S&P Global
Market Intelligence

Everest Re Group, Ltd. NYSE:RE

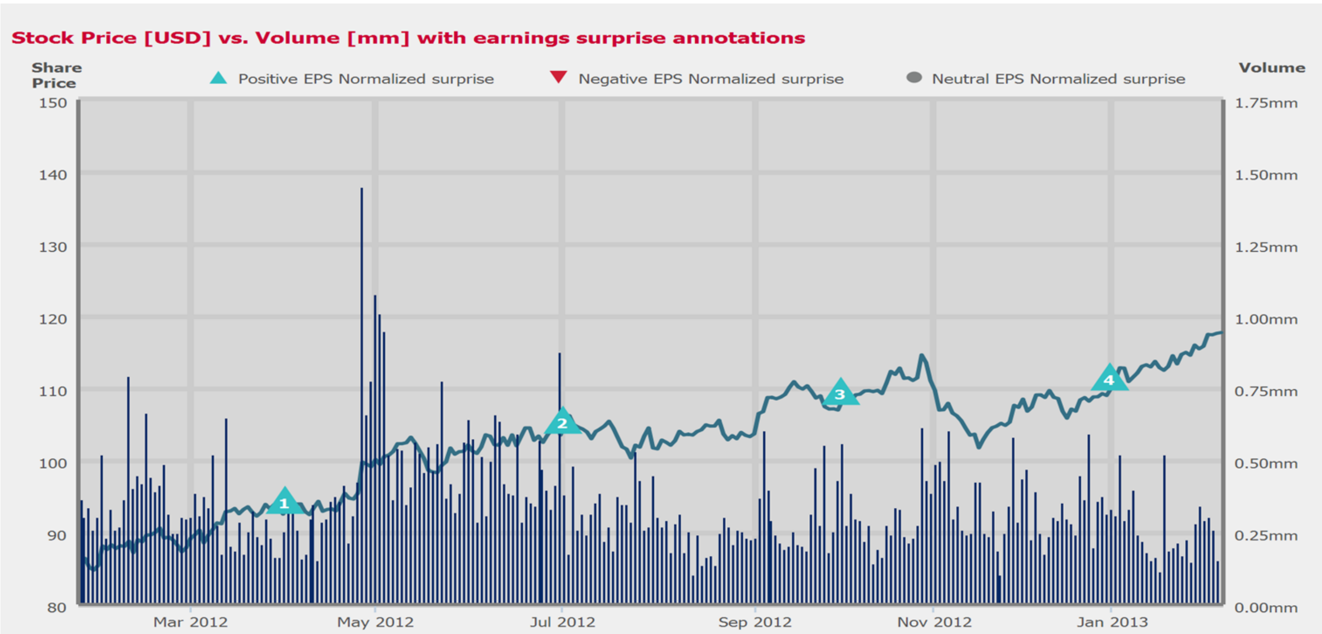
FQ1 2013 Earnings Call Transcripts

Wednesday, April 24, 2013 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2013-			-FQ2 2013-	-FY 2013-	-FY 2014-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.39	5.88	33.94	4.04	16.11	15.64
Revenue (mm)	1113.69	1088.76	(2.24 %)	1045.85	4648.49	4844.68

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



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2012	3.45	4.48	29.86 %
FQ2 2012	3.77	4.25	12.73 %
FQ3 2012	3.44	4.05	17.73 %
FQ4 2012	0.27	0.80	196.30 %

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Call Participants

EXECUTIVES

Craig William Howie
Executive VP, Treasurer & CFO

Dominic James Addesso
President, CEO & Non-Independent Director

Elizabeth B. Farrell
Vice President, Investor Relations

Joseph Victor Taranto
Chairman of the Board

Unknown Executive

ANALYSTS

Amit Kumar
Macquarie Research

Brian Robert Meredith
UBS Investment Bank, Research Division

Gregory Locraft
Morgan Stanley, Research Division

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Presentation

Operator

Please standby we're about to begin. Good day, everyone, and welcome to the First Quarter 2013 Earnings Call of Everest Re Group Limited. Today's conference is being recorded. At this time for opening remarks and introductions, I'd like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Elizabeth B. Farrell
Vice President, Investor Relations

Thank you, Tim. Good morning and welcome to Everest Re Group's first quarter and 2013 earnings conference call. On the call with me today are Joe Taranto, the company's Chairman and Chief Executive Officer; Dom Addesso, our President; and Craig Howie, our Chief Financial Officer.

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

Our SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now, let me turn the call over to Joe.

Joseph Victor Taranto
Chairman of the Board

Thanks, Beth, good morning. In the first quarter we have 13% growth in premium, 25% growth in operating earnings, and an annualized net income return on equity of 25%. I'm extremely pleased with how our underwriting portfolio was positioned and how our investment portfolio was positioned. We are finding growth opportunities in both our reinsurance and insurance operations, and I expect strong top line growth to continue this year. Dom will provide more detail on this shortly.

During the quarter we repurchased $239 million of our shares. After the quarter, we repurchased another $11 million of our shares for a grand total of $250 million. Even though we bought back a quarter of $1 billion worth of stock and paid $24 million in dividends, our earnings powered an increase in shareholders equity from $6.7 billion to $6.8 billion. Recently, we notified noteholders of our 6.2% junior subordinated debt securities that we will be calling the bonds.

Accordingly, we expect to redeem $320 million of debt in late May. We are presently investing new money in slightly over 2% in corporate bonds. So we expect to have roughly a 4% benefit of these funds on an annualized basis going forward. That means we expect to increase pre-tax earnings by approximately $13 million annualized going forward from June.

Craig will later provide additional detail on this transaction. Repurchasing a quarter of a billion dollars of stock and redeeming $320 million of our bonds underscores the strength of our company and our confidence in our future.

Frankly, we've never been stronger and we've never been better positioned. I am very proud that Everest has increased shareholder value for over 17 years at a compounded rate of 13%. I am pleased that we beat our historical average last year improving shareholder value at 18%, and I am pleased that we beat our historical average again in the first quarter of this year as we grew shareholder value at an annualized rate of 18%. We continue to see opportunities and are very excited about our future prospects. Dom?

Dominic James Addesso

President, CEO & Non-Independent Director

Thanks, Joe, and good morning. The first quarter reflects - results reflect an improving market in certain areas, lack of any major cats, and most importantly, a number of initiatives, which are beginning to yield benefits. Starting with reinsurance, the quarter produced a $210 million underwriting gain or 76.4% combined ratio. Each of our major segments within reinsurance experienced combined ratios less than 80%. The quarterly trend in the attritional combined ratios has been improving as a result of the shift from pro rata to excess.

This has not only had a dramatic impact on the loss ratio, but also the expense ratio. In addition, we have capitalized on favorable market conditions in certain regions and introduced new product offerings in both existing and new classes of business, which have increased our writings and resulted in greater diversification both in product and geography. These factors were most evident in the U.S. Reinsurance segment, where premium growth was close to 18%.

In addition to new business opportunities, this segment benefited from rate increases on existing business with noted improvements in the casualty classes as well as those accounts that were affected by Sandy losses.

In the International and Bermuda segments, growth in total premiums were slightly in excess of 6%. Here, we also experienced some new business growth, which accounts for most of the increase. Rate activity varied depending on class and geography, which overall can be characterized as flattish in terms of its impact.

Looking forward into the second quarter for all reinsurance segments, we expect casualty rates to continue to improve. This favorable trend in overall casualty rates is also a positive for our insurance operations as I will discuss shortly. Rate increases were also a factor for the marine book, which has grown in excess of 8% for the quarter, due to both rate and new business. Property continues to be mixed depending on geography. The loss affected accounts in the northeast U.S. have seen increases, while Asia and Europe have been relatively flat.

Nevertheless, we continue to deploy new capacity in product and layers, which provide returns in excess of our hurdle rates. Our portfolio continues to be well positioned. Actions taken over the last few quarters have resulted in a well balanced and diversified book, which has steadily improved the profitability. This diversification also means that the portfolio is better positioned to absorb cat events.

Turning to the Insurance segment also reveals an improved result with a combined ratio below 100%. However, this includes a 136% combined ratio in the crop insurance book, which was due to the seasonality of the premium in that business and the impact on the expense ratio as well as adverse development from last year’s drought conditions.

When looking at the Insurance segment without the crop business, it results in a 96% combined ratio. This highlights the underlying improvement expected as a result of continued double-digit rate increases in workers comp and general casualty in addition to the elimination of certain program businesses.

These rate increases along with growth particularly in the specialty classes as a result of the new initiatives referenced last quarter should continue to move the insurance operations forward in a positive direction.

In addition, the previously announced transition regarding our non-standard auto business will allow that business to grow with improving margins. Primary medical stop loss product continues to yield over 12 points of margin and our U.S. professional liability book is at 9 points of underwriting profit.

In both cases pricing is generally flat, so near-term growth is expected to be purposefully slow. Primary property rates continue to show a sign of firming, so selective growth is expected.

Finally, as we move into the remainder of the year, the crop writings will emerge. We had a successful renewal season as new territories were opened which will result in growth in gross premiums year-over-year.

In addition, the net account will become much more significant to the segment with the elimination of quota share in force last year.

The combination of crop, A&H,, DIC, specialty casualty and property, professional liability, non-standard auto, and California workers' comp, all with continuing or improving fundamentals should translate into a positive trend for the combined ratio below the previously mentioned 96%

I'll conclude by touching on investment income, the other major component of our operating results. For the quarter, investment income was as anticipated down over the prior year. While this was due to lower reinvestment rates, it was better than forecast due to the strategies deployed over the last several quarters. Diversification into the high yield bond and dividend paying stocks has helped to stall the decline.

In addition, our limited partnerships continue to perform well. The increased allocation to equities has also been a benefit to net income this quarter as realized capital gains were $127 million.

These investment and underwriting strategies that have been emerging over the last several quarters have produced record earnings for the quarter. The headwinds of investment rates or reinsurance or insurance rates or whatever else the markets can throw at us will always be a factor in varying degrees in a different times.

Nevertheless, we have positioned our resources and our portfolio to be able to respond effectively to the challenges and to take full advantage of the opportunities that the markets present to us. These are the benefits of a well diversified and global platform.

Thank you. Now, I'll turn it over Craig for further detail on the financials.

Craig William Howie
Executive VP, Treasurer & CFO

Thank you, Dom, and good morning, everyone. We are pleased to report that Everest had a record quarter of earnings with after-tax operating income of $301.1 million, or $5.88 per diluted common share for the first quarter of 2013. This is a 25% increase over after-tax operating income of $239.9 million, or $4.48 per share for the first quarter of 2012.

Net income for the first quarter was $384.3 million or $7.50 per diluted share, compared to $304.7 million or $5.68 per share in 2012. Net income includes realized capital gains and represents an annualized return on equity of 25%. These results were driven by $100 million increase in the underwriting result, offset by higher income taxes and slightly lower net investment income compared to the first quarter of 2012.

The results reflect the continued improvement in the overall current year attritional combined ratio, which has declined more than 5 points from 86.4% to 80.7%. This measure excludes the impact of catastrophes, reinstatement premiums, and prior period loss development. The total reinsurance attritional combined ratio was 76.8% compared to 83.2% in the prior year. The Insurance segment attritional combined ratio was 98.5% compared to 101.2% in the prior year.

However, eliminating the effects of the primary crop book, this ratio would have been 95.9% compared to 98.2% in the prior year. All segments reported underwriting gains for the quarter and all segments reported improved underwriting results compared to last year.

Total reinsurance reported an underwriting gain of $210 million for the quarter, compared to $112 million underwriting gain last year. The first quarter of 2012 was impacted by $30 million of catastrophe losses.

The Insurance segment reported an underwriting gain of $193,000 for the quarter, compared to an underwriting loss of $2 million last year. These results reflect a crop loss of $7 million for the quarter primarily due to the seasonality of crop premiums, but also including a $3 million true up from the 2012 crop year.

The overall underwriting gain for the Group was $210 million for the quarter, compared to an underwriting gain of $110 million in the same period last year. Our reported combined ratio was 80.7% for the quarter, compared to 89.0% in 2012.

The commission ratio of 21.4% for the quarter is down 2.4 points compared to the prior year. This lower ratio reflects the shift in reinsurance from pro rata to excess of loss contracts which generally carry a lower commission. It also reflects the shift away from program business to direct business in the Insurance segment.

Our low expense ratio of 4.9% continues to be a major competitive advantage. A recent industry analysis showed that we had the lowest overhead expense ratio in the industry for 2012, a full 2 point advantage.

On reserves, our overall quarterly internal reserving metrics continue to be favorable. For investments, pre-tax investment income was $146 million for the quarter are now our $16.6 billion investment portfolio. Investment income declined $7 million from one year ago. This decrease was primarily driven by declining reinvestment rates, partially offset by higher limited partnership income for the quarter.

Despite the declining rates, our investment portfolio continues to perform well. The pre-tax yield on the overall portfolio was 3.7% with a duration of just over 3 years. The quarter reflected $83 million of net after-tax realized capital gains compared to $65 million last year. These gains are mainly attributable to fair value adjustments on the equity portfolio.

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

Strong cash flow continues, with operating cash flows of $226 million for the quarter compared to $166 million in 2012. This is despite the high-level of catastrophe loss payments over the last 2 years.

Turning to capital management; as Joe mentioned, we have decided to call our 6.2% junior subordinated debt that was due in 2034. The noteholders have been notified and the redemption will occur on May 24. This will save about $20 million of annualized interest expense and we will use cash that would have been invested at about 2%. The net savings of about 4% will increase annualized earnings by approximately $13 million beginning in June.

Shareholders equity increased to $6.8 billion this year, up $83 million from $6.7 billion at year end 2012. This is after taking into account capital returned for $239 million of stock repurchases and the $24 million of dividends paid in the first quarter of 2013.

Book value per share increased 4% to $136.43 from $130.96 at year end 2012. Our strong capital position leaves us with the capacity to maximize our business opportunities, as well as continued share repurchases. Thank you.

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

Elizabeth B. Farrell
Vice President, Investor Relations
Tim, we are ready to take questions.

Question and Answer

Operator

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

Amit Kumar
Macquarie Research

I guess 2 or 3 questions; my first question relates to the upcoming renewals. We've heard a lot about the third-party capital entering this marketplace and some other companies have alluded to a tough renewal at 7/1. I was curious, what's your thoughts are on that, I guess in conjunction with Mt. Logan Re? Thanks.

Craig William Howie
Executive VP, Treasurer & CFO

Let me start with at least the 6/1s that are coming up, which I guess are more the Florida renewals.

First of all, looking to the Florida market, and I do expect more demand but as you noted, there probably will be more supply as well. I won't predict how that collectively moves the entire market, but overall, I still expect it to be quite a good market. I anticipate, we will have a very good June 1 renewal and we will be renewing business at healthy rates.

We concluded a few deals so far for the 6/1 season and we're reasonably far along on a few others and what we've put to bed so far is at similar rates to last year. On top of that underlying homeowner rates continue to improve, which will make quota share opportunities healthier and commercial property rates continue to improve making for better environment for our insurance operation, our property insurance operation in Florida and have facultative reinsurance operation. I expect XOL reinsurance to be well rated as well.

Going beyond that to 7/1, again, it gets even a little fuzzier if you get into some of the international renewals. What we saw recently in April in Japan is that was a relatively flattish renewal, so we'll see what happens when we get to July and beyond. But I don't expect the world to change all that dramatically for cat business for professional reinsurers.

Amit Kumar
Macquarie Research

Got it. The other question I had was on crop. Do you have the percentage breakdown of your crop book, I think in terms of what percent is corn, what percent is soybean, and what percent is winter wheat? That would be very helpful

Craig William Howie
Executive VP, Treasurer & CFO

Our portfolio was about 40% corn, 25% wheat, 17% soy and then the remaining mixture between cotton and another grains and beans. Now the most of the wheat is fall crop, if that helps.

Amit Kumar
Macquarie Research

Yes, and I guess final question related to that, the corn planting is meaningfully behind, I guess, the long-term trend and it seems that the window is closing very quickly. I was curious if you had any thoughts on the corn planting and how that would play into the results going forward? Thanks.

Dominic James Addesso
President, CEO & Non-Independent Director

Well, I think last year my recollection was that the, was really a relatively early planting season and I think this year's planting is along the expected calendar. So I am not sure of that we view it the same way as what you might be suggesting. Certainly, farmers need to get their crops in the ground before the middle of May and we still think that, there is plenty of opportunity to do that. There has been some floodings in certain areas of the Midwest that might delay some of the plantings, but much of the flooding does not affect farm lands and then to the extent that those areas that we designated as flood prone, we have the ability and have actually ceded those risks through the assigned risk pool.

Craig William Howie
Executive VP, Treasurer & CFO

Yes, let me add to that. Really and it's early days for the crop business, but at this point, we have no reason to expect anything other than a normal season. Time will tell, but we have no indication otherwise at this point.

Amit Kumar
Macquarie Research

I was just looking at a USDA report, which shows that if you look at Illinois or Indiana, I mean, if planting was 50% last year, right now is at 1%. And so you are saying that it should still be fine even though the numbers tell another story, okay.

Operator

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just one question on the - our investment portfolio. So are you pulling down duration kind of in anticipation of the potential rise in interest or potential rise in interest rates or is that something that you are not really kind of positioning for at this point?

Dominic James Addesso
President, CEO & Non-Independent Director

We, as I made some reference to, the investment strategies really began with us several quarters ago when we pulled down duration dramatically over the last several quarters. What we've done more recently has been relatively stable. Our duration is under 3 right now, and that hasn't moved much last couple of quarters. So we've been stable in that regard. But we've done a lot of work in terms of moving that to where it is today over the last several quarters, which began as I mentioned a few quarters ago.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So I mean, I just…

Joseph Victor Taranto
Chairman of the Board

Some of the thinking is to be protected in the event there is a big rise in the interest rates.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay. I guess, the question I would have is along those lines, and you mentioned calling some debt, I mean, you've got relatively high interest debt, I mean, you've got obviously low interest rates, I mean, what is the - how do you reconcile the decision to call those bonds instead of kind of replacing the leverage that you, very low leverage that you currently have?

Craig William Howie
Executive VP, Treasurer & CFO

Michael, this is Craig, and there were many options that we evaluated when we went through this process and frankly all the options were good options for us. This was the most accretive to our earnings and especially since it's a risk free return to us, our capital position is strong enough to absorb this transaction where we didn't have to replace it with other debt. And it really should have no impact on our share repurchases for the year.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Right. So the savings from, just want to make sure I understand, so calling the 6.2% debt would be more accretive to per share earnings than reissuing and repurchasing $300 million of stock.

Craig William Howie
Executive VP, Treasurer & CFO

That's correct.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay, and then one question I had on the insurance, Craig, I feel I like I'm kind of going back, it seems like it's a book that has been in some transition whether it's the crop book, the quota share program, program book, the re-rating on the comp side. How should we think about this? I mean, I still kind of, I look at it, I am not really sure the crop versus the non- crop, how big is it. What's the impact of this quota share program and how should we think about this books going forward? I mean, I appreciate the commentary about the combined ratio drifting downward, but I just - I don't have a good feel for what's in there and whether or not there are more potential changes to come other than opportunistic moves on the margin, is this book, is the corpus now mostly in place?

Craig William Howie
Executive VP, Treasurer & CFO

Well, there are lots of moving pieces and you've got in excess of - what will be in excess of $200 million of premium in crop for the year. Likewise, we'll have well in excess of $200 million for the California comp, our primary medical stop-loss business is just under $100 million. We've got the non-standard auto business, which was at $30 million, expected to grow to $80 million and from there.

So it's pieces of that, our elements that we expect to grow, we've got an excess cash in the facility, we've got an environmental facility. We just formed this specialty insurance group which I've mentioned in previous, I think in the last quarter to focus on some unique classes of business and niche business. By the same token the program business is coming down, moving more to a direct broker model and all of those things are having the positive impact on our business. Also, our California DIC business has performed nicely and we have a property E&S operation that could experience some growth in and strengthening property insurance market in particular.

Joseph Victor Taranto
Chairman of the Board

Adding a little bit more to that, I mean the crop business will probably be roughly speaking, 25% of our business. And as I said we're expecting a normal year, normal year means a very reasonable profit. Workers' comp is probably another 25% of our business and rates continue to go up there quite nicely. Frankly, in the course of the last 4 years, we've achieved compounded 60% of rate. So if you put those 2 together, which are trending nicely, and you are up to a half of the book.

After that as Dom noted, professional liability making a portion, which is running very well, medical stop loss making a portion, which is running very well. The non-standard auto portion, E&O and property rates are going up and that's a portion. So, you can kind of, that helps quantify for you, but everything is moving in the right direction. And frankly, if you take out the blip from crop in this quarter, it's 96 when you put it all together even this quarter. So …

That's why we feel good about it.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And so, you've got about 2.5 point of underlying combined ratio improvement x crop in the segment year-over-year? So as we kind of look is you've got crop, which is anomalistic from the rate environment, you've got workers comp where it sounds like you're saying that rate is running at a healthy clip ahead a loss trend. And then, if we were to look at the other 50% of the book, how should we think about the migration there in terms of where your - is there an amalgamated rate versus loss trend where you are aiming or targeting for that we can kind of think about as that book moves ahead? And thank you for all your answers.

Craig William Howie
Executive VP, Treasurer & CFO

Well, let me talk about the other 50%.

I already, I think I mentioned in my opening comments, the margins that we're experiencing in our medical stop loss book of business and professional liability book. We're obviously pleased with those margins, but as I said, rates appear to be flattish in that environment. So we're not expecting huge amounts of growth, but we're certainly - those 2 classes of business if you will are easily meeting our hurdle rates. As the casualty rates for us are going up double-digit and certainly, we would expect that trend to continue above, certainly above loss trend. And so we expect to see growth in the casualty space in the primary market.

Operator

And we'll go next to Greg Locraft with Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

Great. I wanted to just follow-up on your commentary that mid-year or at least the last couple of deals were sort of renewing flat year-over-year. Can you be more specific in terms of what type of business this is, what layers, is this Florida, is it not Florida. Can you help us think about, because that's actually a lot better than what I was thinking?

Dominic James Addesso
President, CEO & Non-Independent Director

What Joe was referencing in that comment was the 6/1s that we've already put to bed or about to put to bed in Florida.

Joseph Victor Taranto
Chairman of the Board

Yes, we put to bed probably close to half of the premium that we've done on XOL [ph] business that we did last year. We put that to bed this year and pretty flat rate versus rate. So there is more to come and this will take a couple of months, but that's what we've experienced so far.

Gregory Locraft
Morgan Stanley, Research Division

Okay, great. And maybe same topic just on the mid-years and specifically Florida, what are you seeing on the unit side, it seems like there is some favorable trends from a de-pop perspective that there might be materializing. Could you help us think about some of those?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, there are, Greg, I mean, I think that's one I was saying I expect demands to go up, because you are right since it's de-popping and that seems to be going to some of the smaller companies more thinly capitalized that are more in need of a traditional reinsurance. So that's why I kind of said demand is on the rise. But at the same time, I do believe there is some supply on the rise in the sense that reinsurers like ourselves, surplus is building and there is some alternate capital coming in. So I wasn't going to get into predicting when you put all that together what it means in terms of rate for the industry, but I really already know that we're going to have a - we're going to have a good June first. I mean, I know enough information to see that will be the case.

Gregory Locraft
Morgan Stanley, Research Division

Okay. Great. So demand is up, and then pricing is flat or maybe jumping back to my last question.

Dominic James Addesso
President, CEO & Non-Independent Director

Well, what we've done so far is flat. More to come.

Gregory Locraft
Morgan Stanley, Research Division

Okay, and again, the flat you're mentioning is price that's not just premiums that are flat?

Dominic James Addesso
President, CEO & Non-Independent Director

No, rate relative to exposure, now…

Gregory Locraft
Morgan Stanley, Research Division

Perfect. Perfect.

Dominic James Addesso
President, CEO & Non-Independent Director

I am talking about the XOL business on that, meanwhile, underlying insurance rates, at least homeowner rates, continue to go up and that makes that business healthier. And remember we participated in some quota share as well, and so that business is getting better that we participate via quota share and commercial property rates continue to go up and we do have a commercial property insurance book in Florida, so that's getting better. And our facultative book, which does some commercial business in Florida is now going to be dealing with insureds that have gotten better rates on their business. So there are various things going on, but when it all shakes out, at least, for us, I expect it to be quite good at June.

Gregory Locraft
Morgan Stanley, Research Division

Okay, that is great color, thanks. And then just jumping topics, on the buyback front, again, excellent quarter on that. You bought back half the - I'm sorry, 4% of the company. So that's an excellent number. What I am sort of scratching my head on though is why don't you do more, the buyback…

Unknown Executive

These are billion or 2 nice quarter [Multiple Speakers]

Joseph Victor Taranto
Chairman of the Board

Keep in mind, we not only this quarter are effectively doing the buyback, we are also redeeming $320 million bond. But I think what all of that says as we're feeling very strong in terms of the portfolio, the current earnings, the future earnings. And frankly, we're also feeling it, agreeing with you that it's a good time for us to be buying and to be buying in a very significant way. We looked at $0.25 billion as if it was the significant in the first quarter, Greg? I don't know how many others are going to be buying back 4% of their stock in this quarter.

Gregory Locraft
Morgan Stanley, Research Division

Yes, no, I actually - what's amazing is you actually earned even more, right? I mean, the payout ratio is still, so, yes it's great. So hopefully, we can do 4% every quarter for a while to come.

Operator

And we'll take our next question from Vinay Misquith with Evercore Partners.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

The first question is on Florida, again. So I hate to beat a dead horse, but just curious as to why your experience is different from sort of what the brokers are seeing on the Florida market?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, I have to say to begin with, what the many of the brokers are predicting, we'll see what happens, because they are predicting deals that are our future deals. But there was some uniqueness to the deals that we've done so far as to why we had some competitive advantages as to why we were able to certainly maintain rates. But I would go beyond that for the deals that we will be seeing. We have no interest if there is some meaningful decline in rates, in participating in those portions of the business where there are meaningful declines.

As I noted, there is pockets of the business were rates are getting better, starting with the primary insurance rates that are helpful with regard to quota shares. So we have a lot of options in terms of how we put down our aggregate in the market. We can put it on quota shares, we can put it on XOL, we can put it on facultative reinsurance, we can put it on commercial insurance and we're going to go at it the best way whereas it's the healthiest rate and it makes most sense for us to put down.

So I'm telling what our situation has been so far and I also tell you I think we have some very good options that will take us into 6/1 that will give us a good portfolio at the end of that. Perhaps when you do put the market at the end of June all together given what the broker said, you may see some decline that remains to be seen, but I'm very happy with our situation.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Okay, that's helpful. Second point is on the lower commission expense ratio that was certainly a positive this quarter, how much of the transition from for - to XOL and the program business, the normal business have you done. So in other words, should we see this same level of expense ratio continuing for the next couple of quarters?

Dominic James Addesso
President, CEO & Non-Independent Director

Now I wouldn't expect it to trend this way. I think what you've seen here is as a decline over time and this was fairly large impact here in the first quarter, but due to a number of reasons, as I mentioned, it's both on the reinsurance side from the shipment business. But also on the insurance side, because we've moved to more direct rating in set of program business, so what you're seeing is that benefit coming through. I would expect this to be closer to a normal run rate than we continue on track.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Okay, that's helpful. And then the last point was on the buyback. This quarter, you bought back about 90% of earnings, so is that fairly a good run rate, sort of excluding the hurricane season that we should be thinking about, and you've mentioned before that the debt repurchase will not impact the buyback, correct?

Joseph Victor Taranto
Chairman of the Board

That's correct. We look at that as capital; we didn't look at that capital before we did, and so it doesn't affect our mentality for buying going forward. Well, we had never given guidance on what we will buy back going forward. And we won't at this stage. So I'm not going to give you some formula relative to earnings or anything else. But let us say that it's clear and what we did in the first quarter that we think it is a very good way to improve results for shareholders going forward for us to continue to buyback a substantial amount of our stock.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Sure, fair enough. And just to clarify the top line growth this year does not have any more capital requirements, correct?

Dominic James Addesso
President, CEO & Non-Independent Director

It's correct.

Operator

We have time for one more question. We will take our last question from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Dom, can we talk a little bit of about the casualty reinsurance market and particularly, can you tell me you talked about how you're seeing some rate in casualty. I assume you are talking more on the subject premium base rather than actually reinsurance and what are you seeing with terms and conditions on some of the casualty reinsurance and demand in that marketplace as well.

Dominic James Addesso
President, CEO & Non-Independent Director

The most of the increase, yes, it's coming from the subject base. As primary rates, of course, are going up that's having a positive impact on the subject base. That's not to say that we don't have some relationships or contract transactions where the reinsurance rate might be changing as well. So you could be getting it in both spots, but that's very, very deal-specific. But clearly, the underlying primary trend is what's driving the casualty market.

I have to say that there is not really any overall dramatic change in terms and conditions relative to casualty deals. And relative to demand, I think demand again, other than the increasing subject base, we're not necessarily seeing cessions from customers in this space going up dramatically.

So it's all basically, any growth there is basically being driven by rate, and some new business opportunities. We're able to grow the portfolio, now that we see margins improving there to entertain plenty of new business opportunities being able to leverage. The relationships that we already have and I don't mean that in a negative way, but we're able to expand our casualty relationships, and we'll be providing property capacity to clients, we see the market improving. We have a much bigger appetite for entertaining casualty business.

Brian Robert Meredith
UBS Investment Bank, Research Division

And then just quickly, could you tell us about what you think the impact of alternative capacity is going to be on midyear renewals, kind of what's your thought maybe even longer-term and how that potentially could impact traditional market?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, I mean it's hard to say, I mean it's certainly-- the talk is that it's having a dampening impact on rate levels. But by the same token, particularly in Florida, we're seeing citizens continue to depopulate, new markets emerging, which will increase demand, property values will continue to go up, which will increase demand, and there is growth in the emerging economies, which allows us to spread our aggregate across the globe and not be so focused on one particular region or part of the world. And of course, we'll look to potentially participate in some of that through the facility that we're crafting.

Joseph Victor Taranto
Chairman of the Board

I would answer that, that some of these alternative capital providers can't really offer the same products that we offer where we can kind of tailor our products to the client's needs. And also, we have relationships with many of our partners, business relationships that go back for many, many years; underwriting facilities around the world. So we have some competitive advantages over these - over this new capital if you will. But it's a little bit complex in terms of how this is going to affect everything the further you look out, we'll see.

Operator

And that concludes our Q&A session. I'll turn it back over to our speakers for any closing remarks.

Elizabeth B. Farrell
Vice President, Investor Relations

I just want to thank everybody for joining us today

Joseph Victor Taranto
Chairman of the Board

Thank you.

Operator
That concludes today's conference call. We appreciate your participation.