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Everest Re Group, Ltd. NYSE:RE

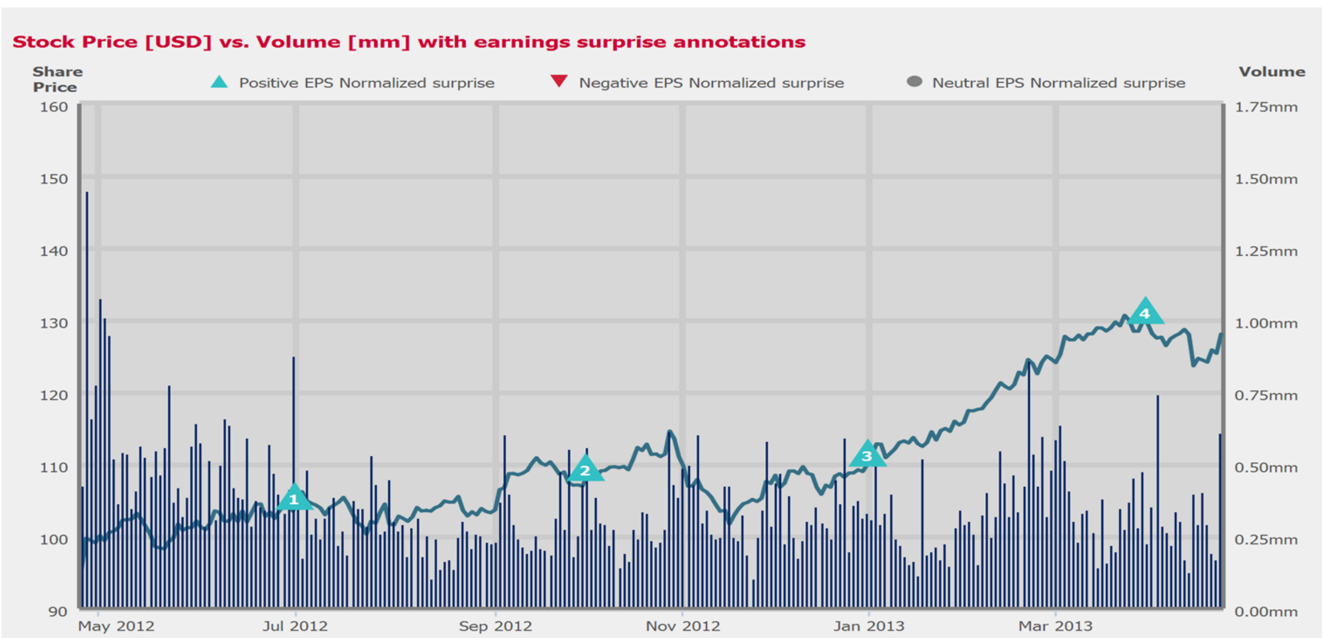
FQ2 2013 Earnings Call Transcripts

Wednesday, July 24, 2013 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2013-			-FQ3 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.21	5.10	▲21.14	2.86	17.21	16.78
Revenue (mm)	975.63	1151.53	▲18.03	1192.75	4526.85	4601.10

Currency: USD
Consensus as of Jul-24-2013 1:29 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2012	3.77	4.25	▲1 12.73 %
FQ3 2012	3.44	4.05	▲2 17.73 %
FQ4 2012	0.27	0.80	▲3 196.30 %
FQ1 2013	4.39	5.88	▲4 33.94 %

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Presentation

Operator

Good day, everyone, and welcome to the Second Quarter 2013 Earnings Call of Everest Re Group. Today's conference is being recorded. At this time for openings remarks and introductions, I'd like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead, ma'am.

Elizabeth B. Farrell
Vice President, Investor Relations

Thank you, Eric. Good morning, And welcome to Everest Re Group's Second Quarter 2013 Earnings Conference Call. On the call with me today are Joe Taranto, the Company's Chairman and Chief Executive Officer; Dom Addesso, our President; and Craig Howie, our Chief Financial Officer.

Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to forward-looking statements. In that regard I note that statements made during today's call, which are forward-looking in nature, such as statements about projections, estimates, expectations and the like, are subject to various risks. As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now let me turn the call over to Joe.

Joseph Victor Taranto
Chairman of the Board

Thanks, Beth. Good morning. I'm extremely pleased with our results for the first 6 months of the year. Our net income was $660 million, producing an ROE of 21%. Our worldwide gross written premium has increased by 25% over 2012. Our worldwide reinsurance premium has increased by 26%, and our insurance premiums have increased by 22%. The attritional combined ratio has improved by 6 points to 80.5%. Our attritional combined ratio for our insurance operation continues to improve and was 94.8% for the second quarter.

Our investment income was strong through 6 months at $295 million, only modestly off last year's $302 million despite the headwinds generated from today's low interest rate environment. Through 6 months, we grew book value per share, adjusted for dividends, by 5% despite falling bond prices and catastrophes.

During the quarter, we completed our April 1 Japanese reinsurance renewals, our June 1 Florida reinsurance renewals and our July 1 International reinsurance renewals. I was most pleased with our overall results, even though we experienced increased competition.

In particular, in Florida, we increased our premiums. But more importantly, we increased our expected margins and yet did not increase our 1/100 PML, as we bought some industry loss warranty cover to contain this risk.

Much of our increased margin came from writing pro rata reinsurance on homeowners business. Rate increases on homeowners business and other changes continued to improve the underlying insurance business, making it more attractive.

In addition, the fact that cat XOL reinsurance was less costly for homeowners companies made for further improvement in the net after-reinsurance expected results, as these saving inure to the benefit of our quota shares.

As always, we continued to optimize our portfolio and move towards the best opportunities. Our insurance operation continues to achieve meaningful rate increases in California Workers' Comp and other areas.

It's too early to predict the crop results, but so far, so good. The bulk of our crop premiums will be booked in the third quarter and fourth quarter, given the nature of this business.

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I am hopeful that we will continue to see quality, improving results as the year progresses in this segment. I see the current overall reinsurance insurance marketplace as offering reasonable opportunities and where companies that are focused, nimble and disciplined can do very well.

Our client relationships -- our long-term client relationships, well-diversified business platform and great ratings continue to serve us well. Our focused, nimble culture has produced great opportunity for us. Everest, by far, has the lowest internal expense ratio in the market. Our studies indicate that we have a 3 to 7 point expense advantage over our competitors. This is an enormous advantage. Our flatter organization has benefited us greatly, as it allows us to react to changing market conditions more rapidly, offer new products and better meet client needs.

During the quarter, we saw a spike in interest rates. We had expected rates to rise and continue to believe that they will rise further, although we do not try to predict when and by how much. We have positioned our bond portfolio to provide the balance between yields and duration that is most sensible.

Our view on interest rate increases is that they’re a net positive for us. Of course, they will initially decrease the market value of the bond portfolio. But since we tend to hold to maturity, this will, through time, undo itself. More important, future earnings will rise. In short, given the rating agency and regulatory requirements, we will always have the bulk of our assets in bonds, and we would rather earn more interest on these bonds than less.

In summary, the first 6 months have gone well, and we are looking to continue our good performance. In those 6 months, we returned $0.5 billion to shareholders between dividends and stock repurchase. Buying back $450 million of stock, which represents 7% of the beginning-of-the-year outstanding shares, underscores our confidence in our future.

Dom will now go through the operational review, and then Craig will take you through the financial highlights. Dom?

Dominic James Addesso
President, CEO & Non-Independent Director

Thanks, Joe, and good morning. The second quarter results were quite favorable, despite storm activity in the period. Aftertax operating income was $253 million, providing for an annualized operating return on equity of 16%. Strong and growing underwriting profitability and a stable base of investment income continue to provide for these favorable results.

Over the last several quarters, we have talked about the strategies we have deployed to enhance returns, and their success is borne out by these results. In that context, I would like to outline our underwriting results and what actions we have taken to reshape and improve in our portfolio.

Compared to the prior year, underwriting income was $29 million higher, at $143 million, even after cat losses of $90 million in this year’s second quarter versus $30 million 1 year ago. This year-over-year improvement continues to reflect an improvement in the underlying attritional combined ratio of more than 6 points. When adjusting for reinstatement premium, the attritional combined ratio was at 80.2%.

I will touch on specifics in a moment, but generally, the major improvements in the combined ratios were in U.S. reinsurance and Bermuda, followed by continued improvement in the insurance segment.

The catastrophe losses of $90 million in the quarter added 7 points to the combined ratio. So, overall, that ratio stood at a respectable 87.6%. There were multiple cat events in the quarter. The details are as follows: U.S. tornadoes, $50 million; European floods, $20 million; and Alberta floods, $20 million.

The continuing improving fundamentals are due to a variety of factors. At its core is underwriting. Changes in the portfolio mix, which emphasized excess of loss over pro rata, was a factor as primary rates softened. But other important measures included broader geographical diversification, new product initiatives, terminating unprofitable relationships and, finally, a basic, disciplined underwriting and pricing approach.

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Turning back to individual segments, I would like to provide some commentary about our U.S. reinsurance operations. As noted in our press release, premiums were up substantially in the quarter due to a Florida quota share transaction. The impact of this was material in the quarter due to an assumption of an incoming portfolio reflected in premiums written. Last year, we had terminated that deal, which resulted in an outgoing portfolio running through the premium account. When comparing year-over-year, this magnifies the percentage of premium growth. Premiums are up 16% in this segment without the impact of this transaction as we continue to find opportunities for growth, and as such, are pleased with the current position of the portfolio.

During the recent Florida renewals, we saw a mixed pricing environment. Cat excess rates were down, but underlying primary rates were up. We therefore wrote fewer cat excess of loss treaties and redeployed this capacity to writing substantially more quota share business, which, in combination, provided for increased overall margins on this book.

Margin improvement was derived from both the underlying price improvements, but also, from the lower cost of inuring catastrophe excess of loss reinsurance on this business.

As Joe mentioned, we purchased an ILW retro on the Florida book, which reduced peak event PMLs, while at the same time, overall margins increased. Across the rest of the U.S. property book, we have been authorizing and binding larger lines. This has enhanced the geographic diversification of our portfolio and provided for overall margin improvement on the book.

Our casualty operation has experienced growth from both new and renewal business. In addition, new business opportunities, in particular in credit reinsurance and structured solutions, have further contributed to premium growth in the quarter. All these activities have reshaped the U.S. reinsurance portfolio and led to a year-to-date attritional combined ratio of 72% versus 86.5% last year, a 14.5 point improvement.

In our Bermuda operations, there was minimal change in premium year-over-year. However, changes in the portfolio have resulted in a 7-point improvement in the year-to-date attritional combined ratio. The international operation also had minimal change to the top line, with continued growth in our Latin America book offset by Asia, which was slightly down due to the continued shift from pro rata to excess. Nevertheless, we were successful in growing the excess book, where rates have been stable. Profit remained strong for this operation, with a 77.2% year-to-date attritional combined ratio.

Now turning to the insurance operations, which is a growing proportion of the total book. The improving trend we noted in the first quarter continues to build. The premium growth of $61 million or 24% was driven by continued rate increases in California Workers' Comp, the new nonstandard auto initiative and, to a lesser extent, rate increases on casualty business and new business growth in general.

This profitable growth, along with the continued strength of our professional liability and accident and health results has produced a combined ratio for the quarter of 96.6%, continuing the improving profit trend for the insurance operation.

The investment income picture for the quarter was also favorable in light of a declining yield environment. Income was down just slightly over the prior years, as new cash flows and income from limited partnerships have helped offset declining reinvestment rates.

Capital remained strong, although shareholders' equity was down slightly at 1.6% from year end due to a significant level of share repurchases and a decline in the value of the bond portfolio. This capital position enables us to grow our writings, as evidenced in the second quarter, through geographic expansions and new products in both our reinsurance and insurance operations.

As noted, this diversification, which highlights the strength of our franchise, has been benefiting our operational results. We have every expectation that this trend will continue.

Thank you. And now I'll ask Craig to cover the financial highlights.

Craig William Howie

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Executive VP, Treasurer & CFO

Thank you, Dom, and good morning, everyone. We're pleased to report that Everest had another very strong quarter of earnings, with net income of $275.6 million or $5.56 per diluted common share. This compares to net income of $214.6 million or $4.08 per share for the second quarter of 2012. Net income includes realized capital gains and losses. On a year-to-date basis, net income was $660.0 million or $13.09 per share compared to $519.3 million or $9.79 per share in 2012. The 2013 result represents an annualized return on equity of 21%.

Operating income year-to-date was $554.2 million or $10.99 per share. This represents a 20% increase over operating income of $462.9 million last year. These results were driven by a $129 million increase in underwriting income, representing a 58% increase year-over-year.

As you just heard from Dom, there are a number of strategic initiatives that are driving these improved results. This increase in underwriting income was partially offset by higher income taxes and slightly lower net investment income compared to the first half of 2012.

These results reflect the continued improvement in the overall current year attritional combined ratio, which has declined more than 6 points from 86.6% to 88.5% on a year-to-date basis. This measure excludes the impact of catastrophes, reinstatement premiums and prior period loss volume [ph] .

The total reinsurance attritional combined ratio was 76.5% for the first half of 2013 compared to 83.7% in the prior year. The insurance segment attritional combined ratio was 96.4% year-to-date compared to 98.7% in the prior year. All segments reported increases in premium volume for the quarter and year-to-date, and all segments reported underwriting gains for the quarter and for the first half of 2013. Total reinsurance reported an underwriting gain of $134 million for the quarter compared to a $107 million underwriting gain last year.

For the first half of 2013, total reinsurance reported an underwriting gain of $344 million compared to a $219 million gain last year. These results reflect $90 million of current year catastrophe losses in the first half of 2013, all recorded in the second quarter. This compares with $60 million of cats during the first half of 2012.

The Insurance segment reported an underwriting gain of $9 million for the quarter compared to a gain of $7 million last year. On a year-to-date basis, the Insurance segment reported an underwriting gain of $9 million compared to a gain of $5 million in 2012.

The 2013 results reflect a crop loss of $10 million for the year, primarily due to the seasonality of crop premiums, but also including a $4 million unfavorable true-up from the 2012 crop year.

The overall underwriting gain for the Group was $143 million for the quarter compared to an underwriting gain of $114 million for the same period last year. On a year-to-date basis, the underwriting gain was $353 million compared to a gain of $224 million in 2012.

Our reported combined ratio was 84.2% for the first half of 2013 compared to 89.0% in 2012. The commission ratio of 21.2% for the first half of 2013 is down 3.5 points compared to the prior year. This lower ratio continues to reflect the shift in reinsurance from pro rata to excess of loss contracts, which generally carry a lower commission. It also reflects the shift away from program business to direct business in the Insurance segment.

As for loss reserves, in June, we released our third annual global loss development triangles for 2012. There were really no major changes since the 2011 release. Our overall quarterly internal reserving metrics continued to be favorable.

For investments, pretax investment income was $149 million for the quarter and $295 million year-to-date on our $16 billion investment portfolio. Our investment portfolio continues to perform well. The pretax yield on the overall portfolio was 3.8% with a duration of just over 3 years. The first 6 months reflected $106 million of net aftertax realized capital gains compared to $56 million last year. These gains are mainly attributable to fair value adjustments on the equity portfolio.

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

Strong cash flow continues, with operating cash flows of $396 million for the first half of 2013 compared to $305 million in 2012. This is despite the high level of loss payments over the last 2 years related to catastrophes.

Turning to capital management. We completed the redemption of our 6.2% junior subordinated debt in May, as we announced on our last quarter call. We expect interest expense of approximately $8 million per quarter going forward.

Shareholders' equity at the end of the quarter was $6.6 billion compared to the $6.7 billion balance at year end 2012. This is after taking into account $0.5 billion of capital return through $450 million of share buybacks and $48 million of dividends paid in the first half of 2013. It also reflects a $325 million decline in the value of the bond portfolio due to the rise in interest rates this year.

Book value per share increased to $136.31 from $130.96 at year end 2012, a 5% increase after adjusting for dividends. Our continued strong capital balance positions us well for potential business opportunities as well as continuing share repurchases.

Thank you. And now, I'll turn it back to Beth for Q&A.

Elizabeth B. Farrell
Vice President, Investor Relations
Thank you, Craig. At this point, we are open for questions.

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Question and Answer

Operator

[Operator Instructions] And we'll take our first question from Amit Kumar with Macquarie Capital.

Amit Kumar
Macquarie Research

I guess, 2 or 3 quick questions. First of all, just going back on the discussion on the business mix, and I know you've talked about this in the past, on the shift towards XOL. As you look forward, what percentage would you be comfortable with in terms of the business mix?

Joseph Victor Taranto
Chairman of the Board

I’ll start with that one. I mean, what we try to do is optimize our portfolio and go to the best deals available, certainly on the property side, when we’re choosing the P&Ls that we're willing to write to. Now we had seen, for the last year or 2, XOL, especially as the rates were rising, that we wanted to write more of that. And that was stacking up better relative to pro rata.

I would say on a worldwide basis, most of the changes that we wanted to make, we’ve made in the last couple of years. But what we kind of added to the mix was this past June in Florida, where we had a shift, if you will, within the Florida book where we did more pro rata. I would still kind of guesstimate that where we're at mix-wise today is pretty much where we’ll stay on a worldwide basis. But having said that, we will continue to change as the world changes, XOL rates change, as underlying insurance rates change. But I don’t expect the worldwide portfolio to undergo any significant change, as I look out for the next year, like it has in the past couple of years.

Amit Kumar
Macquarie Research

Got it, that’s helpful. And where does Mt. Logan, I guess, fit in and start flowing in the numbers? I guess that would be more so in Q3? Just -- could you refresh us on that?

Dominic James Addesso
President, CEO & Non-Independent Director

Amit, this is Dom. We had initially targeted, by the end of the year, to raise up approximately $250 million in outside -- in capital in total. We are about halfway there, so we have some capital already deployed at Mt. Logan, which will be reflected in the third quarter. Craig can get into the details, if you like, on how that will run through our financials because perhaps there -- we may have to consolidate that operation, but that’s yet to be determined. But that capital has already been committed to us, and that will allow us to expand our writings within the reinsurance operations and then essentially quota share some business off to Mt. Logan. But it’s not, as you can see, it’s not necessarily a material amount, and it’s a slow build.

Amit Kumar
Macquarie Research

Got it. I can take that off-line. And final question, on capital management. And you were talking about some of the numbers, I think buybacks were -- and dividends were 86% or something like that of net income, which is obviously running at a higher trend than what we have seen in the past. How do you think about that, I guess, for the remainder of the year? Is that a good metric to use, the current level, or do you sort of pull back in the wind season, maybe come back a bit? Or do you wait for 1:1 renewals and then sort of come back in Q1?

Joseph Victor Taranto
Chairman of the Board

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Well, we are keen to buy, and that's why we've bought $450 million through the first 6 months. As I said, that kind of shows the confidence that we have in our portfolio and our future. We probably will be a bit more cautious in the coming quarter. I mean, we have, historically, through wind season been a bit more cautious, and I think we will probably take that same position.

Now we never forecast, and so don't hold us, because we reserve the right to change as conditions change. But probably lighter in the third quarter. And if that all goes well, probably back to more in the fourth quarter, that would be kind of a guess at this point.

Operator

We will take our next question from Joshua Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Hi, I guess for Craig, to start, on the bond portfolio, you said, I guess, the mark-to-markets were $325 million, is that correct?

Craig William Howie
Executive VP, Treasurer & CFO

That's correct. On a year-to-date basis, Josh.

Joshua David Shanker
Deutsche Bank AG, Research Division

Year-to-date, okay. So I actually, looking at the portfolio, at about $6.5 billion, $16.5 billion, that's been fairly resilient. Can we sort of get more granularity? It's certainly better than the performance your peers have so far reported. Is it -- can we -- to the rising interest rate environment and mark-to-markets.

Dominic James Addesso
President, CEO & Non-Independent Director

Well, recall that what we have been doing is been shorting the duration of our portfolio, so that helps dramatically. And then of course, we've -- over the last couple of years, we've been reallocating some of our portfolio to a larger equity position, which has obviously helped as rates have been coming down. But obviously, the stock market has been rising, and that's helped shield some of that result, as well as high yield, floating bank debt and other areas that have kind of protected the portfolio from the times that were -- most recently have gone through.

Joshua David Shanker
Deutsche Bank AG, Research Division

And you've taken some profits, I guess, on the equity markets?

Dominic James Addesso
President, CEO & Non-Independent Director

We have. Our equity position has not, in terms of a percentage of our asset base, has not changed dramatically, but we do -- within our equity portfolios, we'll take profits on certain securities and then reinvest in other opportunities that we think have a better upside. There's not been any material change in our allocation to equities.

Joshua David Shanker
Deutsche Bank AG, Research Division

It looks like it shrank by about $100 million, despite the rising equity markets, so I just thought that maybe you're taking some money off the table.

Dominic James Addesso
President, CEO & Non-Independent Director

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In some cases, we are, in particular positions. But we're continuing to look for opportunities in that space. We are not, directionally, making a major change in our equity allocation.

Joshua David Shanker
Deutsche Bank AG, Research Division

And can we talk about the size of the California Workers' Comp business now compared to where it was prior to Berkshire's 2007 move in that space? Are you larger than you were back then or -- as a proportion of the overall insurance business, where does that stand?

Joseph Victor Taranto
Chairman of the Board

Now, we were once close to $800 million or $900 million in the marketplace. We're nowhere close to that, but it's growing. We'll probably do better than $300 million in the marketplace this year. We continue to get some very good rate increase, and I would expect we'll probably do more business next year than this year.

Joshua David Shanker
Deutsche Bank AG, Research Division

So if we go back to like '06, almost all the business was Workers' Comp. And now, it's a minority of the business?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, it would still -- it would represent close to 20% to 25%. But yes, we have gotten into crop, we've done A&H, professional liability. Nonstandard auto in now in mix, California DIC, so -- as well as our E&S operation. So we've got a well-diversified insurance platform at this point, just in the last couple of years, which is -- we're quite proud of.

Joshua David Shanker
Deutsche Bank AG, Research Division

Can we tease out of the strong growth, rate growth versus unit growth versus, I guess, expansion into newer markets?

Dominic James Addesso
President, CEO & Non-Independent Director

Can we -- I'm sorry, Josh. Can we...

Joshua David Shanker
Deutsche Bank AG, Research Division

Looking at 36% growth in this quarter; over the last 12 months, probably 30% growth in the insurance book. Can we divide that into rate versus like exposures growth versus, I guess, newer markets and whatnot?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, a very, very rough estimate, you can think about rate level increases, particularly in comp and in our general liability classes, in a 10% to 15% range. So, essentially, that might help you think about the 36% versus that 10% to 15% number.

Joshua David Shanker
Deutsche Bank AG, Research Division

No, I'll try and work with it.

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Operator

We'll take our next question from Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Dom, would it be possible to give us a little bit more detail on this Florida program that you wrote? I was just looking back, and it looks like even if we compare to like 2Q '11, gross premiums were still quite a bit higher here. So just wondering if that difference is because this contractor program got a lot bigger or you took other exposures in the same area, and then just a quick follow-up on that.

Dominic James Addesso
President, CEO & Non-Independent Director

You're saying that 2013 is higher than just this one transaction?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Well, no. You said that -- I thought you had said this was a program that you guys did not -- that you had participated in historically and then you didn't last year. So the delta between '12 and '11 -- or between '12 and '13 is really big, but that maybe -- so I just figured, maybe the better comparison would be '11, when -- I would assume, then, that contract was in place, comparing that to '13.

Dominic James Addesso
President, CEO & Non-Independent Director

I don't have the 2011 numbers at my fingertips, but let's maybe just talk about 2012. So in 2012, for this one particular transaction, we had almost $200 million of the portfolio out. Right? In 2013, the portfolio in was 44 -- about $44 million. And in addition, we wrote some other quota shares in 2013 that is also impacting these results. I don't know if that gets to your question, but that's about the most I can give you in terms of details on those transactions.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. And then, in terms of thinking about this contract earning through for the rest of the year. I assume that's when the majority of the contract is going to earn through. First of all, is that right? And second of all, how much is earned though already in the second quarter?

Dominic James Addesso
President, CEO & Non-Independent Director

No, it earns ratably. I mean, there's no unusual earnings pattern to. It's just they're a homeowners business that earns out over a 12-month period of time.

Joseph Victor Taranto
Chairman of the Board

Starting June 1.

Dominic James Addesso
President, CEO & Non-Independent Director

Yes.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay, so starting June 1.

Joseph Victor Taranto

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Chairman of the Board

It wouldn't get too much earning in this quarter.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Okay. And then, just one question, maybe, for Craig. On the -- looks like the revolver, you took some out on the revolver in the quarter. Was that just kind of timing, or is that something that you'll expect to do just to take advantage of still low interest rates on the borrowing side?

Craig William Howie
Executive VP, Treasurer & CFO

That's correct, Mike. It was just really timing, more so than anything else. And you're right, it is very low interest rates.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And then lastly, I guess, just thinking about capital deployment looking forward, does this program, this large contract, does this is in any way change your outlook in terms of how much you think or would like to deploy via buybacks relative to how much you are earning over the foreseeable future, or should we just consider that to be as it was?

Joseph Victor Taranto
Chairman of the Board

No, I think our outlook on buybacks is very much the same. It's going to be clearly part of the mix. It's been a big part of the mix for 6 months. I think it will continue to be a big part of the mix going forward. We told you, despite not just this contract but everything else that was written in Florida, we really didn't increase the PML at the 1/100 and above. So we didn't want that volatility, which frankly allows us to be more aggressive with regard to buyback. So it doesn't really change our outlook on that item.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And then just last one, if I might. Can you scope out the nonstandard auto book? I'm just trying to understand like when we look ahead in that insurance segment, how big is that, how big should that get, and just what sort of run rate are you thinking about -- or should we be thinking about in terms of profitability there?

Craig William Howie
Executive VP, Treasurer & CFO

Well, the going in -- our nonstandard auto book was running approximately $30 million a year for us. And this year, our expectation is that we would be somewhere around $80 million with the expansion hopes into the next year and beyond. That book of business, we feel, will have at least 10 points of margin in it. So that's kind of where we expect it to run.

Operator

We'll take our next question from Greg Locraft with Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

Just wanted to talk a bit about the reserve triangles. This is the quarter in which you guys have released them. And it seems that there is a cushion that's growing, and I guess that's our opinion based on what we can see. And the numbers are excellent that you are reporting, no doubt there, and you're doing it without reserve releases.

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So can you comment a bit on how you feel on the reserves, maybe if you can cut across the different lines where you may feel relatively better or worse? And then can you perhaps contrast it with the industry, which continues to release a lot, but their position seems to be slipping year-over-year.

Craig William Howie
Executive VP, Treasurer & CFO

Greg, this is Craig. So as you've noticed, the decision that we've taken over time is to put up a prudent reserve position. And over time, we've developed some -- a very strong process that we have in place to develop that on a conservative basis going forward. So as you see those growing and you're seeing that across pretty much all lines in those triangles that we put out, but specifically on the reinsurance side, we're seeing some very favorable development in our internal metrics that we look at -- for example, actual versus expected that we look out on a regular basis. But again, the multi-pronged approach that we've taken in the past over the last 3 years to set up this reserve position keeps putting us in a better position over time.

Dominic James Addesso
President, CEO & Non-Independent Director

And Greg, to comment on any specific line or class of business at this point in time, in the absence of a full reserve review, is a little bit premature for us to get to in the second quarter. So what's important for us is the overall reserve position. There are going to be ups and downs in any particular class of business. I mean, we monitor close to 200 different reserve buckets, and those move up and down over time. But it's fair to say that, as the industry, you always get a little bit more conservative with respect to the longer tail line.

So the longer tail lines require a little bit more conservative reserve position, but that doesn't mean -- so therefore, I guess, by definition, you can say that if there's any particular class of the business that you'd be less comfortable with, it would be the longer tails. But we still feel that our casualty comp and all those classes are well reserved.

Joseph Victor Taranto
Chairman of the Board

But I will add that, as you know, the results that we've put out -- and we are proud of these results, do not include end releases, if you will. They're pure results based on this year, and we're very happy that we have such good results that don't require the benefit of these releases. As far as the industry and how much more there's left and what's to come, we really won't comment on that. I don't think that we know any better than anybody else about that. We'll just talk about ourselves.

Operator

We will go next to Vinay Misquith with Evercore Partners.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

The first question is on the property cat business. I believe you have about $1 billion of premiums in there. And we've heard various things about pricing, U.S. versus the non-U.S. Curious what portion of that business of yours is U.S. versus non-U.S., and how do you see the pricing outlook of that for the future?

Joseph Victor Taranto
Chairman of the Board

Well, it is about a $1 billion -- it's probably grown from $1 billion in terms of the pure cat premium that we have on a worldwide basis. And I would tell you that the portfolio that we have as of the present, after the July 1 renewals, is probably the best portfolio we've ever had in terms of total expected margin dollars going forward. And the ROE on the business that we've written, we think, is excellent.

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Yes, we've seen more competition for the business recently, some of that in Florida, and you've heard how we responded to some of that. And we did see some more beyond Florida in July. Clearly, we have seen more capacity in the marketplace, and I'm not -- I don't necessarily expect that to go away if there's no big losses. But really, as I continue to look forward, I expect us to continue to do well.

We've dealt with competition for many years. We'll continue to deal with it for many years to go. I think we have a lot of advantages in terms of our client relationships, the flexibility that we have in terms of the products that we can put together to meet clients' needs, the ratings, the ability to move into pro rata or other options if that makes more sense. So yes, there's been, recently, more competition, and probably that will stay. But we're still putting together deals that we're very pleased with.

Dominic James Addesso
President, CEO & Non-Independent Director

Currently, our U.S. catastrophe book represents approximately 50% of the overall worldwide cat. So that can change, as Joe was describing, depending on where the opportunities are, plus or minus 5 points, 10 points. But as -- think about that as approximately half.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Okay, that's helpful. And just thinking about this philosophically, if pricing does come down next year, would we see a pullback from you guys, or do you think you can manage to still maintain your market share?

Joseph Victor Taranto
Chairman of the Board

Well, to be determined. If the pricing changed dramatically and we were less enthusiastic about the marketplace, then I would expect that we would do less and probably buy a whole lot of stock more back. And of course, we would look for other opportunities to deploy our capital in other lines of business and other business dealings, whether it's acquisitions or something else. So sure, as the world changes, we'll change. That's always the way it's been, that's always the way it will be.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Sure, that's helpful. And then on the primary insurance, are we still on track for a low 90s combined ratio?

Dominic James Addesso
President, CEO & Non-Independent Director

Right now, we're in the mid-90s and trending towards that number, yes.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Fine. And then just the last question is on cats. Your cats in the Canadian flood seem to be very low, just above $20 million. And I know you guys are a big player there. Just wanted to understand your exposure there and how you had such low cats there.

Dominic James Addesso
President, CEO & Non-Independent Director

In Canada?

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Yes, correct.

Dominic James Addesso

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President, CEO & Non-Independent Director

We are a significant player in the Canadian market. We tend to think of us, ourselves, as probably the second- or third-largest reinsurer there. A bigger proportion of our portfolio relative to maybe some of the others is perhaps more casualty. And also, we have not been as strong in that region as some others. So we've not put down a lot of capacity in those regions where heavily prone -- easily and more readily exposed to flood.

Joseph Victor Taranto
Chairman of the Board

Some of the property pro rata in Canada, and the XOL, we've cut back in the last couple of years, as we didn't believe that business was rated as healthy as it should be.

Operator

We will take our final question from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes, good morning. A couple of questions here for you. The first one, can you tell us what the actual UEP transfer that came in on that Florida deal was?

Dominic James Addesso
President, CEO & Non-Independent Director

The portfolio end was $44 million.

Brian Robert Meredith
UBS Investment Bank, Research Division

$44 million? Great. And then just another quick question, on that deal, how important was securing the ILW for you doing the deal, and how much margin enhancement was that?

Dominic James Addesso
President, CEO & Non-Independent Director

That was not a factor in that transaction.

Joseph Victor Taranto
Chairman of the Board

No, the ILW deal was just us managing the overall portfolio. We liked all the deals that we did, very pleased to do them and increase our margin. But when we got done, we had a PML at the 1/100 and above that was over what it was a year ago. And we decided we didn't want that. And so we went to the ILW market, procured a deal that we're very, very happy with that took it back down.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then can you give us a quick update on what you are seeing as far as demand for casualty reinsurance out there? Is it still kind of declining? What is kind of the appetite out there for casualty reinsurance? And then also on that, have you seen any kind of change in terms of conditions, more multiyear deals, coverages, anything else going on?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, demand on the casualty side, as kind of what you're implying in your question, has been relatively weak. But that's been certainly something we have seen for the last couple of years. Nevertheless, we actually have been writing some new accounts, less so on the larger national type of clients where, in that

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particular case, the trend would be for less purchases as they increase retentions. And as pricing is going up maybe a bigger, better appetite on their end.

But we have written some new business in the casualty space, which has grown our portfolio. So it’s a little difficult to say what’s happening with the market overall, but I don’t think there is any significant change from a year ago in terms of buyers' appetite. And again, we’re able to put some new business on the books, which we're -- part of our franchise is about building out the casualty operation as well, particularly into a market that -- where we are seeing some rate increase.

In terms of other types of transactions, we are only seeing new and different types of transactions, different structures, all the time, whether it’s on the property or the casualty side. And it’s -- I made some slight reference in my remarks about structured solutions, and we’re beginning to foresee opportunity there. And perhaps there is a slight pickup in what buyers are looking for in that space, and we’re participating in that.

Operator

This does conclude today’s question-and-answer session. I’d like to turn the conference back over to management for any closing or additional remarks.

Elizabeth B. Farrell
Vice President, Investor Relations

I’d just like to thank everybody for joining us today.

Operator
This does conclude today’s call. We thank you for your participation.

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