Q4 2015 Earnings Call

Company Participants

- Craig W. Howie
- Dominic James Addesso
- Elizabeth B. Farrell
- John P. Doucette

Other Participants

- Josh D. Shanker
- Kai Pan
- Michael Nannizzi
- Sarah E. DeWitt
- Vinay Misquith

MANAGEMENT DISCUSSION SECTION

Operator

Good day, and welcome to the fourth quarter 2015 earnings call of Everest Re Group Limited. Today's conference is being recorded.

At this time, I would like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Elizabeth B. Farrell {BIO 1986541 <GO>}

Thank you, Holly. Good morning and welcome to Everest Re Group's fourth quarter and full year 2015 earnings conference call. On the call with me today are Dom Addesso, the company's President and Chief Executive Officer; John Doucette, our Chief Underwriting Officer; and Craig Howie, our 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 our 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 Dom.

Dominic James Addesso {BIO 1428096 <GO>}

Thanks, Beth. Good morning. I'm pleased to report record operating earnings per share for 2015 of $25.04 per share. This translates into an operating return on equity of 15%.

The underwriting account produced record underwriting results of $912 million as a result of continued discipline and portfolio shifts undertaking in a very challenging market.

Of course, the absolute number is stronger than expected, due to the low level of cats. However, it is noteworthy that in a declining rate environment, the combined ratio remained relatively stable at 83.4% versus 82.8% one year ago. The slight uptick is due to the growth in the insurance portfolio. In fact, the reinsurance combined ratio stood at 78.5% in the last two years.

In 2015, reserve releases helped, but other contributing factors were portfolio shifts, expanding mortgage credit ratings, increased facultative business, and profits derived from our Mt. Logan operation. All in, we have been extremely pleased with how the organization has navigated through this market.

On the insurance front, it very much remains an improving story, although the overall results at first glance continue to look challenged.

The attritional combined ratio improved eight points and came in at 94.3%, demonstrating that our current strategies are producing the desired outcome. Nevertheless, the overall result came in at 106.3% combined ratio. This was due to prior year development, once again coming from two of our run-off books of business. One is an excess casualty program book and the other is a construction liability account experiencing late reported construction defect claims.

While this has been a difficult sector to reserve, it should be noted that our overall reserve position was more than adequate to absorb these developments resulting in an overall reserve release of $36 million for the year. Going forward, we remain confident that our overall reserve position is sufficient to handle developments in any of our many lines of business, but more importantly we feel the same as it relates to the insurance segment specifically.

The insurance segment has made great progress during the past year, and key additions have been made to our executive management, underwriting, and distribution ranks. Overall, premiums grew by 26%, led by our property, E&S, and crop lines as well as A&H, casualty, D&O, and our sports and entertainment business. We continue to build up these sectors as well as some new areas that will come online in 2016.

Profitability in each of these sectors is strong despite some rate climbing. John will get into some of these details in his report, but overall we would expect continued momentum in the insurance segment into 2016 and beyond.

Overall, we were very pleased with our underwriting results and initiatives in both reinsurance and insurance. A bit of a continual challenge, however, remains on the investment front. As we all know, the low interest rate environment continues, and new money rates are less than the yields for maturities rolling off. In addition, certain sectors have been more recently challenged, and in particular, the energy sector along with emerging market debt and high yield generally.

As we along with others have well-diversified portfolios, we are not immune to some of these impacts. As a result, investment income is down, mostly driven by lower limited partnership income impacted by the aforementioned factors.

In addition, there were some realized losses due to write-downs taken on certain oil and gas investments. The factors in the investment markets also had an impact on book value, where growth was constrained due to a decline in the unrealized account. Nevertheless, book value per share grew 7% to $178.21 from $166.75.

In general, as I mentioned previously, this was another successful year. We are appropriately navigating through continual competitive pressures and going forward, we expect to maintain our utilization of alternative capital to maximize returns.

In addition, we expect continued growth in specialty risks in the North American insurance platform as well as in Continental Europe through our new Lloyd's Syndicate.

No doubt, the rate pressures we saw at 1/1 will further challenge us and the industry, but we remain confident in our ability to outperform.

Thank you. And now to Craig for further details on the results.

Craig W. Howie {BIO 17579923 <GO>}

Thank you, Dom, and good morning everyone. Everest had a terrific end to 2015 with one of our strongest quarters in history, helped by reserve releases that impacted both current and prior years.

For the fourth quarter of 2015, operating income was $353 million or $8.17 per diluted common share. This compares to operating income of $331 million or $7.28 per share in the fourth quarter of 2014. The 2015 quarterly result represents an annualized operating return on equity of 19%.

For the year, operating income was $1.1 billion or $25.04 per share compared to $1.1 billion or $24.71 per share in 2014. Net income for the year was $978 million or $22.10 per share compared to $1.2 billion or $25.91 per share in 2014. Net income included $130 million of net after-tax realized capital losses compared to $55 million of capital gains last year, or a difference of over $4 per share year-over-year.

The 2015 capital losses were primarily attributable to fair value adjustments on the equity portfolio and impairments on the fixed income portfolio. The impairment is mainly related to credit write-downs on energy investments. The results reflect a slight increase in the overall current year attritional combined ratio of 82.9%, up from 82% last year. This attritional measure increase of less than one point includes higher than expected current year losses in the reinsurance segments, including $60 million of estimated losses for Tianjin and numerous weather-related losses that did not meet our $10 million catastrophe threshold.

In the fourth quarter, Everest saw $20 million of current year catastrophe losses related to the U.S. storms that occurred during the last week of the year. The fourth quarter of 2015 also included favorable development on prior cat losses, largely from the 2013 year. Therefore, net catastrophe losses for the quarter were negative $4 million.

Catastrophe losses for the year were $66 million in 2015 compared to $62 million in 2014. For 2015, gross catastrophe losses were $100 million, but were offset by $33 million of favorable development on prior year cat losses, primarily from the 2013 German hailstorms, European floods, Typhoon Fitow, and U.S. storm events.

Our reported combined ratio was 83.4% for the year 2015 compared to 82.8% in 2014. The 2015 commission ratio of 21.9% was slightly down from 22% in 2014. Our expense ratio remains low at 4.9% for the year compared to 4.6% in 2014. The expense ratio for the reinsurance segments remained flat at 2.9%, while the overall expense ratio was influenced by the build out of our insurance platform. Everest has one of the lowest internal expense ratios in the industry. This is a strategic competitive advantage for Everest.

On reserves, we completed our annual loss reserves studies. The results of the studies indicated that overall reserves remained adequate. In the fourth quarter, we booked prior year development in the insurance segment and for asbestos, which was more than offset by favorable development in the reinsurance segments.

The $121 million of prior year reserve development in the insurance segment during the quarter, as referenced by Dom, was largely related to umbrella business and construction liability. These run-off programs were discontinued by the company several years ago. The $155 million of favorable prior year development in the reinsurance segments including Mt. Logan Re reflected $193 million of favorable development offset by a $38 million increase in asbestos reserves related to several large settlements during the year. The $193 million of reinsurance favorable development during the quarter mostly related to casualty and property treaty business both in the United States and internationally. 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 $11 million for the quarter and $474 million for the year on our $17.7 billion investment portfolio. Investment income was below last year as anticipated. This result was primarily driven by the low interest rate environment and by the decline in limited partnership income.

On the fixed income portfolio, income was down $30 million year-over-year. Limited partnership income was down $26 million year-over-year, primarily due to energy-related investments. The pre-tax yield on the overall portfolio was 2.8% compared to 3.2% in 2014, and duration remained at three years.

Other income and expense included $61 million of foreign exchange gains for the 2015 year compared to $30 million of foreign exchange gains in 2014. The foreign exchange gains resulted from the relative strengthening of the U.S. dollar against the other world currencies.

On income taxes, the 2015 operating income effective tax rate was 14.5%. This effective tax rate for the year was in line with our expectations for the year. Operating income does not include capital gains or losses.

Strong cash flow continues with operating cash flows of $1.3 billion for the year, essentially flat, compared to 2014. This was primarily due to our continued premium growth.

Shareholders' equity for the group was $7.6 billion at the end of 2015, up $157 million compared to year-end 2014. This is after taking into account capital returned through $400 million of share buybacks and $175 million of dividends paid in 2015. The company announced a 21% increase to its regular quarterly dividend and paid $1.15 per share in the fourth quarter of 2015. Our strong capital balance positions us well to continue share repurchases.

Thank you, and now John Doucette will provide the operations review.

John P. Doucette {BIO 7178336 <GO>}

Thank you. Good morning. As Craig mentioned, we had a very strong Q4 finishing a successful 2015 year. Our group gross written premium for Q4 was $1.5 billion, up 6% from Q4 in 2014, predominantly driven by growth in insurance. Our group net written premium was $1.4 billion, which was up $70 million or 5% over Q4 2014. For the full year, our group 2015 gross written premium was $5.9 billion, up almost $130 million or 2% from 2014. Our group net written premium was $5.4 billion, also up 2%.

Let me first review our reinsurance segments, starting with 2015 full-year results, then give some color on January 1 renewals and how we are navigating the market. For our global reinsurance segments including both total reinsurance and Logan, gross written premium for 2015 was $4.3 billion, down 4%, but adjusted for exchange rates, it is essentially flat year-over-year.

Net premiums were $4.1 billion, down 3%. On constant currency basis, it is closer to flat. Our reinsurance book, including Mt. Logan, generated $991 million of underwriting profit in

2015, up 6% compared to 2014. This is noteworthy given a similar amount of property catastrophe losses in 2014 and 2015, as well as some other large losses this year, including the Tianjin Port loss.

These record reinsurance underwriting results, despite the soft market, highlight the successful execution of the strategy and initiatives that we put in place over the last couple of years. These expanded our opportunities and reinsurance profits by developing new and enhancing existing strategic relationships with key reinsurance clients across multiple lines of business, deploying capital to credit opportunities and other new products worldwide, offering meaningful line capacity on attractive property catastrophe treaties, utilizing both Mt. Logan and cat bonds, and growing both our regional and facultative books.

These initiatives broadened and enhanced both our broker and client relationships, and continue to provide new opportunities to expand with longstanding clients, whether on new deals or larger shares of existing ones. Offsetting this, we are scaling down or non-renewing treaties which inadequately compensate us for putting our capital at risk. In the current market, this causes significant churn in our renewals. This, combined with a dynamic allocation of capital to the best priced business resulted in the outperformance of our portfolio relative to the broader market.

Now, some color on the January 1 reinsurance renewals. We wrote about $2.1 billion of premium across all reinsurance lines, which was down 3% compared to last 1/1, as we continue to face currency headwinds. On a constant dollar basis, premium was roughly flat.

Our catastrophe exposed property book saw risk adjusted rates down low-single digits for U.S. business, but down more in other areas such as Europe, Asia, Australia and some Latin American countries. We moved to higher attachments where risk adjusted rates were generally better. Globally, our expected combined ratio was up about 1% for our property cat XOL book compared to the 1/1 renewals last year. Overall, our 1/1 cat XOL premium was about flat, driven by increased signings in the U.S., but offset by reductions in some emerging markets and Europe due to FX and softer rates.

Our Purple Book, which has had strong results, shrunk this 1/1 due to elevated competition, which drove rates down to inadequate levels. Consequently, we redeployed some capacity to better priced reinsurance fields.

We did have some wins at 1/1 in our traditional casualty book with several large quota shares for strategic clients. But generally, this area remains challenging. In particular, we continue to de-emphasize management and professional liability. On the positive front, casualty pro-rata ceding commissions began stabilizing. We also found attractive opportunities in the credit space, and we continue to enjoy meaningful opportunities with key P&C clients where we have the ability to offer multi-line capacity.

We executed on new opportunities at 1/1 that added meaningfully to our top-line, including several Solvency II surplus relief quota shares, increased lines on existing treaties with several global clients, as well as new layers for the same customer group where they are looking to reinsure their growing global retentions. In aggregate, these new deals offset some of the premium lost on deals that we non-renewed.

We continue to utilize Mt. Logan, cat bonds, and traditional hedges, which have allowed us to grow our gross portfolio over the last few years, while generally keeping our net P&Ls on our 1/1 renewal book fairly stable relative to our capital base.

During the fourth quarter we sponsored another $625 million of cat bonds protecting us from wind and quake losses in both the U.S. and Canada, where we have a dominant lead reinsurance market position, and enjoy preferential access to and signings on favorable deals. This brings the total multi-year protection provided by Kilimanjaro cat bonds to $1.6 billion.

As of 1/1, Mt. Logan's assets under management was up to $860 million, a growth of 25% in AUM from 1/1 last year. Once again, 100% of Logan's capacity was fully deployed at 1/1 renewal.

During 2015, Everest's common shareholders earned $27 million from the Logan platform including fees. The combination of cat bonds and Logan have added $2.5 billion of off balance sheet capacity for deployment in the property cat market, which has enhanced our competitive position in this very important class.

As highlighted before, Everest possesses sustainable competitive advantages that continue to position us well for success in this reinsurance market. These include, number one, we have one of the lowest internal expense ratios in the industry, at 2.9% for our total reinsurance segment. Therefore on the same rates, we have higher dollar margins and higher ROEs than our competitors.

Number two, all across zones and perils, we are more diversified than most competitors, which naturally lowers our internal capital charges and improves our risk adjusted returns.

Number three, our scaled up retrocessional strategy, including growing Mt. Logan, upsizing Kilimanjaro cat bonds, and utilizing traditional hedges also lowers our internal capital charges further and increases our risk adjusted returns as well.

And number four, our operational structure and culture, decentralized, but controlled. We empower experienced leading underwriting teams to provide responsive service and direct customer access to decision makers. Unconstrained by narrow geographic scope or overly centralized approval processes, we deploy highly rated capacity faster, more creatively, and in scale. We are pleased with the outcome of our 1/1 renewals despite market conditions. And we are off to another strong start this year for our reinsurance book.

Now, turning to our insurance operations; we wrote about $360 million of insurance gross written premium in Q4, and wrote $1.5 billion for the year. This is up 17% for Q4 and up

26% for the 2015 year compared to prior periods. Our direct operations including our property, casualty, professional liability, and contingency businesses were up 23% year-over-year.

Our specialty operations, Heartland, our crop insurer, EVCAN, our Canadian company, and accident and health, each saw a meaningful top-line growth in 2015, achieving gross written premium increases in excess of 40% year-over-year.

Our focused growth initiatives in each of these sectors has provided an improving opportunity set. While calendar year results for insurance were marred by prior-year development on one-off books of business, the 2015 accident year results have been improving and showing a strong bottom-line result. This year, we had a notable 94.3% accident year combined ratio, translating into $73 million of underwriting profits meaningfully improved from the $102.3% combined ratio for 2014 accident year.

While this improvement was driven in part by better results on our crop business, we are continuing to see improvement in the accident year results of our other businesses as well. Excluding Heartland, this business had a 1.6% improvement to the accident year combined ratio, lowering it to 93.4%; a very strong result.

We have successfully attracted talented underwriters in many segments, added a new distribution team, and hired operational staff to enhance our processes and technology to support the scale, diversification, and geographic scope of our growing insurance platform. We are also launching several new product lines in excess casualty, private company D&O, and inland marine, with additional new products planned for 2016.

Regarding the rating environment, in 2015 we have seen slightly positive pricing in most lines, led by commercial auto at about 7%. However, we saw negative rate trends in financial institutions and commercial management liability, which both remained very competitive due to excess capacity. Insurance property rates were down slightly, but margins remain adequate to deploy capital.

We are bullish about our opportunities despite the challenging market and are excited by the development of our insurance platform, and the launch of our new Lloyd's Syndicate. We continue to leverage the strengths in both our reinsurance and insurance books to be the best-in-class manager of capital in the new insurance world order.

Thank you. And now back to Beth for Q&A.

Elizabeth B. Farrell {BIO 1986541 <GO>}

Thanks, John. Holly, we are open for questions at this time.

Q&A

Operator

Thank you. Thank you. Our first question comes from Vinay Misquith. Please go ahead, your line is open.

Q - Vinay Misquith {BIO 6989856 <GO>}

Hi, good morning, and congratulations on a very strong quarter and a super year. The first question is on the primary insurance operations. Was there some favorable reserve development, prior quarter favorable development that happened in the fourth quarter of this year?

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

I'm sorry, Vinay, was there a favorable development in the insurance segment?

Q - Vinay Misquith {BIO 6989856 <GO>}

Yes, prior quarter, because -- right, because I get a 66.6% accidental year loss ratio ex-cat. So was there some prior quarter reserving true up that was favorable?

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

There was some favorable prior year development that came through as well in this segment, but it's very small in comparison to the reserve charges that we took for construction liability and umbrella. That's what represents the majority of that.

Q - Vinay Misquith {BIO 6989856 <GO>}

All right, I was talking about from prior quarters, but never mind.

A - Dominic James Addesso {BIO 1428096 <GO>}

Prior -- Vinay, this is Dom; prior quarters, that would just be movement in the expected loss pick (30:43) for the current accident year. That wouldn't relate to any prior period development or any reserve studies (30:49).

Q - Vinay Misquith {BIO 6989856 <GO>}

Right, okay, okay...

A - Dominic James Addesso {BIO 1428096 <GO>}

Mix of business, portfolio shifts, and assessment of what the current year loss trend is.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. Now, on the primary business you've certainly grown the top line very strongly. We've heard press reports of you making a lot of hires. Dom, what are you doing in that business to ensure that the new business you're getting is priced appropriately?

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, there's several things. First of all, as I mentioned in my comments, and John referenced as well, we are adding underwriting talent across the organization, but that also includes a separate office of – or Chief Underwriting Officer within that unit. And John, as the Group Chief Underwriting Officer, is in regular contact with him as we expand our writings, as we talk about the underwriting template, and the underwriting box, if you will, and our risk appetite. So that occurs at the individual insurance level, and then of course monitored at the group level. That's the first thing.

The other thing that we have is a very strong price monitoring process. So we're able to understand what's going on at the transactional level from a rate adequacy point of view, that all of our business units report appropriately (32:15) to us on a quarterly basis. So those are some of the factors, in addition to the regularly scheduled underwriting audits and risk management committee that we have, not only internally, but also reported up through the Board of Directors. So it is a comprehensive process.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, that's helpful. And on the reinsurance side, I think what was mentioned was that the new business on January 1 was written at a 1% higher combined ratio. Did I hear that correctly?

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

Vinay, this is John. Yes, that was for our overall worldwide property catastrophe XOL book.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, that's great. So it would be lower than the rate declines that we're hearing in the markets. So, was that because of a mix change that you did this year?

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

Right. So it's a combination of things, but as we alluded to in our script, one of things we found at this 1/1 was that higher layers in general were priced, we thought had a better pricing to them. So on average – there's exceptions to this, but on average, the attachment point of our property cat book went up. And that helped mitigate it. But I also think – we've talked about this before, when it comes to signings across the program, given Everest relationship – 40-plus-year relationship with our clients and brokers, and given our balance sheet and high ratings, we get a lot more selection of the layers that we like than others. And that allows us to mitigate the overall market rate softening.

A - Dominic James Addesso {BIO 1428096 <GO>}

Another factor there, Vinay is that we are down generally in all non-U.S. territories, and then the U.S. being better priced so that portfolio mix, while your question is why is the combined ratio only -- expected to combined down 1% when maybe what we reported in terms of generally rate decreases might suggest otherwise. So a little bit of mix shift on a geographic basis is part of the answer there as well.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, that's helpful. And the last question is on capital management. This year I think we saw about 50% of earnings being returned to shareholders. Just curious about 2016, and it seems that your primary business though it's growing pretty meaningfully, I would have thought that that would be diversifying versus reinsurance. So curious why you're consuming capital for that growth?

A - Dominic James Addesso {BIO 1428096 <GO>}

Vinay, I'm glad you were the first one to get that question out of the box. And clearly, we expect it at every call. And look, we don't telegraph what we're likely to do in terms of share repurchases. Yes, we look at operating earnings. Yes, we look at the opportunities that are ahead of us in the marketplace, and look at the growth opportunities. And all – and look at our rating agency capital requirements as well as our own internal economic capital requirements (35:38). What I'll say is that we continue to remain bullish on repurchasing shares into 2016. We did do some in the fourth quarter. But then of course price kind of got away from us a little bit, and we probably did a little less than we might otherwise would have. But we still will be repurchasing stock into 2016, but I'm not going to be giving any forecast of what that might be.

Q - Vinay Misquith {BIO 6989856 <GO>}

Thank you.

A - Dominic James Addesso {BIO 1428096 <GO>}

Thank you.

Operator

Thank you. Our next question today comes from Michael Nannizzi of Goldman Sachs. Please go ahead, your line is open.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks. John, I have one question on the insurance business, you mentioned 160 basis points of improvement excluding crop. I was just trying to figure out what was the basic against which you were looking at that number? And maybe I got that wrong, but I thought that's what you said.

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

Good morning.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Hi, good morning.

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

It's basically the accident year combined ratio, attritional combined ratio looking this year for our insurance book excluding Heartland compared to last period. And the reason we gave that number was because there was a meaningful improvement in the Heartland results from last year to this. So we wanted to identify that it wasn't just the improvement in the Heartland results.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it.

A - Dominic James Addesso {BIO 1428096 <GO>}

So Michael, the net written premium for the insurance group for the year is $1.325 billion, of that $250 million approximately was Heartland, if that's getting to your question.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Yeah, that helps. I mean, is there anyway, John, to know sort of what the number is in terms of 160 basis points, like, could we know what that number was last year just to have some idea of – just because there's obviously been a lot of change, there's new business. There's been a lot of mix shift in that book. So it would be just helpful to sort of square what that sort of baseline looks like, or maybe give the Heartland piece, and then we can figure out the other side.

A - Dominic James Addesso {BIO 1428096 <GO>}

Right. So this is Dom, Mike. And so I gave you the 2014 Heartland premium number, it was $130 million.

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

Right.

A - Dominic James Addesso {BIO 1428096 <GO>}

Does that help you figure that out?

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

So excluding Heartland last year – Mike, this is Craig, excluding Heartland last year it was a 95% -- 95.0% combined. And this year it's 93.4% excluding crop. This year crop had a profit. Last year crop was running at a loss.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. So 95% to -- you cut out for a second there, 95% to 90.4%...

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

Last year, the combined ratio excluding crop on the insurance book was 95.0%. That number is now 93.4%. That's the 1.6 points of improvement that John mentioned.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Perfect. Okay, great. That really helps. Thank you so much. And then John, the $800 million or so in Mt. Logan, just so we can right-size it, what was the comparable dollar amount for 2014? Was that – I mean, obviously you raised the $600 million, but was that – I'm guessing there was some retirement of bonds as well. So I was just wondering there what was the comparable number there last year?

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

So it's up about 25% -- this is Mt. Logan, not the bonds that I'm answering.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Correct. Yeah.

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

Mt. Logan is up 25%, so bringing it to $880 million.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Excellent, that's what I needed. And then just last one, just on the commentary about 1/1 renewals and the higher attachment. So the rate online was better on the high-attachment versus low-attachment. Should we take that to understand that there's just less competition at those higher levels or is there some other aspect of the landscape just from an operational perspective that would contribute to that dynamic?

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

I think a lot – that's really where there's more limit purchase. So from a demand point of view that's higher. Typically how the programs are laid out, the lower layers are smaller and then increasingly, as you go up the tower, the dollar limits that are purchased are larger. So there is more demand at that point. And to the extent that our business is being impacted by alternative capital, those higher layers have lower rates online, which are more challenging for alternative capital, unrated capital to find an attractive return for that. So I think that's partially playing into that too.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. That's great. Thank you so much.

A - Dominic James Addesso {BIO 1428096 <GO>}

Thanks, Michael.

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

Thank you.

Operator

Thank you. Our next question now comes from Kai Pan of Morgan Stanley. Please go ahead. Your line is open.

Q - Kai Pan {BIO 18669701 <GO>}

Good morning. Thank you. Just a follow-up on Mike's question, could you tell the other piece in your insurance, basic crop, basically we're trying to understand what's your, like, current year commodity ratio running at. And I just wanted to see if that meet your long-term average, or it just is like – is better than expected?

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

This is Craig, Kai. Current year crop is running at a 99%. That is certainly better than our long-term average because this is a profitable year for us in crop. It is not where we expect to be over the long-term. This business needs scale and geographic diversity. And that's what we've attempted to do this year. We've grown the premium, and we've grown it diversifying it into other states as well. So that will help the expense structure going forward.

Q - Kai Pan {BIO 18669701 <GO>}

I'm sorry. So there is still room for improvements. It's not like you have a normally – like a good year on the crop side.

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

There is still room for improvement, yes, but we did show a profit this year for the first time.

Q - Kai Pan {BIO 18669701 <GO>}

Okay, that's great. And then on the reserve charge, $120 million in the insurance segment, the two run-off business, could you tell us how big is the remaining reserve on the book?

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

The remaining reserves on the book for insurance overall or the total book?

Q - Kai Pan {BIO 18669701 <GO>}

No, for these two run-offs?

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

For these two run-offs, this is what we are attempting to do with these is look at where we expect these reserves to be over time, and I don't have that number in front of me, Kai.

Q - Kai Pan {BIO 18669701 <GO>}

Okay, that's fine. And then it looks remarkable that, Dom, you mentioned that you'd be able to keep the underlying combined ratio stable in your reinsurance segment despite the pricing pressure. Part of that might be business mix. I just wonder on the -- like, accident year loss ratio pick side on the loss trend, the inflation, what trend do you see there in your major line of business?

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, I mean the underlying combined ratio on the reinsurance side is comprised of several factors. We have obviously a property cat book. We have a property pro-rata book, casualty pro-rata, casualty excess, facultative mortgage credit et cetera. And all of those things when combined together obviously produce the overall combined ratio. Our expected combined ratio on property cat XOL year-over-year in terms of what was expected was slightly up, but of course with no cats then that has a very positive impact on the results.

Our treat casualty results have been improving year-over-year. We've been expanding our facultative operations, which typically have had higher margins than the treaty book of business. And the mortgage credit of course has been something that we've mildly added to our portfolio, also contributing to that.

So to point to any one factor is difficult, but it's just the composition of the portfolio, and as it evolves, we're able to maintain a decent level of profitability and return on capital as a result. And partly to your question if you're asking about trend, it obviously depends on the line of business, but clearly in all of our businesses and all the lines of business, business' trend is not - is not strong. There isn't a high loss inflation factor that we're seeing in any of our lines of business.

Q - Kai Pan {BIO 18669701 <GO>}

So do you book to the lower like cost trends or you're taking probably more longer term approach on your assumption?

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, I mean loss costs trends generally are going to be more of a factor in casualty than anything else. And what our underwriters are looking at, and actuaries are looking at depends on the clients' book of business, and those loss cost trends are the average trends that we've seen over the last couple of years. It's not anything - I wouldn't describe it as being at the low-end of the range or at the high-end of the range, it's essentially based on the experience that we've seen in the market place over the last five or six years.

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

And Kai, it's John. Just to add to that. We have a very experienced actuarial pricing team that have priced all property and casualty lines of business all over the world and have been doing that for 20 plus years. And we've added over the last several years more talent to that team and enhanced the analytics. So we feel pretty comfortable that we understand what the trends are, what the loss picks are for the reinsurance business that we're putting on the books.

A - Dominic James Addesso {BIO 1428096 <GO>}

I think I'll add one other thing that will hopefully answer the question and maybe provide you some comfort relative to that question. And that is that if you look over the last 12 years at our accident year, initial accident year pick combined ratio, every year in the last 12, that accident year combined ratio has developed positively. In other words, each accident year has had redundancy in it. So that basically tells you that our expected loss pick in the year of the (46:51) account is a conservative pick.

Q - Kai Pan {BIO 18669701 <GO>}

That's great. And lastly, Dom, can you talk a little bit more about some of the growth areas, including Lloyd's?

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, Lloyd's, of course we just got off the ground at January 1. It was a process that we were able to move relatively quickly on into Lloyd's, and I think we've got it done in near record time. But given our scale in the marketplace, I think, it was a win-win not only for us, but I think also for Lloyd's as a market in general.

So we're pleased with that. And in that space, and Lloyd's in particular as a growth area we're looking at primarily Continental Europe. In addition to Lloyd's will be a platform that will help us in some of the Asian markets, particularly China and Australia, where it's advantageous to issue Lloyd's paper as contrasted with what we had been doing was issuing paper at Everest Re; just some cost advantages to that. It also provides a facility for U.S. business that might have multinational exposure. So those are the opportunities for Lloyd's.

Generally, in the insurance space, as we mentioned, property E&S is a big growth area for us, A&H, commercial D&O, private company D&O. We've got an inland marine team. We're doing some – we're looking at growth in the excess casualty and environmental areas. Our work comp book, particularly in California, has been growing. And we're looking at how we can possibly use that capability in other jurisdictions that are favorable as far as work comp is concerned.

So there's just a number of areas, whether it be lines of business or segments, that we're focusing on. The contingency business, our sports and entertainment as well, I mentioned, is growing nicely. So it's across a number of different areas.

Q - Kai Pan {BIO 18669701 <GO>}

That's great. Well, thank you so much for all the answers, and good luck.

A - Dominic James Addesso {BIO 1428096 <GO>}

Thank you, Kai.

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

Thank you.

Operator

Thank you. Our next question comes from Sarah DeWitt of JPMorgan. Please go ahead. Your line is open.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Hi, good morning, and congrats on a good quarter. The underlying combined ratio for the whole company, you've done a good job at keeping this stable in 2015 versus 2014, despite some rate pressure, as well as growing the insurance business. Could you just talk about your ability to maintain margins going forward, or should we expect any deterioration?

A - Dominic James Addesso {BIO 1428096 <GO>}

Sarah, this is Dom. And I think clearly, with the rates going down, I mean, it's fairly obvious that margins no doubt are going to be under pressure. The way we look at it, as opposed to looking at it from a combined ratio point of view, maybe just give you a high level view. Based on what we saw 1/1 and perhaps what we could expect through the balance of the year, and also factoring in where we see insurance pricing as well, which is generally more flattish than it is in the reinsurance space, we would expect an overall impact of about one point in our ROE. And that's essentially how we think about – maybe that's the best way to answer the question that you've asked.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Okay, that's helpful. And then on the insurance reserve strengthening, when do you think we could turn the corner on that runoff business? And can you give us any color in terms of what's the duration of these claims, how much has been paid out? Anything that gives you comfort that we might be reaching the inflection point on this would be helpful.

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, let me first say that what I think is most important, and what I pay most attention to is our overall reserve adequacy of the entire group, which I think personally has been improving over time. Part of the evidence of that is what I referenced earlier in response to Kai, in terms of how our accident year combined ratios or loss picks have developed.

Right now your question is very focused on the insurance side, and understandably so, you never know in any of these lines of business. We have a couple of hundred different IBNR groups. Clearly, in each year we have redundancies in some, and deficiencies in others. So this is a natural occurrence in the complete reserving process. So I can't emphasize enough that the overall reserve position is what we really stay focused on.

As I said in my opening comments, was that we're reasonably confident that our overall insurance (52:07) position, again as a group, is sufficient. But with reserves, it's one of those things that you never know as it relates to any individual class within the segment. But as I said, I think our overall insurance portfolio is well reserved.

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

Just to add to that, during the reserve process this year, when we went through the insurance segments, we did consider severity scenarios, as well as volatility assumptions in those calculations that were done during the reserve studies. And management did elect to book a higher number than the actuarial indicated estimate for both of these books of reserves, both the umbrella book and the construction liability book.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Okay. And was that the major factor that changed versus last year, when you did the study at this time?

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

One of the major factors that changed this year was we did a claim review for the umbrella book. We had done a claim review earlier in the year. And we used – utilized those results that came out of that claim review to take into account that impact and that was considered during the actuarial studies for that book of business.

On the construction liability side, this relates to run-off landscapers program that we stopped writing back in 2008. The company no longer writes this book of business, but these are not indemnity type claims anymore, were considered an additional insured. Claimants have 10 years to file claims against the general contractor.

So again, they are not indemnity claims at this point. They're mostly legal fees. So it is a little bit more difficult to wrap your arms around this other than looking at not only frequency but also severity of those cases.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Great. That's helpful. Thank you.

Operator

Thank you.

A - Dominic James Addesso {BIO 1428096 <GO>}

Thank you.

Operator

We'll now move to our final caller for today's Q&A. This is Josh Shanker from Deutsche Bank. Please go ahead, your line is open.

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

Hey, good morning everyone.

A - Dominic James Addesso {BIO 1428096 <GO>}

Good morning, Josh.

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

Good morning. I would guess that on average, I ask question about the insurance business about once every three quarters. And Dom, you were named CFO in 2009, President in 2011, CEO in 2013, if Everest had chosen any of those times to dump the insurance business, would that have been a mistake?

A - Dominic James Addesso {BIO 1428096 <GO>}

Yes.

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

Why should we think that Everest in the long term in a great position to be in the insurance business?

A - Dominic James Addesso {BIO 1428096 <GO>}

And obviously, with the premise of your question you're referencing the reserve outcomes.

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

I am also noticing that – I'm also like current accident years are running at about 100% anyways.

A - Dominic James Addesso {BIO 1428096 <GO>}

No, they're not. We reported current accident years running at 94% -- 94.3%.

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

Well, that's this year – I mean, maybe that's the new trend, I guess. I mean, I'm looking at over a 10-year period, I guess.

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, look, we have significantly modified the method in which we're doing business on the insurance space. The historical insurance footprint of Everest was a program based book of business. Today, that book of business is dominated by direct brokerage book of business. One in which we are primarily driving the underwriting as opposed to an MGA driving the underwriting. That does not mean by the way that we don't have some favorable and significant MGA relationships that we still maintain. But predominantly the book has been driven by desk underwriters that are employed by Everest. That's the significant change.

And I think we've been able to demonstrate over the last couple of years the improvement in the accident year, in calendar year - or accident year combined ratio. But clearly, there's been a challenge with reserves that come up from books of business that have been terminated, as Craig pointed out, that have been terminated 2008 and earlier. There's nothing that current management can do about that except focus on building out a first class insurance organization, which we believe we're doing today.

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

And so your view is over the next two or three years, you'll be surprised if the insurance industry is not a contributor to profits the way the reinsurance business has been?

A - Dominic James Addesso {BIO 1428096 <GO>}

Absolutely. Now, by definition in cat free year, the reinsurance segments are going to produce a better combined ratio than the insurance space, but the insurance sector is much more stable in that perspective, But I think the current year attritional ratios demonstrate that already.

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

Josh, it's John. Just to add a little more color, I think also in the context of one of things we've really been focused in the last several years, Dom and the executive management team, is expanding our opportunity set and trying to figure out how we can get profitable growth.

That's why we've been hiring very talented teams of people or individuals that can hire teams of people and can access business on the insurance side. That's why we're getting into Lloyd's. That's why we are setting up the alternative capital to give us more capacity to deploy in other areas.

So around the globe whether it's insurance or reinsurance, whether it's in the U.S. or internationally, we're looking for ways to expand our opportunity set. I think that's my job, that's the senior leaders of the reinsurance and insurance team to develop new products, new distribution, new opportunities. And that also is one of the reasons why - as we've developed that, one of the reasons why the combined ratio has stabilized and our goal is to hopefully improve even in this market condition.

A - Dominic James Addesso {BIO 1428096 <GO>}

And Josh, look, say, the decision that - thank you for your recollection of all my stints at Everest, but I - had we made maybe a decision that you're suggesting to, let's say, dispose of the insurance sector, these reserve developments that we've seen would not have gone away, all right. Those are things that would have been there regardless of whether we have chosen to go forward on the insurance sector or not. And in fact, I think if anything, the insurance sector, based on the new strategy, has been accretive to earnings regardless of the prior year development. That prior year development is – was baked. There is nothing that we could have done about that.

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

Good luck. I hope it ceases in the future and we'll see what happens.

A - Dominic James Addesso {BIO 1428096 <GO>}

We will see.

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

Thank you.

A - Dominic James Addesso {BIO 1428096 <GO>}

That was the last question...

Operator

That was the last question in the queue. So I would like to hand back to our speakers now for any additional or closing remarks.

A - Dominic James Addesso {BIO 1428096 <GO>}

Well, thank you very much. Again, we're very pleased to report record quarter and a outstanding year, particularly compared to generally what's going on in the overall market. We appreciate your questions and certainly understand even the tough ones. We think what we have demonstrated over the past couple of years that our strategies that we embarked on a couple of years ago are beginning to demonstrate that we can produce returns that are above market returns – above the market.

So again, thank you for your questions and your interest in Everest, and we will talk to you in the months ahead.

Operator

Thank you. That will now conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.