S&P Capital IQ

CONTENTS

Everest Re Group, Ltd. NYSE:RE

FQ4 2017 Earnings Call Transcripts

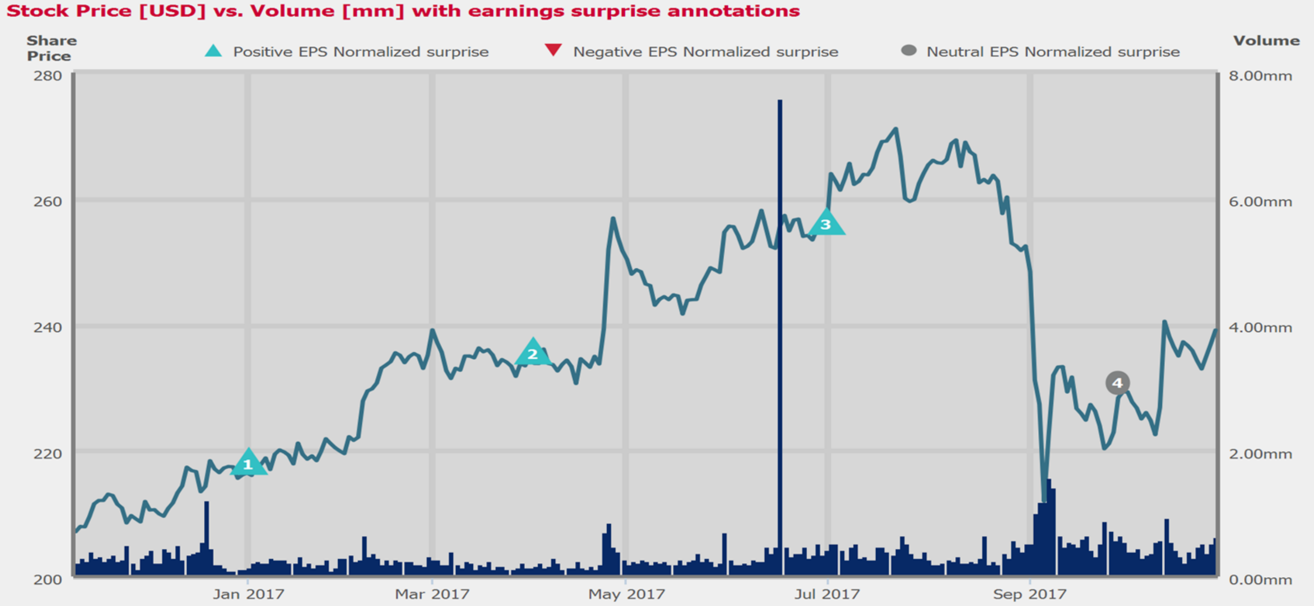
Tuesday, February 06, 2018 3:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2017-			-FQ1 2018-	-FY 2017-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	5.29	13.48	▲154.82	5.73	0.88	9.10	
Revenue (mm)	1524.95	-	-	1526.60	6075.95	-	

Currency: USD
Consensus as of Feb-06-2018 12:00 PM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2016	3.19	8.83	▲1 176.80 %
FQ1 2017	5.29	6.29	▲2 18.90 %
FQ2 2017	5.30	5.51	▲3 3.96 %
FQ3 2017	(16.13)	(16.43)	NM

Call Participants

EXECUTIVES

Craig W. Howie
Executive VP & CFO

Dominic James Addesso
President, CEO & Non-Independent Director

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Vice President of Investor Relations

John P. Doucette
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Jonathan Martin Zaffino
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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 would like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Elizabeth B. Farrell
Vice President of Investor Relations

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 James Addesso
President, CEO & Non-Independent Director

Thanks, Beth. Good morning, and welcome to the meeting this morning. We are pleased to be able to report to you today an excellent fourth quarter result. This, of course, comes during a 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.

What you heard from us in the past and will continue to hear from my colleagues today is the success we're having in achieving profitable growth, both in new product 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 U.S. property cat. Prop, casualty, non-U.S. property, mortgage and other credit-related business all exhibited meaningful growth during the year.

U.S. 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 PML exposure relative to cat.

All this points to a 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.

Furthering 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 our crop company. More important than 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 ones that we expect will continue, attributed to a great team that has executed and capitalized on the brand, scope, 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.

A 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 1/1, a heavy reinsurance renewal date, PMLs in the U.S. 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 W. Howie
Executive VP & CFO

Thank you, Dom, and good morning, everyone. Everest had net income of $571 million for the fourth quarter of 2017, with a 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 1 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 towards limited partnership investments. The pretax yield on the overall portfolio was 3.1%, and duration remained at just over 3 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 loss from Mt. Logan Re for the year 2017 compared to $11 million of earnings and 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 P. Doucette
Executive VP, President & CEO of the Reinsurance Division

Thank you, Craig. Good morning. Our operating themes following the 2017 catastrophes and the January 1 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 a 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 in 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 multiline deals. 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 U.S. reinsurance segment, 2017 premium was up 22% to $2.6 billion from increased property writings, reinstatement premiums, backup covers, increases in property quota shares, crop and mortgage. This segment produced $30 million in 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 multiline reinsurance and increased financial lines deal. The 2017 combined ratio increased by 11 points to 98.5% from higher cats, 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 1/1 renewal season, there were several disruptive contributing forces: one, large losses that impacted earnings or capital of clients, reinsurers and nontraditional 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, 1/1 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 long-standing reinsurance relationships 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 1/1 portfolio. At January 1, our underwriting discipline and market leadership manifested an improved risk-adjusted return 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 like and also wrote 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 long-standing client and broker relationships. We wrote a number of deals with better-than-market terms. In other times, we were 1 of only 3 or 4 reinsurers approached to solve a client's needs. These highlight our 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, our 1/1 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 1 renewals, highlighting that alternative capital has become an enduring reality. While this threatened 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 on 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 will turn it over to Jon Zaffino to review our insurance operations.

Jonathan Martin Zaffino
CEO & President of the Everest Insurance of Division

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 multifaceted 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 U.S., Canada and Europe, for us to execute our business from; and the highest number of insurance teammates across disciplines were making all 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 as the global specialty underwriting platform we had envisioned at the onset, and it's 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 3 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'll 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 the 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 to 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 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 is despite nearly 1.4 points of impact from non-cat-related convective 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 3 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 benefit of our newer portfolio.

Looking at the expenses. The fourth quarter expense ratio came in at 30.7%, nearly a 2 point improvement from 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 3 quarters gained some momentum in the fourth quarter, particularly in the property line. 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, a meaningful part of our property book, renew 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.

Elizabeth B. Farrell
Vice President of Investor Relations
Thanks, Jon. Derek, we are now open for questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, in terms of the PML disclosure. At the top of the call, you guys mentioned that your PMLs went down in U.S. reinsurance. Is this after reinstatement and taxes? I know you guys disclosed 2 PML figures.

Craig W. Howie
Executive VP & CFO

Elyse, this is Craig. Yes. That would be -- the same basis that we typically disclose our PMLs is on a net economic basis, so it would be 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.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

So then as we're thinking about the impact of tax reform and what that could have 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.

Craig W. Howie
Executive VP & CFO

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 lower catastrophe loss.

Dominic James Addesso
President, CEO & Non-Independent Director

And also, Elyse, what we said was that our PML relative to capital is about stable. So we weren't suggesting that the PML would go down necessarily, but just relative to capital, it would be about in similar position.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

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

Craig W. Howie
Executive VP & CFO

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 U.S., we expect our overall tax rate to come down about a couple points.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

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's at last year, so more than covering the losses. How do you view the impact, I guess this is a 2-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 June and July renewals?

Dominic James Addesso
President, CEO & Non-Independent Director

I still think that we feel the market is trending up in the property space, particularly those areas that have been loss-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 these loss-affected areas. And frankly, they deserve it. But we don't expect -- we do not expect the reloading of alternative capital, if it is even reloaded entirely, to impact -- to have a rate decrease effect.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then one last question. You mentioned, I believe, that's a multiyear coverage moving in, in the fourth quarter. How big a multiyear coverage in proportion to your reinsurance book?

John P. Doucette
Executive VP, President & CEO of the Reinsurance Division

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.

Operator

Our next question comes from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

First question, just a follow-up on the general renewal. John mentioned that you guys have 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 dynamics would play out at the renewals. Is that -- will that rate increase sustain or improve in the coming renewals?

John P. Doucette
Executive VP, President & CEO of the Reinsurance Division

So Kai, it's John. So there's 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 declined, and we don't know what the ultimate price that they were done at. 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 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 condition. So it's hard for us to quantify that, but we are comfortable that we are building a better overall portfolio than 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 1 is we saw, across a whole lot of operations, our Bermuda, our London, Zurich, Canada, Miami, U.S., 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 is just the increase in demand for reinsurance, particularly with Everest, so we're very pleased with that. Again, Dom alluded to the midyear 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'll be. We are confident that we'll be able to execute irrespective of what the market conditions are.

Kai Pan
Morgan Stanley, Research Division

That's very helpful. My second question really is, 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 the legacy book developed, what accident year 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 releasing in the coming years?

Dominic James Addesso
President, CEO & Non-Independent Director

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

Craig W. Howie
Executive VP & CFO

Yes, 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 runoff 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. 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.

Kai Pan
Morgan Stanley, Research Division

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

Craig W. Howie
Executive VP & CFO

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's 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.

Operator

Our next question comes from Jay Gelb with Barclays.

Jay H. Gelb
Barclays PLC, Research Division

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

John P. Doucette

Executive VP, President & CEO of the Reinsurance Division

Jay, it's John. So I think we buy traditional reinsurance. We buy -- have looked at retro from time to time. We see business for Logan. We have the cat bonds, ILWs, et cetera. And we continue to look at different capital structures, traditional and nontraditional, that we're going to do. I think probably, the way I would think about it 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 a 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.

Dominic James Addesso
President, CEO & Non-Independent Director

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 the front door. So if our property business is down or -- that is one strategy. If it's up, that might be an entirely different strategy. What we are anticipating, though, is that our expected capital for go forward into 2018 will be just under 9%, which is about 1 point drop from where it traditionally has been.

Jay H. Gelb
Barclays PLC, Research Division

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 can 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?

Dominic James Addesso
President, CEO & Non-Independent Director

None whatsoever. In fact, I'm 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.

Operator

Our next question comes from Josh Shanker of Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

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 9 years at the firm. When you came in 9 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?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, Josh, you have a good memory as to timeline. But when I first came in, I think what I said at the time was that I thought we had an adequate reserve position, and I think that's demonstrated to be accurate. If you look through the history, at the various accident years, they've 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. And I think it's -- what we've been able to harvest over the last couple of years probably is somewhat reflective of a slightly more conservative philosophy than we had in the past. But notwithstanding that, again, history would prove that our reserves have developed favorably at various accident years. And the second part of that question, Josh, was the process, and the process is the same for both reinsurance and insurance.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And then unusual to your peers, you brought 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? With the decision in terms of how much capital you need to write new business, is it -- 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?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, first of all, 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 $50 million as opposed to something more. We had to be mindful of the fact that we were getting closer to the year-end. And 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 as one that gives us flexibility as opposed to leveraging it up to the max.

Operator

Our next question comes from Meyer Shields of KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

I'm trying to put together a couple of data points. One is the fact that most companies, and I think Everest as well, have 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's an opportunity in there.

Dominic James Addesso
President, CEO & Non-Independent Director

Is what a rational response, that there's rate increases on loss-affected areas?

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

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

Dominic James Addesso
President, CEO & Non-Independent Director

Well, I think in part, it's -- first of all, the rate increases that have come to 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 to the extent -- was it a rational response even though losses were, as you described, as expected? I absolutely think it was a rational 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 loss-free years, in many cases, there were many markets that were operating 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.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

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 rate increases are bigger there than elsewhere?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, that's what we do each and every day. And of course. And there are instances where we think it's the right rate and will increase share. We think it's the appropriate rate. And in many cases, as we saw at 1/1, there were instances where we declined or got off certain businesses because it was an inappropriate rate relative to the risk. So yes, these events always create opportunities. Sometimes, the opportunities make sense, and other times, it don't.

John P. Doucette
Executive VP, President & CEO of the Reinsurance Division

Meyer, this is John. I want 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've got to look at it as modeled results and then kind of psychology of the market and also when losses like this have happened. And I'm not sure I completely agree that all the -- that it's certainly across the buyers and even some of the sellers, that everybody thought these losses were expected. I would highlight the California wildfires, largest fires of all time. Houston being impacted by Harvey, a one-in-a-thousand event. I'm not sure if people think in terms of one-in-a-thousand-type events of the flooding that happened there. As you may recall, Irma, for a while, was heading to Florida to Miami as a cat 5, and it 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 are 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 there's -- some people maybe were surprised with the outcome 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.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. No, that's very helpful, very thorough. 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 at the back half of the year?

Dominic James Addesso
President, CEO & Non-Independent Director

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

Craig W. Howie
Executive VP & CFO

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.

Operator

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

Dominic James Addesso
President, CEO & Non-Independent Director

Let me just interrupt there for a minute. If there are more questions, [indiscernible]. 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 it's the year-end and given the nature of the results. Anyway, go ahead, Brian.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple ones here. John, could you give us a sense of how much of the fourth quarter growth was kind of one-off, backup covers, those types of things?

John P. Doucette
Executive VP, President & CEO of the Reinsurance Division

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

Brian Robert Meredith
UBS Investment Bank, Research Division

Great, helpful. Second question. I'm just curious. On your workers' comp business in California, do you anticipate any kind of pushback from regulators with respect to kind of pricing and rate given tax reform?

Jonathan Martin Zaffino
CEO & President of the Everest Insurance of Division

Brian, this is Jon. Very uncertain at the moment. We're going to, obviously, watch the market carefully and continue to react based on what we see as an underlying the risk-return characteristics. So 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.

Dominic James Addesso
President, CEO & Non-Independent Director

I think that line 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'm not sure regulators necessarily, sometimes they can't help themselves, will need -- necessarily need to get involved in that particular kind of activity.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then a little bit bigger-picture question here. As you're pricing your business, both reinsurance and the insurance side, obviously, you've got to build in some type of loss trend, inflation assumptions, which you think are going to go and forward. What are you all kind of thinking on the loss trend side kind of over the next year or 2? And kind of how are you pricing the business and, I guess, reserving for it?

Dominic James Addesso
President, CEO & Non-Independent Director

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

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. And then 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 can you put more growth on the current platform?

Dominic James Addesso
President, CEO & Non-Independent Director

Is that a question about reinsurance or insurance or both?

Brian Robert Meredith
UBS Investment Bank, Research Division

I would say on both sides.

Dominic James Addesso
President, CEO & Non-Independent Director

Well, certainly, I'll talk to the reinsurance piece first. We've actually been adding resources. 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 bulky 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've 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 where we also continue to add resources as well as continue to invest in systems. So the fact that we're able to maintain that expense ratio, I think, is a tribute to Jon and his team as well as the rest of the support units within the organization that provides 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.

Operator

And we did have a follow-up question from Jay Gelb of Barclays.

Jay H. Gelb
Barclays PLC, Research Division

My question has been answered.

Operator

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

Dominic James Addesso
President, CEO & Non-Independent Director

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 a 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're experiencing both on the reinsurance side and the insurance side demonstrates that we continue to add value to our customers, 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.