AXIS Capital Holdings Limited NYSE:AXS

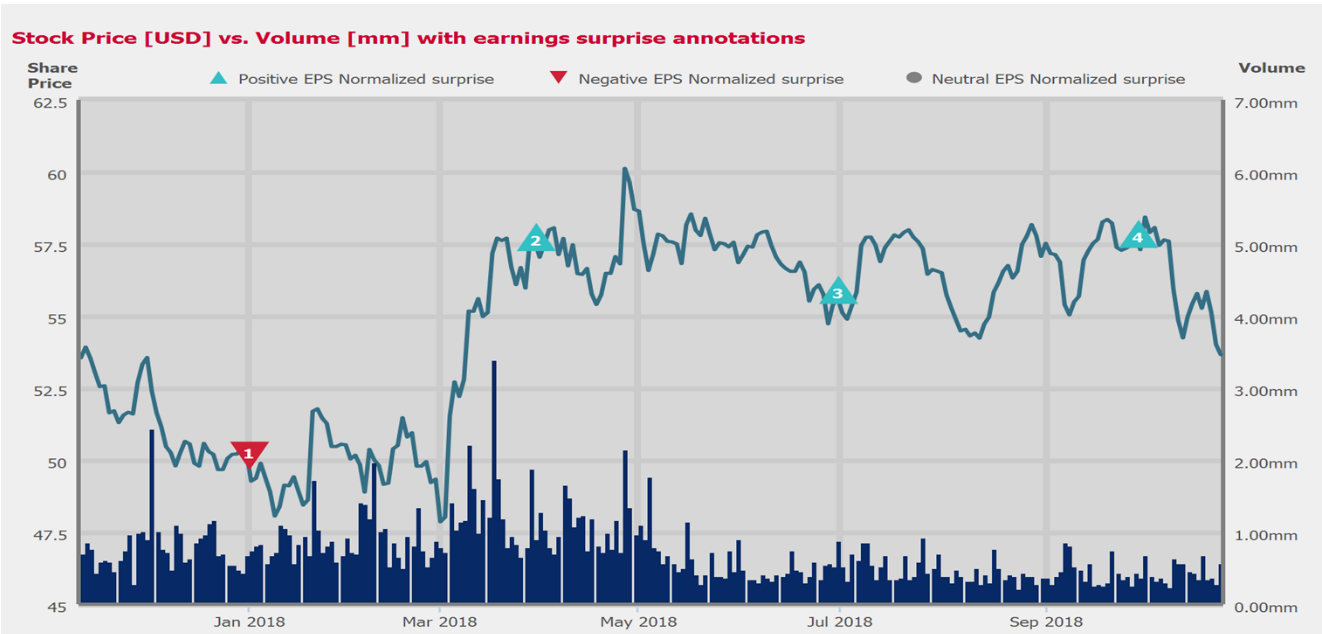
FQ3 2018 Earnings Call Transcripts

Thursday, October 25, 2018 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2018-			-FQ4 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.76	0.96	26.32	1.14	4.74	5.15
Revenue (mm)	987.27	919.94	(6.82 %)	735.53	4661.70	4741.91

Currency: USD
Consensus as of Oct-25-2018 11:44 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2017	0.26	0.24	(7.69 %)
FQ1 2018	1.15	1.46	26.96 %
FQ2 2018	1.15	1.27	10.43 %

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Call Participants

EXECUTIVES

Albert A. Benchimol
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Peter John Vogt
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Kai Pan
Morgan Stanley, Research Division

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

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Goldman Sachs Group Inc., Research Division

Presentation

Operator

Good day, and welcome to the Third Quarter 2018 AXIS Capital Earnings Conference Call and Webcast. [Operator Instructions] Please note today's event is being recorded.

And with that, I'd like to turn the conference over to Mr. Matt Rohrmann, Head of Investor Relations. Please go ahead.

Matthew Jay Rohrmann
Head of Investor Relations

Thank you, Brian. 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 and period ended at September 30, 2018. Our earnings press release and financial supplement were issued yesterday evening after the market closed. If you'd 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 through the investor information section of our website. A replay of the teleconference will be available by dialing (877) 344-7529 in the United States and the international number (412) 317-0088. The conference code for both replay dial-in numbers is 10125053.

With me on today's call are Albert Benchimol, our President and CEO; and Peter Vogt, our CFO.

Before I turn the call over to Albert, I will remind everyone that the statements made during this call, including the question-and-answer session, which are not historical facts, may be forward-looking statements. 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 AXIS's most recent Form 10-K, as well as the additional risks identified in the cautionary note regarding forward-looking statements in our earnings press release issued yesterday evening.

We undertake no obligation to update or revise publicly 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, which can be found in our Investor Information section of our website, which, again, is located at axiscapital.com.

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

Albert A. Benchimol
President, CEO & Director

Thank you, Matt, and good morning, everyone. And thank you for joining us to review our third quarter results. For AXIS, the story of the third quarter is that we're continuing to see positive momentum in our business. And our efforts to grow our leadership in selected markets are generating real traction. It's been a very productive year for AXIS and one in which our improved results are beginning to demonstrate the potential of our business.

Like the rest of the industry, our third quarter was impacted by cat activity in the Southeastern United States and in Asia, as well as elevated attritional property losses. Within this context, the strength of our results speak to our team's work to build resilience within our portfolio.

We reported operating ROE of 7.2% in the quarter. But as you know, we believe this to understate the true run rate profitability of our business due to PGAAP rules. Excluding PGAAP entries, our third quarter results would have been an operating ROE of 8%, and our year-to-date ex-PGAAP operating ROE was a solid 10.2%.

In recent years, we've worked hard to establish AXIS as a profitable, relevant player in specialty lines with a differentiated hybrid platform. Our underwriting expertise, outstanding service and industry-leading claims capabilities have helped us build deep and meaningful relationships with our clients and partners in distribution. With close to $7 billion in premium and top 10 positions in all of our key markets, we believe we are the perfect size to succeed. We have the scale, talent and breadth of products to be impactful to our markets and partners in distribution, but with the agility required to execute and leverage change to our advantage in a rapidly evolving industry.

In recent calls, we have spoken to you about our transformation program to enhance operational effectiveness and efficiencies, while leveraging increased capabilities in data, analytics and digital technology. We continue to make progress against plan, and much of the heavy lifting on the organizational side has been completed.

In parallel, we're also continuing to integrate Novae into our business and are pleased with the progress that we're making there. Of note, the Novae portfolio we acquired last year delivered a year-to-date underwriting profit.

You also recall that we have previously advised that between our transformation program and the Novae integration, we were targeting $100 million in savings off our 2017 expense levels. I'm pleased to say that as of third quarter, we've already achieved $68 million in annualized savings on a run-rate basis. We're now focusing the bulk of our energy on enhancing our key capabilities and investing in our markets and in our future.

We've launched several exciting initiatives, including Axis Digital Ventures, a new unit that is accelerating our InsurTech partnership efforts and a number of promising new projects to put better tools and data in the hands of our underwriters, so that they can deliver improved and accelerated service to our clients and partners in distribution.

One of them is that of a recent launch of a tech-enabled platform for accelerated underwriting of small commercial risks. As we approach the end of the year, we're encouraged by the momentum and pricing improvements that we're seeing across our business. We've never had stronger market positions. And our team is working very hard to make the most of upcoming renewals and creating new opportunities for profitable business in our chosen markets.

And with that, I'll turn the call over to Pete, who will go through the figures in more detail. Pete?

Peter John Vogt
Chief Financial Officer

Thank you, Albert, and good morning, everyone. Building on Albert's earlier comments, this was a quarter where we saw a continued improvement across several key areas in our business.

During the quarter, we generated net income of $43 million. Our operating income for the quarter was strong at $81 million, generating an annualized ROE of 7.2%. On an ex-PGAAP basis, our operating income was $90 million, generating an ex-PGAAP annualized operating ROE of 8%.

The quarter benefited from improved underlying underwriting results in our reinsurance segment. Both segments reported lower level of cat and weather-related losses, and both segments continue to report favorable prior year reserve development. In addition, the quarter benefited from strong investment income. These positive factors were partially offset by attritional property losses, net realized investment losses and amortization of value of business acquired or VOBA.

Before I get into the specifics of the income statement, I would like to provide an update on several items. First, we reported $92 million in cat and weather losses during the quarter. This was driven mostly by Hurricane Florence, which we saw primarily as an insurance event. Separately, our exposure to the cat activity in Asia was minimal.

Second, with regard to the acquisition of Novae. In the quarter, we recognized amortization of VOBA of $39 million. The expense affected the company's consolidated operating income, but it was not included in the segment results. Underwriting income in the quarter continued to include the earn-out of Novae's unearned premium as of the closing date, without the recognition of the associated acquisition costs since the DAC asset was written off at closing. We estimate the consolidated acquisition costs, on an ex-PGAAP basis, would have been approximately $29 million higher, resulting in an acquisition cost ratio of 22.7% versus the reported 20.3%.

The net drag on operating income from the VOBA DAC adjustments was $10 million pretax or $9 million after-tax, which is approximately $0.11 per share. As previously disclosed, the VOBA DAC adjustment is expected to be immaterial beyond mid-2019. I'll also remind you that we did add disclosure to the supplement that details this information for you.

As an update to our expense initiatives, in the quarter, we generated Novae integration savings of $11 million, and we also delivered $6 million in savings associated with our transformation initiatives. As Albert noted, on an annualized run-rate basis of $68 million, you can see we are well on our path to delivering $100 million in run rate savings by year-end 2020.

Lastly, nonoperating reorganization expenses, associated with Novae integration and our transformation program totaled $16 million in the quarter.

Now let's move into the details of the consolidated income statement. The current quarter consolidated combined ratio was 97.9%, an improvement of 55 points from the third quarter of 2017. As I mentioned earlier, it's important to note that the quarter benefited from the absence of the amortization of some acquisition costs. The ex-PGAAP combined ratio of 100.3% is almost 53 points better than the comparable period last year. This improvement is largely driven by an almost 54-point decrease in the cat and weather-related loss ratio, a reduction of over 3.5 points in the current accident year loss ratio ex-cat and weather, partially offset by an increase in the ex-PGAAP acquisition cost ratio.

The current accident year loss ratio ex-cat and weather improvement was driven by the addition of the Novae book, favorable rate in excess of trend, especially in the property and motor lines and improved experience across most classes. This was partially offset by elevated attritional loss experienced in property, especially in the insurance segment.

The increase in the ex-PGAAP acquisition cost ratio of 3.6 points was primarily driven by the addition of the Novae book. We reported net favorable prior year reserve development of $46 million in the quarter, of which $14 million came from insurance and $32 million came from reinsurance. This includes a reduction in our estimate of the 2017 hurricanes Harvey, Irma and Maria of $21 million.

During the quarter, the consolidated G&A expense ratio of 12.7% increased by 0.4 points compared to the third quarter of 2017. The normalized G&A ratio this quarter would have been 13.1. The year-ago quarter pro forma G&A ratio, which would include Novae expenses was 15. So on a like-for-like basis, the G&A ratio is down almost 2 points. This decrease in the G&A ratio was driven by the expense actions that I mentioned at the beginning of my comments.

Fee income from strategic capital partners was $18 million this quarter compared to $6 million in the prior year. This part -- this important part of our business continues to grow well, with year-to-date fees aggregating to almost $43 million, up from $28 million last year.

We'll now discuss in detail the underwriting results of both insurance and reinsurance. Let's begin with insurance. The insurance segment reported an increase in gross premiums written of $318 million, with all the increase coming through the addition of premium from the acquisition of Novae. The legacy AXIS book was flat year-over-year, where we saw increases in the professional lines and liability classes offset with declines in the property and A&H lines.

Insurance net premiums written increased by $195 million during the quarter. Excluding the impact of Novae, the net premiums written decreased by $15 million due to the increasing premiums ceded in liability and property lines.

Reported combined ratio was slightly over 102 points. Again, we think the best way to look at this ratio is adjusting for PGAAP. So adjusting for $29 million in DAC acquisition costs, or 4.7 points on the acquisition ratio, the ex-PGAAP combined ratio would be nearly 107 points, which is an almost 62-point improvement over the same period last year.

The improved combined ratio is driven by a significant decrease in cat and weather-related losses, an improvement of almost 4 points in the current accident year loss ratio ex-cat and weather. This was partially offset by an increase in the ex-PGAAP acquisition cost ratio of slightly over 8 points.

This quarter, pretax cat and weather-related losses was $62 million, primarily attributable to Hurricane Florence and other weather events. This solid performance is the result of repositioning of our portfolio -- our property reinsurance coverage that we completed in the second quarter. The

insurance segment's current accident year loss ratio, ex-cat and weather improved by almost 4 points, driven by mix of business, largely related to the Novae book, the favorable impact of rate over trend and improved experience in most lines. This was partially offset by a higher attritional loss experienced in property and to a lesser extent elevated aviation losses.

The insurance segment's acquisition cost ratio on an ex-PGAAP basis was 22.9%. This increase over prior year was predominantly driven by the addition of the Novae book of business.

The quarter's ex-PGAAP combined ratio of 106.9% compares to a 9-month ex-PGAAP combined ratio of 99.7%. These figures reflect elevated losses in property and aviation consistent with what we've seen in the industry experience.

And looking at our international division. This is the first January 1 renewal period, where we have the integrated AXIS Novae portfolio. When we acquired Novae, it has always been our plan to optimize our portfolio, which includes shrinking or exiting underperforming parts of our business. This process has been underway throughout the year, and we expect to make further refinement as we head into the January 1 renewal season. This reflects our larger enterprise strategy to concentrate our resources in areas of our business where we can be a market leader and drive sustained profits.

Moving to reinsurance. During the quarter, we saw solid results within our reinsurance business. The reinsurance segment reported a decrease in gross premiums written of $80 million in the quarter. The decrease is driven by reinstatement premiums included in the prior year numbers, premium adjustments in A&H and timing in motor.

Reinsurance net premiums written decreased by $108 million compared to the same period in 2017. The decrease in net premiums written reflected a decrease in gross premiums written together with an increase in premiums ceded in A&H and liability.

The current quarter combined ratio is 89.5%, which is an over 47-point improvement in the same period last year. The improvement is largely driven by a significant decrease in cat and weather-related losses and a reduction in over 3 points in the current accident year loss ratio ex-cat and weather.

Pretax cat and weather-related losses were $30 million, primarily attributable to Hurricane Florence, Typhoon Jebi and U.S.-related events in the quarter.

The reduction in the reinsurance segment's current accident year loss ratio, ex-cat and weather, was driven by rate increases, especially in property and motor, favorable changes in business mix and the addition of the Novae book.

The reinsurance segment's acquisition cost ratio is 22.5% on an ex-PGAAP basis, this is comparable to the prior year.

Onto the investment returns. Net investment income were $114 million for the quarter increased from $95 million in the third quarter of 2017. This was due to an increase in income from fixed maturity securities, attributable to a larger investment base from the acquisitions of Novae and Aviabel and the increase in interest rates.

Our current book yield is 2.9%, and our new money yield is 3.5%. The duration of our portfolio is approximately 3 years. The 60 basis point spread between the current book yield and new money rates provides an ongoing opportunity for increased investment income in the future as our bond portfolio continues to roll over.

Diluted book value per share increased by 0.4 points in the quarter to $52.70, principally driven by operating results, partially offset by net realized and unrealized losses on investments, reorganization expenses and our common dividend.

Again, overall, it was a solid quarter for AXIS and one in which we saw promising results in a number of areas of our business.

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

Albert A. Benchimol
President, CEO & Director

Thank you, Pete. Let's spend a few minutes reviewing market trends and then we'll open the call for questions. The bottom line is we continue to see improved pricing in the marketplace. Within our insurance segment, average rate increases were comparable to the second quarter at close to 4%. However, we saw positive trends throughout the quarter with rates increasing each month to an average of 5% in September.

In our U.S. division, renewal rates were very modestly lower than in the second quarter by a few decimal points, but still in the 7% range overall. As lower rate increases in property, at about 8%, were offset by higher rate increases in excess casualty of over 12%. We need to see these double-digit rate increases for excess casualty as we've been very cautious keeping in mind the potential for inflation and higher loss trends.

Separately, U.S. programs continue to show steady rate increases at about 4 points, and our primary casualty rate for the quarter was up about 1 point.

In our London-based international insurance division, the average rate change for the third quarter was nearly 3%. And here, again, we saw higher rates in each subsequent month of the quarter. Within that, property rates were positive across all classes, with the largest rate increase observed in global property at 9%.

Of note, international professionalized pricing has also picked up in the quarter, with average rate increases of 5%.

Within our North American professional lines division, price increases have picked up some pace, although they remain relatively low at 2%. We continue to see more pricing on primary and less on excess. Please note that we are not much exposed to loss trends in primary D&O for large accounts as we substantially reduced our exposure to that book several years ago.

Additional highlights included increased rate changes in healthcare at plus 5%, as well as in cyber and professional firms, which both saw increases of 3%. Overall, across our entire insurance segment, 86% of our business renewed at flat or better in the quarter.

Turning to our reinsurance segment. Quarter share treaties benefited from improvements in the underlying primary pricing, while ceding commissions were generally flat or down modestly. Excess of loss pricing has generally been rational and follows recent loss activity, with the exception of catastrophe reinsurance, where pricing is essentially set at the margin by a growing ILS market.

Hopefully, the adverse developments reported by others on the 2017 cats and recent storm losses in the U.S. and Asia provides somewhat of a floor for cat pricing to head in the favorable direction of the next renewals.

As you know by now, we share about half of our property cat business with capital partners. In our Europe, Middle East and Africa division, the market remains stable, with pockets of continued improvements in lines such as liability and motor.

In our North American division, pricing was also relatively flat in non-cat lines, with regional and middle market accounts typically performing better than large accounts. Property lines remain competitive, but we'll have to see how the recent storms impact the broader marketplace at upcoming renewals.

In Asia, the market remains broadly flat from last quarter. We have seen some competition pull back from certain lines of business such as portions of the property, marine and engineering markets, and we've also seen a few companies exiting Singapore and Hong Kong.

This disciplined behavior is encouraging. Separately, we've had some opportunities to participate in new backup covers in Japan, where we were happy to support our strong Japanese relationship. It will be interesting to see how the next renewals reflect the higher loss activity in that market.

Overall, in both insurance and reinsurance, while we may debate the adequacy of the quantum of change, conditions are continuing to move in the right direction. After a decade of price cuts, we are seeing some encouraging signs of strength and discipline within the industry.

We support and applaud Lloyd's for their recent actions to mandate the use of electronic placement and reduce unprofitable underwriting. The impacts of their pressure is visible in the many announcements of reduced capacity, market exits and even in the closure of syndicates. My hope is that the recent actions by Lloyd's will have some positive impact on pricing.

We should also expect that the loss activity that the industry experienced in the last few years would be driving better pricing, but we recognize that there remains an abundance of capital in the marketplace. So while we're not predicting a meaningful firming on pricing, everything that we are seeing and hearing points to strong justification for continued improvement in the market.

Within this environment at AXIS, we do not intend to be an index. We have our own views on risk and return, and we'll take independent actions to secure a more stable and profitable portfolio. Our research tells us that we've been demanding and getting price increases that are a bit ahead of the market. Looking forward, ongoing modest pricing increases should make several lines more attractive to us, and where our appetite is warranted, we're confident of winning the business we want.

On the other hand, we've already reduced business that did not offer adequate returns, and we are resolute to shed more business if we do not get the right risks at the right price.

I'm convinced the future belongs to those companies that invest in winning capabilities, including underwriting expertise, new product development, claims service and analytics, and who have the courage to take decisive actions to ensure their ongoing profitability.

With our transformation program and our investments in growing our relevance in key markets, AXIS is already part of the lead pack. We have a talented team that is working hard to position AXIS to capitalize on the opportunities created by the changing marketplace. And if we stay true to our strategy, we will be well positioned to break out ahead of the pack and create an exciting future for our clients, partners in distribution, employees and shareholders.
And with that, we'll be happy to answer your questions. Brian, please start the question period.

Question and Answer

Operator

[Operator Instructions] Today's first question will be from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

My first question -- you have made a lot of changes reposition portfolio on the property cat side and reduce volatility. The results are evidenced in the third quarter results as your cat exposure actually less than some of your peers. So I'm wondering what's your normalized sort of cat loads going forward because you have done a lot of things? Is the first 9 months your cat loss ratio about 4.5%? Is that sort of like a normal going forward? Or is that actually below sort of what do you think your normalized cat load?

Albert A. Benchimol
President, CEO & Director

Well, Kai, as you know, this is a very difficult question to answer. On the one hand, we don't publish a cat load, but more importantly, cats by definition are very volatile. But I think that what I would say is that we would expect to see an ongoing continuing trend in our average exposure to cat as we go forward. And we've shared some of that information with you. 2017 was a difficult year for us, but still, compared to the prior years of '11 and '05, the impact of the cats on our book of business on our shareholders' equity had diminished across that. And we would expect that we would continue to see on average lower. So what I would say to you is, every year is different. But if you take the last 3 to 5 years, they're probably better than the 3- to 5-year period before that. And our hope is that we will continue to make progress in that direction.

Kai Pan
Morgan Stanley, Research Division

Okay. And do you have any early indications on potential losses from Michael?

Peter John Vogt
Chief Financial Officer

Well, Kai, this is Pete. What I would tell you is, with regard to Michael, it is still very early days. Looking at Michael compared to Florence, we definitely believe it's going to be a bigger event. Florence has taken the $4 billion to $5 billion range, and Michael is looking more to, I'll call it, $8 billion to $10 billion. We're also looking at it as probably being more of a reinsurance event with the carriers that cover that area of Florida, most of those insurers buy an awful lot of reinsurance. So we expect it to be more of a reinsurance event and that we do expect it to be bigger than Florence. But right now, our claims teams are working with our clients that are in cedence and doing a bottoms up. But I wouldn't be prudent for me to give you any sort of a range at this moment.

Kai Pan
Morgan Stanley, Research Division

That's fair. My second question is on the insurance operation. Could you quantify the -- like a higher attrition losses from property lines in the third quarter?

Peter John Vogt
Chief Financial Officer

Yes. So, Kai, again, this is Pete. I'll handle that for you. If you look at our property class from the third quarter of last year to the third quarter of this year, you can actually see that the loss ratio is up a bit. And we believe that the loss ratio has probably got about -- it's about 2 points higher on the insurance segment, just associated from what we're seeing from attritional property year-over-year. In addition to that, we expected to see a 2-point improvement in the insurance book, given all the actions we had taken with regard to getting rate and with regard to portfolio actions. So I guess, what I'd tell you is in the quarter, the insurance segments probably got a drag close to 4 points or maybe even little north of 4 points due to what we're seeing as basically a frequency of property loss issue in the quarter.

Kai Pan
Morgan Stanley, Research Division

That's great. If I follow-on to that one to say you talk about the potential, the pricing above your lost trend and improving your underwriting -- underlying loss ratio by 2 points. Albert, you talked about 4% average rate increases. Could you expand a little bit more on the loss cost trend site to give your confidence you can have the 2 points margin expansion?

Albert A. Benchimol
President, CEO & Director

Yes. I'm not sure we talked about the 2-point margin expansion. I think, specifically, to the property there.

Peter John Vogt
Chief Financial Officer

Yes. Just the property there.

Albert A. Benchimol
President, CEO & Director

If you look at our book of business all in, I would say that we probably got a little under a point of improvement coming in from rates, which is better the trend. That's a little bit better on the reinsurance side because we've had the impact of the Ogden rate change. And so that was a significant amount of rate change that impacted the reinsurance book. But on both insurance and reinsurance, when you put them all together, there is a little under a point of improvement there. And I would add that right now, it looks like almost every line of business is offering rate above trends except for marine by a little bit and some professional lines. So there the improvement really comes through changing mix, changing books of business, changing attachment points. The improvement will come, but we're not looking for the market to bail us out.

Operator

Today's next question will be from Jay Cohen with Bank of America Merrill Lynch.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Just 1 follow-up to Kai's question and one other question. When you talked about Michael versus Florence, you said it's a bigger event. Was that a comment relative to the industry or AXIS or both?

Peter John Vogt
Chief Financial Officer

Yes. It was comment with regard to the industry, Jay. But because it's bigger with regard to the industry, we do think that at least early days here, Michael will more than likely be a bigger event to us in the fourth quarter than Florence was in the third quarter.

Albert A. Benchimol
President, CEO & Director

But we do caution, it's really early.

Peter John Vogt
Chief Financial Officer

It's really early.

Albert A. Benchimol
President, CEO & Director

I wouldn't want to do -- I wouldn't want to project anything on this at this point in time. We need to leave the claims process follow its normal course.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Now that's very fair.

Peter John Vogt
Chief Financial Officer

And to give you a follow-up on that Jay, I guess, let's say in the third quarter and the $92 million of cats we reported, $68 million were due to Florence, $11 million were due to Jebi, $5 million were from the California wildfires and then the remaining $8 million was just from various PCS events.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

That's good disclosure. And then the other question, I guess, for Albert. You talked early on about some investments you're making. You mentioned Axis Digital Ventures. I'm wondering if you could speak a little bit more about that?

Albert A. Benchimol
President, CEO & Director

Absolutely. We have said this before. I think this industry is in an arms race when it comes to data analytics and technology. And there's a huge amount of start-ups and developments in terms of using technology to enhance every part of our business from the underwriting, our ability to respond quickly to our customers, the ability to add third-party data to the submission data, so that we can make better decisions, the ability to enhance the claims process by using things that you've heard about like drone technology, geospatial mapping, you name it. So there's tons of stuff that we could be using to, what I call, enhance the underwriting process and make sure that, not only do we make better decisions because we give our underwriters better tools, but actually make faster decisions and able to turn around and give our clients and our brokers the information they need. To do that, obviously you need to be connected to all of the developments that are happening in the technology world. It will come as no surprise to you that there is more hype than facts in that world. And in many cases, what you need to do is go through a whole lot of proposals and then do proof-of-concept projects, small projects to validate whether or not there's promise in those things. And then once you prove them, then start to create a squad to see how you can put that into affecting your business. And so to do that, our Axis Digital Ventures is really meant to be the point of the spear of AXIS towards the InsurTech world and make sure that we're in the flow of all of the ideas that are coming up there.

Jay Adam Cohen
BofA Merrill Lynch, Research Division

Got it. Interesting times.

Albert A. Benchimol
President, CEO & Director

Yes. Exciting times.

Operator

Today's next question will be from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Albert, I'm just wondering, you guys have done a great job with this expenses of Novae and the transformation. Do you think there is upside to the $100 million here, given how quickly things are coming through?

Peter John Vogt
Chief Financial Officer

Brian, this is Pete Vogt. I'll take that question. Right now, what I'd remind you, we did already move the Novae number up once this year. But right now, it's still early days. We actually have our eye on the expenses and we're looking at it. But we still need to make sure that we continue to invest in tools and data and analytics, what Albert was just talking about with regard to Axis Digital Ventures. So while we think that we're trending in the right direction, we know we're trending in the right direction on the expenses, we're staying firm right now to our $100 million as we get out to 2020 and not looking to move that number right now.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then, Albert, now, you kind of briefly kind of commented about loss cost trends and kind of expectations. Maybe you can kind of give a little bit more detail on kind of what you're seeing there? I know you commented on professional lines in more large classes as where you are seeing it. Any other areas that you're concerned about?

Albert A. Benchimol
President, CEO & Director

Concerned? No. Because we're, a, we're watching it, we're reserving it properly, and we're pricing for it. And if we're not getting the rates we need, then we don't write it. So I wouldn't say concerned. We are watching a number of lines. So one that I discussed earlier in my prepared remarks, we've heard and we're seeing some high-loss trends, especially in large account D&O, you've seen high activity in class actions. But you also know that we started taking serious corrective action in our professional liability book probably around '13, '14. And so we've significantly reduced our exposure to large accounts. We reduced our exposure to primary, we've increased attachment points. So where we are playing, we're comfortable with the loss trends that we're seeing. We're not that exposed on the primary large accounts side. We've already spoken to you about our concern around excess casualty. And you'll recall earlier in this year, I was telling you that, notwithstanding the fact that we were seeing mid- to high single-digit pricing increases on excess casualty, we were still shrinking the book because we didn't say that, that was good enough a number. We're now seeing that number going into the double digits, which, I think is more reasonable. And so we're pleased to see that going. The other area that's obviously an issue for us is -- and it's affected our results, is the increased frequency around aviation and property and that clearly needs more work to make sure that we're, not only are we getting the right pricing, but that we're also adjusting our risk appetite and our portfolio construction to make sure that we get ahead of that.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. Makes sense. And then I'm just curious, on Ogden, was there any benefit on the year-over-year basis just in the attritional or loss ratios?

Peter John Vogt
Chief Financial Officer

There was, Brian, as we're now starting to earn through the rate increases that we got on Ogden, and it was specifically in the motor book. Off the top of my head, I don't recall what that number is. I can get that for you, if you like. But it was pretty small in the quarter just as it's continuing to earn in. We did get some rate last year in the first half of '17. So there was some rate already coming into the third quarter of '18.

Albert A. Benchimol

President, CEO & Director

And there is a few points of improvement in the loss ratio for excess motor as a result of that, but we expected that, right? I mean, that was required because the rates changed after the bulk of the 1:1 renewal in the prior year. So we had that drag for all of '17, which obviously we're seeing disappearing as we're getting through '18.

Brian Robert Meredith
UBS Investment Bank, Research Division

Right, right, right. What's your outlook for what's going to happen with Ogden rate?

Albert A. Benchimol
President, CEO & Director

My guess is that it's going to up from 0.75, but it could go to 0, it could go to 0.5 points. We don't have any -- as you know, rates in Europe are much lower than they are in the U.S. So we don't hold any expectation that it's going to be a big number. But for the moment, we continue to reserve it at minus 0.75. We know that it's a prudent number, but that's how we approach it.

Operator

Today's next question will be from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, Albert, in your prepared remarks, when you were discussing the reinsurance market, you were alluding to some of the recent storms and adverse development that we've seen from others potentially leading to a floor with cat pricing. So I guess, this year's losses were much lower than last year's losses. And it does seem like, obviously, there's still lot of capacity in the market. So what gives you comfort, I guess, that will be at a floor? And do you have an initial view on what we might see at the upcoming January 1, 2019 renewal season?

Albert A. Benchimol
President, CEO & Director

So let me first answer the factual question. It's an interesting coincidence that there's been several hundred million dollars of adverse development that came up soon after the June 1 renewals. So those were not reflected in the June 1 renewals. You've also seen significant NAV reduction coming in a number of ILS funds. My view is that those kinds of developments don't make people eager to reduce pricing even further. So again, I'm very conscious of the capacity that there is out there, but I also don't see a lot of reason for significant price cuts. Now there's one thing that I've learned in my years in the business, it's -- you're more likely to be wrong making predictions about the next renewal, so I'm cautious. I don't expect a lot of change up or down. I'd like to believe that it will be flattish, maybe a little bit up. But whether you're plus 2% or minus 2%, I mean, that's close enough for horseshoes. I don't expect major price movement either way, but -- it would really -- I would find it hurtful to see more pricing declines given the adverse development that we've seen in this market.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then, in terms of expenses. You said in the prepared remarks G&A normalized was about 13.1%. Is that the right run rate for modeling purposes? And then could you give us a sense of how much of that $68 million of annualized savings to date is falling to the bottom line?

Peter John Vogt
Chief Financial Officer

Yes, Elyse, this is Pete. Right now, that $17 million in the quarter did fall to the bottom line. So that was impactful on our G&A ratio. When I look at normalized at 13.1% in the quarter, it's been coming down through the course of the year. We will continue to drive our expenses going -- on a go-forward basis, but I think this quarter was an exceptionally good quarter for us on an expense basis, and, while I don't want to project for your models, I would just say looking at where we are year-to-date and then coming down from there would be a more appropriate way to look at it.

Albert A. Benchimol
President, CEO & Director

And one comment on your question. When we gave the $100 million target, Elyse, that was net of additional investments elsewhere. So -- and perhaps this is a follow-on to Brian, we fully intend that our gross savings are in aggregate of $100 million, but we do intend to invest some of those savings. So when we're announcing the $68 million, those are net savings.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. Great. And then, you guys pointed couple of times spoke about the non-cat weather and the impact on your insurance book in the quarter. We did see an impact last quarter as well. So is it that you guys are looking to take more price to kind of account for this being a new normal of elevated losses or do you expect the level of losses normalized to more historical levels? And can we just get a little bit of color, is this in the U.S. and internationally, is this like fire or water losses? What's really driving this kind of elevated non-cat losses that you guys saw in the past couple of quarters?

Albert A. Benchimol
President, CEO & Director

I think, Elyse, it's an excellent question. And in fact, I think if you look at it I'd argue that the last couple of years have been seeing higher than normal attritional losses in property. And frankly, we're seeing it a lot in the U.S., but we're also seeing it elsewhere in the world. And it's not just kind of property, property, it's all property related lines. There is energy on shorelines, there is some marine business. So when we talk property losses, we're talking to general class. And I think that's back to the question that I answered earlier, this is one of the areas where we're putting extra attention because it is not just 1 spike quarter. The industry has seen additional activity over the last several quarters. And I think it requires both a combination of improved pricing and a fresh look at the way we're approaching property and the kind of risk that we're prepared to write and on what terms.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

That's helpful. And last question on investment income, you guys spoke kind of bullish with the new money rates versus the yield on your current portfolio. Should we kind of consider modeling expecting growth on a sequential basis in the fourth quarter and then continuing when we get into 2019. There was nothing kind of one-off in the numbers in the quarter, correct?

Peter John Vogt
Chief Financial Officer

That's correct, Elyse. I'd say there's nothing one-off in the quarter. So we are feeling good about where the new money rate is and the duration of our portfolio. And we believe that does provide upside opportunity in the future.

Operator

Today's next question will be from Yaron Kinar with Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

First question is around the insurance accident year loss ratio. So if I look at the sequential move, it is roughly about 250 basis points of deterioration. And I think you called out roughly 4 points of non-cat weather this quarter, 3 to 4 points last quarter. So maybe you can talk a little more about what else is driving that sequential change and I think in the prepared remarks you talked about aviation, which is, I think, a relatively small component of your overall insurance books. So any additional color on what may be driving that sequential change will be helpful.

Peter John Vogt
Chief Financial Officer

I guess, what I'd say is in the prepared remarks when I noted aviation, that was really -- this is Pete Vogt -- the year-over-year comparison to aviation, actually, sequentially, from second quarter to third quarter, aviation got better. Still not where we wanted to be, elevated losses, as you know, are a smaller portion of our book. With regard to the property, I think it is the same commentary that Albert has talked about and that we've discussed, is we're seeing elevated losses across most of our property classes coming from a variety of factors and we're -- it's sort of would be the same issues that we would have seen in the second quarter and that we have seen over the last few quarters. It just a little bit higher in this quarter than you saw in the second quarter.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

I guess, I'm still a little confused. Because I thought you called out kind of 3 to 4 points of non-cat weather-related issues in 2Q about 4, just north of 4 in 3Q. So on top of that non-cat weather, you have additional roughly 250 or 200 basis points of deterioration property? Is that the way to think about it?

Peter John Vogt
Chief Financial Officer

I haven't looked at it quarter-to-quarter sequentially. So we can get back to you on the details of actually modeling that out. But I do know property did get somewhat worse from the second quarter to the third quarter. So that did happen. I don't have the exact numbers in front of me.

Albert A. Benchimol
President, CEO & Director

We'll get back to you.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay, I'll follow up offline. And then on Jebi, you have about $10 million of losses there compared to 1-in-50 PML of just over $50 million. So is it fair think about Jebi as a kind of 1 in 10-year event at the most?

Peter John Vogt
Chief Financial Officer

Yes. I think you can look at it as about a 1-in-10 year event for us. What we would say is that we really aren't very heavily concentrated in Asia and so it would be more of a 1-in-10 event.

Albert A. Benchimol
President, CEO & Director

If you look at our charts you can tell that we have got more exposure on Japanese quakes than we have on Japanese winds. Historically, Japanese wind was less attractive to us than Japanese quake. And so that's just one part of the market where we have a smaller market share.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And then, final question, maybe more of a clarification point. In professional lines you talked about loss trends still being in excess of pricing and yet you're growing in the new -- you are growing professional lines through new business. So I just want to be clear here, the loss trends you're talking about in excess of pricing that's for the overall market and yet you are seeing opportunities in ex-primary large accounts. Is that where pricing is better than cost trends, is that a fair way to think about it?

Albert A. Benchimol
President, CEO & Director

I appreciate you asking for the clarification. If you look at our professional liability book, the bulk of the growth is actually coming from cyber. And if you look at some of the other lines, frankly, there is -- it's pretty stable, and in some cases, it's down. So the bulk of the increase that you're going to see for us is cyber, which we find to be a very interesting line. Just to give you a plug on cyber, I think it's a lot of business which is going to be very important for our industry going forward and we're establishing leadership early on and we think that's going to be good for us going forward.

Operator

Next question will be from Amit Kumar with Buckingham Research.

Amit Kumar
The Buckingham Research Group Incorporated

Just a few follow-ups. The first question goes back to the discussion on the Japanese PMLs. And I think you alluded to looking at the pricing and then sort of thinking about the exposure. Is there some -- is there like an upper limit in terms of how we can think about what your PMLs could look like even if pricing goes up materially or how should we think about any changes in your Japanese exposure down the road?

Albert A. Benchimol
President, CEO & Director

I think that's certainly, we would have appetite for more growth in Japan. I think if you look at where we are in terms of the composition, adding Japanese growth would probably improve the diversification of the balance in the portfolio. So from a portfolio construction perspective, we have some appetite as long as it is at the right price. But I think we also have to be realistic. The Japanese clients are wonderful clients. They are loyal clients and they don't turn over their panel willy-nilly every renewal. You have to work hard for every time you have an opportunity to grow. So I think our appetite to grow would be there if terms improve, but we also have to be realistic as to how much potential growth there is, given the behavior of Japanese clients.

Amit Kumar
The Buckingham Research Group Incorporated

Fair enough. The other question I had was, if you look at where the stock is trading at and obviously there is a lot of market volatility and dilution. Have you sort of revisited or rethought the discussion on buyback going forward in terms of the price-to-book multiple?

Albert A. Benchimol
President, CEO & Director

So there are 2 ways of -- there is 2 comments in your question. So the first -- I'm happy to agree with you that the price is low. So you can do something about that. But with regards to the repurchases as we told you, the best time to do this is when we finalize the plan, do the 1/1 renewal, and will be happy to update our intentions on that soon after the 1/1 renewals.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. And final question, I think it was maybe Kai's question on -- or maybe Yaron's question on the non-cat weather volatility. And again, this has been a sort of a broader discussion topic. Is there something which can be done or you might be doing differently to address this non-cat volatility so that, I guess, the true earnings power can emerge?

Albert A. Benchimol
President, CEO & Director

I'm sure that's a question that is going through every single property underwriter and executive in the industry right now because this is not an issue which is particular to AXIS. I think what we're seeing is just as Peter mentioned earlier, and we're looking at every one of our property divisions higher frequency and certainly what we're hearing from others is the same. And frankly, we're seeing that, too, in our reinsurance. So we see what our clients are seeing. I mean short of not writing the business at all, I think that you have to expose yourself, but I think if you see what we have done is we've actually reduced our business in property. I will -- you'll recall that, little over a year ago, we exited the large account property business in the U.S. And we did that because we felt that there was a lot of volatility in the large account business. You had to put a big limits and you weren't getting prices, so we got out of that. We earlier, at the end of last year, beginning of this year, we announced our desire to get out of onshore energy. Again, because we felt that the losses were there. So I believe that we're taking the right decisions with regard to markets that we believe are not likely to move in the near future. And in the markets that we believe are close to getting the right point of pricing. What we're trying to do is we're trying to modulate a foot on the price pedal and a foot on the appetite and construction pedal. So I'm not sure that there is a silver bullet. I assure you if there were one, we would have fired it a long time ago, but we're working through it right now and my expectation is that, as you see our book emerge over 2019, it will be a modestly different book than we have currently as we continue to execute on some changes in our portfolio appetite.

Operator

Next question will be from Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Just curious if maybe it is possible do a postmortem on Novae. The premium there, ultimately did you renew more of it or less of it than you thought you would with the competition for that business more aggressive or less aggressive than AXIS proper? And how does the pricing you've gotten for those pieces differ from what you are talking about broadly from the former AXIS book?

Albert A. Benchimol
President, CEO & Director

That's an excellent question, Josh. Thank you for asking. So I think what I would say with regards to the book of business and now we've been in that company for over a year, is we've had absolutely no surprises. And I think that's always a good thing in an M&A environment. The second thing I will tell you is that we have not yet shed all of the business that we were planning on shedding on Novae. So when we looked at the book of business, we had a sense of what we were getting. But you'll recall, Josh, that we took formal control of the company only in October of last year. And that, frankly, limited some of the actions that we could take in terms of the book of business that renewed at 1/1. And so there were actions that we have taken subsequent to 1/1, but there are other books of business where our next opportunity is at 1/1. And so there is more action that we have been planning to take, that we will take at 1/1. So that, I think, should help you there. I think with regards to the book of business per se, see -- it's in the Lloyd's market, the way the rest of -- the same as the rest of our Lloyd's market, there isn't substantial difference because in many cases we're competing for similar-type business. What I will say is that where this company has strong leadership positions and I look at lines of business like marine, liability, political and credit risk, cyber. That leadership combined to ours has really made for a very powerful presence in the market. I am really pleased with that. And again, I'm quite aware of the things that were said when we acquired Novae last year, but let's not deny that, that book of business is delivering an underwriting profit year-to-date. And we're very proud of that accomplishment. And we're ahead, as Pete said, on the synergies. So it's been a very good acquisition so far.

Joshua David Shanker
Deutsche Bank AG, Research Division

And given sort of this experience, can you talk about your appetite for pursuing maybe not M&A per se, but large tracks of other books that you can improve the profitability of?

Albert A. Benchimol
President, CEO & Director

The truth is that right now our appetite is low. Never say never, I mean, if some things were to be really perfect, we would do it. But we also have to recognize that acquisitions can be -- certain acquisitions can be very distracting. One of the appealing factors with Novae is that it was very focused on the one market where we wanted more scale. And we were able to do that in a way that did not overly disturbed the rest of the operation. Josh, we're so excited about the things that we're doing right now in our company that I'm not sure that we would want a distraction of a large acquisition.

Operator

[Operator Instructions] And today's next question will be from Meyer Shields with KBW.

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

So Albert, continuing on that, can talk about your expectations for I guess, one, whether Lloyd's will be able to materially reduce its overall expense loads? And second of all, whether the marketplace can then keep that incremental margin?

Albert A. Benchimol
President, CEO & Director

Let's be honest. I don't think Lloyd's has a choice. I think Lloyd's knows it. I'm very excited by the conversations that I'm having with the leadership at Lloyd's. I think they are approaching it the right way. We have no choice at Lloyd's but to reduce our cost and to bring Lloyd's back to its core value add which is not to provide capacity for binders and MGAs, but to be the champion and the world capital for innovation and speciality risks. And I think a smaller, more profitable Lloyd's is more attractive to me than a Lloyd's that just provides capacity at a cheap rate. And I have to tell you, I am not the only one who feels that way and I'm confident that Lloyd's is going to work in that direction and you can rest assured that our voice at Lloyd's will be pushing in that direction.

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

Okay. And I guess, implicit in that is the expectation that if there is incremental margin, then the participancy will creep, some or most of that?

Albert A. Benchimol
President, CEO & Director

Yes. The thing that we have been discussing about it is, I can't imagine a lot of executives in other markets just lining up to say, I'm really looking forward for more of the business that's so bad that Lloyd's doesn't want to write. I think at some point, there's got to be some rationality in the market. There may be 1 or 2 markets that view this as an opportunity to grow, but my view is that this market needs leadership. I think Lloyd's is providing that leadership and my hope certainly is that a lot of people will follow through. And, by the way, we talked about one of the fears that some of these businesses could be written in remote markets, but we have seen a number of companies literally get out of Singapore. We have seen a stalling in the growth of Middle Eastern markets. We have seen companies get out of Hong Kong. We see in the U.S. some of the strongest pricing that we're seeing elsewhere. So from my perspective, I don't see, other than potentially in the ILS markets, I don't see any appetite for deteriorating results.

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

That's fantastic. And then one quick numbers question, I guess, please. Can you quantify reinstatement premiums, I guess, both outward in insurance and inward in reinsurance for the third quarter?

Peter John Vogt
Chief Financial Officer

Well, on the reinsurance side, Meyer, it was $33 million last year. And I think, it was pretty -- I don't think it was any this quarter. So that was a big driver of the year-over-year-over-year change in the reinsurance GWP.

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

Go ahead, I am sorry.

Peter John Vogt
Chief Financial Officer

It was pretty -- and there was really no reinsurance statement premiums on the insurance side either this quarter.

Operator

At this time, this will conclude today's question-and-answer session. I would like to turn the conference back over to management for any closing remarks.

Albert A. Benchimol
President, CEO & Director

Thank you, Brian. And to all of you, thank you for your time and interest this morning. As I said at the beginning of today's call, this has been a quarter we have continued to see positive momentum in our business. Our transformation program, the integration of Novae into our business and our efforts to grow market leadership have generated real traction. And if you don't mind, I'd like to take a moment to express my appreciation to all the members of our team for their continued commitment and hard work. Your actions have helped put AXIS on a very strong path forward and together we're owning our future. And so to everyone, we look forward to updating you on continuing progress and achievement in future calls. Thank you for your engagement and goodbye.

Operator
The conference has now concluded. We want to thank you for attending today's presentation. And at this time, you may now disconnect.