Q1 2012 Earnings Call

Company Participants

- Beth Farrell, VP
- Dom Addesso, President, CFO
- Joe Taranto, Chairman, CEO

Other Participants

- Amit Kumar, Analyst
- Greg Locraft, Analyst
- Howard Flinker, Analyst
- Josh Shanker, Analyst
- Matthew Heimermann, Analyst
- Michael Nannizzi, Analyst
- Ron Bobman, Analyst

Presentation

Operator

I would like to turn the conference over to Beth Farrell. Please go ahead, ma'am.

Beth Farrell {BIO 19732216 <GO>}

Thank you. Good morning. Welcome to Everest Re Group's First Quarter 2012 earnings conference. With me today are Joe Taranto, the Company's Chairman and Chief Executive Officer; and Dom Addesso, President and Chief Financial Officer. Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to forward-looking statements.

In that regard, I note that statements made during today's call, which are forward-looking in nature, such as statements about projections, estimates, expectations, and the like are subject to various risks. As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements. Now let me turn the call over to Joe.

Joe Taranto {BIO 1495653 <GO>}

Thanks, Beth. Good morning. We were pleased with our First Quarter results as we generated an annualized operating ROE of 17%, an annualized net income ROE of 21%, and group book value per share adjusting for dividends by 7%. Including other comprehensive income, we made over $400 million for the quarter.

We bought back $125 million of our shares, paid $26 million in dividends, and still increased our surplus by $260 million. This increase adds to the already strong excess capital position we had established. Our balance sheet has never been stronger with high quality, well performing assets and reserves that continue to test well.

Even though it is by no means a hard market, we have positioned our portfolio to take the best the market has to offer. We have continued to find opportunities in the property catastrophe market, where losses in the last 18 months have driven improved rates, terms, and conditions. Although our expected margins have increased, we have not materially increased our PMLs in any of our peak zones year-over-year. Since our last call, we have completed the April 1st Japanese renewals, and we were pleased with the result.

Rates on earthquake excessive loss treaties had increases ranging from 20% to 60%, compared to 2011 and from 40% to 150% when compared to the pre-earthquake 2010 rates. Wind excessive loss treaties experienced rate increases of 10ish percent following 5ish percent increases from the year prior. Japanese interest abroad proportional covers were improved to exclude natural perils, which increased the demand for specific excessive loss coverage on these Overseas risks. The next important renewal date for us will be June 1st, when we have our Florida renewals.

We anticipate that that will go very well, given the following dynamic. First, the new RMS 11 model increases the need for most buyers to buy more reinsurance at higher model prices while it reduces the risk capacity of many of the sellers; second, the state of Florida will be providing less reinsurance, which will increase the need for professional reinsurance capacity, and; third, the underlying homeowners insurance rates have been permitted to increase allowing for a bigger, healthier premium base.

Moving on to Casualty Reinsurance, we continue to take a conservative position, essentially keeping our book to long-term key clients that we have made money with. Many insurance executives are anticipating meaningful improvements in this market. And we hope they're correct, in which case, we would adjust our appetite. But for now, we will continue to hedge our bets.

Our insurance operation continues to show improvement. Whereas it ran to a 101 combined ratio for the First Quarter, we expect continued improvement for ensuing quarters as rate increases achieved last year and this year on California's Workers Comp. business works its way into the earnings and our crop premiums, which are seasonal in nature, will be much heavier in subsequent quarters.

Our financial institution, DNO, our medical stop loss insurance, and our property insurance book continued to produce an underwriting profit. On the investment front, we continue to perform quite well despite lowering our duration to better insulate us from an upward move in interest rates. Strong cash flow continues to build our invested asset base. As previously announced, Craig Howie has joined us as Executive Vice President and will become CFO following our First Quarter SEC filings.

Dom and I interviewed a large number of qualified candidates for the position, and we were delighted that we were able to attract our No. 1 choice. Dom remains CFO for the First Quarter and accordingly, he will present the financial report this quarter. Craig will be on the next call presenting the Second Quarter financial report.

Now that Craig has joined us, Dom will be able to spend most of his time on the operational side of our business. Our management team has never been stronger with Dom as President; Craig as CFO; John Doucette as Chief Underwriting Officer for Worldwide Reinsurance, and our many strong executives around the world like Mark de Saram, who oversees Europe and Asia, and Ron Diaz who oversees Latin America and the other international areas.

Last quarter I said I was optimistic about 2012. Clearly, now I'm only more optimistic. I like our team, our plan, and our portfolio. We have achieved a compounded 13% growth in book value per share, including dividends, through our 17-year history as a public company. Given our First Quarter, we are hopeful we will exceed that historical average this year. Dom?

Dom Addesso {BIO 1428096 <GO>}

Thank you, Joe. We are very pleased with the performance in the First Quarter. In comparing the results to last year, consideration must be given to the catastrophes experienced in 2011. Over the long term, despite catastrophe levels in recent years, our returns have been quite favorable, and this quarter has moved our compound annual growth in shareholder value back towards our historical average. This most recent quarter with $7.31 growth in book value per share, or 6.5%, reflects an underlying 21% net income ROE.

This return is reflective of the reinsurance attritional combined ratio, excluding the impact of reinstatement premiums, improving two points from 85% to 83.2%. It should be noted that the 2012 results include a $20 million provision for the Concordia loss and if adjusted for this, would mean that there was an underlying four-point improvement in the combined ratio results.

Rate increases are a primary driver of this improvement, as well as the portfolio shift from pro rata to excess contracts in heavily Cat-exposed regions. The favorable impact of rate increases earning through is expected to continue during the year as rate increases on Cat-exposed business began picking up momentum starting last April after the Japan earthquake. In this First Quarter of 2012, property Cat excessive loss premium written increased over $50 million or 17.5%.

An overall cat-exposed premium is up 12% without any meaningful increases in PMLs for peak zones. Premiums in the reinsurance segments were up approximately 9% after adjusting for reinstatement premiums and foreign exchange. This increase was less than the percentage rate increases we have cited due to shifts in geographic mix, as well as shifting capacity to excess of loss from pro rata.

For this quarter, in addition to the attritional results, there was a catastrophe loss of $30 million for the February and March tornados. Despite these events, the reinsurance underwriting gain for the quarter, as a result of portfolio changes and rate increases as mentioned, was at $112 million. On the insurance front, there has been a similar improvement in the attritional combined ratio when compared to the full year run rate. The insurance operation ended the full year 2011 at a 106 current year attritional combined ratio.

This year's First Quarter is as expected showing dramatic improvement over that run rate to a 101.2 combined ratio. This improvement is in part being driven by over two years of rate increases, most notably in California Worker's Compensation. Rate increases in Casualty and Workers Comp. have continued into the First Quarter.

In addition, the insurance portfolio is benefiting from a shift in mix with new products, such as Crop and ANH insurance and a reduction in certain Casualty programs. Insurance premiums are down quarter-over-quarter due to run-off of certain program business and a light quarter for Crop premium. Last year's Crop business was recorded evenly throughout the year as reinsurance premium. With the shift to insurance, this business now has a certain seasonality, which resulted in only $8 million of First Quarter net premium.

Nevertheless, we expect approximately $150 million of Crop premium for the balance of the year with an expected combined ratio in the low '90s given more normalized weather events. Turning to investment income, for the quarter there was $152.4 million of income compared to $178.7 million one year ago or a decline of $26.3 million. The difference is primarily due to income from limited partnerships.

After adjusting for the impact of the $24 million decline in income from limited partnerships, core investment income is down by approximately 2%, or $2.5 million. This is a result of declining reinvestment rates, offset by new cash flows, which continues to be positive at $166 million this quarter. Capital gains were quite strong for the quarter at $99 million pretax and were reflective of the rising equity markets in the First Quarter.

The combination of solid investment performance and strong underwriting results produced net income before taxes of $343 million. Taxes for the quarter of $38 million result in net income of $305 million, or $5.68 per share. Operating results, pretax, equal $244 million and $240 million after tax.

Below effective tax rate on operating income of $1.7% during this quarter was a result of the impact of the large realized gains in the quarter on the annualized effective tax rate calculation and other one-time adjustments. It is expected that the tax rate on operating income will normalize towards an overall effective rate of approximately 6% by year end.

Turning to other miscellaneous items, the $6 million gain on derivatives was comparable to the prior year's $7.5 million. The gain this quarter was a reflection of the rise in equity markets. Other expenses, which are mostly foreign exchange losses, were just slightly ahead of the prior year but still relatively minor at $6 million.

There was no meaningful change in corporate expenses and other underwriting expenses increased by $3.5 million due to timing of certain expenses. Commissions were increased by $2.6 million due to the change in accounting for deferred acquisition costs. Commissions are, therefore, down on a like-for-like basis due to the shift to XOL business, which carries lower commissions. This accounting change was adopted prospectively and will impact each of the next four quarters through commission expense for a similar amount.

Adding to our income position this quarter, was $80 million of unrealized gains, after tax, from our bond portfolio as a result of declining yields. When added to our net income, plus foreign currency translation gains, we total $402 million of comprehensive income. After taking into account $25.6 million of dividends, $125 million of share repurchases, we ended the quarter at $120.30 of book value per share.

Our total capital position of $6.3 billion leaves us with capacity to maximize our business opportunities as well as continue share repurchases. We're also pleased to report that our A-plus rating from S&P was recently affirmed with a stable outlook. Thank you, and with that I'll now turn it back to Beth for Q&A.

Beth Farrell {BIO 19732216 <GO>}

Jim, we're ready to take questions and answers.

Questions And Answers

Operator

Thank you. (Operator Instructions) We'll take our first question from Matthew Heimermann, JPMorgan.

Q - Matthew Heimermann {BIO 6153567 <GO>}

Hey. Good morning, everybody. Just a couple quick numbers questions before a bigger picture question, which is just the Concordia loss, was that -- what segment was that in? Or was it spread across multiple --

A - Dom Addesso {BIO 1428096 <GO>}

It's U.S. reinsurance.

Q - Matthew Heimermann {BIO 6153567 <GO>}

Okay. And then the reinstatements premiums in the quarter, what segment were those booked in?

A - Dom Addesso {BIO 1428096 <GO>}

International.

Q - Matthew Heimermann {BIO 6153567 <GO>}

Okay.

A - Dom Addesso {BIO 1428096 <GO>}

And they were mostly from last year's events.

Q - Matthew Heimermann {BIO 6153567 <GO>}

Okay. Mostly from last year. Okay. And then the Crop premium to earn the rest of the year, is it fair to assume that probably about 90% of that will earn in the second and third -- will be written in the second and Third Quarters?

A - Dom Addesso {BIO 1428096 <GO>}

The bulk of that will be, yes.

Q - Matthew Heimermann {BIO 6153567 <GO>}

Okay. And then your tax rate comment, I was a little surprised by, 6% because that would imply basically no tax on underwriting income, if I'm doing the algebra correctly. So did I hear that right? And is that 6% true run rate and if so, why, what's the significant change there?

A - Dom Addesso {BIO 1428096 <GO>}

We're anticipating obviously our effective tax rate to grow from 1.7% to 6% by the end of the year. In that calculation would be other and any other anticipated adjustments that we might have to our tax accounts during the year.

Q - Matthew Heimermann {BIO 6153567 <GO>}

So is that like favorable resolution of prior year tax matters, things like that?

A - Dom Addesso {BIO 1428096 <GO>}

Things of that sort. Things of that sort, yes.

Q - Matthew Heimermann {BIO 6153567 <GO>}

So we shouldn't play that forward, let's say to next year?

A - Dom Addesso {BIO 1428096 <GO>}

Probably not.

Q - Matthew Heimermann {BIO 6153567 <GO>}

Okay. That's helpful. And then big picture, Joe, on Florida. Just with respect to the demand picture because I think one of the -- there clearly is some increased demand. Citizens, though, it looked like, used the capital markets for a bit more of their program than people were anticipating.

There's obviously been a lot of third party capital set up alongside companies in the form of sidecars and other rated entities. I would be curious if you could just talk to the supply side and how that's changing relative to the demand side.

A - Joe Taranto {BIO 1495653 <GO>}

Well, you're right, Matt, there certainly are some moving parts and some go one way and some go the other. Citizens, it does seem as if they've done more or will do more into the bond market. It's unclear if they'll buy more or less outright reinsurance.

They're depopulating, of course, which may put more risk and exposure into other companies and create more need for reinsurance. I think the big things are RMS 11 and the fact that the premium base at the insurance level is getting healthier. On the supply side, again RMS 11 for many reinsurers starts to limit the amount of capacity they can provide.

I am not seeing any sort of groundswell in sidecars or new companies that I think is going to create any meaningful additional capacity for the marketplace. When you do look at the whole equation, I think it will continue to be improvements for reinsurers at 6/1. That's my expectation.

Q - Matthew Heimermann {BIO 6153567 <GO>}

Do you think for your portfolio that means, I mean does that mean growth in terms of -- does that mean growing just with your existing clients, let's say you get rates pass-through on pro rata and maybe with depopping [ph] there's a little bit of growth in their books or are you expecting on top of that, to be putting new accounts on the book as well?

A - Joe Taranto {BIO 1495653 <GO>}

Well, I would like to see -- there may be some new accounts. Existing clients will certainly come first. And the limitations will be that we don't really want to increase our PML in any significant way in Florida. But of course if there's rate increase, we would be pleased about that.

Q - Matthew Heimermann {BIO 6153567 <GO>}

Okay. Thank you, much.

Operator

We'll take our next question from Josh Shanker from Deutsche Bank.

Q - Josh Shanker {BIO 5292022 <GO>}

Yes. Thank you. I was hoping you might help me out by walking through reinstatement premiums for 1Q11 by segment and then maybe talking about exposure growth by various segments, if we can understand premium exposure that way.

A - Dom Addesso {BIO 1428096 <GO>}

Okay. Let me just -- all right. Reinstatement premium for this year --

Q - Josh Shanker {BIO 5292022 <GO>}

Comparing -- trying to sort of normalize this year's numbers with last year's by segment.

A - Dom Addesso {BIO 1428096 <GO>}

Okay. Now just keep in mind that we do have -- if what you're trying to do is look at the attritional combined ratios excluding the effects of reinstates, we could give you those if that's easier.

Q - Josh Shanker {BIO 5292022 <GO>}

Or, I'm actually interested in your growth and where you're taking more risk, where you're taking less risk. It's hard to describe that with premium, but I would like the qualitative on top of the quantitative, I guess.

A - Dom Addesso {BIO 1428096 <GO>}

Okay. Well, we've got in U.S. reinsurance this year, $337,000 against $16 million of reinstatement premium last year in the First Quarter. International, $4 million this year versus $9 million a year ago. Bermuda, $0 this year against $5 million a year ago. So that brings the total reinsurance to a little over $4 million against a little over $30 million a year ago.

Q - Josh Shanker {BIO 5292022 <GO>}

Okay. That's great, Dom. Can we talk about where you're taking more exposure, where you're taking less exposure, and where the rates are justifying that and whatnot? You can handle that any way you want I guess.

A - Dom Addesso {BIO 1428096 <GO>}

Well, as we mentioned earlier, in all of our peak zones, our PMLs have not changed in any meaningful way. Any exposure growth or stretching out our Ag. has been primarily in the Midwest, a little bit -- maybe a little bit of growth in the Northeast but most of our exposure growth has been in the Midwest.

Q - Josh Shanker {BIO 5292022 <GO>}

And is that in terms of events like tornado or like new-mattered earthquake?

A - Dom Addesso {BIO 1428096 <GO>}

It would be all Cat-exposures.

Q - Josh Shanker {BIO 5292022 <GO>}

Okay.

A - Joe Taranto {BIO 1495653 <GO>}

There may be pockets, like Dom just cited, where we have done more. Again, reacting to the rate changes that happened, post the tornados that took place last year, but in the main when you get to the big zones -- Japan and Europe and California and Florida -- we really don't have an increased risk at least subject to one-shot loss.

Q - Josh Shanker {BIO 5292022 <GO>}

And the Midwest doesn't feel like one of those zones in Ag. as one of the big three?

A - Joe Taranto {BIO 1495653 <GO>}

It's not a big item for us, but it's bigger than it was before. But it doesn't go into the peak zone area, no.

Q - Josh Shanker {BIO 5292022 <GO>}

Okay. Very good. I appreciate all the color.

A - Dom Addesso {BIO 1428096 <GO>}

Josh, there's been other areas where we've decreased as well, of course.

Q - Josh Shanker {BIO 5292022 <GO>}

And do you want to highlight that? I'm just trying to get as much information as possible.

A - Dom Addesso {BIO 1428096 <GO>}

A little bit of a reduction in Cal quake, some modest reduction in Japan wind, Canadian British Columbia quake, things of that sort.

A - Joe Taranto {BIO 1495653 <GO>}

Just to give you some broad executive summary, it's broad, but last call I mentioned that we expected to write an additional $100; to $150 million in pure Cat-premium on our book of business. That still looks to be a pretty good number, and yet if you ask me in terms of just worldwide exposure, I think if anything we're down a bit because terms and conditions are much better and again the rates being up, that's really where the premium growth comes from.

Q - Josh Shanker {BIO 5292022 <GO>}

I appreciate it. Congratulations on a very good quarter.

A - Joe Taranto {BIO 1495653 <GO>}

Thank you.

Operator

Moving on, we'll take our next question from Greg Locraft from Morgan Stanley.

Q - Greg Locraft {BIO 4221265 <GO>}

Hi. Good morning, and congrats on a great start to the year. Wanted to just follow up on the commentary regarding book value growth this year. You mentioned you're hopeful that you can exceed the long-term 13% average for the corporation.

How do you think about catastrophe losses from here? Or how do you -- yes, how do you think about catastrophe losses and equity market or partnership returns within that commentary?

A - Dom Addesso {BIO 1428096 <GO>}

Are you asking about each of them separately or collectively, Greg? I'm not sure I followed you.

Q - Greg Locraft {BIO 4221265 <GO>}

Separately because, obviously, that's where the volatility can come in to achieving or missing that target and I'm just curious how you guys, quote, model it internally as you think forward. Knowing that it's impossible to predict with exact accuracy.

A - Dom Addesso {BIO 1428096 <GO>}

Okay. We obviously carry capital against the -- all of the risks in our portfolio, not the least of which are the ones that you mention. Thinking about equity returns, for example, what we try to do is carry a balanced investment portfolio, particularly coming out of 2008/2009.

We saw opportunities to expand our investment portfolio, if you will, not with any undue risk. So we generally like the direction that our -- or the position or the posture of our portfolio, and it has, obviously, performed well for us over the last couple of years and quarters. And particularly in the First Quarter. But we're not going to necessarily dramatically change, let's say, our investment portfolio in terms of allocation from here.

But we like the way it's positioned. In terms of Catastrophe risk, we still manage our Catastrophe risk to about -- on an after-tax basis through our largest events to about 11%, 12% of capital. We are not looking to meaningfully change that. And --

Q - Greg Locraft {BIO 4221265 <GO>}

I guess, Dom, if I may, I think what I'm trying to get at --

A - Joe Taranto {BIO 1495653 <GO>}

We, yes, Cat business you get some volatility with that. We usually put in about nine points in our plan as to what we expect in terms of anticipated catastrophes. Obviously, we were below that for the First Quarter. And when I start looking forward, I'm going to put back in the average expectation, if you will, for the future.

I think, frankly, we have less volatility on our books this year than we had last year. Again, between change of terms and conditions, which have been happening both at the insurance level and at the reinsurance level, and I think have multiplied to make for a very, very meaningful change. When we start replaying even events like last year at $100 billion under varying scenarios, we come out with much better answers and much less volatility.

So trying to kind get to the bottom line for your question, yes, I very much expect to have, or hope to have, good results for the next nine months that give us a yearly result that's much better than the historical average. And that certainly will encourage us to continue to buy back stock as well and I think it will lead to a good answer. If it's a year, that's not outrageous in terms of the various Catastrophes.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. And then -- that's helpful. So nine points is what you budget for on Cats and then is the equity market assumption like a 7, an 8, a 9? How do you think about that on the investment side? Again, knowing it's not perfect.

A - Joe Taranto {BIO 1495653 <GO>}

In terms of where the equity markets are going, I think you can probably guess at that as well as we can guess at that. It's been a good place for us to be in the last year. We'll have an investment meeting every month to decide what we chart to do going forward, but I think we'll leave it to you to put expected increases on the equity markets.

Q - Greg Locraft {BIO 4221265 <GO>}

Perfect. Fair enough. So, again, on that 13% growth number, and I know it's a historical and hopefully you beat it and, obviously, you're off to a decent start. But that points to earnings of north of $14 a share to get to that level. Street's not even close today to that. So as you guys look at our models, what are we missing with regards to the earnings power of Everest Re?

A - Dom Addesso {BIO 1428096 <GO>}

I think what you're missing currently is the improvement in the attritional results. And essentially we've highlighted as an example the additional Cat premium we've had just in the First Quarter. Already taking into account April renewals, that number is now approximately $100 million.

Joe mentioned that we expect that number to be an increase by the year's end of $150 million. So that's having a dramatic improvement on our attritional combined ratios. In addition, the shift from pro rata to excess, change in terms and conditions has all pointed towards driving that attritional loss ratio down lower.

A - Joe Taranto {BIO 1495653 <GO>}

And I would add insurance on top of that improving. So put it all together, it's really improved underwriting with some help from the markets especially in the Property Catastrophe side. It's not so much investments or future taxes. Share buyback, of course, will sweeten things. But, yes, Greg, I think what's being missed is what Dom just said, improvement on the underwriting side.

Q - Greg Locraft {BIO 4221265 <GO>}

Perfect. Okay. Great. And then one last one, if I could, on capital deployment. It was nice to see the buy back in the quarter. Should we be thinking about buy backs plus dividends being at or below operating income going forward? And what is your appetite -- I guess you're still at 83% of book value now even after today's move given the growth.

A - Joe Taranto {BIO 1495653 <GO>}

Look, our appetite's to buy back. We haven't issued forecasts, and we won't because we want flexibility, but we will continue to buy back and at 83%, we think it's very attractive to buy back. The fact that we've had very good earnings and certainly are hopeful of continued good earnings only encourages us to buy back more. That's our formula. Good earnings, buy back.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay, great, thanks, guys.

A - Joe Taranto {BIO 1495653 <GO>}

Thank you.

Operator

Moving on, we'll take our next question from Amit Kumar from Macquarie.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks and good morning. Maybe just going back to the discussion on California Comp., I wanted you to refresh us as to what you think is the gap between earned premium rate versus loss cost.

A - Dom Addesso {BIO 1428096 <GO>}

Earned premium rate?

A - Joe Taranto {BIO 1495653 <GO>}

Rates that we're achieving versus how much loss costs are going up?

Q - Amit Kumar {BIO 15025799 <GO>}

Yes. One is a written rate, and it's earned over time. So there's a gap, right? There's a lag, it lags. That's what I'm trying to figure out. Do you think that on an earned basis, the margin is positive or negative or where do you think it will get to at the end of 2012.

A - Dom Addesso {BIO 1428096 <GO>}

We feel that by years' end we'll see positive margins in our California Comp. book.

Q - Amit Kumar {BIO 15025799 <GO>}

Maybe expand on the lost cost trends.

A - Joe Taranto {BIO 1495653 <GO>}

Let me help. I certainly agree with Dom. We achieved something like 9% increases on the book two years ago. This rate -- pure rate increase. Last year I believe we averaged 15%. And this year through the First Quarter we're averaging 10%. Now, these are all compound, and we think they're well in excess of claim cost inflation. It's hard to put a number on what claim cost inflation is exactly.

But if you want to use half of that, that might be close to my best guess. That means as these rates continue to play out, we are surpassing claim costs by a pretty decent margin and that's why we think each quarter, just on the back of that, should be better. And why, by the end of the year, if not sooner, we'll be booking underwriting profits on California Comp.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Okay. That's helpful. I guess the other question was just going back to the discussion on 6/1 and your PMLs being flat at 12% or so, I'm curious just based on the market opportunities you're talking about, why not move that number higher? Just based on the margin you might be getting on that.

A - Joe Taranto {BIO 1495653 <GO>}

You know, it's a good question, and certainly we debated. But, we have some other great opportunities, like buying stock back, and so we want to limit volatility to make sure that we can act on that front as much as we want to as well. So I think it's just a question of how much do we go on the various opportunities that we have?

A - Dom Addesso {BIO 1428096 <GO>}

There's also opportunities to deploy our capital, as I mentioned earlier, and spread our aggregate to other parts of the U.S. and the globe. And continue to balance out that portfolio as rate increases outside of Florida present themselves. And we would like to deploy our capital in the most diversified way. So that helps us do that as well.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Okay. Thanks. Thanks for the answers.

Operator

Moving on, we'll take our next question from Michael Nannizzi from Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks. A couple questions, if I could. One is, just trying, in the insurance segment, trying to understand if we're thinking about '12 premiums versus '11. You had the STAR phase out in '11. You had --- it sounded like Crop was booked as reinsurance in '11, I'm guessing it was in the segment, and now it's going to be written on your own paper in '12 and then you have the A&H business. So just trying to think about what does that look like relative to 2011 just kind of with all these puts and takes from just a top line perspective?

A - Dom Addesso {BIO 1428096 <GO>}

I would anticipate that it would be kind of flattish for the year.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay.

A - Dom Addesso {BIO 1428096 <GO>}

On the insurance front.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. And then with Crop, I'm guessing that the expense and loss ratios kind of look differently than the rest of the book. Should we assume, then, that the combined ratios look differently in the center and kind of the two center quarters of the year versus the edges? Or are there other contributing factors that would make that less relevant?

A - Dom Addesso {BIO 1428096 <GO>}

I think that you're right. I think what you're focusing on is the expense ratio on the insurance side was obviously challenged a little bit, not terribly so, but a little bit by the fact that the Crop premium, in particular, was not a heavy number in the First Quarter. So as that begins to emerge back towards that annualized $150 or $160 million number, we'll enjoy the benefit of a lower expense ratio in the succeeding quarters.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Great. Thank you. And then one question, I guess, just on capital and your buy backs, and clearly buy backs were big in the First Quarter, not just relative to last year, but even going back further than that, it was a large quarter for buy backs.

You talked about writing more Cat business and your PMLs have not risen. I guess I just kind of want to understand, and I'm guessing, as you were saying before, it's geographic concentration. But would you expect as you go through the year to see PMLs rise either from writing more business at June 1, or just the impact of continuing to buy back your own stock?

A - Joe Taranto {BIO 1495653 <GO>}

I don't anticipate any rise. I really like the formula that we've been using, which is we don't want increases in exposures. If anything, we probably want less. But we want more margin and more premium. I think that's the sign of an improving market. I think that's what we want our underwriters to achieve.

Again, this is all coming on the back of a lot of losses that were paid last year, and so I think it's proper. So I just like the plan as it currently is and, at least for this year, I'm not envisioning any increase in PMLs, certainly not in the peak zones.

Q - Michael Nannizzi {BIO 15198493 <GO>}

So what are you expecting to see out of Florida? It sounded like you mentioned that conditions are improving, that you're optimistic heading into 6/1. So should we read that mean that you, if everything worked out the way you wanted to, your exposure wouldn't change, you would just be earning more on this business? I guess the question is, is there a rate at which you would write more of that business than you are currently expecting if conditions are better?

A - Joe Taranto {BIO 1495653 <GO>}

You know, it might be something modestly more, but it won't be something tremendously more. I think what we're looking for is less volatility, more profitability, and the ability to, again, continue to buy back the stock. So I think it's a good spot.

I think that's the sweet spot for us at this point. So we're not looking to, in any significant way, increase the Cat exposure in the peak zones. We have found opportunities in zones that we didn't have large exposure. Dom mentioned the Midwest, where we weren't big before the last year or so, and we will continue to look for other opportunities around the world. But no, we don't expect any big increase in PML in Florida even though we do expect improved conditions.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Great. Thank you.

Operator

Moving on, we'll take our next question from Howard Flinker from Flinker & Company.

Q - Howard Flinker

Hello. I have two questions. One, in your usual releases, your loss ratio differs from the loss ratio in the 10 Qs. Why is that?

A - Dom Addesso {BIO 1428096 <GO>}

It should not be. You have to be more specific.

Q - Howard Flinker

For example, I haven't looked at this year's 10 Q, but last year in the 10 Q, the loss ratio was 120.4. And in your announcement it was 123.6. And that's happened for a number of quarters. So you're using some different measures. I want to know what the difference is --

A - Dom Addesso {BIO 1428096 <GO>}

It could be reinstatement premiums, the impact of reinstatement premiums would be the answer --

Q - Howard Flinker

Wouldn't you know that when you announce your quarter?

A - Dom Addesso {BIO 1428096 <GO>}

Of course we do. But I don't have the specifics in front of me; so I'm struggling a little bit with the particulars.

Q - Howard Flinker

I don't know what the loss ratio is going to be in the 10 Q, but this year you said the loss ratio was 60.4 and last year the similar number is 123.6. Correct? First page of your release.

A - Dom Addesso {BIO 1428096 <GO>}

Correct.

Q - Howard Flinker

But if you look at the 10 Q on the table, that 123.6 became, what did I say, 120.4? I have to flip the pages. Yes. On page 28 of the Q. There's a consistent difference. So I don't understand the difference.

A - Dom Addesso {BIO 1428096 <GO>}

I don't have the Q with me, sir.

A - Joe Taranto {BIO 1495653 <GO>}

We would be happy to call you back and do the reconciliation.

Q - Howard Flinker

Okay. And then you used a term where I'm not acquainted. It's not run-off but relates to the premium. I forget the word now. My memory slipped me.

A - Dom Addesso {BIO 1428096 <GO>}

I was referencing on the insurance side, I was referencing the run-off of certain programs, and essentially, what I was referencing there was business that was terminated and, of course, using the term run-off implying that the premiums would be coming down each and every quarter as that --

Q - Howard Flinker

That I understand. That's not the word I was thinking. There was another word you used, and I haven't heard it used very much. It wasn't underlying premium. It was another word. I'll probably have to get back in queue, and I'll ask the operator.

A - Joe Taranto {BIO 1495653 <GO>}

That will be fine. We'll go through it when we chat with you.

Q - Howard Flinker

Okay. Thanks.

A - Joe Taranto {BIO 1495653 <GO>}

Thank you.

Operator

And moving on, we'll take our final question from Ron Bobman from Capital Returns.

Q - Ron Bobman

Sounds like you have a bunch to talk about with Howard after the call. I just had a follow-up sort of more qualitatively than anything specific about your exact reserves. Qualitatively about Thailand, I'm just curious to hear what's happening there claim-wise? Obviously more time has passed since the flooding. Is there a lot more at, certainty I know is a strong word, but at the risk of variability in claims, claim amounts, etc. Could you talk about what has transpired over the last, I guess, it's almost been six months or so.

A - Dom Addesso {BIO 1428096 <GO>}

That's a fair question. Of course --

Q - Ron Bobman

Thanks, Dom. (Laughter).

A - Dom Addesso {BIO 1428096 <GO>}

Right up until year end, of course, we obviously saw a lot of upward pressure on from claims from Thailand, late reporting, etc. We did, of course, a deep dive on the events there in closing out the year end. We've had -- and of course we do the same thing every quarter with all of our events. And happy to report that this particular quarter has been very stable.

As you do know, that at the year end, we had some additional provisions that we made given the uncertainty of 2011 around all of those events. I'm also pleased to say that we've not seen any movement around that number. So that's been stable.

We've had no reason to, quite frankly, utilize that IBNR at this point. So it still exists there, in the event that there is some volatility around those results. But pleased to report that it's been very, very stable. Is that what you were --

Q - Ron Bobman

I was a sort of little more qualitative than specifically about your -- any risk or actual movements in your numbers. There's all sorts of claims that immediately following these events, people talk about BI, CBI the linkages, and I was just sort of qualitatively getting yours or Joe's thoughts.

A - Dom Addesso {BIO 1428096 <GO>}

I do think that in the case of CBI, for example, I think the industry was obviously very worried about that early on. And that seems to have tempered quite a bit. I don't think the losses actually reached a level that the industry had feared.

Q - Ron Bobman

Okay. Thanks a lot for your thoughts. Appreciate it and best of luck. Hope it continues.

A - Dom Addesso {BIO 1428096 <GO>}

Thank you.

Operator

And at this time that will conclude today's question and answer session. I'd like to turn it back over to our speakers for any additional or closing remarks.

A - Beth Farrell {BIO 19732216 <GO>}

I want to thank everybody for their time and participation, and we look forward to speaking with you again next quarter.

Operator

Thank you. That will conclude today's conference. We thank you for your participation.