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Market Intelligence

AXIS Capital Holdings Limited NYSE:AXS

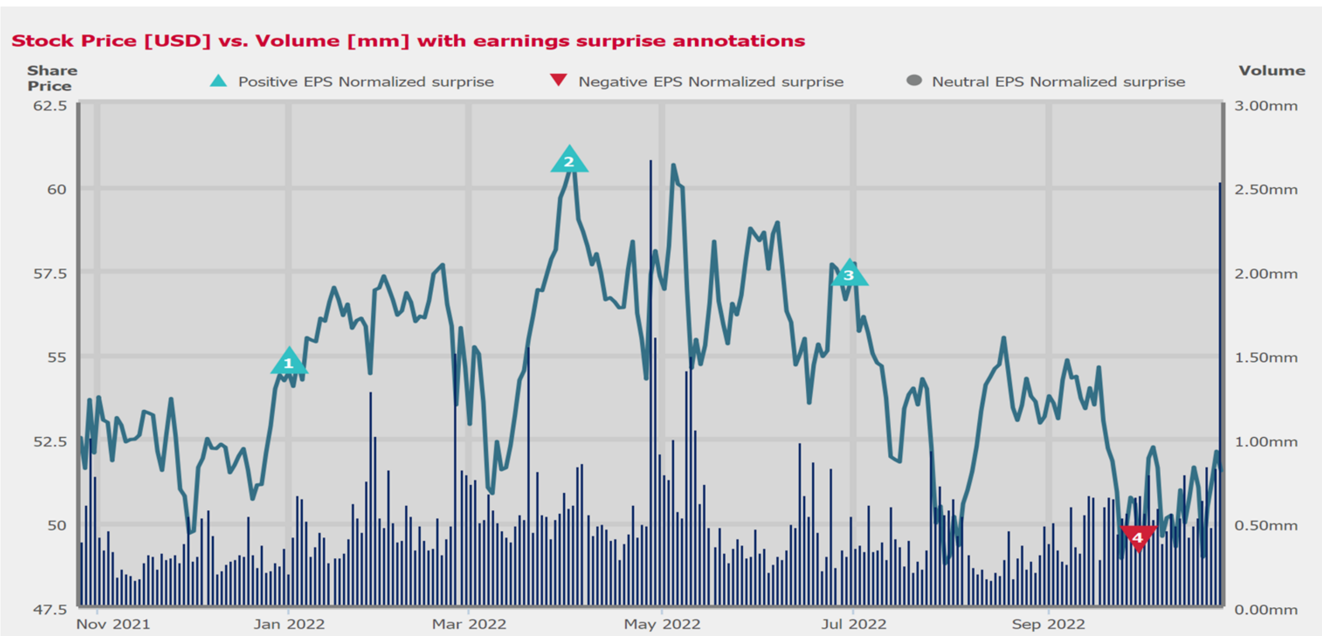
FQ3 2022 Earnings Call Transcripts

Thursday, October 27, 2022 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.07	0.03	▼(57.14 %)	1.68	5.54	NA
Revenue (mm)	1075.36	777.79	▼(27.67 %)	1082.70	5241.39	NA

Currency: USD
Consensus as of Oct-27-2022 10:35 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	1.51	2.13	▲1 41.06 %
FQ1 2022	1.67	2.09	▲2 25.15 %
FQ2 2022	1.53	1.74	▲3 13.73 %
FQ3 2022	0.07	0.03	▼4 (57.14 %)

Table of Contents

Call Participants

EXECUTIVES

Albert A. Benchimol
President, CEO & Director

Mei Feng A. Zhang
Interim Head of Investor Relations

Peter John Vogt
CFO & Executive VP

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
BofA Securities, Research Division

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Operator

Hello, and welcome to the Q3 2022 AXIS Capital Earnings Call. [Operator Instructions] Please note, today's event is being recorded.

I would now like to turn the conference over to your host today, Mei Zhang. Mei Zhang, please go ahead.

Mei Feng A. Zhang
Interim Head of Investor Relations

Thank you, Keith. 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 third quarter ended September 30.

Our earnings press release and financial supplement were issued last night after the market closed. If you would like copies, please visit the Investor Information section of our website at axiscapital.com.

We set aside an hour for today's call, which is also available as an audio webcast on our website.

With me today are Albert Benchimol, our President and CEO; and Pete Vogt, our CFO. Before I turn the call over to Albert, I will remind everyone that the statements made during the call, including the question-and-answer session, which are not historical facts may be forward-looking statements.

Forward-looking statements involve risks, uncertainties and assumptions. Actual events or results may differ materially from those projected in the forward-looking statements due to a variety of factors, including the risk factors set forth in the company's most recent report on Form 10-K and other reports the company files with the SEC. This includes the additional risks identified in a cautionary note regarding forward-looking statements in our earnings press release issued last night. We undertake no obligation to publicly update or revise any forward-looking statements.

In addition, this presentation may contain non-GAAP financial measures. Reconciliations are included in our earnings press release and financial supplement.

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

Albert A. Benchimol
President, CEO & Director

Thank you, Mei. Good morning, everyone, and thank you for joining our third quarter earnings call. Before we begin our review of results, I'd like to say that our foremost concern is with the welfare of the communities impacted by Hurricane Ian and other catastrophic events across the globe, both natural and man-made.

At the times like these that our industry has an opportunity to fulfill its social purpose to help people when they're down. And for AXIS, we're committed to do our part to support the victims and aid in the recovery effort.

Let's now begin our review of our quarter. We believe the events in the quarter have validated the actions that we've taken over the past few years to enhance our market positioning and build a more balanced, resilient and profitable portfolio.

During the quarter, notwithstanding the impact of Ian and other cat losses, our performance provides further evidence that the business we're building is one that will deliver positive results in both high and low cat quarters.

Indeed, even in the quarter where the industry is anticipating more than $70 billion of insured cat claims, AXIS is now generating positive operating income. And for the year-to-date, while our industry has already suffered aggregate cat losses in excess of $100 billion, AXIS has increased its underwriting income by 75%, and our operating income is up 30%.

Recent third quarter cats are a good illustration of our progress. We estimate Hurricane Ian will be a $60 billion event. And our $160 million charge represents less than 0.3% share of the industry loss. By comparison, in last year's third quarter, Hurricane Ida was a $35 billion event and our $175 million loss estimate represented a market share of 0.5%.

We're confident that our progress will continue, and every part of our company is executing on the actions that will add the most value to our business. Our Specialty Insurance business delivered 12% premium growth for the quarter and 16% for the year-to-date. And while doing so, we continue to see meaningful improvements in our underwriting performance with good underwriting profitability in both the quarter and year-to-date period.

Our 9-month insurance combined ratio all in came in at an attractive 91.2%, a 1.5 point improvement over the prior period, and our 9-month insurance underwriting income of $204 million is up more than 40% over the prior year for our insurance business.

For our Reinsurance business, we're encouraged by the early results from our efforts to reposition AXIS Re as a specialist player. The meaningful reductions that we've made to our cat exposures have been rewarded this quarter with a significantly lower market share of industry cat losses.

Moreover, through the first 9 months of the year, our Reinsurance business is delivering an underwriting profit of $23 million with a combined ratio of 99.1%. And while we've seen decreases in our overall reinsurance growth, and net premiums written, it's all due to our planned reduction of property and property cat reinsurance.

The rest of our Reinsurance book is up 7% for both the third quarter and the year-to-date. Thus far, we're lowering cat volatility and growing where we want to, which is exactly our plan.

Peter will shortly be taking you through the highlights of our results. But stepping back to look more broadly at our transformation. We recognize that our substantial changes and business mix shift have led to challenges in comparing sequential results on a like-for-like basis and in establishing a foundation for projecting future performance.

To help, in our third quarter financial supplement, we've provided additional pages where you can see what our company would look like without the reinsurance property and cat book that we've discontinued. The highlights from the expanded supplements are highly encouraging.

Excluding reinsurance property and property cat business from all periods, on a pro forma basis, in 2021, AXIS consolidated gross written premiums would have grown 16% with an ex-cat current accident year combined ratio of 92.6%, which would be a 4-point improvement over the prior year and an all-in combined ratio of 97.4%.

And so far this year, on a pro forma basis, consolidated gross written premiums would have grown 13%. The ex-cat current accident year combined ratio of 90.1% would be a 2.5 point improvement over the prior year and the all-in combined ratio of 96.2% would be 1.2% better than the prior period.

On that same basis, pro forma underwriting income would have been up more than 25%. Our industry will always have some quarterly volatility and noise, but the positive trends are evident.

We've already taken all the actions necessary to deliver this new AXIS, and the remaining property cat reinsurance exposures should have substantially run off by April 2023, giving us confidence that we can deliver the kind of performance indicated by these pro forma results.

And as I'll share later, when we talk about the rate environment, we're confident that AXIS is very well positioned in the current market. The ongoing impact of high cat loss activity financial and social inflation, economic and geopolitical uncertainty and more limited reinsurance capacity are anticipated to drive favorable market conditions through 2023 and beyond.

With anticipated growing demand for specialty coverages and meaningful growth of interest income, AXIS should have the wind at its back. Our focus now is to continue to build on the momentum, drive further profitable growth and enhance the value that we provide to our customers and shareholders.

And with that, I'll now pass the floor to Pete, who will walk us through the third quarter financials. Then I'll come back to discuss market trends, and we'll have our Q&A. Pete?

Peter John Vogt
CFO & Executive VP

Thank you, Albert, and good morning, everyone. During the quarter, we generated net loss attributable to common shareholders of $17 million and an annualized ROE of a negative 1.7%.

Operating income was $3 million. Diluted book value per share at September 30 was $43.50. This was principally driven by net unrealized losses related to increased treasury rates and the widening of credit spreads.

As noted in our press release, adjusted for net unrealized losses on available-for-sale fixed maturities, the book value per diluted common share would be $55.21, which would have been a modest increase from the comparable year-end 2021 number.

As I noted in recent quarters, while the increase in interest rates has negatively impacted our book value per share, we are confident we will recover these values as our high-quality fixed income portfolio matures over the next 3 years. In the meantime, new money yields are now significantly higher on our portfolio, and this will give us an opportunity to grow investment income.

The company produced a consolidated current accident a year combined ratio ex-cat and weather of 88.1%, an increase of 0.5 point over the prior year quarter. And the consolidated current accident year loss ratio ex-cat and weather was 57.1%, an increase of about 1.7 points over the prior year quarter, which was driven by the change in business mix in both segments.

As previously announced, this quarter's pretax catastrophe and weather-related losses net of reinsurance and reinstatement premiums were $212 million or 16.6 points, primarily attributable to Hurricane Ian. This compares to $250 million or 20.7 points in 2021. The consolidated acquisition cost ratio was 18.7%, a decrease of 0.4 point over the prior year quarter and this was driven by a decrease in both segments.

The consolidated G&A expense ratio was 12.3%, a decrease of 0.8 point over the prior year quarter. This was largely attributable to the growth in net earned premium.

Moving on to the segments. I'll start with Insurance. Gross premiums written increased by 12% to $1.3 billion for the quarter. This is the highest third quarter gross premiums ever written by the Insurance segment and it follows on the heels of the highest first and second quarters ever written.

The increase primarily came from professional lines driven by new cyber business and favorable rate changes, liability marine lines due to favorable rate change and new business in accident and health lines and credit political risk lines.

The current accident year loss ratio ex-cat and weather increased by 1.8 points compared to the prior year quarter. This was principally driven by a point of pressure due to our liability program business, 2/3 of which is a catch-up in the quarter to reflect year-to-date performance. There was elevated loss experience in marine property lines, which I would characterize as normal volatility around these lines, nothing concerning or systemic.

Lastly, we also had impact of mix as we write more professional lines, liability and A&H business. This is not a concern to us because while these lines have a higher ex-cat loss ratio, we do like the all-in technical ratios, combined ratio and the risk-adjusted returns on these businesses.

The acquisition cost ratio decreased by 0.3 point compared to the prior year quarter. This was primarily related to changes in business mix, reflecting less high-cost property MGA business and more lower-cost professional lines and liability business written in recent periods.

The underwriting-related G&A expense ratio decreased by 1.6 points compared to the prior year quarter, mainly from an increase in net premiums earned.

Now let's move on to the Reinsurance segment. The Reinsurance segment gross premiums written of $400 million for the third quarter was $80 million lower than the prior year. I'd remind you that the third quarter represents only approximately 15% of the segment's annual gross premiums written.

Given our announced exit from the property and catastrophe lines in June, the decrease in gross premiums was essentially attributable to these lines. The decreases were partially offset by increases in agriculture lines driven by new business.

The current accident year loss ratio ex-cat and weather increased 2.8 points compared to the prior year quarter. This was due to changes in business mix, driven by the decrease in catastrophe business written in recent periods.

When you review the additional pages in the financial supplement that Albert mentioned earlier, you will read that this quarter's loss ratio ex-cat and weather, excluding the property and cat business, has improved from the prior year quarter, and this is due essentially to rate over trend.

The acquisition cost ratio decreased by 0.3 point compared to the prior year quarter. This was primarily due to adjustments attributable to loss sensitive features driven by the motor lines and the accident and health lines.

Underwriting related G&A expense ratio decreased by 0.7 point compared to the prior year quarter, and this was mainly driven by decreases in personnel costs related to our exit from the property reinsurance business.

Net investment income was $88 million for the quarter compared to net investment income of $107 million for the third quarter of 2021. In the quarter, investment income from fixed maturities was $87 million, up over 35% from the $64 million in the third quarter last year as the yield on the portfolio has increased from 2.1% to 2.9% over the last 12 months.

Offsetting the increase in fixed income net investment income were losses from alternative assets compared to gains in the prior year. Alternatives will have some quarterly volatility, but in the long-term, we continue to believe they are an attractive asset class.

As I just mentioned, at quarter end, the fixed income portfolio had a book yield of 2.9%. It also had a duration of 2.9 years. Our market yield was 5.5%, 260 basis points above the book yield. Given the duration of our portfolio, and the current market yields, we would expect net investment income from fixed maturities to be at least $125 million greater in 2023 than in 2022.

Lastly, I'll note that when you review our PML disclosures, you'll see that the PMLs have come down significantly as compared to July 1. The decrease is driven by a catastrophe aggregate cover on our insurance property book, where the aggregate deductible has almost entirely been exhausted due to the cats in the third quarter.

As a reminder, the aggregate cover has a $10 million per event deductible. Then covers 61% of the losses above that point for the event. With this cover in place, we feel well protected on the insurance property book from now through May 2023.

Excluding the impact of this cat aggregate cover, the October 1 PML levels would be generally consistent with what you saw in July 1, 2022. That summarizes our third quarter results.

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

Albert A. Benchimol
President, CEO & Director

Thank you, Pete. So we'll do a brief overview of market conditions and outlook, and then we'll open the call for questions. As with last quarter, the market environment continues to be favorable. As expected, the pace of pricing increases does continue to moderate.

Nevertheless, pricing improvements continue to be broad-based with the vast majority of our product lines achieving rate change equal to or above loss trends. The average rate increase in our insurance book was 7% for the quarter, marking 20 straight quarters of positive rate change bringing the cumulative rate change for our book to almost 60% since the beginning of 2018.

By region, international was stronger at close to 9%, while North American market was closer to 6%. By class of business, professional lines once again saw the strongest pricing actions with average rate increases of close to 10%. But as I've noted in recent quarters, professional lines are diverging in pricing trends and best explained in 3 parts.

The first is cyber, which continues to experience hard market conditions with an average rate increase of 45%. The second is public D&O, which is less than 7% of our overall professional lines. This slide is seeing the most challenging conditions, with rates down more than 30%. This is driven by much greater reductions in the IPO and de-SPAC business while traditional renewal business is exhibiting more modest reductions.

Consistent with past quarters, the drivers of this decrease are a combination of strong price increases in prior periods, fewer new business opportunities in IPO and SPACs, the coming online of new capacity and a recent decrease in the number of filed cases, which has led to a more competitive environment.

Our view is that notwithstanding market supply and demand factors, we're in a period of high economic and geopolitical uncertainty, and that requires prudent pricing for assuming risk. Thus, we're focusing on risk selection and pricing adequacy, and therefore, writing much less public D&O business than we did at this time last year.

However, the rest of the other professional lines, which comprised nearly 2/3 of our book remained healthy with average rate increases of more than 5%. Casualty lines are averaging over 5%, with primary casualty strongest at more than 9 and excess casualty up a bit over 3%. Property rate went up about 8% in the quarter, and our other specialty lines are also experiencing single-digit rate increases.

During the quarter, 90% of our Insurance portfolio renewed flat to up. On a year-to-date basis, our average insurance rate increase was close to 10%. And just as in prior quarters, we continue to see overall new business pricing metrics at least as strong, if not better, than renewed pricing.

Let's turn to Reinsurance. As Peter noted, the third quarter is a relatively small renewal period for AXIS Re, impacting less than 15% of our Reinsurance business. By comparison, just over half of our Reinsurance business will renew at January 1.

For the third quarter, the average reinsurance rate increase was close to 7%. Aviation generated increases of close to 13%. Liability and motor were both up about 10%. Marine, accidents and health and professional lines were all up in the high single digits, while credit and surety saw modest gains.

On a year-to-date basis, our Reinsurance pricing is up 8%. This brings the year-to-date rate increase in our consolidated AXIS book to a bit more than 9% with almost all lines other than D&O, showing average rate change equal to or higher than loss.

This third quarter of 2022 was the first intent where average insurance rate increases were below 10%. We're comfortable that current pricing is generally adequate to attractive in most lines.

Nevertheless, it would be dangerous for the industry to get complacent. The loss trends we witnessed over the last couple of years are unlikely to abate anytime soon. We see financial inflation as being higher for longer and unlikely to get back to the levels we had become accustomed to prior to 2021, while social inflation is continuing to pace.

As an industry, we must sustain pricing at least in line with the emerging loss trends that this industry hasn't seen since the 1980s. Recent developments and talk in the industry would indicate that pricing discipline is likely to continue.

Since we last spoke, Hurricane Ian may have been the straw that broke the back of accommodating reinsurance. This will likely be the sixth year where the reinsurance industry will not earn its cost of capital. Global reinsurers have taken meaningful reductions in book value with the bear capital markets, and they're losing a substantial amount of retro capacity.

We expect a hard market for property cat reinsurance in 2023 and we'll likely see firming terms in other reinsurance lines as well. We're cautiously optimistic that primary companies will adjust pricing to both reflect the heightened risk environment in which we find ourselves as well as their higher reinsurance costs so as to protect current margins.

We also expect to see more risk transition to the E&S and wholesale markets as standard lines markets reduce their overall risk appetite. In this environment, AXIS is particularly well positioned. We're strongly established in the specialty markets that are seeing the most growth.

We've had great relationships with our producers and a talented team that now has a lengthening track record of positive performance under its belt. The portfolio that we're taking into 2023 provides a strong foundation for profitable growth and will lead to a much less volatile book for consistent profitability. We're confident that the future for AXIS is bright.
And with that, let's please open the line for questions. Operator?

Question and Answer

Operator

[Operator Instructions] And the first question comes from Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

First question, going back to the cat losses this quarter and Ian in particular. So $160 million of Ian losses pretax. Can you help us think through how that compares to the published PMLs that -- it seems like that loss comes in well above 100, and I don't think that's really the case.

So I'm guessing there's some elements I'm missing there. And then on top of that, I think you had talked about lowering the cat load and even before exiting the property business and reinsurance to about 6%, and it seems like it's running a little bit above that today. So I was hoping I get a little bit of color there.

Peter John Vogt
CFO & Executive VP

Thanks, Yaron. I'll handle the second part of that first -- or actually, I'll handle the first part of that first. Yes, at $160 billion, if you look at the 71 PMLs, you think that might be a little bit over 1 over 100.

One of the things I'd say is, one, every event in and of itself, an actual event is different than all the modeled events and Hurricane Ian had some specifics about it that made it just a little bit higher. And again, the models give you kind of the 1 in 100 views, you got a media and you got a bunch of events that modeled through there.

And I think this actual event was just a little bit higher than you'd expect. I also think that part of what we do see is when we look at a $60 billion event like this, especially on the insurance portfolio, we attach our cat XOL and so a 1 in 100 event is not as much as a higher than you'd expect from like a 1 in 50 or 1 in 70 event.

And so I think it had to do with the specifics of the event as well as how the models kind of look at an array of events and this actual event just had some particulars with it as well as us assuming it's a $60 billion event.

When I think about what we expect going forward. Yes, we had hoped this year with all the changes we were doing to see the cat loss ratio come down 3 to 4 points is what we said at the beginning of the year.

I would say 9 months, we're down 2.5 points. So it's in the right direction. It's where we're headed. I'd say half 3/4 of the way through the year, did not really expect us to have $110-or-so billion of industry losses through 9 months.

But I do expect by the time we get to the end of the year, our cat loss ratio will be down from where it was in 2021, maybe not down to the 5 to 6 points that we are hoping to get it down to.

I would say, given the volatility that we've seen around cat, that actually was part of the decision we made to get out of the reinsurance property and cat business. And as we mentioned on last week's call, when I look at the all-in number on a go-forward basis, I would expect our cat loss ratio going forward to be somewhat less than 5%.

Yaron Joseph Kinar
Jefferies LLC, Research Division

And then my second question, with prop cat rates up 30% to 60% and potential spillover to other lines. How are you thinking about the session plan for 2023? Do you expect to retain more? And how does that impact growth opportunities?

Albert A. Benchimol
President, CEO & Director

Well, we keep talking to our reinsurers. We think we've got excellent relationships with our reinsurers, long, mutually profitable relationships going back a while.

From our talk right now is that we don't expect that AXIS will be in any way disfavored by what's happening in the market. We will have to see -- I mean our cat program renews in May. So we've got a little bit of time to see how this thing evolves.

But for the moment, we're assuming we're going to keep more or less the same capacity. We expect that we'll have to pay more. We'll obviously need to charge more on the front end to reflect that. But for the moment, we are not assuming any meaningful change in reinsurance cover. Obviously, as the year evolves, we'll be able to have more color on that.

Operator

[Operator Instructions] And the next question comes from Elyse Greenspan, Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, just given the dynamics of the market and how that could evolve over the next year as well as just where you guys are from a leverage perspective, I would assume that you're on the sidelines with buybacks at least in the short- to intermediate-term, but can you give us some updated thoughts there?

Peter John Vogt
CFO & Executive VP

Yes. Elyse, this is Pete. I would say I agree with your comment. Right now, we didn't buy any shares back in the quarter. Right now, I don't anticipate us buying any shares back in the fourth quarter.

When you look at our leverage ratios, yes, they are elevated due to the decrease in shareholder equity. However, we have done modeling and looking at the bond portfolio and how it will mature over the next 3 years. And we do feel confident that as we look through 2023, our leverage ratios will actually -- they should come down below 30% as we get into next year and should come back into reasonable ranges over the next, obviously, 2 to 3 years.

So we're not comfortable where I am. I don't like the leverage ratios as high as they are, but I would not anticipate us having any issues getting back to appropriate levels just by the passage of time as the bonds look to mature.

The other thing I would point out is I would not expect us to issue any more debt. And I would say right now, we feel in a good position. We don't have any debt maturing until 2027. So right now, I don't have to worry about refinancing in the high interest rate environment. We'll see what it is in 2027.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then on the insurance book, you called out some impact of the liability program business in the current quarter and earlier this year. Can we just get some more color about what's going on there? And then just like the forward outlook for that business?

Peter John Vogt
CFO & Executive VP

We had some programs that as we're looking at the experience emerge through this year, was not emerging to our liking. We've already taken underwriting action there, and we've canceled quite a number of those programs, and they were on the liability side.

So the good news is those particular programs have already been put on notice and have been canceled. But it did mean that we did put up some reserves in those businesses. So if you read the Q, you'll see the increase in liability reserves at negative development, both in the quarter and year-to-date was essentially due to that book of business.

And because of that, we increased our loss picks on that earned premium. As I mentioned, that probably pushed the loss ratio up 1 point in the quarter and 2/3 of that is attributable to the catch-up for the full year. I did mention that we started looking at this in the second quarter and took some action in the second quarter. And we do feel -- well, you can never say you're done, but we've taken some appropriate action so far year-to-date.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then sorry, 1 follow-up on my prior question on leverage. If we see rates rise another 100 basis points, would your answer then change? Would you then think that you guys needed to manage down leverage or redeem some of your debt?

Peter John Vogt
CFO & Executive VP

I think right now, given the duration of our portfolio, Elyse, right now, I don't feel that we would need to take those types of actions.

Operator

And the next question comes from Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I guess a follow-up on one of the earlier questions and comments. It sounds like you expect to have good success passing on your higher reinsurance costs in your insurance primary book, casualty book. I just want to make sure that's the case.

Albert A. Benchimol
President, CEO & Director

Yes. I think that the issues around the higher reinsurance costs on property, property cat are going to fall across the entire industry. And so it's my expectation that, that will have a push down effect on the primary market, yes.

I don't assume that the primary -- I don't expect, Michael, that the primary companies are going to absorb higher reinsurance costs without changing their upfront pricing.

Michael Wayne Phillips
Morgan Stanley, Research Division

Yes. Okay. Good. And then lots of moving parts, obviously, on the insurance loss ratio, the core loss ratio, one of which, of course, was the mix shift again. And as you continue to kind of push the growth in those casualty and professional lines, I guess, can you help us think about how we should think about that ratio going forward with continued mix of changes?

Albert A. Benchimol
President, CEO & Director

Yes. I think that what's happening is that we're growing, obviously, the longer tail lines more than we're growing the short tail lines or the property in particular.

And so that's having the impact on the ex-cat loss ratio. But as Pete pointed out earlier, the ex-cat loss ratio is only 1 factor that we look at. When we look at the technical ratio, generally, these lines come with lower acquisition expense. So the technical ratio is actually quite good.

The all-in combined ratio for that business is good. So overall, I don't see -- we don't see that increase in the ex-cat loss ratio as indicative of any reduction in profitability or attractiveness of the portfolio.

But to your point, as we grow that, there will always be a little bit of headwind, if you would, from mix shift. It's historically been -- on the insurance side, a point or less. We'll see what it looks like as we go next year, but it's been much more dramatic obviously, on the reinsurance side given the significant reduction, which is why we added those additional pages in the back of the financial supplement so that you have a sense of what the going forward book looks like.

But I would say on the insurance side, clearly 1 point or less, but I don't know that I can do much more than that right now. Pete anything you would like to add.

Peter John Vogt
CFO & Executive VP

Yes I would. The only thing I'd add is, if you look year-to-date, Michael, the mix shift has gone from 47% pro lines liability to now that's up to 51%. That's a pretty move shift this year, and that's on the net earned, and it's in the Q, so you can take a look at it.

But you can kind of see a 4-point move there is about 1 point on the ex-cat loss ratio. But to your point, Albert, the overall combined we really like, and we see the combined ratio all in ex-cat down in insurance year-over-year. So I think you kind of got to watch the mix shift. But we do think that's a really attractive business right now, and it's gotten some of the higher rate changes over the last 36 months or so.

Albert A. Benchimol
President, CEO & Director

Yes, it's a great ratio if the mix doesn't change. But as soon as the mix changes, you start to lose the message in the ratio.

Operator

And the next question is from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Pete, a couple of questions here for you. The first one, when you listen to some of the other reinsurers and listen to some of the press and stuff they're talking a lot about how perhaps some of the reinsurers are going to leverage cat capacity to obtain more attractive terms on casualty business, get more casualty business just because there's such a demand for cat limit out there right now. I'm just curious how do you think that impacts you all specialty reinsurance business. Is there more pressure now? Is it going to be more challenging to keep some of that business at 1/1 renewals?

Albert A. Benchimol
President, CEO & Director

That's a fair question, Brian. And obviously, we've been monitoring that. What I will tell you is going back to the individual conversations we've had post the announcement, Monte Carlo, CIB, frankly, even Baton the message that we're getting from our customers, they like working with us, they like the relationship we've had.

They like the value we provide and that they're going in position is they want to continue trading with us. I think that we're realistic and in some cases, that may be -- it may be a factor where they may have to take some business to facilitate a cat placement. But I would say 2 things. We're not the only reinsurer not providing cat.

So I don't think that we would necessarily be the first that gets to pay for that. I would also say that there's a lot of customers that we have that don't need to buy cat and we would expect that those sessions, whether they be in the A&H business, for example, some of the specialty businesses, mortgage business, et cetera we don't see how that would influence at all the reinsurance purchase.

But yes, there is a risk that we would lose some business. I've said this before, we'll defend every dollar of attractive business, but there is that risk. But here's what I would tell you. In the longer picture, I don't think it matters whether we renew $100 million more or less at the 1/1.

I think what matters is our transition to be a specialty underwriter with high profitability and low volatility. And I will also say that whatever book we renew into 1/1, I'm highly confident will be a book with strong relationship-minded buyers, and that book will provide a very good base for future profitable growth in further periods.

So we understand the risk, but long-term, in terms of the company's strategic trajectory is something that we will be able to manage through.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. Second question, just curious, cyber market, obviously still getting big, big price increases there. Looks like loss activities maybe slowed some here. What are your thoughts about heading into next year, maybe increasing some of your retentions on that cyber book?

Albert A. Benchimol
President, CEO & Director

I think that cyber continues to grow from a price perspective. And I think as everybody knows now, it's actually a very reasonably good profitability now on an attritional basis. The real issue around that is the tail.

And so we want to make sure that we don't grow the tail too much as part of our risk management. So what I would say is that in 2023, we're going to continue to look for efforts to find protection for the tail, whether it be more reinsurance or cat bond or side car. I think in 1 way, shape or form, I think the #1 driver of continued growth in cyber exposures for us is our greater confidence in managing the tail.

Brian Robert Meredith
UBS Investment Bank, Research Division

That's great. And then 1 last just quick one. I'm just curious here, strategic partners, what's the kind of outlook for your strategic partners business? How much of that business is cat-related? And I'm assuming that goes away as you kind of exit the cat business.

Albert A. Benchimol
President, CEO & Director

Yes. It's about 20%, 25% of the business is cat related. So as you point out, we'll probably lose that. On the other hand, we're encouraged by what we hear, which is that most investors feel they're already very long cat, and they're looking for diversification in other lines of business, and that's an area where we have a lot of expertise.

And so we'll be looking to continue to grow our third-party capital partnerships on the non-cat side.

Operator

[Operator Instructions] and the next question comes from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Brian, kind of asked what I want to know, but just 1 more, I guess. If we're looking at the new year beginning, cat season is over, hurricane season is over. You're getting out of that property Re business. Is there an immediate capital release that comes to AXIS that's going to allow AXIS to free up capital, repurchase own shares once we get through I guess the hurricane season, we have the commitment not to be writing new property Re business?

Albert A. Benchimol
President, CEO & Director

I think the answer is 2x. We feel that the reduction that we're going to have in the property cat book, by definition, is going to allow us to fuel growth in other lines in insurance and elsewhere.

But as Peter mentioned earlier, and you may want to add comments to that, Peter. I mean from a reported GAAP perspective, we already have a much higher leverage than we would like. And so I think that we would want to see that the GAAP balance sheet get back to the economic balance sheet, right? So the economic balance sheet is very strong. But I think I would discourage any thought of share repurchases in the first half of next year, unless something dramatic happens in the capital markets.

Peter John Vogt
CFO & Executive VP

Yes, I would just echo what Albert said, Josh. It's more than 1 thing we're going to look at when we think about share buyback and right now with the movement in shareholder equity due to interest rates, given where our leverage ratios are.

I think I would take share buybacks off the table at least for the next few quarters until we kind of see what that looks like going forward. So it's less about just looking at the cat -- capital we need for cat and looking at our GAAP balance sheet in total.

Operator

And the next question comes from Meyer Shields with KBW.

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

A very brief question, I think. But when we look at the Q and it breaks out reserve development by line. So there's a bit of a step-up in adverse development and liability. I was hoping you could talk through whether that relates to the accident year adjustments you made?

Peter John Vogt
CFO & Executive VP

That's a great question, Meyer, and it absolutely does equate to the accident year adjustments that we made. When I look at the increase in the liability PYD that you see in the Q as well as both in the quarter and year-to-date, that's directly related to some of that program liability premium we wrote in 2017 to 2021.

And then that -- and that is reflective of where we've moved those loss picks to for this current accident year.

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

Okay. That's helpful. Completely different direction. You're growing pretty rapidly in accident and health. Can you give us an update on what the market looks like.

Albert A. Benchimol
President, CEO & Director

The market for A&H is generally quite good. I mean, I would say that some of our limited benefits, health program business has not grown because of the lack of opportunity there. But the rest of the book does well, both internationally.

And here, one of the drivers of the growth this year has been the fact that we signed on to a large partnership in the pet insurance area. And so that's been driving the growth this year. But what I would say is that this continues to be a very stable business. It continues to be a very stable business.

As [A&H] business is low to mid-90s, high leverage, good [indiscernible] and it provides a good diversification and stability to the portfolio.

Operator

And the next question is a follow-up for the Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

So you guys -- new money yields are 5%, well above that book yield of 2.9%. So as you continue to roll over the portfolio, I think that could imply north of 5% to 6% of ROE expansion just from the higher interest rates.

So if you get your ROE perhaps right into the high teens, is there a point where you guys will consider giving back some of the investment income benefit as you look to potentially show more growth in some of your businesses? Is there a breakeven point where perhaps this could impact on pricing?

Albert A. Benchimol
President, CEO & Director

So let us deal with 1 piece of it at a time. I think you're right. As Pete mentioned, we think that if rates stay where we expect they'll be based on the forward curves, we should see $125 million additional interest income in 2023 than in 2022.

Your question really relates to should this lead to lower pricing. And Personally, I don't think so. First of all, the numbers just are not as big as these are not double-digit interest rates, number 1. Number 2, in specialty insurance, it's not like motor business where you can dial the loss ratio to the decimal points. There's only 1 way to write specialty business, and that's prudently.

And I wouldn't even know how to go at our underwriters and say, by the way, be a little more loose. You can't do that. You can only write the best portfolio that you can. And as we mentioned earlier, we're taking a prudent view of market conditions and loss trends.

And the most dangerous thing that you could do right now is fall behind loss trends. So as far as we're concerned, we need to maintain our underwriting margins in our book of business, and we'll take the higher investment income for as long as we can get it. But we're not going to take our pricing down because of higher investment income.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then maybe 1 other 1 I know you guys kind of came up, I think, a little bit earlier. You gave us -- when you announced the cat Re exit, you spoke about the potential overlap with your casualty reinsurance clients. as you've had discussions with your clients and as we go into next year of renewals, I mean, how have those come together, do you have more confidence that you can -- there won't be as much of an impact in your casualty reinsurance business -- any kind of update there?

Albert A. Benchimol
President, CEO & Director

Yes. So we mentioned that earlier, and I think that I'll just kind of repeat the general answer, which is we have very strong relationships. We've been getting very positive comments from our clients and brokers, but their desire to continue to do business for us, but we're realistic.

It might take -- it might be an issue that there may be 1 or more, I don't know, accounts that may feel compelled to provide more business to cat reinsurers. But as I mentioned earlier, we're not the only reinsurer not providing cat. I would dare say that we've been receiving lots of compliments about the way we've managed the process, the transparency, the working with our clients.

So our hope is that the relationships that we've built over time are going to serve us well here. But I also mentioned that whether we book a little bit more or a little bit less reinsurance premium at 1/1, it does not change the core strategic direction of this company, which is to move towards a specialty underwriter, a profitable, stable specialty underwriter, and that's the right call for this company. And whether we write a little bit more or write a little bit less reinsurance in January 1, it does not change the wisdom of that decision.

Operator

And this does conclude the question-and-answer session. I would like to turn the floor to Albert Benchimol for any closing comments.

Albert A. Benchimol
President, CEO & Director

Thank you, Keith, and thank you to all of you for your time this morning. Before we wrap the call, as always, I want to thank our people for all that they do to support AXIS and our customers. we've had a hell of a ride over the last several years, and it's really on the back of the very hard work and commitment of our team, and I want to thank them for that.

And to all of you, thank you again for joining us. Thank you for your interest in AXIS and we look forward to providing you with positive updates on our continued progress. Operator, this will end our conference call.

Operator
Thank you. As mentioned, the conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.