S&P Capital IQ

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Everest Re Group, Ltd. NYSE:RE

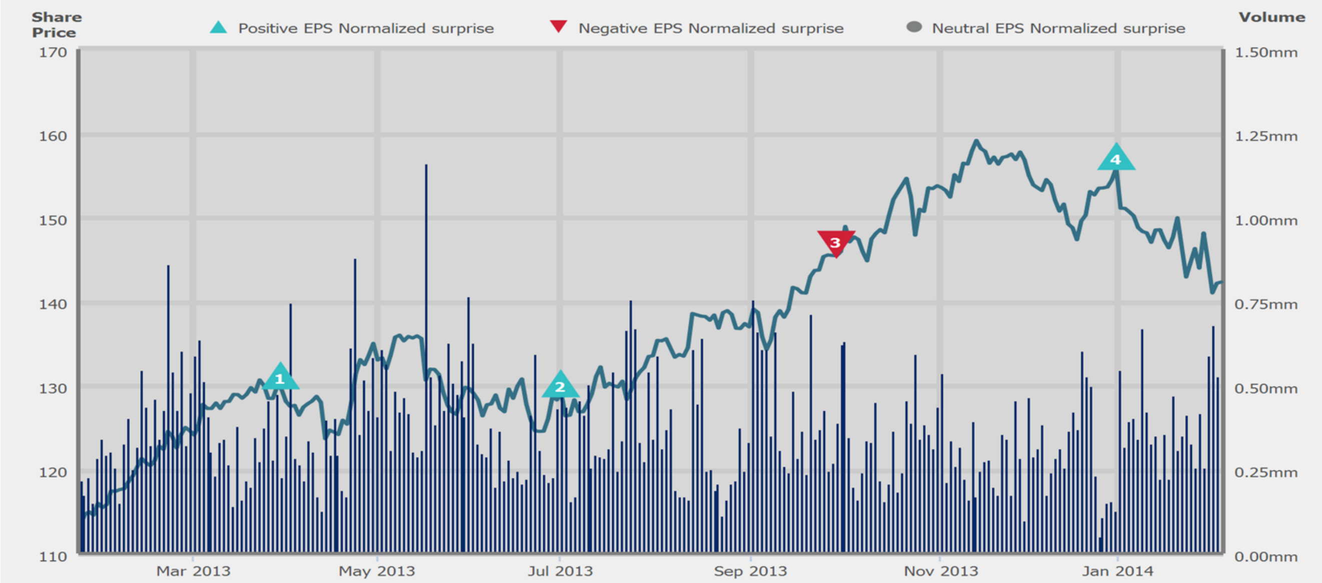
FQ1 2014 Earnings Call Transcripts

Thursday, April 24, 2014 2:30 PM GMT

S&P Capital IQ Estimates

	-FQ1 2014-			-FQ2 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	5.31	5.93	▲11.68	4.78	18.58	19.11
Revenue (mm)	1235.52	-	▼(0.64 %)	1348.73	5561.63	5671.63

Currency: USD
Consensus as of Apr-24-2014 1:04 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2013	4.39	5.88	▲33.94 %
FQ2 2013	4.21	5.10	▲21.14 %
FQ3 2013	4.59	4.20	▼(8.50 %)
FQ4 2013	4.98	6.28	▲26.10 %

Call Participants

EXECUTIVES

Craig W. Howie
Chief Financial Officer and Executive Vice President

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

Elizabeth B. Farrell
Vice President of Investor Relations

John P. Doucette
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Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

Good day, everyone, and welcome to the Everest Re Group Limited First Quarter 2014 Earnings Call. Today's conference is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead, ma'am.

Elizabeth B. Farrell
Vice President of Investor Relations

Thank you, Augusta. Good morning, and welcome to Everest Re Group's first quarter 2014 earnings conference call. On the call with me today are Dom Addesso, the company's President and Chief Executive Officer; John Doucette, our Chief Underwriting Officer; and Craig Howie, our Chief Financial Officer.

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

Now let me turn the call over to Dom.

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

Thanks, Beth, and good morning to all. We're pleased to report another excellent quarter, which continues to improve on the trends from last year. The attritional combined ratio for the first quarter improved to 80.4% from 81% for the full year of 2013. Premium volume continues to grow, rising 7% over last year.

Despite softening in the property cat market, there are still sufficient opportunities for profitable growth for Everest, given our scale and financial strength. John will get into further detail in his report. But as evidenced by the improving combined ratio, the growth has come with improving margins, which is partly the result of new products, particularly in the credit and specialty lines space.

In the property reinsurance lines, where there have been rate reductions, we continue to modify our portfolio to achieve the best risk-adjusted return. So for example, in Canada, where rates were going up for property catastrophe exposed lines, we committed more capacity. Likewise, in other territories, we reduced or move to different layers or moved to pro rata from excess or we wrote different types of product. Of course, we did renew accounts at reduced rates, but only when they met our return hurdles. And in most regions, there is still business at attractive rates. I must emphasize that the ability to diversify and remain flexible is the key to improving margins.

An addition tool that has enabled us to improve our net position, through our capital markets platform, Mt. Logan. This has enabled us to increase our share across many programs and bring new product to market while, at the same time, earn fees and profit share on the business sourced.

A key value of our global franchise is being able to marry the risk appetite of the capital markets with a global well-diversified source of business, constructed by best-in-class underwriting and analytical skills. There are not many that can duplicate this value proposition.

You also, no doubt, saw that we recently came to market for cat bond placement. This is another capital market vehicle allowing us to leverage our underwriting ability and marketing reach across a larger capital base. This transformation of our business, at least for now, is about capital management.

Capital is now available in many forms. And while this can cause us to reshape our capital structure, one thing is constant, developing business, underwriting that business, producing contracts and paying claims.

These additional forms of capital provide more options for managing our equity-based and funding growth. We're flexible and adaptive to change that can add value to customers and shareholders.

You have also heard us speak about our insurance operation as another source of business that can be a diversifying risk. For these reasons, we have continued to increase our emphasis in building this business out further while remaining focused on improving results.

In the first quarter results, we are clearly seeing the early signs of this progress with a 98.2% combined ratio. At the same time, we have already expanded into new products and territories. And excluding crop insurance, which was down in the quarter, our insurance book grew 10% in the first quarter. Craig will explain the adjustment in crop premiums for the first quarter.

Our crop business remains an important part of our strategy, but will face some downward pressure on the premium side, in part because of the decline in commodity prices from last year. Nevertheless, the plan is to grow our footprint as diversification is key to developing and managing a profitable book in this sector.

As we move forward, the significance of emphasizing underwriting profitability in all segments takes on even greater importance as investment income continues to come under pressure. In a low rate environment and in a business where asset allocation is closely followed by rating agencies, there are limited options.

We were an early adopter of different asset allocation strategies, which has kept our returns amongst the best in the sector. However, given constraints, we are not expecting dramatic changes from here. Nevertheless, we will continue to be active, but prudent, in terms of allocation.

Despite these headwinds, whether it is a tough rate environment, third-party capital or declining investment income, we had another terrific quarter with net income of almost $300 million and return on capital of 17% and would expect this to continue through the remainder of the year, absent any significant events.

With these results and our focus on managing capital, we're pleased to be able to return to shareholders $285 million in the first quarter through share repurchases and dividends. This is a record for us in any one quarter. We are committed to returning capital consistent with the needs of the business.

Thank you. And now to Craig for the financial highlights.

Craig W. Howie
Chief Financial Officer and Executive Vice President

Thank you, Dom, and good morning, everyone. We're pleased to report that Everest had another strong quarter of earnings with after tax operating income of $281 million or $5.93 per diluted common share for the first quarter of 2014. This compares to operating income of $301 million or $5.88 per share for the first quarter of 2013.

Net income for the first quarter was $294 million or $6.21 per diluted share compared to $384 million or $7.50 per share in 2013. Net income includes realized capital gains and represents an annualized return on equity of over 17%. These results were driven by a solid underwriting result, offset by lower net investment income compared to the first quarter of 2013.

The results reflect the continued improvement in the overall current year attritional combined ratio of 80.4%, down from 80.7% at the first quarter of 2013 and down from 81.0% at year-end 2013. This measure excludes the impact of catastrophes, reinstatement premiums and prior period loss development.

The total reinsurance attritional combined ratio was 77.3% compared to 76.8% in the prior year first quarter. The slight increase in this ratio for the reinsurance portfolio was anticipated after that January 1 renewals and with the additional pro rata business written.

The insurance segment attritional combined ratio was 97.2% compared to 98.5% in the prior year. However, eliminating the effects of the primary crop book, this ratio would've been 92.8% compared to 95.9% in the prior year.

All segments reported underwriting gains for the quarter. Neither this year nor last year included any catastrophe losses in the first quarter. Total reinsurance reported an underwriting gain of $215 million for the quarter compared to a $210 million underwriting gain last year. The insurance segment reported an underwriting gain of $4 million for the quarter compared to an underwriting gain of $193,000 last year. Each year reflected an underwriting loss for crop insurance in the first quarter due to the seasonality of crop premium.

Earned premium for crop insurance declined $17 million in the first quarter of 2014 compared to last year. The estimated premium was adjusted to reflect the lower-than-expected premium for the winter crop season due to the re-underwriting of the book and commodity price reductions year-over-year. Based on current prices, we expect the crop premium to decline for the full year of 2014 as well compared to 2013.

Mt. Logan Re's financial position and operating results were consolidated into Everest beginning July 1, 2013. These results were included in a separate segment and reflected a $10 million underwriting gain in the first quarter of 2014. Everest retained $2 million of income, and $8 million was attributable to the noncontrolling interests of this entity. The overall underwriting gain for the group was $228 million for the quarter compared to an underwriting gain of $210 million in the same period last year.

Our reported combined ratio was 80.0% for the quarter compared to 80.7% in 2013. Our low expense ratio of 4.4% continues to be a major competitive advantage. On reserves, our overall quarterly internal reserving metrics remained favorable.

For investments, pretax investment income was $123 million for the quarter on our $16.8 billion investment portfolio. Investment income declined $23 million from 1 year ago. This decrease was primarily driven by the decline in the limited partnership result for the quarter, although low reinvestment rates and capital used to redeem stock and debt also contributed.

Limited partnership investments resulted in a loss of $2 million for the quarter compared to $17 million gain in the first quarter of 2013. Our existing limited partnership portfolio is fairly mature, and we're starting to see a decline in current gains coming from these investments.

Despite the declining rates, our investment portfolio continues to perform well. The pretax yield on the overall portfolio was 3.1% with a duration of just over 3 years. The quarter reflected $13 million of net after tax realized capital gains compared to $83 million last year. These gains are mainly attributable to fair value adjustments on the equity portfolio.

There were $2 million of derivative losses during the first quarter compared to $15 million of derivative gains last year. This is related to our equity put options and is a function of the change in interest rates during the fourth quarter. On income taxes, the 13.8% effective tax rate on operating income is in line with our expected tax rate for the year.

Stable cash flow continues with operating cash flows of $367 million for the quarter compared to $259 million in 2013. This is despite the high level of catastrophe loss payments over the past few years.

Shareholders' equity for the group was $7 billion at the end of the first quarter, up $69 million from year-end 2013. This is after taking into account capital returned through the $250 million share buybacks and the $35 million dividends paid in the first quarter of 2014. Book value per share increased 4% to $152.80 from $146.57 at year-end 2013. Our strong capital position leaves us with capacity to maximize our business opportunities, as well as continued share repurchases.

Thank you. And now John Doucette, our Chief Underwriting Officer, will provide the operations review.

John P. Doucette
CEO & President of the Reinsurance Division

Thank you, Craig, and good morning. As Dom highlighted, we had a strong start to the 2014 year. Our group first quarter 2014 gross written premium was $1.3 billion, up $90 million from Q1 of last year, with growth coming predominantly from U.S. reinsurance and international reinsurance. For our reinsurance segments, total reinsurance gross written premium, including Logan, was $1.04 billion for the quarter, up 12% from Q1 last year.

As mentioned on the last earnings call, we continue to benefit from flight to quality, rolling out new products, expanding our relationships with some larger clients and writing U.S. property exposures domestically as we leverage the competitive advantage of our high ratings and significant capacity.

We have continued to make progress in our multiline initiatives in the U.S.A., developing new relationships and broadening existing relationships with multiline clients as our underwriters' relationships with those clients go back for many years, sometimes decades.

In Q1, we also deployed capacity on several short tail quota-share treaties at terms we found attractive, expanded our Purple writings and continue to deploy capacity this quarter in credit-related opportunities. Total reinsurance, including Logan, bottom line, we had a very solid quarter with underwriting profits of $225 million, up 7% compared to last year Q1 underwriting profits.

Now some color on April 1 reinsurance renewals. For our overall reinsurance book, we grew our global property gross written premium and continue to see dollar margin expansion in the overall book at 4/1 compared to last year, with the combined ratio and the expected risk-adjusted returns remaining flat from the prior period. This demonstrates the strength and the diversification of our business.

That said, specifically for Japan, our premium dollars in Japan were down from last year due to the following reasons: the continued consolidation trend among our long-standing clients, resulting in merged reinsurance treaties and, in some cases, less pro rata premium; Japanese exchange rates caused the decrease in gross written premium in U.S. dollars; and rate decreases on Japanese excess of loss treaties of 10% to 15%.

Turning to our overall casualty reinsurance book globally. While primary rates remain attractive risk -- of deploying capacity on risks, which appear to have heavy competition. Nonetheless, we continue to find new insurance and reinsurance products and new deals where we can and will deploy our capacity at attractive risk-adjusted rates.

Through the first quarter and at 4/1, we continued to roll out and utilize Mt. Logan Re and saw these benefits at each renewal, as it allowed us to deploy larger lines on attractively priced treaties and provide more capacity to targeted clients while containing our PMLs.

We are pleased to report that with additional capital raised at 4/1, Logan is now in excess of $400 million in AUM. And again, 100% of the Logan capacity is fully deployed. This success continues to highlight the significant value proposition we bring to our capital market investor partners in Logan while being completely seamless to our clients, who continue to deal with the same core reinsurance trading partner Everest as they have for many years. This smooth, flexible deployment of capacity to our clients has helped us secure better signings on many non-cat exposed classes as more of our clients look to have broader and deeper relationships with fewer, high-quality reinsurers.

In addition to Logan, we have initiated other PML and capital management strategies. As Dom mentioned, we recently obtained $450 million of fully collateralized catastrophe reinsurance coverage funded in the cat bond market. This coverage was purchased through Kilimanjaro Re across 2 layers. One layer is an occurrence-based deal providing tail for protection for Southeastern U.S.A. wind risk, and the other layer is an aggregate cover providing tail protection for all natural perils in the U.S. and Puerto Rico, as well as British Columbia earthquake risk in Canada.

The combination of Logan, cat bonds and other reinsurance and retrocessional protections from both traditional and alternative markets allows us to match our portfolio of risks to the best capital structure. This, in turn, allows us to broaden our product offerings and our value proposition, both to our clients and to our shareholders. With this flexibility on how and where we deploy our underwriting capacity, combined with flexibility of the form of our capital structure to manage those same risks, we believe we can and will continue to improve our risk-adjusted returns and improve our cost of capital. In the end, we are pleased with our Q1 reinsurance results and continue to nimbly identify, execute and deploy capital to profitable opportunities across the global reinsurance market.

Turning to our insurance operations. Our premium was $230 million in Q1, down from last year's Q1 gross written premium of $250 million. However, this decrease is primarily driven by premium adjustments for Heartland's crop book for the reasons which Craig mentioned. Stripping out Heartland premium, our insurance operation's GWP is up 10% year-over-year for Q1 with most other insurance segments showing growth, reflecting the impact of the initiatives we have put in place over the last couple of years.

We continue to see profitable growth opportunities in many areas, and we have been successful growing in those areas that we have targeted, including non-program workers' comp, casualty, specialty lines, property E&S and DIC, nonstandard auto and accident and health. We continue to see primary rate improvements in almost all insurance segments. However, we have seen some weakening in some of the professional insurance lines where we remain cautious in our deployment of capacity.

Our California workers' comp book saw an average of 8% rate increases in the first quarter, continuing the significant rate increases for the last several years, providing a compound rate increase in excess of 60% over the last 5 years. We continue to see profitable growth and positive rate increases in our property E&S and DIC books and see that footprint expanding throughout the rest of 2014 as primary rates have been holding across this book. Bottom line, our reported insurance results were positive with a 98% combined ratio for the first quarter. And after eliminating the effects of Heartland, the combined ratio was 94%, down 2 points when viewing Q1 2013 on a comparable basis. We are pleased with the underlying trends in our insurance book as we begin to see the positive results of our initiatives over the last several years with noted improvements in both loss ratios and expense ratios.

In summary, around the globe, we are viewed not only as a lead reinsurer in all P&C lines of business, but also as a creative problem solver. And we continue to be given the opportunity with our broker partners to structure new deals, new products and alternative solutions for many of our corporate and insurance clients. Thus, we remain very bullish on our future.

Thank you. And now back to Beth for Q&A.

Elizabeth B. Farrell
Vice President of Investor Relations
Yes. Augusta, we are open for questions now.

Question and Answer

Operator

[Operator Instructions] Our first question will come from Jay Gelb of Barclays.

Jay H. Gelb
Barclays PLC, Research Division

The -- on the insurance segment, with the 94% combined ratio, excluding Heartland in the first quarter, would you anticipate -- is that sort of the right run rate we should anticipate for the rest of the year barring any unusual items?

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

Jay, this is Dom. That certainly would be a reasonable assumption. And it could improve from there, but due to continued improvement in California comp -- but that's reasonable assumption.

Jay H. Gelb
Barclays PLC, Research Division

Including the crop books, would it be a couple of points higher all-in?

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

The crop book -- actually, for the year, we're still anticipating, at this point, mid-90s combined. So it's a low-90s combined, depending on the outcome of winter wheat. But -- so generally, we're expecting the overall number to gravitate towards the mid-90s on an accident year basis.

Jay H. Gelb
Barclays PLC, Research Division

The next issue is on partnership income. Craig, I think you mentioned that we're -- that part of the decline was reflecting at the book seasoning. So just trying to get a perspective on -- for the remaining quarters, maybe what we should be penciling in, in terms of partnership returns?

Craig W. Howie
Chief Financial Officer and Executive Vice President

Well, as I said, we're starting to see a slight decline because they're becoming fairly mature. But as you noticed, even over the last several quarters, it has started to come down. This quarter, we happen to have one partnership that threw off a loss of over $5 million, which is what was driving the $2 million loss in the quarter. But it has been coming down over the last several quarters.

Jay H. Gelb
Barclays PLC, Research Division

Right. So in the back half of last year, when it was running in that kind of $5 million...

Craig W. Howie
Chief Financial Officer and Executive Vice President

$5 million per quarter. I think that's probably a better estimate, Jay.

Jay H. Gelb
Barclays PLC, Research Division

Okay, that's helpful. And then, Dom, do you have any thoughts or commentary on the recent movement we see in Bermuda between Endurance and Aspen? Does that change your view at all on M&A in Bermuda or anticipating any sort of increased consolidation beyond that transaction?

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

Well, I didn't expect that question right out of the gate. But I think, first of all, let me just say it certainly would be inappropriate for me to comment on the transaction per se, and I know that's not what you're asking about. But clearly, I think that as we've been discussing in some of our opening comments, we have benefited by -- for example, by our scale and our strength in the marketplace and our capital position. And I think, in part, this transaction or transactions like this are in fact an attempt to achieve a different level of scale in the marketplace. So it doesn't surprise me, not particularly with this transaction, but that we would see transactions like this bubble up in the marketplace for that reason. I really -- the other reasons I really wouldn't be in a position to comment on, but I do think that's, in part, what's driving this particular idea and perhaps ideas like this in the future.

Operator

Our next question will come from Vinay Misquith from Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

So first is a numbers question. Curious how much was the crop insurance negative adjustment. I believe you mentioned $17 million. So was that for the earned premiums? So was the adjustment $17 million, or was the premiums down $17 million?

Craig W. Howie
Chief Financial Officer and Executive Vice President

The earned premium was down $17 million. The net premium that was written is down $30 million for the quarter.

Vinay Gerard Misquith
Evercore ISI, Research Division

I'm sorry. The -- and what was the impact of just the adjustment? Was that the entire $40 million? Sorry.

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

Down $15 million.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, so down $15 million. Okay, fine. That's the adjustment, okay. The second is we've seen that Citizens has upsized their cat bond significantly. What do you think is going to happen on the June 1 renewals for Florida?

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

Well, certainly, there's downward pressure in the overall property cat space, depending on the territory. And given the -- how well that market is still priced, we certainly would expect that pressure to carry over into Florida. In terms of a prediction as to how much, well, we'll just have to wait and see. We're not prognosticating at this point. But for us, we write, on an XOL basis, about $130 million in Florida, and then the remainder of our exposure is on a pro rata basis. And as we said, again, in our opening comments, if rates are down but still meet our return hurdles, yes, we may do some -- continuing XOL. But it'd more likely be that perhaps we would some shift some of our capacity to quota share. That -- and, again, it depends what the market is willing to give us come this June.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, that's helpful. And just one last numbers question. I believe the tax rate 13.8%, did I hear correctly that you expect...

Craig W. Howie
Chief Financial Officer and Executive Vice President

Yes, that's correct.

Vinay Gerard Misquith
Evercore ISI, Research Division

Yes. And I believe you mentioned that you expect that for the entire year. Historically, I thought it was between 12% and 13%. So curious why you expect a higher tax rate for this year.

Craig W. Howie
Chief Financial Officer and Executive Vice President

13.8% is an effective tax rate that we would expect for the year. That rate could even go up from there, as we've talked about in the past, specifically on the last quarter call, that if there are no catastrophes for the year, that rate could even go up. That's with an expected amount of catastrophes for the year.

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

Excuse me, one other point that -- keep in mind that, that -- in your assumptions, that rate does have to move with cat losses. So you can't take the rate up without taking cat -- expected cat losses down.

Operator

We'll go next to Michael Nannizzi of Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Would it just -- I know we -- it sounds like we got some pieces for a crop. Would it be possible just to get the 1Q premium for crop and then the combined ratio for crop for the first quarter?

Craig W. Howie
Chief Financial Officer and Executive Vice President

1Q premium for crop was minus 15 for gross written premium.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay.

Craig W. Howie
Chief Financial Officer and Executive Vice President

And what -- I'm sorry your second question?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

The earned premium, I guess, or -- the earned premium that rolled into revenues?

Craig W. Howie

Chief Financial Officer and Executive Vice President

The earned premium that you would see in the first quarter for crop is only about $2 million.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay, got it. Great. And then a question about the California comp book. Can you talk about the -- so the rate you took in -- remind us what the rate you took in 2013 and where loss trend was there and where you're booking comp today on an accident year basis on initial pick basis?

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

I'll let the Craig give you the last year information. But right now, for California comp on an accident year basis, we're in the mid-90s.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Accident year combined?

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

Yes.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay, got it. Great.

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

I don't know if Craig -- Craig is looking for some of the information.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Okay, great. And then if I could just ask one more. So in Bermuda, is it possible to know -- and I realize it's a blended book and probably there's some composition change to it, but is it possible to get an idea of what the year-over-year change in pricing or rate was in that book? Roughly.

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

You're talking about, what, property cat? You think there's -- Bermuda is a mixture of property and casualty. So it's a little tough to answer that question.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Well, let me get to the basis of my question then. So the part I'm trying to understand is the attritional loss ratio was flattish year-over-year, and it's been down for -- on a year-over-year basis for the last few quarters. And I'm just trying to understand, just given generally that there's been some pressure in reinsurance pricing, how does that factor in? Because if it were just typical primary insurance or something very simple, you have reductions in pricing that would cause your combined ratio to rise. But it seems like -- we've absorbed, as a market, some decline in pricing, but that attritional ratio has been flat. I'm guessing there's some mix change in there or something. I'm just trying to reconcile that.

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

It's exactly that. It's mix change. They can move in and out of retro business depending on what we do, out of London in some of those transactions. It's essentially mix change which is driving that.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So -- I mean, so is it fair to assume that if all else equal, if you have this environment, you have mix change, which allows you to keep your attritional flat, does that mean that you're taking more risk per unit of premium that you're collecting?

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

Well, just -- first of all, keep in mind that on a gross written premium basis, Bermuda was down year-over-year. And I think it's a reflection of -- when we say mix change, it's kind of what we said on our opening comments. We'd like to emphasize over and over that we have the capacity, the willingness and the ability to actually change our mix and move from one class of business to another, one layer to another, always trying to achieve the best risk-adjusted return. So that's really what we're striving to do. And in times, you will see a segment, like Bermuda, for example, perhaps slip in premium because we're backing away from certain class of business that aren't giving us the right return.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

I mean, if we're in an environment where -- if there continues to be -- if there continue to be challenges in the reinsurance part, is it possible to just keep that attritional loss ratio flat even with pressure? Just -- or are there some limitations of mix that will cause, at some point, that attritional loss ratio to start to rise?

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

There's always those -- that potential. And it all depends on how fair -- how fast and how far rate decreases are and what we back away from in terms of business that doesn't meet our return hurdle. So yes, if you want to continue to write the same book of business, year in and year out, yes, attritionals will rise. On the other hand, if you move into different -- new products, different geographies, change attachment point, use the capital markets potentially, I mean, there's lots of ways in which we can maintain our profitability throughout a difficult -- what you're describing as a difficult market.

Operator

We'll go next to Amit Kumar of Macquarie.

Amit Kumar
Macquarie Research

Just a few quick follow-up questions. First of all, going back to the Florida piece. You mentioned that your XOL piece is $130 million. Is the remainder $70 million or so, or did I -- am I thinking of the total Florida book wrongly?.

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

Our Florida pro rata premium is -- it would be...

John P. Doucette
CEO & President of the Reinsurance Division

It would be another couple of hundred million dollars. Or in total -- sorry, in total, it would be about $280 million, roughly. That's XOL and pro rata.

Amit Kumar
Macquarie Research

Got it. That's helpful. The follow-up to that point is, I think last year, you had talked about getting preferential signings. You talked about private layers, multiyear deals. Are you seeing that phenomenon for Everest this year, too, or is it much different?

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

I'll let John answer that.

John P. Doucette
CEO & President of the Reinsurance Division

Yes, this is John. Yes, we are -- we're seeing that opportunity, in some cases, private layers, in some cases, clearly at 1/1 and 4/1 preferential timings, but also new products and new layers, new products with existing clients and new clients. And that answers the prior question about attritional losses as well. We -- it's our job to figure out how to make money no matter what market we face. And yes, we are seeing the opportunity where we're one of the biggest broker markets in the world, and we are getting better and better signings from brokers and clients working with the brokers.

Amit Kumar
Macquarie Research

And then when you mentioned new clients, are these the smaller, I guess, new -- the top entities? Who exactly are these new clients?.

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

We're not talking just Florida here. We're talking across the entire portfolio globally. And so it's new clients globally. It's an expansion with existing clients across the world.

John P. Doucette
CEO & President of the Reinsurance Division

Specifically, in Florida, Amit, we -- I mean, we have relationships with almost 40 companies. And we see every deal that comes into the market, and we've been trading with many of those clients for many, many years. And we do have relationships that are not broadly marketed.

Amit Kumar
Macquarie Research

Got it. That's quite helpful. The other question, I think, is a follow-up to Mike's question on maybe California comp. Did you see any changes in loss cost trends over the past quarter? There has been, obviously, a lot of debate, a lot of reports have come out on the impact of SB863. And it seems that impact varies from the company's presence in the marketplace. Did you see any changes in your book, or has it been sort of a steady state from 2013?

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

We have not yet seen any changes. I'm not saying they're not out there. But we've maintained -- actually, we didn't answer Mike's question earlier about loss cost trend. We build loss cost trend into our reserve projection, and that's typically depending on class of business in the mid to high single-digit range. So that's built into our reserve assumptions. And so far, that has been sufficient, clearly, in the most recent accident years. The reserve development we saw in the fourth quarter of last year was primarily older years, so.

Craig W. Howie
Chief Financial Officer and Executive Vice President

And the answer to Mike's question was the rate increase for 2013 was 13%, and we were running in the 96% range last year on an accident year basis.

Amit Kumar
Macquarie Research

Got it, 96%. Now final question...

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

So just to follow up on that, you can see that -- well, the ratio -- the combined ratio has not improved to the level of rate increases, which means that we're taking some of that obviously into loss cost trend, probably more than is necessary at this point but conservative.

Amit Kumar
Macquarie Research

Okay. I mean, that's a -- the final question is probably a follow-up to Jay's initial question. As you look at your growth prospect, your Purple, your Mt. Logan, you talked about different new products. And I'm curious, as you sort of look out, how do you look at organic growth versus outside opportunities to add to the portfolio?

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

What's the distinction that you're making between organic growth and outside opportunities?

Amit Kumar
Macquarie Research

What I'm trying to ask is, based on all the changes we have seen recently, is it fair to say that, probably, you don't need to look at other entities at this juncture?

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

Okay. I'm sorry. For right now, we do not need to do that. And in fact, a growth strategy, at least for us, would never be built on an acquisition. It doesn't mean that we don't look at many things because, as you can well imagine, everyone calls us when there's a potential deal out there. But we do not build our growth strategy off of an acquisition. We prefer, frankly, to build from within. So we -- you don't have to deal with legacy issues, integration issues. And 9 times out of 10, there's limited strategic value to many of the opportunities that we see.

Operator

Our next question will come from Meyer Shields of KBW.

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

Dom, you talked earlier about the tendency of ceding commissions to go up now. Is that trend varying by the size of the cedant, so that's different now than it was 5 or 10 years ago?

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

That was John that spoke to that. And I don't know that we're necessarily seeing it differently by size of customer. Certainly, it can be influenced by the size of the transaction, given that there might be some that are hungrier for premium. That would maybe the only comment I would make about that.

John P. Doucette

CEO & President of the Reinsurance Division

And obviously -- this is John. It obviously is also reflective of the client's individual experience. So lot of cases, whether it's -- whatever class of business they're in, if there's been bad results, we see ceding commissions going down. If there's been catastrophe sort of hit the -- or covers, including pro rata deals, ceding commissions go down. So really, it's both the macro and the micro situations that drives these.

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

Okay, that's helpful. And very briefly, is there a good proxy we can use for limited partnerships?

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

Well, in the past, we have guided people to just the general equity markets, and I think we probably still would say that, that is as good a proxy as you can get. And I think it points to what Craig mentioned earlier that -- in response to another the question, that our limited partnerships were quite strong last year, but that's kind of in line with the general equity markets were strong last year. And conversely, the equity markets in the first quarter this year were not quite as strong, were flattish. And I think that's consistent with our limited partnership experience, except for the one -- I mean, in our particular case, there was a one LP which was distorting, I think, what we would otherwise normally have expected for the quarter. And that -- we would not expect that going forward. So I would say that the best proxy you can use is the general equity market -- public equity market.

Operator

Our next question will come from Brian Meredith of UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of quick questions, the first one, and my apologies if I missed this, but in the insurance segment, operating expenses were down about 13% year-over-year, was there something unusual that happened there?

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

Just good stewards on the incentive package. No, in part, it's premium growth. And frankly, that's most of it and maybe some internal allocations, but nothing dramatic other than premium growth.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great, premiums, all right. But the actual expenses were down 13% year-over-year, the allocation?

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

Look, that would be driven by allocations. Are you including commissions in that?

Brian Robert Meredith
UBS Investment Bank, Research Division

No.

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

That would just be allocation then.

Brian Robert Meredith

UBS Investment Bank, Research Division

And then, Dom and John, I wonder if you could just update or not update or just remind us what your thoughts are on Watford Re. And then there's a bunch of other companies that are looking into these types of potential facilities. What interest level would an Everest have of potentially doing something like that? And what do you think the potential impact is on the casualty markets - reinsurance market?

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

Well, yes. Look, to answer one of your question was that we are looking at that, as I think probably most of our peers are doing. And we haven't yet determined that we're going with -- we've not yet concluded on that analysis yet. And generally, it would certainly cause one to think that it could soften the casualty reinsurance market further from where it is now. On the other hand, the types of transactions that are likely to go into these types -- into these facilities are not generally -- they're generally already tend to be lower margin-type business, lower volatility associated with the class of business that fit these structures. And so it may not have as dramatic an impact as has been prognosticated by many on the overall casualty market. That remains to be seen. I'm not sure that any of us really know for sure where that all ends up, but it is something we're looking at. And in fact, it can create interesting opportunities for ceding companies, frankly, that -- to help mend with their cost to capital on transaction and may, in fact, create opportunities into the reinsurance market space that don't exist today. With the casualty space, frankly, well, a lot of companies are holding on, are ceding less business, increasing nets. Some of these ideas can, in fact, create transactions that can help their P&L or balance sheet and perhaps a reinsurer can add value and then see premium go up in the space. So there's a lot of possibilities that can come out of these structures, but we are examining that very closely.

Operator

We'll go next to Ian Gutterman of BAM.

Ian Gutterman
Balyasny Asset Management L.P.

I guess a few different questions on different parts of your cat book. Just to follow up on the Florida question from earlier. Obviously, we expect rate pressure on XOL, which was mentioned. You talked about quota share book. Can you talk about -- I assume that the upward pressure on ceding commissions is in quota share, too. Is that fair? Can you give us a sense of how you think about that?

John P. Doucette
CEO & President of the Reinsurance Division

Again, there's many, many, many moving parts to it. There's the current summit ceding commissions. To the extent when we saw this phenomenon last year, to the extent that there was -- to the extent that the reinsurance bend was down from some of our clients, it resulted in a more attractive combined ratios, including ceding commission, to -- through the reinsurers. So we -- as we talked about on the last couple of calls, we wrote more pro rata business last June. We also wrote more pro rata business at 1/1. We wrote another $50 million, $55 million of property pro rata at 1/1. And again, the cost of book, the combined ratio globally improved.

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

I wouldn't -- Ian, I wouldn't expect that the same dynamics that are affecting the XOL market from the introduction of third-party capital to have as dramatic an impact on the pro rata market. That, I think, is really what you're getting at.

Ian Gutterman
Balyasny Asset Management L.P.

Yes, exactly. Okay, great. And then as a follow-up to that, on the XOL side. Can -- given the talk on how much rates will fall this year, do you feel like we're approaching a bottom? Are we near people's walkaway price? Or if there's another no-loss year and there is still abundant capacity next year, can Florida rates go down another double digits, or are we getting close to the walkaway point?

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

I don't know the answer to that question. Certainly, if it were to go down, to your question, 10% this year and 10% next year, we'd certainly would be getting very, very close to our walkaway point on a [indiscernible] basis. But again, remember that it doesn't mean that we don't participate in that market through our platform. If capital markets are willing to come down to those levels, then we have the capacity where we can deploy in that fashion, move, again, to more pro rata. And -- so we can still stay very, very active in the marketplace and move to other products, move to different attachment points, perhaps write the business and use the capital markets as a reinsurer. So there are many ways in which this can play out to our benefit, frankly, going forward.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. And then that actually leads into the next question on the cat bond. I was just confused, and maybe this is just nomenclature or something, I don't quite follow, but your PML for U.S. wind is at, I think, $1.2 billion at the 1 in 100. And the cat bond on the index that was referenced had a $1.4 billion to a $2.1 billion index loss that equated to a 1 in 45 to a 1 in close to a 100. So on the occurrence is what I'm obviously talking so that it could be comparable. I was curious why an index loss at the 1 in a 100 is $2.1 billion when your PML 1 in 100 is $1.2 billion. Are they not comparable for some reason?

John P. Doucette
CEO & President of the Reinsurance Division

Yes. This is John. Basically, that's the Kilimanjaro cat bond. The mechanics of that really reflect -- it basically is taking for the occurrence one at southeast states, and it basically is taking industry loss event because it's a PCS trigger. It's taking industry loss event and then there's, effectively, market shares by each of those states. And so it's taking a very big loss and then scaling it down or range of big losses and then scaling it down for the market share. So those are -- the short answer is those are 2 different things, our PMLs and how the mechanics of the bond respond.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, that's what -- I can maybe follow up more on this, but that's what I was trying to get. And then just in...

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

I think, Ian, just -- the bottom line is the -- that purchase of that bond did reduce our PMLs at 1 in a 100.

Ian Gutterman
Balyasny Asset Management L.P.

That's right. So basically, the $2.1 billion equates to your $1.2 billion. Is that the right way to think about it?

John P. Doucette
CEO & President of the Reinsurance Division

It's not -- the $1.2 billion is one point on the curve. The reinsurance repurchased through this special purpose vehicle, Kilimanjaro, that then issued a cat bond is not one point on the curve. It's across the distribution.

Ian Gutterman
Balyasny Asset Management L.P.

Okay, got it, okay. And then just real quick on Mt. Logan. I was -- the $36 million of gross premium, just knowing the capital deployed is a little over 10% rate aligned. If my math is correct, is that right, $36 million over $300 million something?

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

But remember, the $400 million -- be careful though. The $400 million that we cited as now assets under management, that's a recent number.

Ian Gutterman
Balyasny Asset Management L.P.

Right. I was using -- I think it was $320 million earlier in the year maybe?

John P. Doucette
CEO & President of the Reinsurance Division

There's also an accounting recognition of the premium. Over 2014, we would expect it to be higher and more ceded premium in each of the quarters going forward against that capital base.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. What I was getting at is just I thought, normally, for fully collateralized, you need closer to a 20% rate aligned to sort of make the math work. Is that generally accurate?

John P. Doucette
CEO & President of the Reinsurance Division

I think we're trying to build the mousetrap that is may be different and better than what is out there. And I think the fact that we've been able to go from 0 to $400 million in a relatively short amount of time highlights that we may have a better mousetrap than others that are out there.

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

But I do think, though, that the simple arithmetic that you were trying to do is probably a bit low.

Operator

We'll go next to Kai Pan of Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

And I have 2 questions, one is on the capital structure, another one on reserves. On the capital structure, you have the one of sort of the least levered balance sheet, debt to capital ratio that's been 7%. And now you have a third-party capital at Mt. Logan and cat bonds. And what do you think about your, actually, base of $7 billion? Could you sort of buy back more than you earned, like you did this quarter that's actually actively reducing your shareholder base.

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

Well, we tend to want to think about share repurchases within the context of earnings. That's just generally has been our approach. And what we're trying to do with our capital and Mt. Logan and the use of cat bonds and other types of third-party capital structures is grow the business, right? This is a growth strategy, not one in which we're trying to shrink the business. As we've mentioned earlier, we think that our size, capital position, rating, global franchise and the ability to grow is what perpetuates the good earnings we've been able to produce and we are, at least, able to produce. So in all of that context, it really means that it's to our advantage in the marketplace, to the extent that opportunities present themselves, to grow our capital base. And I -- when I say grow our capital base, that means all the vehicles that we've mentioned, meaning our own equity capital, Mt. Logan, use of both cat bond structures and other vehicles. But in the context of our equity capital, it is important to us to be at the size that we're at. So we think about share repurchases in the context of earnings.

Kai Pan
Morgan Stanley, Research Division

So would the 100% payout ratio a fair assumption?

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

We -- that depends on the price of our stock. It depends on what opportunities present themselves, it depends on lot of things. And we don't give prognostications about what level of shares we're going to be repurchasing. But as you saw, we did obviously have -- $250 million this quarter was pretty good number for us.

Kai Pan
Morgan Stanley, Research Division

Okay. My -- turning to my second question on reserves. And your reserve development has been minimal throughout the past 2 years and each quarter, actually. But if you look underneath, you have some -- these large reserve charges in the insurance operation. Why you have the larger reserve releases on your -- from your reinsurance operation? Then -- they tend to coincide like in the fourth quarter. I just wonder, are those just coincidental that you do a big reserves, like, study at year end? And then following on that, you've had -- going forward, as you see the past reserve ratios in your insurance book gradually, well, hopefully, were diminishing, and you said in -- to Dom, since you joined Everest, you've been focusing on the reserve size, setting probably more prudent reserve, like setting more cushions in your reserve, that -- is it possible we will see sort of these efforts actually playing out into a more favorable development in the future?

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

Yes. I -- hopefully, our -- the reserve practices that we've been adopting over the last couple of years, I think, will hold us in good stead. But I will point out that our reserves, even prior to me getting here, in many years, developed favorably, probably 8 or 9. The last 8 or 9 accident years is -- have all come in positive relative to the initial pick. The -- we do, do our reserve studies mainly around the year end. We do some of the smaller classes of business throughout the year. But the larger, more material lines, we focus on that in the fourth quarter. Certainly, if we see anything coming out of the smaller lines of business during this year, we will take some action. Certainly, like we did here in the in the first quarter with the insurance on the medical mal side. And -- but insurance has been more of an issue than reinsurance because many of the lines of business we were in were run-off lines of business. And those, typically -- many in the business tend to be more problematic than in an ongoing book. And also, our insurance lines of business tend to be -- on an overall basis, tend to be in the longer tail areas than in the reinsurance side. So those are some of the more challenges related to insurance, but we clearly think that we've got that under control.

Operator

And it appears that's all the time we have for questions today. I'd like to turn it back to our presenters for any additional or closing remarks.

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

Well, thank you very much and thanks for your questions. I like to just say in summary that, clearly, we think we had a great quarter in a, what some would describe as a challenging environment. We happen to think that the challenges create opportunities for a company like Everest. And we have the ability to do different things and respond quickly and appropriately to the market conditions that are at our feet today, and they certainly won't be the same tomorrow or 2 years from now.

We appreciate your questions and your support and look forward to seeing everybody in the interim. Thank you.

Operator
That does conclude today's conference. Thank you all for your participation.