S&P Global
Market Intelligence

Everest Re Group, Ltd. NYSE:RE

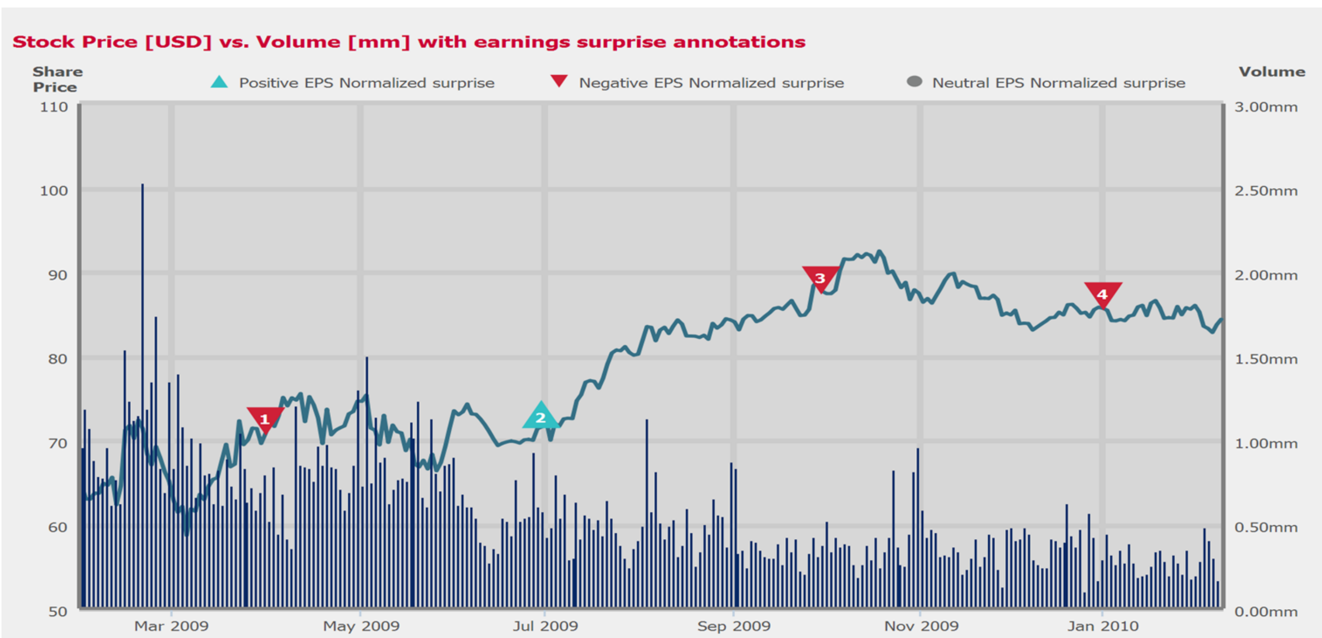
FQ1 2010 Earnings Call Transcripts

Thursday, April 29, 2010 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2010-			-FQ2 2010-	-FY 2010-	-FY 2011-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	1.99	(1.25)	NM	3.16	7.57	11.33
Revenue	-	-	▲(9.14 %)	-	-	-
Revenue (mm)	1020.58	927.30	-	1003.46	4096.41	4184.89

Currency: USD
Consensus as of Apr-29-2010 12:48 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2009	2.84	1.73	▼1 (39.08 %)
FQ2 2009	2.97	4.16	▲2 40.07 %
FQ3 2009	3.47	3.43	▼3 (1.15 %)
FQ4 2009	3.39	3.19	▼4 (5.90 %)

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Call Participants

EXECUTIVES

Dominic James Addesso
President, CEO & Non-Independent Director

Dominic James Addesso
President, CEO & Non-Independent Director

Elizabeth B. Farrell
Vice President, Investor Relations

Joseph Victor Taranto
Chairman of the Board

Ralph Jones

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Brian Meredith
UBS

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Ian Gutterman
Adage Capital

Jay Gelb
Barclays Capital

Matthew Heimermann
JPMorgan

Ron Bobman
Capital Returns

Vinay Misquith
Credit Suisse

Presentation

Operator

Good day everyone and welcome to the first quarter 2010 earnings release call of Everest Re Group Limited. Today's conference is being recorded. At this time for opening remarks and introductions I would like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead ma'am.

Elizabeth B. Farrell
Vice President, Investor Relations

Thank you, Casey. Good morning and welcome to Everest Re Group's first quarter 2010 earnings conference call. With me today are Joe Taranto, the company's Chairman and Chief Executive Officer, Ralph Jones, our President and Chief Operating Officer and Dom Addesso, 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 the full listing of the risks that investors should consider in connection with such statements.

Now let me turn the call over to Joe Taranto.

Joseph Victor Taranto
Chairman of the Board

Thanks Beth. Good morning. In the first quarter the industry experienced record losses, including the largest insured loss ever in Latin America. While these losses had significant impact on our quarter they are manageable given our expected earnings and our $6 billion of capital. Our total return for the quarter including dividends paid was essentially zero as strong investment income was strong underwriting results excluding catastrophes and depreciation on our investment portfolio; offset the impact of these catastrophes.

Such a result given the magnitude of these catastrophes attests to the fundamental strength of our franchisee. Further attesting to our strength we were pleased that S&P raised our counterparty credit rating during the quarter. Dom will take you through the financial highlights for the quarter momentarily. Gross written premium for worldwide operations increased 2% versus 2009 and eliminating foreign exchange changes was flat year-over-year.

Reinsurance premiums were flat with last year, but adjusting for foreign exchange and reinstatement premiums were down about 5%. Lower premiums from US casualty insurance, crop reinsurance, marine and European business offset growth and US property reinsurance, South America and Asia-Pacific markets. US insurance premiums were up 11% as direct specialty business continued to provide opportunity. Ralph will comment on the underwriting particulars shortly, both for our insurances and reinsurance operations including April renewals and our view of the upcoming Florida renewals were we expect our clients on accounts to continue to do well.

The marketplace remains very much a mixed bag. Some pockets most notably portions of the US casualty market are under priced and to be avoided, while other areas including property catastrophe reinsurance remain reasonably priced. The quarter's catastrophe losses will precipitate changes including rate increases in the areas and on the accounts that were hit. It's less clear what impact there will be beyond these loss areas as ample capacity remains for well rated programs. However these losses remind reinsures of the need to charge appropriately given the volatile nature of the business.

We will continue to emphasize discipline underwriting only looking to grow where it make sense and cutting back where it doesn't. With out meaningful market change I do not anticipate much top line growth on our underlying book Cash flow from operations was very strong for the quarter at $271 million. In the quarter we repurchased 562,000 shares at a cost of $47 million. Since January 2007 we have repurchase 7.1 million shares or 11% of the outstanding shares, 7.9 million shares remain available under the current repurchase authorization.

We plan to continue to repurchase our stock in the second quarter as we continue to see this as an attractive way to increase shareholder value. As usual we will not predetermine the amount as this allows us to do better respond to changing conditions. Ralph.

Ralph Jones

Thank you, Joe. Let me take this opportunity to discuss the trends in each of our operating segments. International segment was up 10% in the quarter to $275 million continuing the trend from the January renewal season. The combination of rate increases in Australia continued expansion of our business in Brazil, some indigenous growth in China and reinstatement premiums in Chile were the main factors in our growth overseas. The international portfolio was about $1.1 billion on an annual basis, with about a third coming from Latin America, about 20% each from Canada and Singapore and the balance from the Middle East and Africa. The combined ratio was heavily impacted by catastrophe losses in the first quarter, which Dom Addesso will outline in detail in a moment.

Excluding CATs the attritional combined ratio was 84.4%, up 2.5 points over last year. Big renewal season in April comes from Japan, we saw catastrophe rates come in flat-to-down slightly from last year, the impact of the earthquake in Chile will improve rates in terms in Latin America, but we do not see any appreciable impact on the CAT market in other parts of the world so far.

The US reinsurance business was down 8% at $244 million in the first quarter, 3-D property was up and 3-D casualty and our crop reinsurance business were down. We still like the crop business for 2010, but there is uncertainty as to the future margins in this segment as the dust does not settles on how the government subsidies will impact crop insurers and the insurance agents who produce this business going forward. Once the SRA negotiations have been completed, we will have a better picture of what all this will mean over the next year so.

Casualty rates and underlying terms and conditions are in a slow downward decline in the US causing us to trim our 3-D casualty ratings, which impacted growth in the quarter. We are still seeing opportunities in 3-D property, which was up 13% in the quarter, principally came from several single state programs incepting in January.

Rates for catastrophe prone business are still pretty good in the US and the next big renewal date is June 1 for the business in Florida. We expect a very active month or two coming up with the Florida renewals and negotiations. For the property catastrophe XOL renewals, which we have 16 clients, we expect rates to be about flat.

The two quarter share counts are more stable because the reinsurance is such an integral part of the capital structure for these primary companies. State regulators have been buffeted by the changing political winds coming out of Tallahassee, but as we sit here today I anticipate a fairly steady renewal season in June.

The combined ratio for the overall US reinsurance business was 92.4% in the quarter excluding caps, the attritional combine was 79.3 up 3.9 points over last year.

Our specialty business was up nearly 12% in the quarter, this was driven by strong demand in our Accident and Health segment. More and more employers are self insuring their medical programs leading to more opportunities for us in the medical Stop Loss business. It's an evolving space as people try to measure the impact of healthcare reform, but change usually means opportunity, so I expect continued growth for us in NH.

Our marine book continues to shrink as fewer profitable opportunities are apparent to us in this line. The explosion and sinking of the Horizon oil rig in the Gulf looks like a total loss and we expect our share to be about $20 million in the second quarter. This law should impact the offshore energy market, which have many contracts renewing in July. We're not a big player in the offshore market, but there maybe some new opportunities. The combined ratio for the specialty segment was 95.6 about the same as last year.

The Bermuda operations were down 5.3% in the quarter to $207 million. This includes London and Continental Europe as well as Bermuda. London was up 13% and Europe was down about 27% from last year. We’re seeing significant competition in Europe particularly in the property lines, the impact on the market from the storms from Cynthia should become evident in the next couple of quarters as there were very significant losses sustained in France, Spain and Portugal should impact the market going forward. The combined ratio for Bermuda was as you know heavily impacted by European storm Cynthia, but the attritional combine was 84.2, 2.5 points over last year.

The last segment to comment upon is the US reinsurance business. Gross premiums were up 11% to [$128 million] much of this growth comes from our direct specialty operation in New York, which will begin in April 2009. Expect that pre-proportion of direct specialty lines to increase as a percentage of our total insurance writings as the year progresses.

Prices for general liability products were flat year-over-year, workers comp was up on an average of about 8.5% for the quarter. Results for insurance segment have stabilized at 99.1%, combined ratio resulting principally from management actions to improve the expense ratio for both underwriting as well as claims management.

I expect these trends that I’ve outlined to continue for the balance of the year, as we play offense on the property lines and international development of our business, we’ll play defense in the casualty as well as the marine markets. And overall growth, I believe flat to modestly up as we go forward in 2010.

Now let me turn it over to Dom.

Dominic James Addesso
President, CEO & Non-Independent Director

Thanks Ralph and good morning. As noted, earnings for the quarter were most affected by first quarter CAT losses of $354 million. This led to a net loss of $22.7 million for the quarter. Nonetheless, comprehensive income for the quarter was $6.3 million led by an unrealized gain on the bond portfolio of $34.6 million after tax. This increase to book value was offset by share purchases of $47 million and dividends of $28 million in the quarter resulting in an overall decline in shareholders equity of $64.8 million to $6 billion or $102.46 per share.

Turning to the P&L you just heard from Ralph on the details of premium by segment. Overall, there was approximately 26% positive impact to gross premiums written in 2010 and currency movements of the dollar weakened compared to last year’s first quarter.

From an incurred loss standpoint the total CAT losses of $354 million for the quarter breaks down as follows. $290 million for Chile, $30 million for Cynthia, and $35 million for the two hail storms in Australia. These losses equate to 38.2 points on a combined ratio.

The estimate for Chilean losses was based on the average of three valuation methodologies. First after consulting with our clients and visiting with them in Chile, we conducted a detailed review of our contracts as to where and how they were exposed. Damageability factors will then apply for these contracts based on the client discussions and observed events.

The second method in tail running the CAT model event set against our portfolio. Final technique was determining an estimate based on the industry range of $4 to $10 billion and our market share.

An average of the high and low of each of these methods was calculated and an average of all three methods was use for our loss estimate. The two extreme points in all of these methods was $238 million and $386 million.

From a market share perspective at the low-end of the industry range we have estimated that our market shares stands at approximately 6%. Of the high-end of the industry loss, our estimated market share drops to approximately 3%. This difference is first the result of our XOL contracts, which generally attached lower now fully exhausted as the loss rises.

Second is that our proportional covers continue to risk limits, which required facultative support above certain values. As the loss rises, it is more like that the larger values, which are placed in the facultative markets are likely to be a disproportionate share of that increase. Finally, we were not a significant writer of facultative reinsurance in this region, so we were less exposed to the larger risks.

Current year attritional loss equaled 59.5 points on a combined ratio as compared to 55.7 one year ago. While this reflects consideration of marketplace loss trends along with relatively flat pricing particularly in the reinsurance segments. The overall combined ratio for the current action year excluding CAT is still quite positive at approximately 87 points.

When added to the CAT losses of 38.2 points this accounts for virtually all of the total combined ratio of 124.9. The expense ratio for the quarter improved 1.1 points to 27.1 as a result of improved terms on certainty insurance contracts and the effective reinstatement premiums on which there is no brokerage. Whenever these items are just covered resulted in an underwriting loss for quarter of 231 million compared to gain of a 100 million in prior year's quarter. The largest year-over-year differences were $321 million in CAT losses and $33 million in current year attritional losses offset by a positive swing of $13 million in commissions and a $17 million favorable variance in the prior year losses.

Investment income for the quarter for the 161.5 million compared to 68.8 million one year ago. The primary reason for the difference was due to our income from limited partnerships. In 2010 our income from this asset class was 16 million compared to a $73 million loss one year ago, the main component of our investment income that being from fixed income securities had a slight increase this year to 145.2 million. This increase was muted somewhat by a small reallocation of our portfolio into equity securities with an emphasis on dividends. This resulted in an increase of $2 million in income from equity securities.

Other miscellaneous items in our P&L include a net derivative gain of $3 million for the quarter compared to a loss of $20 million in a prior year and a currency gain included in other income of $5.5 million in the quarter compared to a $5.6 million loss in 2009. Income tax expense for the quarter declined to 12.9 million compared to 24.5 million in 2009.

Despite the loss before income tax there was nevertheless at tax expense reported for the quarter due in part to taxes on realized gains for the quarter. The tax benefit on the pre-tax operating loss of $82.5 million at in effective tax rate of 10.5% is not sufficient to offset the statutory taxes on realized gains of 72.7 million.

In summary, the above sited details resulted in total comprehensive income for the quarter 6.3 million compared to 105.8 million in 2009, this results in a shareholders equity account which was not diminished by the significant CAT losses for the quarter and leaves us with more than sufficient capital to grow our portfolio and consider share repurchases as the opportunities arise.

Finally, it should be pointed out that the $200 million or 8.75% senior notes outstanding at year-end matured in first quarter. This borrowing was not refinanced and was redeemed out of operating cash flow.

Thank you and with that I'll turn the call back to back to Beth for Q&A.

Elizabeth B. Farrell
Vice President, Investor Relations
Thank you, Casey.

Question and Answer

Operator

(Operator Instructions) We take our first question from Jay Gelb with Barclays Capital.

Jay Gelb
Barclays Capital

I wanted to go back to the Chile earthquake loss. What's the risk here that Everest could have adverse development on that claim given the complex nature of it?

Dominic James Addesso
President, CEO & Non-Independent Director

Jay, this is Dom Addesso, well we certainly have gone through a vigorous process of coming up with our point estimate and it is still very early days in determining what the total losses are to the industry. But I think we've been reasonably conservative in coming up with our point estimate and if you think about the industry loss estimates of some where between $4 billion and $10 billion our point estimate centers around approximately 7.25 billion of industry loss estimate, but nevertheless, as I've described, we believe that as the loss increases as the industry loss increases we would have a decrease in share, market share of any rising loss, so it is difficult to determine where that loss might go from here, but nevertheless we think we've done a pretty vigorous job coming up with our point estimate. That being said, it is an estimate and we'll see where it goes from here.

Jay Gelb
Barclays Capital

Okay and then two other points. The first is, I was just a little confused in terms of what the potential is for the remainder of the year on topline growth, on gross written premium. There were a couple of numbers there. And second, Joe, could you comment on how this type of loss should match up with your expectations for this type of industry event with regard to risk management practices at Everest?

Joseph Victor Taranto
Chairman of the Board

Yes your first question topline growth, we're up a little bit in the quarter and I kind of noted there a some pockets where we still can't see growth and see profitable opportunities but going against that, there are other pockets of the world as I noted US casualty were it's getting tougher and so in that sense the likelihood is less business so it gets a little bit difficult to put it all together and I guess what I kind of noted to you was flattish, if you will at the end of the day now we may be up if things were to get a little bit better than that, but we're not talking about the year with lot of topline growth I think is the bottom line.

Jay Gelb
Barclays Capital

Is that inclusive of the first quarter, which obviously includes some reinstatement premium were flattish for the year including the first quarter?

Joseph Victor Taranto
Chairman of the Board

Well, I guess I am more talking about the next month, next nine months, since you already have the first quarter, but I think it's kind to be pretty much the same scenario, we may be up 5%, we may be down 5% at the end of the day, I can't really be much more precise than that. I think to me the most important thing is growing where it makes sense to grow and decreasing where frankly that's the right answer as well. You saw last year how we were able to grow nicely where we had little bit of wind to our back and some up the sectors and certainly had some market opportunities, there's less of that this year as we move into our market where large parts of it continue to slowly go down if you will, large parts of it remain adequately rated, but it's not reclaiming where I think I could convey to you nor should you expect any sort of meaningful topline growth.

As far as the Chilean loss, I'll start maybe I'll have Ralph add to it, but I think you have to remember that we've been in very important part of the Latin American market for many, many years going back to the [prove] days, we're really one of the major reinsures and Latin America, and so I think you have to expect if there is a major loss there but yes, we're going to have a participation in that we've made a lot of money in Latin America, including Chile in the last number of years.

We expect to continue to work with our clients to do very well and be profitable in the coming years, so I think when you put all into the right context it's not particularly surprising loss that we did have. It's frankly good to know that with this loss and throwing on top of that Australia, and on top of that European storms, nonetheless essentially our book value per share, everything in, is pretty much the same which gets you back to just the strength of the company.

Ralph, anything you wanted to add to that or…

Ralph Jones

I would just say that Chile losses stand as pretty much what we expected within our modeled PMLs and as part of the overall risk management review that we do at every country, but as you know, as Joe mentioned, we have a very significant international operation, we got annualized premiums of $1 billion in just a segment that I described plus an additional big component out of the Bermuda ops segment, which is really London and Continental Europe, so it's more like $5 billion overall.

Joseph Victor Taranto
Chairman of the Board

An 8.8 quake pretty close to the capital of Chile, not our usual event.

Operator

We'll take our next question from Matthew Heimermann with JPMorgan.

Matthew Heimermann
JPMorgan

A couple of follow-up questions on Chile, the first thing that what all the numbers you gave, are those net loss estimates including or excluding reinstatements?

Dominic James Addesso
President, CEO & Non-Independent Director

Matthew, it would be gross losses excluding reinstatement pre-tax.

Matthew Heimermann
JPMorgan

Then does gross and net compare?

Joseph Victor Taranto
Chairman of the Board

It's a fair statement of tax.

Matthew Heimermann
JPMorgan

No, I mean is gross loss equal net loss ex-reinstatements?

Dominic James Addesso
President, CEO & Non-Independent Director

The reinstatement premium on Chile is approximately $20 million and which we have $290 million gross loss. So, net reinstatements that would net $270 million pre-tax.

Matthew Heimermann
JPMorgan

That's helpful, but I guess I was asking do you have any outwards reinsurance, that is applicable to this?

Dominic James Addesso
President, CEO & Non-Independent Director

No.

Matthew Heimermann
JPMorgan

Then the other question was when I look at the loss range that you have that $238 million to $386 million, I know you average a bunch of things, but your $290 million is I think below or would be a midpoint of $312 million. Why in the low end relative to high end, given that most of the risks seem to be the upside rather than downside?

Dominic James Addesso
President, CEO & Non-Independent Director

All the methods that we used, most of the estimates around the other methods kind of clustered around the $290 million. The $386 million that I gave you was really on one point in all the point estimates and all those methodologies, and that was the outlier, but it clustered around the $290 million.

Matthew Heimermann
JPMorgan

What method drove that?

Dominic James Addesso
President, CEO & Non-Independent Director

The three methods are outline, market share, underwrite

Matthew Heimermann
JPMorgan

Which one corresponded to the $386 million?

Dominic James Addesso
President, CEO & Non-Independent Director

The underwrite estimates.

Matthew Heimermann
JPMorgan

Then with respect just to the accident year loss ratios in the US reinsurance and international segment, those increased pretty dramatically versus the full year 2009 levels, and you'd mentioned that there was $33 million of attritional current year loss. Is that the delta in those or is there other something else at work?

Dominic James Addesso
President, CEO & Non-Independent Director

That was the year-over-year difference in current year attritional losses.

Matthew Heimermann
JPMorgan

What was the absolute number I guess then because I'm actually comparing it to full year '09 rather than just last year's quarter?

Ralph Jones

Three points on total year.

Matthew Heimermann
JPMorgan

The other question, I was just going to throw out another numbers question was just can you remind us how much crop business there was last year, like a 140 is sticking in my mind, but I can't recall where that's coming from?

Ralph Jones

The annualize crop ratings last year is about $80 million and we renewed most of the programs so far this year. We lost good one through company that was very recently acquired and didn't buy that quota share.

Dominic James Addesso
President, CEO & Non-Independent Director

The dollar amount of attritional current year losses in the quarter was $551.6 million.

Matthew Heimermann
JPMorgan

Than anything else I want to hit? Could you just on the development, basically was neutral in the quarter, but any pluses and minuses?

Dominic James Addesso
President, CEO & Non-Independent Director

There's a lots of what we call IBNR group or loss reserve groups that we would look at 100 and so there's movement all the time in all those and if I have to point couple of areas that still gave us some development was in our professional and our sub-prime area, and that of course was offset by number of other areas, if there is anyone that I can really point to.

Matthew Heimermann
JPMorgan

If I recall, subprime is now about $100 million or $120 million reserve, well I think what it was at year end. Where does it stand now?

Dominic James Addesso
President, CEO & Non-Independent Director

About $11 million higher

Ralph Jones

$110 million.

Joseph Victor Taranto
Chairman of the Board

I think we're feeling better and better about the potential losses coming out the subprime area. We have a formula that kind of dictates what we put up there, I think perhaps feeding too much in terms the current underwriting feelings that it seems to be shaping up better than originally thought.

Operator

Thank you. We'll take our next question from Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital

Just I guess first following up on Chile, the $20 million in reinstatement due is that in the international segment, in Bermuda bit a both?

Dominic James Addesso
President, CEO & Non-Independent Director

Would be both

Ian Gutterman
Adage Capital

Do you have a split on that, a rough split?

Ralph Jones

It's roughly $13 million in the international segment and some it comes from treaty property in the US segment, it is still a little bit Bermuda.

Ian Gutterman
Adage Capital

Just as far as where your losses came from, can you give us a feel for sort of what the quote of share component was versus what XOL? If any retro kicked in, and were you ensuring sort of the indigenous Chilean carriers on Chile-only contracts or these sort of Global Cats for the large European companies who were down there that you maybe have larger limits than a solely Chile country? What I mean, I'm trying to get a feel for sort of what types of contracts are out there?

Ralph Jones

There were seven XOL contracts and seven proportional contracts, of the seven proportional two were international companies and rests were smaller join companies.

Ian Gutterman
Adage Capital

Out of the XOL, where were those areas specific or do they tend to be global, global non-US covers?

Ralph Jones

About the same split.

Ian Gutterman
Adage Capital

So it doesn't sound like you have a lot of exposure then to I guess the ones that I hear about having the most risk of average development are sort of these global covers for the big Europeans that have big limits, because they were not necessarily written for Chile. They were written for Australia or whatever may be and that as such there's more risk of limits of having a lot of room left on limits than there would be on an addition to the Chilean carriers. Is that a fair assessment?

Ralph Jones

Yes, that's probably fair.

Ian Gutterman
Adage Capital

Any retro exposed?

Ralph Jones

No…

Dominic James Addesso
President, CEO & Non-Independent Director

We don't believe so.

Ian Gutterman
Adage Capital

In Florida, can you talk a little bit about, obviously there's a lot of concern about the takeouts or capital bid offs or whatever we call them these days. As far as they've a stop and see and their results and what have been carry years and so forth. Can you just talk a little bit about the quality of your book down there? How you get comfortable that you've picked the right cedence down there, that you're not going to get surprised, that someone doesn't either or just go out of business without event or if just that, if there is a storm that they're going to perform a lot worse than maybe you expected, because maybe a little bit more of a fly by night than you realized.

Ralph Jones

Yes, this is Ralph. We've been enforced pretty heavily for a number of years and we have 16 clients that we write XOL programs for, and that makes up about $50 million some on in premium. The process to review them is significant every year. Certainly, we watch what's going on in the underlying rates and politics coming out of the Office of Insurance Regulation, but 16 are good, they've gone through begin all the bidding process the last few years, and its survival of the fed is down there for these guys.

So we might renew a couple less going forward based on the credit review, but we like the ones once we've had and we've had very little really minimal in the ride offs, that we wrote off about $150,000 at one installment last year and another company got acquired, but I think more importantly, from the underwriting standpoint for us is the two quarter shares and we're very actively involved with these two guys and like the managements and like what they're doing and we think they're going to be sound.

Ian Gutterman
Adage Capital

Out of the 16 clients, how many of them were formed after Katrina as part of this capital build up program?

Ralph Jones

I would say 80% of them were, what you considered as capital build up it characterizes capital build up companies. It's very hard there are 60 people in the universe of company that Demotech reviews, I'll just gives you a flavor, we only do 16.

Ian Gutterman
Adage Capital

I mean, how do you decide, I guess I'm trying to get a feel for how you assess that 2006 startup X. Is it better than 2006 startup Y? It just seems some of these once they went down, some of them more maybe a little bit obvious, but some maybe surprising people too?

Ralph Jones

I think if you wrote a higher proportion of the 60 and you haven't done the credit review in depth on each one you're going to being more susceptible to the folks that have trouble, but the review process is quite significant looking into the financials exactly where they make their money, a lot of these are private companies. So you have to go way beyond the statutory statement to see what's actually going on and where the money is coming out into their MGA's arrangements and so on, and what kind of reinsurance program they buy.

We visit with them and spent a lot of time with them and go to their underwriting plans, in many cases the fact that we are proportional to makes that in much more important thing to do. So we're pretty close to the companies. We had a no real problems with those kind of have some financial problems up to-date, but once that we have done well and as I said we're close to them, not only their financial statements, but their underwriting plans and their management and there are certainly a number of reinsurance that are just excel well, but really don't spend time with these companies.

Operator

Thank you. We'll take our next question from Brian Meredith with UBS.

Brian Meredith
UBS

A couple questions here. On the investment income, if I take a look at your fixed maturities, sequentially actually a pretty good increase. Was there something unusual in this quarter or fourth quarter that I'm kind of missing? It looks like the run rate portfolio is up pretty significantly.

Dominic James Addesso
President, CEO & Non-Independent Director

There's nothing unusual on this quarter, when you say sequentially, you mean compared I'm assuming

Brian Meredith
UBS

Fourth quarter '09.

Dominic James Addesso
President, CEO & Non-Independent Director

In the fourth quarter, we had in part some adjustment in some of amortization adjustments and then we also carried a little bit more cash, I think we're carrying now in the fourth quarter.

Joseph Victor Taranto
Chairman of the Board

I think if anything unusual, it was in the fourth quarter, not

Brian Meredith
UBS

Next question, Joe you mentioned terms and conditions starting to slip a little bit here. I'm wondering if you can kind of drill down a little bit and exactly where are you starting to see the terms and conditions slipping has it gotten worse here in the first quarter? I assume you're also referring to some of the underlying business?

Joseph Victor Taranto
Chairman of the Board

Well, to be honest for you, to battle some to-date has been more on the rate side than it has been on the terms and conditions side. I don't like to see it either way and the history has been that you do start to erode on terms and conditions as it well, but I would again just point you back to the US casualty side and where there are a lot of classes.

Now there are some classes, Ralph mentioned California comp, there are some positive signs for the last few months and there are some other small pockets, but most of the general liability in the umbrella business and then routine if you well non-specialized casualty, we're seeing rate go down and maybe a little bit of slippage in terms and conditions.

It's kind of a tough thing to read through, but on the umbrella programs its attachment points and attachment point go to some of the tough exposures like auto, and any transportation exposures. So as that happens it really start to erode the potential profitability and then of course when you get into the reinsurance transitions and buying three protection. There's a lot of pressure on the ceding commission, those would be the kind of two areas of focus for our guys.

Dominic James Addesso
President, CEO & Non-Independent Director

We've had actually improvement in ceding commission. So depending on whether you include seating commission in that category of terms and conditions, that's actually been an improvement for us year-over-year so.

Brian Meredith
UBS

Then on the Chile business and focusing the losses and kind of focus on what do you think the prospects are going forward down in South America? What changes do you anticipate in the marketplace and I am also curious, when do your contracts renew and do you expect any kind of big shakeup down there?

Joseph Victor Taranto
Chairman of the Board

I do expect the as the market change in South America it'll certainly change dramatically in my opinion in Chile, but I think it will be extended into the other CAT areas within South America, now will be less impact as you get away from South America. Number of out contracts come up mid year July and then we have a few thing come up in January, so we can over right now having our own discussions with regard to the upcoming July renewals, but I expect meaningful change within South America.

Brian Meredith
UBS

Great thank you.

Joseph Victor Taranto
Chairman of the Board

Before the next question I would just like to go back to that we have some questions on the change in the attritional and lot of that got into the numbers, but I think I'd like to ask Dom to provide a little bit of color as to just why we choose a different point if you will for the attritional loss ratio this quarter.

Dominic James Addesso
President, CEO & Non-Independent Director

I think the first thing that we consider going into the marketplace because has been pretty difficult here for several quarters is to certainly trying to be as conservative as we can be kind of in the early part of the year picking that current year action have taken, I think we've done that and that's in part the most significant reason why you see the horizon in the current year attritional year-over-year.

Also remembering that we're not that far away for our fourth quarter reserve review and of course coming out of that reserve review we have a view on what that most recent accident year was, so essentially the process that we engage in here now is to look at that most recent reserve review and in effect bridge it into the first quarter by building some loss trend into the New Year as well as overlaying on that loss estimate rate increase and/or lack thereof. So and then on top of that try to be as conservative as reasonably possible to reflect what we think our market conditions and its early years, but we felt it was the most prudent thing to do as we begin the year.

Elizabeth B. Farrell
Vice President, Investor Relations

Any further questions Casey.

Operator

Thank you, yes, we'll take our next question from the Vinay Misquity of Credit Suisse

Vinay Misquith
Credit Suisse

Just to follow up on that, on the attritional losses once again. On the US reinsurance and the international reinsurance segments, the loss picks or the attritional loss picks are up around five points. So I just want to get a sense versus the fourth quarter of last year and versus the full year numbers, I just want to get a sense is pricing down four to five points this year versus last year? Is that why you are taking your loss picks up?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, in particular on those two segments just maybe some detailed wouldn't have seen last year, but those two particular segments had some loss development in coming out of prior years so they talked about kind of our methodologies that was more leaning towards try to take conservative view of those segments as we begin the year, as opposed to any dramatic price movement in fact those are probably be the areas where we've had some year-over-year probably the property lines there either flat to up so it really didn't have anything to with pricing.

Joseph Victor Taranto
Chairman of the Board

I think it basically Vinay more of cautious outlook that's the summary.

Vinay Misquith
Credit Suisse

The second question was on the Chilean loss. Just curious as to when you will be required to pay those losses and how we should expect the development for that?

Dominic James Addesso
President, CEO & Non-Independent Director

Well we've actually already paid some losses approximately $40 million have paid losses so far partly it's not just because of actual loss notices as much as some of our contracts of allow for cash advances and so we've already paid some losses.

Vinay Misquith
Credit Suisse

So I just want to get a sense for how long do we have to wait for us to get to the final resolution on this? How long would have be six months, a year before we can be sure to put this to bed?

Dominic James Addesso
President, CEO & Non-Independent Director

Well my expectations would be that certainly by the end of the year we'd have a very, very clear picture of where the total loss stands. Now in fact how those losses payout would be very difficult to project at this point, but I would certainly expect by 3 to 4 quarter we'd have a much better handle on where to industry losses are coming in notwithstanding the fact that we think we've done a pretty rigorous job of estimating it today.

Operator

Thank you. We have a follow-up from Matthew Heimermann with JP Morgan.

Matthew Heimermann
JPMorgan

A couple follow-ups actually, on the horizon loss, I'm correct, right, that's all going to be in the specialty segment in 2Q?

Joseph Victor Taranto
Chairman of the Board

Yes.

Matthew Heimermann
JPMorgan

With respect to the attritional loss on commentary you had, are that specific to one product category broadly like casualty, or property, or is it kind of all lines?

Dominic James Addesso
President, CEO & Non-Independent Director

It's across the board Matt.

Matthew Heimermann
JPMorgan

The last thing was on the US Insurance segment, the retention dropped a lot and I'm assuming a big driver of that is probably mix, because I think you're reinsuring the new lines a little bit more aggressively, but my question was, when I think about retention in that line for the balance of the year, should we expect retention to drop in subsequent quarters as well or is there any timing issues that make 1Q bigger than the rest of the year?

Ralph Jones

No, we reinsured one particularly large casualty program, which is the big gross to net swing in the quarter and that would be similar outlook through the course of the year.

Operator

(Operator Instructions) We'll take our next question from Ron Bobman with Capital Returns.

Ron Bobman
Capital Returns

It's a painful wait hearing all those questions from Heimermann. I just had a question, one question. In the area of sort of offshore energy rig operators, generally speaking would companies that buy cover for property and I guess liability as well. Would their reinstatement coverage be largely of a like-size as the first event cover? How is the pricing generally on the reinstatement amount? Is it basically at a comparable amount or a marginally higher? Then I had follow-up. Again generally speaking, I'm not looking into trying to find out Transocean's program, but just generally speaking.

Joseph Victor Taranto
Chairman of the Board

Ralph and I kind of have this confused look with each other here, as we hear that question and I think the reality is, we'll speak to our marine experts and get back to you on that to give you better idea than I think could give you.

Operator

Thank you. At this time, we have no further questions. I'll turn the conference back over to Ms. Farrell for any additional or closing remarks.

Elizabeth Farrell

Thank you for participating in our conference call. Certainly, if you have any questions, please feel free to call me after the call. Again, thanks.

Operator
Thank you. Ladies and gentlemen, this does conclude today's presentation. We appreciate your participation and you may now disconnect.