S&P Capital IQ

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Everest Re Group, Ltd. NYSE:RE

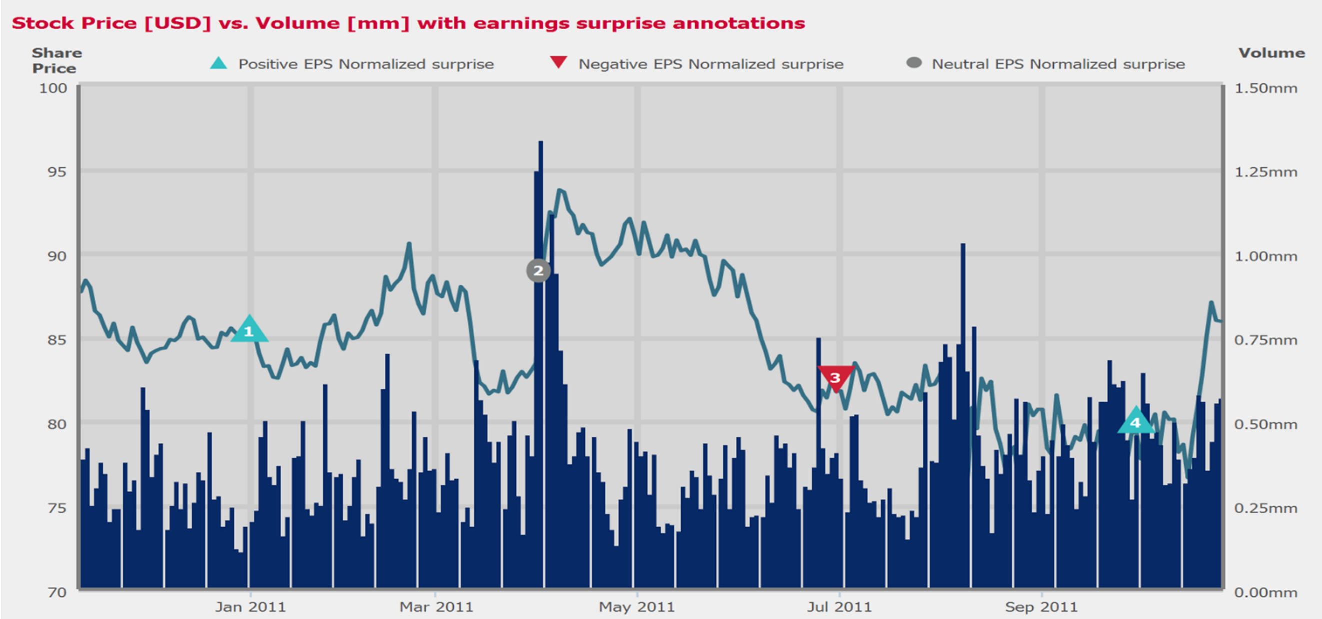
FQ4 2011 Earnings Call Transcripts

Thursday, February 09, 2012 3:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2011-			-FQ1 2012-	-FY 2011-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	(0.69)	(0.94)	NM	2.94	(1.48)	(1.73)
Revenue (mm)	1034.79	1285.93	24.27	1119.25	4317.00	4693.96

Currency: USD
Consensus as of Feb-09-2012 1:44 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2010	2.94	4.70	1 59.86 %
FQ1 2011	(4.47)	(5.95)	NM
FQ2 2011	2.49	2.46	2 (1.20 %)
FQ3 2011	2.03	2.70	3 33.00 %

Call Participants

EXECUTIVES

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Elizabeth B. Farrell
Vice President of Investor Relations

Joseph V. Taranto
Chairman

ANALYSTS

Amit Kumar
Macquarie Research

Ian Gutterman
Adage Capital Management, L.P.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Sarah Elizabeth DeWitt
Barclays PLC, Research Division

Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

Good day, everyone, and welcome to the Everest Re Group, Ltd. Fourth Quarter 2011 Earnings Release Call. Today's conference is being recorded. At this time, for opening remarks and introductions, I'd like to turn the conference over to Beth Farrell. Please go ahead.

Elizabeth B. Farrell
Vice President of Investor Relations

Thank you, Tim. Good morning and welcome to Everest Re Group's Fourth Quarter 2011 Earnings Conference Call. With me today are Joe Taranto, the company's Chairman and Chief Executive Officer, and Dom Addesso, our President and 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 V. Taranto
Chairman

Thanks, Beth. Good morning. There has never been a year end where I've been so pleased to see the prior year over with and the new year begin. That is, to have the losses behind us so we can move into the opportunities that those losses have created going forward. Despite dealing with historic high for industry catastrophe losses, our balance sheet remains strong with capital in excess of $6 billion. This strength will serve us well as we move into 2012.

I'm optimistic about our prospects for 2012. Let me tell you why. First, our reinsurance portfolio will be much improved from the changes in our property catastrophe reinsurance portfolio. Property catastrophe rates, terms and conditions have improved throughout 2011, continued to improve at January 1, 2012, and I believe will continue to improve into April, Japanese business.

Property reinsurance has become an increasingly important part of our operation as we move towards the best opportunities in the marketplace. At January 1, we saw rate increases on the order of 15% for retro business, 5% to 10% for catastrophe clients around the world if they didn't have losses, and much greater increases if they did. Terms improved as well. As a consequence, we have meaningfully increased our expected margin on this business and yet not increased our PMLs in any peak zones.

Second, we have a significant transformation going on in our insurance operation that I believe will lead to much improved results in 2012. Roughly 20% of our 2012 insurance book will be written by Heartland, our crop insurance company. This book has made a profit the vast majority of years it has been in business, and weather permitting, should do so again in 2012. About 30% of our 2012 business will be workers' compensation, primarily in California.

Our year-end reserve review led to increased reserves, which revised our view of 2011 profitability. We have achieved roughly 15% rate increases throughout 2011 and continue to get increases of that magnitude in January. I expect we will continue to achieve increases throughout the rest of 2012 as other companies top-up reserves. We project 2012 to generate an underwriting profit on the back of these increases.

About 15% of our business is written by our professional liability unit. This unit has produced an underwriting profit for the past 3 years, and I expect another good year in 2012. The remainder of our insurance book includes our medical stop-loss business, which has been running to an underwriting profit, and our general liability and property business where we are achieving our targeted rate increases. Put it all together and the expectation is for a good year ahead.

Whereas I would not characterize the current market as a hard market, the positive changes in the property catastrophe reinsurance market, coupled with the improvements we anticipate in our insurance segment, should make for a meaningful, positive change for Everest. If you project catastrophes at a more normalized level, it should produce very solid earnings, much of which could be used for stock buyback. Dom?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Thank you, Joe. Good morning. I will begin my comments this morning by outlining the major events that have impacted our earnings for the quarter and year to date.

At this point, we are all familiar with the events that have affected our industry, which in total were in excess of $100 billion. For the year, our cat losses pre-tax were $1.3 billion, which is less than 1.5% of the projected industry losses. Given the size of these industry events, our share of losses were within modeled outcomes. And as reflected in our various risk management scenarios, our capital position remained intact as these events, despite their significance, were largely absorbed through earnings.

The details on the events for the year, which highlights how unusual a year it was, are as follows; Japan earthquake, $532 million; New Zealand earthquake, $306 million; Thailand floods, $225 million; U.S. tornadoes, $61 million; Brisbane floods, $56 million; Hurricane Irene, $38 million; Cyclone Yasi, $20 million; Canadian fires, $13 million; and a cat IBNR of $50 million.

In the fourth quarter, the pre-tax losses were $380 million. The largest event was Thailand at $225 million. The other impacts were from events earlier in the year, most notably, Japan at $52 million, and New Zealand at $37 million. Due to the complexity of these losses, the industry has seen continued development. In recognition of this, our reserves include IBNR of $50 million for potential development relating to all 2011 cat events.

Overall, the impact of cat losses in the quarter after-tax and reinstatement premium was $246 million, and on a year-to-date basis was approximately $960 million. As mentioned, on a pre-tax basis, these losses were $380 million for the quarter and $1.3 billion year-to-date, which brings to light the fact that the underlying attritional results are improving year-over-year as a result of portfolio changes and rate increases.

Excluding cat and related reinstatement premium, the underwriting gain was $480 million for the year compared to $435 million in 2010. This is reflected in the current year-to-date attritional loss ratio, which stood at 60% for 2011, compared with 61.2% in the prior year. This improvement is solely due to the reinsurance segments, which improved just over 2 points to an attritional combined ratio, ex cats and reinstates, of 83.5% as a result of the rate increases and the portfolio shift from pro rata to excess of loss contracts.

This is expected to carry over into 2012, as certain pro rata contracts continue to run off. The attritional results for insurance showed little change year-over-year. This was a result of the crop book having an underwriting loss due to drought conditions and acquisition-related costs, as well as higher accident year loss selections on other lines based on the year-end reserve studies.

These studies indicated a need for reserve strengthening mainly in workers' compensation and excess casualty, resulting in adjustments to prior years as well as the current year. However, rate increases in California workers' comp, 15% in 2011, which was over and above the 9% achieved in 2010, in addition to more normalized crop results and the discontinuation of a select number of underperforming programs, should result in meaningful improvements in the 2012 loss ratios. It is expected that these changes alone could lead to a 7 to 8 point improvement in accident year results.

Offsetting the reserve developments in the insurance segment was continued favorable emergence in the reinsurance segments overall. To complete the discussion on underwriting operations, both net premiums written and net premiums earned were up approximately 4% for the year. This increase is primarily being driven by the new business in our insurance segment, namely crop insurance and primary accident and health. Offsetting this was a decline in reinsurance premium, primarily driven by the shift from pro rata to excess.

In the fourth quarter, the reinsurance net premium written shows an 11% increase, with no corresponding increase in earned premiums due to an account written at the end of the quarter, as well as the cancellation of a large program in 2010. Finally, regarding overall operations, I will note that the expense ratio year-over-year is down slightly. This is mainly driven by a 2 point reduction in commission expense in the insurance segment, due to a change in the mix of business.

Turning to the other key elements of operating results, investment income was down on both the yearly and quarterly comparisons. The primary driver of this is the difference in income from limited partnerships. Nevertheless, after adjusting for these impacts, net investment income is still down slightly as a result of declining reinvestment rates. However, cash flow remains positive at $660 million for the year, which has helped to offset declining interest rates.

Realized gains were positive, in particular for the fourth quarter. And when combined with the underwriting results, investment income and tax benefits, it resulted in net income for the quarter of $41 million and a loss for the year of $80 million. Other comprehensive income was a loss for the quarter of $36 million, but a gain for the year of $35 million.

Essentially, there were unrealized gains for the year and quarter, offset by translation losses and a pension liability adjustment, which hit mainly in the fourth quarter. The net effect was a slight comprehensive loss for the year and a slight gain for the quarter, which means that the decline in shareholders' equity for the quarter and year primarily a result of dividends and share buybacks. This leaves our capital position in excess of $6 billion and therefore well positioned for market opportunities and potential future share repurchases.

Thank you, and now I'll turn it back to Beth for Q&A.

Elizabeth B. Farrell
Vice President of Investor Relations
Yes, Tim, we are open for questions and answers.

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Matthew Heimermann with JPMorgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

I just wanted to follow up on the underlying loss ratio. I think, you sufficiently addressed the insurance side in terms of suggesting a 700 to 800 basis points of improvement there potentially in 2012 versus 2011. But just curious, is that, when you make that comment, is that kind of where you think the book will be on a written basis or an earned basis in 2012?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

That would be on an earned basis.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Okay. And then, you also -- it also looked like there was some noise in the U. S. reinsurance segment and I don't think you addressed this in -- that in your opening comment. Could you just -- could you touch on that as well?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Noise in what respect, Matt?

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Just for -- relative to our expectations, the underlying loss ratios are a little higher. So given we also saw some adverse there, I was wondering if it was maybe impacted by either a change to the current year -- current accident year loss ratio in the fourth quarter? Or if there were attritional losses that didn't qualify as gaps in the quarter or anything like that?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Okay. I guess the first thing I'll point out is the attritional loss ratio for the U.S. reinsurance all -- I'm sorry, for all reinsurance segments, year-over-year, was positive, right? If you're referencing the fourth quarter, the fourth quarter had a little bit of a tick-up because we did have some late reported -- from a number of contracts, late order was reported in the fourth quarter with an increase in current year losses.

This came through our loss reserve metrics that we -- outside of our reserve studies and we booked those events in the fourth quarter. So it really is a current year event. There was some movement depending on the buckets prior year reserves, but overall there was positive development in the reinsurance segments on our -- for loss reserves.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

And then --

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

As far as the current year is concerned, year-over-year, which is a much better metric to look at, is improving and we would expect that trend to continue.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

That's fair. Do have the -- can you quantify the 4Q noise related to the late report, even just ballpark it?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

It was in the range of $30 million, I believe.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Okay, that's helpful. And then I guess, was there anything that affected your ability to buy back stock in the fourth quarter? Because when I listen to you talk about capital, it sounds like you've got more than enough capital to kind of support the growth opportunities especially given that you are talking about seeing growth without -- in premium without seeing growth in PML. So just curious on that.

Joseph V. Taranto
Chairman

Sure, Matt. First of all, you're right. We have plenty of capital to buy back and we certainly plan to buy back going forward. We will be in this coming quarter buying back. Yes, what affected things in the fourth quarter was -- for the most part was the Thai floods.

I mean, once they happened and we had to get our arms around them and we clearly had information that others on the outside didn't have as we were trying to put together the sums. If there is anything big and important that's going on that we had more information than the outside world, we just don't buy back, and that really is what affected us as we went through the fourth quarter.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Early in -- Matt, early in the quarter, recognize that we're basically out of the market until we come out with third quarter earnings so -- and then soon thereafter, of course, is when Thailand happened.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

And we did buy back some shares in the fourth quarter, a modest amount, but we did.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Okay. And then just --

Joseph V. Taranto
Chairman

We bought those back before the Thai floods happened.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

You had a couple days, I guess.

Joseph V. Taranto
Chairman

Yes.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Yes.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

The last question just -- I'm sorry for all the -- sorry for the numbers questions. But just -- I just wanted to make sure that I'm thinking about the taxes correctly, so specifically the net investment income, I was just hoping you could give us a sense of what the tax rate was on the recurring investment income, because the tax rate ended up being a lot lower and I wasn't sure if there was a shield on the alternatives or what was happening there in terms of mix of tax rates?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Well, the tax rate has not bounced around all that much. We disclosed the effective tax rate in our supplemental information. For the year, it was 13.7% that contrasts with 12.7% a year ago. The only volatility -- there's 2 things that drive that. One would be our mix of tax exempts to taxables, which we did have some shift last year in that.

And secondly, the income from limited partnerships can be a driver in that. Some of that income is offshore, but it depends on where the income from limited partnerships is coming from, but I'm not sure that the volatility around that number is all that great in terms of being able to use it as a basis for projecting.

Operator

We will take our next question from Vinay Misquith with Evercore Partners.

Vinay Gerard Misquith
Evercore ISI, Research Division

Could you add some color to your exposure to the Thai flood losses and whether you have some uncapped quota shares there, and what is the possibility of reserve development should the industry loss rise in that area?

Joseph V. Taranto
Chairman

Well, I'll start, Dom, and we'll see if you want to add anything. I think a few points to make with regard to the Thai losses, first, I think it's important to note that the insurance policies in Thailand sub-limits both flood coverage and business interruption, which meaningfully contains the loss.

Second point I guess that I would like to make is that we have posted reserve at the high end of any industry estimates that we have seen. And of course, I would add, third, that we've also established a $50 million reserve for additional IBNR for the 2011 cats. So, I think when you take those things into consideration, we're in good shape. Dom?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

I think that states it, I mean, we do have quota shares in Thailand. But as Joe says, those coverages that are affected here are sub-limited, as well as there is not 100% take-up rate on that book of business as well. Vinay, does that answer your question?

Vinay Gerard Misquith
Evercore ISI, Research Division

Yes, that's helpful. The second point is on the fixed maturity securities, we saw the investment income decline about $7 million sequentially. So were there some one-time items in that or do you expect that to continue in the future?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Well, there's clearly a headwind as it relates to investment income, given reinvestment rates which we're all familiar with. I guess, I would -- to maybe help us think through this. We've estimated that our maturities and calls and that's why I say it's an estimate because we have to also consider potential calls and paydowns on mortgage backs, will be about $1 billion for 2012. So the average, if you take the average of that, of course throughout the year that's $500 million.

And the differential in reinvestment rates, call it 250 basis points or 300 basis points. But if you just use the high end of that number, 300 basis points, that's essentially $15 million headwind on the investment income side. Offsetting that of course will be positive cash flow that we anticipate as well, that will not make up that full $15 million, of course, if that in fact turns out to be what reinvestment rates are for 2012. So that will give you a window on the fixed income side.

On the -- I know that you didn't ask this, but just to complete the picture on investment income, on the limited partnership side, we have about $500 million of limited partnership investments. Our long-term return to date has been around 8%, 7% to 8%. So, you can think about that number in that context, so that would give you about $40 million estimate on limited partnerships. Having said that, in more recent years, those results have been ticking up slightly better, so I think that's a relatively conservative number.

There will be volatility around that, of course, given the fact that we do have the marks based on what's happening in the overall equity markets. But directionally, I think that might give you some guidance on the investment income. Is that helpful, Vinay?

Vinay Gerard Misquith
Evercore ISI, Research Division

Yes, it's very helpful. One last thing, if I may. The earned premiums in the U.S. insurance segment were lower this quarter, were there some timing issues regarding the Ag premiums this quarter?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

I don't believe so. I think we had some adjustments in the third quarter on the Ag book, but I can't -- I don't have the specifics of that with me right now. But I think -- just look at the annual premium, I think that will give you a fix on what the quarterly impacts would be.

Operator

And we'll take our next question from Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

Just going back to the last question, if I understand this correctly, if the flooding loss continues to go up for the industry, what you are saying is that your number will not increase proportionately because of the sub-limits and I guess Dom, allocated IBNR should take care of any additional development. Did I understand that correctly?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

I think that's a fair way to characterize it. Our numbers that we put up, excluding the IBNR that was referenced, would translate into approximately a $17 billion industry event. And then, of course, we have an IBNR number that is available for that event as well as any other events that occur during 2011. So given the fact that we reserved at a very high industry loss level, therefore, our expectation is that we would not have any development on that number. I think that's probably the more accurate way to say it.

Amit Kumar
Macquarie Research

Got it, that's helpful. The other question I have is, in the opening remarks you mentioned that your PMLs were flat. I just wanted to sort of reconfirm that number. The one in 250, is that close to 11% or 12% or has that number changed?

Joseph V. Taranto
Chairman

No, that's still a good estimate on the PMLs, and we are still finalizing our 1/1 bookings, so we don't have a precise number on that, but generally, the trend has been down relative to year ago.

Amit Kumar
Macquarie Research

Got it. And then -- sorry, go ahead.

Joseph V. Taranto
Chairman

In other words, our expectation for 1/1 comparison to 1/1. It's not a statement about what that might look like at 4/1 or 6/1 et cetera.

Amit Kumar
Macquarie Research

Okay, just one last question. On the California comp markets, I think you mentioned that you expect an underwriting profit. I know you talked about the rate increases. I wanted to get some color on the other side, the loss cost trends and your expectations going forward on the margins.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Our reserve position at the end of the year contemplate general industry loss cost trends, as well as exposure trends, which for California work comp are in excess of 6% on frequency severity trends and in excess of 4% for exposure trend. And those would be what we would use in our anticipated results and pricing needs for 2012.

Joseph V. Taranto
Chairman

And we've been getting 15% rate increases including through January of 2012. So we're outstripping that and then another 5-ish percent on top of that, which should move the loss ratio and the combined ratio down for 2012. And I think, put it into a modest underwriting position, that's our current projection.

Amit Kumar
Macquarie Research

I'm sorry. What was that 5% you mentioned?

Joseph V. Taranto
Chairman

Well, I guess, Dom was saying, you can put in medical inflation and if you come up with 10-ish percent, but if you have rate increases of 15%, you've kind of taken care of the 10% and have 5% to the good.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Right. And the 5% exposure trend I think is what you're -- what could be coming in as well.

Amit Kumar
Macquarie Research

Got it. And the 15%, that is the, I guess that is the actual net rate, which is being asked from the consumers, right?

Joseph V. Taranto
Chairman

That's correct. And that's what we achieved throughout 2011 and so far what we've achieved in the early part of 2012.

Operator

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I just had 1 general question, as you think about capital and from your comments in upfront. If you had to pick one, what's more important to you, ROE or book value?

Joseph V. Taranto
Chairman

I don't know that I would -- I don't know if there's an answer to that question. I think they're both very important to us and I guess they both really tie together. We do look at both of them, for us, as growth in book value per share.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

And plus dividends.

Joseph V. Taranto
Chairman

Plus dividends, yes.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

All right. I guess, just thinking, I mean, if my math is right. I mean, every -- at this price every 1% reduction in share count is worth about $0.25 a share in book. I mean just, as you look out at the business that you like, which sounds like, it's more property cat, how do you balance the trade-off of potentially absorbing more capital there versus the buyback? And I'm sure this is something you think about all the time, but just to understand kind of where you think about the edge given that choice, I would appreciate it if that's possible. And just on follow-up.

Joseph V. Taranto
Chairman

Sure. I think I'd first say that given the losses and dislocations in the cat market, there are some very good opportunities this year that we certainly want to avail ourselves to. And we're doing it in such a way where our mantra, if you will, is more premium, tighter terms, less PML. So in that sense, it's going to consume a lot less capital and hopefully generate some very good profit.

And so it's a terrific opportunity. At the same time, it's also a very good opportunity in our opinion to -- with the buyback stock and that's why we intend to pursue both. And it's a little bit of a balancing act, but both provide some very good opportunity and we will proceed along both fronts.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

All right. And -- I'm sorry, Dom.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Let me add to that.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Sure.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Our growth in book value per share up to 2011 has been approximately 13%, book value per share plus dividend growth. Of course, prior to 2011, it was close to 14%. And any new transactions that we're obviously contemplating or changes to the portfolio are with an eye towards putting those transactions on at levels that would increase or come in above those types of returns.

And I know that's not precisely getting to your question, but I think it does give you some view as to how we're looking at. In addition, keep in mind, again, relative to share buybacks, there are other factors. Those other factors are rating agencies and maintaining a strong rating in the marketplace and having some amount of capital available for the market opportunity. So, it isn't just the pure Excel spreadsheet numbers.

Joseph V. Taranto
Chairman

That's right. I mean this year, 2011, demonstrates that -- I think it served us very well to have a very strong capital position in 2011. I would like to add to Dom's comment that that record of 13% compounded including 2011 is what we have achieved over the last 16 years and our plan is to beat that record going forward. We think we have the opportunities and the resources to do that.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Great. And then just one follow-up, if I could. On the book, kind of tilting more towards property cat than it has in the past, can you talk about what sort of business you are focused on, is it still sort of your low-layer preference, is it more U.S. versus outside the U.S., and generally, are you seeing -- do you feel like you are seeing better rate in the book that you are binding versus the market overall?

Joseph V. Taranto
Chairman

Well, clearly, the market is seeing increases, but I think we are in a position where we clearly want to achieve those rate increases, terms improvements, otherwise we just will move elsewhere. There is a lot of good opportunities at this point. I think they will continue to develop, as I said, as we go forward, including Japan and even into the Florida business in June and the other business in July.

So there are opportunities both internationally and in the U.S. and when you say the U.S., different parts of the U.S. January 1 wasn't so much Florida business, that's the middle of the year, but I think with RMS 11 and what's going on in the world, I think that will continue to climb when we get into that. So we're just in a position where we are picking and choosing the best opportunities that come to us and at the same time being very conscious of the PML.

As I said, I think we will have a much bigger margin on that business. I'd expect we probably will write $100 million to $150 million of additional premium in cat premium in 2012 versus 2011. And with that, our overall worldwide exposures will actually be down and the PMLs in peak zones will be down.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

And also, we do not look at the marketplace and say, we're tilting towards the U.S. or any other particular market, it's where the opportunities present itself. So for example, Europe wind we feel is relatively under-priced, so in that particular area going into 2012, that's an area that we're managing down. We wrote more business this year in the Midwest given where pricing is going, but it's really looking at what opportunities the marketplace is giving you as opposed to tilting towards any particular geography.

Operator

And we will take our next question from Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

Just a couple clarifications. On the U.S. reinsurance, did I hear what the prior period adverse development was for, I know you talked about the accident year, but I am not quite sure you touched on where the adverse was from?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

That was primarily excess casualty book.

Ian Gutterman
Adage Capital Management, L.P.

And what years on that, recent years or older years?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

It's a variety of years.

Ian Gutterman
Adage Capital Management, L.P.

Okay, got it.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

[indiscernible] Ian.

Ian Gutterman
Adage Capital Management, L.P.

No, that's okay. And you obviously commented on expected improvement in the cat reinsurance and insurance accident years. What about the other books of reinsurance business? The Bermuda book, the international book, are those expected to improve as well?

Joseph V. Taranto
Chairman

Let me slice that a little differently for you, Ian. You are right, when we talk about the insurance book and cat book, we are probably roughly talking about half of our worldwide premium. And I didn't comment a whole lot on the other half. Now the other half is probably 25% of the worldwide business that are non-cat property business, U.S. and international, and I'd say 20% of our worldwide business is casualty reinsurance, and then another 5% might be surety and A&H and other lines of business.

Now the reason I didn't comment on that is nothing dramatic is happening in that half like it is happening in the cat world or is happening in the insurance transformation that we have going on. We do expect to achieve an underwriting profit, modest ones in all of that 50%, both of those pieces. But again, in the non-cat property world, we've made some improvements in selection and our clients have been able to get some modest rate increases. But there is nothing to report to you that is particularly different.

On the casualty side, I would say the same. We've kind of shrunk that down. As we've kind of gone to core clients with casualty rates particularly in the U.S. going down for the last number of years. We are seeing some flattening and some uptick in pockets there. I know many are getting more optimistic about that space. I'm probably in the less optimistic category there. So I would say that other half of our book, we expect it to do reasonably well, but it's not changing dramatically from 2012 versus 2011.

Ian Gutterman
Adage Capital Management, L.P.

Okay, got it. And Dom, just to clarify to make sure we're using the right number on the insurance, the 7 to 8 points for improvement you were talking about, that was versus the full year, so that gets you to about a breakeven for the 2012?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Yes, and I guess to some degree, being a little bit conservative and I was just really referencing those changes, right. There will be other things that will be impacting positively the insurance book that Joe referenced that could in fact lead to a better result than that.

Ian Gutterman
Adage Capital Management, L.P.

Okay, great. And then just last one. Joe, you talked about 1/1 renewal for cat, can you talk about outside of cat, did you grow your book, keep it the same, shrink it, and maybe what lines drift up or down?

Joseph V. Taranto
Chairman

Well, I think I kind of was just giving you that, Ian, in the non-cat property and in the casualty, it really wasn't a dramatic change for us. It was pretty much the same. So, the areas that are really changing for us are in cat side in terms of additional margin, and I think the insurance side, where we are, with the comp getting increases, although that, that's not going to be anything like what we achieved in terms of combines in 2003, 2004 and 2005. We do think it will be in the black.

We are hopeful for bigger margins in the crop business and in our A&H business and some of the other parts of the insurance business. Put it all together, and again, I just think it will make for better margins and less volatility. I don't think it will make for dramatic top line worldwide increases in premiums, although I do expect them to be up.

Operator

[Operator Instructions] We'll take our next question from Sarah DeWitt with Barclays Capital.

Sarah Elizabeth DeWitt
Barclays PLC, Research Division

Could you give us some more color on what drove the reserve strengthening in U.S. insurance and how should we think about that going forward?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Well certainly, at the end of the third quarter, based on some interim testing that we were doing, we saw some weakness in our California work comp, the work comp in general and our excess casualty portfolio and we did put up additional reserves in the third quarter. That of course was subject to reserve review in the fourth quarter, which clearly, the third quarter trends were certainly indicative of what we needed to do in the fourth quarter.

And at this point, we certainly anticipate that that reserve is appropriately booked, in fact, we booked above our midpoint estimate in both of those areas, but also keep in mind that whether it's California comp or excess casualty, those are just a couple of reserve buckets relative to our overall $10 billion of reserves and 200-plus reserve categories that we monitor. And from time to time, we're going to get pluses and minuses in any one of those 200-plus reserve buckets.

And of course, this has been something that has been -- that we've seen for the last 2 years here. But we do think obviously that we've captured that. And again, I'll point to the fact that, if you look back at our core reserves overall, those have developed positively for us over in the last few years in total. So, and that's what's most important to us, is the overall reserve adequacy of the enterprise.

Sarah Elizabeth DeWitt
Barclays PLC, Research Division

Okay, thanks. And then on the premium growth, it's been a bit lumpy and was very strong this quarter. How should we be thinking about the pace of that going forward?

Joseph V. Taranto
Chairman

Well, again, as I mentioned, I think we will grow top line 2012 versus 2011. I do not think it will be dramatic. I would not put out a number, if you will, I mean in the cat space, as I said, we'll do more premium. But in the non-cat property there are some switches who will be going from pro rata to excess of loss and the same may be true in some other parts of our book. When you put it all together, I think it will be modest top line growth, but more margin and hopefully better loss ratio when combined.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Some of that that you see there is currency fluctuations. It's -- if you take out some of the currency impacts, it's not quite as lumpy as you would -- one might assume from just looking at the numbers.

Sarah Elizabeth DeWitt
Barclays PLC, Research Division

Great, thanks for the answers.

Operator

And at this time, there are no other questions in queue. I'll turn it back to our presenters for any closing remarks.

Elizabeth B. Farrell
Vice President of Investor Relations

Thank you for participating on the call. I would also like, before we end the call, to point to our new website and I'd invite you to take a look at it. If you have any further questions, please don't hesitate to call me. Thank you again.

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