Q1 2018 Earnings Call

Company Participants

- Craig Howie, Chief Financial Officer
- Dom Addesso, President and Chief Executive Officer
- Elizabeth Farrell, Vice President of Investor Relations
- John Doucette, President and Chief Executive Officer of Reinsurance Operations
- Jon Zaffino, President and Chief Executive Officer, Insurance Operations

Other Participants

- Elyse Greenspan, Analyst
- Joshua Shanker, Analyst
- Kai Pan, Analyst
- Meyer Shields, Analyst

Presentation

Operator

Good day, and welcome to the Everest Re Group First Quarter 2018 Earnings Call. 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. Ma'am, please go ahead.

Elizabeth Farrell {BIO 1986541 <GO>}

Thank you, Charles. Good morning, and welcome to Everest Re Group's first quarter 2018 earnings conference call. On the call with me today are Dom Addesso, the company's President and Chief Executive Officer; Craig Howie, Chief Financial Officer; John Doucette, President and CEO of Reinsurance Operations; and Jon Zaffino, President and CEO of the Insurance Operations.

Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to looking statement. 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 investor should consider in connection with such statements.

Now let me turn the call over to Don.

Dom Addesso {BIO 1428096 <GO>}

Thanks, Beth. Good morning, and welcome to the call this morning. As you noted in the published financials, the core attritional results of the company continue to be quite favorable, and despite the prior year, cats recorded this quarter, the operating ROE of 10.5% is quite strong. Our reinsurance book produced $96 million underwriting profit in the quarter. And our insurance franchise more than doubled its underwriting profit to $12.5 million for the quarter. This reflects a continuing diversification effort between [ph] classes of business that have adequate margins.

With respect to the reinsurance segment, the underwriting profit is a consequence of improving margins in our property book, which I'll get back to you in a minute, but also expanded writings in casualty, mortgage and structured products. While mortgage and structured products have generally had excellent margins. We are finding the general casualty market is now firm, perhaps in part, due to less than expected improvement in company's margins on property business. However, more prominent in the casualty market is the demand side. As underwriting income in primary markets has been under pressure, due to property results, buyers have become more tuned to reducing volatility generally across their entire portfolio, driving more demand for casualty and whole account solutions.

Industry consolidation hardly plays a part in that, due to large buyers needing capacity and quality markets that can support them.

With respect to the property market in general, renewal season for reinsurance offered at better terms, but was somewhat below our expectation, this resulted in us reducing our participation in certain areas. However, our first quarter premiums were above the prior year, due to rate and select new opportunities. These two factors, of course, lead to increase margin per dollar of PML year-over-year.

April is a key renewal for the Japan and Asia markets, which saw a slight improvement in rates, but the bright spot was the Caribbean renewals, which of course, were loss affected.

On balance, the reinsurance property market remains inconsistent and that there is less business that meets our current return hurdles, but enough, that allowed us to increase our margin year-over-year. Our approach to different parts of the cycle has been to match capacity to capital at the most efficient point in the curve, that means period of contraction, expansion, attachment point change, et cetera, whatever suits that particular period in the market. Consequently, over time, we tend to outperform the market.

We think the reinsurance book has continued that trend here in the first quarter. Our insurance operation continues its tremendous progress, while it may not be obvious given the similar attritional combined ratio year-over-year. In fact, the North American operation produced a 95.7 combined ratio in the quarter.

The headwind of course is the international insurance build out, which was in the plan. During the balance of 2018, we expect the international operation to improve substantially, as we are beginning to see our investments there pay off. Insurance premium growth remained healthy, but this growth creates a pull on our earnings as earned premium lags the resource investment required. In addition, some of our newer product offerings with lower expected loss ratios has not yet fully had that impact, as the earned premium build is still developing.

As the year progresses, we expect our expense ratio and loss ratio to improve as the accelerated growth in premium becomes earned in conjunction with a more normalized resource group.

We are quite optimistic about the ability of the insurance group to increase this level of profitability. The market will likely make that a challenging objective. However, we have demonstrated that our product diversity and scale is one that allows us to find the right opportunities. This is not unlike what I describe regarding the reinsurance operation cycle management.

Before I end my comments about the underwriting operations, you surely want my comments regarding the wildfire loss we booked this quarter. First, let me say that this tragic event was so much more devastating than people imagined. These record events late last year were obviously hard to evaluate, especially as a reinsurer, it was one further step we moved. Our loss selection for any particular event is based on a three pronged approach, that takes into consideration the estimated industry loss, modeled estimates and client discussions.

Generally, we place greater weight on the highest lead outputs when establishing our reserves for the catastrophe events. The models for these wildfire events were the lowest of the various estimates. And as a consequence, the reserves were largely based on our clients insights into their expected loss. As many of you know, our reserving philosophy, we believe that due to our various methodologies, our estimate was conservative. While this turned out not to be the case, we continue to expect that our overall 2017 year-end reserve position will prove to be more than adequate to cover all losses that occurred in 2017 and prior, including cats.

Finally, let me touch on investment income, which remains strong and is reflective of the continual evaluation of our asset allocation in a low but rising interest rate environment, coupled with increasing volatility in the equity markets. Our slight rotation in allocation to the private equity markets with a biased towards fixed income from public equities has resulted in a pick-up in investment income. Nevertheless, our core portfolio remains investment grade and naturally with the recent rise in rates has negatively affected our market values. Thereby constraining our growth in book value. This is a relatively short-term challenge as our portfolio was on the shorter end with a duration of three years. This of course means that over time, these bonds will accrete to par, and we will benefit from higher rates going forward.

In summary, based on the first quarter and what we see ahead, we remain quite optimistic and would expect to continue to produce a double digit ROE, including an expected cat load. This is a result of our diversified portfolio and strong market position, as well as a solid balance sheet. Thanks for your participation this morning. I look forward to the discussion later. And now to Craig for the financial report.

Craig Howie {BIO 17579923 <GO>}

Thank you, Dom, and good morning everyone . Everest had another solid quarter of earnings with net income of $210 million for the first quarter of 2018. This compares to net income of $292 million for the first quarter of 2017. The 2018 result represents an annualized net income return on equity of 10%. Net income included $19 million of net after-tax realized capital losses compared to $32 million of capital gains in the first quarter last year. The 2018 capital losses were primarily attributable to fair value adjustments on the public equity portfolio. After-tax operating income for the first quarter was $220 million compared to $267 million in 2017. As previously announced, the company's reporting of operating income now excludes foreign exchange gains and losses. The overall underwriting gain for the Group was $108 million for the quarter compared to an underwriting gain of $183 million in the same period last year. In the first quarter of 2018, Everest sold $100 million of catastrophe losses related to the 2017 California wildfires compared to $20 million of catastrophe losses reported during the first quarter of 2017 in comparing reported losses against our prior year catastrophe loss estimates and the impact of aggregate covers on attachment to specific events, we revised the ultimate loss estimates by event and by segment, with no change in the overall loss estimates except the California wildfires as previously announced.

No other events breached our $10 million catastrophe threshold in the first quarter of 2018. Therefore, any losses arising from these events were more than covered in our attritional loss estimates, which include a load for events less than $10 million.

The overall current year attritional combined ratio was 87.1%, up from 84.5% in the first quarter of 2017, primarily due to changes in business mix and higher retrocessional costs in 2018. John Doucette will explain more about these changes in his comments.

Our reported combined ratio of 93% was higher than first quarter last year, primarily due to the higher reported catastrophe losses in 2018. For investments, pretax investment income was $138 million for the quarter on our $18 billion investment portfolio, investment income was 13% above last year. This result was primarily driven by the increase in limited partnership income, which was up $12 million from the first quarter of 2017 and the investment grade fixed income portfolio, which had a higher asset base this year.

The pretax yield on the overall portfolio was 3% with the duration of just over three years. Foreign exchange is reported in other income. For the first quarter of 2018, foreign exchange gains were $10 million compared to $4 million of losses in the first quarter of 2017.

Other income also included less than $1 million of earnings and fees from Mt. Logan Re compared to $2 million of income in the first quarter of last year.

On income taxes, the 6% effective tax rate on operating income was at the low end of our expected range of 7% to 8% for the full year. The effective tax rate is an annualized calculation, that includes planned catastrophe losses for the rest of the year. Should catastrophe losses come in lower than this estimate, it would be expected that the tax rate would go up.

Shareholders' equity for the group was $8.3 billion at the end of the first quarter, relatively flat compared to year-end 2017. This is after taking into account, the mark-to-market impact on the investment portfolio and capital returned through $53 million of dividends paid in the first quarter of 2018. Our capital position remains very strong.

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

John Doucette {BIO 7178336 <GO>}

Thank you, Craig. Good morning. The reinsurance division delivered a strong first quarter with $96 million of underwriting profit. Premium growth of 22% and a better risk adjusted portfolio as compared to Q1 2017.

After the record loss activity in 2017, rates were up as we indicated last quarter. At this pivotal 1/1 renewal, we focused on improving the quality of our portfolio including its diversification by line of business and geography. To this end, we were successful. Our clients and brokers increasingly gravitate to Everest as an enduring, relevant, long-term trading partner.

Against this backdrop of increasing uncertainty for some of our competitors, who are distracted by M&A activity, Everest provides stability and focus to the customer.

Our growing global reinsurance franchise with broad product and distribution capabilities and industry leading expense advantage and sophisticated capital and hedging capabilities position us to maximize opportunities born from the continued disruption and evolution of the reinsurance market. This is further enhanced by the growing number of strategic partnerships that we are adding and developing across our entire organization.

Our deepening relationships continue with our core clients and partners and extend beyond the traditional P&C landscape. These strategic relationships come in various forms including global clients, quality upcoming underwriting organization, staffed with underwriters we know well and respect, cutting edge insurers, brokers with specialized distribution capabilities, niche businesses accessing unique and diversifying risks, highly specialized MGAs and asset managers and alternative capital investors.

Combining the accompanying enhanced capabilities derived from these partnerships with our nimble execution, we are better positioned to thrive where the continuum of asset risk and insurance risk is blurred.

Before I comment on recent renewals, here is an overview of the reinsurance division's result. Overall, reinsurance premium showed strong growth at $1.4 billion, an increase of 22% from the first quarter of 2017. This was driven by broad growth across the US, Middle East and Africa, Latin America and European operations, including both rate increases and a higher volume from pro rata contracts.

Our loss ratio was elevated by 9.8 points with 6.5 points due to the $100 million of loss emanating from the California wildfires in our US operations. Adjusting for these wildfire catastrophe losses and prior year development, the attritional loss ratio is up 3.2 points, due to business mix with a higher share of new property and casualty pro rata opportunities, additional long tail treaties, some loss portfolio transfer business and higher retrocessional costs in the quarter compared to Q1, 2017.

Our estimates for the Harvey, Irma and Maria losses remain unchanged in total across the group. However, the losses both across business segments and by events, have been allocated differently as more data became available. Directionally, we saw upward movement on Irma estimates due to increased loss adjustment expenses, while we saw reductions on Maria and Mexican earthquake estimates, as development has not been as significant as initially estimated.

Now for some additional comments by reinsurance segment. In our US reinsurance segment, we saw our first quarter premium increased 11% year-on-year to $644 million, benefiting from post loss rate increases, additional property and professional liability pro rata business and increased structured products writings. The attritional loss ratio is up 3.4 points, primarily due to higher corporate retrocessional costs recorded to this segment, and the impact of business mix.

The 14 point loss ratio improvement seen in our Bermuda segment and the 22 point improvement in the international segment are due to the aforementioned reallocation of cat losses between segments.

Our Bermuda reinsurance segment premium grew 29% in US dollars to $416 million and 25% on a constant dollar basis. Some of the growth was recognition of written premiums from prior underwriting years with the balance supported by new professional liability and casualty quota share business, capital relief trades and new reinsurance opportunities as many Lloyd's markets increase their hedging activity amidst adjustments to their underwriting strategies. Adjusting for cats and prior year development, the attritional loss ratio was up about 5 points mostly due to business mix.

The international reinsurance segment premium was up 38% to $367 million. Premium growth was broad-based across Latin America, Middle East and Africa, Canada, Singapore and Facultative markets. Some growth was due to timing of premiums on certain accounts. However, the current year attritional underwriting result was largely stable compared to Q1 2017.

In terms of catastrophe capital management, we recently executed on reinsurance protection supported by two new Kilimanjaro cat bonds. These new cat bonds with total capacity of $525 million replaced expiring bonds, protecting us from hurricanes and earthquakes in the US, Canada and some areas in the Caribbean.

The maturities are split into four-year and five-year terms and all provide annual aggregate protection. The overall retro costs are up year-over-year, because of the additional Kilimanjaro two cat bonds that were issued in Q2 last year. This additional coverage along with Mt. Logan and traditional reinsurance and retrocessional hedges protect our group's PML holistically, allowing us to prudently manage within our cat risk appetite across all reinsurance and insurance segments.

Now I will provide a brief update on recent renewal activity. In our property operations, we have captured double-digit rate increases in loss affected markets, while ceding commissions were largely stable. Competition from ILS Capital prevented further rises in rates. At Everest, we focused on improving the risk reward balance as we led the market with corrective rate increases on deal, while also finding new attractive opportunities.

In casualty markets, there is a modest firming of reinsurance terms. Casualty access rates are generally up in the single digits and ceding commissions down for our US deals.

Internationally, ceding commissions are stable. April 1st renewals in Asia would best be described as stable pricing with some increase in demand, particularly from the larger companies and mutuals, such as in Japan. We also renewed some loss affected areas, such as the Caribbean, where prices were up, reflective of the 2017 loss activity.

In these areas, we've been able to deploy the same or more capacity at increase rates. Alternative capital and M&A is a presence in our business. Given this reality, Everest is taking the opportunity to step up as a stable partner. Capable of navigating the increasingly dynamic reinsurance markets. This resulted in better access to good business through increased signings on layers we found attractively priced, including some private deals not shown to the full reinsurance market.

We also provide assistance to some of our clients experiencing operational disruption through both traditional and structured solutions tailored to address the evolving needs. A key lesson so far in 2018, that is already well known, but perhaps under appreciated, is that reinsurers cannot rely on hard markets to offset sub-par results in non-March [ph] years. Having understood this to be the case for some time, Everest will continue to develop its capabilities to maintain relevance, namely, global breadth of capabilities across various classes of business, while continuing our territorial expansion and developing new products.

Creative structuring to deliver customized solutions to our clients, meaningful capacity supported by advanced capital and hedging capabilities through Mt. Logan, Kilimanjaro cat bonds, traditional reinsurance and retro and ILWs, all supported by an efficient expense structure and nimble execution in size, leveraging our flat and empowered organization.

Sustainable franchises must maintain relevance and profitability and the ability to trade forward through major industry losses to ultimately be successful in the long term.

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

Jon Zaffino {BIO 16652236 <GO>}

Thank you, John, and good morning. We are pleased to report a solid start of the year for our global insurance operations. As measured across numerous metrics, we are beginning to realize the benefits of the many strategic and tactical actions taken over the past several years to position our insurance operations for sustainable success. This of course includes the achievement of consistent underwriting profits across our steadily expanding portfolios.

Globally, gross written premium was 505 million for the quarter, a 16% increase over the first quarter of 2017, and the strongest first quarter production we have experienced in the history of Everest Insurance. We continue to invest in (inaudible) focused growth within our chosen product segments across our global operations, and this quarter's results are a testament to that.

Most importantly in the quarter, this growth resulted in underwriting profit of $12.5 million, more than double the 5.1 million underwriting profit from the first quarter of 2017.

Further, our attritional loss and loss adjustment expense ratio improved 1.7 points to 66.1%, reflecting the continued migration towards the higher value and diversified specialty books of business and the earned premium impact of these businesses into the P&L. These more are recently established portfolios accounted for our record 22% of our net earned premium in the quarter and will continue to expand in the quarters ahead. We remain confident that our vision to organically build a world-class specialty diversified insurance organization is being realized. As we have reported in prior calls, our leadership and underwriting teams in place across the globe, continue to execute on their individual and collective mandates.

Our teams remain focused, and our opportunity set measured by our robust submission flows across lines of business continues to grow. We will look to build on this momentum throughout the year.

Turning to the financial highlights, as mentioned, the global insurance operations produced 505 million in gross written premium in the first quarter, an increase of 71 million or 16% over first quarter of 2017. Another solid quarter, showing steady improvement and evidence of our growing relevance in the specialty insurance market.

As in prior quarters, contributions remain balanced across the diverse group of property and casualty and accident and health underwriting divisions within our global insurance operations. Further, this represents the 13th consecutive quarter of growth across the insurance organization.

Turning to net premiums, for the first quarter of 2018, net premiums grew by 12% to 386 million. Net earned premium in the quarter was 393 million, an increase of 69 million or 21%. Net written premium will lag gross written premium as we continue to take a fairly conservative reinsurance position, which we believe supports our growth across our underwriting divisions.

Our reported GAAP combined ratio for the quarter was 96.8, an improvement of 1.6 points over first quarter 2017. The attritional combined ratio was 98% in the quarter, which compares favorably to the first quarter 2017 attritional of 98.1%, and is roughly in line with the fourth quarter 2017 attritional combined ratio of 97.8%.

That stated and this year's first quarter, the North American operations were 94% of the premium volume resided achieved a 95.7% combined ratio, along with a 4 point improvement in the attritional loss and loss adjustment expense ratio.

The overall reported GAAP loss ratio for the first quarter of 2018 was 64.9%, improving 3.3 points over last year's 68.2%. In addition to the attritional improvement, the loss ratio was beneficially impacted by 1.2 points of favorable prior year development from 2016 cat activity. Again, reflecting our conservative reserving position on these events. As anticipated, the downward drift in the attritional loss ratio continues. Again, this is a result of an improved mix of business, that benefits from the many new businesses launched and the strategic underwriting actions of the past three years.

Turning to the expense ratio, due to the timing of certain one-time expense items and the lag in earned premium from the build-out of new businesses, our expense ratio in the first quarter was 31.9%, up from the 30.2% from the same period of 2017. We expect our expense ratio to improve throughout the year and to remain in the competitive range. It's important to remember that we continue to invest on all facets of our organization, while maintaining underwriting discipline.

As a result, written premiums may fluctuate somewhat from quarter to quarter as well the expense ratio. However, we anticipate the annual expense ratio to be within our expectations. I'll turn now to the market conditions, and in particular, to offer some commentary on the rate environment. As the quarter progressed, we saw an improved P&C pricing trend across the organization. Overall, the rate levels for Everest Insurance were slightly negative decreasing by 2.4 points in the quarter. However, it should be noted that this rate study was derived from a renewal book, that was lighter than usual based on the lower planned retention. The retention softness was influenced by deliberate underwriting actions impacting our US property portfolio and our delegated authority operation, Everest underwriting partners.

If we exclude the work comp book, the rate change for the organization was plus 4.6% for the first quarter with a steadily progressing level of rates being achieved across a number of lines each month. This is more than double the increase from the fourth quarter of 2017, where we experience a 2% increase on the same basis, and it's the highest aggregate price change we had experienced in 10 quarters. This result was led by various lines of business notably, property and commercial auto.

Let me spend a minute on the property book as it is one area of the market experiencing a notable degree of transition. We currently underwrite property portfolios across the globe with a concentration in the US market through both retail and wholesale channels. Within the US market, we have now experienced six consecutive months of positive rate change in our property portfolio, ending the first quarter at plus 13% on a risk adjusted basis.

As HIM exposed renewals come up in the second quarter, we expect continued pricing improvement of a similar magnitude. Overall, we do believe there is a need for further rate firming within the property market, cat and non-cat alike and across other markets as well.

Turning to other lines, commercial auto continues to see meaningful increases, again, in the low-double digit range across our various portfolios. We continue to see slightly positive rate movement for GL and excess lines, each registering positive rate changes in the quarter. We believe continued rate adjustments are needed within these areas as we move through 2018.

Various professional lines continue to see some rate pressure, although, this trend is moderating in the first quarter, particularly in March. And work comp markets remain competitive with single-digit rate decreases being common. [ph] We continue to feel comfortable with the comp position of our workers comp book and margin associated with it, and our underwriting strategies going forward.

We have been in this market for many years and we'll continue to take a cautious view in this or any area of the market should rate pressures continue. The bottom line for us is that we are focused on the need to achieve adequate technical pricing across our portfolio, and are working diligently towards that objective every day.

In conclusion, the momentum we established in 2017 across our global specialty insurance operations has continued into 2018. Strong premium growth and solid profitability are being achieved alongside continued investments across our platform. We continue to thoughtfully invest to ensure we had the talents, capabilities and resources to profitably expand our franchise, while building increased resiliency across our business. We look forward to continuing our momentum and reporting back to you next quarter.

Now back to Beth for Q&A.

Elizabeth Farrell {BIO 1986541 <GO>}

Yes. Travis, we are now open for questions.

Questions And Answers

Operator

Yes, Ma'am. (Operator Instructions) Our first question comes from Joshua Shanker, Deutsche Bank.

Q - Joshua Shanker {BIO 5292022 <GO>}

Yeah. Thank you very much. Post tax reform, I would have thought in my mind that this means that more reinsurance business were [ph] in onshore in the United States. The way your segment reporting works it seems that the greatest on growth in international in Bermuda. I'm wondering, if there is a --and the weakest in US reinsurance. I'm wondering if there is something to that, maybe you can just amuse me with some facts that I have that are incorrect or what not?

A - Craig Howie {BIO 17579923 <GO>}

Josh, this is Craig. Technically, the tax rate is based on the operating tax, based on geographic region and where that income is coming from. What we had done throughout this year and that includes by the way, catastrophes and any reserve development as well, but what you saw in the first quarter and the reason for a lower tax rate is the fact that we had the catastrophe losses were emanating from the United States, and the majority of those releases were coming from the other segments, including the Bermuda segment.

Q - Joshua Shanker {BIO 5292022 <GO>}

Well, and not so much on tax, it's just about where clients put their reinsurance business? Is more business could be written in the United States going forward, just in general, post tax reform? Or is that a incorrect way of thinking about things?

A - John Doucette {BIO 7178336 <GO>}

Hi, Josh, it's John. I think it really -- I don't know if we can speak for other people, because I think part of it's going to be a function of the capital, what the capital structures are different reinsurers are, but a couple of things. We have fair way to capital both in the US and outside the US, and we are going to continue to try to access the business in the most advantageous way that we see based on our underwriting expertise, based on our connection to brokers and clients and things like that, and that will -- so it really is opportunity dependent as to where we're going to write the business, whether it's going to be in the US reinsurance segment, the Bermuda reinsurance segment or the international segment.

Q - Joshua Shanker {BIO 5292022 <GO>}

Okay. And as we head into mid-year renewals compared to what you saw at the beginning of the year, what is the trend on international property and US property? I guess, and do we think that it will be about the same? Do we think that 1/1 deployment was the way to go? What's sort of your thinking [ph] at this moment?

A - John Doucette {BIO 7178336 <GO>}

So as we talked about last quarter, I think it really depends on geographically, where the business is, and what the loss impact was by the specific business, that would drive a lot of what the rate discussions are going forward. So, no surprise areas that have been affected by the HIM losses or the California wildfires saw more of rate increase at 1/1. As we mentioned earlier in our scripts, when it came to April 1st, which is a big Asia renewal particularly, Japan, it was a lot closer to stable and -- but we did see rate increases in some of the Caribbean areas that did have the losses.

So I think it does follow the loss events. In terms of where it's going to go at the upcoming renewals, we think that would also hold directionally true, that the areas that had more losses would have upward pressure on rates, and we'll see what happens and we're positioned to take advantage of it, based on what the rating environment is and what products that we think is most attractive. And as we talked about, you saw in this quarter, sometimes that'll be excess of loss, sometimes that'll be proportional, sometimes that'll be reinsurance, sometimes it will be retro, and we try to really capture where we think we're getting the best risk adjusted return irrespective of the product, and so that results in some of the changes you saw in this quarter. But we are comfortable that -- no matter where the rate changes and the rate pressures are or not, we -- in trends will be able to capture that.

A - Dom Addesso {BIO 1428096 <GO>}

And I will add to that, that as I mentioned as well in our opening comments is that the improving trends in casualty as well. So increased opportunity there to meet our margin requirements.

Q - Joshua Shanker {BIO 5292022 <GO>}

Thank you very much. And good luck for the rest of the year.

A - Dom Addesso {BIO 1428096 <GO>}

Thank you, Josh.

Operator

Our next question comes from Kai Pan, Morgan Stanley.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you. And good morning. So I just wonder, could you break down the impact from both mix change as well as retro -- higher retro cost. The deterioration of attritional combined ratio about 260 basis point year-over-year. Just wonder what are the sort of one-time impact or this could be dragging on for the rest of the year?

A - Dom Addesso {BIO 1428096 <GO>}

The one-time impact from what -- from the change in the attritional?

Q - Kai Pan {BIO 18669701 <GO>}

Yes.

A - Dom Addesso {BIO 1428096 <GO>}

Well, I mean as my colleagues will comment as well, but let me just first make the comment that the change in the attritional is largely due to mix of business, an influx of pro rata business in the first quarter was driving up the attritional. But remember that overall, that earned premium will be coming in for the balance of the year and will serve to increase our overall margin. So even though, the ratios might be going up, because this pro rata business is a lot more premium on the books, and therefore, that will contribute to increased underwriting margin.

So we have to be careful about whether we're talking about ratios or margin. So--

Q - Kai Pan {BIO 18669701 <GO>}

Okay.

A - Dom Addesso {BIO 1428096 <GO>}

(inaudible) John may have comment here as well.

A - John Doucette {BIO 7178336 <GO>}

Yeah, kai. Just a little more color on that. We also -- we alluded to it a couple times, but if you recall in Q2 2017, we won -- we issued, what was called Kilimanjaro, two catastrophe bond. So that was in from second quarter last year and it remains in effect now. It was not in Q1, 2017, and that's part of the elevated the -- because of that additional issuance of catastrophe bond back in the second quarter, but not in the first, that's why the Q1 to Q1 comparison reflects that.

A - Craig Howie {BIO 17579923 <GO>}

And that's about 14 [ph] point in the quarter.

Q - Kai Pan {BIO 18669701 <GO>}

So the second quarter year-over-year comparison will be one point easier?

A - Dom Addesso {BIO 1428096 <GO>}

It will be more comparative in the second quarter, because it was issued in April of last year.

Q - Kai Pan {BIO 18669701 <GO>}

Okay, got you. (Multiple Speakers). Okay. So the point is that, the revenue will grow faster, but the ratio attritional combined ratio will go higher because of mix change, but then that the dollar amounts margin -- underwriting margin, expected margin will be higher?

A - Dom Addesso {BIO 1428096 <GO>}

That's our belief.

Q - Kai Pan {BIO 18669701 <GO>}

Okay, great. And then, can you talk about the loss cost trend, especially in the casualty lines?

A - Dom Addesso {BIO 1428096 <GO>}

I'll ask Jon Zaffino, because that's heavily impacted in the insurance book, but of course, the direct carry over to reinsurance. So Jon maybe you can highlight some of the trends we're seeing.

A - Jon Zaffino {BIO 16652236 <GO>}

Sure, Dom. Thanks. Good morning, Kai. As of the usual sort of caveat loss cost trends do vary widely from line to line from geography to geography from program structure to program structure. I will tell you in general, we see a relatively consistent picture over the prior few quarters. If we were to aggregate our book based on premium weightings, [ph] to short, medium, long-tail lines. I think we feel we're about that 3%-ish range and 2.5% to 3% could be higher, could be lower in certain areas.

For instance, commercial auto, we think is running above that, some of the comp line depend on geography territory, could be a little bit below, but it's been the relatively what we expected and anticipated. We are certainly looking at various frequency and severity trends quarter to quarter. Each one of our various books of business studies that we conduct throughout the year and keeping an eye on that. So as we expect that at this point, based on or what we thought pricing would be based on where we reserve our books, it's been kind of in line for our early expectations.

A - Dom Addesso {BIO 1428096 <GO>}

So I think the way to summarize that would be really nothing in excess or out of bounds relative to what we see is general inflation across the entire economy. So --

Q - Kai Pan {BIO 18669701 <GO>}

Okay, great. And last one, if I may, just on the industry consolidation. Do you see any opportunities for Everest Re?

A - Dom Addesso {BIO 1428096 <GO>}

As this comes up frequently, and as I have -- I think I have mentioned many times, we look at probably all of the opportunities that are around in the marketplace. And generally, while there will potentially be opportunity, certainly nothing that we can speak to today, but generally, we have concluded in all of these that relative because of -- in part because of the price of many of these properties, and probably more importantly, the integration challenges in particular, and the expense challenge of integrating operations.

We took towards an organic build, and I think we've demonstrated that we can do that successfully, an organic build end up knowing exactly what you've got and you can shape and mold the operation to your liking as opposed to having to tear something apart. So that's our preference, but it doesn't mean that something wouldn't come along that would fit strategically for us in an area that, that we've not yet fully developed, so that's how I think about it.

Q - Kai Pan {BIO 18669701 <GO>}

That's great. Thank you so much.

A - John Doucette {BIO 7178336 <GO>}

Just to add a little more color, outside of the M&A question, the fact that there is a lot of M&A and activity and discussion, we think does present opportunities for us, particularly on the reinsurance side. And as Dom alluded to in his opening comments, some of the consolidation results and some of that -- we've seen the large global buying more and they want to buy from companies like Everest, that have a strong balance sheet and right P&C lines of business all over the world. And so their capacity demands are increasing, and we're seeing some of the large global insurers buying more and buying more in the casualty and professional lines. And so that was part of the reason why we had the growth that we had in Q1.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you, John.

Operator

(Operator Instructions) Our next question comes from Meyer Shields, KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks, good morning. I want to dig in a little bit to John Doucette's comments on relevance. Am

I oversimplifying, if I interpret that as implying sort of a desire to more rapidly increase your casualty book in reinsurance?

A - Dom Addesso {BIO 1428096 <GO>}

In reinsurance or insurance?

Q - Meyer Shields {BIO 4281064 <GO>}

In reinsurance?

A - John Doucette {BIO 7178336 <GO>}

So Meyer, I think -- we -- I don't think it's -- I don't think that -- we don't start with, we want to write more casualty business. We start with where can we build a footprint that makes the most sense on a diversified global portfolio across as many lines of business and make the best risk adjusted portfolio we can. We are seeing opportunities in the casualty space more than we had. We have been fairly negative on casualty and professional liability for the last several years, maybe a little bit ahead of the curve, and we think that was the right call and we are now seeing more opportunities.

So it's more a function of what we think the risk adjusted pricing is, but the point of the relevance is that we have the ability, we have the underwriting expertise, we have the market expertise in local markets all around the globe, and we have the relationships with the brokers and clients to be able to deploy the capacity in any property and casualty line as we see fitting as our clients need to buy, and we think that helps us along with the alternative capital that we can use to deploy in the property space, we think helps us be more and more relevant to our client.

A - Dom Addesso {BIO 1428096 <GO>}

But it doesn't necessarily suggest that we're writing business at any cost. And again get back to, whether it's in the reinsurance operation or the insurance operation, the heavy emphasis on cycle management and that applies line by line. At the same time, we are trying to achieve greater diversification too. So these are all things that I think have led to a more stable result for the group, and will continue to do so.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, yeah, I didn't mean to suggest your accepting enterprise business, I just wanted to know whether strategically, clients recognize that there is maybe more underwriting expertise at Everest than premium volume themselves would suggest.

A - Dom Addesso {BIO 1428096 <GO>}

I think that's absolutely the case. And even more importantly, that's clearly the case in insurance, where the brand is being fully -- more fully developed.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's helpful. And second question, if I can. Just looking at the comments on larger global insurers, looking for more reinsurance, are they a tougher customer to deal with, maybe because of additional sophistication?

A - John Doucette {BIO 7178336 <GO>}

So, this is John. I think there, there is pluses and minuses with every type of client that we trade with. They have -- they bring stability, they bring diversity, they bring again to our point of trying to have a diverse portfolio, they are buying from us in Latin America, in Asia, in Europe, and obviously in North America, in Bermuda, in London. And so it allows us to across that relationship have a more stable relationship, but again, there is some of them are more or less reinsurance dependent, and if you go to the other end of the spectrum of much, much smaller clients that are very reinsurance dependent, given their capital structure and their writings. So there is pluses and minuses of all types of clients that we trade with.

A - Dom Addesso {BIO 1428096 <GO>}

Meyer, this is really. I don't believe it's a negative to have a sophisticated trading partner. In fact, I think it will be quite a positive, because they are more easily recognized, the strength and the value that Everest can bring to the transaction. So I view it as positive, and as John was really highlighting, I think we find that having those broader and larger relationships tends to over time, we tend to have a more stable margin. In any one area you might be tilted slide ways a bit, but across the entire account, we tend to have greater stability.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's very helpful. Thank you so much.

A - Dom Addesso {BIO 1428096 <GO>}

Thanks, Meyer.

Operator

Our next question comes from Elyse Greenspan, Wells Fargo.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, good morning. A couple of questions. My first question, in terms of premium growth, I guess, this is tied specifically to reinsurance. Do you see -- you guys being able to maintain the same growth level that we saw in the first quarter, as you think about these new opportunities that you're seeing for the balance of the year. And then also if you could just get the color from ours US [ph] segment, you really highlighted, where you are growing geographically, a little bit more color by line and how much more crop and even credit mortgage business is within the growth that we saw in the first quarter?

A - John Doucette {BIO 7178336 <GO>}

Good morning, Elyse, it's John. So in terms of the growth, I mean, so part of the growth is kind of a two-pronged issue. We grow business including proportional business at 1/1, and we grow more and we would see that earning over the next several quarters. So we will see some growth tied to that. In terms of whether we see new business that we -- that incept when we put on the books. In future quarters, we think so, we don't know if it's going to be at the same rate that we've seen so far, it's a lot harder for us to predict that. But there is the embedded growth that we've had from the business, we've already put on the books.

We do think that we have been expanding our opportunity set for example, developing political risk in trade credit in our Zurich operation, as just one of the many examples around the group that we've been doing to try to build out our opportunity set expand that, and therefore, that gives us the opportunity to grow more. You mentioned crop, crop was fairly flat, so the growth isn't really coming there. We are seeing more both in the US, Bermuda and in our Bermuda operation in London. We are seeing more casualty, professional and some whole account opportunities. And we continue, as we've said on last several quarters, we are writing the mortgage business, that's up a little bit or close to flat, but we do continue to see new opportunities in the mortgage space, and think we'll be able to deploy capacity on an attractive risk adjusted basis there. And as you may recall, a lot of the mortgage deals that are done with the GSEs are multi-year deal. So we have effectively IBNR premium coming in over the next many years for deals that we've already put on the books.

Q - Elyse Greenspan {BIO 17263315 <GO>}

How much mortgage business is within the reinsurance segment today?

A - John Doucette {BIO 7178336 <GO>}

We have a run rate of about $150 million to $175 million give or take. That's of the new business origination.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And that's an annual number.

A - John Doucette {BIO 7178336 <GO>}

Yeah.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. And then in terms of -- you guys didn't see any reserve development of quarter away from the cat. Was there any movements or was just kind of net neutral within all the segments in the quarter?

A - Dom Addesso {BIO 1428096 <GO>}

Elyse, we -- as you know, we do our reserve studies -- the bulk of our reserve studies in the latter part of the year in fourth quarter, but of the other metrics that we use to develop, to evaluate reserves along the way or at each quarter-end, something we call actual versus expected, were all trending favorable. But as a consequence, we don't -- and we don't make reserve adjustments based on those metrics, we wait for the reserve studies. But the trend, the metrics that we use are all favorable.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, great. And then one last question, in terms of the primary insurance business Dom, when you -- in your initial remarks, you said that the expense ratio and loss ratio would improve as the year progresses. I guess, is the goal -- should we think about modeling for the back three quarters that you guys will be in kind of that low 90s overall underlying margin within the primary insurance business?

A - Dom Addesso {BIO 1428096 <GO>}

We have said in last quarter's call and low to mid 90s is kind of what our target is. It's a little difficult to give you a precise number, but it will certainly be an improvement over -- measurable improvement over last year.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. Great. Thank you very much.

A - Dom Addesso {BIO 1428096 <GO>}

Thank you, Elyse. Thanks.

Operator

Thank you. We have no further questions in the queue.

A - Dom Addesso {BIO 1428096 <GO>}

All right. Let me -- thank you very much. Let me conclude with just a few thoughts. We're off to a great start for the year. The changing mix which we've talked about already was certainly impacting the attritional ratios, will in fact produce an overall increase to the total dollar margin as the year develops. We fully expect as you've heard from my colleagues, rates to be improving in both property and the casualty areas in certainly sufficient quantity in different classes of business to allow us to increase our overall returns. And again, we're still -- we are confident about our ROEs.

Finally, if you just give me one second, I'd like to close with a tribute to our colleague Beth Farrell, who is retiring in early May after 15 plus years with Everest. I know she's been a valuable resource to those on the call. I certainly appreciate the support she has given me. We will miss her, but wish her and her husband a full and enjoyable retirement. Thank you so much, Beth.

A - Elizabeth Farrell {BIO 1986541 <GO>}

Thank you.

A - Dom Addesso {BIO 1428096 <GO>}

And again, thank you all for your interest this morning, and look forward to our future discussions over the weeks ahead. Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.