

Q4 2019 Earnings Call

Company Participants

- Craig W. Howie, Executive Vice President and Chief Financial Officer
- John P. Doucette, Executive Vice President and President and CEO of the Reinsurance Division
- Jon Levenson, Head of Investor Relations
- Jonathan M. Zaffino, Executive Vice President and President and CEO of the Everest Insurance Division
- Juan Andrade, Chief Executive Officer

Other Participants

- Amit Kumar
- Brian Meredith
- Elyse Greenspan
- Meyer Shields
- Michael Zaremski
- Yaron Kinar

Presentation

Operator

Good day, and welcome at to the Everest RE Group Limited Fourth Quarter 2019 Earnings Conference Call. Today's conference is being recorded.

It is now my pleasure to turn this conference over to Jon Levenson. You may begin.

Jon Levenson {BIO 18636999 <GO>}

Thank you, Shantel, and welcome to the Everest RE Group Limited 2019 Fourth Quarter And Year-End Earnings Conference Call. The Everest executives leading today's call are Juan Andrade, 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 Everest's SEC filings, include extensive disclosures with respect to forward-looking statements. Management comments regarding estimates, projections, and similar are subject to the risk, uncertainties and assumption as noted in these 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'll turn the call over to Juan Andrade.

Juan Andrade {BIO 16371272 <GO>}

Thank you, Jon, and good morning. It's my pleasure to join you for the first time as President and CEO of Everest. 2019 was a solid year for our company as we continue to benefit from improving market conditions across all areas of our business. We are well positioned for this market with broad capabilities in top talent and we remain focused on solving our clients most critical risk transfer needs in a disciplined and profitable way. For the full year 2019, Everest recorded net income of over \$1 billion a significant increase from the prior year and a 12% net income return on equity.

Net operating income for 2019 was in excess of \$872 million, also a significant improvement over the 2018 result. Our combined ratio for the year was 95.5% compared to 108.8% in 2018, despite \$550 million of catastrophe losses during the year. Our book value per share growth was 16% and we grew our revenues by 8%. We remain focused on our industry-leading expense advantage. We achieved a 6% expense ratio in 2019, while continuing to make significant investments in people, technology and the infrastructure necessary to grow our company. These overall results are a testament to the strength and diversification of our franchise. We had sizable contributions from both our underwriting and investment operations throughout 2019.

Specific to the underwriting operations 2019 demonstrated the success of our strategies in both reinsurance and insurance. For the full year 2019 Everest generated \$336 million in underwriting income. In our reinsurance division, we generated \$255 million in underwriting income with a 95.4 combined ratio even with an active catastrophe year with industry insured losses in excess of \$50 billion. This result reflects the steps we have taken to diversify our portfolio, and reduce volatility. In our insurance division, 2019 marked another strong year of profitable growth. We finished the year with gross written premium of nearly \$2.8 billion, a 23% growth rate, over \$81 million in underwriting income and a 95.8 combined ratio. Our U.S. franchise which makes up the majority of our global insurance business, ran a combined ratio in the low 90s for the full year.

The insurance division had pre-tax operating income of \$270 million for the year, including the allocated \$189 million of investment income an excellent result. Overall investment income for the group was \$647 million, up 11% over the prior year. Given the prudent investment mix of assets we maintain, this was also an excellent outcome. Overall, our invested assets grew by \$2.3 billion in 2019 to nearly \$21 billion, driven by record underwriting cash flows and the solid return on invested assets.

Turning to the fourth quarter of 2019, overall group results were impacted by \$215 million in catastrophe losses and higher than expected losses in our crop reinsurance book as a result of inclement weather. This resulted in a group combined ratio of 101.5%. For the quarter, as a result of these losses our reinsurance division posted a combined ratio of

103.9% and an underwriting loss of \$55 million. Our insurance division generated over \$26 million in underwriting income and a 95.1 combined ratio.

Heading into 2020, we remain very well positioned. In our reinsurance division, we were pleased with our January 1 renewals which represents about 50% of our annual reinsurance premium. Underwriting discipline remains paramount, and we were able to underwrite a stronger portfolio with greater balance, diversification, more expected margin, and reduced volatility. In our insurance division, the rate momentum continues to build up meaningfully in virtually every class of business. Our insurance division is hitting full stride at an ideal time given the market tailwinds. We have the right culture, platform, and relevance with our clients and trading partners. We also have the underwriters and systems necessary to capitalize on the current market with the infrastructure in place to ensure underwriting discipline and appropriate risk selection.

Strategically, our focus is on increasing Everest's earnings power in terms of both our underwriting and investment income with the goal of driving superior book value growth over time. Underwriting profitability will remain at the core of everything we do, as we execute on our well-defined premium growth strategies in an improving underwriting environment. We will continue to search for profitable growth opportunities and increase relevance.

To use a sports metaphor we're on the front foot. We will also continue to create optionality and diversification in our business with a broad mix of products distribution and geography. This allows us to focus our underwriting capital on the most profitable classes regardless of the environment. With regard to investment income strong operating cash flows and returns on invested assets will continue to grow our portfolio going forward. Our focus will be on optimizing the performance of our investment portfolio while maintaining a well-balanced and prudent investment posture.

The efficient use of our capital, facilitates returns on equity significantly in excess of our cost of capital. Our goal is a double-digit return on equity. Our first priority is to deploy our capital into the business to position Everest for long-term success, and profitable growth. Growth in our earnings power, combined with our strong balance sheet, low leverage, strong financial ratings, and the effective management of capital will position Everest to succeed in every stage of the market cycle.

Now, let me turn it over to Craig, to provide additional details on the financials.

Craig W. Howie {BIO 17579923 <GO>}

Thank you, Juan, and good morning everyone. For the fourth quarter of 2019 Everest reported net income of \$218 million. This compares to a net loss of \$385 million for the fourth quarter of 2018. Net income for the full year was over \$1 billion compared to net income of \$89 million in 2018. These results were driven by a strong underwriting performance across the group, higher net investment income and lower catastrophe losses compared to 2018. In the fourth quarter of 2019 Everest saw \$215 million of net pre-tax catastrophe losses, compared to \$875 million in the fourth quarter of 2018.

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The 2019 pre-tax loss estimates came from Typhoon Hagibis in Japan for \$190 million and the Dallas, Texas Tornado was \$25 million. On a full-year basis, the results reflected net pre-tax catastrophe losses of \$550 million in 2019 compared to \$1.7 billion recorded in calendar year 2018. These losses are pre-tax figures net of reinsurance and reinstatement premium. As a reminder, the company uses net after-tax loss estimates when setting its catastrophe loss budget for the year.

Excluding the catastrophe events, reinstatement premiums, and favorable prior period reserve development, the underlying book continues to perform well with an overall current year attritional combined ratio of 88.4% for the year compared to 87% last year. This increase was primarily due to the business mix in the reinsurance segment, which has been writing more proportional casualty business over the past several quarters, which carries a higher loss ratio but benefits from the current underwriting market conditions also due to the impact of the current year crop reinsurance losses in 2019 of about \$50 million.

On reserves, we completed the remainder of our annual loss reserve studies during the fourth quarter. We booked \$19 million of favorable prior-year reserve development. This is in addition to the \$75 million of favorable prior year development, reported in the first three quarters of 2019, for a full year total of \$94 million. The insurance segment reported \$16 million of favorable prior-year reserve development during the quarter, which was largely related to its workers compensation business. The reinsurance results segments reported \$3 million of favorable prior year development during the quarter and \$77 million for the year. The reinsurance segments saw favorable development in some short tail and credit related lines such as property, surety, marine and mortgage. This favorable development was offset by actions, we took to strengthen reserves in the Bermuda segment for losses on some specific accounts for both property and casualty.

Before moving to taxes, I'd like to remind you that we've included a split of our net investment income between the insurance segment and total reinsurance. This is shown on page 15 in the financial supplement. It indicates the contribution provided by each segment to pre-tax operating income and reflects \$458 million allocated to reinsurance \$189 million of net investment income allocated to the insurance segment. We are including this information to better demonstrate the total contribution by business segment and highlights a standalone value of the growing insurance franchise.

On income taxes the tax benefit was the result of losses associated with the catastrophes this year. Since the majority of the catastrophe events came from business written in the U.S. Book, the losses and tax benefit primarily reflect the U.S. tax rate. The effective tax rate is an annualized calculation that includes planned catastrophe losses for the year. For 2020, we expect our tax rate to be about 12% which reflects an annual cat load of about six points of loss ratio.

Shareholders equity for the group ended the year at a record \$9.1 billion, up \$1.3 billion or 16% compared to year-end 2018. The increase in shareholders equity is primarily attributable to the over \$1 billion of net income, and the recovery in the fair value of the investment portfolio. During the quarter, the company announced an 11% increase in its regular quarterly dividend, and paid \$1.55 per share in the fourth quarter of 2019.

Our balance sheet and overall financial position remains strong. We maintain industry low debt leverage, manage a high credit quality investment portfolio and generate robust cash flow.

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 three years of significant catastrophes and more recent loss development the 2020 reinsurance market is dynamic. Just as our property book in 2019 was a better portfolio compared to it in 2018, after this January 2020 renewal, we have a stronger, even healthier book, across our overall global property portfolio, including property cat proportional facultative per risk, retro, and purple treaties with better balance, diversification, and limit deployment and we have improved expected margins, while managing the size of our catastrophe P&L.

We are optimistic about the opportunity set in front of us, while remaining realistic that there are choppy waters to navigate in both property and casualty lines. It is an improving market marked by increasing demand for reinsurance with roughly flat reinsurance supply, and for specific deals pricing was determined by class of business, territory, and loss experienced. Everest is well-positioned in this market, given our unique strengths and attributes. These include our long-standing client relationships, and robust ability to source business globally with strong balance sheet, and strategically located and seasoned underwriting teams, empowered to make decisions and execute.

At January 1, Everest deployed more capacity in retro, our purple product loss-affected territories with rate improvements or continued post-loss higher reinsurance rates, casualty, specialty and facultative lines around the globe. Conversely, we continued to re underwrite poor-performing accounts or accounts which did not have strong pricing. On these programs we cut back our share or came off. Approaching January 1 we utilized alternative capital to capture value in the improving market. We went back to the cat bond market to renew the expiring Kilimanjaro bonds and utilize the approximately \$800 million of AUM in Mount Logan. Along with inforce, cat bonds and other hedges we holistically built capacity to deploy on deals we liked particularly in retro and purple.

At 1/1 we were able to improve profitability of our global cat book, optimizing the risk-reward of the portfolio while managing the volatility. There's been a lot of discussion of the U-shaped market pricing dynamics. I think the correct analogy is a W-shape. Why W-shape and not a U-shape, both exhibit increasing primary and retro rates but in the u-shaped model reinsurance rates would not move up much at all. However in the W-shape model the reinsurance rates, terms and conditions were mixed, some disappointingly flat and some with nice improvements and continued attractively priced opportunities. That is why we believe a W-shape is a better visualization of the market.

First, the left side of the W-shape model primary insurance. Everest writes a large amount of proportional treaties. We are directly benefiting from improving primary markets in casualty, property, and specialty lines, particularly in E&S and in certain capacity restricted

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territories such as Canada. Our relevance to our clients and brokers for providing much-needed risk transfer capital support and volatility management, helps them capture value in these improved primary markets.

Now the middle part of the W-shape model, reinsurance. As I said results were mixed, some good some disappointing. Positives were global reinsurance programs, pockets of casualty, mortgage, structured business, many facultative lines and several loss affected areas. Disappointments included several smaller capacity programs in several cat-free territories. Specifically, at January 1, several large global property programs that tapped out global capacity had improved pricing. Therefore we wrote more with several large multinational global clients particularly with our strategic partners. Loss-affected territories impacted by catastrophes over the last three years have substantially better rates, and in some cases those rates continued to improve but smaller limit programs, including regional U.S. and smaller clients around the globe did not see much rate movement.

Most of Europe and much of Latin America and Asia were closer to flat. China was down and we deployed less capacity there. Casualty reinsurance saw a directional improvement in reinsurance rates as well as benefited from primary rate increases, improved terms and limit contraction, resulting in a better priced and better balanced book. There's been a lot of talk about social inflation and increased loss trends in casualty. We believe, this is a reversion to the long term mean as opposed to something new and this reversion to the mean in trend and loss development is something that we have been underwriting for , pricing for and embedding in our trend factors for several years prior to this being in the headlines now.

Seasons continued to decrease their volatility through a combination of gross line reductions, buying down treated retention, buying more casualty reinsurance, and buying more facultative reinsurance in both property and casualty. Fac helped seasons manage line size and protect certain risk. They get limited or excluded under treaties during this part of the cycle. Then at the right price terms and conditions for assuming that risk our seasons -- teams can specifically underwrite those risks. In the last many months of fac renewal including this 1/1 we have seen a significant increase in the number of opportunities in fac both in casualty and property in the U.S. as well as internationally much coming with significant rate lift, and mortgage which has treaties incepting throughout the year remains a positive driver in reinsurance.

Finally the right side of the W-shaped model retro. At January 1, retro rates were up meaningfully, and we wrote more premiums accordingly. We dusted off our pillared product purple, and marketed that beyond the few core clients who have been consistent buyers. The end result was roughly a 25% increase in our combined retro, and purple premium. Therefore improving insurance, mixed reinsurance insurance with some bright spots and improved retro results in the W-shaped market. As we look forward to 2020, we see January 1 momentum continuing throughout the year on reinsurance and retro, including upward, pricing, pressure both in Japan at April first and also in Florida at June first.

Trapped capital and investor fatigue continue as important drivers in the property space. We see a mixed casualty reinsurance market continuing in 2020 with some reinsurers

writing more and some retreating or writing less. This is a function of perception of loss trends, market share and underwriting actions taken over the last several years. As discussed on many prior earnings calls, given casualty underwriting actions we took the last six to eight years, we are optimistic about the current market.

Mortgage continues to be a core line for us. We have increased our book and expect to see increased reinsurance demand from the buyers in 2020 and beyond. With proactive optimization continued reunderwriting and diversifying our global portfolio we are pleased with the outcome of January 1 and are well positioned for the future.

Thank you. And now I will turn it over to Jon to review our insurance operation.

Jonathan M. Zaffino {BIO 16652236 <GO>}

Thank you John, and good morning. Everest insurance completed 2019 delivering another year of solid profitable growth with the strongest underwriting income in many years and as you heard from Juan achieving a milestone of \$270 million of pre-tax operating income. Stated simply the insurance organization is well positioned for continued success in this firming market. Our strategy, thoughtfully executed upon over the past several years is producing solid results. We continue to increase our relevance within the specialty insurance segment, and most importantly among our valued clients. We remain optimistic about the future and continue to see meaningful opportunities ahead.

This is an underwriters market, and we have the platform the products and outstanding talent to continue to thrive. For the full year 2019, we achieved gross written premium growth of 23% or \$2.8 billion, our net written premium likewise grew 22% to \$2.1 billion. Over the last two quarters of 2019, we experienced a gross written premium growth rate of 30%, which speaks to the accelerated pace of firming in the market and the increased opportunity set across our global specialty wholesale and retail product offerings. Various underwriting divisions representing our short, medium, and long tail books all experienced opportunistic growth in the quarter. Our mix remained generally similar to the prior year with one notable decline in U.S. workers compensation down 4%, now equaling about 20% of our total writings.

While we continue to see opportunity in the workers compensation, we remain cautious in that line of business. Our short tail, and accident and health portfolios remain roughly 30% of our total mix, and our specialty casualty portfolio is also roughly 30%. The balance is made up of our various professional and financial lines offerings. Business originated within the U.S. excess and surplus lines market and London wholesale accounted for nearly 40% of our total premium in 2019. This may scale even further as we continue to see meaningful opportunity through this important channel.

Our new business in the quarter was solid once again and our retention ratio grew in each major distribution segment. Add to this growth emanating from rate change and all these factors further contributed to top-line performance. As you heard profitability was solid in both the quarter and year to date period. Our year-to-date 2019 results is the strongest underwriting profit in many years and a 6% greater than last year's results on the same

basis. The reported loss ratio was essentially flat year-over-year registering a 65.2 versus 65 in the prior year however, the attritional loss ratio improved 20 basis points over the prior year coming in at 66 versus 66.2.

The expense ratio for the year remained stable around 30% while we continue to invest in people, technology and infrastructure including our growing international platforms. As an example, we continue to invest heavily in our claims organization to promote better outcomes for Everest and our clients. This includes the recruitment of outstanding talent across every level of our claims group as well as investments across our operational infrastructure enabled by technology.

Further, we have migrated claims handling away from TPAs and several key product lines and geographies to our in-house claims teams and are very pleased with the results thus far. We will look to further enhance this important aspect of our organization in 2020. As we look to the rate environment, we see accelerating rate improvement across most of the market. In the quarter, we experience pure rate increases which excludes the impact of exposure above 12%, excluding workers compensation and 7.9% year-to-date on the same basis. This is the largest increase seen in many years, and continues to be led by double-digit rate increases within our property portfolio, financial lines, and umbrella excess are also showing significant improvement, registering double-digit rate increases as well, and in the case of excess casualty rate increases are in the high teens.

Encouragingly we also see primary general liability rates moving up in the fourth quarter as well the mid-single digit range. Every major line of business we underwrite showed improvement in rate change momentum in the fourth quarter. As we have previously noted we remain very well positioned to take advantage of this improved pricing environment in terms of our people, product set and our ability to offer solutions to clients in this evolving market. Most importantly, all of these actions continue to drive meaningful income in the insurance organization.

In conclusion, we enter 2020 with excellent momentum. Our global platform extensive global distribution and most importantly talented team continue to differentiate Everest insurance in the market. Having recently hosted our 2020 Underwriting Summit, the gathering of our top underwriting leadership across the world I can assure you, the team is focused and prepared to continue executing on our key underwriting directives.

We look forward to reporting back to you on our progress next quarter and with that, I'll turn the call back over to Shantel for Q&A.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Our first question will come from Elyse Greenspan, Wells Fargo.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Thanks. Good morning. My first question, kind of, I guess, trying to tie together a few things you guys said in the prepared remarks. It sounds like your cat load should be lower in 2020. I think you guys said around 6 points relative to where it's been trending. But then it sounds like you guys saw some good opportunity, both on the reinsurance and the retro side at 1/1. So, is that more a function of -- just some also good growth we're seeing on the casualty side of things? I'm just trying to lump it all together and why your cat load will be down if you're seeing good growth on the cat side?

A - Juan Andrade {BIO 16371272 <GO>}

Yes, Elyse, this is Juan. So, let me start and then I'll ask John Doucette to add to this as well. So, as you pointed out, we did see a very good opportunity in the retro market at 1/1. We continued to see a good economic bed from the perspective of rate momentum. We were also successful in moving further up in attachment points et cetera. So, for us, that was really a very good opportunity.

And as a result of that, you will also continue to see -- our volatility continued to improve as both John Doucette and I mentioned in our prepared remarks. I think you will see that in our numbers throughout the year. Now, with regards to casualty, we also continued to see pretty good opportunity on the reinsurance side, essentially for all the reasons that we mentioned, with the improvement in the primary side of things particularly in general liability and some of the improvements that we've seen in excess casualty as well. And given the fact that we're riding proportional treaties with some key clients, that was also pretty good opportunity for us up into 1-1 period.

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

Yes. Good morning, Elyse. This is John Doucette. And I just wanted to follow-up a couple things. So, yes, we did see opportunities in certain pockets of the reinsurance and we saw opportunities in retro and Purple.

We also saw places within the -- in the property area in the reinsurance that we didn't like, and we scaled back accordingly. And that freed up some of the cat load for us to deploy elsewhere.

We also talked about and deployed additional hedges, reloaded the cat bonds, and they came in lower, which also freed up some of the EL. And then as Juan said, really trying to continue to diversify the book, which is growth in casualty, growth in mortgage, and growth in facultative, and specialty non-cat exposed lines of business as well.

Q - Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. And then, Craig, you mentioned you were kind of going down into some of the pushes and pulls in terms of the reserve development. In terms of the Bermuda segment, I guess the net number is a small number for the quarter. But could we just get a little bit more color on what you strengthened in terms of property and casualty accounts and the size within that segment?

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

Sure, Elyse. First of all, as you said, we did take some specific action for both property and casualty in the Bermuda segment. For property, we primarily strengthened reserves for one account, which we no longer write, and also specific loss related to some very older years.

In the casualty side, we strengthened reserves for some specific accounts including a non-standard auto account that we wrote in 2015 and 2016. We no longer write this account.

The other thing, as you mentioned, there are some puts and takes and there always are. We have over 200 IBNR scenarios. And so, you're always going to see some ups and downs. But the other thing that's going on in the Bermuda segment this quarter, is we had a one-time commutation of a contract. So, that actually served to reduce prior period reserves by about \$20 million, and it was offset by about \$20 million commission paid.

So, essentially, no material impact to the underwriting results in the quarter.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then one last question. Did you guys see any movement in any catastrophe losses prior year cats in the quarter that offset each other? Or it was just kind of not much movement there in the quarter?

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

There's always some movement up and down, Elyse, with respect to catastrophe losses. But overall, our current -- our prior year catastrophe losses continue to hold and there was no overall movement.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thank you very much.

A - Juan Andrade {BIO 16371272 <GO>}

Sure. Thank you, Elyse.

Operator

Thank you very much. (Operator Instructions) Our next question will come from Mike Zaremski, Credit Suisse.

Q - Michael Zaremski {BIO 20606248 <GO>}

Hey, good morning. Maybe -- good commentary in the prepared remarks, especially on pricing. Is there a way to try to frame -- and there was lot of moving parts, maybe kind of loss cost inflation on the primary insurance casualty side? Are you -- is it still kind of stable quarter over quarter? Some companies are saying it's kind of inching a little higher. Curious if any color there.

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

Good morning, Mike. This is John. We definitely -- let me go back to sort of what we mentioned in the prepared remarks, that we definitely saw a meaningful uptick in the rate environment in the second half of the year.

As you mentioned, every line of business has a bit of a different dynamic. We obviously have a process for tracking or viewing rate and trend assumptions across all of our lines of business. But I would tell you that we feel quite confident that written rate is exceeding trend in virtually every area. It'll take a little bit of time for that to earn through. And this is a comment a bit export comp, of course.

But even in that case, we're still seeing negative frequency trends, we're watching all of this. The uptick, as I mentioned of 12% in the quarter ex-comp, that's up from 7.5 in the third quarter, 6.5 in the second quarter, so you get the feel. So, we feel really good about the rate environment. We like where we're heading and we do believe on a rate basis, we are exceeding trend in almost every area.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay, great. That's helpful. And lastly, if I look at the paid to incurred loss ratio, excluding catastrophes, seems like it ticked up a little bit. It's above 100%. Anything you'd call out there or is it just normal variability?

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

I think that's just normal variability, Mike.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay. Thank you, Craig.

Operator

Thank you. And next question will come from Amit Kumar, Buckingham Research.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks and good morning. Two follow up questions. The first question goes back, I think to the first question regarding the shift in business mix in the reinsurance segment, casualty market conditions as well as the cat market conditions. When we think about 2020, would that imply based on the shift that the AYX [ph] cap loss ratio should tick up, or not?

A - Juan Andrade {BIO 16371272 <GO>}

So, Amit, this is Jaun. So, look, I think let me address it in a couple of different ways. So, I think number one, we are seeing a very programmatic shift in business mix in the company. It's something that we started really in 2019, and it will continue into 2020, as

we look to manage volatility on the property cap side of things. And that's essentially the commentary that you've heard from both John and I.

As far as basically being able to shape a book, particularly, the 1-1 renewals, would lower volatility, better margin, et cetera, et cetera. At the same time, it's also the commentary regarding our mortgage book of business, which we continue to see as a terrific opportunity for the company, as well as pockets in casualty.

And again, that's not across the board. We are very discerning underwriters in that sense, but we do see pockets of opportunity as we see the primary rates go up, as we see opportunities for tighter terms and conditions and for us to be able to play in that environment. So, from that perspective, I think that makes us real.

And, let me turn it over to John.

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

Yes. Good morning, Amit. So, there are a couple of countervailing currents and Juan touched on a couple, I'll just add. So, like what Jon Zaffino said on the primary side, we are seeing, when it comes to the proportional treaties we write in short and certainly in long tail lines, we're seeing in specialty lines, we are seeing the rate lift.

So, we have changing mix of business, which is changing our attritional. We also see the rate changes. But similarly as the Jon Zaffino said, we would expect that to take a while to earn into the numbers. So net-net-net, we probably look to full years attritional loss ratio as a good guide.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. That's helpful. And the second and I guess final question. Going back to the discussion on the reserve parts movement. If we were to step back the reserve release number is lower than prior quarters trend line. And again, I know that one should not look at any sort of repeat of past patterns. But that said, the number is lower than what it has been in the past.

So, with that, maybe this discussion might be for you Juan. Is that because of your enrollment, maybe something you saw? Maybe just talk about that a bit more. Thanks.

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

Sure, Amit. Look, keep in mind also that we did release a total of \$94 million in 2019. So while we had \$19 million in this quarter, there was also \$75 million in releases in prior quarters throughout 2019.

That being said, we do have an ongoing and dynamic process to review our reserves. We do recognize bad news quickly and we require good news to be proven over a longer period of time. As we do these reserve studies and if we identify an area where we do need to strengthen, we will take a range of actions, we will increase our loss reserves

already on the books, we will increase our current accident year loss fix and we will adjust our pricing targets for new and renewal business.

And I think that's some of what you heard Craig describe particularly for the Bermuda segment in the quarter. But also keep in mind that I think, as Jon Zaffino said, while in most classes in this current market, the rate that's being achieved is outpacing the loss trend. In our business, we do need to see results season over time. So, that leads me to take a position that is cautious up front, but frankly willing to have an upside surprise in the future.

So, in the meantime, we review, we analyze, we act on our portfolio throughout the year. And that's basically the approach that we will follow and that you saw in this quarter.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Thanks for the answers. And good luck for the future.

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

Sure. Thank you, Amit.

Operator

Thank you very much. Our next question will come from Yaron Kinar, Goldman Sachs.

Q - Yaron Kinar {BIO 17146197 <GO>}

Good morning, everybody. I guess my first question is around third-party capital. So, I think both Mt Logan and Kilimanjaro capital is down year-over-year. How much of that is a function of the markets or external pressure timing? Or how much of that is just a function of Everest shrinking the gross property, cat exposure growing its equity base?

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

Good morning, Yaron, it's John. So, as we talked about, we have this -- we talked about before, we try to have a holistic hedging program across the cat bonds, across Logan, across traditional and other non-traditional hedges that we have in place to really allow us to shape the portfolio, match the best capital-to-risk, manage the P&Ls and reduce the volatility. And we'll dynamically allocate between those based on market conditions, capital availability, really to try to set it up where we're serving our clients and our shareholders the best.

In terms of, specifically, Logan and Kilimanjaro. So, cat bonds in general for the entire industry are more out of the money, the lower return periods. And they haven't had as many losses over the last couple of years, although there have been some.

So that was -- capital was tighter there, but didn't see the same withdrawal to the same extent that more of the alternative capital playing in the side cars, and other kind of just straight up taking reinsurance or retro risks.

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So, I think there was more availability there. And we had specifically decided that we wanted to move this -- the new cat-bonds lower more into the money and less just to be in the tail. So, from EL relief, actually despite it being less dollars of limit purchase, it was more EL relief than the expiring bonds that we had in place.

And in terms of Logan, it really -- there's a lot of moving dynamics. There's investors that have come in, there's investors that have scaled up, there's investors that have come out, there's investors that have scaled back. There is clearly, this is a industry comment, not an Everest or Logan comment. But there is investor fatigue with the losses and some of the surprise losses.

So, I would say, overall, third-party capital is tight right now. You still have trapped capital even going back to '17, certainly from '18 and then Jebi happening. I mean, Jebi and the development there, as well as the recent Japanese losses closer to the renewal season also resulted in more trapped capital.

So, I think net-net, the third-party capital is tighter and we'll continue to see that throughout 2020.

A - Juan Andrade {BIO 16371272 <GO>}

Yaron, the only thing I would add is that the way we access alternative capital in the end of the year to 1-1, really allowed us to grow the capacity to deploy it into the improved 1-1 market as we discussed earlier, particularly to our retro and Purple products, while helping us to manage our volatility in our P&L. And so for us, that was very strategic.

Q - Yaron Kinar {BIO 17146197 <GO>}

Understood. I appreciate the thoughtful answer. And then my next question probably for Jon Zaffino, on the insurance side. So, margins, underlying margin seem very stable year-over-year at a pretty good ratio there. But nonetheless, I think we did see an uptick at the end of the year, both in the expense ratio and the loss ratio, underlying loss ratio. Can you maybe talk about that and is that just normal volatility or is that something that you really -- maybe was a step change or a small step change, I guess into the end of the year?

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

Yes, thanks for the question. Let me try to provide some additional color on it. So, let me -- I'll start with taking a couple parts. First off, as you mentioned, we do think the year-to-date numbers are better gauge and more reflective of our performance.

As respect the attritional loss ratio and that 140-basis point increase you saw in the quarter, there is noise in the quarter emanating predominantly from a unallocated loss adjustment expense, the UA expense catch-up that affected the attritional loss ratio. Excluding that catch up, the pure attritional loss ratio actually declined by about 100 basis points.

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Then again, on a year-to-date basis the attritional is flat basically for the full year. I also want to add, and if you recall in prior calls, we did take a more conservative view of our work comp book earlier in the year. So, on a year-to-date basis, that's also creating about a 70-basis point headwind if you will to the year-over-year comparative.

As respects the expense ratio, as Craig mentioned, we experienced favorable prior period development in our work comp book as we have for the past couple of years, and associated with that was a one-time profit commission, which caused the commission ratio to go up a bit in the quarter. Absent that, we had about a 200-basis point improvement in the commission ratio.

And secondly, there were some timing issues associated with expense accruals in 4Q, and we also had some prior year lower incentive comp, accruals based on company performance et cetera. So, that just hopefully gives you a little bit of color as sort of what was going on the quarter.

But again, we think the full year numbers are more indicative of our run rate and our trend.

Q - Yaron Kinar {BIO 17146197 <GO>}

Got it. I appreciate it. Thank you very much.

Operator

Thank you. Our next question will come from Meyer Shields, KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. I want to look at the reserves from maybe different perspective. When we will look on full year basis, we're seeing a little bit of a decrease in dollars of reserve release. Is it fair to say that the gap between the conservative numbers that you're booking and the actual numbers out there that that gap is shrinking?

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

Meyer, overall, I would say, the conservative numbers that we're booking comes from how we select our lost picks over a long period of time. In other words, that's part of our annual planning process, and we take into account factors like rate change and loss trend and historical loss ratios. And as we set those reserves, we go through this process with our reserving actuaries, our pricing actuaries, our underwriting and our claims area, as well as management.

We select from various metrics, whether that be prior year lost elections, the plan, the bridge, which takes into account our both rate and trend. And then we also have the reserve studies that come from the reserving actuaries. And then, we also look at how the business is priced, and how the underwriter select those loss picks?

We go through that, we also compare that to our actual reported loss experience. And then we modify at each quarter as we go through the reserve committee meetings and the underlying assumptions.

As I said before, we have over 200 IBNR categories that we look at, and some go up each quarter and some come down each quarter, as we look at this and as we go through the reserve study.

So, what I would say to you is the process has not changed. We continue to go through that process. We continue to quickly recognize unfavorable development that we're seeing in that process. But we tend to hold or recognize favorable development over a much longer period of time.

So, as I would say to you and I said to you before, we continue to hold the more recent years. And again, this quarter we took action on some specific accounts. But overall, the process has not changed over time.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. That's helpful. Second question, I guess, international reinsurance had phenomenal attritional loss ratio. Was there anything unusual or was that just a true-up for the full year?

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

Essentially, for international, it's not necessarily a true-up. What I would say to you is in that -- in those areas of the world, and what I'm talking about here are Latin America, Brazil, Middle East and Africa, what we saw was fewer non catastrophe type storms in those regions, which allowed us to take down what we would call, property related loss picks that would fall below our cat threshold for that period. So, that's what you're seeing come down in the fourth quarter for that region.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Fantastic. Thanks so much.

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

Sure.

Operator

Thank you. Our next question will come from Brian Meredith, UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes. Thanks. Just a couple quick ones here. First, what was the impact of the crop loss in the quarter on the underlying combined ratio and reinsurance? and was it all U.S. reinsurance, or was it elsewhere as well?

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

So, it happened in two separate regions, Brian, but essentially it's \$50 million. And the two separate regions are U.S. reinsurance, as well as it happened in Canada as well. So, from a total reinsurance perspective, overall, the \$50 million is about 3.5 points for the quarter, and about 1 point overall for the year.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you, that's helpful. And then I guess one bigger picture question curious, for Jon. Given the magnitude of growth that you're seeing right now in your insurance operations, could you talk about any -- and I see that obviously your expenses are up, so you're kind of adding people and stuff. Talk about how you get comfortable with the magnitude of growth that's going on right now? I mean, I know it's a good rate environment. But substantial, substantial growth, how you're controlling that?

A - Juan Andrade {BIO 16371272 <GO>}

Yes. Sure. So, let me start and then I'll hand it over to Jon Zaffino. So, I think it's important to recognize where the growth is coming from, right? And I think, as John illustrated in his prepared remarks, it's really from a couple of buckets, right?

So, increased rate is certainly part of that. Keeping in mind that we did have a 12% increase in rate in the quarter, excluding workers compensation. So, that's certainly part of the lift.

The other part of the lift that we're seeing is about 40% of our business and growing is exposed to the E&S space, which is really where we've seeing the majority of the opportunity come up at this point in time. We also had very good renewal retention. If we look at our retail book of business, it's really into the mid-to-high 80s and our E&S retention is in a good place.

So, you look at those three things: increase in rate, opportunity particularly in the E&S space, solid renewal retention, and on top of that you add the fact that we've added about 60 additional underwriters throughout 2019 and starting to get essentially the picture where that growth is coming from.

Now, specific to your question on how we manage this et cetera. That is some of the investments that you're seeing us continue to make, both in technology, as well as infrastructure for the company. One of the things too that I think is unique to us is that we have a very focused distribution footprint. And so, we know who has the business that we want. We're trying to increase the shelf space with them and we're not out there trying to basically grow with everybody.

So, that also allows us to have a much more focused presence from a distribution standpoint that's out there. But investments in technology, investments in our target operating model et cetera, all basically give us comfort that the growth that we're seeing is something that is sustainable for us, which at the end of the day is probably the most important thing, is sustainable profitable growth. Jon?

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

Yes, no. I think that's -- thanks a lot. That was -- that's really well said. I would just sort of maybe echo a couple of Juan's points here. Number one, you could see it in the supplement, our growth is balanced and diversified across our chosen product areas. Maybe to amplify couple of Juan's points, our growth in the E&S market is growing faster than our top-line overall. So, we are taking advantage of that.

To the comment on our rate and exposure lift, that accounted for about 20% of our growth in the fourth quarter, so just giving you the order of magnitude there.

And then, yes, we're well positioned with our trading partners, the value they see and whatever can bring to the table is creating basically record submission flows or well into the 150,000 plus submissions activity. So, all that together, and in conjunction to Juan said is what sort of creating this environment.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Helpful. Thank you.

Operator

Thank you very much. At this time, we have no further questions in the queue. So, I would like to turn the conference back over to management, for any closing comments.

A - Juan Andrade {BIO 16371272 <GO>}

Well, thank you for your questions and allowing us to talk about the year and the quarter. As I mentioned before, we are very well positioned for 2020. We were very pleased with our 1-1 renewals and we're excited with the momentum that we continue to see in our insurance business going forward. So, with that, we look forward to updating you at the end of the first quarter. Thank you.

Operator

Thank you very much. Ladies and gentlemen, at this time, this now concludes today's conference. You may disconnect your phone lines and have a great rest of the week. Thank you.

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