Everest Re Group, Ltd. NYSE:RE

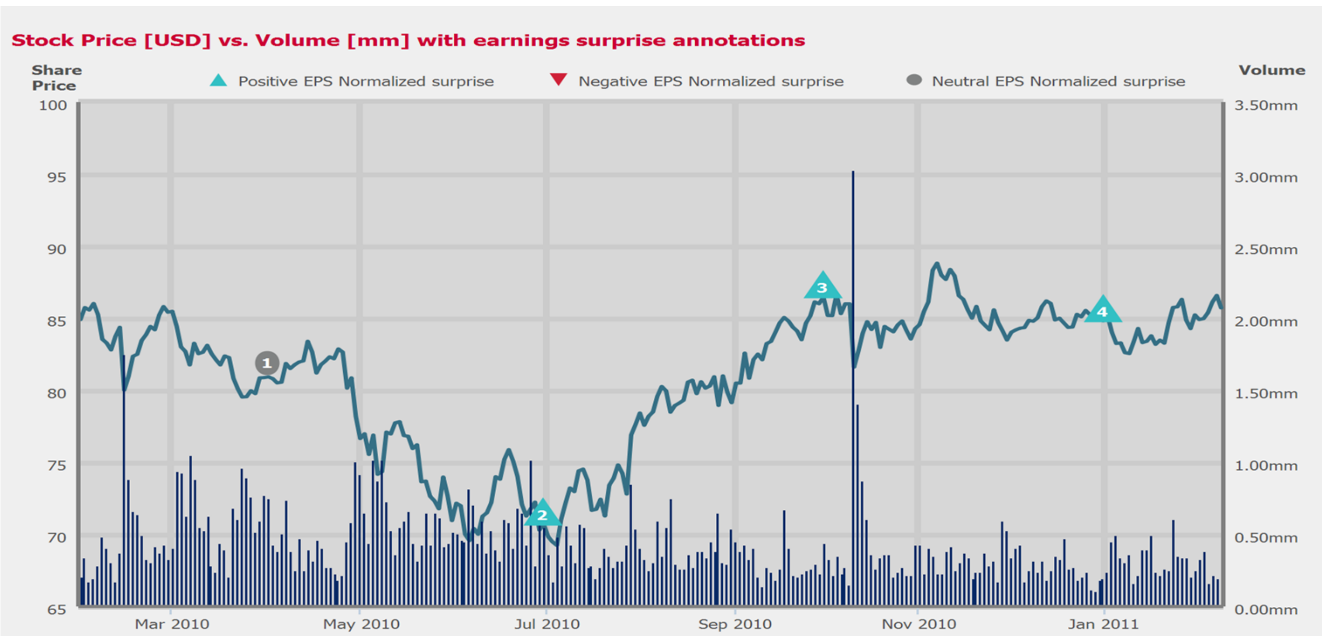
FQ1 2011 Earnings Call Transcripts

Thursday, April 28, 2011 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2011-			-FQ2 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(4.47)	(5.95)	NM	3.17	3.12	11.43
Revenue (mm)	1055.50	1011.45	(4.17 %)	1053.52	4327.18	4373.53

Currency: USD
Consensus as of Apr-28-2011 1:40 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2010	1.99	(1.25)	NM
FQ2 2010	2.79	3.18	13.98 %
FQ3 2010	2.65	2.67	0.75 %
FQ4 2010	2.94	4.70	59.86 %

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Call Participants

EXECUTIVES

Dominic James Addesso
President, CEO & Non-Independent Director

Elizabeth B. Farrell
Vice President, Investor Relations

Joseph Victor Taranto
Chairman of the Board

ANALYSTS

Brian Meredith
UBS

Greg Locraft
Morgan Stanley

Ian Gutterman
Adage Capital

Joshua Shanker
Deutsche Bank

Matthew Hammerman
J.P. Morgan

Steven Labbe
Langen McAlenney

Presentation

Operator

Good day, everyone. Welcome to the Everest Re Group Limited First Quarter 2011 Earnings Release Call. Today's conference is being recorded. At this time for opening remarks and introductions, I would like to turn the conference over to Ms. Beth Farrell, Vice President, Investor Relations. Please go ahead.

Elizabeth B. Farrell
Vice President, Investor Relations

Thank you, Veranda. Good morning and welcome to Everest Re Group's first quarter 2011 earnings conference call. With me today are Joe Taranto, the company's Chairman and Chief Executive Officer; and Dom Addesso, our Chief Financial Officer.

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

As you know, actual results could differ materially from current projections or expectations. Our SEC filings have 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. The story for this quarter was the disasters that occurred in Japan, New Zealand, and Australia. Our thoughts go to the thousands that have suffered from these catastrophes.

In addition to the human suffering, there has been billions of dollars of economic loss. Of course, Everest as a property catastrophe writer will participate in these losses. The magnitude of these losses certainly makes it very clear to our clients as to the value of the products that we sell. There is no question that there will be continued strong demand for the reinsurance industry support. The frequency and magnitude of these losses also makes it clear to reinsurers that this is a volatile and somewhat unpredictable business.

Reinsurers need to have business terms that reflect and justify the risk. Computer models can help in shaping these terms, but there will always be outcomes not contemplated by the models. Reinsurers will need to have sizable capital positions to deal with the volatility and must make sure that they can handle multiple loss scenarios. This dynamic leads me to the conclusion that reinsurance property catastrophe market will change. Not just for the companies that have had losses, but on a worldwide basis.

Reinsurance and insurance is there are many paying for the few, not just those that have had losses. Further fueling change will be model changes such as RMS, which increases estimated annual losses and needed prices.

Our strong capital base, excellent ratings and worldwide distribution continue to allow us to see business from all major ceding companies. My expectations are improves terms, probably more premium, and less P&L.

Now Everest, of course, writes much more than property catastrophe business and we are pleased that our other business performed well for the quarter. Our attritional underwriting profit and our investment income results were strong.

Our insurance operations, Everest National grew by 11.5% to $255 million. The growth was generated by our acquisition of Heartland, which generated $39 million of premium for the quarter.

Our transition continues as we integrate Heartland into the Everest family, reduce our participation and our C.V. Starr casualty book, continue to push for rate increases in California's workers comp and other casualty classes while maintaining our high quality book of DNO for financial institutions.

In the first quarter, we increased California workers comp rates by 15.5%. We expect to continue to get double-digit rate increases for the remainder of the year in California comps.

General casualty rate increases have been modest but we continue to press. The combined ratio for all of Everest National was 102, which is a much improved from 2010. I expect the trends to an underwriting profit to continue as we continue to transition currently underway.

Worldwide reinsurance increased by 2% to $810 million in the quarter. On our U.S. casualty rate reinsurance book, we continue to stay only with core clients as we wait to see improvements in underlying insurance rates.

For our U.S. property book we are now entering the renewal season for Florida business. As I mentioned, between model changes and catastrophe losses I expect reinsurance terms and rates to firm.

Our U.S. specialty reinsurance book performed well for the quarter, led by profitable results in our accident and health division specifically profit on our medical excess of loss book.

For international business including Bermuda, premiums were level for 2010. In the quarter, we repurchased $37.6 million of shares. We will continue to maintain flexibility and not predetermined future purchases. Whereas we continue to have substantial excess capital, win season coupled with increased opportunities will likely differ purchases for the next few months.

Now Dom will take you through the financials.

Dominic James Addesso
President, CEO & Non-Independent Director

Thank you, Joe, and good morning. As reported, net income per share in the first quarter was a loss of $5.81. Given that, my commentary this morning we'll begin with the outline of the catastrophe losses during the quarter which is - as you know are driving the reported results.

In total, these losses pre-tax amounted to $665 million. By event, the breakdown is as follows. Japan, $400 million. New Zealand, $200 million, Australian flood at $55 million and cyclone Yasi at 10 million.

As with past events is a combination of methods for estimating the exposure. Each of these methods use as an industry estimate as an overlay, until such time as client reporting matures.

These methods include, modeled output for wind and only and underwriter estimates or market share data. The Australian flood and cyclone Yasi events were based on client reports and underwriter estimates, were as Japan and New Zealand are still heavily dependent on modeled output. Net of tax and reinstatement premiums, the cap losses for this quarter totaled approximately $531 million or $9.77 per share.

Turning to the balance results for the quarter, excluding the cat losses, operating income for the quarter net of tax and reinstatement premiums was $207 million, which was up slightly over the prior year.

This is comprise of the pre-tax GAAP underlying profit for the quarter of 150 million, which translates to an 88.3% combined ratio, and pre-tax investment income for the quarter of $179 million. The combined ratios for the quarter again excluding cat events and reinstatement premiums break down to 84 to an 84.7% for the reinsurance segment and 102.8% for the insurance operations.

The reinsurance operations were modestly better than last year. There were some improvements noted in the specialty segment, relating to the Green and ANH. Treated property and Bermuda attrition results were slightly worse than last year due to mix of business and higher loss picks due to softer pricing, nevertheless, still a very favorable outcome.

The international segment had improvement primarily due to rate increases in its markets. The insurance operations were worse than the results in last year's first quarter. However, it should be noted that by the end of last year they had risen to a higher combined ratio. Therefore it is more appropriate to compare this quarter to last year's full-year results, a 108.3 million on a year basis.

This year's first quarter of 102.8 reflects the significant and expected improvement as a result of the Heartland acquisitions, our increased range in total property, California rate increases and continued favorable results for the DML book of business. Overall for the Group premiums earned for the quarter was favorable at over 9% growth. Major drivers were reinstatement premium of $31 million in 2011 versus $17 million in 2010.

The acquisition of Heartland, which accounted for $39 million of earned premium, rate increases in international particularly areas recently exposed to cat losses and finally rate increases in California comp of approximately 15%.

Areas under pressure for growth continue to be Bermuda and U.S treaty casualty from continued soft market pressures as non-renewal of certain business continues. Overall, however, premium is up and exposure is down.

Other items of interest in the underwriting results include no prior period development, in fact a slight positive. Internal metrics on reserve adequacy are positive.

Commissions and other underwriting expenses are generally in line with prior periods, slightly higher in commission due to mix and other expenses are hired mainly due to timing.

Net investment income was up 10.7% to $178 million. This was due to income from partnership, which were up over 20 million from last year to $36.6 million. On the other hand, income from fixed maturities is down to $133 million from 145 million one year ago. The biggest factor there is the sale approximately $1 billion of municipal bonds along with increased investment in equity securities. Consequently, you see income from equities up to $11.9 million from 2.5 million.

In addition we continue to have a headwind of lower reinvestment rates. I should point out that of the 11.9 million of income from equities approximately 6.3 million is from our emerging market debt portfolio which is classified as equity because it is a mutual fund form. But the underlying investments are actually fixed income. You'll note on a balance sheet that these are classified as equity securities as available for sale at market value.

Finally, in the investment space, we had net realized gains of $12 million for the quarter, comprised of 30 million of losses in fixed maturities and 42 million in gains of gains in equities. The fixed income numbers are mainly a result of downsizing our municipal bond portfolio as mentioned previously. As of this date we do not anticipate further significant reductions in that portfolio.

Gains on equities are primarily a result of fair market value adjustments rather than any material sales of equity securities. Other items of interest were other expense essentially foreign-exchange losses of 3.4 million and net derivative gains of 7.5 million due to the rise in equity markets.

Other comprehensive income was $5.1 million comprised principally of an unrealized loss 24.5 million on securities carried at market value and a translation adjustment again due to net assets invested in foreign currencies of 28.8 million.

Cash flow from operations remained strong at $188 million for the quarter and finally book value ended the quarter at 5.9 billion or $109.07 per share. This was down from year-end primarily as a result of the net loss for the quarter plus dividends paid.

There was also $38 million of share repurchases during the quarter which, of course, was a slight positive to the per-share value that does reduce nominal equity. Our ratings by two of the major rating agencies were just recently affirmed and despite the declining capital we remained very well capitalized for growth as opportunities arise.

With that I will turn it back to Beth for Q&A.

Elizabeth B. Farrell
Vice President, Investor Relations
Veranda, we would like to open up the floor for questions now

Question and Answer

Operator

Thank you. (Operator Instructions) We will go first to Matthew Hammerman with J.P. Morgan.

Matthew Hammerman
J.P. Morgan

That was quicker than I thought. Good morning everybody. Couple questions, just, Dom, you touched a little bit on the underlying loss ratios. Could you just give a little bit more detail, I guess, on the reinsurance segment? Because I am trying to put it into context relative to kind of how you ran at the back half of the year? So the mix comment you made make sense relative to thinking about how this year could run versus full-year last year. But I was little surprised by the - I guess the pace.</TAG>

Dominic James Addesso
President, CEO & Non-Independent Director

Okay. Well, first of all, let me point out that there has been no change in our methodology for establishing our pick loss ratios. And just to remind everyone it is a combination of looking at our most recent reserve study, looking at our underwriter estimates meaning what they actually estimate per contract, what they price each contract act and then of course, we sum that that up within our systems and then finally looking at her plan numbers.

And what I can say is that, in most - in all major lines we have not - do not have a loss pick for the current period, which is lower than any of the underwriter, in fact, they are all higher than what the underwriter estimated kind of by account basis, so still very conservative from a loss pick point of view. So you have got that issue, which leads to the conclusion that - the fact - or the fact that it is primarily a result of mix of business. We also, too, should point out that a lot of the change in the year-over-year picks is coming out of our Latin America operation, which is not only - only again due to mix, but also the fact that they have strong lead increases over the past 12 months. So I think that kind of explains kind of the running rate on the pick loss ratio last year versus what we see going into the first quarter this year.

Matthew Hammerman
J.P. Morgan

Okay.

Elizabeth B. Farrell
Vice President, Investor Relations

Does that answer your question, Matt?

Matthew Hammerman
J.P. Morgan

Yeah, it does. And then is it a fair assumption to make in insurance that actually the crop insurance loss ratio is higher than the reported attritional loss ratio? In other words all that...

Dominic James Addesso
President, CEO & Non-Independent Director

I think most of expenses for the crop business were actually booked as a loss ratio if you will. So it does heighten the loss ratio that is coming from Heartland.

Matthew Hammerman
J.P. Morgan

Okay. I just wanted to make sure.

Dominic James Addesso
President, CEO & Non-Independent Director

But it's still very - but that's still very combined ratio.

Joseph Victor Taranto
Chairman of the Board

Yeah, good combined ratio.

Matthew Hammerman
J.P. Morgan

Yeah, absolutely.

Joseph Victor Taranto
Chairman of the Board

But you are right, it does drive up the overall loss ratio.

Matthew Hammerman
J.P. Morgan

Well, I just wanted to because that was an asking to some extent then the extent to which that - the loss ratio piece if normalize for the increase in pick last - in 4Q actually improved?

Joseph Victor Taranto
Chairman of the Board

Is that a question or a statement?

Matthew Hammerman
J.P. Morgan

No, no statement, I guess statement, but if you do not disagree will that imply there? The other question I had is, just on how tactical you are thinking about using ERP ML this year. If recollection is correct, you have got a decent size quarter share portfolio in Florida. Obviously, you are one of the major retro riders or viewed as one of the leading markets there. And then we obviously have traditional XOL opportunities that you're looking at. So I guess, are you thinking about reallocating, I guess, between those product opportunities how you are using this renewal season and what would drive those changes if you actually need that?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, I think you heard how we are viewing the market generally going forward which is it is in need of change certainly driven by the recent loss activity and how we see that change as being needed in an across-the-board fashion affecting companies in areas not just that have been hit by losses, but even those that haven't certainly would include Florida. So any contracts that come up, be it retro, Florida, XOL, U.S. or otherwise, we clearly are going to look for improvements.

And if we get the expected improvements then we will allocate as much P&L to those areas if not more. But if we do not get expected improvements, then we will be allocating less P&L to those improvements and a lot of these comparisons, Matt, will come down to ROE and just where things are going. Florida, is coming up in about a month. Discussions are really just beginning. There really isn't anything of substance to report at this stage.

It will really take another month for all of that to sort itself out. And we'll see where the collective market goes. We have been a big rider there. I'd imagine we would continue to be. The split between quarter share and XOL will in part depend on where XOL rates go and also in part depending where underlying Florida insurance rates will go. Retro business, most of that won't renew until January. I do expect retro rates will be going out.

We had a few I guess in April and those were selectively going for some good increased rates over what they had gone at the year prior. I suspect there will be some shortage of retro capacity at 1/1. And again to the degree that we do lessen is some underlying area that gives us the ability to do more on the retro side. So to be determined is the answer. It depends on the change and the terms and the conditions in all of those areas as they present themselves. And Florida will know in a month or so. Retro, we won't know completely for another six to eight months.

And July also brings a lot international business up for renewal so that will also be a very, very important date. But it it's a good question and the answer is, PML is precious to us and we intend it to go where the best terms offer themselves.

Matthew Hammerman
J.P. Morgan

That's fair. Do you think it's a stretch when we think about Florida that you might actually have more PML to put towards retro, NXL writing because they may not actually buy - they might not actually be able to afford more in absolute premium dollars. So in other words, they will pay the same for less?

Dominic James Addesso
President, CEO & Non-Independent Director

That's not a stretch that could come to pass. Again, we'll know better at least in the Florida situation in a little over a month. We may end up with less PML in Florida. I don't really think we'll end up with more PML in Florida. I wouldn't mind ending up with better terms and less PML in Florida. And to the degree we do less, it certainly does mean that when it comes to retro in January, we can if we choose do more again if rates and terms present themselves to our liking. To be determined, Matt. We'll see how it all shakes out.

Matthew Hammerman
J.P. Morgan

Okay. Much appreciated. Thanks.

Operator

We will go next to Brian Meredith with UBS.

Dominic James Addesso
President, CEO & Non-Independent Director

Good morning, Brian.

Joseph Victor Taranto
Chairman of the Board

Hello.

Operator

I apologize. We'll take Josh Shanker with Deutsche Bank.

Joshua Shanker
Deutsche Bank

Good morning, everyone.</TAG>

Dominic James Addesso
President, CEO & Non-Independent Director

Good morning, Josh.

Joshua Shanker
Deutsche Bank

In terms of where the market stands right now, which is more adequately price, U.S. based reinsurance for cat or international?

Dominic James Addesso
President, CEO & Non-Independent Director

That's kind of an impossible question to answer. I mean, I think a lot of people might look at Chile with its 50% rate increases and say that is looking pretty good to some people in Japan may look at Japan with its 30 and 40% recent rate increases and some people may look to Australia and their expectations of what's coming in July and say we think that's going to look pretty good.

And now you have to compare that to Florida which historically I think the last few years has looked better although we have new RMS models that may be say, maybe it looked better but it wasn't as good as perhaps perceived. We have earthquakes business in California in the U.S. that I think was a little thinner than the Florida rates. Although recently I have seen some uptick in the last month in the quick rates for California so, I will tell you, a lot of it depends. Beauty is in the eyes of the beholder depends on the model that you are using, depends on the country that you are talking about. And so I think it's difficult to be that simplistic about the U.S. versus international.

Joshua Shanker
Deutsche Bank

When you mention you saw some rate increases in California, are they significant increases they don't have..?

Dominic James Addesso
President, CEO & Non-Independent Director

That was one contract. It wasn't much of a data point but it was a 25% rate increase on a reinsurance deal for peer quake. Again, it is only one data point. We will see what happens in that market.

Joshua Shanker
Deutsche Bank

Thank you very much.

Operator

And we will go next to Brian Meredith with UBS.

Brian Meredith
UBS

Thanks. Can you hear me?</TAG>

Dominic James Addesso
President, CEO & Non-Independent Director

Yes.

Brian Meredith
UBS

All right, good. First question is, Joe, can you give us a sense of what RMS 11 is going to mean for your PMLs?

Joseph Victor Taranto
Chairman of the Board

We chatted about that. I am going to ask you to throw it over to Dom, let Dom answer that one.

Dominic James Addesso
President, CEO & Non-Independent Director

We are primarily, we are in AIR shock, but of course, we do get accounts that are presented to us on the basis of RMS. And when that occurs and we do rate those covers certainly we are using to RMS PML is in our accumulations. We don't anticipate that in our peak zones that it will have much of an impact. AAR did most of their revisions or the revisions to their models last year, so that is where the large impact to our PML's would come from.

Nevertheless, certainly we have a view that it will have some impact on buying behavior ultimately. Whether that evidence is itself at June 1 or not were later in the year, we will see.

Brian Meredith
UBS

That brings another interesting question, Joe, maybe you can answer this. When we think about the business out there I mean there are certain reinsurers I guess they use AAR and certain RMS '11. Are there fairly large differences between the two and will that create some challenges in actually getting renewals done?

Joseph Victor Taranto
Chairman of the Board

There are always differences between models and it depends on which territory that you are looking at and one of the things you have to be very, very careful and mindful of is you cannot become so model depended that you are losing sight of underwriting judgment, other metrics that you should be using, client relationships, your total PML in a particular area. So those are all factors.

And certainly, one company versus another might have a more favorable view of one zone versus another but that could be because of auto differentials. It could because of underwriting judgment. It could be because of other metrics. It could be because of how full their buckets are relative to those particular zones. So all of those things I factor.

Dominic James Addesso
President, CEO & Non-Independent Director

The bottom line, it has always been the case maybe a little bit more extreme with some of these recent changes but some people look at both, they have to infuse a little common sense. We don't look at either as it is the gospel. The science has only come so far. That is why you get different answers on different models. But, we work it out with the client.

Brian Meredith
UBS

Got you. And then last question. Joe, can you talk a little bit about casualty pricing, what you see happening out there and also on your subject premium based. You know, what is happening with respect to casualty pricing? We are hearing that there is some stability from some carriers out there?

Dominic James Addesso
President, CEO & Non-Independent Director

Yeah, I think there's a little bit more stability. Some of that is probably triggered by what has happened on the property side and an increased desire for the companies and the underwriters to hold the line.

I do not see many areas where rates are going up with maybe the exception of California comp where we reported what increases we have been getting. But most general casualty lines certainly in the U.S. it has been black. It has been looked at as a victory that is not going down. I do not regard as a victory. I think rates need to go up. I am now forecasting that to happen anytime soon although I certainly hope that it does. Our reinsurance book, as I mentioned, we are down to core clients and it has been a shrinking book for three to four years now and frankly continues to shrink.

On the insurance side for us, you know, one of the bigger casualty components was C.V. Starr and that is declining, a big decline from last year, some planned decline. And again that's a response to the market to some degree. We don't see the umbrella in the excess of lost market being what it needs to be. So I really don't have bullish statements to give you on the casualty side. I think we need to see rates start to go up at a meaningful way but I don't know when and if that will happen.

Brian Meredith
UBS

Okay. One other quick one. Property retro. Are you seeing any increase in demand or do you expect any increase demand going in the wind season and would you all be opportunistic and ready in that business?

Dominic James Addesso
President, CEO & Non-Independent Director

We will take a look at anything someone would like us to take a look at. We did see a couple of one-offs after Japan with some people worry that they had exhausted what protection they had. And, indeed, at first, I think they're looking for last year's rates and then they started to realize those don't exist anymore. The price of oil has gone up. We may see some of that going into win season and certainly we will take a look at it. If they'd like us to.

Brian Meredith
UBS

Okay. Thanks.

Operator

We will go next to Steve Labbe with Langen McAlenney.

Steven Labbe
Langen McAlenney

Good morning. I was hoping if you could quantify the approximate size of what your Florida quarter share book, your aggregate property cat, well book and retro book are today?</TAG>

Dominic James Addesso
President, CEO & Non-Independent Director

Modified in terms of premium or?

Steven Labbe
Langen McAlenney

Yes, sir.

Dominic James Addesso
President, CEO & Non-Independent Director

Well, our total cat book is around at 100 million of premium. Give me a second here.

Joseph Victor Taranto
Chairman of the Board

That is -

Dominic James Addesso
President, CEO & Non-Independent Director

That's everything.

Joseph Victor Taranto
Chairman of the Board

That is premium collected for cat, for the cat exposure. Some contracts we have to dissect what is the cat exposure, but that is on a worldwide basis, about a 800 million.

Steven Labbe
Langen McAlenney

Okay, great. And can you discuss some of the sensitivities of your lost estimates for Japan and New Zealand may be give some of the factors that would contribute to have to having to increase the estimates?

Joseph Victor Taranto
Chairman of the Board

Share. Well, on Japan we are currently reserved at the $25 million industry loss estimate and which is essentially the midpoint of the AAR model. AAR is currently the most conservative of the three main models. And we feel at this point it's more appropriate to think about the potential loss at various industry levels. So for example, if the industry loss goes from 25 to $30 billion, our loss on an after-tax basis would let say increased by approximately $50 million. If it went to 35 billion, a similar amount. Beyond that, it becomes really quite spectacle, I am I am not thinking about the loss in terms of anything above that.

And we think it's somewhat unrealistic. But nevertheless as you begin to move up the loss would then flatten out as it moves higher because do get exhausted On the other hand, the 25 billion again is a conservative number. Similarly it could go down. The industry loss went down by 5 billion, we would probably see a similar amount on the downside of 50 million on an after-tax basis.

So these losses as near as we can tell from the industry and certainly our experience has been that there hasn't been much in the way of client reports. We did hear one this morning, the client side that would suggest that this 25 billion industry number is conservative so we are quite hopeful that it will hold. Does that give you some context, Steve?

Steven Labbe
Langen McAlenney

That's great. Thank you. And New Zealand.

Joseph Victor Taranto
Chairman of the Board

New Zealand we are, we actually went to the high end of that number. We are closer to $12 billion industry number there. We have modeled out for us all the client reports but we are leaning on number reflects something very, very close to the $12 billion industry event. So to the extent that it comes enough that we will see savings.

Steven Labbe
Langen McAlenney

Great. Thanks for the answers.

Operator

We'll go next to Greg Locraft with Morgan Stanley.

Greg Locraft
Morgan Stanley

Thanks. I wanted to just - I do not know Dominic if you in the past, you have supplied us with sort of your thoughts on excess capital in terms of the dollar amounts. Any updated view?</TAG>

Dominic James Addesso
President, CEO & Non-Independent Director

Sure. I don't know it is much of an update but we certainly talked about that. And will recall more than likely. We still view ourselves as having excess capital base. Our rating agencies appear to have a very similar view. As I mentioned ratings were affirmed. Having said all that we seek to maintain a level of capital well in excess of that requires by the rating agencies.

Our current view is that we have a sufficient amount of excess capital available for market opportunities some of which we talked about earlier and which appeared to be better than they have, better today than they have in some time, but at least that is the forecast, but we'll see. Therefore in the short-term, as Joe mentioned in his scripts talk, we will in the short-term our repurchase program until such time we see if the market opportunities to emerge and then in the meantime, it permits us to preserve our capital for the upcoming win season and then perceptual resumption of share repurchases. Does that help you at all?

Greg Locraft
Morgan Stanley

I was - I didn't know if you in your prepared remarks said it, but is there in the past, I think you've talked about a dollar amount of what you see as excess. You have that updated figure?

Dominic James Addesso
President, CEO & Non-Independent Director

And we tended to view our excess capital in terms of dollar of approximately $500 million.

Greg Locraft
Morgan Stanley

$500 million. Perfect, thanks. The other is I just wanted to think about the P&L impact of higher pricing into your results. So take the 800 million cat book that you talked about earlier, just let's say much as a rates are up 10 or let's say five, pick a number, and they can be my number not yours. How do I think about modeling that particular book going forward from income statement prospective?

Joseph Victor Taranto
Chairman of the Board

Well, I guess I'll wait in here Dom, I guess what I would say is in terms of the math on the premium, that's pretty simple to do, I would like to think that we could accomplish increases of that nature without P&Ls or exposures going up, in fact, maybe even going down a bit. So, all of the actual premium if you will under that scenario would just flow into earnings and if there was some diminishment in expected losses, keeping in mind expected losses not actual losses, that's a different story, then that might further add to growth in future profits.

Greg Locraft
Morgan Stanley

Okay. That's very helpful. So it all flows through and there would not be a reason why you take your picks higher necessarily in that, it really depends on the business. Broadband and it turns?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, yeah, it depends on the mix. It depends on the model output, depends on the underwriter estimate of accounts. But generally, we would not expect any dramatic movement in expected loss ratio and Cat business.

Greg Locraft
Morgan Stanley

Excellent, okay, great. And then the last one is you actually in response to an earlier question, you mentioned - and I wanted to make sure I heard correctly because it was definitely a data point that was impressive. California quake, you did a deal, up 25 on price in? Was that the...

Joseph Victor Taranto
Chairman of the Board

No, the deal was not consummated, but that was the pricing that was being put forth, not by - frankly by other reinsurers. And yes, it was up from a year earlier. One deal, I don't Greg I wouldn't, as I said it one data point and I wouldn't suggest - I don't want you to overreact to one deal. But yeah, I think there is and there should be a reaction around the world in light of what's happened in the last 18 months. Four the most expensive earthquakes in the last 30 years and the last year and a half seems like it deserves a reaction to me and I think some reinsurers including us will be reacting to it.

Greg Locraft
Morgan Stanley

Okay. I'd love more data points, if you care to comment...

Dominic James Addesso
President, CEO & Non-Independent Director

That's all I have for you right now. I told you, I have a little bit on retro. You're going to have to wait on Florida, you are going to have to wait on retro, and one on one, but that's the way of it.

Greg Locraft
Morgan Stanley

I got it. Out of curiosity, on the of 25 that you are mentioning why was that you're not consummated and then could you perhaps give us a little looks as to how the terms and conditions moved underneath that up to 25 rate?

Dominic James Addesso
President, CEO & Non-Independent Director

No. I do not really want to get into it because it is one specific account and I think we have a policy, that we do not really want to comment on one deal.

Greg Locraft
Morgan Stanley

Okay. Okay. Great. Thanks a lot for taking the questions, guys.

Dominic James Addesso
President, CEO & Non-Independent Director

Thank you.

Operator

We will take a follow-up question from Matthew Hammerman with JP Morgan.

Matthew Hammerman
J.P. Morgan

Hi. The question I had was the only leverage ratio that I think is out of whack because of the cat losses is really the reserve to surplus ratio. So I was just curious if you had a sense of what kind of the net cat impact is at this point. Obviously I don't think you pay to anything out for the 1Q events, but I'm not sure kind of how the events of last year look - you know, what's left from last year?

Dominic James Addesso
President, CEO & Non-Independent Director

Are you looking at cat payments in the first quarter, is that what you are looking for?

Matthew Hammerman
J.P. Morgan

Well, actually I was kind of looking for what the outstanding reserve balances on the cat events of ‘09 - ‘10 and ‘11.

Dominic James Addesso
President, CEO & Non-Independent Director

Matt, the number that I have in my memory bank would be on Chile. I believe we paid out approximately 80% of the Chile losses, on Latin American contracts. So that’s not 80% of the full 400 that we had up last year, but it is going to be close. I think it will probably be close to 60% of that number, but I do not have an exact number on that. I’m just giving you some ranges. But for the contracts that we had with accounts in Chile, we have paid about 80% of those losses already. And that, certainly some of the contracts we write out of London and other parts of the organization would take longer to pay out as they are further up the food chain. But that would give you some sense of that.

Matthew Hammerman
J.P. Morgan

And then New Zealand one?

Dominic James Addesso
President, CEO & Non-Independent Director

You can really see it in the cash flow and look at - obviously look at our paid loss number which generally pretty consistent, ex-cat events. And so first numbers are blipped up and that, of course, is reflected in the cash flow from operations.

Matthew Hammerman
J.P. Morgan

Okay. And - so I can either back into it that way or do have a similar stat in terms of percentage paid on New Zealand won?

Dominic James Addesso
President, CEO & Non-Independent Director

I do not have that.

Matthew Hammerman
J.P. Morgan

Okay. That is fine. You are basically saying, if I go back to paid losses for kind of 1Q of last year and annualize it and then I take the delta between what has been realized over the subsequent four quarters I’m going to get pretty close, right?

Dominic James Addesso
President, CEO & Non-Independent Director

I think so, Matt. I have to look at that myself to really see if that’s going to work for you in terms of what you are trying to do. But I can’t do that right now.

Matthew Hammerman
J.P. Morgan

Okay. That’s fair. This is helpful. Thank you.

Operator

We will go next to Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital

Hi, guys. Two follow-ups from earlier. First, Dom, I think you said 31 million of reinstatement. Can you tell me what segments that was in, was it mostly international, was there some in other segments as well?</TAG>

Dominic James Addesso
President, CEO & Non-Independent Director

No.

Joseph Victor Taranto
Chairman of the Board

No, it's combination...

Dominic James Addesso
President, CEO & Non-Independent Director

It was not any number of areas. And it's not really material in any one particular segments. Let me say, if we can, U.S. reinsurance, 16 million, international 9 million, Bermuda 5 million.

Ian Gutterman
Adage Capital

Got it. Great. Okay. And were there any other large cat like losses in the quarter from the individual risk events, like Griffin and Canada and the oil sands and things like that?

Dominic James Addesso
President, CEO & Non-Independent Director

We'll have some exposure to Griffin. That's contained, it's not got material to us and that's contained within our expected loss picks.

Ian Gutterman
Adage Capital

It is. Perfect. Thank you. And just a follow up on a couple other questions from earlier. I guess on Florida, your quarter share clients, obviously you are going to be getting price increases aside from the - of the recent activity. Just from the dynamic in the state to approve some primary increase that will flow through to you. And do you think you can get more rate on top of that? And if so how does that show up? Is that just going to be getting better seeding commission terms or is there something else?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, you are right. That the state has been allowing recently some rate increases which have been flowing through. And we do believe the new regime and the new governor will continue to support continued rate increase, which is beneficial to the companies and the market overall. In terms of what we do with our deals in any of the particulars, really that's to be determined. As I said we really just starting our discussions with our clients. We will factor into our assessment insurance rates and forecasts for the next year. But it's far too early to comment on any particular changes.

Ian Gutterman
Adage Capital

Is your sense that most of your clients in Florida, the Florida only companies would be using RMS because that was deferred to by the state?

Dominic James Addesso
President, CEO & Non-Independent Director

I think a lot of them do use RMS. But the sense that I'm getting is the state is not having them move to the latest version of RMS for this renewal season. And so I guess that in terms of the amount of buying they have to do - they might be more influenced by the older model now. Now the flipside of it is, is people assessing that, especially reinsurers if they are using RMS you would think they would be using the newer model. But there is a lot going on. But that is the dynamic. I think a lot of them do use RMS but the department will allow them to use the old version for what they need to do to comply with the department rules.

Ian Gutterman
Adage Capital

Okay. I guess what I was thinking about to the extent you're using AAR and your clients are using RMS and eventually will have to adopt version 11 and my guess, I don't know specifically your clients now see a lot of those for the only companies moved away from the coast and moved inland because that looked more attractive. Now that starts to look worse to them but you guys, it doesn't look worse as your quarter share reinsurer. And also there is a strange conflict of you adapt what your client says that they think they now have more risk and you say, while we don't really think you have more risk. How does that - is a confusing conversation?

Dominic James Addesso
President, CEO & Non-Independent Director

You are right. There is going to be a lot of interesting debates precipitated by all of these changes. You are absolutely right.

Joseph Victor Taranto
Chairman of the Board

Also keep in mind that - again, how we look at the business from a pricing point of view and from a risk point of view is not solely dependent on the models and even though there are differences on the surface between AIR and RMS, some of it also depends on the kinds of how we parameterize the model. So what inputs we use into AIR have some influence on how we view pricing and risk.

Ian Gutterman
Adage Capital

Okay. Great. And then my last one on Japan, the 400 million, can you give me even a ballpark of how much CBI component is in there and how concerned I should be if the fears on CBI getting worse. I have seen stubs of tens of billions of CBI losses. If it ends up being a bigger deal, how exposed are you to that both on the reinsurance and on the retro side?

Joseph Victor Taranto
Chairman of the Board

Some of this, of course, is dependent upon what the modeling firms have built into their numbers and it's my understanding that there really isn't much BI built into those numbers.

Ian Gutterman
Adage Capital

Right.

Joseph Victor Taranto
Chairman of the Board

And our BI exposure perhaps could come from other than Japanese clients. But we certainly think that that's contained within the expected loss numbers.

Ian Gutterman
Adage Capital

Okay. Would that be more of a risk on a retro side, because those would be non-Japanese clients probably? And you just have less visibility into the exposures?

Joseph Victor Taranto
Chairman of the Board

We do not do so.

Ian Gutterman
Adage Capital

Okay. Fair enough. Great. Thank you guys.

Elizabeth B. Farrell
Vice President, Investor Relations

Miranda, I believe that concludes our conference?

Operator

Certainly. Thank you, ladies and gentlemen. That does conclude today's conference call. We would like to thank you all for your participation.

Dominic James Addesso
President, CEO & Non-Independent Director

Thank you.

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