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Everest Re Group, Ltd. NYSE:RE

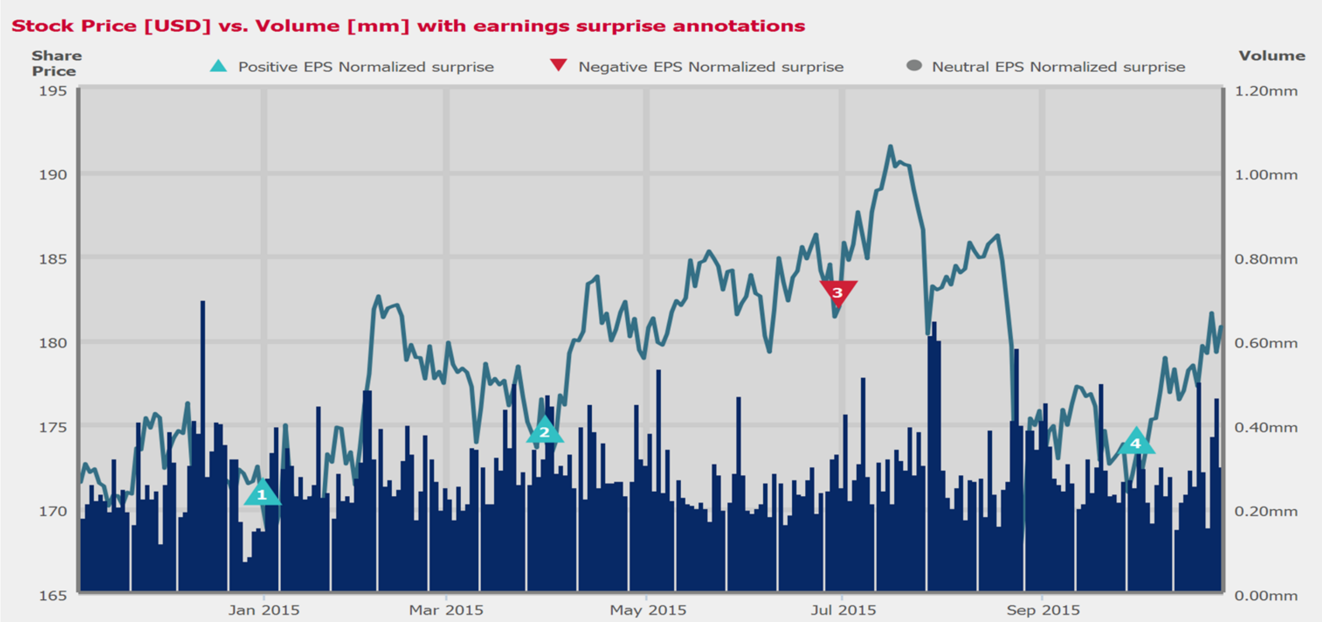
FQ4 2015 Earnings Call Transcripts

Thursday, February 04, 2016 3:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2015-			-FQ1 2016-	-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	5.35	8.17	▲52.71	5.20	22.29	25.04
Revenue (mm)	1299.03	-	▲5.06	1336.45	5330.40	-

Currency: USD
Consensus as of Feb-04-2016 11:59 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2014	5.76	7.28	▲1 26.39 %
FQ1 2015	5.86	7.34	▲2 25.26 %
FQ2 2015	5.65	5.03	▼3 (10.97 %)
FQ3 2015	4.03	4.53	▲4 12.41 %

Call Participants

EXECUTIVES

Craig W. Howie
Chief Financial Officer and Executive Vice President

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Elizabeth B. Farrell
Vice President of Investor Relations

John P. Doucette
CEO & President of the Reinsurance Division

ANALYSTS

Joshua David Shanker
Deutsche Bank AG, Research Division

Kai Pan
Morgan Stanley, Research Division

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Vinay Gerard Misquith
CRT Capital Group LLC, Research Division

Presentation

Operator

Good day, and welcome to the Fourth Quarter 2015 Earnings Call of Everest Re Group Limited. Today's conference is being recorded. At this time, I would like to turn the conference now over to Beth Farrell, Vice President of Investor Relations. Please go ahead.

Elizabeth B. Farrell
Vice President of Investor Relations

Thank you, Holly. Good morning, and welcome to Everest Re Group's Fourth Quarter and Full Year 2015 Earnings Conference Call. On the call with me today are Dom Addesso, the company's President and Chief Executive Officer; John Doucette, our Chief Underwriting Officer; 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 our 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
Chief Executive Officer, President and Non-Independent Director

Thanks, Beth, and good morning. I'm pleased to report record operating earnings per share for 2015 of $25.04 per share. This translates into an operating return on equity of 15%. The underwriting account produced record underwriting results of $912 million as a result of continued discipline and portfolio shifts undertaken in a very challenging market. Of course, the absolute number is stronger than expected due to the low level of cats. However, it is noteworthy that in a declining rate environment, the combined ratio remained relatively stable at 83.4% versus 82.8%, 1 year ago. The slight uptick is due to the growth in the insurance portfolio. In fact, the reinsurance combined ratio stood at 78.5% in the last 2 years. In 2015, reserve releases helped but other contributing factors were portfolio shifts, expanding mortgage credit writings, increased facultative business and profits derived from our Mt. Logan operation. All in, we have been extremely pleased with how the organization has navigated through this market.

On the insurance front, it very much remains an improving story, although the overall results at first glance continue to look challenged. The attritional combined ratio improved 8 points and came in at 94.3%, demonstrating that our current strategies are producing the desired outcome. Nevertheless, the overall result came in at 106.3% combined ratio. This was due to prior year development once again coming from 2 of our runoff books of business. One is an excess casualty program book and the other is a construction liability account experiencing late reported construction defect claims. While this has been a difficult sector to reserve, it should be noted that our overall reserve position was more than adequate to absorb these developments, resulting in an overall reserve release of $36 million for the year. Going forward, we remain confident that our overall reserve position is sufficient to handle developments in any of our many lines of business, but more importantly, we feel the same as it relates to the Insurance segment specifically.

The Insurance segment has made great progress during the past year and key additions have been made to our executive management, underwriting and distribution ranks. Overall, premiums grew by 26%, led by our property, E&S and crop lines as well as A&H, casualty, D&O and our sports and entertainment business. We continue to build out these sectors as well as some new areas that will come online in 2016. Profitability in each of these sectors is strong despite some rate flattening. John will get into some of these details in his report, but overall, we would expect continued momentum in the Insurance segment into 2016 and beyond.

Overall, we were very pleased with our underwriting results and initiatives in both reinsurance and insurance. A bit of a continual challenge, however, remains on the investment front. As we all know, the low interest rate environment continues and new money rates are less than the yields for maturities rolling off. In addition, certain sectors have been more recently challenged and in particular, the energy sector along with emerging market debt and high yield generally. As we, along with others, have well-diversified portfolios, we are not immune to some of these impacts. As a result, investment income is down, mostly driven by lower limited partnership income impacted by the aforementioned factors.

In addition, there were some realized losses due to write-downs taken on certain oil and gas investments. The factors in the investment markets also had an impact on book value, where growth was constrained due to a decline in the unrealized account. Nevertheless, book value per share grew 7% to $178.21 from $166.75.

In general, as I mentioned previously, this was another successful year. We are appropriately navigating through continual competitive pressures, and going forward, we expect to maintain our utilization of alternative capital to maximize returns. In addition, we expect continued growth in specialty risks in the North American insurance platform as well as in continental Europe through our new Lloyds Syndicate. No doubt, the rate pressures we saw at 1/1 will further challenge us and the industry, but we remain confident in our ability to outperform.

Thank you, and now to Craig for further details on the results.

Craig W. Howie
Chief Financial Officer and Executive Vice President

Thank you, Dom, and good morning everyone. Everest had a terrific end to 2015 with one of our strongest quarters in history, helped by reserve releases that impacted both current and prior years. For the fourth quarter of 2015, operating income was $353 million or $8.17 per diluted common share. This compares to operating income of $331 million or $7.28 per share in the fourth quarter of 2014. The 2015 quarterly result represents an annualized operating return on equity of 19%. For the year, operating income was $1.1 billion or $25.04 per share compared to $1.1 billion or $24.71 per share in 2014. Net income for the year was $978 million or $22.10 per share compared to $1.2 billion or $25.91 per share in 2014. Net income included $130 million of net after-tax realized capital losses compared to $55 million of capital gains last year, or a difference about $4 per share year-over-year.

The 2015 capital losses were primarily attributable to fair value adjustments on the equity portfolio and impairments on the fixed income portfolio, the impairments mainly related to credit write-downs on energy investments. The results reflects a slight increase in the overall current year attritional combined ratio of 82.9%, up from 82% last year. This attritional measure increase of less than 1 point includes higher-than-expected current year losses in the reinsurance segments, including $60 million of estimated losses for Tianjin and numerous weather-related losses that did not meet our $10 million catastrophe threshold.

In the fourth quarter, Everest saw $20 million of current year catastrophe losses related to the U.S. storms that occurred during the last week of the year. The fourth quarter of 2015 also included favorable development on prior cat losses, largely from the 2013 year. Therefore, net catastrophe losses for the quarter were negative $4 million.

Catastrophe losses for the year were $66 million in 2015 compared to $62 million in 2014. For 2015, gross catastrophe losses were $100 million but were offset by $33 million of favorable development on prior year cat losses, primarily from the 2013 German hailstorms, European floods, Typhoon Fitow and U.S. storm events. Our reported combined ratio was 83.4% for the year 2015 compared to 82.8% in 2014. The 2015 commission ratio of 21.9% was slightly down from 22% in 2014. Our expense ratio remains low at 4.9% for the year compared to 4.6% in 2014. The expense ratio for the reinsurance segments remained flat at 2.9% while the overall expense ratio was influenced by the build out of our insurance platform

[ph]. Everest has one of the lowest internal expense ratios in the industry. This is a strategic competitive advantage for Everest.

On reserves, we completed our annual loss reserves studies. The results of the studies indicated that overall reserves remained adequate. In the fourth quarter, we booked prior year development in the Insurance segment and for asbestos, which was more than offset by favorable development in the reinsurance segments. The $121 million of prior year reserve development in the Insurance segment during the quarter, as referenced by Dom, was largely related to umbrella business and construction liability. These runoff programs were discontinued by the company several years ago. The $155 million of favorable prior year development in the reinsurance segments, including Mt. Logan Re reflected $193 million of favorable development offset by a $38 million increase in asbestos reserves related to several large settlements during the year. The $193 million of reinsurance favorable development, during the quarter, mostly related to casualty and property treaty 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 $111 million for the quarter and $474 million for the year on our $17.7 billion investment portfolio. Investment income was below last year as anticipated. This result was primarily driven by the low interest rate environment and by the decline in limited partnership income.

On the fixed income portfolio, income was down $30 million year-over-year. Limited partnership income was down $26 million year-over-year, primarily due to energy-related investments. The pretax yield on the overall portfolio was 2.8% compared to 3.2% in 2014 and duration remained at 3 years. Other income and expense included $61 million of foreign exchange gains for the 2015 year compared to $30 million of foreign exchange gains in 2014. The foreign exchange gains resulted from the relative strengthening of the U.S. dollar against the other world currencies.

On income taxes, the 2015 operating income effective tax rate was 14.5%. This effective tax rate for the year was in line with our expectations for the year. Operating income does not include capital gains or losses. Strong cash flow continues with the operating cash flows of $1.3 billion for the year, essentially flat compared to 2014. This is primarily due to our continued premium growth. Shareholders' equity for the group was $7.6 billion at the end of 2015, up $157 million compared to year-end 2014. This is after taking into account capital return through $400 million of share buybacks and $175 million of dividends paid in 2015. The company announced a 21% increase to its regular quarterly dividend and paid $1.15 per share in the fourth quarter of 2015. Our strong capital balance positions us well to continue share repurchases.

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

John P. Doucette
CEO & President of the Reinsurance Division

Thank you. Good morning. As Craig mentioned, we had a very strong Q4 finishing a successful 2015 year. Our group gross written premium for Q4 was $1.5 billion, up 6% from Q4 in 2014, predominantly driven by growth in insurance. Our group net written premium was $1.4 billion, which was up $70 million or 5% over Q4 2014. For the full year, our group 2015 gross written premium was $5.9 billion, up almost $130 million or 2% from 2014. Our group net written premium was $5.4 billion, also up 2%.

Let me first review our reinsurance segments, starting with 2015 full year results, then give some color on January 1 renewals and how we are navigating the market. For our global reinsurance segments, including both total reinsurance and Logan, gross written premium for 2015 was $4.3 billion, down 4%. But adjusted for exchange rates is -- it is essentially flat year-over-year. Net premiums were $4.1 billion, down 3%. On constant currency basis, it is closer to flat. Our reinsurance book, including Mt. Logan, generated $991 million of underwriting profit in 2015, up 6% compared to 2014. This is noteworthy given a similar amount of property catastrophe losses in 2014 and 2015 as well as some other large losses this year, including the Tianjin port loss. These record reinsurance underwriting results, despite the soft market, highlight the successful execution of the strategy and initiatives that we put in place over the last couple of years. These expanded our opportunities and reinsurance profits by developing new and enhancing existing strategic relationships with key reinsurance clients across multiple lines of business, deploying capital to credit opportunities and other new products worldwide, offering meaningful line capacity on attractive property catastrophe treaties, utilizing both Mt. Logan and cat bonds and growing both our regional and facultative books. These initiatives broadened and enhanced, both our broker and client relationships, and continue to provide new opportunities to expand with long-standing clients, whether on new deals or larger shares of existing ones. Offsetting this, we are scaling down or non-renewing treaties, which inadequately compensate us for putting our capital at risk. In the current market, this causes significant churn in our renewals. This, combined with the dynamic allocation of capital to the best price business, resulted in the outperformance of our portfolio relative to the broader market.

Now some color on the January 1 reinsurance renewals. We wrote about $2.1 billion of premium across all reinsurance lines, which was down 3% compared to last 1/1 as we continue to face currency headwinds. On a constant dollar basis, premium was roughly flat. Our catastrophe-exposed property book saw risk-adjusted rates down low single digits for U.S. business, but down more in other areas such as Europe, Asia, Australia and some Latin American countries. We move to higher attachments where risk-adjusted rates were generally better. Globally, our expected combined ratio was up about 1% for our property cat XOL book compared to the 1/1 renewals last year. Overall, our 1/1 cat XOL premium was about flat, driven by increased signings in the U.S. but offset by reductions in some emerging markets and Europe due to FX and softer rates.

Our PURPLE book, which has had strong results, shrunk this 1/1 due to elevated competition, which drove rates down to inadequate levels. Consequently, we redeployed some capacity to better priced reinsurance deals. We did have some wins at 1/1 in our traditional casualty book, with several large quota shares for strategic clients. But generally, this area remains challenging. In particular, we continue to deemphasize management and professional liability. On the positive front, casualty pro rata ceding commissions began stabilizing. We also found attractive opportunities in the credit space, and we continue to enjoy meaningful opportunities with key P&C clients, where we have the ability to offer multiline capacity.

We executed on new opportunities at 1/1 that added meaningfully to our top line, including several Solvency II surplus relief quota shares, increased lines on existing treaties with several global clients as well as new layers for the same customer group, where they are looking to reinsure their growing global retentions. In aggregate, these new deals offset some of the premium lost on deals that we nonrenewed.

We continue to utilize Mt. Logan cat bonds and traditional hedges, which have allowed us to grow our gross portfolio over the last few years, while generally keeping our net PMLs on our 1/1 renewal book fairly stable relative to our capital base. During the fourth quarter, we sponsored another $625 million of cat bonds, protecting us from wind and quake losses in both the U.S. and Canada, where we have a dominant lead reinsurance market position and enjoy preferential access to and signings on favorable deals. This brings the total multiyear protection provided by Kilimanjaro cat bonds to $1.6 billion. As of 1/1, Mt. Logan's assets under management was up to $860 million, a growth of 25% in AUM from 1/1 last year. Once again, 100% of Logan's capacity was fully deployed at 1/1 renewal.

During 2015, Everest's common shareholders earned $27 million from the Logan platform including fees. The combination of cat bonds and Logan have added $2.5 billion of off-balance-sheet capacity for deployment in the property cat market, which has enhanced our competitive position in this very important class. As highlighted before, Everest possesses sustainable competitive advantages that continue to position us well for success in this reinsurance market. These include: number one, we have one of the lowest internal expense ratios in the industry, at 2.9% for our total Reinsurance segment. Therefore, on the same rates, we have higher dollar margins and higher ROEs than our competitors; number two, all across zones and perils, we are more diversified than most competitors, which naturally lowers our internal capital charges and improves our risk-adjusted returns; number three, our scaled-up retrocessional strategy, including growing Mt. Logan, upsizing Kilimanjaro cat bonds and utilizing traditional hedges, also lowers our internal capital charges further and increases our risk-adjusted returns as well; and number four, our operational structure and culture, decentralized but controlled. We empower experienced leading underwriting teams to provide responsive service and direct customer access to decision-makers. Unconstrained by narrow geographic scope or overly-centralized approval processes, we deploy highly-rated capacity faster, more creatively and in scale. We are pleased with the outcome of our

1/1 renewals despite market conditions, and we're off to another strong start this year for our reinsurance book.

Now turning to our insurance operations. We wrote about $360 million of insurance gross written premium in Q4 and wrote $1.5 billion for the year. This is up 17% for Q4 and up 26% for the 2015 year compared to prior periods. Our direct operations, including our property, casualty, professional liability and contingency businesses were up 23% year-over-year. Our specialty operations, Heartland, our crop insurer; FCAN, our Canadian company; and accident and health, each saw meaningful top line growth in 2015, achieving gross written premium increases in excess of 40% year-over-year. Our focused growth initiatives in each of these sectors has provided an improving opportunity set.

While calendar year results for insurance were marred by prior year development on runoff books of business. The 2015 accident year results have been improving and showing a strong bottom line result. This year, we had a notable 94.3% accident year combined ratio, translating into $73 million of underwriting profits, meaningfully improved from the 102.3% combined ratio for 2014 accident year. While this improvement was driven in part by better results on our crop business, we are continuing to see improvement in the accident year results of our other businesses as well. Excluding Heartland, this business had a 1.6% improvement to the accident year combined ratio, lowering it to 93.4%, a very strong result.

We have successfully attracted talented underwriters in many segments, added a new distribution team and hired operational staff to enhance our processes and technology to support the scale, diversification and geographic scope of our growing insurance platform. We are also launching several new product lines in excess casualty, private company D&O and Inland [ph] Marine, with additional new products planned for 2016.

Regarding the rating environment, in 2015, we have seen slightly positive pricing in most lines led by commercial auto at about 7%. However, we saw negative rate trends in financial institutions and commercial management liability, which both remained very competitive due to excess capacity. Insurance property rates were down slightly, but margins remain adequate to deploy capital. We are bullish about our opportunities despite the challenging market and are excited by the development of our insurance platform and the launch of our new Lloyds Syndicate. We continue to leverage the strengths in both our reinsurance and insurance books to be the best-in-class manager of capital in the new insurance world order.

Thank you, and now back to Beth for Q&A.

Elizabeth B. Farrell
Vice President of Investor Relations
Thanks, John. Holly, we are open for questions at this time.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Vinay Misquith.

Vinay Gerard Misquith
CRT Capital Group LLC, Research Division

The first question is on the primary insurance operations. Was there some favorable reserve development, prior quarter favorable development that happened in the fourth quarter of this year?

Craig W. Howie
Chief Financial Officer and Executive Vice President

I'm sorry, Vinay, was there a favorable development in the Insurance segment?

Vinay Gerard Misquith
CRT Capital Group LLC, Research Division

Yes, and throughout the quarter because -- right, because I get a 66.6% accident year loss ratio ex cat. So was there some prior quarter reserving true up that was favorable?

Craig W. Howie
Chief Financial Officer and Executive Vice President

There were some favorable prior year development that came through as well in this segment, but it's very small in comparison to the reserve charges that we took for construction liability and umbrella. And that's what represents the majority of that.

Vinay Gerard Misquith
CRT Capital Group LLC, Research Division

All right. I was talking about from prior quarters, but never mind.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Prior -- Vinay, this is Dom. Prior quarters that would just be movement in the expected loss ex for the current accident year that wouldn't relate to any prior period development or any reserve study. Actually the mix of business, portfolio shifts and assessment of what the current year loss trend is.

Vinay Gerard Misquith
CRT Capital Group LLC, Research Division

Sure. Now on the primary business, you've certainly grown the top line very strongly. We've heard press reports of you making a lot of hires. Dom, what are you doing in that business to ensure that the new business is getting -- is priced appropriately?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Well, there are several things. First of all, as I mentioned in my comments and John referenced as well, we are adding underwriting talent across the organization, but that also includes a separate office of or Chief Underwriting Officer within that unit. And John, as the group Chief Underwriting Officer is in regular contact with him as we expand our ratings, as we talk about the underwriting template and the underwriting box, if you will, and our risk appetite. So that occurs at the individual insurance level and then, of course, monitored at the group level. That's the first thing. The other thing that we have is a very strong price monitoring process, so we're able to understand what's going on at the transactional level from a rate adequacy point of view that all of our business units report up corporately [ph] to us on a quarterly basis. So those are some of the factors in addition to the regularly scheduled underwriting audits and risk management committee that we have, not only internally, but also reported up through the Board of Directors. So it is a comprehensive process.

Vinay Gerard Misquith
CRT Capital Group LLC, Research Division

Okay, that's helpful. And on the reinsurance side, I think what was mentioned was that the new business on January 1 was written at a 1% high combined ratio. Did I hear that correctly?

John P. Doucette
CEO & President of the Reinsurance Division

Vinay, this is John. Yes, that was for our overall worldwide property catastrophe XOL book.

Vinay Gerard Misquith
CRT Capital Group LLC, Research Division

Okay, that's great. So it would be lower than the rate declines that we're hearing in the markets. So was that because of a mix change that you did this year?

John P. Doucette
CEO & President of the Reinsurance Division

Right. So it's a combination of things. But as we alluded to in our script, one of the things we found at this 1/1 was that the higher layers in general were priced, we thought had a better pricing to them. So on average, there's exceptions to this, but on average, the attachment point of our property cat book went up, and that helped mitigate it. But I also think, we've talked about this before, when it comes to signings across the program, given Everest relationship, 40 plus-year relationship with our clients and brokers, and given our balance sheet and high ratings, we get a lot more selection of the layers that we like than others. And that allows us to mitigate the overall market rate softening.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Another factor there, Vinay, is that we are down generally in all non-U.S. territories and in U.S. being better price, so that portfolio mix -- well, your question is why is the combined ratio is expected to combine down 1 when maybe what we reported in terms of generally rate decreases might suggest, otherwise. So a little bit of mix shift on a geographic basis is part of the answer there as well.

Vinay Gerard Misquith
CRT Capital Group LLC, Research Division

Okay, that's helpful. And the last question is on capital management. This year, I think we saw about 50% of earnings being returned to shareholders. Just curious about 2016, and it seems that your primary business, though it's growing pretty meaningfully, I would've thought that that would be diversifying versus reinsurance. So curious why you're consuming capital for that growth?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Vinay, I'm glad you're the first one to get that question out of the box, and clearly, we expected it every call. And look, we don't telegraph what we're likely to do in terms of share repurchases. Yes, we look at operating earnings. Yes, we look at the opportunities that are ahead of us in the marketplace and look at the growth opportunities and all and look at our rating agency capital requirements as well as our own internal economic capital. What I'll say is that we continue to remain bullish on repurchasing shares into 2016. We did do some in the fourth quarter, but then of course, price kind of got away from us a little bit, and we probably did a little less than we might otherwise would have. But we still will be repurchasing stock into 2016, but I'm not going to be giving any forecast of what that might be.

Operator

Our next question today comes from Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

John, I have one question on the insurance business. You mentioned 160 basis points of improvement excluding crop. I was just trying to figure out what was the base against which you were looking at that number? And maybe I got that wrong, but I thought that's what you said.

John P. Doucette
CEO & President of the Reinsurance Division

It's basically the accident year combined ratio, attritional combined ratio looking this year for our insurance book, excluding Heartland compared to last period. And the reason we gave that number was because there was a meaningful improvement in the Heartland results from last year to this. So we did -- we wanted to identify that it wasn't just the improvement in the Heartland results.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

So Michael, the net written premium insurance group for the year is $1.325 billion. Of that, $250 million approximately was Heartland, if that's getting to your question.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Yes. I mean, is there any way, John, to know sort of what the number is in terms of 160 basis points? Like do we know what that number was last year just to have some idea of -- just because there's obviously been a lot of change. There's new business. There's been a lot of mix shift in that book, so it would be -- just helpful to sort of square what that sort of baseline looks like or maybe give the Heartland piece, and then we can figure out the other side?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Right. So this is Dom, Mike. And -- so I gave you the 2015. The 2014 Heartland premium number was $130 million. Does that help you figure that out?

Craig W. Howie
Chief Financial Officer and Executive Vice President

So excluding Heartland last year -- Mike, this is Craig. Excluding Heartland last year, it was a 95% -- 95.0% combined. And this year, it's 0.4% excluding crop. This year, crop had a profit. Last year, crop was running at a loss.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay, so 95% to -- you cut out for a second, 95% to 90.4%.

Craig W. Howie
Chief Financial Officer and Executive Vice President

Last year, the combined ratio excluding crop on the insurance book was 95.0%. That number is now 93.4%. That's the 1.6 points of improvement that John mentioned.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Perfect. Okay, great. That really helps. And then John, the $800 million or so in Mt. Logan, just so we can right size it, what was the comparable dollar amount for 2014? Was that -- I mean, obviously raised to

$600 million, but was that -- I'm guessing there was some retirement of bonds as well? So I just want to know what was the comparable number there last year.

John P. Doucette
CEO & President of the Reinsurance Division

So it's up about 25%. This is Mt. Logan, not the bonds that I mentioned. Mt. Logan is up 25%, so bringing it to $880 million.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Perfect. Excellent, that's right. And then just last one, just on the commentary about 1/1 renewals and the higher attachment. So the rate online was better on the high attachment versus low attachment. Should we take that to -- need to understand that there's just less competition at those higher levels, or is there some other aspect of the landscape just from an operational perspective that would contribute to that dynamic?

John P. Doucette
CEO & President of the Reinsurance Division

I think a lot -- that's really where there's more limit purchase, so from a demand point of view, that's higher. Typically how the programs are laid out. The lower layers are smaller and then they increasingly, as you go up the tower, the dollar limits that are purchased are larger, so there is more demand at that point. And to the extent that our business is being impacted by alternative capital, those higher layers have lower rates online, which are more challenging for alternative capital, unrated capital to find an attractive return for that, so I think that's partially playing into that too.

Operator

Our next question now comes from Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

Just follow-up Mike's question, could you tell the other piece in your insurance basic crop? Basically, what we're trying to understand was your -- like current year combined ratio running at? And just want to see if that's your midyear long-term average or is just -- is that like better than expected.

Craig W. Howie
Chief Financial Officer and Executive Vice President

This is Craig, Kai. Current year crop is running at a 99. That is certainly better than our long-term average because this is a profitable year for us in crop. It is not where we expect to be over the long term. This business needs scale and geographic diversity, and that's what we've attempted to do this year. We've grown the premium, and we've grown it, diversifying it into other states as well. So that will help you expense structure forward.

Kai Pan
Morgan Stanley, Research Division

I'm sorry. So there's still room for improvements. It's not like you have an anomaly, like, good year on the crop side?

Craig W. Howie
Chief Financial Officer and Executive Vice President

So there's still room for improvement, yes, but we did show a profit this year for the first time.

Kai Pan
Morgan Stanley, Research Division

Okay, that's great. And then on the reserve charge of $120 million in the Insurance segment, the 2 runoff business, could you tell us how big is the remaining reserve on the book?

Craig W. Howie
Chief Financial Officer and Executive Vice President

Remaining reserves on the book for insurance overall or the total book. Total book.

Kai Pan
Morgan Stanley, Research Division

No. For these 2 runoffs.

Craig W. Howie
Chief Financial Officer and Executive Vice President

For these 2 runoffs, this is what we're attempting to do. It is look at where we expect these reserves to be over time, and I don't have that number in front of me, Kai.

Kai Pan
Morgan Stanley, Research Division

Okay, that's fine. And then it looks remarkable that, Dom, you mentioned that you've been able to keep the underlying combined ratio stable in your Reinsurance segment despite the pricing pressure. Part of that might be business mix. I just wonder on the -- like accident year loss ratio peak side on the last trend inflation, what trend do you see there in your major line of business?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Well, I mean, the underlying combined ratio on the reinsurance side is comprised of several factors. We have obviously a property cat book. We have a property pro rata book, casualty pro rata, casualty excess, facultative, mortgage credit, et cetera. And all of those things, when combined together, obviously produce the overall combined ratio. We would -- our expected combined ratio on property cat XOL year-over-year in terms of what was expected was slightly up. But of course, with no cats, then that has a very positive impact on the results. Our casual -- treaty casualty results have been improving year-over-year. We've been expanding our Facultative operations, which typically have had higher margins than the treaty book of business. And the mortgage credit, of course, is been something that we've mildly added to our portfolio also contributing to that. So to point any one factor is difficult but it's just a composition of the portfolio. And as we -- as it evolves, we're able to maintain a decent level of profitability and return on capital as a result. And partly to your question, if you're asking about trend, it obviously depends on the line of business. But clearly, in all of our businesses, and all the lines of businesses trend is not strong. There isn't a high loss inflation factor that we're seeing in any of our lines of business.

Kai Pan
Morgan Stanley, Research Division

So do you book to the lower like cost trends or you're taking probably more longer-termed approach on the -- on your assumption?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Well, I mean, loss costs trends generally are going to be more of a factor in casualty than anything else. And what our underwriters are looking at and actuarials are looking at depends on the clients' book of business. And those loss cost trends are the average trends that we've seen over the last couple of years. It's not anything. I wouldn't describe it as being at the low end of the range or at the high end of the range. It's essentially based on the experience that we've seen in the marketplace over the last 5 or 6 years.

John P. Doucette

CEO & President of the Reinsurance Division

And Kai, its John. Just to add to that. We have a very experienced actuarial pricing team that have priced all property and casualty lines of business all over the world and have been doing that for 20-plus years. And we've added, over the last several years, more talent to that team and enhanced the analytics. So we feel pretty comfortable that we understand what the trends are, what the loss picks are, what the reinsurance business that we're putting on the books.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

I think I'll add one other thing that maybe will hopefully answer the question and maybe provide you some comfort relative to that question, and that is if you look over the last 12 years at our accident year, initial accident year pick combined ratio, every year in the last 12, that accident year combined ratio has developed positively. In other words, each accident year's had redundancy in it. So that basically tells you that our expected loss pick in the year for the account is a conservative pick.

Kai Pan
Morgan Stanley, Research Division

That's great. And then lastly, Dom, can you talk a little bit more about some of the growth areas including Lloyds?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Well, Lloyds, of course, we just got off the ground at January 1. It was a process that we were able to move relatively quickly on into Lloyd's, and I think we've got it done in near record time. But given our scale in the marketplace, I think it was a win-win not only for us but I think also for Lloyd's as a market in general. So we're pleased with that. And it's -- in that space, and Lloyd's in particular as a growth area, we're looking at primarily continental Europe. In addition to Lloyd's will be a platform that will help us in some of the Asian markets, particularly China and Australia, where it's advantageous to issue Lloyd's paper as contrasted with what we had been doing was issuing paper at Everest Re, just some cost advantages to that. It also provides a facility for the U.S. business that might have multinational exposure. So those are the opportunities for Lloyd's. Generally, in the insurance space, as we mentioned we've -- property E&S is a big growth area for us. A&H, commercial D&O, private company D&O. We've got a Inland Marine team. We're doing some -- we're looking at growth in the excess casualty environmental areas. Our work comp book, particularly in California, has been growing and we're looking at how we can possibly use that capability in other jurisdictions that are favorable as far as work comp is concerned. So there's just a number of areas whether it'd be lines of business or segments that we're focusing on the contingency business. Our sports and entertainment as well, I mentioned, is growing nicely, so it's across a number of different areas.

Operator

Our next question comes from Sarah DeWitt of JPMorgan.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

The underlying combined ratio for the whole company, you've done a good job keeping it stable in 2015 versus '14 despite some rate pressure as well as growing the insurance business. So can you just talk about your ability to maintain margins going forward, or should we expect any deterioration?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Sarah, this is Dom, and I think clearly with the rates going down, I mean, it's fairly obvious that margins are no doubt going to be under pressure. The way we look at it as opposed to looking at it from a combined ratio point of view, maybe just give you a high level view, based on what we saw at 1/1 and perhaps what we could expect through the balance of the year and also factoring in where we see insurance pricing as well, which is generally more flattish than it is in the reinsurance space. We would expect an overall impact of about 1 point in our ROE, and that's essentially how we think about -- maybe that's the best way to answer the question that you've asked.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay, that's helpful. And then on the insurance reserve strengthening, what do you think we could try to corner on that runoffs business? And can you give us any color in terms of what's the duration of these claims, how much has been paid out? Anything that gives you comfort that we might be reaching an inflection point on this would be helpful.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Well, let me first say that what I think is most important and what I pay most attention to is our overall reserve adequacy of the entire group, which I think personally has been improving over time, partly -- probably, evidence of that is what I referenced earlier in response to Kai in terms of how our accident year combined ratios or loss picks have developed. Right now, your question is very focused on the insurance side and understandably so. You never know in any of these lines of business. We have a couple of hundred different IBNR groups. Clearly some are -- in each year, we have redundancies in some and deficiencies in others. So this is a natural occurrence in a complete reserving process. So I can't emphasize enough that the overall reserve position is what we really stay focused on. As I said in my comments -- opening comments, was that we are reasonably confident that our overall insurance position, again as a group, is sufficient. But with reserves, it's one of those things that you never know as it relates to any individual class within the segment. But as I said, I think our overall insurance portfolio is well reserved.

Craig W. Howie
Chief Financial Officer and Executive Vice President

Just to add to that, during the reserve process this year when we went through the insurance segments, we did consider severity scenarios as well as volatility assumptions in those calculations that were done during the reserve studies, and management did elect to book a higher number than the actuarial indicated estimate for both of these books of reserves, both the umbrella book and the construction liability book.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay. And was that the major factor that changed versus last year when you did the study at this time?

Craig W. Howie
Chief Financial Officer and Executive Vice President

One of the major factors that changed this year was we did a claim review for the umbrella book. We had done a claim review earlier in the year, and we used -- utilized those results that came out of that claim review to take into account that impact and that was considered during the actuarial studies for that book of business. On the construction liability side, this relates to runoff landscaper's program that we stopped writing back in 2008. The company no longer writes this book of business, but these are not indemnity-type claims anymore. We're considered an additional insured. Claimants have 10 years to file claims against the general contractor. So again, they're not indemnity claims at this point. They're mostly legal fees. So it is a little bit more difficult to wrap your arms around this other than looking at not only frequency but also severity of those cases.

Operator

We'll now move to our final caller for today's Q&A. This is Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I would guess that on average, I ask a question about the insurance business about once every 3 quarters. And Dom, you were named CFO in 2009, President in 2011, CEO in 2013. If Everest had chosen any of those times to dump the insurance business, would that have been a mistake?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Yes.

Joshua David Shanker
Deutsche Bank AG, Research Division

Why should we think that Everest is in the long term in a great position to be in the insurance business?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

The -- and obviously with the premise of your question, you're referencing the reserve outcomes, which we're not discussing...

Joshua David Shanker
Deutsche Bank AG, Research Division

I'm also noticing that current accident years are running about a 100% anyways.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

No, they're not. We reported current accident years running at 94%.

Craig W. Howie
Chief Financial Officer and Executive Vice President

94.3%.

Joshua David Shanker
Deutsche Bank AG, Research Division

Well, that's this year. I mean, maybe that's the new trend I guess. I mean, I'm looking at over a 10-year period I guess.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Well, we have significantly modified the method in which we're doing business on the insurance space. The historical insurance footprint of Everest was a program-based business. Today, that book of business is dominated by direct brokerage book of business, one in which we are primarily driving the underwriting as opposed to an MGA driving the underwriting. That does not mean, by the way, that we don't have some favorable and significant MGA relationships that we still maintained. But predominantly, the book is being driven by desk underwriters that are employed by Everest. That's the significant change. And I think we've been able to demonstrate over the last couple of years the improvement in the accident year and calendar year, or accident year combined ratio. But clearly, there's been a challenge with reserves that come up from books of business that have been -- as Craig pointed out that have been terminated in 2008 and earlier. There's nothing that the current management can do about that except focus on building out a first-class insurance organization, which we believe we're doing today.

Joshua David Shanker
Deutsche Bank AG, Research Division

And so your view is over the next 2 or 3 years, you'll be surprised if the insurance industry is not a contributor to profits the way the reinsurance business has been?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Absolutely. Now by definition cat per year, the reinsurer -- reinsurance segments are going to produce a better combined ratio than the insurance space, but the insurance sector is much more stable in that perspective. But I think the current year attritional ratios demonstrate that already.

John P. Doucette
CEO & President of the Reinsurance Division

Josh, its John. Just add a little more color. I think also in the context of one of the things we've really been focused on in the last several years, Dom and the executive management team, is expanding our opportunity set and trying to figure out how we can get profitable growth. That's why we've been hiring very talented teams of people or individuals that can hire teams of people and can access the business on the insurance side. That's why we're getting in to Lloyd's. That's why we're setting up the alternative capital to give us more capacity to deploy in other areas. So around the globe, whether it's insurance or reinsurance, whether it's in the U.S. or internationally, we're looking for ways to expand our opportunity set. And that's my job, that's the senior leaders of the insurance and reinsurance team to develop new products, new distribution, new opportunities, and that also is one of the reasons why -- as we developed that. One of the reasons why the combined ratio has stabilized and our goal is to hopefully improve even in this market condition.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

And Josh had -- let's say the decision that -- thank you for your recollection of all my stints at Everest. But I -- had we made maybe a decision that you're suggesting to, let's say, dispose of the insurance sector, these reserve developments that we've seen would not have gone away, all right? Those are things that would've been there regardless of whether we've chosen to go forward on the insurance sector or not. And in fact, I think, if anything, the insurance sector is -- based on the new strategy has been accretive to earnings regardless of the prior year development. That prior year development is -- it was baked. There's nothing that we could have done about that.

Operator

That was the last question in the queue. So I'd like to hand back to our speakers now for any additional or closing remarks.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Well, thank you very much. Again, we're very pleased to report a record quarter and outstanding year, particularly compared to generally what's going on in the overall market. We appreciate your questions and certainly understand even the tough ones. We think that we have demonstrated over the past couple of years that our strategies that we embarked on a couple of years ago are beginning to demonstrate that we can produce returns that are above market returns, above the market. So again, thank you for your questions and your interest in Everest, and we'll talk to you in the months ahead.

Operator
Thank you. That will now conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.