Q1 2013 Earnings Call

Company Participants

- Beth Farrell, VP IR
- Craig Howie, EVP, CFO
- Dom Addesso, President
- Joe Taranto, Chairman, CEO

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Greg Locraft, Analyst
- Michael Nannizzi, Analyst
- Vinay Misquith, Analyst

Presentation

Operator

Good day everyone. Welcome to the First Quarter 2013 earnings call of Everest Re Group, Ltd. Today's conference is being recorded. At this time for opening remarks and introductions, I would like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Beth Farrell {BIO 19732216 <GO>}

Thank you, Tim. Good morning. Welcome to Everest Re Group's First Quarter 2013 earnings conference call. On the call with me today are Joe Taranto, the Company's Chairman and Chief Executive Officer; Dom Addesso, our President; 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 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. In the First Quarter we had 13% growth in premium, 25% growth in operating earnings and an annualized net income return on equity of 25%.

I am extremely pleased with how our underwriting portfolio is positioned and how our investment portfolio is positioned. We are finding growth opportunities in both our reinsurance and insurance operations, and I expect strong topline growth to continue this year. Dom will provide more detail on this shortly.

During the quarter we repurchased $239 million of our shares. After the quarter, we repurchased another $11 million of our shares for a grand total of $250 million.

Even though we bought back quarter of a billion worth of stock and paid $24 million in dividends, our earnings powered an increase in shareholders' equity from $6.7 billion to $6.8 billion.

Recently we notified note holders of our 6.2% junior subordinated debt securities that we will be calling the bonds. Accordingly, we expect to redeem $320 million of debt in late May. We are presently investing new money at slightly over 2% in corporate bonds.

So we expect to have roughly a 4% benefit on these funds on annualized basis going forward. That means we expect to increased pretax earnings by approximately $13 million annualized going forward from June. Craig will later provide additional detail on this transaction.

Repurchasing quarter of a billion of stock and redeeming $320 million of our bonds underscores the strength of our Company and our confidence in our future. Frankly, we have never been stronger and we have never been better positioned.

I am very proud that Everest has increased shareholder value for over 17 years at a compounded rate of 13%. I am pleased that we beat our historical average last year and grew shareholder value at 18%, and I am pleased that we beat our historical average again in the First Quarter of this year as we grew shareholder value at an annualized rate of 18%.

We continue to see opportunities and are very excited about our future prospects.

Dom.

Dom Addesso {BIO 1428096 <GO>}

Thanks, Joe and good morning. The First Quarter results reflect an improving market in certain areas, a lack of any major cats, and most importantly, a number of initiatives which are beginning to yield benefits.

Starting with reinsurance, the quarter produced a $210 million underwriting gain or a 76.4% combined ratio. Each of our major segments within reinsurance experienced combined ratios less than 80%.

The quarterly trend in the attritional combined ratios has been improving as a result of the shift from pro rata to access. This has not only had a dramatic impact on the loss ratio, but, also, the expense ratio.

In addition, we have capitalized on favorable market conditions in certain regions and introduced new product offerings in both existing and new classes of business, which have increased our writings and resulted in greater diversification both in product and geography.

These factors were most evident in the US reinsurance segment where premium growth was close to 18%. In addition to new business opportunities, this segment benefited from rate increases on existing business, with noted improvements in the casualty classes as well as those accounts that were affected by Sandy losses.

In the International and Bermuda segments, growth in total premiums was slightly in excess of 6%. Here, we also experienced some new business growth which accounts for most of the increase.

Rate activity varied depending on class and geography, which overall can be characterized as flattish in terms of its impact. Looking forward into the Second Quarter for all reinsurance segments, we expect casualty rates to continue to improve. This favorable trend in overall casualty rates is also a positive for our insurance operations, as I will discuss shortly.

Rate increases were also a factor for the Marine book, which has grown in excess of 28% for the quarter due to both rate and new business. Property continues to be mixed, depending on geography.

The loss-affected accounts in the Northeast US have seen increases, while Asia and Europe have been relatively flat. Nevertheless, we continue to deploy new capacity in product and layers, which provide returns in excess of our hurdle rates.

Our portfolio continues to be well-positioned. Actions taken over the last few quarters have resulted in a well-balanced and diversified book, which has steadily improved the profitability.

This diversification also means that the portfolio is better positioned to absorb cat events.

Turning to the Insurance segment also reveals an improved result with a combined ratio of below 100%. However, this includes a 136% combined ratio from the crop insurance book, which was due to the seasonality of the premium in that business and the impact on the expense ratio, as well as adverse development from last year's drought conditions.

When looking at the Insurance segment without the crop business, it results in a 96% combined ratio. This highlights the underlying improvement expected as a result of continued double-digit rate increases in workers' comp and general casualty, in addition to the elimination of certain program business.

These rate increases, along with growth, particularly in the specialty classes as a result of the new initiatives referenced last quarter, should continue to move the insurance operations forward in a positive direction. In addition, the previously announced transition regarding our nonstandard auto business will allow that business to grow, but at improving margins.

Primary medical stop-loss product continues to yield over 12 points of margin, and our US professional liability book is at 9 points of underwriting profit. In both cases pricing is generally flat, so near-term growth is expected to be purposefully slow.

Primary property rates continue to show a sign of firming, so selective growth is expected.

Finally, as we move into the remainder of the year, the crop writings will emerge. We have had a successful renewal season as new territories were opened, which will result in growth -- in gross premiums year-over-year. In addition, the net account will become much more significant to the segment with the elimination of a quota share in force last year.

The combination of crop, A&H, DIC, specialty casualty and property, professional liability, nonstandard auto, and California workers' comp, all with continuing or improving fundamentals, should translate into a positive trend for the combined ratio below the previously mentioned 96%.

I will conclude by touching on investment income, the other major component of our operating results. For the quarter investment income was, as anticipated, down over the prior year. While this was due to lower reinvestment rates, it was better than forecast due to the strategies deployed over the last several quarters. Diversification into high-yield bonds and dividend-paying stocks has helped to stall the decline.

In addition, our limited partnerships continue to perform well. The increased allocation to equities has also been of benefit to net income this quarter, as realized capital gains were $127 million.

These investment and underwriting strategies that have been emerging over the last several quarters have produced record earnings for the quarter. The headwinds of investment rates or reinsurance or insurance rates, or whatever else the markets can throw at us, will always be a factor in varying degrees and at different times. Nevertheless, we have positioned our resources and our portfolio to be able to respond effectively to the challenges, and to take full advantage of the opportunities that the markets present to us.

These are the benefits of a well-diversified and global platform. Thank you, and now I will turn it over to Craig for further details on the financials.

Craig Howie {BIO 17579923 <GO>}

Thank you, Dom. Good morning everyone. We are pleased to report that Everest had a record quarter of earnings with after-tax operating income of $301.1 million, or $5.88 per diluted common share for the First Quarter of 2013. This is a 25% increase over after-tax operating income of $239.9 million or $4.48 per share for the First Quarter of 2012.

Net income for the First Quarter was $384.3 million or $7.50 per diluted share, compared to $304.7 million or $5.68 per share in 2012. Net income includes realized capital gains and represents an annualized return on equity of 25%.

These results were driven by $100 million increase in the underwriting result, offset by higher income taxes and slightly lower net investment income compared to the First Quarter of 2012. The results reflect the continued improvement in the overall current year attritional combined ratio, which has declined more than 5 points from 86.4% to 80.7%. This measure excludes the impact of catastrophes, reinstatement premiums and prior period loss development.

The total reinsurance attritional combined ratio was 76.8% compared to 83.2% in the prior year. The insurance segment attritional combined ratio was 98.5% compared to 101.2% in the prior year. However, eliminating the effects of the primary crop book, this ratio would have been 95.9% compared to 98.2% in the prior year.

All segments reported underwriting gains for the quarter, and all segments reported improved underwriting results compared to last year.

Total reinsurance reported an underwriting gain of $210 million for the quarter, compared to a $112 million underwriting gain last year. The First Quarter of 2012 was impacted by $30 million of catastrophe losses.

The Insurance segment reported an underwriting gain of $193,000 for the quarter compared to an underwriting loss of $2 million last year. These results reflect a crop loss of $7 million for the quarter primarily due to the seasonality of crop premiums, but also including a $3 million true up from the 2012 crop year.

The overall underwriting gain for the Group was $210 million for the quarter compared to an underwriting gain of $110 million in the same period last year. Our reported combined ratio was 80.7% for the quarter compared to 89.0% in 2012.

The commission ratio of 21.4% for the quarter is down 2.4 points compared to the prior year. This lower ratio reflects a shift in reinsurance from pro rata to excess of loss contracts which generally carry a lower commission. It also reflects the shift away from program business to direct business in the insurance segment.

Our low expense ratio of 4.9% continues to be a major competitive advantage. A recent industry analysis showed that we had the lowest overhead expense ratio in the industry for 2012, a full 2-point advantage.

On reserves, our overall quarterly internal reserving metrics continue to be favorable. For investments, pretax investment income was $146 million for the quarter on our $16.6 billion investment portfolio.

Investment income declined $7 million from one year ago. This decrease was primarily driven by declining reinvestment rates, partially offset by higher limited partnership income for the quarter.

Despite the declining rates, our investment portfolio continues to perform well. The pretax yield on the overall portfolio was 3.7% with a duration of just over three years. The quarter reflected $83 million of net after-tax realized capital gains compared to $65 million last year. These gains are mainly attributable to fair value adjustments on the equity portfolio.

On income taxes, the 12.3% effective tax rate on operating income is in line with our expected rate for the year. Also, recall that 2012 income tax expense benefited from favorable one-time adjustments.

Strong cash flow continues, with operating cash flows of $226 million for the quarter compared to $166 million in 2012. This is despite the high level of catastrophe loss payments over the last two years.

Turning to capital management, as Joe mentioned, we have decided to call our 6.2% junior subordinated debt that was due in 2034. The note holders have been notified and the redemption will occur on May 24.

This will save about $20 million of annualized interest expense, and we will use cash that would have been invested at about 2%. The net savings of about 4% will increase annualized earnings by approximately $13 million beginning in June.

Shareholders' equity increased to $6.8 billion this year, up $83 million from $6.7 billion at year-end 2012. This is after taking into account capital returned for the $239 million of stock repurchases and the $24 million in dividends paid in the First Quarter of 2013.

Book value per share increased 4% to $136.43 from $130.96 at year-end 2012. Our strong capital position leaves us with the capacity to maximize our business opportunities as well as continued share repurchases.

Thank you. And now I will turn it back to Beth for Q&A.

Beth Farrell {BIO 19732216 <GO>}

Tim, we are ready to take questions.

Questions And Answers

Operator

[Operator Instructions] Amit Kumar, Macquarie Capital.

Q - Amit Kumar {BIO 15025799 <GO>}

Congrats on a strong quarter. I guess two or three questions. My first question relates to the upcoming renewals. We have heard a lot about the third-party capital entering this market place, and some other companies have alluded to a tough renewal at 7/1.

I was curious what your thoughts are on that, I guess, in conjunction with Mt. Logan Re. Thanks.

A - Joe Taranto {BIO 1495653 <GO>}

Let me start with at least the 6/1's that are coming up, which I guess are more the Florida renewals. First of all, looking to the Florida market, I do expect more demand. But, as you noted, there probably will be more supply as well.

I won't predict how that collectively moves the entire market, but, overall, I still expect it to be quite a good market. I anticipate we will have a very good June 1 renewal, and we will be renewing business at healthy rates.

We concluded a few deals so far for the 6/1 season and we are reasonably far along on a few others. And what we have put to bed so far is at similar rates to last year.

On top of that, underlying homeowner rates continue to improve, which will make quota share opportunities healthier. And commercial property rates continue to improve, making for a better environment for our insurance operation -- our property insurance operation in Florida, and our facultative reinsurance operation.

I expect XOL reinsurance to be well rated as well. Going beyond that to 7/1, again, it gets to -- even a little fuzzier if you get into some of the international renewals.

What we saw recently in April in Japan is that was a relatively flattish renewal, so we'll see what happens when we get to July and beyond. But I don't expect the world to change all that dramatically for cat business for professional reinsurers.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. The other question I had was on crop. Do you have the percentage breakdown of your crop book, I think in terms of what percent is corn, what percent is soybean, and what percent is winter wheat? That would be very helpful.

A - Dom Addesso {BIO 1428096 <GO>}

Our portfolio is about 40% corn, 25% wheat, 17% soy, and then the remaining mixture between cotton and other grains and beans. Now, most of the wheat is fall crop, if that helps.

Q - Amit Kumar {BIO 15025799 <GO>}

Yes, and I guess the final question related to that, the corn planting is meaningfully behind, I guess, the long-term trend. And it seems that the window is closing very quickly. I was curious if you had any thoughts on the corn planting and how that would play into the results going forward. Thanks.

A - Dom Addesso {BIO 1428096 <GO>}

Well, I think last year, my recollection was that the -- it was really a relatively early planting season. And I think this year's planting is along the expected calendar. So, I am not sure that we view it the same way as what you might be suggesting.

Certainly, farmers need to get their crops in the ground before the middle of May, and we still think that there is plenty of opportunity to do that. There has been some floodings in certain areas of the Midwest that might delay some of the plantings, but much of the flooding does not affect the farmlands. And then to the extent that those areas that we have designated as flood prone, we have the ability and have actually ceded those risks through the assigned risk pool.

A - Joe Taranto {BIO 1495653 <GO>}

Yes, let me add to that, really, and it is early days for the crop business, but at this point we have no reason to expect anything other than a normal season. Time will tell, but we have no indication otherwise at this point.

Q - Amit Kumar {BIO 15025799 <GO>}

I was just looking at a USDA report which shows that if you look at Illinois or Indiana -- if planting was 50% last year, right now is at 1%. And so you are saying that it should still be fine even though the numbers tell another story?

A - Joe Taranto {BIO 1495653 <GO>}

Yes.

Q - Amit Kumar {BIO 15025799 <GO>}

Okay, that is all I have. Thanks for all the answers.

Operator

Michael Nannizzi, Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Just one question on the investment portfolio. So are you pulling down duration in anticipation of the potential rise in interest -- or a potential rise in interest rates? Or is that something that you're not really positioning for at this point?

A - Dom Addesso {BIO 1428096 <GO>}

We, as I made some reference to, the investment strategies really began with us several quarters ago. And we pulled down duration dramatically over the last several quarters. What we have done more recently has been relatively stable.

Our duration is under (3) right now, and that hasn't moved much last couple of quarters. So we have been stable in that regard. But we have done a lot of work in terms of moving that to where it is today over the last several quarters, which began, as I mentioned, a few quarters ago.

Q - Michael Nannizzi {BIO 15198493 <GO>}

So I mean -- (multiple speakers)

A - Joe Taranto {BIO 1495653 <GO>}

Some of the thinking is to be protected in the event there is a big rise in interest rates.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. I guess the question I would have is, along those lines and you mentioned calling some debt, you have got relatively high interest debt and you have got, obviously, low interest rates. What is -- how do you reconcile the decision to call those bonds instead of replacing the leverage that you -- very low leverage that you currently have?

A - Craig Howie {BIO 17579923 <GO>}

Michael, this is Craig. There were many options that we evaluated when we went through this process and, frankly, all the options were good options for us. This was the most accretive to earnings and especially since it is a risk-free return to us.

Our capital position is strong enough to absorb this transaction where we didn't have to replace it with other debt. And they really should have no impact on our share repurchases for the year.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Right, so the savings from -- just want to make sure I understand -- so calling the 6.2% debt would be more accretive to per-share earnings than reissuing and repurchasing $300 million in stock?

A - Craig Howie {BIO 17579923 <GO>}

That is correct.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. And then one question I had on the insurance book, I feel like -- going back, it seems like it is a book that has been in some transition, whether it is the crop book, the quota share program, program book, the re-rating on the comp side. How should we think about this?

I still -- I look at it I am not really sure of the crop versus the non-crop. How big is it? What is the impact of this quota share program? And how should we think about this book going forward?

I appreciate the commentary about the combined ratio drifting downward, but I don't have a good feel for what is in there and whether or not there are more potential changes to come, other than opportunistic moves on the margin. Is this book -- is the corpus now mostly in place?

A - Dom Addesso {BIO 1428096 <GO>}

There are lots of moving pieces, and you have got in excess of -- what will be in excess of a couple hundred million dollars of premium in crop for the year. Likewise, we will have well in excess of $200 million for the California comp.

Our primary medical stop-loss business is just under $100 million. We have got the nonstandard auto business which was at $30 million. We expect it to grow to $80 million, and from there. So it is pieces of that. There are elements that we expect to grow.

We have got an excess casualty facility. We have got an environmental facility. We just formed a specialty insurance group which I mentioned in previous -- I think the last quarter -- to focus on some unique classes of business in the niche business.

By the same token the program business is coming down, moving more to a direct broker model. And all of those things are having a positive impact on our business. Also, our California DIC business has performed nicely. And, we have are property E&S operation that could experience some growth in strengthening property insurance market in particular.

A - Joe Taranto {BIO 1495653 <GO>}

Adding a little bit more to that, the crop business will probably be, roughly speaking, 25% of our business. And, as I said, we are expecting a normal year. A normal year means a very reasonable profit.

Workers' comp is probably another 25% of our business. And rates continued to go up there quite nicely. Frankly, in the course of the last four years we have achieved compounded 60% of rate. So, you put those two together, which are trending nicely, and you are up through half of the book.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Right.

A - Joe Taranto {BIO 1495653 <GO>}

After that, as Dom noted, you've got professional liability making a portion, which is running very well; medical stop-loss making a portion, which is running very well. The nonstandard auto portion, GL and property rates are going up and that is a portion.

So you can -- that helps quantify it for you, but everything is moving in the right direction. And, frankly, if you take out the blip from crop in this quarter, it is 96% when you put it all together, even this quarter. So that is why we feel good about it.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. And so you got about 3 -- about 2 -- about 3 -- 2.5 points of underlying combined ratio improvement ex-crop in this segment year-over-year. So as we look, you see you have got crop, which is anomalistic from [ph] rate environment. You have got workers comp, where it sounds like you're saying that rate is running at a healthy clip ahead of loss trend.

And then if we were to look at the other 50% of book, how should we think about the migration there in terms of where -- is there an amalgamated rate versus a loss trend where you are aiming or targeting for, that we can think about as that book moves ahead? And thank you for your all your answers.

A - Dom Addesso {BIO 1428096 <GO>}

Let me talk about the other 50%.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay.

A - Dom Addesso {BIO 1428096 <GO>}

I already -- I think I mentioned in my opening comments the margins that we are experiencing in our medical stop-loss book of business, and professional liability book. We are, obviously, pleased with those margins. But as I said, rates appear to be flattish in that environment, so we are not expecting huge amounts of growth. But we are certainly, those two classes of business, if you will, are easily meeting our hurdle rates.

As with casualty rates for us are going up double-digit, and certainly we would expect that trend to continue above, certainly above loss trend. And so we expect to see growth in casualty space and the primary market.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Great. I have one more. I will just re-queue. Thank you, so much.

Operator

Greg Locraft, Morgan Stanley.

Q - Greg Locraft {BIO 4221265 <GO>}

Awesome quarter. Wanted to just follow up on your commentary that midyear, or at least the last couple of deals were renewing flat year-over-year. Can you be more specific in terms of what type of business this is, what layers? Is this Florida? Is it not Florida? Can you help us think about that, because that is actually a lot better than what I was thinking?

A - Dom Addesso {BIO 1428096 <GO>}

What Joe was referencing in that comment was the 6/1s that we have already put to bed or about to put to bed in Florida. All right?

A - Joe Taranto {BIO 1495653 <GO>}

Yes, we put to bed probably close to half of the premium that we have done on XOL business that we did last year. We put that to bed this year and pretty flat rate versus rate. So there is more to come. And some of this will take a couple of months, but that is what we have experienced so far.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. Great. And maybe same topic just on the midyears, and specifically Florida, what are you seeing on the unit side? It seems like there is some favorable trends from a de-pop perspective that might be materializing. Could you help us think about some of those?

A - Joe Taranto {BIO 1495653 <GO>}

There are, Greg. I think that is when I was saying I expect demand to go up, because you're right, Citizens is de-popping and that seems to be going to some of the smaller companies, more thinly capitalized that are more in need of traditional reinsurance. So that is why I said demand is on the rise.

But at the same time, I do believe there is some supply on the rise, in the sense that reinsurers like ourselves, surplus is building, and there is some alternate capital coming in. So I wasn't going to get into predicting when you put all that together, what it means in terms of rate for the industry. But I really already know that we are going to have a good June 1. I know enough information to see that that will be the case.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. Great. So, demand is up and then pricing is flat. Or maybe jumping back to my last question --.

A - Joe Taranto {BIO 1495653 <GO>}

What we have done so far is flat. More to come.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay, and, again, the flat you are mentioning is price. That is not just premiums that are flat.

A - Joe Taranto {BIO 1495653 <GO>}

No, rate relative to exposure. Now --.

Q - Greg Locraft {BIO 4221265 <GO>}

Perfect, perfect.

A - Joe Taranto {BIO 1495653 <GO>}

I am talking about the XOL business when I am speaking on that. Meanwhile, underlying insurance rates, at least homeowner rates, continue to go up. And that makes that business healthier.

And remember, we participate in some quota share as well and so that business is getting better that we participate via quota share. And commercial property rates continue to go up, and we do have a commercial property insurance book in Florida, so that is getting better.

And our facultative book, which does some commercial business in Florida, is now going to be dealing with insurers that have gotten better rate on their business. So there is various things going on, but when it all shakes out, at least for us, I expect it to be quite good at June.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay, that is great color, thanks. And then just jumping topics, on the buyback front, again, excellent quarter on that. You bought back half the -- or I'm sorry, 4% of the Company. So that is an excellent number. So what I am sort of scratching my head on, though, why don't you do more? The buyback (multiple speakers)

A - Joe Taranto {BIO 1495653 <GO>}

What do you think, $1 billion or $2 billion next quarter? . Keep in mind, we not only this quarter are effectively doing the buyback, we are also redeeming $320 million bond.

But I think what all of that says is we are feeling very strong in terms of the portfolio, the current earnings, the future earnings. And, frankly, we are also feeling -- agreeing with you that it is a good time for us to be buying, and to be buying in a very significant way.

We looked at $0.25 billion as if it was a significant way in the First Quarter. I don't know how many others are going to be buying back 4% of their stock in this quarter.

Q - Greg Locraft {BIO 4221265 <GO>}

No, I actually -- what is amazing is you actually earned even more, right? The payout ratio is still -- (multiple speakers) -- yes, it is great. So, hopefully, we can do 4% every quarter for a while to come. Again, great -- great start to the year. Thanks, guys, appreciate it.

Operator

Vinay Misquith, Evercore Partners.

Q - Vinay Misquith {BIO 6989856 <GO>}

The first question is on Florida again. So I hate to beat a dead horse, but just curious as to why your experience is different from what the brokers are saying on the Florida market?

A - Joe Taranto {BIO 1495653 <GO>}

I have to say to begin with, what many of the brokers are predicting, we will see what happens, because they are predicting deals that are future deals. But there was some uniqueness to the deals that we have done so far as to why we had some competitive advantages, as to why we're able to certainly maintain rate.

But I would go beyond that. For the deals that we will be seeing, we have no interest if there is some meaningful decline in rates, in participating in those portions of the business where there are meaningful declines.

As I noted, there is pockets of the business where rates are getting better, starting with the primary insurance rates that are helpful with regard to quota shares. So we have a lot of options in terms of how we put down our aggregate in the market.

We can put it on quota shares. We can put it on XOL. We can put it on facultative reinsurance. We can put it on commercial insurance. And we're going to go at it the best way, where it is the healthiest rate and it makes the most sense for us to put down.

So I am telling you what our situation has been so far. And I'd also tell you, I think we have some very good options that will take us into 6/1 that will give us a good portfolio at the end of that.

Perhaps when you do put the market at the end of June all together, given what the brokers said, you may see some decline. That remains to be seen. But I am very happy with our situation.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, that is helpful. Second point is on the lower commission expense ratio. That was certainly a positive this quarter. How much of the transition from -- for -- to XOL and the program business, normal business, have you done? So, in other words, should we see this same level of expense ratio continuing for the next couple of quarters?

A - Craig Howie {BIO 17579923 <GO>}

No, I wouldn't expect it to trend this way. I think what you have seen here is a decline over time, and this was a fairly large impact here in the First Quarter. But due to a number reason, as I mentioned, it is both on the reinsurance side from the shift in business, but also on the insurance side, because we have moved to more direct writing instead of program business. So what you are seeing is that benefit coming through.

I would expect this to be closer to a normal run rate than a continuing trend.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, that is helpful. And then the last point was on the buyback. This quarter you bought back about 90% of earnings. So is that fairly good run rate, sort of excluding the hurricane season that we should be thinking about? And you mentioned before that the debt repurchase will not impact the buyback, correct?

A - Joe Taranto {BIO 1495653 <GO>}

That is correct. We look at that as capital. We didn't look at that as capital before, and so it doesn't affect our mentality for buying going forward.

Well, we have never given guidance on what we will buy back going forward, and we won't at this stage. So I'm not going to give you some formula relative to earnings or anything else. But let us say that it is clear in what we did in the First Quarter that we think it is a very good way to improve results for shareholders going forward, for us to continue to buy back a substantial amount of our stock.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure, fair enough. And just to clarify, the topline growth this year has not added any more capital requirements, correct?

A - Dom Addesso {BIO 1428096 <GO>}

That is correct.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, that is helpful. Thank you.

Operator

Brian Meredith, UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Dom and Joe, could we talk a little bit about the casualty reinsurance market? And, particularly, can you tell me -- you talked about how you are seeing some rate in casualty. I assume you're talking more on the subject premium base, rather than actually reinsurance. And what are you seeing -- what terms and conditions on some of the casualty reinsurance and demand in the marketplace as well?

A - Dom Addesso {BIO 1428096 <GO>}

Most of the increase, yes, is coming from the subject base. As primary rates, of course, are going up, that is having a positive impact on the subject base.

That is not to say that we don't have some relationships or contracts, transactions where the reinsurance rate might be changing as well. So you could be getting it from both spots, but that is very, very deal-specific. But, clearly, the underlying primary trend is what is driving the casualty market.

I would have to say that there is not really any overall dramatic change in terms and conditions relative to casualty deals. And relative to demand, I think demand, again, other than the increasing subject base, we are not necessarily seeing sessions from customers in this space going up dramatically.

So it is all basically -- any growth there is basically being driven by rate and some new business opportunities. We are able to grow the portfolio, now that we see margins improving there, to entertain plenty of new business opportunities. Being able to leverage the relationships that we already have, and I don't mean that in a negative way, but to be able to expand our casualty relationships where we are providing property capacity to clients.

We see the market improving. We have a much bigger appetite for entertaining casualty business.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thanks. And then just quickly, could you chat a little bit about what you think the impact of alternative capacity is going to be on midyear renewals? What are your thoughts maybe even longer term and how that potentially could impact the (traditional) market?

A - Dom Addesso {BIO 1428096 <GO>}

It is hard to say. It is certainly -- the talk is that it is having a dampening impact on rate levels. But by the same token, particularly in Florida, we are seeing Citizens continue to depopulate, new markets emerging, which will increase demand. Property values will continue to go up, which will increase demand.

And there are -- there is growth in the emerging economies, which allows us to spread our aggregate across the globe and not be so focused on one particular region or part of the world. And, of course, we will look to potentially participate in some of that through the facility that we are crafting.

A - Joe Taranto {BIO 1495653 <GO>}

I would add to that that some of these alternative capital providers can't really offer the same products that we offer, where we can tailor our product to the clients' needs. And, also, we have relationships with many of our partners, business relationships that go back for many, many years; underwriting facilities around the world. So we have some competitive advantages over these -- over this new capital, if you will.

But it is a little bit complex in terms of how this is going to affect everything the further you look out. We will see.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, thank you.

Operator

That concludes our Q&A session. I will turn it back over to our speakers for any closing remarks.

A - Beth Farrell {BIO 19732216 <GO>}

I would just like to thank everybody for joining us today.

A - Joe Taranto {BIO 1495653 <GO>}

Thank you.

Operator

That concludes today's conference call. We appreciate your participation.