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Q4 2018 Earnings Call

Company Participants

- Craig W. Howie, Executive Vice President & Chief Financial Officer
- Dominic J. Addesso, President, Chief Executive Officer & Director
- John P. Doucette, Executive Vice President, President & Chief Executive Officer of the Reinsurance Division
- Jon Levenson, Head of Investor Relations
- Jonathan M. Zaffino, Executive Vice President, President & Chief Executive Officer of the Everest Insurance Division

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Elyse B. Greenspan, Analyst
- Josh D. Shanker, Analyst
- Kai Pan, Analyst
- Meyer Shields, Analyst
- Yaron Kinar, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, and welcome to the Everest Re Group's Fourth Quarter 2018 Earnings call. Today's call is being recorded.

It is now my pleasure to introduce your host Mr. Jon Levenson. Please go ahead, sir.

Jon Levenson {BIO 18636999 <GO>}

Thank you and welcome to the Everest Re Group Limited 2018 fourth quarter and year end conference call. The Everest executives leading today's call are Dom Addesso, President and Chief Executive Officer; Craig Howie, EVP and Chief Financial Officer; John Doucette, EVP and President and CEO of the Reinsurance Division; and Jonathan Zaffino, EVP and President and CEO of the Everest Insurance Division.

Before we begin, I need to preface the comments on today's call by noting that our SEC filings include extensive disclosures with respect to forward-looking statements. Management comments regarding estimates, projections and similar are subject to the risks, uncertainties and assumptions as noted in the Everest SEC filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial supplements.

With that, I turn the call over to Dom Addesso.

Dominic J. Addesso {BIO 1428096 <GO>}

Thanks, Jon. Good morning and thank you all for joining on the call this morning. As you know, Everest's fourth quarter was impacted by catastrophes in the amount of $695 million. This follows a third quarter with a series of events as well. It has been an unusual two-year period, estimated to be the highest on record at almost $240 billion of losses over those two years.

With our global presence, balance sheet and business model, we undoubtedly expect our share of the losses. While the current estimates are consistent with prior market events, the difference from prior years is that despite the significant size of the catastrophes Everest was still able to generate operating earnings over the two-year period of $603 million. This is the result of a focused effort to continue to diversify our portfolio by expanding our product set in both our reinsurance and insurance businesses. We would expect that trend to continue as momentum is building rapidly in these initiatives. More on that later from my colleagues.

Turning to our property cat business, our portfolio over time has produced excess returns, extremely positive on average but variable over any individual period. Many years are great and others require fortitude. However, as I have noted in the past, in the short-term there may be some adjustments on our portfolio, particularly as we continue to allocate more capital to casualty and mortgage business. To be clear, the cat business remains a core part of our portfolio. However, pricing for risk in many circumstances has not firmed as much as required. On that business, we take a pause and allocate our capital elsewhere.

January did present some very good opportunities to get better risk-adjusted returns, and some renewals were already adequately priced with expiry. Retro pricing, large program and loss-affected accounts on balance were strong. Nevertheless, our January 1 business for property cat reinsurance was down due to pricing on some business.

Going forward, we would expect a stronger market as April and June renewals are dominated by loss-affected areas, notably Japan and Florida. The market has some repair to do in these areas as industry issues particularly in Florida around LAE and AOB are factors that have not been well considered in pricing.

Couple that with what we see as desire for improved economics by third-party capital and you have the recipe for a positive renewal. We view the influence of alternative capital as somewhat neutral due to what appears to be at least some slowdown in the rate of growth there due to lockups from last year and perhaps a view on adequacy at pricing.

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Our conversation this morning should also focus on our strategic objective of building a diversified global reinsurer and insurer. To that point, you will note the strong performance of our insurance operations this year. It is highlighted by the fact that for the first time in many years, we produced an underwriting profit. This has truly been a journey as the legacy portfolio required some work, while at the same time we were expanding into new classes and territories.

We have set the table with an array of product offerings and many – our new distribution relationships, and an international presence in London, Dublin and Toronto. This $2-billion plus specialty insurer is completely overhauled and now truly represents our go-forward base. We are poised to accelerate from here, and insurance will undoubtedly be a larger part of our future.

Similarly, on the reinsurance front, we continue our diversification work. In terms of classes of business, mortgage and other credit-related premium continue to grow and are becoming a more relevant part of our underwriting profits. Also, as we have mentioned on previous calls, the casualty classes have seen improvement in rates, terms and conditions. As a result, our treaty casualty book is profitable and growing. This growth is mostly in proportional business, which does drive the overall combined ratio up. But nominal margins are increased with a higher premium base.

Looking at geography, our new Zurich branch is enabling us to gain increased penetration in the Continental European market. On the investment front, while we still manage an overall conservative portfolio, we generated very positive returns, mainly due to our strategies around private equity. Rates are inching up, and while that bodes well going forward, it does have the medium-term impact of negatively affecting marks on our existing portfolio. As a result, we have an unrealized loss this year which affects book value. But since the duration of our portfolio is relatively short, this will reverse as bonds mature.

From a capital perspective, we did less than we planned in buybacks this past year due to cats. This was mostly due to being in blackout periods during the year as a result of uncertainty around cats, and not because of any threat to our capital base which is solid. As we go forward on our diversification efforts, there will likely be opportunity to consider additional buybacks as diversification could result in the ability to expand the premium to surplus ratio. This of course is all subject to the opportunities we see ahead as the market is developing.

Before I turn it over to my colleagues where they will go into some detail on the operations, let me say that we have never been more confident about our ability to continue to perform at a high level. As I mentioned, volatility, although likely reduced in the near-term given our portfolio expansion, remains a factor in our business.

Nevertheless, Everest's ability to compound book value well above the industry over the long-term remains our hallmark. Balance sheet strength remains intact coupled with significant hedging structures in place and low financial leverage. Our diversification efforts at the group level are taking hold. The insurance brand is growing profitably as a unique specialty insurer with global reach achieving record gross-written premium and positive underwriting income.

After two challenging years, we find ourselves well-positioned in a changing macro environment. Cat pricing is likely to firm in certain areas given loss activity over the past two years, which could create enhanced opportunities. An insurance growth in an improved rating environment presents some unique opportunities. The platforms we have in place are sound and my colleagues across the entire organization are outstanding. Our culture of underwriting and expense discipline coupled with an entrepreneurial spirit will enable us to continue to be a market leader. And I look forward to your questions later.

And now over to Craig for the financial highlights.

Craig W. Howie {BIO 17579923 <GO>}

Thank you, Dom, and good morning everyone. Everest had a net loss of $382 million for the fourth quarter of 2018, a quarter heavily impacted by catastrophe losses and realized capital losses. This compares to net income of $571 million for the fourth quarter of 2017. Net income for the year was $104 million compared to $469 million in 2017. The full year 2018 was also impacted by catastrophe losses and realized capital losses.

For the year, net income included $109 million of net after tax realized capital losses compared to $102 million of capital gains in 2017. The capital losses were primarily attributable to fair value adjustments on our public equity portfolio. Since the end of the year, we've seen pre-tax revised capital gains of over $50 million. The after tax operating loss for the fourth quarter of 2018 was $237 million compared to $535 million of operating income in 2017.

Operating income excludes realized capital gains and losses, foreign exchange, and the tax impact related to the enactment of the Tax Cuts and Jobs Act of 2017. For the year, operating income was $191 million compared to $413 million in 2017. The primary difference was higher catastrophe losses booked in 2018. In the fourth quarter Everest saw $875 million of net pre-tax catastrophe losses compared to $36 million in the fourth quarter of 2017.

The breakdown of the pre-tax loss estimates by then is as follows. Hurricane Michael was $400 million, the Camp Fire in California was $300 million, the Woolsey Fire in California was $150 million and the Australia hailstorm was $25 million for a total of $875 million in the quarter. On a year-to-date basis the results reflected net pre-tax catastrophe losses of $1.7 billion in 2018 compared to $1.3 billion in 2017. These losses were pre-tax figures net of reinsurance and re-instatement premium. As a reminder, the company uses net after-tax loss estimates when selling its catastrophe loss exposure budget for the year.

Excluding the catastrophe events, re-instatement premiums and favorable prior-year reserve development, the underlying book continues to perform well with an overall current year attritional combined ratio of 87% for the year compared to 85% last year. This

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increase is due to a change in business mix with the growth in our pro-rata premium during 2018, which carries a higher combined ratio. Our year-to-date group expense ratio remains well at 5.4%, while our commission ratio of 21.9% remains stable.

On reserves, we completed the remainder of our annual loss reserves studies during the fourth quarter. The results of the studies indicated that overall reserves were redundant, and in the fourth quarter we booked $74 million of favorable prior-year reserve development. This included favorable prior-period development for both the insurance segment and the reinsurance segments and is in addition to the $100 million of favorable prior-year development reported in the second and third quarters of 2018. The insurance segment reported $51 million of favorable prior-year reserve development during the quarter and $52 million for the year, which was largely related to its workers' compensation business.

The reinsurance segments reported $23 million of favorable prior-year development during the quarter and $122 million for the year, which related to the casualty and property business both in the United States and Bermuda. These redundancies have developed over time, but we don't react until the position becomes more mature. We continue to hold our loss reserve estimates for the more recent years.

For investments, pre-tax investment income was $140 million for the quarter and $581 million for the year on our $18 billion investment portfolio. Year-to-date investment income was up $38 million or 7% from one year ago. The result was primarily driven by higher yields on the fixed income portfolio and the increase in limited partnership income which was up $10 million over 2017.

During the fourth quarter, we made a tactical shift to de-risk the investment portfolio. We've reduced our public equity and alternative investment portfolios by over $500 million and we invested in investment grade fixed income. The pre-tax yield on the overall portfolio was 3.2% compared to 3.1% one year ago as both investment grade and alternative fixed income yields were up year over year. The rise in new money yields will boost future net investment income.

On income taxes, the tax benefit was the result of losses associated with the catastrophes this year. Since the majority of the catastrophe events were written in the United States, the tax benefit primarily reflects the U.S. tax rate. The effective tax rate is an annualized calculation that includes planned catastrophe losses for the year. For 2019, we expect our tax rate to be about 13%, which reflects an annual cat load of less than seven points.

Shareholders' equity for the group was $7.9 billion at the end of 2018 compared to $8.4 billion at the end of 2017. The decline in shareholders' equity during 2018 is primarily attributable to the $256 million mark-to-market impact on the fixed income investment portfolio, $77 million of foreign currency translation adjustments, and capital return through $216 million of dividends paid as well as $75 million of share buybacks, partially offset by $104 million of net income. This year-end, the mark-to-market gain on the fixed income portfolio is approximately $100 million pre-tax.

Our capital position remains strong. The catastrophe losses of 2017 and 2018 were contained within the earnings, and therefore had no impact on our capital position. During the quarter the company announced an 8% increase in its regular quarterly dividend and paid $1.40 per share in the fourth quarter of 2018.

Thank you. And now John Doucette will provide a review of the reinsurance operations.

John P. Doucette {BIO 7178336 <GO>}

Thank you, Craig. Good morning. Following the unprecedented back-to-back years of significant catastrophe losses, Everest remained as a solid and stable partner for our clients, with the financial strength, experienced underwriters and a full suite of products required in this rapidly changing market. Although our 2018 earnings were impacted by these catastrophe losses, our capital position remains strong and our willingness to deploy meaningful capacity at favorable risk adjusted pricing remains intact.

Our resilience is the result of our ongoing strategy to build an extremely diversified reinsurance portfolio by class of business, product type and geography. Although January 1 pricing did not reflect a traditional across-the-board hard market, Everest still had a successful renewal. We were able to allocate our capacity to the best opportunities by proactively utilizing our core skill and our market differentiators.

These include a strong balance sheet and ratings with meaningful capacity and $13 billion of underwriting capital, including our third-party capital; a full suite of products across all P&C lines of business and most geographies; trust from reinsurance buyers and brokers in the strength, stability and longevity of Everest. We have been trading with many of our customers and brokers around the globe for over 40 years; experienced underwriters in local markets with deep product expertise and a dynamic culture with a flat nimble organization that can pivot swiftly to the best opportunities. Through these strengths, we empower our local teams to execute unencumbered by internal and external distractions such as M&A, weakening relevance and restructurings that several of our competitors face.

Accordingly during this renewal season, we focused on the best underwriting opportunities in support of our core clients. Everest maintained and increased shares on our clients' most strategic programs in layers that also demonstrated the best prices for the exposures. This focused underwriting meant moving away from some property layers or programs, while increasing some casualty or other long tail lines, which has further diversified our portfolio.

Now, some detail on the reinsurance division's financial results for the full year of 2018. The reinsurance business experienced strong growth in gross written premiums of 22%, with all three segments contributing strongly to $6.2 billion in gross written premium in 2018. Much of the growth across the reinsurance division came from non-property lines, including casualty, motor, mortgage, surety and aviation.

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While underwriting profit per dollar of pro-rata premium is lower than excessive loss, volatility is also considerably lower, consuming less capital per premium dollar. As a result, Everest had $360 million of underwriting profit in 2018 from non-property lines of reinsurance, which is up over $50 million versus 2017.

For the full year of 2018, the reinsurance operations reported a 113% combined ratio, with 33 points of net cat losses incurred. The attritional combined ratio is up about three points to 84% from 2017 given the larger amount of pro-rata premium and more casualty premium earned during 2018.

The U.S. reinsurance segment's 2018 gross written premiums grew by 16% to $3 billion. The largest contributions were from pro-rata casualty, mortgage and pro-rata property. With135% combined ratio, this segment bore the brunt of the catastrophe losses, most notably California wildfires, hurricanes Michael and Florence and the development on Hurricane Irma. Total catastrophe losses reported to this segment were 58 loss ratio points for the year. The 2018 attritional combined ratio was 83%, up about five points from 2017 due to more pro-rata earned premium.

In the Bermuda segment, 2018 gross written premium grew to $1.7 billion, an increase of 38%. This segment had its strongest growth from casualty pro-rata, Lloyd's re-gearing deal and mortgage. In addition, motor, aviation, political risk, and trade credit written out of our London and Zurich operations also contributed to the growth in the Bermuda segment. This segment had an 88.5% combined ratio, aided by two points of reduction in prior year attritional losses. The 2018 attritional combined ratio was 88 points, representing a 1.5-point decrease from 2017 despite the larger mix of proportional business.

In the International segment, we grew gross written premium 17% to $1.5 billion in 2018. Growth was broad-based including pro-rata property and casualty in many territories including Canada, Latin America, Asia, and Middle East and Africa, as well as robust growth in International Fac. The combined ratio was 96.9% which included 18 points of catastrophe losses. The 2018 attritional combined ratio was 81.1% with about a 2.6 increase in the attritional loss ratio from 2017. The amount of pro-rata premium affected this metric also.

In 2018, most of our roughly 15 major reinsurance profit centers made an underwriting profit, with the exception of those few which were heavily impacted by large risk losses and the catastrophes in the USA and in Japan.

Now I will give some color on the January 1 renewal. We headed into the January 1 renewals with the strategy to push rate, terms, conditions on property where needed; to deploy more risk capital into other classes with improving economics notably casualty, mortgage and credit. We also planned to increase support of our global client and strategic reinsurance partners, areas which continue to develop strongly with meaningful profit opportunities. Broadly, we were successful with this plan.

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Now more details about January 1. Regarding property reinsurance, the overall market at January 1 was mixed. Loss affected business and retrocessional accounts showed rate increases, while much of the remaining market was relatively flat. In areas unaffected by losses and on small capacity layers that are easier to fill out the required capacity, these were much more closer to flat or even down, which was disappointing given recent industry losses.

Everest held the line on changes to terms and conditions and reduced our share where economics fell below our expectation of acceptable pricing level. We reserved our cat capacity for our best clients and the best price opportunities, while leaving some dry powder to deploy for property business throughout2019. Altogether, both our January 1 property premium and exposures have reduced as we pushed rate, terms and conditions and withheld capacity where we found it prudent.

In terms of pricing at January 1, as we have demonstrated in multiple prior renewal cycle, we were able to achieve significantly improved risk-adjusted rates beyond what was reflected by the average market rate changes mentioned in the headlines. This is driven by our leading global franchise and ability to deploy meaningful capacity in all P&C lines for clients around the world. The end result was an overall improvement in expected ROE across our global property cat book but with a wide dispersion of results.

Our growth in casualty reinsurance more than made up our decrease in property writings. Our expanded long tail writings have included new deal as well as increased shares on accounts with improving pricing on the original insurance rates, increased reinsurance rates or improved ceding commissions.

Furthermore, we continue to expand our product set and capabilities. We have recently added to our in force business in lines such as multi-peril crop in North America and in Asia, mortgage, structured products, aviation, political risk and trade credit, and several new product offerings in Canada. And we continue to see improving pricing and broader opportunities in facultative business in the U.S. and internationally, given dislocation in several major markets.

In summary, the market at this January 1 renewal was mixed, particularly given the loss activity over the last two years. But, overall, we were pleased with our ability to execute our game plan. We pushed rate, terms and conditions on property reinsurance, deploy more risk capital in both a relative and absolute basis in casualty and mortgage, and we expanded relationships with global clients who continue to want to buy more reinsurance across all property and casualty lines from a large, well rated global reinsurers such as Everest.

Our success with the global clients was particularly noteworthy in our London and Zurich operations at January 1. Given a relative shift to more casualty and more pro-rata, we have seen upward pressure on the attritional loss ratio. But the dollars of underwriting margin remain robust and we like the trade. We expect our Q1 2019 business which is broader than just January 1 to beat up on gross written premium compared to Q1 2018, given our strong success and continued opportunities in the segments I just mentioned.

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We also expect gross written premium booked throughout 2019 and beyond. This is from large proportional deals where we recognized premium throughout the year slower than some of our competitors, as well as from multi-year deals such as mortgage. So, we effectively have written but not reported premium coming from these classes.

On the alternative capital side, investors continue to support Mt. Logan as we on-boarded some new investors at January 1, 2019, resulting in assets under management being slightly up compared to a year ago. Investors in Mt. Logan benefit from Everest's world-class property underwriting expertise and access to broadly diversified business from around the globe. And Everest investors continued to get the benefit of protections from Logan in above average cat years such as 2017 and 2018.

Given the improvement in our reinsurance portfolio, supported by our organizational resilience underwriting acumen, relevance and diversified capital structure, we remain bullish on our future and we look forward to our success in 2019 and beyond.

Thank you, and now I will turn it over to Jon Zaffino to review our insurance operations.

Jonathan M. Zaffino {BIO 16652236 <GO>}

Thanks, John, and good morning. 2018 was a pivotal year in the history of Everest Insurance highlighted by several noteworthy achievements. First and foremost, we're pleased to report a full year GAAP underwriting profit with a combined ratio of 95.3%. This is the first underwriting profit Everest Insurance has delivered since 2006, and continues our recent trend which has produced an underwriting profit in seven of the last eight quarters.

Our $77 million of underwriting income reflects a $146-million swing from the prior year, and is the third largest underwriting income we have achieved in 20 years. This result speaks to the successful implementation of our strategy, the growing resiliency of our platform, and the immense efforts of the talented team we have steadfastly and carefully assembled over the past four years.

Highlighting the year, our gross written premium achieved a record $2.3 billion, reflecting growth of 9% over 2017. Our growth while more moderate than the prior three years reflects both the balance contributions from our many underwriting divisions and targeted product lines and the impact of continued re-underwriting of some legacy portfolios.

Over the past several years largely beginning in 2016, we have written $1.4 billion of new gross written premium and high value carefully selected lines of business that simply were not part of the product portfolio prior to this time. Further, over 15% of that three-year premium number or approximately $230 million has originated from outside the U.S. market via our growing international operations and select global product lines.

At the same time, we have non-renewed, divested or re-underwritten portfolios approximating $500 million in gross written premium that simply did not fit with our future strategy. As a result, we conclude 2018 with the following: Solid underwriting profit and

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risk adjusted returns; record levels of gross written premium, despite offsets from non-renewed business; the deepest roster of actively underwritten specialty products in our history; the broadest geographic reach, 17 offices across the U.S., Canada, one in Europe for us to execute our business from; and the highest number of engaged insurance colleagues across disciplines around the world who are making all of this happen. We remain encouraged about our progress to date and look forward to enhancing the value of our platform on behalf of all of our constituents into 2019.

Before moving on to the financials, I want to briefly comment on the transformation process we have been executing on over the past several years. As we have discussed on past calls, we have been planning, communicating and executing on a multi-faceted strategic plan. This has been an extremely ambitious and challenging effort but thanks to the incredible work and contributions from our colleagues, we're now poised for continued profitable growth in the future.

The results I just referenced reflect the remarkable turnaround in a relatively short amount of time. We have grown organically and with discipline, one product at a time, one employee at a time, one office location at a time. And we have grown despite the actions accompanying our significant portfolio repositioning. With each new product, new employee, new capability and new location, we have become stronger and more resilient, and I believe, better as a specialty diversified insurance company.

As a result, Everest Insurance is at an exciting inflection point. With the majority of the transformation work behind us, we recognize there is much work ahead to achieve our ultimate vision. We are encouraged by the fact that we built a strong, diversified, well-established company within the specialty insurance market. We now have the full arsenal of tools we sought to attain: people, platforms, products and services. And we will continue building on the foundation we have established to further enhance our competitive position, profitability and growth.

Turning to the financial result, I'll speak mainly to the full-year results. I want to start with a comment on the quarter. The fourth quarter registered an outstanding 87.3% combined ratio despite nearly 4 points of pre-tax cat losses attributable predominantly to Hurricane Michael. We benefited from 12 points of favorable prior year reserve development in the quarter, the second year in a row we have experienced favorable prior year development as a result of our annual reserve review. In summary, it was an excellent quarter.

Year-to-date, we achieved $2.3 billion in gross written premium, representing growth of $191 million or 9% over 2017. On a constant dollar basis, this growth improves to 10%, recognizing the growing contribution of our international operations. Normalizing for the impact of lines of business where deliberate underwriting actions were taken, the growth rate for the full year more than doubled to 21%. A solid percentage of this group is emanating from the new businesses and products incepted over the past four years, inclusive of our increasingly relevant Lloyd's operation which eclipsed $150 million in gross written premium in 2018 and 30% increase over 2017. Each of these products and markets chosen for particular risk return characteristics is playing an increasingly important role in our diversified portfolio.

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Our net premiums were $1.7 billion for 2018, an increase of 5% over the prior year period. Net earned premium of $1.6 billion increased by a solid $177 million or 12% over 2017. For the full year, the GAAP combined ratio was 95.3%. Excluding the impact of catastrophes, our reported combined ratio improved to 93.3%. The global insurance operations experienced roughly $33 million of net pre-tax cat losses, a significant improvement over the prior year period. Net favorable prior year development had a beneficial impact of 3.2 points, reflecting the continued strength of our reserve portfolio. Again this is the first full year of GAAP profit in the last 12 years.

The year-to-date reported loss ratio was 65% which is a 10-point improvement to 2017 reported loss ratio of 75%. The majority of this difference is attributable to lower cat losses due to various underwriting actions and effective portfolio hedging. The loss ratio excluding cats also slightly improved by 14 basis points to 63% despite 70 basis points less of favorable prior year development. Our combined ratio and underlying results continue to improve as a result of the many underwriting initiatives instituted in recent years and we expect this trend to continue.

The 2018 attritional loss and loss expense ratio also improved by 80 basis points to 66.2% from 67% in 2017. While this is less improvement than we had anticipated, there were several mix changes and prolonged runoff activity that moderated additional improvement. Nonetheless, the trajectory is undeniable and again we anticipate continued improvement in 2019.

Turning to expenses for the full-year 2018, the expense ratio was 30.3%, essentially in line with the 29.8% for 2017. We have maintained this steady and I'll add competitive expense ratio even as we have continued to invest in people, infrastructure and technology. With the overall Everest operating discipline in mind, I certainly have my eye in expense ratio and we will continue to balance future investments with our expectations of profitable premium growth.

At the same time, we see continued investment in the organization as necessary to maintain an expense advantage and we'll continue to thoughtfully invest in the years ahead. We are particularly excited about several investments we have made in new and emerging technologies that are enhancing underwriting insights, creating meaningful operating efficiencies and improving our speed to market, thus enhancing our client value proposition.

Turning to the operating environment, overall rate trends over the first three quarters, and these are pure rates I'm referring to, gained some momentum in the fourth quarter particularly in the commercial auto, GL and property lines both in the North America and the London and European markets. Excluding our workers' compensation and accident and health portfolios, overall pure rate change for the North American P&C insurance operations, where the majority of our renewal book resides, was plus 4.6% for 2018.

This is up 3.6 points over 2017 and continues a two-year trend where we have experienced positive aggregate rate in the non-workers' compensation lines of business. Our workers' compensation portfolio continues to experience high-single digit rate

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pressure yet also continues to deliver solid returns. Despite the work comp pricing environment, the improvement in the overall price trend is evidence of our growing diversification and resiliency across the portfolio. These outcomes were largely anticipated and factored into our pricing and reserving decisions for the year.

To offer some additional color on the overall rate movements across our portfolio, our commercial auto segment continued to receive corrective rate action, a trend that has now persisted for several years. Overall, we achieved positive rate across this book in 2018 delivering low-double digit increases. As for the primary general liability markets, we also achieved slightly positive rate in the fourth quarter of plus 1.3%, while excess casualty picked up some momentum with roughly 2.2% increases reflecting our predominantly excess oriented book of business.

Internationally, our rate levels also showed signs of improvement with our Lloyd's operation delivering a positive 3% change across the portfolio. We expect this to continue and to increase in the months ahead. While financial and professional lines, the rates appeared to be turning the corner and actually improved in the second half of the year, it was not enough to deliver a full-year increase. As for our property book, we achieved healthy and needed rate increases of just over 10% and we believe this will continue as well.

We do anticipate moderately improving operating conditions across our global portfolio throughout 2019, with some pockets lagging this broader trend as they are in need of further corrective rate action. Further, as our retention ratios steadily improve, we anticipate the stronger rate environment to have an increasingly beneficial impact to our results.

In conclusion, we are very pleased with our results in 2018. We are gratified by the progress we have made and feel energized by the results of our strategic plan. We are well positioned within our chosen markets and we are improving our organization each and every day. We expect our relevance among our valued clients to continue to grow as we become an increasingly important trading partner to them. We look forward to updating you on our progress in the future calls.

And with that, I'll turn the call back over to Andrea for Q&A.

Q&A

Operator

Thank you. We will now take our first question from Kai Pan from Morgan Stanley. Please go ahead.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you and good morning. First to Dom and you have made a lot of changes over the last five years to make Everest Re a more diversified franchise. I wish you the best in your

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upcoming retirement. So as the board is searching for your successor, could you give us an update to what kind of characteristic that you are looking in a candidate and – either internally or externally? At the same time, will the board consider – also consider strategic alternatives?

A - Dominic J. Addesso {BIO 1428096 <GO>}

Thanks, Kai, for your well wishes, and the board as you know is in the process of looking for a successor to my role. And I think the things that the board and I will be looking for will be obviously strong leadership characteristics, knowledge of our business. So it's not – you can't preclude anything, but it's more than likely would be somebody that has experience in the space and some tenure in the space. And more than that I really can't offer up at this time, I think the process as I mentioned is underway and will be the classic qualities that you'd look for in any CEO.

Q - Kai Pan {BIO 18669701 <GO>}

Will the board consider – open to strategic alternatives?

A - Dominic J. Addesso {BIO 1428096 <GO>}

We are not – that is not an option that's part of this process.

Q - Kai Pan {BIO 18669701 <GO>}

Okay.

A - Dominic J. Addesso {BIO 1428096 <GO>}

Obviously, that's something that any board would have to consider if presented with strategic alternatives, but that is not part of this process.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. That's great. And then back to the reinsurance business, the core margin or the attritional combined ratio deteriorated more than 900-basis-point year over year, I just wonder outside the business mix any other factor driven that to the 88.7% attritional combined ratio in the fourth quarter? Is it a good run rate going forward or we should looking probably the 84% for the full year?

A - Dominic J. Addesso {BIO 1428096 <GO>}

I will ask Craig to comment on the part of this, but let me just begin it by saying that the mix shift is approximately a 2-point impact, and I'll ask Craig to speak to the third point of it.

A - Craig W. Howie {BIO 17579923 <GO>}

Yeah, the other point for the year, Kai, is in the fourth quarter we did see about $50 million of reinsurance attritional losses come through in the fourth quarter, and what that means is what we would call our non-cat cat losses, in other words weather or events that

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were less than our $10 million catastrophe threshold. So we did see weather losses, we saw shipyard fires, refinery explosions and other fires, and they occurred around the world. So Canada, the UK, Australia, Latin America and the U.S., so that it in itself is about 3 points in the quarter, in the fourth quarter and about 1 point for the year.

A - Dominic J. Addesso {BIO 1428096 <GO>}

And these would be - we cite these events because these would as you - I think you've heard from other market participants that there's been some frequency of severity, if you will, in some of these large risk losses. So we think this is - this has been an unusual year and we're not anticipating of that going forward. And clearly, we do have - we have an attritional pick for these lines of business, but 2018 was a particularly heavy year for us in risk losses.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Just to follow up on that, as you grow you're like a non-property business faster than your property business which carry higher attritional combined ratio which means you're - in 2019, will that attritional combined ratio continue to trade higher?

A - Dominic J. Addesso {BIO 1428096 <GO>}

No, I think what we're saying is that what you saw in terms of the drift, about 2 points is kind of where we're thinking it will settle out there. It could drift a little bit from there, but I think the important point is not so much to focus on the combined ratio but focus on the underwriting margin. As John Doucette pointed out, we actually increased our underwriting margin by $50 million from - just over $300 million to $360 million in this last year. And so therefore the combined ratio tick up is offset by still that underwriting - that margin in the combined ratio applying to a higher premium base. So, I think that - for us, that's what should be - what you should focus on.

Q - Kai Pan {BIO 18669701 <GO>}

That's okay. Thank you so much.

A - Dominic J. Addesso {BIO 1428096 <GO>}

Thank you Kai.

Operator

We will now take our next question from Josh Shanker from Deutsche Bank.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Good morning everybody.

A - Dominic J. Addesso {BIO 1428096 <GO>}

Good morning, Josh.

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Q - Josh D. Shanker {BIO 5292022 <GO>}

If you might just read my numbers but I think I'm close, I look at your share of the 4Q 2018 events at about 3.7% of the industry's loss. And I look at your experience in 3Q of this year and in the second half of last year at being about 1.5% of the industry's loss. Am I reading that correctly that your exposure on average is twice what it typically has been, and is there something different as you switch to a-pro rata book.? Or is this an exceptional set of circumstances particularly in the 4Q where you had outsized exposure?

A - Dominic J. Addesso {BIO 1428096 <GO>}

All right. Let me – having done any due diligence on Europe numbers, let me just give you what our view of market share is. Generally, given our scale in the marketplace on any one event what we've experienced over the last 10 years or 15 years has been – again on any one event, somewhere between – and depends on where, somewhere between 2% and 4% of any particular event.

And then, generally, for a particular year across the series of events, our market share has been 1.3%, 1.2%, somewhere in that range percent. And if you look at the results for the 2017 events and the 2018 events, we're settling in at about 1.3% market share, which is pretty consistent with if you go all back to 2010 and 2011 which is another two successive years of pretty heavy cat losses. It's very consistent with that.

But, again, what you're looking at in the fourth quarter, I think, is in part reflective of where we place our CapEx. So, for example, Hurricane Michael, we generally are, as you know, a larger rider of Florida cat and in particular we have made underwriting decisions that we in particular like the exposure in the panhandle as opposed to – contrasted with Miami and Dade County, for example. And so, we have longstanding relationships with many clients who themselves have made bigger bets in that region of Florida. So as a consequence, where that loss happened to hit tended to be an area where we have a little bit more concentration. So I don't know if that – hopefully that answers your question, but.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Okay.

(00:50:49)

A - Dominic J. Addesso {BIO 1428096 <GO>}

...explain what you're asking.

Q - Josh D. Shanker {BIO 5292022 <GO>}

I think it does to some extent. So if I take that a little further, one of your competitors last week said that they took a rather large lumpy loss in the wildfires. And they said that if we could do it all over again we would still make the same bet again because we think we got paid adequately to take that loss.

If I go back in time a year ago, I think you told me in the investment community that the ROE all things being equal in the 2018 book was better than the 2017 book. Do you still feel that way? And do you feel that although it didn't work out in 2018 you liked the construction of the 2018 book or are there - there's a postmortems that you would do differently?

A - Dominic J. Addesso {BIO 1428096 <GO>}

Well, first of all, there's always postmortems, there's always things you learn from every cat event, okay. But it still holds up that across the entire portfolio, the returns that we had priced in for 2018 relative to 2017 and frankly for 2019 relative to 2018 have improved. Now I guess the real question is and maybe underlying your question is whether or not the way you modeled that exposure risk is that the way it kind of played out. And I would say generally for Florida, yes, it just so happened as I mentioned with Hurricane Michael, where that particular storm hit affected us in that way.

I do think though that there's probably for the industry things to learn from wildfires exposure. Notwithstanding the fact that back to back wildfire events of that - of those magnitudes have essentially never been seen in the marketplace. So, it's not as if history was telling us that it could happen. But I do think in reflection it's probably fair to say that the models have not adequately addressed the wildfire exposure. And so therefore I do think that going forward and certainly we have into our 2019 portfolio have addressed that in either pricing or scaling back or terms and conditions to more tightly control the wildfire exposure. I think that's the risk that wasn't quite as well understood as certainly wind.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Thank you for the answers and good luck...

A - Dominic J. Addesso {BIO 1428096 <GO>}

Did that answer your question?

Q - Josh D. Shanker {BIO 5292022 <GO>}

Yes, it did. Thank you.

A - Dominic J. Addesso {BIO 1428096 <GO>}

Thank you.

Operator

We will now take our next question from Yaron Kinar from Goldman Sachs.

Q - Yaron Kinar {BIO 17146197 <GO>}

Good morning, everybody. First, as we look at the large non-cat losses, do some of that have to do with the business mix shift into more attritional? Or was that really what you would consider one offset, would not really be expected to recur?

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A - John P. Doucette {BIO 7178336 <GO>}

Good morning. It's John. So I don't think it really has to do with shift. It really has in some ways to do with our definition of catastrophes. So a lot of in-places around the globe, we may have a lot of these - a lot of these deals, we may only get through a certain few clients or a certain territory.

And so a lot of times, as Craig said, that $50 million may result in where we have $3 million, $5 million, $8 million of losses tied to these things that the industry would think of as catastrophes. How we classify them? We don't call them catastrophes and that's from kind of a process point of view that we want in terms of we want to have a materiality threshold for what we track as catastrophe. So I don't think it has to do with the shift in the mix.

A lot of the shift in the mix we're talking about is moving to non-property which frankly wouldn't be exposed to these types of losses. And we also saw in addition to what we call the non-cat cats for us below $10 million, there were also some large risk losses in the industry that also people - the industry, other people in the industry may consider them catastrophes. We don't - a single risk loss, we don't consider a catastrophe in how we articulate the cat losses and the attritional losses.

Q - Yaron Kinar {BIO 17146197 <GO>}

But I thought it's a shift quota share was not just on the casualty side also on property itself, and if you do shift to pro-rata wouldn't that necessarily mean that you would be exposed to lower layers?

A - John P. Doucette {BIO 7178336 <GO>}

Absolutely, that could be the case. A lot of the shift that we're talking about is not necessarily taking place in the International space a lot. And one of the things - for the points that you raise, one of the things when we talk about property pro-rata premium and increasing that particularly in the U.S. and the places over the last 2017 and 2018 where the losses were hit, a lot of our clients - a couple of things, a lot of our clients are looking for capital relief and quota shares provide them more meaningful capital relief than cat does in terms of de-levering their premium base. And so that's helpful for them.

But we also spend a lot of time as we decide that we want to deploy capacity on a cat basis, a property catastrophe excess or loss or on a quota share basis. We'll look at the occurrence limits that are within the proportional treaties that we have and we watch the occurrence limits very, very carefully, and really try to support our current property quota share deals that have very tight occurrence limits so that it's become less exposed to the issue that you're raising.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. And then two quick clarifications if I can. Dom, you said that the business mix shift account for about two points of the combined ratio deterioration in 2018. Was that for the full year or for the quarter?

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A - Dominic J. Addesso {BIO 1428096 <GO>}

That's a full year comment.

Q - Yaron Kinar {BIO 17146197 <GO>}

Full year. Okay. And the other clarification was on the 7% cat load target for 2019, is that on a net of reinstatement reinsurance basis but pre-tax?

A - Craig W. Howie {BIO 17579923 <GO>}

Yes. That is net and it's pre-tax and that...

A - Dominic J. Addesso {BIO 1428096 <GO>}

Not net of reinstatement.

A - Craig W. Howie {BIO 17579923 <GO>}

Correct. Not net of reinstatement. Net of reinsurance.

Q - Yaron Kinar {BIO 17146197 <GO>}

Net of reinsurance, not of reinstatement and pre-tax. Okay. Thank you very much.

A - Dominic J. Addesso {BIO 1428096 <GO>}

And less than 7%.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. Thank you.

A - Dominic J. Addesso {BIO 1428096 <GO>}

Thank you.

Operator

We will now take our next question from Amit Kumar from Buckingham Research.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks and good morning. Maybe just a quick follow up to Yaron's question, going back to the 7 points number, I was looking at the older transcripts and I was trying to recall, what was the cat load you were using for 2018 and 2017?

A - Craig W. Howie {BIO 17579923 <GO>}

So, for 2018 that number was just below 9 points and for 2017 that number would have been about 10 points, Amit.

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Q - Amit Kumar {BIO 15025799 <GO>}

So, that was what was built in your expectations not the actual, correct?

A - Craig W. Howie {BIO 17579923 <GO>}

Correct. Yeah, that's correct.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it, got it, that's helpful. The other question I have is in the opening remarks you talked about the reserve study and I was looking at I think it's page 6 of the supplement and under the U.S. reinsurance the reserve release number is down materially versus the past. Are there any pluses and minuses in that $1.5-million release number? This is page 6 of 13 in the supplement.

A - Dominic J. Addesso {BIO 1428096 <GO>}

Amit, there's – I don't know if Craig if he has any additional comments...

Q - Amit Kumar {BIO 15025799 <GO>}

Yes.

A - Dominic J. Addesso {BIO 1428096 <GO>}

...as I think probably you realize we've mentioned before there are some 200 different reserve categories or buckets as we call and there are ups and downs in reserves all the time. I think no meaningful downs that I can say unless Craig has anything to add to that, but I will say that – I don't know if you're looking at the quarter or the year-to-date, but keep in mind that we did have some reserve adjustments earlier in the year. So, if I look at the complete year to look at the positive reserve margins that have come through.

And I'll also add that there's always going to be variation in the amount of redundancies that perhaps come through, hopefully come through. But I will point out that this would be the seventh year now of positive reserve development across the entire group. And I think in any one particular year, it could be up, it could be down, but to me what's most relevant and most important is that seven years of positive development. I think that's something we're all very mindful of and frankly proud of. So, anyway Craig is there anything to add to that?

A - Craig W. Howie {BIO 17579923 <GO>}

Well, what I would add is just to reiterate what Dom said as I look at the total year as opposed to just the fourth quarter, and as Dom said we strive to carry an adequate reserve position in each one of these reserve segments and the company does react quickly to adverse development and takes its time to react to that favorable development and we do continue to hold the more recent years in each one of these segments.

Q - Amit Kumar {BIO 15025799 <GO>}

So net-net, there wasn't any adverse development which offset the reserve releases (01:01:07)?

A - Craig W. Howie {BIO 17579923 <GO>}

Nothing major that would stick out that would make you say that, no.

Q - Amit Kumar {BIO 15025799 <GO>}

Perfect. That's what I was looking for. And the last question and I will re-queue is, I wanted to go back to Josh Shanker's question. And I think that is a philosophical question a lot of us have been asking based on the last two years. Did I understand it correctly in your response where I think what you are saying is we've had two years of back-to-back materially higher losses. And hence it's less of an Everest Re risk selection issue, it's probably more attributable to how the models responded. And now that you're putting corrective actions into place that takes care of it. Is that how - is that what - the takeaway should be that, had the models responded differently it would have been your analogy?

A - Dominic J. Addesso {BIO 1428096 <GO>}

No, no. I wasn't. If you thought I said that, I apologize. I think what I was saying is, let's think about this in two separate buckets. Let's think about the windstorm, in particular, Michael. The models in that particular case are reasonable and fairly reliable. In our particular case because where we've chosen to put our capacity tends to be more in places like the panhandle as opposed - as contrasted with higher exposure in Miami and Dade.

So I don't necessarily believe that that "required any corrective action." To the extent that I was thinking or you might have heard me think about corrective action, I think it had more to do with the wildfire exposure and the fact that the models are less reliable as it relates to wildfire notwithstanding the fact that this most recent two years of wildfire losses is something we haven't really experienced ever. But I would still contend that the models aren't as reliable. And therefore, corrective action that we have taken relative to wildfire is cutting back some rates, terms, conditions, supplements, et cetera. That's the area that I was really trying to suggest that "any corrective action is required".

A - John P. Doucette {BIO 7178336 <GO>}

And Amit, this is John, I just want to add a little more color to what Dom said. So Dom and I have been here about 10 years, and during that time we've seen all different catastrophe losses and go down the list, the Japanese earthquake, the Thai floods, et cetera, et cetera, Sandy. In every loss, we learn, we evolve, the industry learns, the industry evolves, we make our models better, we make our underwriting better.

I think part of what Dom is alluding to is also when you think like the wildfires, the wildfires have been kind of a secondary risk characteristic for the industry. And we think given the unprecedented losses that have happened over the last two years that it's going to move not just in the model, but also in the buyers, the rating agencies, the board of directors of the clients. They're going to think about this in a different way.

We are already hearing some of our clients are looking to increase their limits that they buy. We think that in the future we may see wildfire exposure split out as a different reinsurance program for some people, but it's all of that is how these are - how these evolve in how the industry thinks of the risk. Clearly there's an elevated view on buyers, sellers, again board of directors, rating agencies, et cetera about the wildfire risk. And it's not just in California, we also had the Fort McMurray situation in Canada a few years back and I think all of this is going to help move this to be more like hurricane and earthquake as a primary loss that people have. A primary loss component that has to be factored in more explicitly. And frankly that the industry has to do a better job in terms of how it thinks about it, how it underwrites it and the terms and conditions in the contracts for that. And that's part of the natural evolution, and we think that's frankly healthy for everybody.

A - Dominic J. Addesso {BIO 1428096 <GO>}

So let me add to that too since John brought up a 10-year window just by way of example. I think it's worth a reminder that we manage - particularly because a part of our portfolio is cat business subject to volatility, we've managed for the long-term which you have to do when you're thinking about cat exposure which can be nil in any one year. And as we've seen in the past two years it could be record setting.

But if you'd think about the past 10 years where we have - clearly cat is a portion of our portfolio, and we think about total value creation over the past 10 years it's been around 11% and we happen to think that's - and by the way that's with four pretty hefty years in terms of cat losses, you had 2010 and 2011 and of course the last two which were record setting.

So that 10-year track record I think speaks to how we price our portfolio, how we think about risk, but again managing for the long-term. Another little factoid if you will is over the last 10 years our profits from our cat business on a net basis have been almost $3 billion.

Q - Amit Kumar {BIO 15025799 <GO>}

That's fascinating. I know I've exceeded my time. Just very one quick clarification of what you just said. What industry loss are you assuming for that 7 points guidance? Thanks.

A - Dominic J. Addesso {BIO 1428096 <GO>}

We're not sure that you can equate it to an industry loss. I mean that's an average estimated annual loss.

A - John P. Doucette {BIO 7178336 <GO>}

That's right. So it will be - we don't think of the world like that, we would look at what our gross in that exposures are and look at what we think and what the cat loads that are tied to that and then compare it to our overall premium.

So it's really a function of again what we're trying to get at is the diversification of the book and how we continue and frankly doing a tremendous job on the insurance side of

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growing and building the franchise and we see a lot of runway there to continue to do that. And all that will help and has helped us move the overall - the cat load as a percentage of premium down.

Q - Amit Kumar {BIO 15025799 <GO>}

I will stop here. Thanks for answering all my questions. Much appreciated.

A - Dominic J. Addesso {BIO 1428096 <GO>}

Thank you, Amit.

Operator

We will now take our next question from Brian Meredith from UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah. Thanks. Just a couple of quick ones here. First one, I'm just curious what was the impact of Mt. Logan's minority interest stuffed in the quarter listed at other income line?

A - Craig W. Howie {BIO 17579923 <GO>}

Roughly a $5-million loss, Brian.

Q - Brian Meredith {BIO 3108204 <GO>}

$5 million, great. And then what does Mt. Logan's capacity look like for this year? Is it down, up? What's going to happen with Mt. Logan as we look at 2019?

A - John P. Doucette {BIO 7178336 <GO>}

So as I said - this is John, Brian. Good morning.

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah.

A - John P. Doucette {BIO 7178336 <GO>}

So as I said in my script, it's up - slightly up year over year. So we - it's down slightly from Q3, but then some of the - because of losses, but then some existing investors have added capacity and we have some new investors and continue to diversify the investor base. And so we would expect that to continue to go up over time.

But again that's something that we look at in terms of as kind of our core strategic securitization vehicle, it's something we look at to make sure how it fits in executing our plan, our overall plan. So we'll - do we want to take more money or not. All things being equal, we would expect - it's up now, slightly compared to a year ago. And we would think

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that it would continue to go up to potentially increase somewhat, but it will be market condition dependent.

A - Dominic J. Addesso {BIO 1428096 <GO>}

Overall, still assets under management above $1 billion.

A - John P. Doucette {BIO 7178336 <GO>}

It's about $1.1 billion.

A - Dominic J. Addesso {BIO 1428096 <GO>}

Yeah.

Operator

We will now take our next question from Meyer Shields from Keefe, Bruyette & Woods.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. I'm just trying to clarify but I apologize for the repetitiousness. But the cat load for 2019, the expected cat load is down 2 points. Should we assume that there is on a year-over-year basis still some upward drift in the combined ratio or was that all contained in the full year for 2018?

A - Dominic J. Addesso {BIO 1428096 <GO>}

Well, again - ask that again relative 2019 versus 2018.

Q - Meyer Shields {BIO 4281064 <GO>}

Yeah, 2019 versus 2018, the cat load is down, and you've explained why I think very thoroughly, but I'm just trying to figure out how to model sort of core ex-cat ex-reserve development margins on a year-over-year basis.

A - Dominic J. Addesso {BIO 1428096 <GO>}

So what - I think what we said before was that we were expecting our attritional given the current mix, the attritional - again it depends in part to how much premium you've put into your model, but given the same mix then the 2-point shift that we've seen in 2018 over 2017 is approximately at - correct.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. So...

A - Dominic J. Addesso {BIO 1428096 <GO>}

So is that what you were asking?

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Q - Meyer Shields {BIO 4281064 <GO>}

I meant to ask you whether there should be another 2 points in 2019 on an expected basis?

A - Dominic J. Addesso {BIO 1428096 <GO>}

No, no. We are not seeing that at all.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Second question and maybe only a little bit related, but I'm trying to understand the timing of a de-risked investment portfolio when you're moving to longer tail lines of business that could probably absorb more short-term volatility.

A - Craig W. Howie {BIO 17579923 <GO>}

Meyer, this is Craig. I think what ended up happening too is partially the de-risking of the portfolio was to take some – overall just to take some of the public equity portfolio down at the end of the year, just taking some of the risk off the table. Some of the alternatives that we did was because we shifted capital around in the organization for where the capital was needed and where we're writing the business to match those two components.

And because of that, we had the opportunity to de-risk some of the portfolio. As we go forward, we will determine and look at both the duration and the types of business that we have as far as what our portfolio mix will be going forward.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. That's very helpful. Thank you so much.

A - Dominic J. Addesso {BIO 1428096 <GO>}

Thank you, Meyer.

Operator

We will now take our next question from Elyse Greenspan from Wells Fargo. Please go ahead.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Hi, good morning. I have a few questions. My first question, if we go back to some of your comments on the market, you guys like others seem to be a bit more bullish on the mid-year renewals. But I think back cat rates have really disappointed relative to expectations going back to 2006 really, and you guys already said that we're going to see more capital this year than last year. So what gives you confidence that the mid-year renewals won't disappoint?

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A - John P. Doucette {BIO 7178336 <GO>}

Good morning Elyse, it's John. So we don't have a crystal ball, all we would say is that when it comes to mid-year, a lot of mid-year is really Florida at June 1. And then different places U.S., China, Australia, Latin America at July 1. So a lot of it is going to be loss dependent, a lot of it - I mean Florida market has seen some pretty active years the last several years and there was a lot of increase in development that the clients, the Florida clients had when it came to particularly Irma.

So I think really we don't know what's going to happen but I do think that what we saw at January 1, 2019 and we just touched on it briefly is, is a lot of the alternative capital we think took a pause, there's a lot of things going on, a lot of concern about some of the losses, there's also some investors fatigue when it comes to some of the losses that we're hearing about in the alternative capital. We would note that Logan has had some of the best returns in the industry, so we think that helps our ability and I think the Logan investors buy into access to Everest's global portfolio and underwriting expertise and that help.

But we also have redemptions in Mt. Logan as well. And we think that overall, there have been redemptions in the alternative capital. So I think a lot of the alternative capital has looked and said that they need to understand the risk that they're taking better and frankly we're hearing people that are requiring a higher return. That's just healthier, we think that the entire market, the reinsurance traditional and alternative market is evolving with some of the hiccups that have happened recently. And we think that just puts the entire market at a better place for getting an appropriate return. What that means and how are the rates, we're not sure.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay that's helpful. And then in terms of going back to your cat loads of the less than seven points. Is that due to I guess lower writing, lower earned premium? I just kind of want to get a sense of if I could look back over the past 10 years your cat load, it's about 12 points. Obviously that includes some larger loss years but what's really driving the expected annual loss down in 2019?

A - Dominic J. Addesso {BIO 1428096 <GO>}

The biggest driver of the - of that coming down would be our diversification efforts. So growing in the non-cat areas, growing our insurance operation, growing our casualty book, growing our mortgage book. And some slight downward drift in our property exposure. So - but a big piece of that is diversification. And we're getting larger. We're getting larger and not increasing cat, in fact slightly decreasing it. So, those two factors together.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. And then your tax rate, you said I believe 13%, which seems about higher. I thought in the past, we were talking about kind of high-single digits (01:16:59) in line with your cat load is, part of that due to a lower level of cat losses expected over this coming year, or is there something else I'm missing that's driving up your expected tax rate?

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A - Craig W. Howie {BIO 17579923 <GO>}

Well part of that is lower cats expected, but it's also more capital allocated to the United States, and more businesses expected to be retained in the United States. So you have to apply the higher U.S. tax rate than elsewhere in the world. And some of the changes to our internal reinsurance programs as well.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. And then last question, you guys spoke of kind of expanding in the reinsurance side it seems like property for the most case mix at January 1, but it sounds like you guys saw some opportunities to grow within the casualty and non-property related lines. From a premiums written basis, what type of growth, I know you pointed to growth in the first quarter. As you think about the book that you put together, what type of premium growth do you envision for 2019?

A - Dominic J. Addesso {BIO 1428096 <GO>}

We're not really giving out any guidance this time on premium growth.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. Can you ballpark it? Would it be lower than what you saw over the past year or you just don't want to give any kind of magnitude?

A - Dominic J. Addesso {BIO 1428096 <GO>}

Let me say that on the reinsurance side, percentage growth is sometimes a difficult metric to really rely on. So a large quota share for example like some of the newer transactions we did in 2018 gives a percentage growth that we may or may not be able to apply into the following year. So quarter shares are kind of lumpy, more reliably would be the insurance growth. And since poor Mr. Zaffino over here I think he's getting a little bit of a complex not being ask a question maybe he could at least comment on the insurance side as to the growth prospects.

A - Jonathan M. Zaffino {BIO 16652236 <GO>}

Sure. Thanks, Dom. Yes, Elyse. Good morning. The view from our perspective is our growth is probably going to return to sort of a stronger than you saw in the fourth quarter, probably that's back to that mid-teens level. And remember if you look at 2018 full calendar year, property is only roughly across the various underwriting divisions about 15%-ish of our premium writing.

So by default, our growth at a mid-teens, high-teens level for the property book that is less than 15% of the total, you'll see even more impact of the diversifying affect Dom is referring to. So we see a lot of opportunities for growth across many different product areas, many different geographies and as I commented on based on the underlying market conditions, we think it's an opportune time in many areas to pursue that growth.

A - Dominic J. Addesso {BIO 1428096 <GO>}

The only other thing that I could say is that on the reinsurance side, we would anticipate that the growth would be slightly less than what we'd experience on the insurance side. With the caveat that if we come across a large quarter share deal and/or if we reduce participation on an existing quarter share deal, those numbers could change from that.

I hope that's of help, Elyse, but that's the best we can do.

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Q - Elyse B. Greenspan {BIO 17263315 <GO>}

$3 million of attritional loss is what you define as a non-cat cat losses. That was a Q4 number. Do you have the full year number or do the other three quarters kind of offset each other?

A - Dominic J. Addesso {BIO 1428096 <GO>}

Could you begin that question again because the beginning part of that question cut out on us.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay, sorry. So, you guys, Craig had pointed to I think in the response to a question that there was $50 million of non-cat cat losses within the reinsurance segment in the fourth quarter. I was wondering if what the full-year number is if there were non-cat cat losses for the first three quarters?

A - Craig W. Howie {BIO 17579923 <GO>}

Elyse, this is Craig. You may recall in the first half of the year, so in other words in the second quarter we had taken down our accrual for those non-cat losses because we didn't really see anything in the first half of the year that related to our reinsurance book. We didn't touch the insurance book because they are more exposed to some of those smaller events because of the types of business that they write. But for the reinsurance book we didn't see any of those major events in the first half of the year, primarily what we saw were – was this activity that came through later in the year and got booked in the fourth quarter.

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Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay, that's very helpful. Thanks for all the color.

Operator

We will now take our last question from Mike Zaremski from Credit Suisse. Please go ahead.

Hi. This is Rob (01:22:01) dialing for Mike. Just one question. Reinsurance market participants have talked about substantial retro insurance pricing increases in 2019. Are you seeing that as well? And if yes how is that going to impact Everest from a financial standpoint?

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A - John P. Doucette {BIO 7178336 <GO>}

Yeah. Good morning Rob (01:22:18). This is John. So we did see retro prices at January 1 increase particularly on loss affected accounts. And how much the increase varied on the client where it's exposed to things like that. To the extent that your question involved our hedging, I'd remind you that we have kind of a multi-product structure duration tenor in terms of our hedging.

Mt. Logan basically stands pari passu with Everest taking the same rates, terms, condition, pricing that Everest gets but for fees and profit, commissions and things like that. So it will move accordingly. And then when it comes to things like our catastrophe bonds that are put in place on a multi-year basis, that rate was pre-determined before the losses, a lot of these catastrophe bonds were put in place before 2017 and 2018's event. And those – basically the cost of that hedging is basically zero year over year, since it's fixed pricing over a multi-year basis.

Q - Operator

Okay. That's very helpful. Thank you.

A - Craig W. Howie {BIO 17579923 <GO>}

And thank you. I guess that's the – finish with the calls. We just close out with some thoughts. I want to thank you for your participation. And as you heard this morning, underlying our results are fundamentally some very positive patterns emerging. I don't mean to be dismissive of cat losses and their impact, but as I mentioned before a longer-term view including record cat events (01:24:04) reveals total value creation over the long-term in the top quartile.

Furthermore, as we discussed this morning, our diversification efforts will serve to reduce volatility going forward. Our financial strength and resiliency allows us to respond to market conditions and take advantage of what I think are some very unique opportunities in both our reinsurance and insurance platforms.

Our success in lying of business away from property cat and our now profitable insurance franchise are just the beginning of what I see as a major transformation at Everest. So, thank you again for your anticipation and look forward to our conversations over the weeks ahead. Thank you all.

Operator

Ladies and gentlemen, this now concludes today's conference call. Thank you for your participation. You may now disconnect.

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