Q4 2017 Earnings Call

Company Participants

- Craig Howie, EVP and Chief Financial Officer and Treasurer
- Dominic Addesso, President and Chief Executive Officer
- Elizabeth Farrell, Vice President of Investor Relations
- John Doucette, EVP and President and CEO of the Reinsurance Division
- Jon Zaffino, EVP and President of the North America Insurance Division

Other Participants

- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Jay Gelb, Analyst
- Josh Shanker, Analyst
- Kai Pan, Analyst
- Meyer Shields, Analyst

Presentation

Operator

Good day, everyone. Welcome to the Fourth Quarter 2017 Earnings Call of Everest Re Group. Today's conference is being recorded.

And at this time, for opening remarks and introductions, I'd like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Elizabeth Farrell {BIO 1986541 <GO>}

Thank you, Derek. Good morning, and welcome to Everest Re Group's fourth quarter and full year 2017 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, the 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 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 Dom.

Dominic Addesso {BIO 1428096 <GO>}

Thanks, Beth. Good morning, and welcome to the meeting this morning. We are pleased to be able report to you today an excellent fourth quarter result. This of course comes during the year that experienced a record level of catastrophe losses for the industry. It is noteworthy that despite this level of losses, we were able to report a profit for the full year and an ROE of 6% on the strength of the fourth quarter. This level of performance for the year demonstrates the ability of our platform to sustain periodic events and yet maintain an above-average industry return through the cycle. Our value proposition and risk management has positioned us to succeed.

No doubt, there will be questions today and beyond about rates, competition, alternative capital and acquisitions. And while we readily admit these are certainly the issues of the day, our value proposition is such, we continue to build diversification and scale that allows us to take advantage of market dynamics. As you heard from us in the past and will continue to hear from my colleagues today is the success we are having in achieving profitable growth, both the new products and existing lines. We reached a record revenue with over $7 billion in total gross premium written for 2017.

In 2017, our reinsurance portfolio grew 20% with much of that growth in lines other than US property cat. Prop, casualty, non-US property, mortgage and other credit-related business all exhibited meaningful growth during the year. US cat business grew in part due to reinstatement premiums and backup covers and true growth was offset by cessions to cat bonds and Mt. Logan. Therefore, there was no material change to speak of in our P&L exposure relative to cat. All of this points to our reinsurance portfolio that is becoming more diversified each and every year, thereby providing earnings resiliency with an attritional combined ratio of 81%, which was stable year-over-year.

Further in this diversification is the continued growth in our insurance business to over $2 billion or 15% for the year, and 32% for the year adjusting for the sale of crop company. More important in the growth was the continuing improvement in our attritional combined ratio, as we expected. And due to legacy issues coming under control, we had reserve releases come through in the fourth quarter. Those profit and growth trends are quite encouraging and the ones that we expect will continue. Tribute to a great team that has executed and capitalized on the brand, scale and financial strength of the franchise.

Another contributor to results for the year was our growth in investment income of 15%. Certainly, asset growth is a factor, but the larger contribution came from the asset allocation decisions made during the year, without meaningfully changing our duration or risk profile. Combination of strong investment results coupled with our underwriting results on an after-tax basis resulted in $375 million of operating profit, which given the weather events during the year, we believe is an outstanding result.

Book value per share rose by 4%, reflecting in part the return of capital to our shareholders, both through dividends and share repurchases. So as we end the year and move into 2018, I do so with optimism. Our talent, execution and platform have never been better. We have a culture to take on new opportunities and be nimble, which is what the current market dynamics dictate you must have. Our risk appetite is continually evolving based on where the best risk adjusted returns are.

Pricing in property lines both in reinsurance and insurance are moving in the right direction. At 01/01, the heavy reinsurance renewal date, PMLs in the US reinsurance book in particular are down year-over-year, but the absolute margins are up. We expect that to continue. Capital markets are still a factor and likely to continue to grow assets. However, we do not expect this development to crowd us out, as opportunities for greater economic growth, privatization of public risk and continued movement towards closing the gap between economic and insured losses will all lead to the need for greater capacity.

Equally encouraging is the casualty space, which has been soft for some time, but is now firming to varying degrees in most lines. This will benefit both our reinsurance and insurance operations. And while the standard lines will benefit from rate, there will also be real growth, as more offerings have greater appeal with expanded margins. Furthermore, the insurance team has even greater upside, as we continue to scale our platform. And on the reinsurance side, we will continue to expand our newer product offerings, which will further diversify our portfolio. These are all factors, which we feel will contribute to growing success into 2018 and beyond.

Now, I will turn it over to my colleagues for further details about our results and our journey. Thank you. And first to Craig for the financial report.

Craig Howie {BIO 17579923 <GO>}

Thank you, Dom, and good morning, everyone . Everest had net income of $571 million for the fourth quarter of 2017, with the strong underlying performance aided by reserve releases that impacted both current and prior years. This compares to net income of $374 million for the fourth quarter of 2016. Net income for the year was $469 million compared to $996 million in 2016. After-tax operating income for the fourth quarter of 2017 was $556 million compared to $363 million in 2016. Operating income excludes realized capital gains and losses and the tax charge related to the enactment of the Tax Cuts and Jobs Act of 2017.

For the year, operating income was $375 million compared to $993 million in 2016. The primary difference was higher catastrophe losses in 2017. In the fourth quarter, Everest saw $184 million of gross current year catastrophe losses related to the California wildfires. Net of reinsurance, the current quarter catastrophe losses amounted to $162 million. We lowered our pretax estimates for the third quarter 2017 catastrophe events by about $100 million. This was primarily related to reductions for the earthquake in Mexico and the third quarter hurricanes. The fourth quarter of 2017 also included $30 million of favorable development on prior year cat losses, largely from the 2016 year. Therefore, net catastrophe losses for the quarter were $29 million.

On a year-to-date basis, the results reflected net pretax catastrophe losses of $1.5 billion in 2017 compared to $301 million in 2016. Excluding the catastrophe events, reinstatement premiums and prior period reserve development, the underlying book continues to perform well with an overall current year attritional combined ratio of 85% for the year, down from 85.5% last year. On reserves, we completed our annual loss reserve studies. The results of the studies indicated that overall reserves remained adequate. In the fourth quarter, we booked $262 million of favorable prior year reserve development. This included favorable prior period development for both the insurance segment and the reinsurance segments. The insurance segment reported $65 million of favorable prior year reserve development during the quarter, which was largely related to its workers compensation business. The reinsurance segments reported $197 million of favorable prior year development, reflecting $234 million of favorable development, partially offset by a $37 million increase in asbestos reserves to replenish our position at the beginning of the year.

The $234 million of reinsurance favorable development during the quarter related to casualty and property 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, pretax investment income was $149 million for the quarter and $543 million for the year on our $18.6 billion investment portfolio. Investment income for the year was up 15% from one year ago. The result was primarily driven by the increase in limited partnership income, which was up $45 million over 2016. We've been able to maintain investment yield without a dramatic shift in the overall investment portfolio. However, we have gradually shifted allocations within our alternative investment bucket by reducing exposure to high yield debt and public equity, while committing more toward limited partnership investments.

The pretax yield on the overall portfolio was 3.1% and duration remained at just over three years. Other income and expense included $25 million of foreign exchange losses for the 2017 year compared to $21 million of foreign exchange losses in 2016. Other income and expense also included a $7 million from Mt. Logan Re for the year 2017 compared to $11 million of earnings in fees in 2016. The decline essentially represents the higher level of catastrophe losses in 2017.

On income taxes, the tax benefit was the result of the amount and the geographic region of the losses associated with the catastrophes this year and the income associated with the loss reserve releases in the fourth quarter. The fourth quarter of 2017 included a tax charge of $8 million related to the enactment of the Tax Cuts and Jobs Act of 2017. This tax charge primarily related to the change in the corporate tax rate applied to the company's net deferred tax assets.

Shareholders' equity for the group was $8.4 billion at the end of 2017, up $294 million or 3.6% over year-end 2016. This is after taking into account capital returned through $50 million of share buybacks and $207 million of dividends paid in 2017. The company announced a 4% increase to its regular quarterly dividend and paid $1.30 per share in the fourth quarter of 2017. Our strong capital balance leaves us well positioned for business opportunities.

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

John Doucette {BIO 7178336 <GO>}

Thank you, Craig. Good morning. Our operating themes following the 2017 catastrophes and the January 1st renewals are resilience, adaptability and partnership. Resilience is valued by our investors and is expected by our clients who depend on our financial security, and they rely on our evergreen promise to pay claims, especially in times of need. Everest has faithfully kept its promise for the last 45 years, through years with extreme industry losses, such as 2017. Both sides of our balance sheet are built to withstand shock losses, whether from actual 2017 cat events or worse hypothetical losses had Hurricane Irma directly hit Miami as the cat 5.

Supporting our strong conservative capital position on balance sheet, many levels of hedges protect our capital and our promise to our clients. This includes $2.8 billion of unexhausted catastrophe bonds and over $1 billion deployed at Mt. Logan, further protecting us from even more extreme events than seen in 2017.

Following several major catastrophes in Q3, we are pleased with the strong profitability generated by our reinsurance book in the fourth quarter, and the overall results for 2017. In Q4, reinsurance generated $419 million of underwriting profit, 197 million from favorable prior year development, offset by 33 million in net catastrophe losses this quarter. For Q4, California wildfire losses were 156 million, offset by releases on prior period catastrophes, including Q3 cats.

For 2017, reinsurance withstood $1.3 billion of pretax net catastrophe losses. Our 2017 combined ratio was 103%, including 29 points of cat losses, highlighting our robust underwriting strategy, broadly diversified portfolio and strong risk management. Excluding cats, reinstatement premiums and favorable prior year development, our attritional combined ratio remained flat at 81%. Globally, Q4 gross written premium increased 21% from backup covers and new capital relief quota shares and some multi-line deal. For 2017, reinsurance premium was up 20% to $5.1 billion with increased writings in property, crop, financial line and mortgage.

Now for some color on 2017 by segment. In our US reinsurance segment, 2017 premium was up 22% to 2.6 billion from increased property writings, reinstatement premiums, backup covers, increases in property quota share, crop and mortgage. This segment produced $30 million in the underwriting profit for 2017, despite $700 million of catastrophe losses. The 2017 combined ratio was up 22 points, driven by the cats, while the attritional combined ratio was relatively flat at 78.1%.

For our international segment, 2017 premium was $1.3 billion, up 7% with growth in several regions, but only up 5% on a constant dollar basis. For 2017, cat losses were about $450 million, resulting in an underwriting loss. However, the attritional combined ratio was down about 2 points due to a lower commission ratio and higher property excess of loss writings.

In our Bermuda segment, 2017 premium was $1.2 billion, up 35% with growth from new structured multi-line reinsurance and increased financial lines deal. The 2017 combined ratio increased by 11 points to 98.5% from higher cash, but the attritional combined ratio increased modestly to 89.5%.

As with any major disruption, opportunity follows for those well positioned for post-loss execution. And that was true for us this renewal. During this pivotal 01/01 renewal season, there were several disruptive contravening forces. One, large losses that impacted earnings or capital of clients, reinsurers and non-traditional participants. Two, a new market sensitivity to risk impacting managements and boards of both buyers and sellers, views on pricing, accumulations, tail exposure and ERM. Three, significant amounts of trapped capital and reloading of some of that alternative capital. Four, across all lines of business, large clients, reevaluation of their ceded reinsurance strategies and in several cases increased renewal sessions or placement of new treaties across several lines. And five, governments and other economic risk holders de-risking and bringing new exposures to the reinsurance market. With all of these market forces 01/01 was complex, as the market tried to decide what it was and what it wanted to be. A purely capital markets transactional marketplace with staggering velocity of capital formation or a market of longstanding reinsurance relationship between buyers and sellers that understand each other. Value continuity of trading relationships and agree that rates need to go up after a loss. In the end, it was somewhere in between.

Although, the market rebound was less pronounced than in past truly hard markets, many clients realized after several years of rate decreases and meaningful industry losses, rates must increase. While the rate movement overall was less than originally expected, we are pleased with the ultimate outcome of our 01/01 portfolio. At January 1st, our underwriting discipline and market leadership manifested an improved risk adjusted returns significantly above the market average. We re-underwrote several accounts, achieved rate in loss affected areas and in most lines around the globe increased shares on deals and layers we liked and also rode several new opportunities with our core clients.

Short tail business, retro and loss affected property cat treaties achieved increases well into the double-digits. But we also re-underwrote portions of our property book and declined many deals with unacceptable economic terms, then reallocated that property capacity to core clients and better opportunities around the globe. The casualty market, which was a bright spot in this renewal, showed some stabilization and improvement. Ceding commissions decreased a few points and excess of loss rates had mid single-digit improvements with differentiation between better and worse performing books.

We capitalized on our franchise and longstanding client and broker relationships. We wrote a number of deals with better than market terms. In other times, we were one of only three or four reinsurers approached to solve a clients' needs. These highlight are superior access to business and reinsurance opportunities, particularly global clients seek leading global reinsurers such as Everest for solutions across all lines of business. And as a result, we were able to meaningfully expand our relationships with them, a trend we expect to continue throughout 2018.

Our empowered underwriters excel as nimble creative reinsurance experts in their local markets, listening to and understanding their clients' needs. Our clients and brokers benefit from the direct interaction with the decision makers in our decentralized model to access risk. This is done, while adhering to a consistent global view of risk across all underwriters within every Everest division, including insurance and Lloyd's. In the end, 01/01 renewal was successful. Our premium is up by several hundred million dollars this January 1 compared to last January 1, and our combined ratios are lower and our expected profits are higher in 2018.

The reloading of some alternative capital in addition to competition from traditional players had a muting impact on January 1st renewals, highlighting that alternative capital has become an enduring reality. While this threatens some traditional business model, Everest is successfully addressing these challenges by utilizing alternative capital to leverage opportunity, best match capital to risk and ultimately benefit Everest shareholders.

Recognizing the market evolution between historical reinsurance trading relationships and new capital markets innovation, Everest's strategic repositioning has been well underway for several years. We continue to further develop our robust risk and capital management infrastructure, while adapting our strategies to capitalize our market changes. With our relevance as a leading global reinsurer, strong portfolio diversification across property and casualty lines around the globe, best in class expense ratio, industry-leading earnings power and approximately $13 billion of capital resources through equity, traditional debt, Mt. Logan, cat bonds and other hedges, we have a competitive advantage in this dynamic market.

In summary, as a resilient adaptable reinsurer focused on delivering client solutions and building long-term partnerships utilizing efficient capital structures, we remain ideally positioned to successfully navigate the waters of this ever changing market into the future, and look forward to a strong 2018.

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

Jon Zaffino {BIO 16652236 <GO>}

Thank you, John, and good morning. Our global insurance operations finished 2017 on a strong note in terms of growth and more importantly profitability in the fourth quarter. As shared in prior calls, we have been consistently executing on a multi-faceted strategic plan, encompassing every dimension of our global insurance organization. As measured by our key performance metrics, we have made considerable progress and are pleased with our expanded operating platform and the growing depth and diversity of our associated books of specialty business.

2017 concluded with record levels of gross written premium, the deepest roster of actively underwritten specialty products in our history, 150 and counting, the broadest geographic reach, 17 offices across the US, Canada and Europe for us to execute our business from and the highest number of insurance teammates across disciplines who are making all of this happen. This quarter's 36% growth and 80% combined ratio are further testament to the corrective underwriting actions successfully executed upon over the past several years and our conservative reserving position across the portfolio. At 2.1 billion in 2017 gross written premium, Everest Insurance is maturing into the global specialty underwriting platform we had envisioned at the onset and is firmly positioned within the top-10 of the global lead table for specialty insurance carriers. We remain encouraged about our growing opportunity set globally and look forward to the many opportunities ahead of us in 2018.

Turning to the financial results, the global insurance operations produced a record 575 million in gross written premium in the fourth quarter of 2017. This is an increase of 153 million or 36% over fourth quarter 2016. The fourth quarter growth profile is generally consistent with our experience over the last several quarters as the addition of dozens of new products and the many talented underwriters managing their thoughtful growth continue to make their impact. As mentioned, year-to-date, we achieved 2.1 billion in gross written premium, again, another record performance. This represents growth of 272 million or 15% over 2016. A significant percentage of this growth is emanating from new businesses and products incepted over the past three years, inclusive of our increasingly relevant Lloyd's operation, which eclipsed 100 million in gross written premium in 2017. Each of these products chosen for particular risk return characteristics is playing an increasingly important role in our diversified portfolio.

Our net written premiums in the quarter were 451 million and 1.6 billion for 2017, which represent increases of 33% and 18% respectively over the prior year period. Net earned premium in the quarter increased by 73 million or 22% to 398 million. For the year-to-date period, net earned premium of 1.5 billion increased by 170 million or 13% over 2016, each of these are record highs for the insurance operation and provide a solid foundation for growth into 2018.

The GAAP combined ratio for the quarter was 80.4%, benefited from 16 points of favorable prior year development, which I will discuss later on in my remarks. For the full year, the GAAP combined ratio was 104.8, which included 12 points or just over 170 million of previously disclosed cat losses across our global portfolio emanating mainly from the hurricane activity in the third quarter along with a minor contribution from the California wildfires in the fourth quarter.

The attritional combined ratio in the fourth quarter improved to 97.8% from the 99.9% experienced in the fourth quarter of 2016, a 2.1 point improvement. Year-to-date, the attritional combined ratio also improved 2.4 points from 99.3% in 2016 and 96.9% in 2017. The attritional combined ratio continues to improve as a result of the many underwriting initiatives instituted in recent years. While improving year-over-year, we anticipate an additional level of improvement around 2 points or so over 2018, as the impact of non-renewed businesses continues to lessen.

Turning to the attritional loss and loss expense ratio for the fourth quarter, the global insurance operations produced a 67.1%, which is slightly improved from the 67.5% experienced in the fourth quarter of 2016. This quarter's result also improved by nearly a 1 point from the third quarter attritional of 68.4%. Year-to-date, the attritional loss and loss expense ratio also improved nearly 3 points to 67% from 69.7% in 2016. This despite nearly 1.4 points of impact from non-cat related conductive storm activity experienced in the year.

So again, we continue to see the steady and continued downward drift in the attritional loss ratio, as a result of the strategic underwriting actions implemented over the past three years, improved mix of business and benefits from increased scale of our new business launches. As the impact of now divested businesses decreases, such as Heartland, we further expect to realize the benefit of our newer portfolio.

Looking at the expenses, the fourth quarter expense ratio came in at 30.7%, nearly a 2 point improvement in the prior year fourth quarter of 32.4%. For the year-to-date period, the expense ratio was 29.9%, essentially flat with the 29.6% for 2016. An expense ratio of roughly 30% remains very competitive in the specialty insurance segment. With respect to the favorable reserve development, the conclusion of our customary fourth quarter reserve reviews resulted in fourth quarter releases totaling approximately 65 million from accident years 2013 and prior. Our workers compensation book predominantly concentrated in California contributed materially to this, as it has been developing favorably for some time. On a year-to-date basis, favorable prior period development equated to 56 million. We remain confident in our overall reserve position across the insurance portfolio, particularly in light of reserve actions taken over the last several years.

Turning to the operating environment, overall rate trends experienced during the first three quarters gained some momentum in the fourth quarter, particularly in the property lines. Excluding our workers' compensation and accident and health portfolios, overall rate change for the North American P&C insurance operations, where the overwhelming majority of our renewal book resides, ended 2017 at plus 1%. While only slightly positive, it is the first time in several years that we have experienced positive aggregate rate in the non-workers compensation lines of business. Inclusive of the workers compensation portfolio, the overall rate change turned slightly negative to minus 3%, indicating the continued mid single-digit rate pressure across the work comp line. This outcome was fully anticipated and factored into our pricing and reserving decisions for the year.

Further, we have experienced a material improvement in our property portfolio in the third and fourth quarters, where rates moved from essentially flat to plus 3% and plus 8% in 3Q and 4Q respectively. As many of you know, the heavier cat exposed wholesale books of business and meaningful part of our property book were new in the first and second quarter of 2018, thus we have yet to see the rate influence from these renewals.

Additionally, the commercial auto segment of our portfolio continues to receive corrective rate action, a trend that has now persisted for several quarters. Overall, we achieved meaningful positive rate across this book in 2017, delivering plus 12%. As for the general liability markets primary and excess, we also achieved positive rate in fourth quarter.

Although roughly flat for the year, there are signs that this market continues to stabilize and positive rate movement is expected.

Overall, across our portfolio we anticipate moderately improved operating conditions throughout 2018 with some pockets lagging this broader trend as they are in need of further corrective rate action. We will continue to focus our efforts and resources on those areas and lines of business that present us with appropriate risk adjusted returns. In conclusion, we are pleased and encouraged by our 2017 results. Despite a difficult cat year, the progress we have made to organically build a top-10 global specialty insurer is encouraging and deeply motivating to our colleagues. Our in-force book of business has meaningfully improved on an underlying basis and we anticipate increased resilience in our portfolio as our growth and diversification strategies continue building traction. Our platform and growing range of capabilities are well positioned for future growth. The Everest Insurance brand is strong and we look forward to updating you on our progress in future calls.

Now back to Beth for Q&A.

Questions And Answers

A - Elizabeth Farrell {BIO 1986541 <GO>}

Thanks, Jon. Derek, we are now open for questions.

Operator

Thank you. (Operator Instructions) And our first question comes from Elyse Greenspan with Wells Fargo. Please go ahead.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, good morning. My first question in terms of the PML disclosure, at the top of the call, you guys mentioned that your PMLs went down in US reinsurance. Is this after reinstatement in taxes, I know you disclosed two PML figures?

A - Craig Howie {BIO 17579923 <GO>}

Elyse, this is Craig. Yes, that would be the same basis that we typically disclose our PMLs on a net economic basis, so after reinstatement and after taxes, we do expect them to stay, in relation to our overall capital, we expect them to stay relatively flat or even slightly down.

Q - Elyse Greenspan {BIO 17263315 <GO>}

So then as we're thinking about the impact of tax reform and what that could have had -- done to your PML, to keep your net PMLs -- to get your net PMLs to go down, was there more retro that you were purchasing, if you can just talk to, I guess, how you changed your PMLs following on tax reform?

A - Craig Howie {BIO 17579923 <GO>}

Well, after tax reform, as you know, the tax rate will go down. So the tax benefit for some of the longer tail depends on the return period. So the longer return periods will get less tax benefit, but we can cover that with other types of reinsurance purchases and/or catastrophe loss.

A - Dominic Addesso {BIO 1428096 <GO>}

And also Elyse, what we said was that our PML relative to capital is about stable. So the word suggesting that the PML would go down necessarily, but just relative to capital, it would be about the similar position.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. And then sticking with the taxes for a second. How should we think about your tax rate as we think about modeling in 2018?

A - Craig Howie {BIO 17579923 <GO>}

So overall, with the tax rate coming down in the United States, as you know we do business globally around the world in many different jurisdictions. But with the tax rate coming down in the US, we expect our overall tax rate to come down about a couple points.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. Great. And then as we think about your outlook for the market for the balance of the year, you guys obviously reloaded Logan, your own alternative capital vehicle to a level well in excess of where it sat last year, so more than covering the losses. How do you view the impact, I guess, it's a two part question of both alternative capital as well as, as we see more of the insured losses for the third quarter events come down, how do you think that that can have an impact on the market as we think to the June and July renewals?

A - Craig Howie {BIO 17579923 <GO>}

I still think that we feel the market was trending up in the property space, particularly those areas that have been most affected. And we're not anticipating -- perhaps, the alternative capital is having some impact on wild swings in rates. But generally, markets are seeking some level of rate increase in those loss affected areas. And frankly, they deserve it. So we don't expect -- we do not expect the reloading of alternative capital, if it is even reloaded entirely to impact would have a rate decrease effect.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. And then one last question. You mentioned, I believe that some multi-year coverage written in the fourth quarter. How big a multi-year cover is in proportion to your reinsurance book?

A - John Doucette {BIO 7178336 <GO>}

Good morning, Elyse. It's John. That's one of the things we did and that incrementally accounted for some of the premium -- I mean, across the entire $5 billion of premium, it's not that material. It does -- it's in different classes of business, credit, mortgage and different lines of business. There's a couple of property deals, but overall, it's not a very meaningful part of our book.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thank you very much.

A - Dominic Addesso {BIO 1428096 <GO>}

Thank you, Elyse.

Operator

Our next question comes from Kai Pan with Morgan Stanley. Please go ahead.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you and good morning.

A - Dominic Addesso {BIO 1428096 <GO>}

Good morning.

Q - Kai Pan {BIO 18669701 <GO>}

So first question, just follow up on the January renewal. John mentioned that you guys had improved your risk adjusted returns above the market. Could you quantify that just in term of how much you see the market increase versus yours? And how the market would -- dynamics would play out at mid-year renewals, is that -- would that rate increase sustain or improve in the coming renewals?

A - John Doucette {BIO 7178336 <GO>}

So Kai, it's John. So there is a lot of moving parts and I don't know that we know exactly what happened with the market. There's a lot of deals that are done in the market that we decline and we don't know what the ultimate price that they were done at. And I think that's one of the ways that we get better than market results is that we maintain our underwriting discipline on deals that we don't agree with the absolute rate or don't agree with the rate increase or flat or decrease, given the loss positions or the overall market conditions. So it's hard for us to quantify that, but we are comfortable that we are building a better overall portfolio that exists in the market, given our ratings, our global footprint, our very broad diversified portfolio, frankly our fantastic underwriters around the globe. And I think that just helps us. And as I mentioned, it helps us build relationships as we continue, we are and continue to be relevant to many of our trading partners and one of the interesting things this January 1st is we saw across a whole lot of operations, our Bermuda, our London, Zurich, Canada, Miami, US, we saw many clients increasing their participation with us. And that's across a lot of different lines of business. So that's probably the most -- one of the most optimistic things we saw, it's just the increase in demand for reinsurance, particularly with Everest. So we're very pleased with that. Again, Dom alluded to the mid-year renewals, we don't know what it's going to be. We think given the rate decreases that have happened and the losses, there should be upward pressure on rates, but we don't forecast what we think it will be, we are confident that we'll be able to execute irrespective of what the market conditions are.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Thanks, John. That's very helpful. My second question is on the reserve releases. If you look at your fourth quarter, especially in insurance segment, that's a first meaningful release in more than a decade. So just wondered, if you can give me more detail regarding to how much of that -- how much has legacy book developed, what accident years those workers comp release has been? And going forward, given you guys since 2010 have instituted more conservative reserve philosophy, will we see more reserve release in the coming years?

A - Dominic Addesso {BIO 1428096 <GO>}

I'm going to let Craig get to the specifics of that. But first, let me say that you're correct and that we haven't had an overall net reserve release in insurance for quite some time. But we highlight the fact that it has been due to our legacy portfolio. And we have had net reserve releases in varying lines of business in the insurance book, just that on a net basis, they haven't come through because they've been overwhelmed with the legacy issues, which we now feel we have under control.

But I'll let Craig get into some of the more specifics about your question.

A - Craig Howie {BIO 17579923 <GO>}

Yeah, Kai. That's a -- it's a good comment and Dom's comment is correct as well. We didn't see any drag from the prior year run-off business in the insurance segment this year. So what you're seeing is the actual results come through on a net basis you're seeing favorable development. Primarily from -- as Jon Zaffino mentioned, it's from 2013 and prior and mostly in the workers' compensation area, but some other small lines as well. What -- so that's the major difference year-over-year, but our process hasn't changed. That conservative process that you mentioned since even as early as 2010 remains in effect and we continue to go through that same process each year. We take our time to react to that favorable development and we don't release those redundancies until they've developed over time and become more mature.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Last one, if I may, on the tax rates. You said it will be a reduction about a couple points, what are the starting points? And are you guys going to change your ceding program, which is currently ceding about 40% of US premiums to offshore finance?

A - Craig Howie {BIO 17579923 <GO>}

So the answer to that, first of all is the starting point was our 2016 tax rate was about 10%, that was last year. This year, as you know we had a tax benefit for the overall year, so that the actual exposure that we had after the catastrophe losses for the year, but we do expect it to be in the high single-digits going forward, that's number one. And your question about what are we doing going forward, we will be canceling or have canceled our quota share already because it is not economical for us to do that going forward.

Q - Kai Pan {BIO 18669701 <GO>}

Great, thank you so much.

A - Dominic Addesso {BIO 1428096 <GO>}

Sure.

Operator

Thank you. Our next question comes from Jay Gelb with Barclays. Please go ahead.

Q - Jay Gelb {BIO 21247396 <GO>}

Thanks. First, just want to note that I think that that tax rate is a lot better than people thought it was going to be. Second on outbound reinsurance and retrocessional protection in 2018, how should we think -- be thinking about Everest's strategy on that?

A - John Doucette {BIO 7178336 <GO>}

Good morning, Jay. It's John. So I think we buy traditional reinsurance, we buy, have looked at retro from time to time, we cede business to Logan, we have the cat bonds, ILWs et cetera and we continue to look at different capital structures, the traditional and non-traditional that we're going to do. I think probably the way I would think about it is, is look at the net to gross ratios both for insurance and reinsurance over the last couple of years. And those should stay reasonably consistent. We're still in the process of, as Craig said, with the change in the internal quota share, we're still in the process of thinking of PML management, risk management, capital management and we haven't yet decided on everything. We have some ideas. So that may result in the tail. We do additional cessions, but across the whole portfolio that won't be that large a percentage. So I think the net to gross ratios that exist today are probably pretty good.

A - Dominic Addesso {BIO 1428096 <GO>}

And part of the answer to that Jay is also that it's a little difficult to give you absolute numbers on that because it somewhat depends on what we see coming in front door. So if our property business is down or -- that's one strategy, if it's up, that might be an entirely different strategy. What we are anticipating though is that our expected cat load for go-forward into 2018 would be just under 9%, which is about point drop from where traditionally it has been.

Q - Jay Gelb {BIO 21247396 <GO>}

Okay, that's helpful. Final question is on the merger and acquisition environment and opportunities. So in light of AIG's announced acquisition of Validus all cash for what could be viewed as a pretty attractive multiple, does that have any influence on Everest's thinking in terms of acquisitions going forward or consolidation within the reinsurance market?

A - Craig Howie {BIO 17579923 <GO>}

None whatsoever. In fact, not sure that we would maybe even detract a little bit more from an acquisition scheme to the extent that that's the go forward multiple. We think that an organic build is a lot more efficient for us, and I think we've demonstrated both on the reinsurance and the insurance side that we've been successful in that strategy.

Q - Jay Gelb {BIO 21247396 <GO>}

Excellent. Thank you.

Operator

Our next question comes from Josh Shanker of Deutsche Bank.

Q - Josh Shanker {BIO 5292022 <GO>}

Thank you. I just want to add a little bit on Kai's question about the timing on the reserve releases. Dom, you're I think up to almost nine years at the firm. When you came in nine years ago, what did the reserve situation look like? And in terms of your priorities, is there a different timeline on getting the different departments in order or are both the reinsurance and insurance reserving techniques the same and on the same track?

A - Dominic Addesso {BIO 1428096 <GO>}

Well, Josh, you have a good memory as to the timeline, but when I first came in, I think, what I said at the time is that I quote we had an adequate reserve position and I think that's demonstrated to be accurate. I think if you look through the history at the various accident years, we have developed favorably. So that's number one.

Some years developed more favorably than others, but all different. What did change, and I did institute some reserving changes when I first came in just in the way we established the current accident year number and that I think frankly through time has proven to be perhaps a bit more conservative than it may have been prior to that. But nevertheless, reserves have developed favorably. So -- and I think it's -- what we've been able to harvest over the last couple of years probably is somewhat reflective of slightly more conservative philosophy than we had in the past. But notwithstanding that, again history will prove that our reserves have developed favorably in various -- at various accident years.

A - John Doucette {BIO 7178336 <GO>}

And the second part of that question, Josh, was the process and the process is the same for both reinsurance and insurance.

Q - Josh Shanker {BIO 5292022 <GO>}

Okay. And then -- I mean, usually to your peers, you bought back stock in the fourth quarter. You obviously have a lower debt to capital ratio than everyone else does. Depending on how you view the stock, why was it the right time? Why not buy more? The decision in terms of how much capital you need to write new business, what's the trade-off between debt financing and share repurchase at this point? Can you talk about, like all the nuts and bolts behind that decision?

A - Craig Howie {BIO 17579923 <GO>}

Well first of all I think that we felt the stock was an enormous value at the time we bought it in. The amount that we bought in was somewhat contained because of how close it was to coming up with numbers as opposed to why it was hefty as opposed to something more. We had to be mindful of the fact that we were getting closer to the year-end. And as relative to our capital position, we were comfortable with where the third quarter events had -- what that meant to our total financial position, so we weren't particularly concerned about our capital position. And relative to debt to equity, what we stated in the past is that we'd like to keep that number conservative because it's a contingency, right, contingency reserve, if you will, to the extent that we saw an opportunity either despite my preference for organic build, if we did see an acquisition that made some sense, that gave us some flexibility. And/or if we saw some tremendous market opportunity, again, it gave us flexibility. So we tend to view the debt capacity is one that gives us flexibility as opposed to leveraging it up to the max.

Q - Josh Shanker {BIO 5292022 <GO>}

Well, thank you. And a tremendous end to a very difficult year, congratulations.

A - Dominic Addesso {BIO 1428096 <GO>}

Thank you, John.

A - Craig Howie {BIO 17579923 <GO>}

Thank you, Josh.

Operator

Our next question comes from Meyer Shields of KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks, good morning. I'm trying to put together a couple of data points. One is the fact that most companies and I think Everest as well has talked about the third quarter catastrophes being in line with modeled expectations instead of having any major surprises. And the second is that we're seeing bigger rate increases on loss affected accounts. Is that a fair observation? And is that a rational response? Or is there -- I'm asking, whether there is an opportunity in there?

A - Dominic Addesso {BIO 1428096 <GO>}

Is what a rational response? If it is rate increases on loss affected --

Q - Meyer Shields {BIO 4281064 <GO>}

Bigger rate increases on loss impacted accounts, if that was more a luck than a reflection of lower underwriting profitability?

A - Dominic Addesso {BIO 1428096 <GO>}

Well, I think in part, it's -- first of all, the rate increases that have come through the market are probably less than people were anticipating based on other market events of a similar nature. And recognize that the market has been in somewhat of a rate decline for several years. So what -- to the extent, was it a rational response even though the losses were as you described as expected, I absolutely think it was a response, I think perhaps it wasn't as rational as it needed to be. But nevertheless, from our perspective, the rate increases kind of get us back to a point where it's a reasonable return relative to the risk we're taking on, whereas I think if you look at the results of the industry in last three years in many cases, many markets that we're operating at below their cost of capital. So I absolutely think, even though it might have been an expected level of loss, if you're writing business below your cost of capital, then it absolutely is a rational response

Q - Meyer Shields {BIO 4281064 <GO>}

No, that's helpful. I appreciate it. Is there, I guess, the opportunity -- I'm wondering, is there an opportunity to target impact -- accounts that were impacted by 2017 catastrophes because the rate increases are bigger there than elsewhere?

A - Dominic Addesso {BIO 1428096 <GO>}

Well, that's what we do each and every day. And -- of course. But -- and there are instances where we think it's the right rate and will increase share, if we think it's the appropriate rate. And in many cases, as we saw 01/01, there were instances where we declined or got off certain businesses because it was an inappropriate rate relative to the risk. So yeah, these events always create opportunities, sometimes the opportunities make sense and other times, it don't.

A - Jon Zaffino {BIO 16652236 <GO>}

Meyer, this is Jon. I wanted to add a little more color to that. I think going back to your first part of your question, I think there's also -- you got to look at it as modeled results and then kind of psychology of the market and also when the rate -- when losses like this have happened. And I'm not sure I fully agree that all -- it's certainly across the buyers and even some of the sellers that everybody thought these losses were expected, I would highlight the California wildfire is the largest fires of all time. Houston being impacted by Harvey are one in a 1,000 event. I'm not sure people think in terms of one in a 1,000 type event, so the flooding that happened there.

As you may recall Irma for a while was heading to Florida to Miami as the cat 5 and looked like it was going to be a direct hit and the market was talking about $150 billion, $200 billion of insured losses. And Maria hitting Puerto Rico that was the first major hurricane to hit Puerto Rico since 1928. And all of that I think impacts what -- while it could be in a model, I'm not sure about the wildfires and floodings, it's always a challenge for the model, but there's certainly a lot about just the buyers and sellers and the market dynamic and what managements think and boards think of the buyers and things like that and people -- I think that there is some people maybe were surprised with the outcomes of some of these and some of the losses that happened, and the accumulation and aggregation of them. So I think there's a lot of moving parts beyond what did they model today.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. No, that's very helpful. Very thorough. Thank you. Second question. As the crop reinsurance book grows, is there any seasonality to how you plan to report results because so much of the ultimate profit is recognized to the back half of the year?

A - Dominic Addesso {BIO 1428096 <GO>}

I think we pretty much have a fixed pick loss ratio that we keep throughout the year.

A - Craig Howie {BIO 17579923 <GO>}

And we do that -- it's more -- it's less seasonal now that it's on the reinsurance book than it was when it was on the insurance book.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, great. Thanks so much.

A - Dominic Addesso {BIO 1428096 <GO>}

Thank you.

Operator

And our final question for today comes from Brian Meredith with UBS. Please go ahead.

A - Dominic Addesso {BIO 1428096 <GO>}

Let me just interrupt there for a minute. If there are more questions, we know we were perhaps a little longer than usual in our opening remarks, so I don't mind going over a bit if there are some additional questions in queue, given its the year-end and given the nature of the results. So anyway, go ahead, Brian.

Q - Brian Meredith {BIO 3108204 <GO>}

Thanks. Couple ones here. John, can't you give us a sense of how much of the fourth quarter growth was kind of one-off backup covers those types of things?

A - Jon Zaffino {BIO 16652236 <GO>}

So across reinstatement and backup covers, it was about $200 million in total.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Helpful. The second question, I'm just curious on your workers comp business in California, do you anticipate any kind of push back from regulators with respect to kind of pricing and rate, given tax reform?

A - John Doucette {BIO 7178336 <GO>}

Yeah. Hi Brian, this is John. Very uncertain at the moment. We're going to obviously watch the market carefully and continue to react based on what we see is underlying risk return characteristics. So -- and we're following the same early commentary and we'll keep an eye on that. But at this stage, we have not seen anything different. But we'll certainly be watching that closely in California and other jurisdictions as information becomes better known.

A - Dominic Addesso {BIO 1428096 <GO>}

I think that Brian will more likely be more of a personal lines issue than it's likely to be a commercial lines issue. And I think over time, the market will self-correct itself. I am not sure that regulators necessarily even though sometimes can't help themselves, we'll need -- necessarily need to get involved in that particular kind of activity.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you. And then a little bit bigger picture question here. Is your pricing your business both reinsurance and the insurance side, obviously you've got to build in some type of kind of loss trend, inflation assumptions, which you think are kind of going forward, what are you all kind of thinking on the loss trend side kind of over the next year or two? And then kind of how are you pricing the business and I guess reserving for it?

A - Dominic Addesso {BIO 1428096 <GO>}

Well, that varies across various lines of business. So what we model in for work comp is different than what we -- than we build in for casualty or excess liability or property, it's more financial lines for that matter. So there isn't one part answer to that question, but sufficed to say that we're building trend in to all -- not only our pricing, but also our reserving activities.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay. And then the last question, I'm just curious, a lot of growth going on, any thoughts about -- and your expenses have been going up relatively modestly, any thoughts about whether you've got the infrastructure to handle this type of growth and could you put more growth on the current platform?

A - Dominic Addesso {BIO 1428096 <GO>}

Is that a question about reinsurance or insurance or both?

Q - Brian Meredith {BIO 3108204 <GO>}

I would say on both sides.

A - Dominic Addesso {BIO 1428096 <GO>}

Well, certainly I will talk to the reinsurance piece first. We have actually been adding resources, you know we talk a lot about adding new lines of business and diversifying our reinsurance platform. And we have been adding resources, technical resources to keep up with that or to generate those business opportunities and properly underwrite them. And I don't see that on the reinsurance side as a particular problem, given kind of the bulk nature of the premium that comes in on the reinsurance side. So not an issue at all. And frankly, from an infrastructure point of view, we have added the resources and we have the management depth to deal with those types of accounts.

On the insurance side, as Jonathan pointed out, our expense ratio is just up slightly year-over-year and that's an area we -- where we also continue to add resources as well as continue to invest in systems. So our -- the fact that we're able to maintain that expense ratio, I think is a tribute to Jonathan and his team as well as the rest of the support units within the organization that provide services to our insurance operation. So we continue to do -- as the earned premium continues to build on the insurance operation, I think we're able to properly manage that expense ratio and at the same time make the proper investments where we need to.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thanks for your answers.

A - Dominic Addesso {BIO 1428096 <GO>}

Thank you, Brian.

Operator

Thank you. And we did have a follow-up question from Jay Gelb of Barclays. Please go ahead.

Q - Jay Gelb {BIO 21247396 <GO>}

My question has been answered. Thank you.

A - Dominic Addesso {BIO 1428096 <GO>}

Okay.

Operator

Thank you. And at this time, there are no further questions in the queue.

A - Dominic Addesso {BIO 1428096 <GO>}

Well, good. Thank you all very much for your participation in the call this morning and for your questions as normal. Just to summarize, this has been record level of catastrophe losses. For the year, we think we've had a more than respectable result and it's demonstrated the diversity of Everest. The growth that we were experiencing both on the reinsurance side and the insurance side demonstrates that we continue to add value to our customers and our clients and brokers and we expect that success that we've had in '17 to continue into 2018.

So thank you for your interest and your participation this morning. We look forward to any follow-up questions you might have after this call. Thank you so much.

Operator

Thank you. And once again, that does conclude today's call. We thank you for your participation. You may now disconnect.