of the issues that comes across here is that on the reinsurance side, we actually had very, very favorable property experience x cat in the fourth quarter of last year. So it makes the comparison year-over-year actually unattractive. But that speaks more to the experience in the fourth quarter of last year as it is this year. So again, there's a lot of volatility that you would expect in a book of our size. But going back to your core question, we've benefited from some pricing increases. In excess of half our book, I would say last year, we're showing rates at or better than trends, and certainly, that'll be a positive issue there. But there is going to be continued volatility on the property side on a normal basis, on the cat side on a normal basis. I would say that when I look at all of our book year-over-year on a price basis, excluding volatility, overall, there's probably a point of deterioration year-over-year in terms of the price profitability of the book. But that alone is not going to be directive because the volatility in the book of the business, the construction of the portfolios will very likely have more impact on our ultimate results than that one point on a price basis.

Vinay Gerard Misquith
Evercore ISI, Research Division

Sure. And the one point includes the property cat and the Reinsurance business, correct?

Albert A. Benchimol
President, Chief Executive Officer & Director

Again, the property cat is a separate issue because it's a volatility issue. I'd say all in -- as I mentioned earlier, I think the reinsurance book is somewhere between 1 and 2 points of margin that we're giving up in the book. On the property book as I've said, maybe a point, all in. But I think the construct of our book and the change in the mix of our business are likely going to have more impact on the forward-looking numbers.

Joseph C. Henry
CFO & Executive VP

Vinay, it's Joe. Just a couple of things to follow up on that. In terms of agriculture profitability during the year, the technical ratio, which is basically losses, acquisition costs, was 93.3%. So we had an excellent year on a year-to-date basis on agriculture. In case anybody is curious about the accident year loss ratios, and we focus more on year-to-date than quarter. On the insurance side, the accident year loss ratio went up 3.5 points, and if you look at what that's comprised of, it's comprised of mix of 1.1 points and cost or experience of 2.4 points. The mix of that -- the mix is really driven by A&H, and the cost was really driven by the professional items that we discussed. On the reinsurance side, on a year-to-date basis, the accident year loss ratio was up 1.3 points, and that is a case of mix actually declining by about 1 point and costs going up by about 2.3 points. And both of those issues, mix and cost, are related to ag.

Operator

Our next question comes from Ryan Byrnes at Janney.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Great. So as you guys shift away from more capital-intensive lines of business, how should we thinking about, I guess, capital management going forward? I guess, in light -- this year, you guys repurchased about 93% of operating earnings through dividends and repurchases. So how should we think about that going forward?

Joseph C. Henry
CFO & Executive VP

Ryan, it's Joe. We've really not changed our outlook as far as capital management is concerned. We're going to continue to repurchase shares equal to our operating earnings less dividends, if the conditions are favorable to do that. Our PMLs have come down. You can see it from the supplement -- the financial supplement disclosure. But as Albert has mentioned, we've grown the book of business, and that brings additional reserve risk to it. So to a certain extent, some of the PML reductions have been offset by increase in reserve risks. So we're kind of standing pat. If the opportunity presents itself, we'll get active again. But overall, we're not changing our strategy.

Albert A. Benchimol
President, Chief Executive Officer & Director

Ryan, I -- if I may, I -- there's a statement that you made that I have to correct. We're not moving away from capital-intensive lines. They're a strong part of our book. We've got great experience and a great history of positive results in that one. What we are doing is we are adding to that book of business. We are growing in lines that diversify the book. We are growing in lines that don't add a significant amount. But I want to make it very clear to everybody on the call, we are not moving away from those lines. We are an experienced market, we are a good market for those lines, and we will continue to participate in those lines.

Operator

Our next question comes from Meyer Shields at KBW.

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

When we look back at 2013 to the property and attritional losses over the full year, would that qualify as sort of average, above or below?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, obviously, on a cat basis, we had a below-average year. There's no doubt about that. I think on a property type basis, what I would say to you is it's probably a little bit above average, but what happened to them is the frequency of the distribution of those losses was not average. As you know, we had a real clumping of those losses in the second quarter. But when you look back at the full year, which ultimately we have to do, it was just a modestly above-average year for property -- for property losses.

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

Okay, perfect. And just a quick question. Did you buy back any stock in January of this year?

Albert A. Benchimol
President, Chief Executive Officer & Director

No, we did not buy back any stock in January this year. We are waiting for our window to open up in the next couple of days. And as Joe mentioned earlier, we haven't changed our stance with regards to capital management.

Operator

Our next question comes from Charles Sebaski at BMO Capital Markets.

Charles Sebaski

Had a question about the credit and political risk. Seems that it's been growing pretty much this year and came down a little bit. I wonder if there's anything specific or global events or just how the book is played out.

Albert A. Benchimol
President, Chief Executive Officer & Director

No. You're right, we have had increasing revenues in that book. We've had some good opportunities. We've expanded the book to include more projects financed, for example, and just a better fit with the opportunities that we've been seeing in 2013 as compared to our appetite. That's really been the issue. We feel good about the quality of the book. Interestingly enough, the total exposure in the book has actually gone down year-over-year as the exposure -- assuming that prior year's continues to go down. So I would say that the underlying risk in the portfolio is down year-over-year as the old business is running off, but we've put on some attractive new business. And, man, it's okay.

Charles Sebaski

All right. And then regarding the new health care team that you're putting on, I wonder if we could just get a little insight on where in that market you're looking to play, on the small or larger side, what the -- what kind of outlook or expectation you have for size or any additional thoughts you might want to share on that new plan.

Albert A. Benchimol
President, Chief Executive Officer & Director

It's -- as you know, we recently recruited a new team, and it goes without saying that this team is highly regarded in the industry, significant experience, presence in both the market as well as the industry. What I would say is that what we expect to do here is build a very broad book of risk. We're going to go after doctors, doctors' groups, hospitals, health care service organizations. It'll generally be low limit, primary mostly. But I -- what I want to do here is take this at the appropriate pace. We've literally just brought on that team. And the first thing that we're going to do is we're going to go through, confirming all of the assumptions that we made. We're going to develop the business plan. We'll look at the brokers, and we will come back at you with a more defined plan for that business. But you can't do that when they're busy working with other people. So we're happy we got them onboard. We're going to be working internally to develop the right plan. And if things go as we expect, we should start to write business in the summer.

Charles Sebaski

Okay. I guess mine was more -- the question is more along the lines of do you see opportunities that in -- the large hospital, large doctor groups, is it some on the smaller end and sort of the spectrum of insureds out there that you sort of obviously saw a market opportunity for -- that kind of piece of it?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, that's right. And I think one of the things that's very interesting is we have to recognize that with the evolution of the Affordable Care Act, there are a lot of changes happening in the industry. And we believe that, that will, in fact, create some new opportunities that may have not have been there in the past. So when you look at their experience, I think physicians' groups, hospitals, allied health care facilities, individual physicians, that'll generally be the kind of market that we'll be going after. The limits will generally be kept low, and obviously, we'll be looking very much at securing that business in those states that have a good track record with regards to litigation and liability. It'll be a surplus lines facilities. So we've got all of those things planned properly. But as you know, this is an industry right now, this is a market right now that is undergoing some transition. We did not bring this team onboard to write a whole lot of business over the next 6 months to 1 year. What we did is we brought this team on board so that we can expand our offerings of professional liability. We have a very well-diversified portfolio. We do accountants, we do lawyers, solicitors, insurance brokers, architects, engineers, a whole slew of them. We think that this is a large market. We feel that this is appropriate addition to our portfolio of professional liability cover and obviously, less I would say, a 12- to 24-month plan and much more of a longer-term plan to expand and diversify our professional liability practice.

Operator

Our next question comes from Dan Farrell at Sterne Agee.

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

Could you expand a bit more on your strategy for reinsurance purchase in 2014 following some of the changes that you made in '13?

Albert A. Benchimol
President, Chief Executive Officer & Director

Sure. We've made some -- let's just go through the changes we made in 2013, just for putting the context here. Like many people, for a long time, we used to buy a lot of individual towers, buy low down on individual towers, and that was great for protecting the individual result of any one book of business. But what you'd -- what we found when we did a further analysis -- and again, I go back to my point, the secrets to improving the results overall is enhanced use of analytics in optimizing the portfolio. When we did all of that, what we were looking at was that we were ceding away a lot of our diversification benefit. And it just made a lot more sense for us to retain more of the individual towers in our various businesses, and we discussed that with you all in our investor day presentation. Mike Steel, our Chief Risk Officer, went through that with you. So the first thing that we did -- as we said, we can afford to buy more. Now of course, because we wanted to be prudent, we also put an aggregate cap on those treaties, so that if we got hit with too much frequency, we've got some protection on that. But we thought that this was the right opportunity to do that. In some cases, we actually increased quota share reinsurance purchases for some lines, and in other lines, we decreased quota share protections from some lines. And the last thing that we did was, as you know, we issued a cat bond in July, providing us with $200 million protection for aggregate U.S. losses in excess of $1 billion in a year. Another thing that we did was we started to take more opportunistic use of ILWs and capital market instruments to shave some of the peaks of our exposures. And we are now this year also going to use a little bit of retro in our reinsurance book to further manage the profitability of the book and further manage the volatility of that book. We regularly do reviews based on our best estimates of where the book is, the volatility of the book and where it's going. My expectation is that you will see in 2014 some more modifications here and there across our reinsurance purchases. As I've said, I think you will see for the first time the purchase of a little bit of retro in our insurance book, but I think the major shift in approach happened in 2013.

Operator

Our next question comes from Ian Gutterman at BAM.

Ian Gutterman
Balyasny Asset Management L.P.

First, can you quantify the -- within the quarter, I know you gave the year, but within the quarter, how much impact the non-cat property and agricultural losses were?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well...

Joseph C. Henry
CFO & Executive VP

Bear with me a second here.

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes. I think you've -- yes, we've got that on the reinsurance analysis.

Ian Gutterman
Balyasny Asset Management L.P.

Shall I ask the next one while you look or...

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, if you've got -- yes, let me just go through the loss ratio information right now, and just bear with me.

Joseph C. Henry
CFO & Executive VP

Ian, could you just repeat that question for me and make sure I have it right because I've got some numbers in front of me. Just repeat that real quick.

Ian Gutterman
Balyasny Asset Management L.P.

Sure. Just the comments in the press release and, I think, in your prepared remarks as well about Q4 in reinsurance having increased accident year due to the property losses, the...

Joseph C. Henry
CFO & Executive VP

Yes. Okay, I got it. And so...

Ian Gutterman
Balyasny Asset Management L.P.

Small cat property losses plus the crop losses.

Joseph C. Henry
CFO & Executive VP

Right, for reinsurance in the quarter, we had an 8-point change in the accident year loss ratio. Some of that was due to mix, very little, a piece, but most of it was due to the cost or experience, and within the cost or experience, property was 5.4 points, and ag was 3 points. That's in the quarter on reinsurance. On the insurance side, if you need that, it was 6.1 points in the quarter.

Ian Gutterman
Balyasny Asset Management L.P.

And that was all property?

Joseph C. Henry
CFO & Executive VP

Yes.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. Okay, great. Then on the D&O, Albert, can you -- you obviously gave us a lot of colors. I was hoping to push for a little bit more. Can you give us a little bit better idea of sort of where these claims came from? And I mean, you mentioned, I think, some medical, some tech. But I guess I'm looking more specifically, where were you attaching on these? Were they normal attachment points for you? Were they high? Were they low? Were they side A? Were they side B? Were they derivative cases? Were they security, accidents cases? What sort of additional color can you give us?

Albert A. Benchimol
President, Chief Executive Officer & Director

Ian, 2 from column A and 1 from column B. The real issue there, this is a primary book, so it attaches low. And what we got head-on in this second half of the year was a higher frequency of securities class actions on the primary public D&O book. And as I mentioned, we did have a heightened number of cases in the tech and health care parts of the portfolio.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. So this is traditional -- this is the kind of stuff I would see in, say, the Cornerstone data or whatever should correlate to those kind of cases?

Albert A. Benchimol
President, Chief Executive Officer & Director

It is. And as I mentioned earlier, the issue with our portfolio was that because of its distribution by industry, it is not -- it has not historically been a good proxy for the industry. And as I mentioned earlier, at the risk of repeating myself, some of the Cornerstone data that was available, a lot of that stuff we missed, we missed because of the way the portfolio was constructed. Unfortunately, we did get hit in the second half of '13.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. And then your plans for renewing that business. I mean, simplistically, if you're adding $30 million of claims on a $50 million book and you already had, I assume, a non-insurer loss ratio book, that it would seem to imply you had over 100% loss ratio in this book, which would suggest you think you need a lot of pricing or you cannot renew? Or am I misreading that?

Albert A. Benchimol

President, Chief Executive Officer & Director

You're absolutely correct. The loss ratio is in excess of 100%, and our corrective action plan includes a combination of a number of issues, one of which is clearly, we need to push price in a number of areas. B, we need to revisit the premium to limit balance in the book. We think, in fact, that when we look at what's happening in this book, we have here what could be the core of an interesting book. But where it is right now is between and betwixt. We think there's an opportunity for us here to be more focused on exactly the kind of distribution we want on this book, and we think that actually, with a greater number of risks in that portfolio, we'll actually get more balance. So it's getting a distribution, which is more reflective, if you would, of the industry and getting a better balance. Now as I mentioned to you in terms of my market comment, these are difficult markets. We are getting price increases in there, but we're going to have to work at getting that balance. Until then, we're going to make sure that we've -- that we're containing this book, so that it does not hurt us in the future.

Operator

Our next question comes from Mike Nannizzi at Goldman Sachs.

Albert A. Benchimol
President, Chief Executive Officer & Director

I think we lost him, operator.

Operator

Okay. At this time, we'll conclude the question-and-answer session. Mr. Benchimol, would you like to make any closing remarks?

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you. Again, I want to go back to my opening comments. On the whole, it was a good year, but certainly, there are things within this year that we are not happy about. I believe that we took the right actions to take care of it and contain it within 2013. We will take action, and we will report to you on our progress as the year continues. Thank you very much, and we'll speak with you shortly.

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