S&P Global
Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS

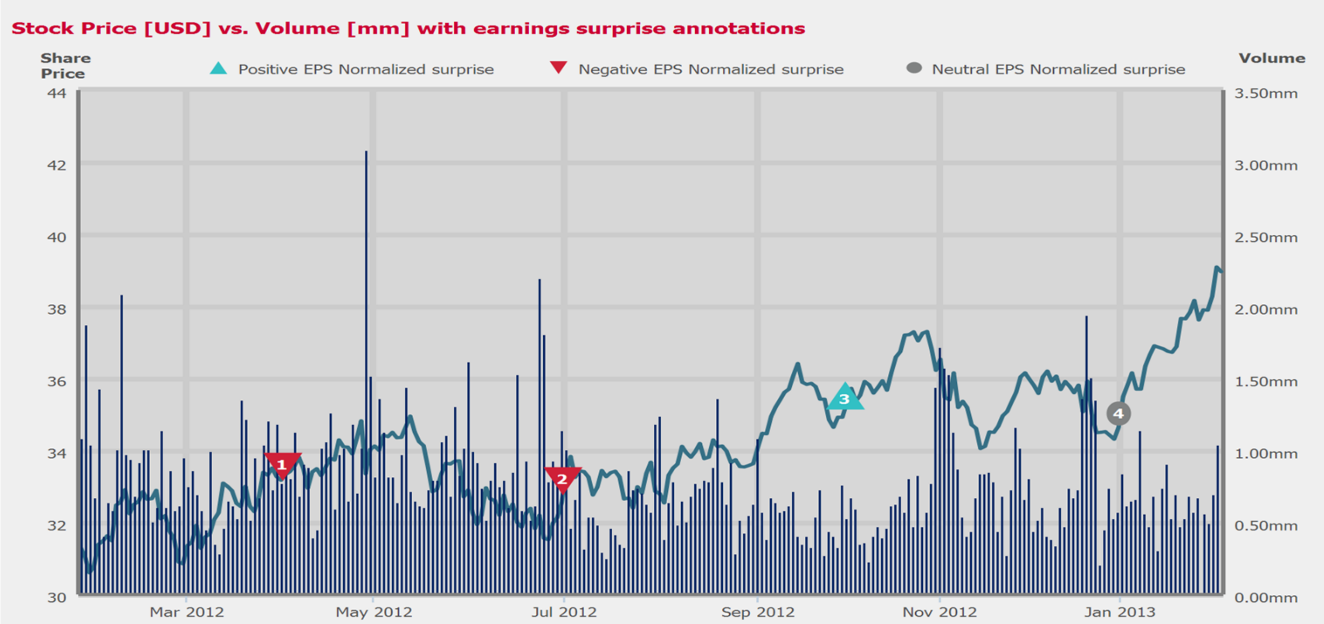
FQ1 2013 Earnings Call Transcripts

Friday, April 26, 2013 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2013-			-FQ2 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.19	1.92	▲61.34	1.17	4.72	4.51
Revenue (mm)	1293.52	1570.44	▲21.41	853.04	3606.84	3785.46

Currency: USD
Consensus as of Apr-26-2013 11:13 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2012	1.09	1.07	▼1 (1.83 %)
FQ2 2012	0.96	0.90	▼2 (6.25 %)
FQ3 2012	1.04	1.63	▲3 56.73 %
FQ4 2012	(1.18)	(0.23)	NM

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EXECUTIVES

Albert A. Benchimol
President, CEO & Director

Joseph Christopher Henry
Consultant

Linda Ventresca

ANALYSTS

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Charles Sebaski

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

Ian Gutterman
Adage Capital Management, L.P.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Raymond Iardella
Macquarie Research

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Presentation

Operator

Good morning, and welcome to the First Quarter 2013 AXIS Capital Earnings Call. [Operator Instructions] Please note this event is being recorded and I would now like to turn the conference over to Linda Ventresca. Please go ahead.

Linda Ventresca

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

We set aside an hour for today's call, which is also available as an audio webcast through the Investor Information section of our website. A replay of the teleconference will be available by dialing (877) 344-7529 in the U.S. The international dial-in number is (412) 317-0088. The conference code for both replay dial-in numbers is 10026491.

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

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

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

Albert A. Benchimol
President, CEO & Director

Thanks, Linda, and good morning, ladies and gentlemen. Thank you for joining us today. Last night, we reported a very good first quarter. Both insurance and reinsurance segments delivered strong and diversified premium growth, with consolidated gross premiums written up 15%.

Both also contributed solid underwriting profits, with a consolidated combined ratio of 83%. We generated strong accident year results in the absence of meaningful catastrophe or weather activity, and continued to see favorable reserve development from prior years benefiting our results.

Operating income for the quarter was $227 million or $1.92 per diluted share, and our operating ROE for the quarter was 17.1%. We ended the quarter with record book -- diluted book value per share of

$44.67, an increase of 4% from year-end 2012 and 13% growth over the last 12 months. That aside, I believe we're also making meaningful progress in improving our risk-adjusted returns through portfolio diversification and optimization activities as can be seen in the evolution of our business mix. I'll discuss market conditions in more detail following Joe's remarks.

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

Joseph Christopher Henry
Consultant

Thank you, Albert, and good morning, everyone. We produced strong results this quarter, generating underwriting income of $171 million and solid returns from our investment portfolio, producing an annualized 22.7% return on average common equity and operating ROE of 17.1%. Our diluted book value per common share increased by $1.70 or 4% during the quarter.

On the underwriting side, we benefited from a quiet catastrophe and weather environment, and the continued recognition of net favorable prior-year reserve development this quarter. In addition, while the low interest rate environment continues to plague investment returns for the entire industry, our alternative investments contributed significantly to our income this quarter.

Moving into the details of the income statement, our first quarter gross premiums written were up 15% to more than $1.7 billion, reflective of similar growth rates in each of our segments. In reinsurance, our top line was up $149 million. Agriculture contributed $73 million of this growth as we initiated this new strategic global business.

Most of this business related to U.S. exposures but we also expanded in Asia and with much of this business binding later than usual this year, based upon what we know today, we expect to recognize at least another $50 million of new written premium for agriculture in the second quarter. In agriculture, we've created a center of excellence that can be consultative and value-added for cedents facing an increasingly complex environment.

Outside of our agriculture initiative, remaining growth was largely driven by the expansion of our Continental European reinsurance business at the key 1/1 renewal date. We expanded our European cat portfolio, as well as our motor business, where we see positive developments in the U.K. market. Foreign exchange also contributed favorably in this line.

In the U.S., we've seen restructurings of a number of launched programs in recent months with cedents increasing retentions. This, along with renewal timing, contributed to a reduction in our professional lines reinsurance business this quarter. We did, however, find select opportunities to grow our property business in the U.S.

In our insurance segment, growth was $72 million or 14%. This growth was balanced across property and casualty lines that have been improving over the last 1 to 2 years and featured significant growth in our newer accident and health line. Accident and health contributed $29 million of this increase. The 30% growth in this line was driven by a successful 1/1 for the global accident health reinsurance business.

Geographic expansion of our professional lines book continued this quarter with growth in Europe, Canada and Australia. In liability, we continued to selectively grow in the U.S. wholesale excess casualty market where the rate environment has improved significantly in recent quarters. Rate increases and new business opportunities contributed to growth in our property business even as we reduced cat exposed business written through MGAs.

Our consolidated net premiums written were up 15%, in line with gross. The impact of ceded reinsurance changes in our insurance segment was largely offset by changes in business mix.

Our net premiums earned were up 3% for the quarter with growth in insurance and reinsurance driven by our accident, health and agriculture initiatives, respectively.

Our first quarter consolidated current accident year loss ratio improved by 9.3 points to 56.4%. In insurance, this ratio improved by 10.3 points. Reinsurance improved by 8.4 points. The primary driver of each of these reductions was the absence of catastrophe and significant weather-related events in 2013.

There are 2 factors to consider in the property lines in comparing the first quarter of this year with the same quarter last year. First, last year, as part of the ongoing rebalancing of our catastrophe portfolio, we were moving away from the regional catastrophe aggregate reinsurance contracts which drove meaningful losses in our portfolio throughout 2011.

We were also repositioning cat exposure in our insurance segment moving away from writing this business through MGAs. Although this process had already begun, our experience in 2010 and 2011 years supported conservatism in establishing initial loss picks for the property lines.

Further, the first quarter of 2012 was an average quarter for the industry in terms of U.S. cash tracked by PCS. This quarter, in contrast, we are substantially out of the regional catastrophe aggregate excess of loss programs, are further along with our MGA repositioning, and it was a below-average U.S. cat quarter.

To summarize, with significant progress in the repositioning of our catastrophe exposure and a relatively low cat loss quarter for the industry, we had a high degree of comfort that the favorable experience during the quarter in the property lines should be recognized this quarter.

Turning to loss reserves established in prior years, we continue to benefit from net favorable development, which aggregated to $54 million this quarter. Short-tail classes in both segments and our professional lines reinsurance business contributed $38 million of this balance, primarily reflecting better than expected loss emergence.

In addition, we began to recognize favorable development for our reinsurance liability business this quarter. We believe that our older accident years are at a stage of expected development where we can give weight to methods that reflect our favorable actual experience. As a result, we recognized net favorable development totaling $16 million for the reinsurance liability class this quarter, which primarily emanated from the 2004 through 2007 accident years.

We strengthened reserves in professional liability and liability insurance lines for specific cases that develop adversely. This strengthening totaled $16 million. We also strengthened our estimates of catastrophe and weather-related losses for events in the 2010 through 2012 years by an aggregate $30 million. This development is comprised of a number of movements up and down by event. The most material of these was a $28 million increase for the February 2011 New Zealand earthquake, most of which was IBNR.

Our consolidated acquisition cost ratio decreased by 3.3 points quarter-over-quarter, with reductions in both insurance and reinsurance. In insurance, a 1.5 point reduction was driven by a combination of recent reinsurance purchasing changes and the reduction in high-cost MGA source business. In reinsurance, that ratio was down 4.8 points with the bulk of the variance attributable to our accruals, the loss-sensitive features in underlying reinsurance contracts. Such accruals contributed to an increase in the ratio for the first quarter of 2012 and conversely, reduced the acquisition cost ratio this quarter.

We expect the normalized acquisition cost ratio for the current mix of reinsurance business to be in the range of 21% to 22%. However, we caution that there is always the potential for loss experience to result in variances in any one quarter relative to the normalized run rate.

The increase in our general and administrative expenses in comparison to the first quarter of 2012 was primarily driven by increased staffing and office costs, attributable to the continued expansion of our global platform over the past year as well as a larger accrual for performance-based compensation given improved results this quarter. Total expenses this quarter were comparable to those of the fourth quarter of 2012.

Turning to our investment portfolio, net investment income was down $7 million from the first quarter of 2012. Yields from our fixed-maturity portfolio continued to decline as a result of the protracted low-rate environment, resulting in a $10 million reduction in income despite a growing asset base and an increased allocation to short duration, high yield corporate debt securities. Our other investments contributed $43 million of income this quarter with our hedge funds benefiting from the strong performance of global equity markets.

With respect to asset allocation, it's worth noting that we significantly increased our investment in senior CLO debt this quarter. The majority of these floating rate issues, which will benefit from an increase in interest rates were purchased in the new issue market with an average credit rating of AA+. As a result, we expect this action will improve yields going forward without compromising the credit quality of our portfolio.

We ended the quarter with a very strong capital position with record common shareholders' equity of $5.4 billion and total capital of $6.9 billion at the end of the quarter. We repurchased 3 million shares from Trident II and affiliated entities this quarter. This, combined with a secondary offering, resulted in Trident exiting its AXIS holdings.

As Albert noted in our press release, our increasingly diversified underwriting investment portfolios and strong capital position is such that we have revised our expectations for capital management this year. Based on opportunities as we know them today, we now expect to return to our shareholders closer to 100% of our earnings this year in the form regular dividends and share repurchases.

We're pleased to be able to report these solid first quarter results to you and we remain optimistic about our prospects for the remainder of 2013 and beyond. Our global diversified -- our diversified global franchise and strong balance sheet mean that we're well positioned to execute on our expansion initiatives and take advantage of market opportunities as they arise.

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

Albert A. Benchimol
President, CEO & Director

Thank you, Joe. While the nature of our business is such that predictions about the future are fraught with risks, we are nevertheless cautiously optimistic about improving fundamentals in many parts of our business. We continue to be encouraged by the overall trends in pricing and market conditions that have continued into 2013.

Within our insurance segment, the overall access insurance rate change for the first quarter of 2013 stands at plus 5%, up from the plus 4% last quarter and the plus 3% in the first quarter of last year. Rates are continuing to increase across most classes and geographies other than a few notable exceptions.

In our U.S. division which is dominated by wholesale E&S property and casualty business, continues to show the strongest rate improvement. Overall, rate change this quarter was plus 9%, in line with last quarter.

For the property classes in this division, this is the eighth consecutive quarter of rate increases. While rate increases averaged about 10% last year, they were in the high single-digits by the fourth quarter. And in the first quarter of this year, we see them in the mid to high single-digit range.

So as we enter our third year of increases, which by the way is something rarely seen in our careers, we're seeing a modest slowdown in the scale of increases, but the trend remains uniformly positive. The strongest increases remain in accounts with the recent loss activity, winter flood concerns, or accumulation issues within specific geographic regions.

Casualty business in the U.S. division, which is primarily E&S umbrella business, continued to show the double-digit rate increases that commenced in the second quarter of 2011. Premium increases are occurring across primary, buffer and excess layers. The largest increases are naturally associated with the tougher classes.

Overall in the U.S., we are continuing to see more challenging risk flow away from standard carriers and back into the E&S market, providing us with a greater flow of submissions, a higher new business conversion rates and improved retention ratios.

In our international division which is dominated by London sourced specialty lines, the overall rate change is plus 4% this quarter in line with the last several quarters, but with wide variations depending on the line of business or geography.

In our international property classes, we achieved only modest rate increases after several quarters of double-digit rate hikes. Our achieved rate change this quarter was lower than in any of the prior 8 quarters. It's probably too soon to declare it as a trend, but we are keeping a close eye on it.

Marine business impacted by recent loss activity showed strong increases in the first quarter renewals consistent with our expectations given a difficult 2012 for that line. And disappointingly, aviation and terrorism are stubbornly continuing their downward trend at a pace consistent with last year's.

In our professional lines division, substantially all classes are now seeing great strengthening with first quarter averaging plus 3%, as compared to a generally flat environment in the first

[Technical Difficulty]

half of 2012 and a plus 2% average increase in the second half of last year. So you could say we're observing pressure [ph] momentum.

For D&O, rate increases are higher and more consistent on primary business than in excess. We attribute that to the fact that primary layers were more exposed to losses in recent years and in the excess layers, surplus capacity is dampening significant improvement. Similarly, lines of business such as small-to-mid market lawyers, private and not-for-profit D&O and employers' practices liability that have been impacted by increasing frequency of loss by seeing strong rate increases and tighter terms and conditions.

We expect similar dynamics to influence U.S. professional lines as we move forward. Outside the U.S., the rate environment is positive in management liability and essentially flat for the professional liability

lines.

Moving on to reinsurance. As you know, our first quarter is dominated by the significant January 1 renewal date. Over 55% of our expiring 2012 reinsurance business renewed during the quarter and we addressed January 1 renewal conditions at our last conference call. By and large, there were increased retentions here and there and often pressure from modest increases in ceding commissions. But these were often offset by the reinsurers' participation in the underlying rate increases achieved at the primary level.

Excess of loss layers were generally stable. Overall, we grew where appropriate and we're satisfied that we made significant progress in rebalancing our portfolio with a view towards improving our overall risk-adjusted returns. We did note on our last quarter that the story on agriculture was an unfinished one given late renewals. And as Joe just noted, we made great progress in our new agriculture reinsurance initiatives.

When all was said and done, more proportional agricultural reinsurance business was placed in the reinsurance markets at generally stable terms. Significant rate increases were seen for excess of loss renewals on U.S. MPCI business. As expected, the greatest improvements came from treaties with concentrations in the states heavily affected by the 2012 drought. We established ourselves as a specialist in the line and assembled a portfolio of business with strategic cedents that value our highly experienced team, not only as a consistent capital provider but also as an important partner in product development and analytics.

Looking forward for our reinsurance business, this time of the year is relatively quiet. Less than 20% of our expiring premium renews during the second quarter. Generally, we're seeing a continuation of the trends experienced in the first quarter.

As our European portfolio substantially renewed at the beginning of the year, I'll focus my comments on activity in the U.S. and non-European catastrophe business, as well as the recent Asian renewals.

Our U.S. reinsurance business is dominated by specialty liability reinsurance lines such as professional liability. In these lines, there's a trend towards more retention by the cedent and requests for more ceding commissions.

But just like before, this is generally against the backdrop of improvements in the underlying business. In our view, this renders returns as, or even more attractive, for the business we wrote relative to expiring.

The recent Asian renewals were in line with expectations. Our Asian reinsurance portfolio is currently dominated by Japanese property reinsurance business. Improvements subsequent to the Tohoku Earthquake of 2011 were maintained despite weakening of the Japanese yen, which led to an abundance of capacity. Terms and conditions were generally unchanged for proportional business and pricing was flat for excess of loss business.

Despite the competitive pressure created by the additional capacity, in the majority of cases, we received our desired shares, a big win in this market. AXIS Re Asia Pacific continued to build on its strategic profile across the Asian market and is now perceived more broadly as an accepted quoting market.

Away from Asia, the first quarter property reinsurance business pricing was mostly flat to down 5% for cat and per risk excess of loss and that's mostly in the U.S., Canada, Caribbean and the U.K. Pro rata terms and conditions were mostly unchanged notwithstanding brokers pushing for expanded terms and conditions on a few profitable accounts.

Loss re [ph] accounts continued to experience rate pressure and capacity was plentiful. For the most part, there was limited impact to the market from Hurricane Sandy, other than loss impacted accounts, some of which saw 10% to 25% price increases.

But generally, for the upcoming 1st of June and 1st of July renewals, which are dominated by U.S. catastrophe excess of loss renewals, we expect to see continued pressure on rates with the influx of capacity from both traditional sources and capital markets. Certainly, there will be some opportunistic purchases introduced in the mix. That aside, we fully expect rational pricing in the more traditional placements better handled by the professional reinsurance market.

As an important strategic provider of capital to a number of cedents, we see room to position our cat portfolio at attractive expected returns. We don't, however, expect to significantly increase our cat exposure.

Looking ahead for our industry, while there is still favorable momentum in the insurance marketplace, there continues to be talk about the sustainability of rate increases, especially as the accumulative rate impact in property-related lines approximates 20% since the beginning of 2011 and some of the first quarter increases in property-related line are lower than they were last year.

But as I've said before, while these rate adjustments are necessary and welcome, they are still not enough and must continue. This is especially true in mid and longer tail lines where recent improvements are inadequate to offset the many years of price declines and the effective absence of any investment income. There must be more. And even more so, outside the U.S. where other than in loss-affected regions and lines, market improvements are lagging with the United States.

As for AXIS, we believe that we're very well-positioned to take advantage of improvements in the markets to grow where appropriate and add balance and diversification to our exposures. The bedrock for that is in our very strong capital position, global footprint, and superior staff with great customer relationships.

I've always said that our insurance company is nothing more than capital and people. But the real differentiator is in the quality of the people and the service expertise they bring their clients. The better companies outperform because of their ability to recruit and retain the best staff in the industry. And AXIS is blessed with a strong, disciplined and entrepreneurial underwriting culture.

This is the evidence over the last couple of years with the development of teams to pursue opportunities at A&H, renewable energy, environmental design engineers and architects, agricultural reinsurance, and

U.S. marine reinsurance, as well as new talent to complement our established business units across the globe.

We continue to attract the best talent in the industry this quarter, with the announcement that Peter Wilson has joined us as President of our U.S. insurance business. Peter is an exceptional seasoned industry veteran whose skill sets and depth of experience in the U.S. cat specialty lines strongly complements our company. From our perspective, AXIS' U.S. insurance business is one of the very few successful start-up U.S. specialty businesses in the last decade. A number of competitors have tried with much less success. We look forward to building on this strength with Peter and we welcome him to our team.

We're all very engaged and committed to executing on our strategic imperatives and delivering superior value creation for the benefit of our shareholders.
And with that, I'll open the call for questions. Operator?

Question and Answer

Operator

[Operator Instructions] Our first question comes from Vinay Misquith at Evercore.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

The first question is on the accident year margins. Historically, I believe AXIS used to put up a very high loss ratio in the first quarter and lower that as the quarters went by. Has that changed now because you've changed your regional programs?

Joseph Christopher Henry
Consultant

Yes, Vinay. It's Joe. As I mentioned in my prepared remarks, there are really the 2 reasons for that: the Midwest aggregate contracts that we're mostly out of and the changes in our insurance MGA programs. So we felt -- as I said, we felt much more comfortable that with that behind us, if we had a favorable experience in the quarter, we could recognize that in the quarter. So yes, you're correct.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Okay, that's helpful. The second question is really on margin improvement, if you look at the year-over-year. Primary insurance, plus 5, reinsurance getting the underlying rates from the primary insurers. How much of margin expansion should we expect this year versus last year?

Joseph Christopher Henry
Consultant

You know, Vinay, it's difficult on the insurance side. We've really got 3 different things going on. We've got improvements in our property and casualty lines. And those rate increases are being earned through and they are in excess of trends. So we're seeing improvements in the combined ratios in those businesses. As Albert mentioned in professional lines, our rate increases have just started to increase. So we haven't really seen the full benefit of earning through of those rate increases yet. And then, we've got a third set of lines like terrorism and aviation, where we've had continued pressure on rates. However, our returns are good in those lines of business. So we've got really 3 different things going on. So I'd say on balance, we haven't really reflected much in our loss ratio or combined ratio from rate increases in the past couple of years. However, we expect to have that earned through as we go through in 2013 and 2014. And probably, we'll expect to see a 2-point improvement in our loss ratios in insurance.

Operator

Our next question comes from Mickey Nannizzi at Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Yes, this is Mickey. Just a couple of questions actually if you don't mind. On deployment, I think I remember and I think I got this right, that last quarter you said 50% to 100% of deployment and that '14 would be at the low end of that range. So now, we're here, you're back up to 100%. What is the outlook next year? Is that different?

Albert A. Benchimol
President, CEO & Director

Yes. I think what we -- obviously always a little cautious at the beginning of the year when you look at it. When you're trying to balance the opportunities as well as the growth in capital. I think we have --

the way we're looking at our book of business this year, we see ourselves now more comfortable aiming towards especially returning all of our earnings in the form of our normal dividends plus share buybacks. With regard to '14, I think again, it's a little early to give any guidance or thoughts on that. We're very enthusiastic here at AXIS about our opportunities to take advantage of market opportunities and, if they're out there, we'll do it. If they aren't, we'll be just as happy to give the shareholders the capital back.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And I guess -- because it looked like -- the way I was thinking about it after first quarter was that you would see more opportunities potentially to grow in some of the more capital intensive lines. It looks like you grew in some property cat. So that actually maybe a little bit more than I expected and then I'm just trying to reconcile that with the outlook. Is it really just that kind of being very conservative, even more so at the beginning of the year, and even though you have more property cat right, did you still feel good about kind of extending that level of deployment?

Albert A. Benchimol
President, CEO & Director

It's a good question, and I think it has to do with efficient use of capital. And I think that one of the things that I'm especially pleased about with regards to the production this quarter is, if you look at it, it's all in diversifying business. We did not add the peak zones. We added new types of risks, added new geographies. And so that allows us to make more efficient use of our capital and obviously that continues to move us forward and what we have been telling you is our short term strategy, which is to add balance and diversification and overall reduce the volatility of earnings. All of that means that we can use our capital more efficiently and to the extent that we can use our capital more efficiently, again, we're happy to give all the excess back to our shareholders.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Very logical answer. That makes a lot of sense. And then just one if I could. Just on crop, I mean, I guess, I notice we're seeing a lot of folks building out crop reinsurance businesses and the delta is from 1Q '12 to now and a lot of cases are really significant. How do you think about or how should we think about whether or not -- and then some of the insurers are talking about really holding the line firm on rate. How do we square all that to make sure that the margins, that the new are kind of really growing reinsurers, are securing are substantial enough for the risks they're taking?

Albert A. Benchimol
President, CEO & Director

Well, I think at the end of the day, I don't see that the ag business is any different from any other business which is you need to distinguish naïve capacity from professional experts. And we started by getting some of the best minds in the agriculture reinsurance business and trying to build not simply a capacity provider, but rather a partnership with people who need both consistent capacity on the one hand, and assistance in designing, modeling products and portfolios. So when you look at our business, frankly we did not do that much of it last year, altogether around $14 million for the full year of excess of losses. Once we brought on our team last summer, we reengaged with a number of these relationships. And today, we have increased both on the quota share and some growth on the excess of loss. I think in terms of pricing, pricing fundamentally for the bulk of the business has been stable. Especially again for those users of reinsurance that are the strategic dependents on capacity. There's been a handful of opportunistic quota shares that were able to be done at very good prices and good for those cedents. We do not participate in them. What we are really looking for are partnerships with individuals who need capacity every year, good year, bad year, and who are willing to share, if you would, the economics with us. So on quota share, I would say generally stable terms. On excess of loss, clearly, meaningful increases in pricing. In some cases, 60%-plus for those areas of the country that were affected last year.

Operator

Our next question comes from Arash Soleimani at KBW.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

Just a couple of quick questions. First, in terms of accident and health growth, to what extent do you expect that to benefit the expense ratio going forward?

Albert A. Benchimol
President, CEO & Director

Well, it's a good question. I think just to put the frame of A&H back in context, I think it's very important. As we've said all along, the A&H initiative was a multiyear program to establish a global platform. And what we said all along was that we think it'll take us an earned premium base of about $300 million to be able to spread our expenses over the premium base and achieve a combined ratio below 100. And our target is to achieve that in a positive contribution to our bottom line in 2014. So that's -- that plan is on and that's still something that we're aiming for and certainly, our 30% growth this quarter highlighted by very good production in the U.S. reinsurance business makes us feel very good about that. What I've said all along is that I'm actually quite satisfied with the technical ratio of our A&H business. In fact, our technical ratio which is the loss plus the acquisition expense. That's improved another couple of points this quarter over last year's first quarter. The real issue here is getting the expenses global platform to be serviced by the marginal return. And again, in this quarter, we got another 2-point reduction in the G&A ratio year-over-year.

So we're making the progress that we want to see in terms of getting this combined ratio down to below 100 and making positive contributions. There's no question that in 2013, A&H will be net-net a drag on earnings but it could be because it'll be a combined ratio above 100. But that's consistent with our plan. That's consistent with our expectations. And in my mind, we're still on line to make a positive contribution in '14.

Arash Soleimani
Keefe, Bruyette, & Woods, Inc., Research Division

That's very helpful and just one follow-up question. In terms of the recent departure of the AIG Executives going to Berkshire's, I was just curious if you have any thoughts on that, if it has any implications for the market?

Albert A. Benchimol
President, CEO & Director

Well, I think that's recently been announced. I think we'll see what that means, but fundamentally, we've -- let's just take one step back. We've been competing with 1,000-pound gorillas from the first day we were born. Sometimes they have one name and sometimes they have a different name. This is a business where you need to distinguish yourselves by the quality of the service, your expertise, and your risk selection. Whoever is in the market, that's still going to be what matters, the quality of our service, our people, our risk selection, and we will continue to compete on that basis.

Operator

Our next question comes from Dan Farrell at Sterne, Agee.

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

Just a quick question, I was wondering if you could expand a little bit more on the trends that you're seeing in U.K. Motor? I know you said that you saw some favorable things going on there, maybe just add a little more to that?

Albert A. Benchimol
President, CEO & Director

Sure. And again, the U.K. Motor probably needs to be separated into the quota share and the excess of loss market because there's been a lot of volatility around that. Fundamentally, this is a business which continues to improve. So we are happy to participate on a quota share basis and we have grown that business. Most of the growth that you saw in the first quarter was there. We historically were a meaningful player in the excess of loss market in the U.K. Although as you know, a few years ago, there's been some developments in court award moving towards PPO and periodic payment orders, which essentially kept the liability open for the life of the injured party. We were very concerned by that because obviously, it extended the tail and the uncertainty of that risk. And so we made significant cutbacks in our participation in the excess of loss motor business. However, we also felt that we should find a way to help our clients. And so we worked very hard to try and create new structures where we could provide the capacity that our clients needed, but in a way that made sense for us. And so we worked very closely with our clients, with the industry and developed a commutation clause that basically said we will work with you, we will provide with you capacity, but we would like to be taken out of our liability by the 10th year as opposed to having this essentially unlimited tail. A lot of people said, no, the market is good enough. We can keep writing it on this basis and so, obviously, we were not able to support them. But a small percentage of the market said, yes, we're prepared to work on that basis. And so I would say that perhaps less than 10% of the U.K. excess of loss motor market has these -- what I would call commutation clauses. And within that segment, we're actually a meaningful player. So we have found a way through a creative product structure to re-enter the U.K. market in a way that makes sense for us.

Operator

Our next question comes from Ryan Byrnes at Janney.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Just quickly, one clarification question on the capital management. Is it net income or operating income that you guys gauge your -- I guess the kind of payout ratio off of?

Albert A. Benchimol
President, CEO & Director

We usually think of it as operating income. But I got to tell you, there's no formula here. So we look at our capital. It could be a little less. It could be a little bit more. I would -- there could be an opportunity to make -- to buy a large chunk and we would do that. I wouldn't think of it as that formulaic. But if you needed something, I would use operating income as a model.

Ryan J. Byrnes
Janney Montgomery Scott LLC, Research Division

Okay, great. And then my other question was with the repositioning of I guess more of the U.S. prop cat book kind of trying to take on more homeowners type risk, just want to see I guess how you guys are viewing I guess the midyear renewals? And will you be able to kind of get the shift to more homeowners fully [ph] in place by this year? Or is it a multiyear type event? I just want to see how you guys use, I guess, the homeowners prop cat market [ph] right now.

Albert A. Benchimol
President, CEO & Director

Well, I think I shared with you in my prepared remarks we think that for the strategic large buyers, I think there's going to be some consistency in the business. I think that it is likely that the Florida-dominated domestic market is probably going to see some price reductions although I think people need to recall that this is probably the best-priced reinsurance business, and even after the adjustments that people are contemplating, it should continue to be a very, very good business. And of course, as you know, we're seeing a lot more of capital markets participation and all of that. So going back to us, on the Florida business, the Florida domestic business is literally less than 1% of our expiring premium. So it's not a major part of our business. We will continue to participate in that. Obviously, we don't see huge opportunities to increase it under the conditions that we have today, so be it. With regard to the shift between personal lines and commercial lines, if there's one thing that we know is that relationships matter and you want to work with your clients and we will work with our clients to make sure that as we transition our book of business, we do so in a way that gives our clients a fair amount of foresight and allows them to manage around that. So we're not going to shut down our commercial catastrophe reinsurance business, but we will gradually move it over time. It is not a 2013 target for 100%. You'll see more progress being made in 2013, more so being made in 2014, and so on. But gradually, the trend will be absolute.

Operator

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

Charles Sebaski

I just one follow-up and I don't know if you guys provided this. In the growth in the agriculture business, if you gave a breakdown between how much came in the excess of loss versus the proportional.

Joseph Christopher Henry
Consultant

We didn't give the exact breakdown but most of it was quota share.

Charles Sebaski

Okay. Excellent. And then I just wondered about if there's any additional color on I think you said, Joe, that you increased your exposure on European cat at the 1/1 period. I'm wondering on what scale that is or what kind of PML change you'd be seeing on that exposure shift?

Albert A. Benchimol
President, CEO & Director

What we did is, we did participate a little bit more. I think we wrote $20 million more of European cat business last year. But in terms of scale, you can see in our PML schedule in the financial supplement that, just bear with me as I pull that out. There was a bigger increase in the lower layer. So we did participate in some of the lower layers, but we shifted that portfolio again to try and optimize it. We took down some of the upper layers. We replaced that with some capacity on the lower layers. But this continues to be certainly well within our idea of a balanced global cat portfolio.

Operator

Our next question comes from Ray Iardella at Macquarie.

Raymond Iardella
Macquarie Research

I was wondering if you can provide a little bit more color on the insurance liability and professional liability. I think you had mentioned in the prepared remarks, you had increased some case reserves. Just curious what you're seeing in those books of business.

Joseph Christopher Henry
Consultant

Yes. Ray, for the most part, we had a couple of claims [indiscernible] case reserve changes on -- through the accident years, 2005 and 2008 in particular. And we just decided to get a little bit more conservative with IBNR. However as you know, we've been releasing IBNR from professional lines for other accident years. So they're really kind of netted against each other. We don't see it as a trend. We see it as an unusual situation. Obviously, we're going to keep an eye on it but I really wouldn't draw any particular attention to it.

Raymond Iardella
Macquarie Research

Okay. And then on the liability side of the...

Joseph Christopher Henry
Consultant

Yes. Again, the same thing there. We had 2 claims and we just decided to strengthen reserves in that line of business. As you know, in the fourth quarter, we started a liability reserve release program for insurance. We just frankly sat on that in the first quarter and recognized the additional case reserve development we had on a few claims. So again, just a few case reserves -- some case reserve activity in 2 lines in the first quarter which we'll monitor. We just decided to take a conservative look and strengthen reserves in both lines.

Operator

Our next question from Ian Gutterman at Adage.

Ian Gutterman
Adage Capital Management, L.P.

Albert, I guess my first question is there’s been stories in the trade press that you guys have looked at some Lloyd's syndicates and, obviously, that was a big taboo prior to you joined the company. I just was wondering if you could talk about your interest in Lloyd's and how you think about acquisitions.

Albert A. Benchimol
President, CEO & Director

That’s a very wide range of question, Ian. Let’s talk about acquisitions and Lloyd's in particular. Fundamentally, I like what we have here. I think we’ve got the right people. We’ve got the right offices. We’ve got the right resources. This company has no need for what I would call transformational M&A. We have been very public about the fact that we would gladly look at opportunistic bolt-on acquisitions that would advance one or the other of our initiatives. And as a matter of practice, I try to show Linda everything that’s in the market. So I wouldn’t read into the fact that we want to see everything that’s in the market as anything other than just being on top of development. With regard to Lloyd's in particular, we are of the belief that Lloyd's is a particular and unique environment, not so much because of the business that is there, because the business that is there is business that fundamentally we have access to through our London market. But the issue is that it does also provide access to a number of jurisdictions, and that is a positive for us. So we are in fact exploring whether or not Lloyd's makes sense for us as an additional vehicle, as an additional, if you would, licensed piece of paper to allow us to expand in our international expansion. But with regard to the book of business at Lloyd's itself, there is actually very little that we would be going after within the Lloyd's market. We already service the U.S. market locally and we think that’s a better way to service it. With regard to the international wholesale lines, we obviously -- one of our flagship offices is our London specialty lines office. We already get that. We already accessed the Canadian market, the Australian market locally. We have -- we had accessed the Asian markets through our Singapore branch. So we’re not looking to simply to go in and steal business from Lloyd's, we’re looking to use the Lloyd's platform as an opportunity to expand internationally.

Ian Gutterman
Adage Capital Management, L.P.

Great. That’s very helpful actually. My other one is on your comments about diversifying the cat book and obviously from a capital standpoint, that’s a healthy thing to do. I guess my question is, can you talk a little bit more about how you avoid the sort of diversification aspect right where -- we’ve seen a number of sort of lesser cat companies over the years follow that strategy and put themselves out of existence because they diversify into lower return areas. So can you just talk about how you’re confident you’re getting high enough returns in the areas that aren’t peak zones?

Albert A. Benchimol
President, CEO & Director

That's very important and, in fact, I think the issue that we have is if you were to talk to our reinsurance people from Jay [ph] on down, one of the things that you're going to be hearing over and over again is return on risk, return on risk, return on risk. It really is about are we getting paid for the risk? How does this risk fit in the overall portfolio? There's a real focus and you've seen the results of that. I mean, when you think about the shift in our portfolio over the last 18 months or so. There is no question that, that has been driven by our desire to have a more balanced, more capital efficient, ultimately more profitable portfolio.

Ian Gutterman
Adage Capital Management, L.P.

Okay, great. And then as a one quick numbers question, just to make sure I got all the puts and takes on the reserve development. I mean and I know every quarter there is always things that maybe are a little non-repeating. But you had the $54 million reported, you had the $16 million sort of new thing from releasing liability which was offset by the $16 million that went the other way. And then there was a $30 million adverse development on cat. So is sort of $84 million the right way to think of the core releases this quarter because that will be a pretty strong number compared with what you've traditionally seeing.

Albert A. Benchimol
President, CEO & Director

I would never annualize any reserve release number.

Ian Gutterman
Adage Capital Management, L.P.

No, right, right, right. But I'm just trying to get a sense of what was there, is there an inference that reserve releases were maybe stronger than trend in this quarter on a core basis?

Albert A. Benchimol
President, CEO & Director

Ian, all I want you to take away from this is that we are very comfortable with the totality of our reserves.

Operator

[Operator Instructions] At this time, there are no further questions. And I would like to turn the conference back over to management for any closing remarks.

Albert A. Benchimol
President, CEO & Director

Thank you very much, operator, and thank you all for participating in our quarterly conference call. As you know, there has been much happening at AXIS over the last little while and we look forward to spending more time explaining it to you and discussing it with you. And as a result of that, we did schedule an Investor Day in New York on June 12 and certainly invites all of you who are interested to participate. If you haven't already been reached, please feel free to call Linda Ventresca and we'll make sure that you have all the details of our Investor Day on June 12 in New York. Thank you all. Good bye.

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