S&P Capital IQ

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AXIS Capital Holdings Limited NYSE:AXS

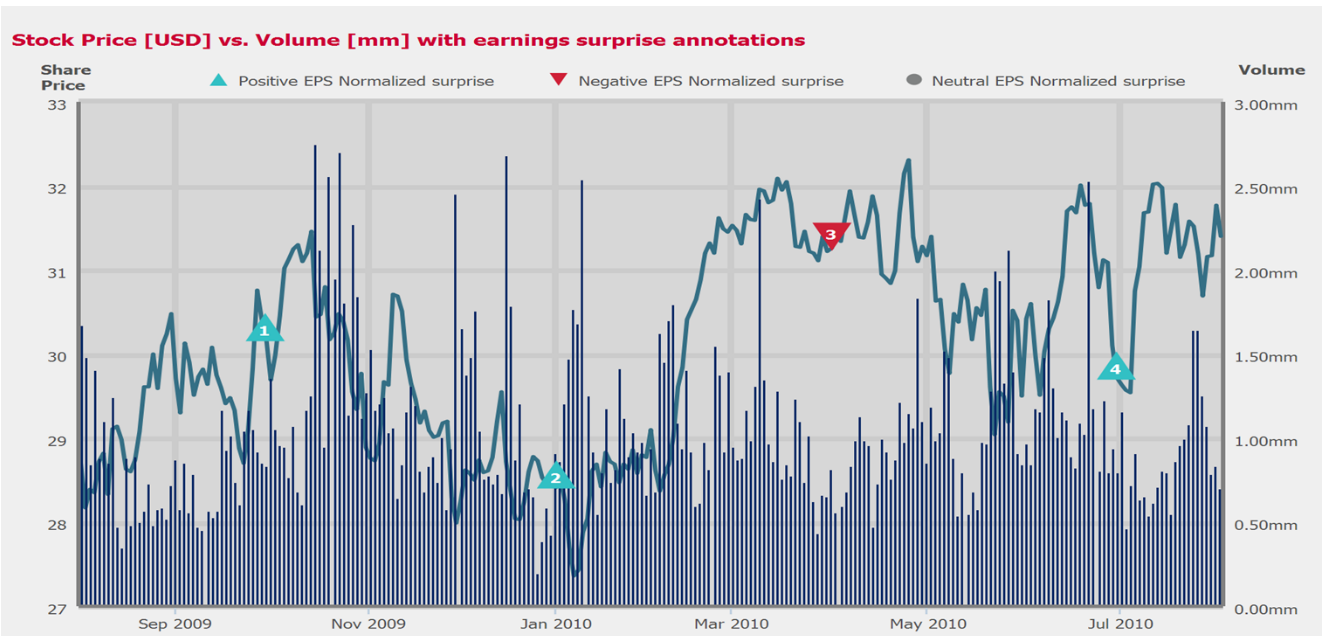
FQ3 2010 Earnings Call Transcripts

Tuesday, November 02, 2010 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ3 2010-			-FQ4 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.10	1.22	▲10.91	1.16	4.28	4.29
Revenue (mm)	714.37	626.32	▼(12.33 %)	561.86	3220.46	3345.41

Currency: USD
Consensus as of Nov-02-2010 11:00 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2009	0.80	1.05	▲1 31.25 %
FQ4 2009	1.31	1.83	▲2 39.69 %
FQ1 2010	0.68	0.67	▼3 (1.47 %)
FQ2 2010	1.19	1.33	▲4 11.76 %

Call Participants

EXECUTIVES

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Former Chief Financial Officer and Executive Vice President

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Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

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Presentation

Operator

Good day, and welcome to the Third Quarter 2010 AXIS Capital Holdings Earnings Conference Call and Webcast. [Operator Instructions] Please note, this event is being recorded. I would now like to turn the conference over to Ms. Linda Ventresca, Investor Relations. Please go ahead, ma'am.

Linda Ventresca

Thank you, Andrea, and 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 quarter ended September 30, 2010. Our earnings press release, financial supplement and quarterly investment supplement were issued yesterday evening after the market closed. If you would like copies, please visit the Investor Information section of our website, www.axiscapital.com. We set aside an hour for today's call, which is also available as an audio webcast through the Investor Information section of our website. A replay of the teleconference will be available by dialing (877) 344-7529 in the U.S. The international number is (412) 317-0088. The conference code for both replay dial-in numbers is 444604. With me on today's call are John Charman, our CEO and President; and David Greenfield, our CFO.

Before I turn the call over to John, 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 and financial results, the valuation of losses and loss reserves, investment strategies, investment portfolio and market performance, impact to the marketplace with respect to changes in pricing models and our expectations regarding pricing and other market conditions. These statements involve risks, uncertainties and assumptions, which could cause actual results to differ materially from our expectations. For a discussion of these matters, please refer to the Risk Factors section in our most recent Form 10-K on file with the Securities and Exchange Commission. We undertake no obligation to update or revise publicly any forward-looking statements whether as a result of new information, future events or otherwise. In addition, this presentation contains information regarding operating income, which is a non-GAAP financial measure within the meaning of the U.S. Federal Securities laws. For a reconciliation of this item to the most directly comparable GAAP financial measure, please refer to our press release, which can be found on our website.

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

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Good morning, everyone, and thank you for joining us. After providing an overview of the results for the quarter, I will ask David to discuss those results in more detail. Then, I will address underwriting activity and market outlook.

For the quarter, operating earnings per share were up 22% to $1.22. Annualized operating return on equity for the quarter was 12.6%, which we view as healthy, given current end market P&C conditions and the low investment view of the environment. The combined ratio was 85.6% and included $85 million in net losses from the New Zealand earthquake. Operating earnings per share for the year-to-date were $3.20, and we produced an attractive annualized operating ROE for the first 9 months of the year of 11.3%, even taking into account the catastrophe activity this year. We ended the first 9 months of the year with a combined ratio of 89.8%. Our progress in accreting diluted book value per share is a primary measure in assessing our shareholder value creation. Our operating and investment results produced a dilutive book value per share of $39.01 at September 30. That's a 6.7% increase since June 30, a 15.9% increase since year end 2009 and a 23.5% increase compared to a year ago. Our capital position is strong, and David will talk more about capital management activities later.

As previously indicated, David Greenfield's last day as our Chief Financial Officer will be November 30. This is David's last conference call, and I know we will all miss David's insightful commentary regarding our financial results. David has been a valued member of our executive management group for the past 4 years. During this time, he has successfully directed financial strategy of the company and led the further development of our accounting control, financial reporting, financial planning, tax and treasury functions. We thank David for his many contributions to AXIS Capital during the last 4 years and wish him well in his future endeavors.

As we announced late last week, Albert Benchimol, who currently serves as Chief Financial Officer of PartnerRe will be joining us on January 17 as Executive Vice President and Chief Financial Officer. We expect that Albert will continue to build on the great work David has done with AXIS, and I am confident that we will continue to have one of the strongest management teams in the industry equipped to lead AXIS to even greater successes in the years ahead.

I will now turn the call over to David to discuss our financial results for the third quarter of 2010 in more detail.

David B. Greenfield
Former Chief Financial Officer and Executive Vice President

Good morning, everyone. Before I begin, I'd like to just take a minute to thank you, John, for those kind words and to extend my thanks to all of my colleagues at AXIS and those in the financial community for your support and assistance over the past 4 years. We've accomplished quite a lot together and worked through some challenging financial markets. Thank you, all.

As John mentioned, we're pleased with our results for the quarter. Our diluted book value per share increased 7% during the quarter, reaching another all-time high above $39. Book value was bolstered by net income, as well as further improvements in valuations for our investment portfolio. In addition, we delivered a strong annualized operating return on average common equity of 12.6% for the quarter. Net income available to common shareholders for the quarter was $239 million, or $1.78 per diluted share compared with a net loss of $96 million or $0.70 per diluted share for the third quarter of 2009. Operating income, which excludes the impact of realized gains and losses on investments, was $164 million or $1.22 per diluted share compared with $152 million or $1 per diluted share for the third quarter of 2009.

For the first 9 months of 2010, net income available to common shareholders was $556 million or $4.04 per diluted share compared with $179 million, or $1.19 per diluted share in the first 9 months of 2009. Operating income was $439 million or $3.20 per diluted share compared to $490 million or $3.26 per diluted share for the first 9 months of last year.

Turning to our top line. Our consolidated gross premiums written were $751 million for the quarter, a 3% decline from the third quarter of 2009. Reductions in our Reinsurance segment were partially offset by selective growth in our Insurance segment. Gross premiums written in our Reinsurance segment were $317 million, down 12% from the prior year quarter. Our liability reinsurance premiums decreased primarily due to the nonrenewal of one significant contract following a material change to the cedant's business. Professional lines reinsurance premiums also decreased. This was mainly as a result of the extension of certain third quarter 2009 treaties for renewal into the fourth quarter of 2010, as well as premium adjustments to prior year treaties that impact the comparable period analysis.

Gross premiums written in our Insurance segment were $434 million this quarter, up 5% from the third quarter of last year. The increase was primarily driven by our credit and political risk line. As we previously discussed, we ceased underwriting this class of business in early 2008 due to concerns about the global credit markets. We are carefully re-entering the market with underwriting guidelines reflecting all of the lessons learned from the financial crisis. This re-entry is also coinciding with the increased demand for the product as global lending activity resumes.

Our consolidated gross premiums written for the first 9 months of 2010 increased 3% over the same period in 2009. This was driven by a 9% increase in gross premiums written in our Insurance segment led by targeted opportunities in the U.S. property market and the energy market. Consolidated net premiums written increased 5% in the quarter and 8% for the year-to-date, due to the previously mentioned increase in gross premiums written and the reductions in reinsurance purchasing on the renewal of certain programs, which we discussed last quarter. In line with these changes, our consolidated net premiums earned increased 7% in the quarter and 5% for the 9-month period.

Moving on to our underwriting results. Total underwriting income for the quarter was $127 million compared with $71 million in the third quarter of 2009. Underwriting income in the third quarter of 2009 included an adverse $136 million fair value adjustment related to an indemnity contract exposed to longevity risk. The contract was canceled in the fourth quarter of 2009 resulting in no further impact to underwriting results this year.

Our combined ratio was 85.6% this quarter versus 73.2% in the prior year quarter. Our current accident year loss ratio increased 3.7 points from 61.4% in the third quarter of 2009 to 65.1% this quarter. The most significant loss event in the quarter was the 7.1 magnitude earthquake at Christchurch, New Zealand. Our estimated net losses for this event are $85 million. In the comparable quarter last year, catastrophe losses were not significant. Partially offsetting the catastrophe-related increase in the current accident year loss ratio were reductions in the loss ratios for our credit and political risk insurance and trade credit and bond reinsurance lines of business. Loss activity on these lines were elevated in 2009 as a result of the global financial crisis, and we are now returning to more normal loss expectations for these lines.

Our consolidated current accident year loss ratio for the year-to-date was 69.7%, 3.3 points higher than the ratio for the first 9 months of 2009. In addition to the New Zealand earthquake this quarter, the first quarter of 2010 was impacted by a high level of natural catastrophe activity, including the Chilean earthquake, Australian storms, European windstorm Xynthia, and winter storms in the U.S. The most significant of these events was the Chilean earthquake, which our current estimated net losses are $121 million, net of related reinstatement premiums, up $9 million. There was no significant change in our estimate this quarter.

The other first quarter catastrophe events resulted in aggregate net incurred losses of $49 million. As with the Chilean earthquake estimate, there was no material change in this aggregate net loss estimate during the quarter. Our estimate of net reserves from prior accident years developed favorably during the quarter, with prior year net reserves reduced by $72 million. Of this amount, $28 million was from our Insurance segment representing a positive impact of 8.7 points on the segment's loss ratio. In our Reinsurance segment, we recorded $44 million in net favorable prior period reserve development, representing a positive impact of 10 points on the segment's loss ratio. Approximately $32 million of the group's net favorable reserve development this quarter was generated from our short-tail lines. A further $25 million relates to our professional lines insurance and reinsurance businesses. As discussed in prior quarters, we're continuing to incorporate our own experience into our ultimate expected loss ratios for accident years 2007 and prior, with less weight given to industry benchmarks. We have yet to do this in any meaningful way for liability lines with longer development tails. Net favorable reserve development of $11 million from our trade credit and bond reinsurance business was also reported in the quarter in recognition of better-than-expected loss experience primarily from the 2009 accident year.

Moving on to expenses. Our acquisition cost ratio was comparable to the prior year quarter. Although our Insurance segment's ratio increased by 1.6 points due to reductions in our ceded reinsurance purchasing, this impact on consolidated results was muted by the impact of business mix changes. Our G&A expenses increased 12% over the prior year quarter or comparable with the second quarter of 2010. As I have noted in previous quarters, strategic initiatives such as the buildout of our A&H business have resulted in some upward movement in these expenses. However, the previously discussed increase in net premiums earned this quarter mitigated the impact of the increase on our G&A ratio.

Now turning to our investment portfolio. Our total cash and invested assets have grown by approximately 10% or $1.2 billion during 2010 to $12.8 billion as of September 30, 2010. This was driven by our strong operating cash flows, and a further increase in the fair value of the investment portfolio, partially offset by negative movement in foreign exchange rates, mostly the euro against the U.S. dollar. Total return on our cash and invested assets, our primary measure of performance in our investment portfolio, was

5.9% year-to-date. We continue to maintain a well-diversified portfolio with the duration of 3 years and a weighted average credit quality of AA.

Net investment income for the quarter was $112 million, up from the second quarter's $83 million due to strong performance from our alternative investments. However, net investment income was down $23 million from the year ago, primarily due to lower reinvestment yields and lower returns on our alternative investments. As a reminder, our alternative investments portfolio is accounted for at estimated fair value with the change in fair value reported in net investment income. Our pretax annualized investment yield on our fixed maturity portfolio was 3.6% for the current quarter, down 54 basis points from a year ago, as lower and new money rates continue to pressure our portfolio yields.

During the quarter, our net realized investment gains were $77 million compared to net realized investment losses of $253 million for the same quarter in 2009. The 2009 amount was driven by $279 million of impairment charges primarily related to our holdings in medium-term notes, and compares with only $2 million of impairment charges during the third quarter of 2010. We anticipate short-term interest rates will remain at or near historical low levels for the foreseeable future. To mitigate declining yields, our current strategy for our fixed maturity portfolio is to continue to emphasize corporate debt and other credit spread sectors, while maintaining a high-quality, shorter-duration portfolio. With respect to foreign exchange, our income statement gains and losses are primarily the result of a revaluation of each balance sheet date of our net insurance liabilities required to be settled in foreign currencies. This quarter, significant appreciation in the rates of exchange for the euro and Australian dollar against the U.S. dollar drove the $25 million FX loss. In comparison, we recognized $7 million in FX losses in the prior year quarter.

From a book value perspective, these foreign exchange losses were offset by corresponding foreign exchange movements on our available-for-sale investments, which are largely recognized through other comprehensive income. Our March 2010 senior note issuance drove the increase in interest expense for the quarter and for the year-to-date. We continue to remain strongly capitalized for the risks we hold and the risks we are targeting. Our total capital at September 30, 2010, was $6.8 billion, including $1 billion of long-term debt and $500 million of preferred equity. Our financial flexibility remains very strong, with a debt-to-total-capital ratio of 14.5%, a debt-and-preferred-to-total-capital ratio of 21.8%, and total capital in excess of the various rating agency requirements.

In August, we entered into a 3-year revolving $500 million senior unsecured credit facility. This was in addition to the $750 million secured LLC facility we put in place in May of this year. Together, these 2 facilities serve to replace the $1.5 billion unsecured facility we had in place since of August 2005. Our capital management approach balances the obvious rating agency and regulatory capital requirements, with plans for reinvestment in our business and opportunistic capital requirements. We moderated our share repurchase activity this quarter as we monitored Atlantic hurricane activity. In anticipation of increased share repurchase activity following this third quarter, our board recently authorized an additional $750 million for common share repurchases. Given depressed market valuations for the industry and lack of attractive investment in underwriting alternatives, we continue to believe that share repurchase currently is in the best interest of our shareholders. We will continue to monitor market valuations and execute further share repurchases as we deem appropriate. At October 29, 2010, we had approximately $870 million of remaining repurchase authorization.

In our quarterly financial supplement, we have updated information about PMLs as of October 1 for the AXIS Group at various return periods for peak industry cat zones. We have also provided estimates of industry losses at these return periods. The most significant change in our PMLs relates to our European wind exposures. This change is primarily due to an update of a vendor model, which we used within our Reinsurance business and our group aggregation process. The changes resulted in reductions to our European wind PMLs in the higher return periods. Within the tables, we also show the industry loss estimates from a vendor model. During this quarter these figures were impacted by updates to the industry databases and currency movements.

With that, I'd like to now turn the call back to John.

John R. Charman

Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Thank you, David. The market during the second half of the year does not look substantially different from what we have seen in the first half of this year. The market continues on a steady, broad, competitive track. The overall rate change for our Insurance segment during the third quarter is estimated at minus 4%, which is in line with the change in the prior quarter. Because of differences in mix of business between the 2 sequential quarters, the rate changes are not directly comparable. However, the trend is negative across most insurance lines, and we expect to see a continuation of this negative trend through the balance of the year, absent a major catalyst. This modest decline in pricing across the portfolio was relatively consistent across most classes. The only class of business which has experienced meaningful positive rate change, as expected, is the offshore energy class, following the Deepwater Horizon loss. Overall, our renewal retention rates were amongst the highest we have seen as we remain focused on maintaining business that we know well. Aside from lines of business, which are new to our overall portfolio, such as Accidents & Health, new business in our existing lines is limited. The greatest challenges ahead for the reinsurance market stemmed from the underwriting activity of primary companies, where there is continued pressure on rate and changes in terms and conditions. While there is a general negative tone in the reinsurance marketplace, the tone naturally seems to be driven the loudest by intermediaries. In our view, there is nothing particularly unhealthy about the current state of the reinsurance marketplace. We are operating in a marketplace, where it is extremely challenging to find new opportunities in existing lines of business, but we remain satisfied with the portfolio that we have assembled. We have not had to reorient the portfolio in any wholesale fashion given our heavy bias since our inception towards non-proportional reinsurance business. We are an excellent counterparty to our cedants in terms of both service and financial strength, and we have been successful in maintaining our carefully selected portfolio, which we believe will deliver above-average returns.

For our portfolio at the next major renewal date of January 1, we expect the pricing will come off modestly across most lines with some minor exceptions. We are operating on the basis of we may not see a broad turn in the market until 2012. We are working very hard to maintain a high-quality, diversified underwriting portfolio that will continue to generate significantly positive cash flow and real market-leading underwriting profits. Further, as we review our underwriting portfolio, we are focused on remaining well-capitalized and well-positioned to grow strongly and quickly following any hardening that may occur within both the insurance and reinsurance markets. We do not currently anticipate significant growth from the underwriting portfolio, and we do not see significant opportunity in the investment markets at the moment, particularly given our conservative posture with respect to investment risk.

Meanwhile, current market valuations for property and cash for the insurance and reinsurance companies, including our own, remained at historic lows and in our view, share repurchase represents a compelling return to shareholders. We estimate our repurchase activity over the last year alone at discounts to book value has resulted in book value accretion of approximately 3%. Therefore, we are likely to continue to prudently return capital to shareholders as long as the market continues on its current track.
Ladies and gentlemen, with that, I'll open the call up to questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Vinay Misquith of Credit Suisse.

Vinay Gerard Misquith
Evercore ISI, Research Division

John, could you give us a sense for what the status is on the build-out of the platform? I believe you were sort of in build-out mode last year and earlier this year?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Sorry, did you say the A&H business?

Vinay Gerard Misquith
Evercore ISI, Research Division

Yes, the A&H and sort of just one thing to build-out your platform in total. So has that nearly been completed now?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Sorry. Let me deal with A&H first because we said it was probably at 2, 2.5 year build. And we're now -- we started in early 2009 to build this business. And by the end of 2009, we had around about 30 staff working for us dedicated to A&H, which is a separate division. By the end of this year, we'll have around 60 people dedicated to the A&H business. And it's a pretty significant investment, which I signaled at the very onset of this initiative and we will probably invest between something like $40 million to $50 million, which shows you how important this strategy is to us, and it will probably have a run rate once it gets going of around $40 million. We would expect it to have just over 100 people as a normalized run rate business. We will have all of our domestic licenses in place, give or take 1 or 2, by the end of this year. We are now pretty operational within Europe from an insurance standpoint and a reinsurance standpoint. We expect a little bit of premium written this year, maybe $13 million, $15 million, not much. But then it will begin to ratchet up quite substantially, we expect, during 2011. And that will begin to offset some of the costs that we've incurred. But it was a 5-year build, Vinay. I'd say that's an extraordinarily good business once you can get into it. It's a very good opportunity for us because all of the businesses that are currently in this space, that are material businesses, are mature, they're legacy businesses, hiding behind modern fronts but are overwhelmed with costs, which we can actually build systems and processes, which would be materially different. So we're coming to the end of the build stage, and I would expect us to start showing some meaningful premium growth during 2011. As far as the rest of the company is concerned, we've been busy building out our Canadian operations and our Australian operations, as well as our Singaporean operations, and we've been concentrating on that during the course of the year. Everything else is ticking along pretty smoothly. Does that answer your question?

Vinay Gerard Misquith
Evercore ISI, Research Division

Yes.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

No problem.

Vinay Gerard Misquith
Evercore ISI, Research Division

The second question for David. The net investment income yield remained relatively flat this quarter versus last quarter despite significantly lower rates. Can you give us a sense for why this happened?

David B. Greenfield
Former Chief Financial Officer and Executive Vice President

Well, I think, it's -- you have to look at the positioning of the portfolio. So when you look at the portfolio composition, we are looking at areas where we can maintain our yield as best we can without sacrificing duration and quality. We do expect the yields going to continue to come down as I made comments earlier today in the call. But for now, the yields are holding at about the 3.6 level. But I think as we get into next year, given our view, our pessimistic view on rates in the overall environment, we're going to expect that the yields going to trend down to the low-3s into the 2s.

Operator

Our next question is from Matthew Heimermann of JPMorgan.

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

I guess, just with respect to the political risk trade credit business, can you give us a sense of where that business is being booked this year versus last year just so we can better understand what it might mean going forward?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Well in terms of -- well, we obviously -- well, let me give you a flavor of just how many policies we've written this year day, year-to-date. We've actually written 25 policies, with an average exposure around $23 million. And the average tenure in years is just under 5 years, it's 4.6 years. We actually have written on a gross written premium basis at the end of the third quarter just over $20.5 million. So it's still relatively modest. But obviously, we've got the earn coming in from prior year's writings still. So again, that we're just growing back into the market quite carefully. Does that help?

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

That helps. But I guess, I was thinking more of just some color into the -- you mentioned both on the commentary and the press release that the accident year peaks came down, and I would suspect that's disproportionately being affected by the -- that's on the earn from prior years. So I was just trying to get a sense.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Matt, before David jumps in, I want to just drop back to what I said to you guys 3 years ago as a result of the financial crisis and the activity that we had. We started to elevate loss peaks [ph] on this line of business, which we would normally expect to have pretty minimal activity back in 2007. And then, through 2008 and 2009 being the highest loss level of activity that we had. This is the sort of business that we're very proactive in monitoring activity, including potential default activity. And so we moved pretty quickly and we know very quickly whether there are any issues with any of these contracts and we reserve very early on. So the reaction that we've taken to look at the loss peak is a reflection of the fundamental change that we've thought would come into 2010, which is a substantial improvement in the global economic climate, which has had a direct impact on the sort of claims activity that we see which we anticipated. But, David?

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

That makes sense to me, yes.

David B. Greenfield
Former Chief Financial Officer and Executive Vice President

Let me just add because I provided these numbers or some numbers along these lines in the previous calls. In terms of combined ratio for political risk business, we're now sort of trending to below 100% combined from the elevated levels that we were a year ago, and substantially lower loss activity and particularly with regards to the loss ratio in the current year, the accident year, much of the losses that were loss ratio is really being put up into IBNR as opposed to in case reserves. So I think what you do -- when you look at this line and you put that together with John's commentary and think about this business, don't forget about our conservative reserving posture. And so I think as this continues, we'll see those loss ratios and combined ratios come down even further as we have more and more experience in the current market.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Yes. And, Matt, we said in our commentary that we're now seeing a much more normalized, what we consider would be a much more normalize portfolio as the global economy has settled.

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

Okay, that's helpful. And then, David, do you have the same number or give us a same sense for the trade credit?

David B. Greenfield
Former Chief Financial Officer and Executive Vice President

A very similar story. I mean, we're down below the 100% on the combined ratio. And again, we're seeing very positive results in that business. And that business has gone through a couple of years of repricing now, so it's pretty much in line with what we've said on several of our calls in terms of the trends in this particular line of business.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

And, Matt, just on that point because we held meetings back in September with all the 3 large trade credit businesses. And I think during the financial crisis, which was really rolling faster into '09, they really became very conservative about some of their reservations for the '09 accident year. And I think that, fortunately, those estimations tended to be a bit up more on the conservative side, those were getting better information now. And as that year develops more fully, we feel a lot more comfortable with the ultimate outcome of it.

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

Okay, that's helpful. And then, I guess, just the one thing as I -- more related to capital. If I look at the PML you put in for U.S. wind is just under $1.5 billion. And then your stated threshold for loss is 25% of total capital. So if I just took a look at where that was today, it would suggest that you've got an additional like $250 million in round numbers of capital room. Is this -- I just would be -- rather than validating the number, conceptually, is that a reasonable way to think about your capital flexibility today?

David B. Greenfield
Former Chief Financial Officer and Executive Vice President

Yes, I mean, that's one way to look at it, Matt. And obviously, we're still in an environment with great pressure on earnings. So we look at these numbers very regularly in terms of putting our books together. So -- but I would agree, that's one way we can look at that.

Operator

Our next question is from Greg Locraft from Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

Wanted to just get some color on the New Zealand quake. How did you come to the $85 million estimate? How do you feel relative to the Chile exposure in the first quarter? And can you just give us some thoughts there?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Yes, I'm happy to do that. And I think that the New Zealand quake is fundamentally different from the Chilean earthquake, in the fact that it's pretty predominantly residential exposures that have been affected, where the Chilean loss happened to be a very substantial commercial loss as well as residential. And then there were also practical issues, Greg, with the Chilean loss, if you remember, because we didn't have enough loss adjustors that could speak Spanish. And trying to get loss adjustors into that part of the world is a huge logistical issue. And that has been why it's taken much longer for the Chilean loss to emerge into the international market. The New Zealand quake is slightly different. It's a much more mature market. We're involved with many of the local companies, who have been very long-term buyers of cat business. They've got very good reputations, and it's an important part of our effort in the Asia-Pacific region to build-out our business there, especially given the data quality issues and the competitiveness in the rest of Asia. So we probably have a slightly higher-than-expected loss than we expected, but that was really as a result of one-per-risk program that performed worse than we had modeled or we had expected. But what I want to do is to put New Zealand into context of our global portfolio, and that's very important to understand. And very important to understand how that global portfolio fits into our overall portfolio. And so far this year, we estimate that industry cat losses have been around about $26 billion. And we estimate our total exposure, and we believe that we are conservatively reserved. But our total exposure will be around about $315 million, which is down just around about a 1.25% market share, which is actually there or thereabouts, where we'd expect to be somewhere depending upon the geography, between 1.25%, but we’re somewhere between 1% to 2% market share. But I think you need to think about the New Zealand loss, not just as New Zealand but as part of our global cat exposures.

Gregory Locraft
Morgan Stanley, Research Division

Okay, that's helpful. Just shifting gears. In the commentary, John, you mentioned that you were thinking 2012 is kind of how you're planning the business for a potential change in the market. What decisions are you making today to sort of adjust for that? And is that a shift in your thinking from 6 months ago?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

We started planning for a change in the market a couple of years ago. And the way that we started planning that was actually looking at transforming our efficiency as an underwriting business in both our insurance sector and both our reinsurance sector, trying to make sure that we were as best equipped as we could do to react immediately and positively and strongly and especially efficiently to any change in the marketplace, and you can't do that overnight. It has taken 2, 2.5 years for us to get into a position. Where today, we are very well, I think, structured to take advantage of the market. I think that the market turned, in honesty, we thought might come a little earlier but not much earlier. So we've been patient, I think, we've been disciplined but we are very well-positioned globally. Don't forget AXIS is a fantastic, diversified global business in both insurance products and reinsurance products, by product and by geography. And when we see -- when we smell the recovery, we will take full advantage of it.

Gregory Locraft
Morgan Stanley, Research Division

Okay, great. And then any magic to 2012 in terms of your thinking as to why that might be a year when the odds are in favor of the market turning or is that more or less just falling off outward?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

My instinct is that you still have some stupid outliers. But I'm not going to tell you who I think they are because otherwise then they will get very upset with me. But my instinct tells me that on the primary side, things are getting into the bottom in terms of the downward pressure. So much has been cut out of the account generally in terms of price, that there really isn't a lot more give in it, not for the general market. And that's why I think it will be 2012.

Operator

Our next question is from Alan Straus of Omega.

Alan H. Straus
Omega Advisors, Inc.

Just wanted to ask on the share repurchase program, what type of time frame you have for that? Is that a one-year timeframe, assuming there are no major cats?

David B. Greenfield
Former Chief Financial Officer and Executive Vice President

A couple of comments on this. The program that the board authorized has a 2-year time frame for us to execute on it. That doesn't necessarily mean we're going to take 2 years or wait for 2 years but -- or do it all quickly. I think the way that it's best to look at it is, given the current market conditions, our view is we're going to try to keep our capital levels somewhat stable. So essentially, we're going to try to be aggressive in repurchasing shares when we think that the valuations are in our favor, as we might think they are now. And we're going to try to maintain repurchase at the levels of the earnings that we're accreting or the capital that we're accreting over the course of the next couple of years.

Alan H. Straus
Omega Advisors, Inc.

So it just safe to assume that all earnings basically are free cash flow, just not including the capital gains?

David B. Greenfield
Former Chief Financial Officer and Executive Vice President

I mean, that's one way to look at it. I don't want you to pin me down exactly how we're going to do it. But essentially, I think the view is, we have a very strong capital base and we're going to try to keep it steady in these market conditions.

Operator

Our next question is from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Two questions for you here, John, first, could you give us a sense of what the aviation renewal looked like at October 1? And then the second one is, could you comment on what your thoughts are about the trade credit reinsurance renewals coming up at 1/11?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Yes. I think the aviation market is still pretty barmy [ph], which is an English expression for pretty dopey. I think that the science of hardening that appeared towards the end of last year and early part of this year have been significantly dampened. And I'll just remind you, Brian, that we pulled out of this class of business at the end of 2005. And since 2005, I think 10 to 12 dedicated aviation businesses have been set up, at a time when no underwriters have been making -- well, I don't know if any underwriters have been making any money, real money on that portfolio of business over the last 4 or 5 years. So because of the number of participants, and don't forget that aviation is what we call a verticalized marketplace, you have a leader that sets the price. The price is at a 100%, and then the following market will be discounted by as much as 30% to 40% of the premium in order for them to access shares on that particular renewal. So when people tell you about their aviation portfolio, you really need to dig in, to ask them just what the average reduction of the leader's prices that they are writing this business at and exactly how much their reinsurance is costing. Because they're probably running the first $300 million in terms of 100% loss before their reinsurance programs can kick in. But I hope, I'm afraid, been frustrated by the market and its failure to recognize the huge exposures that the market is taking on and the lack of appropriate premium pricing relative to exposure. One only has to look at the new Airbus 380s and that the number of passengers and the liabilities involved with those passengers, as well as $300 million values and see that just how minimal the premiums are being charged by the market. So I'm afraid I don't expect a great deal. I would have thought over all that we're pretty flat to up a little bit, but not much. Not enough to correct the rate reductions that have been taking place over the last 5 or 6 years. The trade credit, I'm a bit more optimistic because, as I said, that I personally met with all of the major credit trade companies in September. I meet with them 2 or 3 times a year. I believe that the global economy has stabilized significantly. The vast majority of their business is being transacted within Europe because it's a very traditional product that's purchased throughout Europe. They really became very conservative during the financial crisis. They trimmed their portfolios. They looked much more closely at the credit quality of their clients. They restricted the amount of credit that they were providing for them. Then they took out a lot of the toppy exposures that they had. So it's a much better balanced portfolio. I don't expect significant prices, price increases for that portfolio going forward because I believe it has returned in 2010 and 2011 to a much more normalized pattern, which will be a profitable one. They take the corrective action.

Brian Robert Meredith
UBS Investment Bank, Research Division

Good. And then one last question, could you give us your thoughts on the marine and energy reinsurance renewal at 1/11? And could that cause some further upward pressure on the primary rates think you in '11?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Yes, it's going to be interesting because it depends on -- without a shadow of a doubt, the energy markets has been knocked by the Deepwater Horizon loss. And there will naturally be some reaction to that, which would either be by way of increased retentions or coupled with increased pricing. We actually will negotiate our renewal pretty hard because we've had a very good record with our reinsurance in this line of business for many years. As far as the marine account is concerned, I regard that in the same way I regard the aviation account. It is substantially underpriced, underwritten by underwriters who really don't understand the business and have had no real length of time. I worked for a ship owner for 5 years and bought insurance for him a long, long time ago, so I think I understand that business pretty well. And I look with dismay at the way companies assemble their underwriting talent to write that class of business, let alone report it. So for the reissuance of the marine market, it tends to be loss-driven rather than more than exposure-driven.

Operator

Our next question is from Beth Malone of Wunderlich Securities.

Elizabeth C. Malone
Wunderlich Securities Inc., Research Division

I have a couple of questions. How do you view shareholder dividends as a way to manage your excess capital?

David B. Greenfield

Former Chief Financial Officer and Executive Vice President

Well, I mean, I think we much prefer share repurchases over any sort of special dividends or one-time dividends. We think that the dividend yield on our stock is an important measure of shareholder return. And we have a good track record of paying dividends and increasing our dividends, and I would expect that to continue in the future. But I think all else being equal, if we have options, we would prefer share repurchase to any sort of special-type dividends.

Elizabeth C. Malone
Wunderlich Securities Inc., Research Division

Okay. And then on the earthquake exposure, should we assume that pricing for earthquake risk is going to be rising?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Yes, especially in some of these outlying areas. I think that California and Japan, I still think there'll be a lot of commercial pressure to suppress that pricing. But I think you'll find significant changes in the approach to the entry to some of these more peripheral earthquake-exposed regions.

Elizabeth C. Malone
Wunderlich Securities Inc., Research Division

And does that suggest that you will be writing more of that risk going forward?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I think we're going to get paid better.

Elizabeth C. Malone
Wunderlich Securities Inc., Research Division

Okay. But not increase your exposures?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I don't see that, not in a material way, Beth. But I see that there will be a restructuring of a lot of these, as I said, secondary exposure, geographies in terms of -- the data we get out of them is pretty good. The modeling by and large has been pretty good. But I think that there's been a greater recognition of frequency and severity. So we're going to have to deal with it. The market is dealing with it. We're adopting a very -- a disciplined approach to it.

Elizabeth C. Malone
Wunderlich Securities Inc., Research Division

Okay. And then you mentioned that you don't see a lot of opportunities from an acquisition standpoint because of pricing of those potential acquisitions. But if your assessment of the pricing environment for insurance stretching out until -- no recovery until 2012, do you anticipate that opportunities will -- you'll get that opportunity in 2011?

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

I still don't see a lot of -- and forgive me, and I don't mean to be disrespectful to my peer group. I don't see a lot of value out there, which is transformational to us from an acquisition standpoint. We will still look at specialist businesses to see which would complement our existing portfolio. But in terms of trying to find something that's transformational for us, every man and his dog is trying to do the same thing out there, some better than others. But I think we would rather substantially increase, if we saw rating increases coming through with the operating efficiency we have, with the market penetration we have, I would rather throw our capital at expanding our existing portfolios than actually look to buying in a mediocre business that's got volume.

Operator

Our next question comes from Ian Gutterman of Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

Two questions if I can. The first is, as I'm looking at the improvement in the loss ratios. When I look at the accident year x cat loss ratio year-to-date for both the insurance and reinsurance, they are now actually slightly better than '06 and '07. I understand why that obviously would be better than '08 and '09 given what's going on with the trading and political risk stuff. But why should it be better than '06 and '07 given what's happened to pricing in the last 4 years?

David B. Greenfield
Former Chief Financial Officer and Executive Vice President

Maybe I'll start, John, you can jump in. But I think it's very difficult to compare today's mix of business with the same mix that we have back in '06 and '07, and John could talk more to that specific point. But more importantly, when you just look at our reported ratios in the way you're doing it, you have to also factor in the point that I've kind of talking about for several quarters now, which is where incorporating more and more of our own experience at the time we're writing the business as opposed to letting it develop and using market-based data. So when you look at '06, '07 data, a lot of that's market-driven factors that we're using in the initial reserving, whereas we're now incorporating more and more of our own experience in our businesses today.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

What we do have is a pretty robust -- you've heard me bang on before about that price monitoring system. I hear that my peer group who were just recently discovering that they also -- they ought to price monitor new business, which I find absolutely astounding. We have had a continuous process, which has been very stable and it is audited regularly regarding the price monitoring of all our business that we undertake and that's on a pro forma basis. It's very consistent for both new and renewal business, not only taking into account any price reductions or price increases, but also any changes in conditions. And that has to be peer-reviewed. It is not just the ability of an underwriter to optimistically choose a loss pick. That then immediately is fed into our current accident year loss picks. So it may look a bit odd, but it's pretty robust. And it represents the, I think, the way that we underwrite our portfolio and where we have to squeeze margin in a different way from a lot of other people.

Ian Gutterman
Adage Capital Management, L.P.

Okay, that makes sense. That's clear. And just my last one, John, just a follow-up on when the market may turn? I guess, it strikes me as optimistic to think 2012 could be at the turn, just given -- we talked about your peers. A lot of your peers seemed to be very content with single-digit accident year ROEs and rationalizing why that's okay. And they're showing no signs of broad-based adverse development or any of the other pain we usually get associated with the turn. So while I agree that the market needs to turn...

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Forgive me, Ian, looking at price-to-book values of between 0.6 and 0.8, when they're at 0.5 and 0.7, and they're still pretty comfortable earning a single-digit return and their investors have walked away from them. I expect their management will do something about it.

Ian Gutterman
Adage Capital Management, L.P.

I hope so. I keep trying, John.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

So do I, Ian, so do I. And I know that it will happen.

Ian Gutterman
Adage Capital Management, L.P.

Okay, fair enough. I guess, my concern is just it doesn't seem like they're -- when I had these similar conversations with that and maybe we don't get there until we actually see balance sheet, how it's developing and that maybe 2 or 3 more years.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

The point is, Ian, which I don't think it will happen but say it did happen, I think we are extremely well-positioned to squeeze whatever margin we have. And we've proven that time and time again. We have a great portfolio, balanced geographically and by product. We have great underwriters. We are a very, very efficient company. We'll have accident and health coming on stream next year, which will be great. So I'm not fussed about the future. You can bring on whatever you like. We'll be at the top of the earnings stream for whatever the market conditions are.

Operator

This concludes our question-and-answer session. I'd like to turn the conference back over to our speakers for any closing remarks.

John R. Charman
Former Director, Chairman of Axis Re and Chairman of Axis Specialty Europe

Ladies and gentlemen, thank you again for taking the time to listen to us this morning. We all very much enjoyed the discussion. And once again, I would like to thank David for his service and his friendship over the last 4 years. Thank you.

Operator
This concludes today's call. Thank you for joining. You may now disconnect.