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Earnings Call

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Call Participants

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Presentation

Operator

Good day, and thank you for standing by. Welcome to the Everest Fourth Quarter 2021 Earnings Call. [Operator Instructions] I would now like to hand the call off to Jon Levenson with Everest.

Jonathan Levenson

Good morning, and welcome to the Everest Re Group Limited 2021 Fourth Quarter and Year-End Earnings Conference Call. The Everest executives leading today's call are Juan Andrade, President and Chief Executive Officer; Mark Kociancic, Executive Vice President and Chief Financial Officer.

We are also joined by other members of the Everest management team. Before we begin, I will 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 turn the call over to Juan Andrade.

Juan Carlos Andrade
President, CEO & Director

Thank you, Jon. Good morning, everyone, and thank you for joining us today. 2021 was a pivotal year of profitable growth and continued momentum for Everest. We finished the year with a strong quarter and achieved record growth in both our franchises, drove expanding margins and solid underwriting profitability and generated exceptional investment income. This led to a $1.4 billion in net income for the year and a milestone 14.7% total shareholder return against the 13% target.

These results reflect the strong earnings power of our diversified businesses to create value for our shareholders even in years of elevated natural catastrophes. With a more profitable book of business coming out of a well-executed January 1 reinsurance renewal season and expanding global value proposition, a strong balance sheet and exceptional talent, we entered 2022 well positioned to deliver on our strategic objectives. Before I provide details about our results, I want to acknowledge the contributions of my global colleagues this year. 2021 was challenging for our industry. Despite the continued global pandemic and significant climate-driven catastrophes, we advanced our strategic priorities with disciplined execution and delivered first-class products and solutions to our customers.

In 2021, we accelerated many of our strategic priorities, building on a disciplined foundation that drives greater profitability and less volatility in our business. We made key investments in the people, technology and infrastructure that are optimizing all 3 of our core earnings drivers, reinsurance, insurance and investments for superior performance.

First, our underwriting franchises. We continue to build on our market-leading position in global P&C reinsurance as a preferred provider with diverse product offerings and relevant client-driven solutions. Our insurance franchise is scaling and diversifying, increasing margins and driving relevance in more markets through a focused underwriting and distribution strategy and an expanding footprint.

And the market is responding with increased demand for our products, evidenced by strong growth in both franchises and consecutive quarterly top line records in insurance this year. Focused execution in 2021 led to a solid underwriting outcome that is particularly meaningful in the context of a $130 billion catastrophe.

Our continued diversification, volatility reduction and disciplined underwriting are yielding profitable returns. A recent example is our success executing a clearly defined and measured strategy in the January 1 renewal. Everest adhered to a focused plan. This resulted in our current portfolio being stronger, more diversified and more profitable.

Our commitment to operational excellence and an entrepreneurial model that keeps us agile and responsive to our clients, ready to pivot with rapidly changing market conditions is a big part of how we accomplish this. To this end, we made material inroads in 2021 on our path to becoming a digitally enabled organization through superior data, analytics and technology that are bringing more depth and dimension to how we manage, segment and model risk with greater speed and precision.

With regard to investments, performance was excellent in 2021 driven by our prudent approach to optimizing a well-balanced, high credit quality investment portfolio that supports our franchises and helps to drive meaningful returns. Reflecting on adverse accomplishments in the past year, I am proud of the diverse, inclusive and purpose-driven culture that supports everything we do.

Our continued emphasis of ESG as a core pillar of our long-term strategy was most recently reflected by our decision to become a signatory to the UN principles for sustainable insurance. Finally, talent drives our performance. Everest is proud to be an importer of choice in our industry. And throughout the year, we attracted and advanced exceptional talent across the global organization who will help us to drive its next chapter of profitable growth and bring our offering to more customers around the globe.

Let's turn to our financial results for the fourth quarter and the full year 2021. Beginning with our group results. In the quarter, we grew gross written premiums by 25%. Growth was broad and diversified across both segments. In the fourth quarter, we generated $228 million in underwriting profit with a combined ratio of 91.9% and then an attritional combined ratio of 87.4% reflecting continued margin expansion in our insurance division.

Turning to the full year 2021. Everest grew gross written premiums 25%, setting a new record for our company of over $13 billion. Net written premiums grew 26% year-over-year. The group combined ratio was 97.8%, including $1.1 billion in catastrophe losses, which is less than 1% of the industry's estimated $130 billion loss in 2021, reflecting our disciplined underwriting and reduced volatility.

The group attritional combined ratio was 87.6% for the year. These results demonstrate the progress against our strategic priorities to continue to optimize the portfolio to drive margin, prudently manage expenses and enhance operational efficiencies.

Let's turn to our Reinsurance results. Our Reinsurance division had a strong fourth quarter and finished the year solidly with gross written premium exceeding $9 billion, a 25% increase over 2020. Gross written premium growth in the fourth quarter was excellent, up 26%. This growth was broad-based and supported by underlying rate increases and economic growth, increased opportunities with our core trading partners, targeted growth on profitable property and casualty programs.

The division generated $176 million of underwriting profit in the fourth quarter, with a combined ratio of 91.5%. The attritional combined ratio for the quarter was 86.4% reflecting the continued performance of our portfolio, the successful execution of our strategy to participate in growth and margin improvement in the casualty market and ongoing expense discipline. We ended 2021 with a 98.1% combined ratio and an attritional combined ratio of 86.3%.

These results reflect our progress in reshaping our risk profile to achieve superior returns. We continue to actively diversify our Reinsurance portfolio with an improved balance of property and casualty exposures. We are disciplined and focused about getting paid appropriately for risk. We made meaningful progress advancing these priorities through the January 1, 2022 renewal period that started with a clear and focused strategy with 3 key objectives: one, continue reducing volatility in our overall book by decreasing cat exposure and growing less volatile non-catastrophe loans; two, optimize our property portfolio to maximize returns; and three, focus capacity with top underwriters.

The breadth of Everest preferred market position built over decades and strong trading relationships combined with our size and capital gave us a distinct advantage. Our team was precise about where we deploy capital and focused on improving the economics in our property book. We maintained discipline where pricing did not meet our return thresholds.

Rate increases were favorable across most property and casualty lines with financial lines and loss effective property lines seeing the highest uptick. For example, loss-affected programs in Europe, particularly in Germany. Many catastrophe programs were restructured to ensure participation on higher layers.

Despite how late the property renewals came together, there was ample capacity available for most seedings outside of retro and loss-impacted aggregate covers. While the casualty market was competitive with upward pressure on ceding commissions, continued underlying rate improvements helped drive better overall economics, notably in casualty quota share.

We successfully achieved targeted growth in our regional Continental European portfolio across P&C lines as well as our U.K. excess of loss portfolio. Within property, we reduced our exposure to property retro, lower-margin property pro rata business and working catastrophe layers, while at the same time growing targeted clients at excellent terms.

Overall, we meaningfully reduced catastrophe loss potential in our book and achieved gross P&L reductions in key peak zones. We have a more profitable and higher margin book. I'm proud of the team's discipline during a dynamic renewal season.

Now a few comments about Mt. Logan. Mt. Logan plays an important role in our long-term growth aspirations and is uniquely positioned given its excellent alignment with the Everest property portfolio. We have a strong pipeline of prospective investors. We remain optimistic about the prospects for Logan, and we continue investing in the platform with new products customized to meet investors' objectives.

During the year, we also strengthened our leadership bench and key promotions and hires in North America, Latin America and elsewhere internationally and in Mt. Logan. These talent additions and promotions were part of a successful effort to optimize and streamline our structure, which is already benefiting the organization.

In summary, our Reinsurance business is better positioned today to support strong underwriting income results, capitalize on market opportunities and further expand our market leadership.

Now let's turn to the Insurance division. Insurance had an excellent fourth quarter, delivering both top line growth and bottom line profitability, supported by continued strong underlying performance and progress and the long-term targets outlined in our strategic plan.

Insurance growth in the fourth quarter was 21%. We achieved over $1 billion in gross written premium for the third consecutive quarter. This resulted in a record $4 billion in gross written premiums for the year were up 24% over 2020. The growth in the fourth quarter was influenced by a few factors: first, we continue to benefit from increasing exposures as the economy rebounds; second, strong renewal retention, favorable market conditions and double-digit rate increases across all of our target classes, excluding workers' compensation, where rates are slightly down.

Third, sales execution. We deepened and diversified our distribution network, and we sharpened our execution with a quantitative and metrics-based approach to sales. As a result, we improved our hit ratios by 24% and 32% year-over-year in our retail and wholesale channels, respectively.

Fourth, strong new business growth in both retail and wholesale channels, primarily in casualty, professional and transactional liability, along with accident and health. Partially offsetting the growth was targeted portfolio repositioning in our U.S. property and catastrophe exposed business where we continue to reduce overall volatility and improve margins.

This includes ongoing portfolio management related to monoline workers' compensation, which is now only about 7% of global gross written premiums. We delivered another strong underwriting result with a quarterly combined ratio of 92.8% and an underwriting profit of $52 million. Our underlying performance was also outstanding. The 90.4% attritional combined ratio is a 3.4 point improvement compared to the fourth quarter of 2020 and an almost 8-point improvement since 2019.

Our loss ratio, commission ratio and operating expense ratios all improved, including a 3.8 point loss ratio improvement for the fourth quarter. We are committed to sustaining this positive momentum, and we are sharpening our focus in 2 key areas to achieve it. First is proactive cycle management. We are building a diversified business. As I mentioned, we continue to see growth in a number of our specialty lines, and we will grow more profitable classes of business over time.

Our diversified product offering and relevance in both the E&S and retail channels allow us to seize new opportunities in the evolving market. Second is increased efficiency and scale. For instance, we're increasing efficiency by enhancing our claims process to improve productivity, speed and accuracy, resulting in better claims outcomes and higher customer satisfaction.

An important part of this are continued investment in advanced tools such as robotic process automation, artificial intelligence and natural language processing, which creates greater operational efficiencies and delivers better insights, enabling fact-based decisions and best-in-class customer experiences.

As to scale, we also expanded our footprint in Latin America, Asia and Europe, where we see opportunity to profitably grow across the $800 billion plus global commercial P&C industry. We have a thoughtful expansion plan outside of North America that brings together existing capabilities, expertise and knowledge to a broader and more global customer base in places where we can grow profitably.

Building our company for the future is a marathon. It's not a sprint. I'm very encouraged by the ambition, the tenacity and the hard work this team consistently demonstrates. I'm proud of our results, but we remain hyper focused on daily execution as we position our company for the future, an agile global company focused on providing exceptional service and risk solutions to our clients, a company that is respected for its influence and impact in the marketplace that follows a strong risk management plan that delivers consistent and leading returns with a world-class global team united by the passion to win.

Now I will turn it over to Mark Kociancic to take us through the numbers in more detail.

Mark Kociancic
Group Chief Financial Officer

Thank you, Juan, and good morning, everyone. Everest continued to make excellent progress executing its strategic plan during the quarter and the full year 2021 as we remain well on track to achieve our Investor Day strategic plan objectives, notably the full year 13% or greater total shareholder return, or TSR.

I'll spend some time providing additional context on the underlying assumptions. But first, let's review the fourth quarter and full year results. For the fourth quarter of 2021, Everest reported gross written premium of $3.4 billion, representing 25% growth over the same quarter a year ago.

By segment, Reinsurance grew 26% to $2.4 billion and Insurance once again reported gross written premium of $1 billion in the quarter, representing 21% year-over-year growth. For the full year 2021, Everest achieved $13 billion in total gross written premium, $9 billion for reinsurance and $4 billion for insurance. Turning to net income. For the fourth quarter of 2021, Everest delivered strong net income of $431 million, equal to $10.94 per diluted share and an annualized return on equity of 17.7%.

On an operating income basis, the numbers are $359 million for the quarter and $9.12 per diluted share, with an annualized operating return on equity of 14.8%. For the full year 2021, net income was $1.38 billion, equal to $34.62 per diluted share and a full year return on equity of 14.6%.

Operating income for the year was $1.15 billion or $28.97 per diluted share equal to an operating ROE of 12.2%. Book value per share ended the year at $258.21, an increase of 8.7% for the year adjusted for dividends. The TSR for the year stands at 14.7%, which as Juan noted, exceeds our 2023 full year target and reflects the robust and well-diversified earnings power of Everest.

Let me focus on several key financial highlights of the fourth quarter. We incurred $125 million of pretax cat losses, net of reinsurance and reinstatement premiums in the quarter with the primary event being the Canadian crop loss in the amount of $80 million. We have profitably underwritten the Canadian crop market for a number of years and view this as an attractive long-term business.

The crop loss event is one of the largest property casualty losses in Canadian history of nearly $6 billion with the underlying drought conditions unseen for 60 years. The other significant pretax cat loss, net of Reinsurance and reinstatement of premiums in the quarter was from the quad-state tornadoes which took place in December, $45 million in total, $30 million in our Reinsurance segment and $15 million in Insurance. We also note that there was not any unfavorable prior period or prior year development in the cat losses this quarter.

For 2022, Everest expects a cat load of less than 6% in line with our 6% to 7% Investor Day guidance and driven by a combination of reduced volatility from our cat portfolio and expanding into other lines with higher risk-adjusted margin. Consistent with prior quarters, we remain confident in Everest's overall reserve position.

Starting with Juan's arrival at Everest, we've continued to strengthen and improve our reserve processes in a number of ways: In the establishment of prudent initial loss picks, a balanced and timely schedule during the year to review our reserves and taking decisive action when needed. All of this is driven by improved processes and analysis tools to allow our actuaries to focus on interpreting the numbers and making the most informed decisions.

Our COVID-19 incurred loss provision remains consistent at $511 million total incurred. This number is unchanged since year-end 2020. The majority of this reserve remains as IBNR, and we remain confident in our overall COVID reserve position.

We reconfirm our strategic plan assumption for combined ratio with the range of 91% to 93% for the group for the full year 2022. Our overall 2021 combined ratio stood at 97.8%, driven by cat losses ending the year at 10.9 points. The disciplined cat book underwriting achieved at January 1 is meaningful and will reduce volatility on an expected basis, thus further insulating Everest from outsized cat losses.

Our attritional combined ratio stood at 87.6%, broadly stable versus 2020. Everest continues to have a very competitive expense ratio 5.7% for the quarter and 5.6% for the year, below our working assumption of approximately 6% for the group, as shared in our strategic plan.

Specific to this quarter, other underwriting expenses in reinsurance reflects some nonrecurring charges, and I expect the reinsurance expense ratio to remain under 3% for 2022. Investment income for the quarter was $205 million, ending an exceptional year with $1.16 billion in pretax net investment income.

The Everest investment portfolio continues to be refined within the tolerance as detailed in our June Investor Day with a focus on asset liability duration matching, strong credit quality and liquidity and improving capital efficiency, all while enhancing yield for our core portfolio, which are assets backing reserves.

For our total return portfolio, which is private equity focused, we see good opportunities for continued investment. And within our core portfolio, we have nearly 20% of our fixed income investments and floating rate investments, which affords Everest good insulation from a rising interest rate environment.

We also continue to run duration at 3.2 years, somewhat shorter than our liability duration of approximately 4 years. Specific to our limited partnership investments, the excellent contribution during 2021 is from a well-diversified portfolio, and we see continued room to add to this asset class under our strategic plan targets.

Finally, to conclude on investments, we reaffirm our 2022 expected return on invested assets in the range of 2.75% to 3.25%. For the full year 2021, Everest generated an exceptional $3.8 billion in operating cash flow, driven by strong premium growth. This cash flow and our $1 billion debt offering fueled our investment portfolio, which ended the year at $29.7 billion of assets under management.

The Everest balance sheet ended 2021 in an excellent position. Shareholders' equity was $10.1 billion at year-end 2021, and we continue to optimize our capital structure with the $1 billion senior notes offering completed in early October. At a 3.125% coupon, this 31-year offering further lowers our overall cost of capital, while expanding our underwriting firepower. Our financial leverage at year-end was 20.2%, and we see that ratio within our 15% to 20% strategic plan assumption range by the end of 2023.

As part of our capital management strategy, we also repurchased $25 million in Everest common shares during the quarter, bringing the full year total to $225 million. For the full year, our net income tax rate was 10.8%, and we see 11% to 12% as a good estimate for our net income tax rate in 2022.

2021 validated the progress Everest has made towards our 2023 strategic plan objectives. Our underwriting businesses are vibrant and profitable, our investment portfolio is well optimized for the current market environment, and our balance sheet and franchise provide us with the optionality to grow into classes and territories where we see the highest returns.

Everest is well positioned to seize market opportunities and navigate the current macroeconomic environment. And with that, I'll now turn it back to Jon.

Jonathan Levenson
Thanks, Mark. Operator, we are now ready to open the line for questions. [Operator Instructions].

Question and Answer

Operator

[Operator Instructions] And the first question comes from Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Good quarter and great outlook, and I'm seeing 25 million of shares repurchased in 4Q. And I'm trying to figure out what the ROI on incremental capital use is for Insurance versus Reinsurance versus deploying into your stock at this price.

Mark Kociancic
Group Chief Financial Officer

Josh, it's Mark. And thanks for the compliments on the results. So we're -- let me split this into a few buckets. So when we allocate capital, we're certainly privileging organic growth and different opportunities compete each -- against each other, whether it's the capital management aspect or expanding the franchises in Reinsurance or Insurance.

And so our TSR objective of at least 13% is really the cornerstone on a risk-adjusted basis when we look at these different opportunities. And so we have ample capital to deploy in both businesses and also for capital management actions like share buybacks, we're unconstrained in that aspect. And so I think in 2022, you'll see this philosophy continued.

Joshua David Shanker
BofA Securities, Research Division

Are all options almost equal these prices? Or like is there a difference in where you'd prefer to put capital if you can only make 1 choice?

Mark Kociancic
Group Chief Financial Officer

Well, we definitely privilege the organic growth because I think that expands the franchise and we're going to create more long-term value for shareholders. So I would definitely put that 1. Within that, you've got 3 buckets: insurance, reinsurance and investments, which are equally competing for capital and for opportunities. I think the share buybacks are certainly on the table at the same time, and we're looking at it opportunistically during the year.

Joshua David Shanker
BofA Securities, Research Division

And in that regard, in Reinsurance with the renewals and trending, what's happening with ceding commissions? How is it impacting the returns in that business? And do you have an outlook for where that's going to impact numbers in the future?

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

Sure. Josh, this is Jim Williamson. Yes, just to give you a little bit of perspective, particularly around what we saw in 1/1, we've been pursuing in a very deliberate fashion a strategy of growing with our core cedents particularly in casualty lines and particularly on a pro rata basis. And we've had a great deal of success through 1/1 with that strategy and feel really good about the results that we're seeing.

Look, there's no question that there is a significant change taking place in the underlying insurance markets. Margins are expanding very quickly. We see rate well ahead of loss trend. Limits are being reduced. Coverage grants are being narrowed. And so all of those things add up to accreting margin for our cedents and then for us as we participate in those programs.

And as you can imagine, there's going to be some trade around that with respect to ceding commissions. And so we have seen over the last couple of years, and we certainly saw a little bit at 1/1, some upward pressure on ceding commissions in the casualty market. We think they remain reasonable. For the most part, there were definitely programs that were beyond reasonable, and we don't participate in those programs, but mostly reasonable.

And I think the bottom line is the margin that's being created, plus a little extra cedes still results in improving economics for us. On the property side, it was much more flat. As you can imagine, as people are seeking capacity and seeking to fill out their programs, we do see some improving economics in our book there, and the ceding commissions are not moving the same way they are in casualty.

Operator

And your next question comes from the line of Michael Phillips with Morgan Stanley.

Michael Phillips

Kind of related question on Reinsurance from the last 1 on ceding commission side. I guess on that -- and Jimmy, you just mentioned a bit of the profitability on the cedents. I guess I want to take that to as the cedents kind of hold on to more risk and increase their own retentions, what does that mean for your outlook for -- how much of that was influencing growth this quarter?

And what does that mean for your outlook for reinsurance growth in the year ahead?

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

Sure, Mike. This is Jim again. To provide a little bit of perspective in terms of the fourth quarter growth rate for casualty, both on a pro rata and XOL basis, we achieved record levels of written premium at what we view as very attractive margins. Those lines were essentially our fastest growing lines in the quarter.

So I think that's an important fact. And look, at the end of the day, there are definitely cedents who think about how much of their own business they want to see to their reinsurers, particularly in the pro rata lines. And we did see around the margins, some movement away from pro rata structures, people shifting into XOL.

However, 1 area that we focus very closely on is cedent selection. And what we're looking for when we choose to partner with a cedent -- with 1 of our core cedents in particular, are folks that consistently manage their reinsurance placements. And so we're trying to avoid cedents who are shifting quarter-to-quarter in terms of their participation. And we saw a lot of consistency among our cedents.

I think the other piece that we benefit from, given the strength of our franchise and our local trading relationships is even in areas where maybe the total value of the session came down. There were areas where we were able to increase share and so sustain our revenue stream from our core clients. So all in all, I think a very successful fourth quarter and a very successful 1/1 from that perspective.

Michael Phillips

Okay, maybe a little higher-level question, maybe an industry question, I guess, as well. We've seen recently a lot of activity in the Florida market where some pretty big players are pulling out of the market.

And one, I'm curious what you think that might mean for the industry. What we think that we think that means for maybe the next year or 2 for the industry and maybe even specifically any implications for your own business in Mt. Logan?

Juan Carlos Andrade
President, CEO & Director

Yes, Mike. So this is Juan Andrade, and I'll start. Look, I think certainly, what you saw take place in the industry in 1/1 and really in the latter part of the fourth quarter was, frankly, a lot of companies catching up on what we've been doing really over the last couple of years, which is looking at the volatility in their book of business and making trade-offs and decisions on that.

And again, this is something that we're ahead of the curve, as you've seen in our numbers, as you've seen in our calls and the dialogue that we've had. Look, the reality is that pricing in property cat has improved some, but it hasn't improved meaningfully enough to be able to justify and pay for the catastrophe exposure that we see that is really being driven by climate change.

And so that has proven underwriters to be, I think, a lot more prudent, particularly in an environment like Florida and Southeast wind in general. So I think the issue there becomes more of a public policy issue going forward about capacity, the ability to insure. There's public policy questions with regard to zoning, with regard to construction, to essentially how we deal with a problem that we all have as a society that is related to the warming of the seas, rising sea levels, et cetera. But I would invite Jim also to add maybe some commentary on that.

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

Yes, Mike, this is Jim. I'll just add a little bit more detail. I think 1 of the things that we clearly saw during the 1/1 renewal was some meaningful dislocation in the retro market.

And our expectation is that will play through into the Florida renewals in a very meaningful way. And so I do think there's going to be challenges as those renewals come up over the summer. And I think we are reasonably bullish that, that could result in some significant rate increases, changes to programs, et cetera. That could present opportunity for us in a very selective way.

Over time, we've rightsized our Florida or Southeast wind portfolio. We are taking a level of risk that we're very comfortable with. And coming out of 1/1, we do have dry powder that we can deploy selectively when we see great opportunities.

And so if the sorts of trends that we're discussing here and the implication of your question come to pass and there's a lot of dislocation in the Florida market, we might use it as an opportunity to selectively and in a very targeted fashion, pursue some incremental opportunity at great returns.

Michael Phillips

Congrats on the quarter.

Juan Carlos Andrade
President, CEO & Director

Thanks, Mike.

Operator

Your next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, you guys provided a 6% cat load guidance for '22, which is at the low end of the target you laid out at Investor Day. So I'm assuming that this implies that there's some mix shift going on as you discussed to towards casualty in a way from some property cat-related businesses really probably within your Reinsurance business.

So -- how do we think about this mix shift impacting the underlying margin and particularly the underlying loss ratio in reinsurance because I know you reaffirmed your overall guidance for 2022. But if the cat load is lower, does that mean the underlying margin itself or the underlying combined ratio is a little bit higher due to the mix shift going on?

Juan Carlos Andrade

President, CEO & Director

Yes, Elyse, this is Juan, and thank you for the question. So let me break it up in a couple of points, and then I'll ask Mark Kociancic to jump in as well. With regard to the guidance that Mark gave on the GAAP loss ratio, he said less than 6%. And that's basically related to a lot of the derisking actions that I spoke to in my prepared remarks earlier in this call.

The reality is we have meaningfully reduced catastrophe loss potential in our book. We've achieved PML reductions in key peak zones, and we've improved our overall portfolio economics. Catastrophe limits deployed have been reduced with a favorable reduction in expected average annual loss. So that is the key driver of the cat loss ratio coming down from our perspective.

The other part of that is the fact that we are diversifying the book into non-cat lines of business. But as far as we're concerned, the margin that we expect to generate from the Reinsurance division if anything, will improve in 2022 because of the actions that we have taken. But I'll invite Mark to add some additional color.

Mark Kociancic
Group Chief Financial Officer

Elyse. Not too much more to add to Juan's comments because I think he was quite complete, but we're definitely seeing somewhat of a mix shift between the growth of cat and the growth of other non-cat lines. We're firmly in the 91% to 93%. I think we have pretty good confidence on that going forward.

So I don't expect that to impact the underlying profitability on the reinsurance side very much. And on a risk-adjusted basis, I think this makes the most sense, given where we are with market opportunities.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my follow-up question on S&P is in the process of collecting comments on its revised capital model that it's looking to put out there. I'm just hoping to get some comments on how this could impact Everest? I know since you guys have the U.S. based, I think that, that would impact you less than some of the Bermuda peers. But if you could just give us a sense of how you're thinking through the impact of the capital model on Everest.

Mark Kociancic
Group Chief Financial Officer

Yes, it's Mark again, Elyse. So we're watching this as it develops. There's only been kind of high-level proposals that have been shared with the industry, and we've obviously been very engaged in terms of direct discussion and industry discussions on it.

I really don't see that much of an impact based on what we know today. S&P is definitely extending their timetable for industry feedback, and we'll provide, I think, more detailed proposals thereafter. I think the biggest thing, and you've highlighted it in your question is really the debt issuance capabilities of Bermuda regulated companies.

And it's an important factor to distinguish that Everest has a U.S. holdco that issues -- has issued our debt in the past, and we expect it to continue to be the main issuing legal entity for Everest going forward. That is within a regulatory domicile of the U.S. as opposed to Bermuda. So it should be unaffected. And therefore, we would avoid some of the concerns that have been elevated with that aspect.

The other parts that they've come out with, loss development factor charges that are somewhat higher with corresponding diversification benefits, we'll see how that impacts the industry. As long as they're based on sound economics, I think we'll be fine.

The cat loss adjustments that they're making into a broader time scale, 200 -- 1 in 200 to 1 in 500 years, I think makes a lot of sense. And we're very careful on tail risk nonetheless. So I think we'll be fine there.

The last piece is really more on the investment side. We've got some comments to make there, but we've got a broadly diversified portfolio that's high credit quality. So not too concerned, but S&P is very well respected and they have a big impact on the industry. So you're going to see, I'm sure many companies comment on these proposals as time goes on. But for us, I think it's -- we don't expect it to be very impactful.

Operator

Your next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of ones for you here. First, Mark, I'm just curious, as an outsider, what's the best way for us to evaluate your excess capital position? I mean, I look at your operating leverage is moving up and that makes sense given the reductions in your PMLs and kind of move it more towards insurance.

But -- how should we think about that? Maybe should we continue to think about that operating leverage moving up?

Mark Kociancic
Group Chief Financial Officer

Well, we're in an excess capital position. You know that we had the 2 debt raises, and I think we gave you pretty good guidance on the Investor Day in terms of our growth ambitions. And so if we're able to execute the strategic plan, I think we're going to be in good shape in terms of funding it.

But -- we do have flexibility to grow more rapidly, as you saw last year, particularly in Reinsurance, where you saw approximately a 25% growth rate print, and we gave per annum guidance of 8% to 12%. So -- there are times where we can really seize what the market gives us. And then similarly on Insurance, I think we're getting very strong growth there, last year, well over 20%. And I think we've got a very good trajectory this year.

I think that level of growth is probably the primary factor on how the excess capital develops in conjunction with the overall profitability of the group. So now we're in a, I think, a very good situation with excess capital. So no constraints on growing the group.

And then we look at how the profitability evolves as we take into account future capital management actions, whether we're talking about buybacks or funding more organic growth. I did mention last year, I said it might have even been in Q4 in 2020 that I did see a lot of potential to improve the efficiency of the capital allocation in the group, and you're getting to this point on operating leverage.

There's probably some more that we can achieve and still be very capital efficient, and that's really kind of in all 3 buckets investments and the 2 divisions as well. So there is a bit more efficiency on that aspect that I would expect us to achieve in 2022. Thereafter, you're really talking about optimizing, but I like our position as it stands right now.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then second question, just on the 13% TSR that you guys have laid out. What does that contemplate with respect to the interest rate environment? We obviously have interest rates that have moved up subsequent to when you laid that out, and that's an important part, obviously, of your TSR here because it's unrealized gains and losses on your book value. So how should we think about that?

Mark Kociancic
Group Chief Financial Officer

When we set up the plan last year, we took the base forecast for forward curves on interest rates, and that served as the underlying assumption, primarily in the investment portfolio. And so I've reaffirmed, for example, the investment returns. It's a factor that we have to manage in the execution of the plan, so whether it's underwriting or investments, and we're fine with whatever direction it goes. Obviously, if rates are rising, it's -- I think we got some more tailwind behind us.

But it's one of the reasons when we went through the definition of the TSR that we excluded the volatility that comes from unrealized gains and losses on the fixed income portfolio. And so that is where we expect not to be -- we're creating real economic value despite some of the macroeconomic volatility that can come from rates. And so that's why we set the PSR up the way it is.

Operator

Next question comes from the line of Ryan Tunis with Autonomous Research.

Ryan Tunis

A question for Juan. So you gave us the targets at Investor Day and since then, interest rates have gone in our favor. You've lowered your cat load, you're exceeding the TSR goals even in a tough 2021 cat year.

ROE on a normalized basis looks in excess of 13% too. So could you just give us some context on why you're having to revisit those targets?

Juan Carlos Andrade
President, CEO & Director

Yes, Ryan. Thanks for the question. And thank you for recognizing the accomplishments too, by the way. Look, what we said at Investor Day back in June, is that 13% essentially was the floor. And what we actually said is greater than 13%. Now obviously, we can't predict the future, but what we are very much focused on are the drivers and aligning those drivers to be able to drive that 13% or better from that standpoint.

We had a good start in 2021 with being able to do that. And we're very focused with the actions that we've been talking about on this call on the underwriting of the cat portfolio, some of the actions that we continue to take on the insurance side to improve the profitability of the book to seek profitable growth. And all of that is aimed for leading returns, right? That's really the focus on here. And so again, I go back to what we said, is we'd like to achieve at least a 13% TSR over that period of time, and we're off to a good start.

Ryan Tunis

And then I guess just on the loss ratio of Reinsurance. Obviously there's a reserve charge a year ago. And yes, I guess it seems somewhat prudent to be -- to reserve with a level of conservatism in 2021.

Is there some aspect of 2022 that is potentially maybe less of a margin of conservatism that you might need that could give us a little bit more confidence in the loss ratio improvement relative to this year?

Juan Carlos Andrade
President, CEO & Director

Yes. So let me start, and then I'll ask Jim Williamson to add more color. So look, I think we have been prudent in setting our loss fix. I think we have been prudent in how we analyze the reserves, the process that we put in place. We've got a lot more insight and more granularity into the data and to the numbers to allow us to react.

So I feel pretty good about that. When you look at the external environment, there's obviously things that as an industry we all keep an eye on, right? You definitely keep an eye on social inflation in the 2020, 2021 period we definitely saw a drop in dominancy and a slowdown in the courts.

I'm not sure we have seen the courts completely open back up full efficiency at this point in time. So you do keep an eye on some of the social inflation factors that are there, particularly as you're writing long-tail lines. So that's an important component of that. The other component that you keep an eye on is real inflation, right?

Material inflation, supply chain disruptions, all of these kinds of things and the impact that, that could have on trend. So from our perspective, what we have done is, we certainly have adapted our loss trend selects for 2021, 2022 to make sure that we are continuing to select good and loss picks given all those macroeconomic factors that are there.

But in addition to that, we have continued to do a number of actions on the portfolio to ensure that the business that we're putting on the books meets our margin standards, and is very profitable, right? So you have heard from me, you have heard from Jim earlier in the discussion, some of the approach that we took throughout 2021 that we took through the 1/1 renewal season that Mike Karmilowicz and his team has done also on the insurance side. So that ongoing portfolio management that is just good underwriting is a key hallmark of all of this to ensure that we can meet the targets that we've set out.

But with that, let me ask Jim to talk specifically about the loss ratio and reinsurance.

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

Yes. Sure, Ryan. This is Jim. I'll just add a little bit more detail to give you a sense of the discussion we're having each quarter as we look at our loss picks.

As you can imagine, we set those picks on the basis of assumptions around rate change as well assumptions around loss costs. And as Juan indicated amply in his comments, it's really that loss cost uncertainty given the risk environment we're in, that gives us pause around how quickly to react to good news on the other side of the equation, on the rate side and the underwriting actions that our cedents are taking.

And what we have seen consistently quarter-over-quarter is the rate component of that equation has come in better than we've expected, better than we planned for. We also believe that the underwriting actions and the re-underwriting and the segmentation and all the work our cedents are doing is ahead of our expectations.

And so what we're looking for is the emergence of proof in our loss costs as those lines mature, particularly on the longer tail lines that would allow us to begin reflecting that good news. And it's still very early. I know, obviously, we all want to see it emerge, but when we talk long tail, it does take years. I would say there are indications that would suggest we're seeing some of that.

And I think certainly, my expectation is that we'll begin to see some improvement in the underlying attritional loss ratio for Reinsurance on the casualty side as a result of that. And then certainly, the underwriting actions we've taken on property, particularly what we did at 1/1. I mean all of those things ladder up to improving economics, which show up primarily obviously in the cat loss ratio, but I think will also benefit our attritional loss ratio on property.

So lot of good momentum, but we do have to be very prudent in terms of the time line on when we recognize these things.

Operator

And your next question comes from Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I guess maybe tagging on to Ryan's last question and to Elyse's question earlier. So you ended 2021 with a consolidated reported combined ratio of just under 98 and 11% cat load. You're targeting a 6% cat load for '22. So that essentially already gets you to that 91% to 93% combined ratio target range.

So I guess my question is why wouldn't we see further improvement or see that target move down from 91% to 93%, unless you see some headwinds coming on the other side.

Juan Carlos Andrade
President, CEO & Director

But let me start with that. I don't think we see any specific headwinds other than what we've already discussed sort of in the macro environment, right?

And we are essentially working our book of business, working or underwriting, working essentially all the levers that we have to be able to meet and exceed on all those targets. And you clearly saw that in 2021 with a 14.7% on the total shareholder return.

But we are doing, I think, a very good job in shaping this book of business to drive very sustainable results over time. And a key component of that is what we've done on the catastrophe portfolio over the last 2 years. You saw the benefit of that in 2021. You saw the actions that we have been describing that we took at 1/1/22. And I think all of that is a positive.

So I'm not necessarily seeing any headwind per se other than just a macroeconomic environment, being able to react to that. But what we control, I feel pretty good about.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Right. Okay. And then I just want to further maybe clarify or try to better understand the guidance around the Reinsurance top line growth. So 8% to 12% CAGR through 2023 was the target. Clearly, you're well in excess of that as of the end of '21. Is what you're saying ultimately that look, the base is 8% to 12%, but if you see opportunistic -- or if you see the opportunity to grow beyond that, you'll take it? Or do you see maybe significant slowing over the next 2 years because market conditions potentially change?

Juan Carlos Andrade
President, CEO & Director

Yes, Yaron, let me give you maybe a broader perspective, and then I'll bring it down to reinsurance, and I'll ask Jim to jump in as well. Give you a few thoughts on growth and how we're looking at 2022.

Number one, I would start by saying that we do remain very comfortable with the growth targets that we set out on Investor Day last June. And as you pointed out, we're well on our way to achieving them given the growth that we had in 2021.

The second thing I would say, as you've also seen us respond to opportunities in the market in both our underwriting divisions to grow our company and expand margins. So if the opportunity is there, we're able to take it. And the reason for that is pretty straightforward, right? We're nimble. We're agile. We have the relationships, the products, the platform, the capital and the people to continue to be able to do that.

So that gives us, I think, a pretty good competitive advantage in a pretty dynamic environment to be able to do that. The third point I would give you is that -- and this goes back to the capital allocation discussion we were having earlier.

We do have a diversified franchise that really works to our advantage. And the way we think about allocating capital is really who can give us the best economic return, as Mark said, is it insurance, reinsurance or investments within the company. But keep in mind that our focus is always the same one. It's underwriting results. That's the core focus. That's what we really are driving and it goes to also Ryan's question earlier about the margin.

And so that brings us to the specific landscape of 2022. And so as I look at the landscape, I continue to see excellent opportunities for growth in primary insurance, both in the U.S. as well as internationally. And when we think about Reinsurance, I've seen more selective, more targeted opportunities in that area, and we're going to pick our spots, frankly. That's the bottom line.

But I think what you're hearing from us is, look, we have traction in '21 going into '22. We have dry powder, as Jim mentioned earlier, and we intend to capitalize on the opportunities that we see. But at the end of the day, it's about underwriting income and underwriting results. But Jim, I don't know if you'd like to add anything.

James Allan Williamson

Executive VP, Group COO & Head of Everest Reinsurance Division

Yes, Yaron. I'll just provide a little bit more detail around how we're executing within Reinsurance to give you some flavor for this. We've -- as Juan has indicated, we've been pursuing a strategy that's very deliberate around what parts of the market we want to capitalize on.

And in 2021 and really in 2020 as well, we saw an opportunity with the significant shifts happening in the primary casualty markets to participate alongside some of the best underwriters in the business in a really meaningful way. And so we've grown our -- in particular, our casualty pro rata business will end in the fourth quarter, that's almost 3/4 of $1 billion in premium. It's very meaningful for us.

And that allows us to participate in all those economic improvements that we've been talking about today. So that clearly drove a lot of significant growth. So if we translate that then into how we executed in 1/1, the strategy is very consistent.

We saw an opportunity to be thoughtful about where we're deploying cat capacity. That will result in an improvement obviously in the cat loss ratio, which we view as a very good thing. We were very focused on where we deploy our cat capacity. We absolutely moved away from retro and aggregate structures, moved away from working layers, continued to support our core cedents, optimized the portfolio, particularly in the pro rata space and also target some selective growth in cat with key customers.

And then on the casualty side, we continue to see some really nice opportunities for growth in a very targeted way with our core cedents on some programs that are new or emerging in the market. And we certainly react to those opportunities as well. So it's going to be very consistent, it's going to be targeted, and it's going to be sort of scaled relative to the market opportunity that exists. And as Juan said, we have dry powder. We've created nice margins, and we can react if new opportunities emerge during the renewal seasons for the rest of the year.

Operator

Your next question comes from Mike Zaremski with Wolfe Research.

Michael Zaremski

First question on the prepared remarks. Juan, you talked about in the primary insurance segment. I believe you've talked about improving your analytics and improving your hit ratio on sales by a meaningful amount.

Maybe you can kind of elaborate. It seemed like a meaningful increase in the hit ratio driving sales. And is that new business since you're tweaking the underwriting algo? Is it -- are you booking that maybe more conservatively too in the onset?

Juan Carlos Andrade
President, CEO & Director

Yes, Mike, thanks. That's actually a very important thing you've highlighted because I think that also goes to the question that Yaron was asking a little bit ago about how we see the growth momentum into 2022.

Look, I've said this before. Those who execute best win. And distribution is a key component of all of that. So we're doing a number of things on the distribution area to be a lot more productive and be a lot more efficient.

Number one, one of the things that we have done, particularly in the U.S., is really expand our regional structure in the field to be able to have more people on the ground, closer to our distribution, closer to our brokers to be able to explain our product offering and just be a lot more thoughtful about the solutions that we can sell, the solutions that are needed by them, et cetera.

But backing all of that is essentially a shift into a much more quantitative approach to sales, where we now have very good data, very good intelligence at the underwriter level, at the broker level, on what submissions we're getting, how we're looking at those submissions, how we triage those submissions, et cetera, et cetera.

So the bottom line is now we're being much more effective at asking for what we want, what's within our risk appetite, and then being able to be much more efficient about what we bide based on what's coming into the funnel and the pipeline. And that's what you're seeing those hit ratios basically go up. So it's making us a lot more productive within our risk appetite. But I'll ask Mike Karmilowicz to add a little bit to that as well.

Michael Karmilowicz
Executive VP and President & CEO of Everest Insurance®

Sure. This is Mike Karmilowicz. I would just add a couple of things to that. Besides in distribution, we've been adding talent in addition to that and changing the culture from more of a sales focus and customer mindset.

So with that, the data analytics that Juan is talking about, we've been very much focused on simplifying our structure so we can be a lot more efficient in how we go to market and our offering is, so we can bring this together and coordinate it more effectively as an example. And what that's doing is -- we've developed sales pipelines, and we're being much more tactical with our distribution partners, which is allowing us to increase our hit ratio and actually continue to improve, again, our success with a lot of our trading partners.

So I think you'll see that as a continuation, some of this is early days, but we're making a lot of progress, and 2021 was an example of that.

Michael Zaremski

Okay. That's great color. My follow-up is just an update, curious on inorganic growth, is ever still open to any potentially sizable deals in strategic lines of business that could aid the long-term ROE profile?

Juan Carlos Andrade
President, CEO & Director

Yes, Mike, it's Juan. And again, thanks for the question on that. Look, I'm pretty consistent on this theme. And you've heard me say this before, which is our strategy is organic, right? That's what we can plan for.

That's what we're executing, and that is in Insurance, and that is in Reinsurance at this point in time. Now that being said, as Mark pointed out, we do have excess capital. And if we do see an opportunity along the way that's interesting, obviously, it's something that we will consider. But I'm not considering or looking at sort of transformative type things, et cetera.

This would be more a bolt-on -- does it help us in a particular geography, particular product line, et cetera, et cetera? But the strategy remains an organic focused strategy.

Operator

And your final question comes from Meyer Shields with KBW.

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

One, in your comments, you talked about a specific growth strategy for outside of North America. And I was hoping you can get a little bit more color about the, I guess, regions, lines, and specifically, like the sort of risks that could hinder underwriting profitability in that new -- as you penetrate those markets?

Juan Carlos Andrade
President, CEO & Director

Yes, Meyer, thank you. Good to hear from you. Let me expand on that a little bit. So basically, we have been talking about really since the past year about a pretty thoughtful and disciplined strategy to essentially be the next phase of our development on the primary insurance side outside of North America.

So we already have a presence in the U.K. We participate both in the retail and the wholesale market. We have a company out of Ireland as well. And what we're thinking about doing and already are doing is basically extending our Irish company essentially into the continent of Europe but only into a very limited handful of countries where we can add value and where we believe can make a difference given our value proposition.

In Latin America, we have now a small operation out of Chile and similar sort of thought process on that, thoughtful discipline, we think where we can add value. And we now have a base of operations in Singapore at the same time. And the idea for us is not to go around the world planting flags.

It's really to select a few geographies around the world where we see a need for our product given either market dislocation, competitor dislocation and where we can add value. And that's effectively what we're trying to do. From the perspective of what products we're targeting, essentially, it's an upper middle market play, more so than anything else. Depending on the geography, that will dictate sort of the product range.

If you're looking at the emerging markets in Asia and Latin America, it's going to be more of a first-party play, non-cat. If you're looking at the more sophisticated markets in Europe, it's going to be a blend of first-party lines and third-party lines at the same TAM. But again, this is all a logical expansion from what we're doing in North America and frankly, the success that we've had here.

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

Okay. That's very helpful. One quick question, if I can. We're seeing the industry a lot of growth in, I guess, what people would term financial lines and usually, they mean cyber, gross reinsurance community actually went down for the quarter and the year. I was wondering if you could talk about maybe your strategy for cyber or other factors that are driving that decrease.

Juan Carlos Andrade
President, CEO & Director

Yes. Let me ask Mike Karmilowicz to provide some color on that.

Michael Karmilowicz
Executive VP and President & CEO of Everest Insurance®

Sure. Thanks for the question. This is Mike Karmilowicz here. But Cyber for us is a portfolio we entered about a couple of years ago. It's a very small portfolio, but we've been very diligent on our focus. It's more middle market driven and the opportunity that we've been able to accomplish is really focusing on 2 key things from our perspective.

One is really making sure the requirements, whether it's MSA or whether the risk profiles have all the hygiene and things that are necessary to make sure it's a required suitable risk is one thing we've been very [indiscernible] to sell it. So the market itself with all the different rate increases we've seen has allowed us to sit there and really focus on just the things that we want to go after. So it's a very small portfolio.

We're not -- we're just taking the rate and looking for opportunities -- but I don't see that market as slowing down anytime soon. And we continue to look for the right risk profile with the right requirements around cyber hygiene. And if they don't hit that, we'll continue to kind of just move forward and manage it effectively.

Operator

I would now like to turn the conference over back to management for closing comments.

Juan Carlos Andrade
President, CEO & Director

Great. Thank you for all the questions and the excellent discussion today. As you can hear from our tone, we're optimistic about the opportunities before us, and we continue to build our company, accelerate progress and create value for our investors, clients and the markets that we serve.

Thank you for your time for us today, and thank you for your continued support of our company. And we look forward to talking to you next in our Q1 results. Have a great day.

Operator
Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation. You may now disconnect your lines.