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Market Intelligence

Everest Re Group, Ltd. NYSE:RE

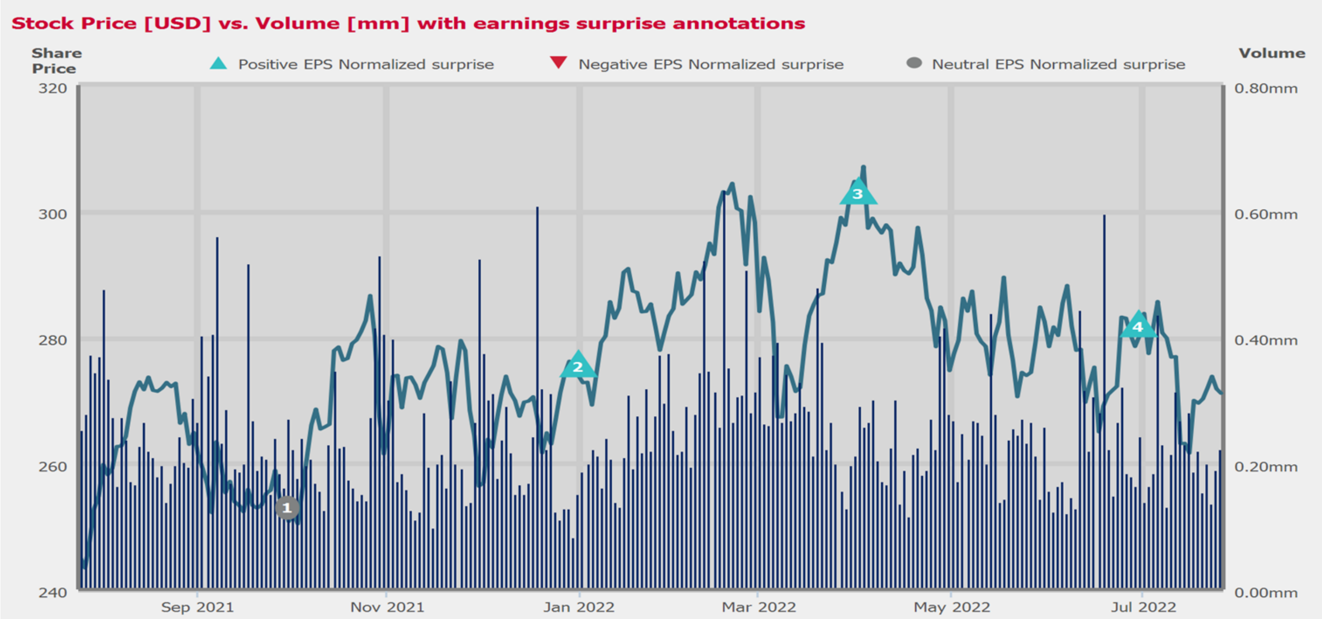
FQ2 2022 Earnings Call Transcripts

Thursday, July 28, 2022 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2022-			-FQ3 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	8.11	9.79	▲20.72	0.52	31.49	NA
Revenue (mm)	3005.45	3022.00	▲0.55	3358.05	12551.40	NA

Currency: USD
Consensus as of Jul-28-2022 12:23 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2021	(1.54)	(1.34)	NM
FQ4 2021	8.98	9.12	▲1.56 %
FQ1 2022	9.32	10.31	▲10.62 %
FQ2 2022	8.11	9.79	▲20.72 %

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EXECUTIVES

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Juan Carlos Andrade
President, CEO & Director

Mark Kociancic
Executive VP & Group CFO

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Michael Karmilowicz
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UBS Investment Bank, Research Division

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Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
BofA Securities, Research Division

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

Michael Wayne Phillips
Morgan Stanley, Research Division

Ryan James Tunis
Autonomous Research LLP

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Operator

Welcome to the Everest Re Group Second Quarter 2022 Results Conference Call. [Operator Instructions]. Please note, this event is being recorded.

I'd now like to turn the conference over to Matt Rohrmann, Senior Vice President, Head of Investor Relations. Please go ahead.

Matthew Jay Rohrmann
Senior VP & Head of Investor Relations

Good morning, everyone, and welcome to the Everest Re Group Limited Second Quarter of 2022 Earnings Conference Call. The Everest executives leading today's call are Juan Andrade, President and CEO; Mark Kociancic, Executive Vice President and CFO. We're also joined today by other members of the Everest Management team.

Before we begin, I'll preface the comments on today's call by noting that Everest SEC filings include extensive disclosures with respect to forward-looking statements. Management comments regarding estimates, projections and similar are subject to the risks, uncertainties and assumptions as noted in these filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial supplement.

With that, I'll now turn the call over to Juan.

Juan Carlos Andrade
President, CEO & Director

Thank you, Matt, and welcome to Everest. We're excited to have you on board. And good morning, everyone. Thank you for joining us today. Everest delivered strong results in the second quarter with positive momentum across our key objectives. We expanded margins in both of our underwriting businesses, and our insurance segment delivered another standout performance. We further scale our platform with strong overall and underlying results, continuing the positive trajectory for this business.

In reinsurance, we seized opportunities to improve the diversification and profitability of our book, while reducing volatility. In a complex environment, Everest's global talent, disciplined underwriting and market leadership provide strength and stability to our customers. Our relevance and impact have never been more important. Improvements in underwriting profitability and operational efficiency, supported by our investment portfolio, delivered $386 million in net operating income and a 15.3% annualized operating ROE.

We achieved these results through consistent and relentless execution of the strategy that was articulated at our Investor Day last June. Our strategy is to profitably scale our insurance platform and capitalize on our reinsurance leadership position to continue building a broadly diversified and consistently profitable company that provides leading returns in the sector.

Our results quarter after quarter demonstrate we're accomplishing what we set out to do. Operational excellence is also a core component of our strategy. Efficiencies resulting from investments in our systems and technology make us more resilient, so we can respond nimbly to changing market conditions and cease emerging opportunities. Coupled with our ability to attract and retain great talent, this gives Everest a competitive advantage. This is increasingly important against the backdrop of macro volatility, achieving ambitious growth in profit today requires companies to operate with both the strong offense and defense.

Our second quarter financial results demonstrates ever stability to strategically do both in a complex environment. I'll share some highlights now, first from the group and then for each of the underwriting businesses. Second quarter results for the group were strong and underscore the earnings power of our company. We grew gross written premiums by just over 10% in constant dollars.

The growth was broadly diversified in both divisions and is supported by continued momentum in insurance as well as underlying margin improvement in both businesses. We continue to benefit from positive rate, exposure growth and deliberate portfolio management actions, keeping us ahead of loss trend.

The combined ratio for the group is 91.8% and includes $85 million of weather-related natural catastrophe losses, primarily in South Africa, Canada, Europe and the United States. Overall, our catastrophe losses for the second quarter and year-to-date remained well below our cat loss ratio target for the year, despite an estimated $39 billion of insured industry losses in the first half of 2022.

According to Aon, this level of natural catastrophe activity is 18% above the average for the 21st century. We also recognized a $45 million IBNR accrual for the Russia-Ukraine war. We have limited direct exposure to the Ukraine and expect any potential losses to be a manageable earnings event. Mark will provide additional details in a moment.

The group attritional combined ratio was 87.2%, a 40 basis point improvement from the prior year. This includes a 1.9 point year-over-year improvement in insurance. The group attritional loss ratio also remained strong in the quarter at 59.8%, with continued improvement in both segments. The $240 million in underwriting profit for the quarter is a direct result of continuous portfolio management. Net investment income for the group was $226 million, balanced between fixed income and alternative investments.

Now turning to our reinsurance business. Reinsurance gross written premiums were up in the second quarter by over 5% in constant dollars. Our growth is broadly diversified, which allows us to target higher margin opportunities in each region and line of business. We are not reliant on one market or one product to drive our growth and profitability. For example, second quarter growth is driven by our international operations, particularly our casualty book, where we're focused on key seasons for achieving strong underlying profit improvement and results ahead of loss trend.

We also grew our global facultative business and our mortgage reinsurance business, where there has been a significant pickup in deal flow. This growth is partially offset by a reduction in property pro rata as we continue to optimize that portfolio. I talked about the advantage of flexibility. This is where our ability to manage market dynamics makes a meaningful difference in the quality of our portfolio.

The reinsurance attritional combined ratio was 86%, including an attritional loss ratio improvement of 30 basis points year-over-year to 58.8%. This contributed to a strong underwriting profit of $175 million, supported by successful midyear renewals.

With respect to these renewals, market conditions have steadily improved over the course of 2022. We are seeing improved economics for property cat. Everest's position as a preferred market has allowed us to reposition our participation in key programs, further away from frequency losses and achieve better expected profit or reduced cat exposure.

Our underwriting teams deploy capacity with discipline. Casualty market remained stable with some tightening of terms driven by market concerns over social inflation and emerging risks. The market is showing signs of discipline, especially in pro rata, where cedes appear to be stabilizing. Our underwriting teams are data-driven, carefully tracking and analyzing trends to ensure we manage the underwriting cycle.

In summary, we are positioned to capitalize on opportunities as we maintain our strong underwriting discipline. We are well placed going into the January renewal, and we expect further improvements in the market.

Now for our insurance results. During the quarter, we continued to deliver on our strategic objectives, generating record underwriting profit and continued growth, while investing in our talent, technology and analytics. We achieved strong gross written premium of $1.2 billion, a quarterly record for our insurance division, up over 20% in constant dollars. This growth was broad and diversified across our target product lines, channels and regions.

We had strong growth in our U.S. casualty, specialty lines and in our international business. We also continue to see significant opportunity in the E&S space where we are well positioned. Growth was driven by several factors, increases in underlying exposures across many lines of business, including general liability, property and workers' compensation, strong renewal retention and positive rate in excess of loss trend across the portfolio.

In the quarter, we achieved a rate increase of 7.3%, excluding workers' compensation, and a total of 6% with high single-digit increases in property, professional lines, umbrella and commercial auto. These rates remain well above pre-pandemic levels. It's also important to note that in addition to renewal rate change, there are other levers we deploy to ensure that margins continue to expand, such as coverage terms and conditions, limits management and attachment points, risk selection, new business pricing, which continues to be higher than renewal pricing, and the benefit of additional premium from inflation-sensitive exposure basis.

Insurance growth was partially offset by continued portfolio management, including our reductions in U.S. property catastrophe, where we achieved an approximately 36% reduction in our gross 1 in 100 U.S. Southeast Wind PML over the last 12 months.

In addition to robust growth, insurance continued its strong profitability trend. We achieved a record low attritional combined ratio of 90.2%, approximately 2 points lower than second quarter 2021 and with a 1.5 point improvement in the attritional loss ratio.

These results are aligned with our financial targets and build on our continually improving attritional combined ratio trajectory since the end of 2019, where we have gained over 6 points of underlying margin expansion in the combined ratio. This is a direct result of the consistent and cumulative actions I just spoke about.

These improvements resulted in $66 million in underwriting profit, the second best quarterly profit in our insurance division's history. We also made solid progress in the quarter with important milestones that advance our international expansion strategy.

Everest insurance received regulatory approvals to operate in Singapore and Chile, where we are officially open for business. Asia and Latin America are both significant opportunities. We are well positioned with the talent, customer-first platform and proven track record to cease this opportunity in new markets.

I have personally witnessed the excellent reception of our presence by local brokers. We will continue to bridge gaps in regions around the world, where we are uniquely positioned to serve clients and brokers with our strong balance sheet and broad suite of insurance products and capabilities.

Our leadership team is driving the strategy forward and Everest continues to be a net acquirer of talent. During the quarter and since the beginning of the year, we welcomed a significant number of new colleagues, all of whom are accretive to our organization and inclusive culture. From underwriting to pricing and claims, we are innovating across the entire organization to deliver a world-class experience and value to our stakeholders.

Our second quarter results demonstrate that Everest is nimble and strategic, diversified and well positioned to perform in any environment. We entered the second half of the year with momentum. We are leveraging our talent and the full breadth of our enterprise to strengthen every area of the business and bring our partnership to more people and businesses around the globe.

Now I will turn the call over to Mark to take us through the financials. Mark?

Mark Kociancic
Executive VP & Group CFO

Thank you, Juan, and good morning, everyone. Everest had another solid quarter, rounding out a strong start in the first half of 2022. The company reported operating income of $386 million or $9.79 per diluted share in the quarter. The operating ROE was 15.3% for the quarter, while total shareholder return, or TSR, was 6.6% year-to-date.

We improved our attritional loss ratios in both segments, while generating double-digit growth in constant dollars as pricing and terms remain attractive in virtually all of our core lines of business. Based on the fundamental performance of the business year-to-date, our team continues to execute well, and we remain on track to achieve on the goals we set out in our strategic plan despite macro volatility.

Looking at the group results for the second quarter of 2022, Everest reported gross written premium of $3.4 billion, representing 8.1% growth year-over-year or 10.3% growth in constant dollars. The combined ratio was 91.8%, which includes 2.9 points of losses from natural catastrophes and 1.5 points from the Russia-Ukraine war. While significant uncertainty remains around the Russia, Ukraine war, we felt it prudent to put up a provision, which is all IBNR, given the lack of claims to date and the ongoing nature of the event.

The provision was driven by our marine, political risk and trade credit books in the Reinsurance segment. There is no direct exposure in our Insurance segment. The group attritional loss ratio was 59.8%, a 50 basis point improvement over the prior year's quarter, led primarily by the Insurance segment, which I'll discuss in more detail in just a moment. The group's commission ratio improved 20 basis points, 21.6% on mix changes, while the group expense ratio, which remains a competitive advantage for Everest, was 5.8%.

Moving to the segment results and starting with Reinsurance, the Reinsurance gross premiums written grew 2.5% to $2.2 billion or 5.2% in constant dollars. Growth was driven primarily by casualty pro rata and strategic growth in international lines. The combined ratio was 91.8%, which includes 3.7 points related to natural catastrophes and 2.1 points related to the Russia-Ukraine war, as mentioned earlier.

The attritional loss ratio improved 30 basis points to 58.8% as we continue to achieve more favorable rate in terms as well as shifting the book towards accounts with better risk-adjusted return potential. The commission ratio was 24.8%, broadly in line with last year. The underwriting-related expense ratio was 2.4% as earned premium grows, and we remain focused on operational efficiency across the entire platform.

Moving to Insurance, where we continue to build significant momentum, gross premiums written grew 19.6% to $1.25 billion or 20.5% in constant dollars in the quarter. The combined ratio improved 2 points to 91.5%, primarily driven by a 1.5 point reduction in the attritional loss ratio to 62.7% as rate continues to outpace trend further supported by our focus on risk selection and favorable loss experience.

The commission ratio improved 50 basis points, largely driven by business mix and increased ceding commissions. The underwriting related expense ratio was 15.1%, within our expectations as we continue to expand our global footprint and continue to proactively invest in a number of growth initiatives across the business.

Finally, to cover investments, tax in the balance sheet, net investment income for the quarter was $226 million, and we are starting to see the benefit of higher new money yields in the fixed income portfolio. Overall, our reinvestment rate improved sequentially from 2.9% to 3.7% during the quarter and today is well north of 4%. We continue to have a short asset duration of approximately 3.1 years. And as a reminder, that 20% of our fixed income investments are in floating rate securities.

For the second quarter of 2022, our operating income tax rate was 10.1%, benefiting from the geographic distribution of our income streams, thus favorable to our working assumption of 11% to 12% for the year. Shareholders' equity ended the quarter at $8.9 billion, driven primarily by the second quarter rise in interest rates, particularly toward the long end of the curve. There was a corresponding negative $717 million impact on the value of available-for-sale fixed income securities. Year-to-date, unrealized losses in the fixed income portfolio equate to approximately $1.5 billion.

Cash flow from operations was $715 million during the quarter, and book value per share ended the quarter at $224.59 per share, a sequential decline of 6.3% adjusted for dividends of $1.65 per share. Book value per share, excluding unrealized depreciation and depreciation of securities, stood at $257.27 versus $256.01 per share at the end of the first quarter, representing an annualized increase of 2%. Debt leverage at quarter end stood at 22.5%, an increase in the leverage ratio driven by the unrealized fixed income market value declines noted previously.

In conclusion, Everest ended the second quarter of 2022 in a strong position. We have ample capital to operate in the current environment, and we continue to see good opportunities to invest in the platform and scalability of our company. That summarizes our second quarter results.

And with that, I'll turn the call back over to Matt.

Matthew Jay Rohrmann
Senior VP & Head of Investor Relations
Thanks, Mark. Operator, we're now ready to open the line for questions. [Operator Instructions].

Question and Answer

Operator

[Operator Instructions]. Our first question comes from Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

First question, just looking at the reported combined ratio in the first half. I think it's tracking a little below the midpoint of the 91% and 93% guidance range. That said, I do think that the second half of the year tends to have a little more catastrophe losses in it. So how confident are you in achieving that 91% to 93% target?

Juan Carlos Andrade
President, CEO & Director

Yaron, this is Juan Andrade. Look, I think we feel very confident about it. And the reason I say that primarily it's really all the reductions we have done in our property catastrophe book, right? If you look at our comments that we have been making consistently, we have been managing the volatility down, particularly in the reinsurance book in a pretty significant way.

If you look at our investor presentation, you see our trading range and where we are now compared to where we were in 2017, '18, '19, even '21 and '20. So I think that part of it is a big help. If I think about the insurance division as well, as you heard in my prepared remarks, we have already taken down our gross PML in the Southeast by about 36% in the first half of the year. And so those steps, I think, are critical, frankly, to us being able to achieve that 91% to 93%.

But I would invite maybe Mark to add any additional comments to that as well.

Mark Kociancic
Executive VP & Group CFO

Yes. So in addition -- Yaron, in addition to the PML reductions that we've seen on the cat side, I think we're making some solid progress on the attritional loss ratios as well. And you can see that evidenced over the last several years, 5 years in particular when you look at insurance on a stand-alone basis. And so we don't see that changing. We feel like we've got a lot of momentum, good process, a lot of opportunity in the market, and we feel good about it.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Understood. And then my second question, also a guidance-related question. So I think your premium CAGR targets, 3-year targets, are for 8% to 12% growth in reinsurance, 18% to 22% in insurance. I think you were a bit ahead of target in '21, a little below target now in '22, so -- particularly in reinsurance. So with that in mind, how confident are you in those 3-year targets, especially as there is growing concern around a recession?

Mark Kociancic
Executive VP & Group CFO

Yes. They're not targets. They are assumptions rather that we had in place for the 3-year plan. So in other words, to achieve the plan itself, it's not like we have to grow at that level. We're very much focused on total shareholder return profitability target for the group.

To your point, when you look at the assumptions that we had 8% to 12% for reinsurance and 18% to 22% on insurance, last year, we exceeded those by a significant margin, pretty close to 25 points of growth last year for both divisions. This year, insurance is, within its 18% to 22%, I think we'll get there. The reinsurance side is a little bit lower, but that's not a problem for us. We've done a lot of things there, which I'm sure Jim will articulate as we go on through the call, but we can certainly achieve our objectives even if premium growth is somewhat muted because we're very much focused on profitability.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Understood. And maybe just one clarification there. The assumptions you were using were those on constant currency? Or is those absolute?

Mark Kociancic
Executive VP & Group CFO

Well, yes, those would be constant currency.

Operator

The next question comes from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My question is on the capital side of things. You guys mentioned that you have ample capital. We didn't see any buybacks in the quarter. So just hoping to just get an update on how you guys are balancing using your capital for organic, inorganic growth as well as capital return from here?

Mark Kociancic
Executive VP & Group CFO

Elyse, it's Mark. Let me take that one. So share buyback, you're right. We didn't have anything in the second quarter. It's still very much an option for us. I think I put in my monologue, to your point, the ample capital to support the business. So we have, as I said, ample capital, we still think that there's a lot of attractive opportunities in the market to grow. You're seeing a very nice growth in the insurance space, which we expect to continue significantly, especially on the international side.

And so that's where opportunities for us really present themselves in an attractive way. If there is a point in time where we feel the buybacks are -- provide that much more value in addition to balancing our franchise development, we'll execute them. There's no issue on our side for that.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my follow-up is a margin question, but a little bit of a different way, right? You guys laid out a 91% to 93% combined ratio target at your Investor Day. That included right around at the midpoint, right, a 6.5 point cat load. So I back that out, right, that would be an underlying of 84.5% to 86.5%. You guys were 87.3% ex-Russia, Ukraine through the first half of this year. And you did mention some things like mix, right? If you're shifting away from property, right, that would perhaps lift your underlying, and we're also dealing with higher inflation trends and when you put this guidance in effect. So can you just walk through the drivers of kind of hitting the mid-80s from an underlying combined ratio perspective that's included within that 3-year plan?

Mark Kociancic
Executive VP & Group CFO

Yes. So there's multiple components here to your point. So you've got everything from the attritional loss ratio, acquisition ratio, the cat load itself. And I think back in February for the Q4 results, we made a remark that the cat load of 6% to 7% that we had in the Investor Day presentation last June was likely to trend down as we start to reduce our PMLs on the cat side. So that number, I think, is firmly less than 6% in our anticipation for '22 and probably for the foreseeable future.

So that's going to provide some relief within that 91% to 93%, but you're also seeing a couple of other things. On the mix of business, you're seeing a shift. On the reinsurance side, for example, from a 60-40 property, casualty ratio in the book is something that's closer to a 50-50. And so that has its own dynamics in terms of the prospective attritional loss impact overall.

When you take into account the mix of business, and then the types of treaties were underwriting and the focus on profitably, we feel very good about the 91%, 93% range, even though we have some meaningful changes here, both in the level of expected cat and the proportion of longer-tail business. So we're comfortably in that 91% to 93%.

Operator

The next question comes from Meyer Shields from KBW.

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

Two quick questions. One, in your introductory comments, you talked about growing in international casualty. And I was hoping you could update us on social inflation internationally, both whether or how it's trending and how it compares to domestic social inflation?

Juan Carlos Andrade
President, CEO & Director

Yes. Thanks, Meyer. And that comment was specifically related to the Reinsurance segment of our business, where we continue to see pretty significant opportunity. And as I said in my prepared remarks, what we're doing is very consistent with our prior strategy of partnering with specific seasons that we understand, that we know and that we also see getting rate in excess of loss trend. So from that perspective, we're pretty confident about that book of business.

With regard to the social inflation question, I think that's more of a U.S. litigation issue than it is outside of the U.S., even in developed markets of Europe. So when we think about that particular driver of loss in the book, we tend to think about it more from a North America standpoint that we tend to think about it from an international standpoint.

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

Okay. No, that's good news. The second question -- sorry, let me try that again. You mentioned, I think, that ceding commissions for the Reinsurance segments are leveling off, and Mark noted ceding commission is actually helping to some extent the insurance acquisition expense ratio. Should we expect that benefit in insurance to level off? Or can we see different dynamics in these 2 segments?

Juan Carlos Andrade
President, CEO & Director

Yes. So maybe a broad comment on that, and then I'll ask my colleagues to jump in as well. So I think on the comment about the market appearing to settle down on cedes. I think that is right. And I think that is what we saw during the quarter, primarily as our cedents are thinking about the same things that we're all thinking about, the risk environment, inflation, et cetera, et cetera. So from that perspective, we see the discipline that's going on with the primary companies, and we definitely see less of an uptick, if you will, on cede commissions.

With regard to the insurance, I think that's largely a function of mix and where we saw the growth come in, in the quarter. I think you will see some fluctuations quarter-to-quarter, but we happen to see some very good growth in particular lines of business where we do get decent cede commissions from that, and that's really where you saw the offset. That's also been a little bit of a trend. If you look at the last 2 or 3 quarters, we've also been benefiting from that essentially. And that's part of our portfolio management to essentially drive our lines of business within the primary insurance business to areas where we think we can get better profitability.

But let me ask maybe Jim Williamson to add a little bit of color on what he's seeing in the market from a cede commission standpoint.

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Sure. Yes, Meyer, this is Jim. Look, I think one of the comments that Juan made, obviously, that you're picking up on is this idea that ceding commissions are starting in the process of leveling off. We certainly saw that in the U.S. and some of our international treaty casualty businesses, pro rata ceding commissions are beginning to level, and that's certainly a very good thing for us. But I would say that, that's a broad comment.

When you get under the covers of that, there are clearly still areas of the market where ceding commissions are increasing. And so the mix component, particularly when you relate it back to what you expect out of our insurance business is going to be very important. The other thing that is critical, and it's something that I commented on last quarter is, this also varies deal by deal. And there's no question that there are still cedents who are achieving some increases in those commissions. Oftentimes, that makes sense on the reinsurance side for us, and we'll write it. Sometimes it doesn't and we won't write it. But I think that's also a factor you have to keep in mind when looking at the trajectory in our Insurance division.

Operator

The next question comes from Josh Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Yes. And [indiscernible] little bit probably misrepresenting things. If we go back to the last few years, obviously, the marketplace and you have decided that property re is less attractive and property cat is less attractive than it used to be. But it's gotten to the point where it seems like a number of your competitors are pulling out, making an opportunity.

At the same time in your prepared remarks, you spoke about moving away from frequency risk. And I don't want to give away the secret sauce. But where do you get paid in property cat effectively? And what has to happen for this market to be attractive again instead of the market where largely you're cautious about putting capital to work?

Juan Carlos Andrade
President, CEO & Director

Yes. Thanks, Josh. And I think you broke up a little bit, so let me make sure that I answered the question that you're asking, if I -- this is one, by the way. Look, I think if you go back to the strategy that we have been articulating, a big part of that is really sustainability of earnings going forward. And a big component for us to be able to accomplish that is really to reduce the volatility in our earnings, which basically has come from property cat and the impacts of climate change and the storms that have been out there basically since 2017.

And as you heard from my prepared remarks this morning, they certainly haven't abated, right? I mean whether you believe Munich Re's number of $34 billion or Aon's at $39 billion, it's still been a pretty active first half of the year. And then if you look at our cat losses for the first half of the year, and they're certainly underweight based on our market share and what we've been able to accomplish. So that part of it, we feel pretty good about the execution of the strategy.

The other thing that I said in my prepared remarks is that we're basically getting much better pricing, much better risk-adjusted returns for total exposure -- for less exposure in total, right? And I think that becomes pretty relevant to us. The other point that I would make, Josh, is we have articulated a trading range that we feel very good about for property cat, thinking about earnings at risk and capital at risk. And our objective is to trade within that range.

As we trade within that range, we're also looking at the environment that's out there for us, and we're positioning our book to be further away from lost higher layers. Given the shortage of capacity that's out there in the market, we're actually getting a pretty good rate online on those layers that are further away from loss. So for us, that's been a very good economic trade.

But let me ask Jim Williamson to add a little bit more color on that for you.

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Yes. Josh, thanks for the question. It's Jim. In terms of the first part of your question on where we think we get paid, that is a little bit of the secret sauce, as you say, but to give you some broad comments and echoing a little bit of what Juan said, I think at the lower end of a lot of programs, what we saw is the impact of climate change, in particular, is just creating a frequency of smaller cat losses that make those, in our view, very unattractive risk to be taking. And so we've, for the most part, moved away completely from what we consider more frequency layers, call it, 1 and 3, 1 and 4 attachment type point.

And then at the very top of programs, that's where there's obviously significant capital market competition as well as the opportunity for real excess volatility, particularly if you start looking at things like aggregate structures, et cetera. So it's really between those 2 points where we see excellent opportunities that we've been able to [secure on]. And in some cases, that includes growing with our core clients.

And then to the second part of your question on what needs to happen for our approach to change. Juan obviously laid out the idea that we've articulated the trading arrangement that we're comfortable with for the long term. That's very important. We are in a very targeted way given the hardening that we've seen in the market, deploying additional capacity with our best clients. But again, that's very targeted. I would say that in many places in our portfolio, we're perfectly happy getting paid more for the same or, in many cases, less risk, and I think that's very accretive, and that's been a major strategy.

But then the last thing I would just sort of remind us all about is the idea that the reason the market is hardening is because people are being very thoughtful about deploying capacity. And so when we get asked the question of, well, why not deploy more capacity into what is a really good market? You just have to remember, the reason the market is really good is because people are not deploying a lot more capacity into it. And so we're thoughtful about that dynamic.

Joshua David Shanker
BofA Securities, Research Division

And this is going to be a bit of a [pendency] question, I guess. But I mean 2006 is too much to ask for. But if pricing were at where it was in 2010, 2011, does that kind of market give you any incentives to reembrace volatility?

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Yes. Josh, it's Jim again. I'll just reiterate what we said, which is in a situation like that, we have articulated a trading range of volatility that we're willing to accept on an earnings at risk and a capital risk position. But that's a long-term strategy we're pursuing. We don't plan to change it.

And the other thing I would say is in a situation, the more dislocated property rates become, the more I'm getting paid for the exposure I'm already taking. That's more margin. And in many cases, and we've seen this in the more recent renewals, where we've taken capacity off the table, but total renewed premium increase. So not only are you getting more margin, you're getting more total premium for less exposure. We really like that trade.

Juan Carlos Andrade
President, CEO & Director

And I would build on that a little bit, Josh, by saying that if you go back and look at the trading range that we've put out there, there's flexibility in there, right, to the comments that both Jim and I just made. We have capacity, we have the dry powder. And it's just a question of the trade, right? If it's attractive for us on a deal-by-deal basis, we can deploy capacity. And as Jim said, we have for specific risks, but we will stay within that trading range. The key strategy for us is a broadly diversified company that can deliver sustainable earnings, right? And I think we got to keep that in mind and that's really what we're executing against.

Operator

The next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of me for you. First, one, I'm just curious, maybe get some updates on you with respect to your loss trend assumptions, obviously, a company that you're pretty familiar with increased your loss trend assumptions. And on that topic, too, if you've got a 7.1% rate, I know you said there are some other things that are happening here. What's your cushion right now rate versus where you think trend is running right now or could potentially be here soon?

Juan Carlos Andrade
President, CEO & Director

Yes, Brian, let me give you my thoughts on all of that. And look, I think first, it's important to remember that we have been consistently prudent in our loss pick selection process. And I think that's important to remember. As I've said in prior quarters, really starting in 2020, we deliberately strengthened our current accident year loss picks to reflect the heightened risk environment that we've been operating in. But the other important point is that we've also been consistently achieving pricing in excess of the assumptions that we built into those loss picks. And we haven't lowered our loss picks as we've talked about in prior calls.

So we're thoughtful about the environment, and we're thoughtful about how we manage through it. And frankly, this has been a prudent choice, and I'm glad we did it. In addition, if you think about back to the end of 2019, we have been watching and increasing, our loss trend assumptions also in reaction to supply chain disruptions, social inflation, general material inflation, and we responded very quickly to those signals. And those changes drive our pricing and our underwriting decisions. So this is something that we started early in '20, '21, '22, and we have a process where we very frequently throughout the year, revised those loss cost assumptions.

But despite the increase in those loss trend assumptions that I just articulated, our pricing performance continues to outpace that. And that's the case for both written and earned pricing, but it's also important to note that new business pricing also remains stronger than what we articulated for renewal pricing. So all of these things are important to keep in mind.

The other thing is that it's important to note the growth in exposures that's resulting from inflation, right, especially when you think about lines of business like general liability, workers' compensation and property, that also has a mitigating effect on loss cost because we're getting additional premium for that exposure. And so when you think about the exposure growth, our rate achievement, this increases the margin further in our favor in excess of current loss trends. And I think that's very important to keep in mind because it's all these things together.

And finally, the last comment I would make is that beyond rate, beyond exposure growth, you have all the things that I talked about in my prepared remarks today, but also in prior calls, things that we're doing from a portfolio management, including improving terms and conditions, higher deductibles, all of that, limits and attachments. All of that helps to sustain our underwriting margin.

And so from our perspective, the final thing I would tell you is that since we are fairly well diversified, and you just heard it in the cat discussion with Jim and I, we can actually shift our capital to where we see the best opportunity from a pricing and terms and conditions standpoint, and that is what we're doing. That's basically what's creating the margin that you're seeing from us quarter after quarter.

So again, I think it's a combination of the increased pricing, exposure growth and all the underwriting actions that we're taking, that are keeping us above the current loss trends.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then Mark, I'm just curious, looking at the investment portfolio, obviously, a big increase in fixed income investment income this quarter. How much of that kind of increase that we saw in the yield, do you think is directly related to the [VII] ? And can we expect a continued kind of big increases in your investment yields here?

Mark Kociancic
Executive VP & Group CFO

Well, it's difficult to say what the pace is. But clearly, we've got a tailwind behind us. And there's, I think, several factors pushing it higher. So we've got a new money yield that's well into the 4s in the portfolio. Roughly $3 billion of our fixed income portfolio is converting to cash through maturities and interest coupons over the next 12 months. And then you've got a run rate on operating cash flow, which is a little over $3 billion a year, annualized 12 months, I guess.

So if you take those factors into account, that's going to provide some sense on what the yield pickup is going forward. I think we also have some ability to extend duration as well and pick up a few points on that. So I see still a good trajectory on that. What's unclear is just how persistent the current rate environment is going to be.

Brian Robert Meredith
UBS Investment Bank, Research Division

Makes sense. One, I'm just curious, going back to my last question I was going to ask you. Are you willing to give us what you think trend is running right now?

Juan Carlos Andrade
President, CEO & Director

Look, I -- we don't really disclose our -- how we price. What I've articulated in the past, it's running mid to slightly above mid-single digits.

Operator

The next question comes from Mike ops from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

First question, look, you guys aren't the only company that's talking about reduced volatility and kind of trimming back on property cat and you're growing nicely in reinsurance on the casualty side. I guess, especially in light of Juan, your earlier comments and a pretty common comments on social inflation and Juan, you even said emerging risk. Can you just help us think about how -- what specific steps you're taking in reinsurance casualty to kind of mitigate any surprises on the negative side there? I don't think pricing is what we hear on the property cat side, on the casualty side and reinsurance and more risk there. So just help us think about how -- what you're doing specifically mitigating risk in the near term for that business?

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Yes, Mike, this is Jim Williamson. I'll really break that down into 2 things. The first is what our cedents are doing. And then the second is maybe a little repetitive around our loss pick process. But one of the things to keep in mind is most of the casualty growth we've been experiencing is through quota share participation alongside of our cedents. And so you really need to examine strategies that they're employing to stay ahead of loss trend and to ensure that current accident year picks can be sustained, particularly as you get into an environment where there's material inflation happening.

And so what I would emphasize for you and some of what we've already discussed is, we've seen obviously a significant and extended period of time where rates have been going up meaningfully. We're years, 3.5 years into a rate on rate on rate environment, and that is very meaningful. We've also seen really significant reunderwriting actions by many of our cedents. That's risk selection, that's attachment points, that's limits, that's terms and conditions. And that builds a significant amount of underlying margin into the treaties that we're writing.

And then obviously, in our own underwriting process, we're very thoughtful about which cedents we partner with. We're choosing them very carefully, and we price all of our deals from the ground up to ensure that there is strong margin in those deals. And that margin calculation that we're performing includes our forecast around what's going to happen with inflation, whether it's social or material. And as we indicated earlier, we were very quick to react to changing trends around inflation and all of that gets factored into our pricing. So I think that's really critical.

And then the second part of it obviously gets back to what Juan was discussing earlier, which is our loss pick process. We've been very, very prudent about strengthening loss picks early on in this cycle. We've obviously performed better than expected against those picks from a pricing perspective. And again, that's not reflecting all the underwriting I described as pricing has outperformed assumptions, but we haven't reacted too quickly to that price improvement by lowering our pick. So we're kind of going in with some very prudent loss picks. And it's really the combination of those 2 factors in our view, gives us the confidence we need to continue to sustain that casualty book.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Switching over to insurance, if I could. You've grown nicely in your specialty, casualty segment there. And it's not just this quarter. So it's been going for a while. So I guess, quickly, just to make sure there's nothing one-off in this quarter, which I assume there's not. But can you maybe drill down then a little bit more detail and kind of some of the specific sublines that are inside what you call your specialty, casualty?

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

Sure. Thanks for the question. This is Mike Karmilowicz. Yes, within specialty, casualty segment, it includes mainly GL, the driver, umbrella, excess and commercial auto are the main factors that drive most of that business. And again, similar to the comments you made on the primary side, we're seeing a lot of the investment and so forth and just the rate and return in a lot of areas around that. As you've seen with the overall rate we've gotten in the last 3.5 years, we continue to see a lot of upside and opportunity across that, again, being very selective and very cautious about managing limits and how we approach the market.

Juan Carlos Andrade
President, CEO & Director

Just to build on that, I don't think there was any particular one-offs in the quarter for that particular line of business. I think it was a pretty stable execution across all of that. The other things that we think about to are some of the specialty lines, like trade credit and political risk, M&A transactional liability, we saw some pretty good growth in there as well across the portfolio.

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

I think the one key thing for us ultimately is having a really well balanced and diversified portfolio across multiple segments and multiple geographies. And given the market share opportunity of a $900 billion market and where we stand today, we see considerable upside, and we're in a position of strength. So we are very optimistic about opportunity.

Operator

[Operator Instructions]. Our next question comes from Ryan Tunis from Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

Could you just talk a little bit on the IBNR provision for Ukraine, the assumptions that went into that, the type of range of outcomes around that? Is that a contemplation of a small number of potential claims or, I guess, a larger number of smaller ones? Just give us some feel for how that could potentially evolve.

Juan Carlos Andrade
President, CEO & Director

Yes, Ryan, this is Juan. Let me start, and then I'll ask Jim to give you a little bit more color. I think as we've talked about really from the beginning of the year, there's a lot of uncertainty to this event, obviously, from the perspective that the war still ongoing. You really can't get claims adjusters on the ground. And we have gotten less than a handful of notices at this point in time. But these estimates are based on essentially ground-up assessment similar to frankly what we did during COVID, cedent by cedent to really try to understand the exposure by different lines of business. And it really does present sort of the best estimate that we have at this point for the lines that we articulated.

But let me have Jim give you a bit more color on that.

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Yes. Sure, Ryan, it's Jim. And I think Juan hit on something very important, which is the comparison with the process we used during COVID, where we review each and every treaty that could be affected by what's happening in the Ukraine. We are in communication with our cedents, obviously, studying all other industry data as it becomes available. It's -- obviously, there's not a lot of information at this point, and there's a great deal of uncertainty.

But for -- in particular, the marine line, the political violence line and trade credit. We had enough information to make what we thought was a good estimate around potential loss exposure and that's where we made our selection for the second quarter. Obviously, as Juan indicated, we only have a small number of actual submitted losses. Those are all advisory losses. They don't include actual loss numbers. And so we'll continue to monitor and make adjustments if it becomes necessary.

Ryan James Tunis
Autonomous Research LLP

And then on the casualty, reinsurance side, casualty pro rata growth. Can you just help us understand, I guess, like the dynamic there? We had, I think, 4 quarters in a row where growth is above 50%, and now it's moderated some. What exactly was the story there? Did you add a bunch of new business last year and now it's just getting rate on that? Or -- yes, I'm just kind of trying to understand the dynamics there.

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Yes. Sure, Ryan. This is Jim again. The way I would describe it is, and it goes back to some comments that we've made a number of times around cedent selection. But that is one of the most fundamental aspects of how we conduct reinsurance underwriting is picking the right cedents to partner with, particularly when you're talking about a quota share structure.

And so as the casualty market began to dislocate, pricing improved, terms and conditions were changing, et cetera. We worked with what our view are the best underwriters in the industry, and we took meaningful positions on their treaties. And so a lot of that unfolded in 2020 and certainly in 2021.

And so as you achieve that, obviously, you now have a really, really strong position with an individual cedent, and you may choose to sustain that position versus necessarily increasing it year-over-year. And so some of the increase you'll get going forward on that particular cedent might be more in the form of just the growth of their own business, the growth of exposures, et cetera. So that is a major factor. However, even in addition to that, we continue to see some really nice opportunities in casualty on -- typically on a pro rata structure, and we're pursuing those opportunities, and we'll continue to do that.

Juan Carlos Andrade
President, CEO & Director

Brian, this is Juan. I would just jump in at the very end. If you look in the supplement, our growth in casualty pro rata has actually been quite good for the first half of this year. We're at about $1.2 billion compared to about $954 million last year about this time. And it's really what Jim has been articulating.

Operator

There are no more questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to Juan Andrade for any closing remarks.

Juan Carlos Andrade
President, CEO & Director

Great. Thank you all for the questions and a great discussion today. I'm very optimistic about our future opportunity as evidenced by our growing global team, our consistent performance and track record. It's an exciting time to be at Everest. And as we continue to accelerate our strategic ambitions, we're creating more opportunity for our investors, clients and employees around the world.

Thank you for your time and for your continued support of our company.

Operator
Conference has now concluded. Thank you for attending today's presentation. You may now disconnect.