S&P Capital IQ

CONTENTS

AXIS Capital Holdings Limited NYSE:AXS

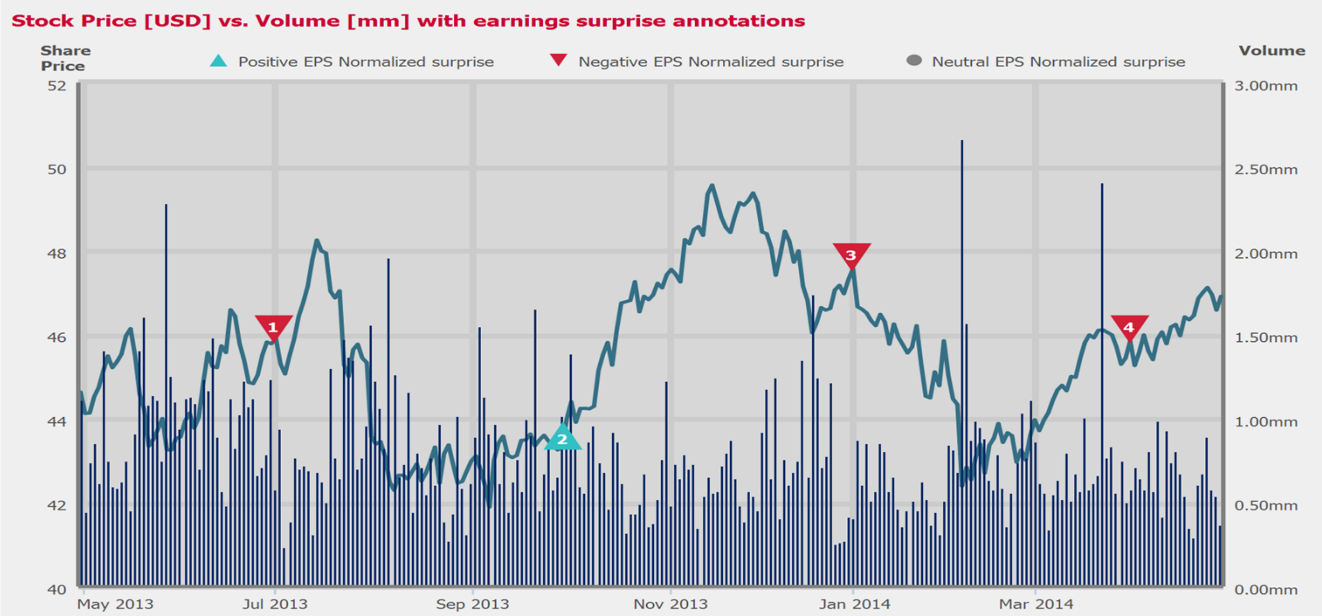
FQ2 2014 Earnings Call Transcripts

Wednesday, July 30, 2014 12:00 PM GMT

S&P Capital IQ Estimates

	-FQ2 2014-			-FQ3 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.19	1.63	▲36.97	0.96	4.86	4.62
Revenue (mm)	1033.68	1000.16	▼(3.24 %)	744.64	4082.76	4188.23

Currency: USD
Consensus as of Jul-30-2014 12:01 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ2 2013	0.49	0.43	▼1 (12.24 %)
FQ3 2013	1.21	1.74	▲2 43.80 %
FQ4 2013	1.47	1.41	▼3 (4.08 %)
FQ1 2014	1.33	1.24	▼4 (6.77 %)

Call Participants

EXECUTIVES

Albert A. Benchimol
President, Chief Executive Officer & Director

Joseph C. Henry
CFO & Executive VP

Richard T. Gieryn
Former General Counsel and Corporate Secretary

ANALYSTS

Amit Kumar
Macquarie Research

Charles Sebaski

Cyril Max Zormelo
Evercore ISI, Research Division

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

Ian Gutterman
Balyasny Asset Management L.P.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Quentin John McMillan
Morgan Stanley, Research Division

Presentation

Operator

Good morning, and welcome to the Q2 2014 AXIS Capital Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

I now would like to turn the conference over to Rick Gieryn. Mr. Gieryn, please go ahead.

Richard T. Gieryn
Former General Counsel and Corporate Secretary

Thank you, operator, 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 second quarter ended June 30, 2014. 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 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 telephone conference 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 10048137.

With me on today's call are Albert Benchimol, our President and CEO; and Joseph Henry, our CFO. Before I turn the call over to Albert, I will remind everyone that the 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 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 on 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

Thanks, Rick, and good morning, ladies and gentlemen. Thank you for joining us today.

Last night, AXIS reported second quarter operating income of $173 million or $1.63 per diluted share at annualized operating earnings -- sorry, annualized operating ROE of 13.1%. We ended the quarter with diluted book value per share of $49.69, an increase of 5% during the quarter. Adjusted for dividends, diluted book value grew 6% during the quarter and 19% over the last year. In addition, we returned $170 million in capital to our shareholders through share repurchases and common share dividends, and for the year-to-date, that number is $377 million.

Earnings are up substantially from last year's second quarter. On a comparative basis, this year's quarter had more modest impact from catastrophes, higher favorable reserve development and stronger results from our alternative investments. Overall, we reported a solid combined ratio of 90.8%, including 3.6 points for cats and 8.5 points of favorable prior year development, a good portion of which relates to releases for claims set up for last year's cat and weather, another indication of our prudence in establishing initial reserve levels.

The x cat combined ratio is higher this year. Part of this was driven by higher U.S. property losses, consistent with the experience you've heard discussed on other earnings calls. A portion is due to our earning-out of the unearned premium reserves on an unprofitable subset of the U.S. D&O book as we discussed on our February call. I'm pleased to report that we're making very good progress on the improvement plans on this portfolio, and we should see improvements running through our results in the second half of the year and into 2015.

The rest of the increase in the non-cat combined ratio is due to a continued deliberate shift to less volatile and non-correlating lines of business that tend to generate higher combined ratios but good ROEs given generally lower capital needs. We made strong progress across many of our initiatives during the quarter. Our re-entry into the U.S. primary casualty business is gaining traction. We started quoting and binding business in our new medical malpractice unit set up earlier this year, and our new Lloyd's syndicate is also providing opportunities for new business that we did not see previously.

But perhaps the most newsworthy is that this quarter, our Accident & Health business generated a positive contribution for the first time. Now I expect that it will be slightly above or below breakeven for a couple more quarters, but our team keeps doing an excellent job of bringing on significant new business, increasing its share of existing client business and improving the balance between Insurance and Reinsurance and between U.S. and international, and continuing to build what I expect will be a large and profitable book of business for AXIS. We also continue to make progress on analytics and expense control initiatives that will drive improvements and results independent of the vagaries of the P&C cycle. I'll discuss these targeted gains and market conditions in more detail after Joe covers our quarterly results. 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 13.1%. Our quarterly diluted book value per common share, a key metric in measuring the value we generate for our shareholders, increased by 5% in the quarter and by well in excess of 16% over the last 12 months. Adjusting for common and dividends declared, the increase was 6% for the quarter and 19% for the past 12 months. Our results benefited from a reduction in the level of natural catastrophe and weather-related losses compared to the same period of last year, the continued favorable prior year development in our loss reserves and an increase in our net investment income. These factors were partially offset by an increase in our x cat and weather current accident year loss ratio for reasons I will explain shortly. Valuation improvements on our available-for-sale investment portfolio due to a general decline in U.S. interest rates and credit-spread tightening on both investment-grade and high-yield corporate debt also contributed to the growth in our diluted book value per share.

Moving into the details of the income statement. Our second quarter gross premiums written increased modestly by 1% to over $1.2 billion, with growth from our Reinsurance segment being largely offset by decreases in our Insurance segment. In our Reinsurance segment, our top line was up $38 million or 9%. The increase was driven by Professional, reflecting premium increases resulting from an extension to a large property -- excuse me, a large proportional treaty, and agriculture lines, reflecting differences in the timing of certain renewals and our continuing initiatives to grow this line of business. As was the case in Q1, growth was once again impacted by a number of contracts written on a multi-year basis, which had the largest impact on the liability and property lines of business. The increase in the segment's premiums was partially offset by decreases in the catastrophe lines, which were driven by timing differences, as well as an increasingly competitive market conditions and the underwriting actions we have taken as a result.

In our Insurance segment, our top line was down $27 million or 3% and reflected decreases in Property lines due to timing differences and the impact of increasingly competitive market conditions. Professional lines also decreased, reflecting the continued reshaping of our U.S. D&O portfolio. Other notable decreases included a reduction in our credit and political risk premiums, reflecting a reduced number of new deals bound compared to the same period of last year. Partially offsetting this decrease was the growth in

Accident & Health, reflecting the continuation of our efforts to expand this line of business. We have been very pleased with the growth and mix of this business, particularly the insurance component of the book as we get closer to generating the operating leverage that will deliver a positive contribution to our net income.

For the first 6 months of the year, our gross premiums written exceeded $3 billion, a growth rate of 3% compared to the first half of last year. This increase was driven by growth in the Reinsurance segment of 7% and was significantly impacted by the level of contracts written on a multi-year basis, especially in the property, motor and catastrophe lines, with premiums written of $90 million relating to future underwriting years. After adjusting for the impact of the multi-year contracts, the increase in the Reinsurance gross written premium of 2% was primarily driven by agriculture, reflecting growth initiatives for this line of business.

Growth in the Reinsurance segment was partially offset by a decrease of 2% in the premiums written in the Insurance segment with the decrease driven by the same lines as the quarterly result. Our net premiums earned increased 6% to $1 billion in the second quarter of 2014 and by 7% to $1.9 billion for the year-to-date. Increases were noted in both segments, with Insurance increases reflecting business written in recent periods in the Professional and Liability lines; the continued growth of our Accident & Health book; and the positive impact of the reductions in our ceded Reinsurance programs implemented during 2013. Reinsurance increases related primarily to growth in our agriculture, professional and liability lines.

Our second quarter consolidated current accident year loss ratio decreased 7.3 points to 65.1% compared to the same period of last year, primarily due to a decrease in the frequency of natural catastrophe and weather-related events. After adjusting for such events, our current accident year loss ratio increased by 4 points. The factors that caused the increase included a change in the mix of business with a relative shift towards non-correlating and less volatile lines of business that incur a higher loss ratio, which contribute approximately 2.7 points to the variance, an increase in the current accident year loss ratio for Insurance, Professional and Property lines and the impact of lower rates. During the quarter, with the notable exception of our Property lines where we had an unusual level of fire losses as did others in the industry, we experienced Federal loss experience across most lines of our business, which partially offset the increase in the current accident year loss ratio.

In our Insurance segment, the current accident year loss ratio decreased 9.3 points to 70.7%. Q2 2014 was impacted by natural catastrophe and weather-related losses of $30 million, primarily related to various weather events in the United States while we incurred losses of $90 million, which was inclusive of reinstatement premiums for such events in the same quarter of last year. After adjusting for these losses, the current accident year loss ratio increased by 5.1%. This increase in the loss ratio was driven by an increase in the current accident year loss ratio in the Property lines, which were impacted by an increased level of midsized and attritional, primarily fire-related losses in recent periods. As was the case in the previous 2 quarters, we continued to record higher current accident year loss ratios in Professional lines relating to certain parts of our D&O business written in the United States and reflecting recent loss experience. As we discussed with you previously, this increase in Professional lines primarily relates to business written during 2012 and 2013, which continues to be earned during 2014. A change in our business mix also contributed to the increase in the current accident year loss ratio. These increases were partially offset by a reduction in the midsize and attritional losses incurred during the quarter in most of the other classes of business, most notably in the liability lines.

For the year-to-date 2014, our current accident year loss ratio for Insurance is 67.8%, down slightly from 68.0% for the comparable period of 2013, mainly reflecting a decrease in the natural catastrophe and weather-related events in the first half of the year, which was largely offset by the same factors that impacted our quarterly results.

The second quarter current accident year loss ratio for our Reinsurance segment was down 5.9 points to 60.4% and 1.9 points to 60.1% for the first 6 months of the year, primarily due to the reduction in the catastrophe and weather-related losses. We recognized $6 million of natural cat and weather-related losses during the second quarter of 2014, while comparatively, in 2013, we incurred losses of $50 million after reinstatement premiums for such events. After adjusting for the cat and weather-related events of our second quarter, current accident year loss ratio increased by 3 points. The primary factor that contributed to this variance was the change in the business mix with growth in the agriculture, professional and liability lines, while approximately 1 point of the increase related to loss trends being in excess of rate increases.

Turning to loss reserves established in prior years, our results continue to benefit from net favorable loss reserve development, which aggregated to $85 million during the second quarter. Short-tail classes in both segments contributed $73 million of this balance, primarily reflecting better-than-expected loss emergence. This included the release of $13 million of reserves across both segments relating to the Q2 2013 natural catastrophe and weather-related events. For the year-to-date, these short-tail lines contributed $101 million of net favorable prior year development. In addition, we continue to give way to actuarial methods that reflect our favorable experience for liability and professional Reinsurance business, which contributed a further $12 million of favorable development for the quarter. Our year-to-date favorable loss reserve development is $129 million compared to $97 million recognized during the first 6 months of 2013.

During the second quarter and the first half of 2014, our acquisition cost ratio increased by 1.3 points and 1.4 points, respectively, compared to the same periods in 2013. Increases were noted in both segments, driven by higher commissions paid on certain new treaties, reduced commissions received due to lower premium ceded following changes in our ceded Reinsurance programs, partially offset by increased commission rates and changes in business mix. Our G&A ratio was 15% for the quarter compared to 15.8% last year. We expect that this ratio will drop below 14% by 2017, following cost-saving actions that are currently being implemented.

Overall, the company reported an underwriting income of $127 million and a combined ratio of 90.8% for the second quarter. On a year-to-date basis, our underwriting income is $235 million with a combined ratio of 91.3%. Net investment income was $115 million for the quarter, up from $83 million in the previous quarter and up from $83 million in the second quarter of last year. The most significant driver of the increase was the contribution to net investment income by our other investments portfolio, which benefited from the strong performance of the equity markets during the quarter. In the aggregate, the total return on our cash and investment portfolio for the quarter was 1.6%. The positive total returns for the quarter were due mainly to price improvements on our fixed maturity portfolio as a result of a general decline in U.S. interest rates and continued spread-tightening.

The year-over-year increase in our cash and investment portfolio of $1.3 billion was due to valuation improvements on our available-for-sale investment portfolio and proceeds from our senior notes issuance, which was completed during the first quarter of 2014. The duration of our fixed maturity portfolio decreased slightly to 2.9 years at June 30, 2014. Our fixed maturity weighted average credit rating remains unchanged at AA-.

Our interest expense increased by $5 million, driven by interest due on new senior notes. As the net proceeds from the first quarter senior note issuance are expected to be used towards the repayment of $500 million of our senior unsecured notes, which are due on December 1, 2014, we expect our quarterly interest charges to be $7 million less than the 2014 levels in 2015.

During the quarter, we repurchased 3.1 million common shares at an average price of $45.59 for a total cost of $139 million. This brings our total purchases for the year to over 7 million common shares at a total cost of $318 million. As of today, we have $450 million of remaining authorization under our board-authorized share repurchase program for common share repurchases through December 31, 2015. As we discussed with you previously, provided that market and financial conditions remain the same, we anticipate returning close to 100% of our annual operating earnings to our shareholders through common dividends and share repurchases.

Our strategic expansion opportunities continue to progress well with our Lloyd's vehicle making a successful entry into the London market, and we continue to evaluate opportunities for AXIS Ventures, our new third-party capital initiative. Overall, we were very pleased to report good quarterly results in what are competitive market conditions. We are confident that actions we are taking now both in growing and reshaping our existing book of business, combined with the various initiatives aimed at generating new sources of revenue, leave us well placed to continue to provide superior returns to our shareholders.

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

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you, Joe. With respect to market conditions for Insurance, after 3 years of attractive pricing improvements in the industry, we've seen a leveling-off of pricing overall with modest decreases across some of the Property and Specialty lines. However, despite a slowdown in pricing, there remain good fundamentals and opportunities for profitable growth in many insurance lines of business.

Within our Insurance segments, the overall AXIS Insurance rate change for the second quarter of 2014 was minus 2%, down from the plus 1% last quarter and plus 3% in the same quarter last year. Pricing declines in Property-related lines generally drove this result as Casualty pricing remained strong. The rate changes across U.S. lines were generally stronger than changes in the international lines, and rates overall are generally in step with loss trends.

In our U.S. division, overall rate was flat, in line with last quarter after positive rate changes over 12 consecutive quarters, and we also maintained strong renewal retentions across all lines. Price weakened in most, but certainly not all Property lines, while Casualty lines continued in a positive direction. New business in our U.S. P&C operations primarily comprised Casualty lines with the greatest contribution from U.S. excess casualty, where prices benefited from 13 quarters of rate improvement. The U.S. is the strongest of the geographies in which we operate with respect to pricing environment. This favorable U.S. market works in our favor as close to 60% of our global Insurance business is generated locally out of our 12 offices spread across the country. Overall, rate in our Professional lines division has been broadly stable since 2012. This quarter, about 60% of the portfolio as measured by premiums, experienced flat to higher rates with the balance seeing declines. The overall rate change was minus 1% in the quarter, with strong positive movement in many primary layers, while rates in excess and non-D&O coverages are flat or decreasing. Pricing gains in primary public D&O are particularly strong, supporting our efforts to enhance the profitability of that line.

After strong pricing conditions for close to 3 years, prices began to come down in our international division at the end of last year. They were down 5% on average for the quarter. As usual, there were wide variations in rate depending on the line of business or geography. Property and energy markets are exhibiting declining rates from recent highs. Aviation and terrorism have been in need of a market correction for quite some time. The recent loss events may provide the required impetus. Areas showing positive rate movements include Marine liability and Professional lines in Australia and Canada.

While the international division may have the largest price declines of all our divisions, it has also delivered very strong underwriting profitability, and in many lines, pricing remains quite attractive. We continue to look for profitable growth and are expanding our opportunity set through our new Lloyd's presence and other distribution initiatives. So overall, the Insurance business has plenty of opportunity to write attractive business. Access to the business and risk selection are increasingly an important differentiator in the market, and we believe AXIS is very well positioned in that regard.

Moving on to Reinsurance. Abundant capacity, strong balance sheet and consolidations of Reinsurance-buying continue to pressure Reinsurance pricing across most territories and lines of business through the July 1 renewals. This has been coupled with some movement in terms and conditions. Multi-year commitments are in great demand, broadly impacting all lines of business. Where we saw an attractive opportunity in committing on a multi-year basis, we did so. As you have heard elsewhere, catastrophe pricing has been down anywhere from 5% to 30%, depending on location and experience. However, as far as our book is concerned, the shift in exposure from lower-priced zones and layers to more strongly priced zones and layers has actually led to a higher premiums per unit of risk. Notwithstanding the relative absence of alternative capital in Casualty lines, traditional reinsurers have moved aggressively to shift their capital to this sector, leading to softer terms, most visibly evidenced by increases in ceding commissions. However, in many cases, some of these higher ceding commissions are offset by improvements in primary pricing such that margins are not down as much. We responded to these changes appropriately, maintaining, or in some cases, growing our exposures where profitability was acceptable and reducing or even exiting treaties that we could not support at the new terms.

Our July 1 renewals, which are dominated by U.S. catastrophe and property renewals, saw a 6% decrease in premiums on the expiring portfolio. We did write a few multi-year policies. Adjusting for premiums associated with future years on those policies, estimated annual premiums decreased 18%. We pulled back where business no longer met our return requirements. We started from a strong base and are comfortable with the profit potential of the portfolio that we have written.

Looking back on the most recent renewals, we began to see evidence of pushback on pricing, terms and conditions that reached too far. We saw a number of deals that had to be revisited at the last minute, and a number of programs where incumbents, including ourselves, walked away and needed to be replaced. Similar resistance was met on the competitors' cat issuance. This gives us hope that we are approaching a leveling in price for cat-related lines. That aside, the outlook is for a continuing competitive global Reinsurance market. However, within that environment, we believe that our position as a well-rated and strong midsized global reinsurer, diversified product base, innovative approach and technical strength will serve us well and allow us to better defend our profitability.

Overall, AXIS is well positioned to outperform in a transitioning market. As a hybrid insurer and reinsurer, with a wide range of products, strong relationships, superior ratings and global platform, we see a wide variety of opportunities. Our underwriters have years of experience dealing with both hard and soft markets and have demonstrable track records of outperformance in both. I have total confidence in the power of our market presence and our delivery of service and technical know-how to our clients and partners in distribution. We are not dependent on any one line or market and can afford to remain disciplined and pursue only that business which we consider to be profitable and additive to our portfolio. And while we see some pressure on Reinsurance business, we also get the benefit of better terms on the Reinsurance we purchase, so we have very good balance. That said, we are also a company focused on improving our underwriting performance per unit of risk and operational efficiency, and I am confident that the changes that we have started to put in place over the past few years will deliver positive earnings momentum, independent of the market cycle.

We are committed to delivering a stronger, more stable stream of earnings. Over the last several years, we've been rebalancing AXIS' book of business toward lower volatility and non-correlating lines. This has entailed taking advantage of favorable market conditions to grow established non-cat-exposed lines and expand geographically, as well as selectively adding new teams and lines. The additions include Accident & Health, a variety of new Professional lines, a revived U.S. primary casualty business and global agricultural Reinsurance. While it is true that most of these lines have higher target-combined ratios than that of our older book of business, they generally support significantly higher operating leverage and higher investment income growth over time, such that we should be able to generate strong ROEs even with the higher combined ratios. Most of these initiatives incurred G&A expenses, including start-up expenses, which grew ahead of technical underwriting profit. However, over the next few quarters, many are expected to reach sufficient scale to cover the G&A load and contribute more positively to our results. I'd like to emphasize that expected improvements in profitability for these initiatives do not require improved underwriting results, but rather more scale that we believe can be achieved even in this market environment. Our Accident & Health business, which is headed for breakeven performance this year, is a good example of this.

We're also working diligently to drive higher returns to enhance data and analytics. We are enhancing the tools and resources that are available to our underwriters and business leaders to optimize their portfolios. There's always some amount of premium within broader portfolio, which is underperforming and requires shedding. It disproportionately affects the whole result and will therefore be the object of corrective effort. Improved data and analytics are underpinning critical portfolio optimization. Underwriting actions taken recently in our U.S. primary public D&O business is an example of this. Another example of the use of enhanced data and analytics is our close examination of micro-concentrations in our cat-exposed Insurance business and the rebalancing of our catastrophe-exposed portfolio to significantly reduce overall exposure and volatility, while improving risk-adjusted returns.

Finally, we are working diligently to enhance operational effectiveness. We are targeting an expense ratio below 14% by 2017 and have put in place a number of initiatives, including outsourcing of various IT and finance functions, consolidation of offices and facilities, procurement and vendor management, as well as productivity enhancements. Our 2014 still includes some investments to deliver on this goal, but we expect to start seeing benefits in 2015 with those savings growing into 2016, '17 and beyond. We expect all of the aforementioned underwriting and expense-related initiatives to deliver 4 to 5 points of incremental margin by 2017, all other factors remaining constant. At a minimum, the portfolio repositioning of our U.S. primary D&O business and expected profitability in our A&H business, along with some of the low-hanging fruit in portfolio improvements and expense efficiencies, should deliver between 1 and 2 points of progress by the end of 2015. The good news that many of the gains to be had are not price-driven and therefore, independent of the vagaries of the P&C cycle. And we will keep looking for more opportunities to improve results.

As we implement the initiatives already identified, we do not expect the accident year combined ratio to be consistently improving, but to move up or down modestly, particularly in quarters such as this, which bear the burden of normal expected volatility for our industry. And while we expect more difficult markets over the next couple of years, any competitive headwinds will be better weathered by executing the important profit-enhancing activities, which are already in place.

Before I leave the discussion of targeted underwriting improvement, I'd like to draw your attention to our underwriting results both with and without prior year development as you evaluate our underwriting performance. We have demonstrated prudence in our reserving time and again since our inception, booking the current year appropriately prudently, taking bad news early and waiting for significant maturity of an underwriting year before acting on good news. Inception to date, a very significant portion of the $3.5 billion of cumulative underwriting profit were reported as favorable prior year development. We recently released our reserve triangles, which provide additional data to aid in your analysis and put our track record of favorable developments in proper perspective.

Our results this year again bear out this practice with what we believe to be appropriately prudent reserving for this year's loss claims, offset by favorable prior year developments in our estimate of losses for the cat and weather-related events of 2013, which at the time may have appeared large to investors. All of the changes we are putting in place should lead to substantially enhanced capital efficiency, and we should be able to grow without the need for significant incremental capital, thus we expect to continue returning the bulk of our earnings to shareholders in the form of share buybacks and dividends.

To conclude, we are very proud of the work that we've been doing to position our company in the top quintile of industry performance. The methodical shift in mix of business should lead to a less volatile portfolio. The profit enhancement's initiatives in place that I've just discussed should bring core underwriting margins up to attractive levels. Combined with incremental growth and invested assets, more efficient use of capital and higher operating leverage, we should achieve superior ROEs and growth in book value for the benefit of our shareholders. We look forward to sharing with you in future calls progress on our current initiatives, as well as the substance of other initiatives we will undoubtedly identify to further improve performance.
And with that, I'd like to open the line for questions.

Question and Answer

Operator

[Operator Instructions] And the first question comes from Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

Just quickly going back to the discussion on reshaping the portfolio. I'm sort of wondering if you could share your outlook on pricing. I guess what I'm trying to figure out is at what point does margin compression from pricing overtake the benefits accrued from, I guess, incremental capital freed up, as well as expense initiatives if we carry on into 2014 without any large losses?

Albert A. Benchimol
President, Chief Executive Officer & Director

That's a good question, Amit. I'm not sure that I can totally project where pricing will be. What I can tell you is whatever happens to pricing, the initiatives that we've put in place are going to give us a relative benefit no matter what the direction of pricing. But generally, I would say that where pricing has been these days, it has been towards a continuation of good performance -- good pricing performance for casualty and professional lines and less so on property and catastrophe-exposed lines. And as you know, the shift that we've been making has, in fact, been towards those casualty and professional lines. So we're shifting the book towards lines of business that have demonstrated continued pricing improvements and reducing some of our exposure to catastrophe and property exposed, which are seeing the most difficult pricing conditions right now.

Amit Kumar
Macquarie Research

That's fair enough. The 2 other questions, quick questions, are can you catch up on, first of all, any exposure you might have to the recent aviation losses, as well as other losses in Q3 to-date?

Joseph C. Henry
CFO & Executive VP

Just give me 1 second, Amit. I'll be right there. 1 second. Go ask your second question. I'll be right there.

Amit Kumar
Macquarie Research

Yes, the other question was can you just...

Joseph C. Henry
CFO & Executive VP

I got it. So let me just run through a couple of different claims for you on Malaysian Airlines. We were on both losses, but together, the exposure on both was less than $8 million. One of those was already booked in Q1, and the second one will be incurred in Q3. Libya, Tripoli, actually we have no exposure. Windstorm Ela, if that's how it's pronounced, is a Reinsurance exposure not material, and it's been reserved for in Q2. Trans Asia Airlines is a Q3 event, very small impact to us. Air Algerie, no exposure. And the Korean ferry exposure was fairly immaterial to us. So in general, fairly low or no exposure.

Amit Kumar
Macquarie Research

Got it. That's helpful. And I guess the only other question I have was just going back to the discussion on crop. Can you sort of talk about where the book is running at and what sort of hedges you might have in place to protect you from adverse -- continued adverse movement in the crop prices?

Joseph C. Henry
CFO & Executive VP

Yes, our ag book is running in the low-90s on a technical basis. We don't have a lot of overhead in the crop business, so that's a pretty good indicator of where our results are for both the second quarter, as well as a year-to-date basis. Because of some concerns, frankly, about pricing on the crop side, our Reinsurance operation, our ag operation decided to hedge some of that exposure, and actually, that turned out to benefit us in the second quarter.

Operator

And the next question comes from Dan Farrell with Sterne Agee.

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

Just a question on buyback, looking into wind season in the near term. In past wind seasons, but not all of them, you have slowed down buyback. I'm wondering how you're approaching that strategically this quarter, particularly given where the valuation of stock is currently.

Joseph C. Henry
CFO & Executive VP

Dan, a very good question. As a matter of fact, because of the fact that our stock price is trading where it is, we have decided to restart our share buybacks in Q3. And as soon as our quiet period is over, we'll begin to do that.

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

Great. And then just one question on the Insurance business. We've had a couple of quarters of higher property losses in these fire losses, and you're not alone in the industry. Others have seen them. I guess my question is there's been mix change where you have gone a little smaller, kind of a lower layer. Has -- have the mix changes exposed you to some of these more than they would have in the past? Or are we just seeing what is a higher-than-expected level regardless of the mix changes?

Albert A. Benchimol
President, Chief Executive Officer & Director

Dan, that's an excellent question, and it's worth dealing with. I think the biggest issue with our mix change in the property book is that over the last 3 years, we've actually walked away from a significant amount of premium that historically had given very, very low combined ratios and helps to subsidize the property results in cat-free years. However, upon review, we determined that those premiums exposed us to significant volatility and determined that it was best not to renew that business. So part of the business mix was that we were -- we reduced cat-exposed premium. What this does is it gives you a book of business that has a traditionally higher average combined ratio over time but with much lower volatility. And again, as I mentioned in the last conference call, it's hard to demonstrate that to you until we've seen a couple of years with and without cats to be able to demonstrate whether in fact we've delivered at that lower volatility. But I think what this does for us is give us a property book, which will give you probably a modestly higher "non-cat loss ratio," but over time, a lower overall ratio when you include cat. And again, we did that for 2 or 3 reasons. One was dealing with the volatility of the book. The second, frankly, again was to make sure that we could deliver more consistent results as we go forward. All of these things are helping us achieve better capital efficiency, which is one of the drivers of our buybacks.

Operator

And the next question comes from Mike Nannizzi from Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

A couple of numbers questions first, if I could. Joe, I saw in net investment income there, it looks like there was a big lift in cash and equivalents as a line item. It was about $6 million. I just wanted to know what was that.

Joseph C. Henry
CFO & Executive VP

We have some funds withheld trusts in our Reinsurance operation, and this is just an interest payment, a periodic interest payment that we get. It occurs periodically, so a little bit of an unusual number.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Is that something we should expect on an annual basis? Or is that just sort of, kind of sporadic frequency?

Joseph C. Henry
CFO & Executive VP

It's more on an annual basis. In Q2, that payment was $4.5 million. But those funds stay there, so basically it's interest-owed. We're accruing that. And I won't say we haven't been accruing in the past, but we're accruing it more accurately going forward, so I think you'll see more of a smooth impact of that rather than a lumpy impact.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Okay. Great. And to the corporate expense line, I just saw it looked like it was running a little bit elevated, kind of in the $30 million range, up a bit from last year. Should we expect that to revert? Or is that something that you expect to kind of -- and also just curious sort of what's in there. How should we think about that line item, as well?

Joseph C. Henry
CFO & Executive VP

Yes, 2 things. One, you have to look at allocations from our business units as well. You'll notice down on the Insurance and Reinsurance side, our actual expense ratios are down. That ratio has been an annual reshifting of business from our segments to our corporate level, was more appropriate that some of these expenses were corporate level, not necessarily directly business-driven. So we just moved things around a little bit. I think a better way to look at it is on a consolidated basis. You'll see about a 0.8% drop in our expense ratio this quarter from last year. Last year, we had some unusually high expenses in there. We closed one of our offices and terminated a lease early, so that had an impact of about 0.4 point. So 1/2 of the drop in the ratio was really due to that. As Albert was just explaining, we are making some investments in the short term. We'd expect our expense ratio to float in that 15% to 15.5% range at least in the short term. But with the initiatives that we have in place, we're going to bring that down to sub-14% over the next couple of years.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And then so if we're thinking about the expense ratio down at the segment level, any thoughts on just how we should think about that line, which is obviously not running through the segments and not running through the ratios but then does flow through profitability?

Joseph C. Henry
CFO & Executive VP

Yes, in terms of the segments, I would say that would likely stay pretty stable because we've got the allocations down to a level where everybody agrees with them, quite frankly, I think. And -- but separately, on the corporate area, we occasionally incur some lumpiness in those numbers. Again, I'd look at it more on an annual basis than I would look at it on a quarterly basis to give you an idea of the run rate.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Okay. Great. And then maybe just to understand, Albert, you mentioned a 1- to 2-point improvement by the end of 2015. I'm just trying to get an idea, like what is the starting point for that? Is that the year-to-date underlying? Is that year-to-date adjusted for something else? Or should we be taking this where we are in Reinsurance and Insurance as a starting point and then because of some of the things you mentioned assume that we could see some improvement from here? I'm just trying to get an idea of where -- what's the starting point for that improvement?

Albert A. Benchimol
President, Chief Executive Officer & Director

Right. Mike, just one thought. You mentioned in your first question that corporate wasn't included in the combined ratios. While it's true that it's not reported in the segment combined ratios, in the consolidated combined ratio, we do add the 3 points of corporate overhead, so our consolidated combined ratio gets it.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Yes. Got it. Sure, sure. Yes.

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, with regards to the improvement plan, I think the best way to look at it is to look at it from the x cat's current accident year results. So you take the 6 months, you take a look at where we are right now, and we think that these benefits that we can achieve are from what we've reported in this 6-month period.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So you're including the development in sort of that starting point?

Albert A. Benchimol
President, Chief Executive Officer & Director

No, no. I just said it's the current accident year result.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. Got it. Okay. Great. And then in terms of the Reinsurance business specifically, or I guess the Insurance business specifically, can we get some idea of how much the adjustments you're taking in the Professional liability book are impacting the current ratio? And should we expect that if it's a year's worth of business that we should start to see that impact mitigate in maybe the third quarter or the fourth quarter of this year, and then we'll be back to a more pure underlying level at that point?

Albert A. Benchimol
President, Chief Executive Officer & Director

Right. Let me make sure I understand your question. You said Reinsurance?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I'm sorry, Insurance. I meant Insurance, yes.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you. Our Reinsurance Professional lines is doing just fine, thank you. I think with regards to the Professional lines, we're looking at this thing dragging for about a year now. We're going to start to see improvements already in the second half of this year. If only because the unearned premium that is being amortized was a much larger amount in the first half of the year, than will be in the second half of the year, and there will be a very modest amount that will go through probably the first half of 2015. But we expected to see improvements in the Professional lines results in the second half of this year growing, of course, into 2015.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. So in other words, we're -- and underlying in Insurance, your current accident year number is kind of 64%, 65% for the first half of this year, you would -- we should expect that Professional liability has weighed on that, that because of the level of unearned premium that's remaining that, that number should normalize even in the back half of this year?

Albert A. Benchimol
President, Chief Executive Officer & Director

Yes, I mean, if you look at it, we think that just that nut of that older unprofitable Professional lines probably cost us a couple of points in the first half of this year. And that drag should come down in the second half, as I said, because there's less of that book to earn. And over the next 12-ish months, I think it should probably -- that nut should disappear, but it's cost us 2 points in the first half of this year.

Joseph C. Henry
CFO & Executive VP

So Mike, just to add to that. Unearned premium reserve on the 2013 policy year business was about $60 million at the end of June. That will be down below $20 million by the time -- when we get to the end of the year. Now you're bringing on business written in the 2014 policy year at lower loss ratios because of the fact of the underwriting actions that the team has taken. So basically, you're running off higher loss ratio business and bringing on business that has lower loss ratios.

Albert A. Benchimol
President, Chief Executive Officer & Director

And I want to make sure that we are being appropriate here in the conversation. You know very well that one does not take a portfolio and take it from point A to point B in a single renewal. So we're obviously -- it's going to be an improvement path that's going to take at least a couple of years, but we are going to see that improvement demonstrated through the numbers over the next couple of years. But what we're telling you is what we're seeing as the current impact. Our guys are doing an outstanding job of focusing on rebalancing the portfolio, increasing attachment points, reducing limits, getting pricing. It's been -- it's really been a pleasure to watch because they're very, very focused on it.

Operator

And the next question comes from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Yes, just I guess one follow-up to that last question. Can you talk about the reserves that you added in that book last year? How are those holding up from prior years? Are you seeing any continued adverse development at all?

Joseph C. Henry
CFO & Executive VP

Jay, it's Joe. As we mentioned in Q1, we actually had hardly any losses. The loss activity in Q2 has returned to a more normalized level. But on a 6-month-to-6-month basis, we've actually had about $30 million less in reserve activity than we did a year ago. So in short, I'll tell you that we're happy with the runoff of the reserves that we established at the end of the year.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's great. And the second question is maybe a bigger picture one on alternative capital. You obviously have staffed up to be a bigger player in this arena. We have yet to hear any major announcements from you guys, unless I missed it. What's the status of your efforts, and should we expect to hear something maybe a bit more substantial?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, as you know, I feel pretty proud about the team that we have when it comes to third-party capital. I think we've got some of the innovators and leaders of that area. We're doing a lot of little things. We've got a number of transactions that we've booked with a number of different parties providing either 1/4 shares to some of our books of business or ceding business to venturers and so on. That is going to be increasing over time. We're exploring a lot of different ideas. I think it would be -- I think it's too early to discuss what those ideas might be. But as you point out, we've got the right people and the right book of business for -- to interest alternative capital, and it's something that we will continue to work on over time. So stay tuned, but too early to talk about anything.

Operator

And the next question comes from Max Zormelo with Evercore.

Cyril Max Zormelo
Evercore ISI, Research Division

I wanted to focus on the Insurance segment for a minute. I wanted to look at the -- if you talked about the accident year loss ratio x cat, I was hoping you could isolate, quantify the impact of the midsized and attritional losses, professional lines and continued business, all those 3 pieces, if you could just quantify the impact? What I'm trying to get at is what is the core number, the true underlying accident year loss ratio x cat, if you could please help me with that.

Joseph C. Henry
CFO & Executive VP

Yes, Max, let me get to the answer first, and then I'll give you the components of it. We think the 64% accident year loss ratio x cats for Insurance is probably higher by a couple of points from where it is at 64%. So a year ago, we were at 59%. Now we're at 64%. It's about a 5-point change. So if you look at the components of that, first, in terms of rate versus trend, although we're still getting some benefit from rate increases in prior periods, the trend, the loss trend is actually exceeding rate a bit, so that's worth about a point. 2 points of that change is really due to mix of business. We're adding -- as you know, Accident & Health is part of the Insurance operation. We're also growing our liability lines, so the mix piece of that is, call it, 2 points, 1.8 points, but call it 2. On the Property side of the house and on the Professional line side of the house, as we discussed, we've increased initial expected loss ratios on the Professional lines to deal with the CMS issue that we've talked about today and in the past. And we've got a higher level of Property losses, which are worth about 3 points of that change. So again, we've increased initial expected loss ratios, but in the quarter, we had higher-than-expected Property losses, which was worth about that 3 points. Does that help?

Cyril Max Zormelo
Evercore ISI, Research Division

Yes, that's helpful. Okay. Second one is a numbers question. Looking at the net investment income this quarter, the -- I'm looking at the fixed income portfolio, and that went up quite a bit even though your -- the yield was flat and duration hasn't changed much. Just curious what's driving that?

Joseph C. Henry
CFO & Executive VP

Yes, we have TIPS securities with -- in our investment portfolio, and there is a CPI adjustment that's made, I believe, twice a year. So that had the impact of increasing our fixed maturity investment income by a couple of million dollars from where it is, actually $5 million to be specific.

Cyril Max Zormelo
Evercore ISI, Research Division

Okay, okay. That's helpful. Last one, if I may, just big picture. I noticed you've written quite a bit of multi-year contracts, and listening to the prepared remarks, the tune that I got was that the fatigue in the market on price declines was probably driving to the point where you could start to see the price decline slow down a little bit. So I'm trying to square it up with the fact that you wrote more multi-year contracts in the second quarter, if could you please help me with that.

Albert A. Benchimol
President, Chief Executive Officer & Director

I think it's simply a question of what works for us and works for the client. And as I mentioned to you, although we certainly saw some pushback, I think it would be inappropriate for me to call a bottom to the price. We know we do continue to expect some competitive environment. And so for the right accounts on the right terms, it's appropriate to write some multi-years, and for other accounts, it's not. So it's only a small fraction of our contracts; I believe under 30, if I'm not mistaken.

Joseph C. Henry
CFO & Executive VP

It was 30 in the second quarter.

Albert A. Benchimol
President, Chief Executive Officer & Director

30, yes, that were multi-year. So it's a selective and judicious use of that structure to work with longstanding and profitable clients. So it's really balancing -- it's a balancing act.

Joseph C. Henry
CFO & Executive VP

Max, let me add that those long-term agreements -- the multi-year deals, are spread out into -- over several different lines of business. If Albert said that, I missed it, I'm sorry. But it's spread out. It's cat, it's property, it's ag, it's motor and it's liability. So it's spread out across the whole portfolio, it's not in any one area.

Operator

And the next question comes from Meyer Shields with KBW.

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

I just wanted to understand one of your comments. And you talked about that we should not expect the accident year loss ratio to improve significantly from where we are, I guess, year-to-date. Does that mean that the improvements that we would expect from D&O and heightened, let's say, fire losses is going to be offset by other deterioration? Or were your comments excluding that?

Albert A. Benchimol
President, Chief Executive Officer & Director

Meyer, thank you for raising it. I probably misspoke. What I meant to say was it's not a straight line. You have to expect that there will be some quarterly volatility. That is all I meant. I continue to expect improvements in those loss ratios. I think the volatility of our industry just causes me to be cautious and not predict or promise straight-line improvement.

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

Okay, and I appreciate that clarification. Joe, earlier you talked about the hedge in crop benefiting the quarter. Where does that show up in the income statement?

Joseph C. Henry
CFO & Executive VP

It's in other income. It's below the line. It's not in our loss ratios. Yes, it's relatively small, too, and I don't want to overstate that.

Operator

And the next question comes from Charles Sebaski with BMO Capital.

Charles Sebaski

I just had a follow-up regarding the multi-year, and Albert, you said, I think, that annualized premium would be down 18% in the Reinsurance group if it was excluding the multi-year. Did I understand that correctly?

Albert A. Benchimol
President, Chief Executive Officer & Director

For the cat premiums that we renewed on July 1, the annual premium would be down 18% because -- once you exclude the impact of the multi-year premiums. It's not with regard to the entire Reinsurance book. After all, we are growing in other parts of the Reinsurance book. It is -- I was specifically speaking to the July 1 renewal.

Charles Sebaski

Okay. And further on the Reinsurance side, I guess I'd just like to better understand the strategy that you guys have. I know you've given some discussion previously about your portfolio on the business mix, and I guess I'm specifically referring to the Southeast hurricane exposure, the 1 in 50 and 1 in 100 that relative to my understanding of pricing dynamics, is it just sort of a late catch-up, or why this in the growth in this segment now versus the beginning of '13 or the beginning of '12, et cetera?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, I think it's really a question of trying to optimize the portfolio that we have at every renewal. I think we need to -- let's put this in perspective, if I may. You've heard me speak about managing our cat exposures and cat-related volatility being a key focus of ours. And so what have we done, right? So we've rebalanced our book. We've shifted the composition of individual portfolios. We talked about the micro zonal concentrations. We've reduced our weight in zones that were underpriced or in which we were overweight. And we increased exposure in better-priced zones where we were underweight. This resulted in, I guess, essentially a reduction in all zones, excluding Florida and the Gulf, which historically have been among the largest and best-priced markets and where we, as you pointed out, increased our PML. The PML for Florida is still down, the 1 in 250 from where it was a couple of years ago, but certainly the 1 in 50 and 1 in 100 has gone up. I think your point about why we didn't do it a year or 2 ago, I can only tell you that we did it now. I think if you take a look at the overall portfolio though, I think you should take a look at the fact that some of the other things that we've done is we've improved our corporate protections. So we're making better use of Reinsurance, retro and a cat bond. And you speak to the PMLs, but there's another statistic that probably is worth talking about, and although it's not released, let me give you a sense of what I'm referring to here. We look at the modeled annual aggregate net loss, so all of the cat losses from all cat-exposed business, the total for the year. And we look at this both before and after the application of premiums. And we look at it both in terms of dollars and we look at it in terms of percentage of our equity. And that basically says how much of our earnings are at risk and how much of our book value is at risk, not to a single event, which is what PML captures, but to a full year's results, 2011 being a good example of what happens in a multi-cat year. If you looked at our 1 in 100- and our 1 in 250-year modeled annual aggregate cat claims, they're down by close to 15% in the last 12 months. And they're actually down almost 30% from the high in 2011. Now I told you about shifting from better-priced zones and better-priced layers. If you then apply this number and then you then say, "Okay, well, what happens to that modeled loss number net of the premiums?" Well, that 15% reduction that I indicated to you for the last 12 months on the ag loss, when you add the premium impact, that reduction is close to 20% of the loss, and over the last 3 years, almost double that. And what this demonstrates to us is we're actually getting more premium per unit of risk. So we are both significantly reducing the aggregate modeled cat risk to the company, improving our return per unit of risk even in a declining pricing environment. And these are the kind of activities that we're putting in place, to reduce cat volatility, ultimately translated to lower cat-related losses and hopefully, a steadier growth in book value over time.

Charles Sebaski

All right. One other, I was just curious, you mentioned early on about the med mal business that got set up this year. And I'm just wondering if there's any additional color you could provide on how that business is going?

Albert A. Benchimol
President, Chief Executive Officer & Director

Well, it's very, very early stage. We brought on a team in the first half of this year. We spent several months working on the usual licensing issues, setting up the offices, processes and controls, the whole usual issue. And we've engaged in the market and we're now quoting and binding. But it's still very, very early. However, we're very confident that this is a team that has a very strong track record, and this will be a slow methodical growth, but it's a -- but it does add good diversification to our already very well diversified Professional lines portfolio.

Operator

And the next question comes from Kai Pan with Morgan Stanley.

Quentin John McMillan
Morgan Stanley, Research Division

This is Quentin McMillan for Kai Pan. I just had a quick question. As you guys are taking down the cat-exposure within the Reinsurance segment, you still had very strong return on equity results. So just kind of curious sort of what returns you're seeing within the cat-related business that you are writing and/or where you kind of feel the market is currently?

Albert A. Benchimol
President, Chief Executive Officer & Director

I'm not sure how to answer that because again I think one of the things that we look at is not only the individual term, as I've mentioned in my earlier answer, it's how it builds into the total portfolio and the improvement of the portfolio. But there's no question that returns on cat business overall that we're seeing in the market are probably down 15%, 20% over the last couple of years. So one of the issues that is clear to us is that in some accounts, in some zones, we're getting very close to the bottom because -- or at least the traditional market in my mind, probably won't be able to support much more in certain accounts and certain zones. Other zones and accounts do provide acceptable pricing. Obviously, in Florida, which was the highest -- among the highest-priced markets, even with some of the changes, there are still several accounts that provide acceptable profitability. Where it goes from here, I can't tell you. But the feeling that we get is that the traditional market, at least, is starting to put some pushback.

Quentin John McMillan
Morgan Stanley, Research Division

And then just one quick question for Joe, a follow-up to Jay's earlier question, kind of on the reserving. You talked about the Professional liability, but that was a great number you guys put on the reserve releases this quarter. Is there any kind of more color you want to talk about in terms of where you did the reserve study this quarter and/or anything else that might help us sort of going forward as to how we're thinking about modeling it out?

Joseph C. Henry
CFO & Executive VP

Yes, the only thing I'll maybe add is the fact that of the $85 million in total reserve releases, $30 million of it came from property in the 2013 accident year. So this is releases from very recent Property-related business, which goes back to the point that Albert was making during his comments. As far as CMS is concerned, it's a normal reserve study that we do every quarter, and as I mentioned, we're very happy with the way that the reserves that we set up at the end of 2013 are running off.

Operator

And the next question comes from Ian Gutterman with Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

I guess, first, Albert, can I get a couple of clarifications on some numbers -- or Joe? You mentioned UEP on the D&O book was -- where that goes -- $60 million at year -- now and you expect $20 million by year end. Where was that at the beginning of the year, that $60 million?

Joseph C. Henry
CFO & Executive VP

$133 million.

Ian Gutterman
Balyasny Asset Management L.P.

Perfect. And then similarly on the 4% to 5% combined ratio improvement by '17, you said 1 to 2 by the end of 15 on the D&O and A&H. The G&A seems about another point. So it seems there's another 2 points of other stuff. A, is my math right? B, what is the other stuff?

Albert A. Benchimol
President, Chief Executive Officer & Director

When we talk about 4 to 5 points, it's actually a couple of things. One is we actually expect probably another point as we fully work out the business mix, and that will be offset by other improvements. As you point out, there's a couple of points next year that we expect from a combination of CMS, A&H, some expenses. But as I also said earlier in the call, I think that the improvement in CMS is going to be more than just 1 year because I think there's a transition being done in that book, which will take a couple of years and will contribute to the improvement in a couple of years. The other area is that some of our subscale, and I should watch my words as I say that because they're growing well, they're growing into their book. But we've got a handful of initiatives that are, in fact, expected to grow and as I mentioned earlier, cover their G&A and start to contribute positively. That's one of the factors. Another factor is that we are -- one of the things that I'm absolutely adamant about is that we need to give our underwriters the tools and the resources for them to make the right decisions about their portfolios. And CMS being a perfect example, the analysis comes in and says you know what, this piece let's not write, this piece let's write some more of. We're doing that in terms of the more granular analysis of the portfolios across the books of business. And we've already identified some of the areas that we can start to improve upon and we'll do that. So it's a combination of a number of different factors. And as I said in my prepared remarks, I'm sharing with you what we've identified now. We're not going to put our pencils down. We're going to continue looking for ways to optimize this portfolio as we go forward.

Ian Gutterman

Balyasny Asset Management L.P.

Great. And I just had one more on the underwriting strategy. You had a bit of, I guess, maybe unexpected or maybe contrary results of growing your Reinsurance and shrinking your Insurance. Can you explain why that all makes sense? It's -- I'm not so much questioning that, I just wanted to probe a little bit on why that's happening. And I guess, 2 things I was thinking about. One is on the Insurance side, why not buy more Reinsurance. You've mentioned some pressure on expense ratio from getting rid of Reinsurance. Given how attractive it is, why not buy more? And on the Reinsurance side, we obviously talked about the multi-years earlier, and I understand the strategy. I guess my only question on the multi-years is do you have to give up rate to get multi-years? Or are you getting multi-years at market-clearing rates here so it's kind of a free option if you think the market is going to decline further?

Albert A. Benchimol
President, Chief Executive Officer & Director

Let me deal with the multi-year. As I said, it's really part of an overall portfolio and client relationship. We don't need to give up rates. I think a lot of clients are happy to lock in these terms for a couple of years, 3 years. And under the right circumstances, it's something that we're prepared to do. With regard to the growth of Insurance versus Reinsurance, frankly, if you take away the multi-years and you look at annual premium production, which is what we do mostly on the Insurance side, the numbers -- the difference in the growth rates between one and the other really do not -- don't come across as that significant. And there is always, including in this quarter and this year, timing issues, contracts that were written for 15 months or 18 months where extensions are occurring. And so I wouldn't read too much about that yet. But there's no question that in Insurance, the U.S. D&O book, we're shrinking that book because we're fixing that book. Obviously, there has been some good growth in A&H, but that's from a smaller base. In Professional lines, we've had the benefit -- sorry, in Reinsurance, we've had the benefit of continued good growth in agricultural Reinsurance, and as Joe mentioned earlier, the benefit of an extension of a large contract. So there's always little things going there. It is not our intent to grow any book of business unless we believe that, that will offer attractive business opportunities. Now with regard to the Reinsurance, I will say that we look at Reinsurance every year, and while it's true that last year, we did reduce our retentions in a number of books of business, as we were reviewing our Reinsurance buys this year, that has not been in the same way [ph]. Most of our quota shares have been kept flat, except that our global D&O book, we actually increased our sessions. So last year, we ceded 32.5% of our global D&O book, and this year, we're ceding 40% of our D&O book. With regards to our property per risk towers, we've purchased more coverage on our property per risk towers. We've also purchased some more catastrophe protection on both Insurance and Reinsurance. So we continue to modify the book to make sure that we get to the best mix, if you would, of ceded and retained results.

Operator

At this time, I would like to turn the call back over to management for any closing comments.

Albert A. Benchimol
President, Chief Executive Officer & Director

Thank you very much, and thank you, all, for participating in our call. We covered a lot of good ground today. And as I mentioned earlier, we look forward to reporting to you in future quarters about the progress that we will be making on the initiatives that we discussed with you. Thank you.

Operator
Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect your lines. Have a nice day.