S&P Capital IQ

CONTENTS

Everest Re Group, Ltd. NYSE:RE

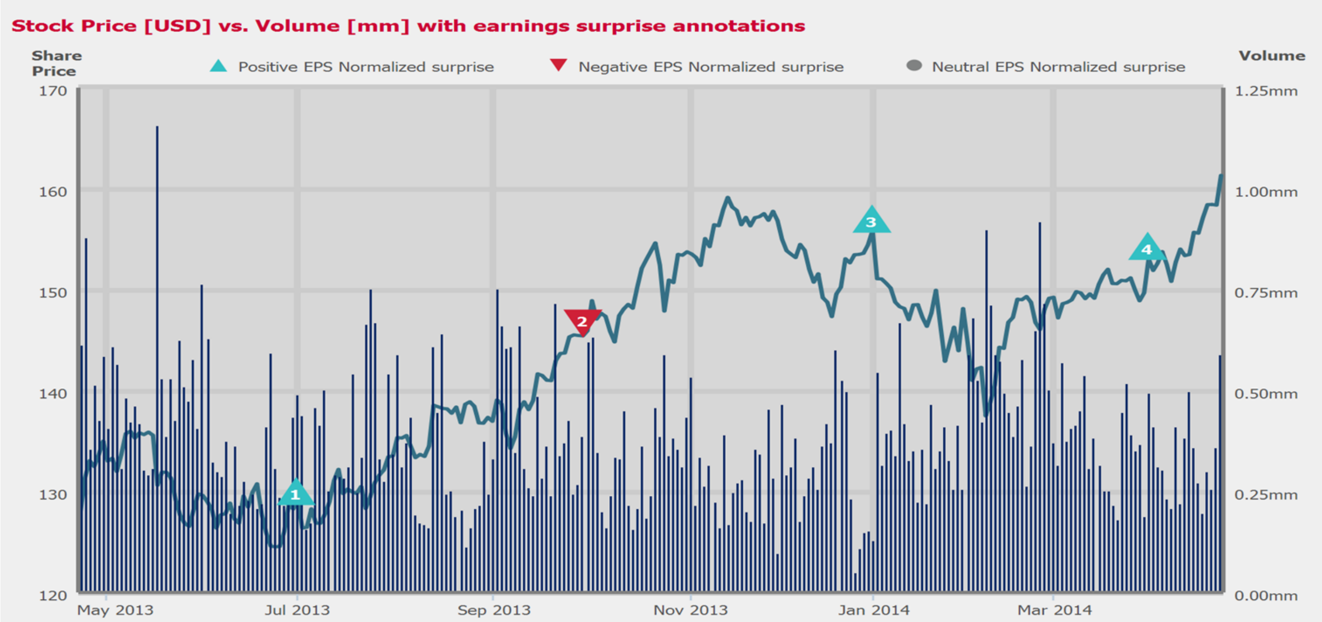
FQ2 2014 Earnings Call Transcripts

Thursday, July 24, 2014 2:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2014-			-FQ3 2014-	-FY 2014-	-FY 2015-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	5.89	5.41	(8.15 %)	3.30	19.86	19.24
Revenue (mm)	1278.83	-	(4.80 %)	1456.40	5340.45	5632.56

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



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2013	4.21	5.10	21.14 %
FQ3 2013	4.59	4.20	(8.50 %)
FQ4 2013	4.98	6.28	26.10 %
FQ1 2014	5.31	5.93	11.68 %

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
CEO & President of the Reinsurance Division

ANALYSTS

Amit Kumar
Macquarie Research

Brian Robert Meredith
UBS Investment Bank, Research Division

Ian Gutterman
Balyasny Asset Management L.P.

Jay H. Gelb
Barclays PLC, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

Kai Pan
Morgan Stanley, Research Division

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

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Vinay Gerard Misquith
Evercore ISI, Research Division

Presentation

Operator

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

Elizabeth B. Farrell
Vice President of Investor Relations

Thank you, Jessica. Good morning, and welcome to Everest Re Group Second Quarter 2014 Earnings 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. We are pleased to report on favorable second quarter results this morning. Our operating income per share has improved for both the quarter and the year over the comparable period -- over the comparable prior year period.

Net income per share for the quarter was up over the prior year, but the 6-month number is lower for 2014, due to lower realized gains on investments in 2014. The improvements in operating results are clearly driven by continuing and growing underwriting gains offset, of course, by declining investment income results. The underwriting results did benefit from lower cats this year, but do reflect $45 million of losses in the second quarter, half of that reported last year. Nevertheless, our underwriting gain in the first half remained strong at $423 million, which was up slightly over the prior year due to growth in premium earned.

The growth in premium was achieved while maintaining margins, which is a reflection of our ability to navigate through this market. Yes, rates are down in many of the cat-exposed regions, however, by changing attachment points and reallocating capacity to different product types and new products, we have been able to secure additional business at rates that meet or exceed our hurdle rates. In addition, our Mt. Logan facility and other similar arrangements, permit us to present more meaningful capacity to clients, which enables us to secure placements at terms which are acceptable. This trend will continue into the third quarter, as we have secured capacity from the cat bond placement we sponsored, as well as some purchases of ILW capacity.

We are a significant market with over $7 billion of capital and these strategies allow us to lever that up even further. Combined with our A+ rating and a team of innovative and responsive underwriters, we are increasingly becoming a market of choice. Nevertheless, we must continue our disciplined approach. And in some segments, you will know that we are forced to retreat due to pricing. John, will cover this further in his report. But a particular note is the fact that essentially all of our net premium growth was in our U.S. reinsurance segment.

The insurance operation continues to perform well. With an underwriting profit in both the first and second quarters of this year. Growth has been constrained due to the crop book, which has actually declined year-over-year by $75 million, due to lower commodity prices. That means, of course, that all of our other targeted growth areas are doing well.

Primary pricing is still increasing, although at lower rates, and as such, our insurance result, excluding crop, is running in mid-90s, which is an improvement over the prior year.

The crop portfolio is expected to improve, but will lag the other lines this year, as we are making significant technology investments there this year. We were active this first quarter on capital management and Craig will get into the details.

Given the financial flexibility gain from our sponsored cat bond, the Mt. Logan facility, ILW purchases and our new debt offering, we continue to have the ability to maintain share repurchases within our earnings stream, while at the same time, expanding the franchise.

All in all, we feel that with an increase in shareholder value per share of over 10% in the first half, we have done an excellent job in a challenging underwriting and investment market. We have the talent, resources, capital and most importantly, discipline to continue back through the cycle.

Thank you. Now I will turn it over 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 net income of $290 million or $6.26 per diluted common share. This compares to net income of $276 million or $5.56 per share for the second quarter of 2013. Net income includes realized capital gains and losses. On a year-to-date basis, net income was $584 million or $12.46 per share, compared to $660 million or $13.09 per share in 2013. This 2014 result represents an annualized return on equity of 17%.

Operating income, year-to-date, was $532 million, or $11.35 per share. This represents a 3% increase over operating income of $10.99 per share last year. These overall results were driven by a solid underwriting result, offset by lower net investment income compared to the first half of 2013.

The results reflect a stable overall current year attritional combined ratio of 80.9% on year-to-date basis, down from 81.0% at year-end 2013. This measure excludes the impact of catastrophes, reinstatement premiums and prior period loss development.

All segments reported underwriting gains for the quarter and for the first half of 2014. Total reinsurance reported an underwriting gain of $181 million for the quarter, compared to $134 million underwriting gain last year. For the first half of 2014, total reinsurance reported an underwriting gain of $396 million, compared to a $344 million gain last year.

The insurance segment reported an underwriting gain of $4 million for the quarter, compared to a gain of $9 million last year. And on a year-to-date basis, the insurance segment reported an underwriting gain of $8 million compared to a gain of $9 million in 2013. Each year reflected a $2 million underwriting loss for crop insurance during the second quarter, primarily due to the seasonality of crop premiums.

Now Logan Re's financial position and operating results were consolidated into Everest Re beginning July 1, 2013. These results are shown in a separate segment and reflected a $9 million underwriting gain for the quarter, and a $19 million underwriting gain year-to-date.

Everest retained $3 million of this income, and $16 million was attributable to the non-controlling interest of this entity. The overall underwriting gain for the group was $195 million for the quarter, compared to an underwriting gain of $143 million for the same period last year. On year-to-date basis, the underwriting gain was $423 million compared to a gain of $353 million in 2013.

These overall results reflect $45 million of current year catastrophe losses in the first half of 2014, all reported in the second quarter. Of the total, $30 million related to late reported losses from the snowstorms in Japan, and $50 million related to the earthquake in Chile. This compares with $90 million of catastrophes during the first half of 2013.

Our reported combined ratio was 82.5% for the first half of 2014 compared to 84.2% in 2013. The year-to-date commissioned ratio of 21.9% was slightly up from 21.2% in 2013, primarily due to higher contingent commissions. Our low expense ratio of 4.5% continues to be a competitive advantage.

As per loss reserves, in June, we released our fourth annual global loss development triangles for 2013, there were no major changes since the 2012 release.

Our overall quarterly internal reserving metrics continue to be favorable. For investments, pretax investment income was $131 million for the quarter, and $254 million year-to-date, on our $17.6 billion investment portfolio. Investment income for the first 6 months declined $40 million from 1 year ago. This decrease was primarily driven by the decline in limited partnership income for the year, although low reinvestment rates and capital used to redeem stock and debt also contributed.

Limited partnership investments resulted in a gain of $6 million for the quarter, compared to a gain of $20 million last year. On a year-to-date basis, the gain was $4 million compared to a gain of $37 million in 2013. Our existing limited partnership portfolio is fairly mature and as a result, we've seen a decline in the 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 3 years. The first 6 months reflected $52 million of net after-tax realized capital gains, compared to $106 million last year. These gains are mainly attributable to fair value adjustments on the equity portfolio. There were $2 million of derivative gains during the first half of 2014 compared to $27 million of gains last year. This is related to our equity put options and is a function of the change in interest rates and indices this year.

Other income and expense included $15 million of foreign exchange losses in the first 6 months of 2014. This was mostly offset by foreign exchange gains on bonds reflected in other comprehensive income.

On income taxes, the increase in the effective rate is primarily driven by lower than planned catastrophe losses, resulting in higher than expected taxable income for the year. The 14.4% effective tax rate on operating income is in line with our expected rate for the year, given our planned cat losses for the remainder of the year.

Strong cash flow continues, with operating cash flows of $590 million for the first half of 2014 compared to $439 million in 2013.

Turning to capital management. We issued $400 million of 4.868% 30-year senior notes in June, to replace our 5.4% senior notes that will mature in October.

Shareholder's equity at the end of the quarter was $7.3 billion, up $355 million, or 5%, over year-end 2013. This is after taking into account almost $400 million of capital returned through $325 million of share buybacks and $69 million of dividends paid in the first half of 2014. Additionally, we repurchased another $10 million of stock after the quarter closed. These purchases will be reflected in the third quarter financial statements.

Book value per share increased 9% to $160.27, from $146.57, at year-end 2013. Our continued strong capital balance positions us well for potential business opportunities, as well as continuing stock repurchases.

Thank you. And now John Doucette will provide the operations review.

John P. Doucette
CEO & President of the Reinsurance Division

Thank you, Craig. Good morning. As Dom highlighted, we continued our strong results into the second quarter of 2014. Our group gross written premium was $1.42 billion, up $155 million from Q2 of last year, with growth coming from each of our reinsurance segments. Net written premium was $1.22 billion, which was closer to flat given the various hedges. For our reinsurance segment, total reinsurance GWP including Logan, was $1.1 billion for the quarter, up 16% from Q2 last year.

We remain optimistic on our reinsurance operations, despite several market headwinds. We are successfully navigating this market and growing profitability by utilizing our many competitive advantages including: our leading global market position franchise and reputation; our strong ratings and well capitalized balance sheet; our expense ratio advantage over our competitors and our culture of bottom line execution; our best-in-class analytics, which allows us to make informed and accretive portfolio management decisions; our state-of-the-art enterprise risk management framework, which recently got upgraded to strong by S&P; our utilization of the capital markets convergence, both offensively and defensively, across a variety of strategies to maximize efficiencies for our clients and maximize value to our shareholders; and our long-term trading relationships with our the clients, as one of the longest-standing and largest reinsurers. These all -- these are all advantages that provide Everest with the edge in this competitive space.

We are also benefiting from strategic relationships we have been building and the new products we have been rolling out across the entire reinsurance division. All of this has enabled Everest to continue to profitably deploy its capital. This July 1 marks the 1-year anniversary of Mt. Logan, representing the successful partnering between Everest and third-party investors to opportunistically grow and deploy capacity in the catastrophe-risk market. We believe this strategic initiative has been successful for all involved, and our unique Logan structure was validated by new investors again, coming into Logan at 7/1, resulting in increased AUM, even after paying out profits to our investors.

We continue to believe that the Logan structure adds value to both our clients and our shareholders. Our clients and brokers benefit from Everest being able to deploy more capacity on deals and layers which are attractively priced. Having access to both rated and unrated balance sheets, allows us to deploy capacity to our clients in a more efficient manner than either one by itself. And our shareholders benefit from Everest's ability to deepen client relationships, better manage our overall capital and our PMLs, while achieving higher risk-adjusted returns and improving our cost of capital.

As we mentioned last quarter, in addition to Logan, we have initiated other PML and capital management strategy. We recently obtained fully collateralized reinsurance coverage, funded by the Kilimanjaro Re cat bond and we were active buyers in the ILW space. Executing these strategies helped us trim some of our peak PMLs.

Currently, the price of risk around the world has decreased in many areas. But with our core advantages and deployment of several capital market strategies, we can compete, win, grow and build significant shareholder value in any market condition.

Here are some color on June 1 and July 1 reinsurance renewals. For our overall global property reinsurance book at June 1 and July 1, we continue to grow our gross written premium aided by the additional capacity provided by Mt. Logan, while the expected combined ratio was up about 1 to 2 points year-over-year, the gross and the net dollar margin continue to expand in the overall book compared to the same period last year. This demonstrates the significant benefit of our long-standing diversified global portfolio across many clients, products and territories.

Across our book, Florida cat XOL rates were down approximately 10% to 15% compared to last year. Despite that, we were pleased with our 6/1 renewal by growing our gross and net premium as well as our gross dollar margin and our net dollar margin across the Florida book. This was achieved by deploying meaningful capacity on cat XOL deals which we liked with key strategic clients, while reducing shares or declining deals which we did not find attractive, and in some cases, moving up attachments on our programs where we found rates were more attractive.

In Florida, and other U.S.A. regions, there were some quota-share treaties on which we were unable to come to mutually acceptable terms, so we came off. However, we also built new pro-rata relationships as well as increased some existing quota-share relationships, where we liked the clients, the pricing, terms and conditions.

We're continuously rebalancing both our cat XOL and pro-rata books in Florida and elsewhere around the globe, as we seek the optimal position on the programs, which we believe provides us with the best risk-adjusted returns while maintaining our relationships with long-standing clients.

Our overall net-net Florida PMLs are flat from 1/1 as the percentage of GAAP equity, against increased dollar margins, given our portfolio management and hedging.

Internationally, we found renewals a mixed bag, with some areas under rate pressure, particularly China and Australia, and correspondingly, premiums were down in those areas. But in those and other areas, we had better-than-market results due to our lead market position and the strength of our relationships with long-term clients and brokers.

Turning to our overall casualty and longer tail reinsurance book globally, primary terms and conditions remain attractive, but reinsurance terms continue to be under pressure for commodity-type treaties and ceding commissions on casualty quota-share treaties are generally moving up. Therefore, we continue to execute new products and new opportunities and we saw some nice growth overall in our long-tail book. These one-off, highly customized solutions, more than offset the GWP on the traditional casualty treaties, which we declined due to pricing.

Total reinsurance including Logan, bottom lined. We continued the strong underwriting results with underwriting profits in the second quarter of $190 million, up 42% compared to Q2 last year underwriting profits.

Now with respect to our insurance operations. Our premium was $316 million in Q2, essentially flat from Q2 last year. As mentioned, this is due to a decrease in crop premium in Heartland from lower commodity prices. Stripping out Heartland premium, our Q2 insurance GWP is up 12% this year compared to Q2 last year.

Rates are generally up in the insurance operation, including casualty and workers comp. Property insurance rates were mixed, depending on the type of risk and the territory. We continue to see profitable growth opportunities in many areas in our insurance book, including areas that we have targeted, such as: nonprogram workers comp; casualty; specialty and contingency lines; property E&S and DIC; accident and health; and our Canadian insurance operations. However, we remain cautious in the professional lines with more capacity coming into that space.

Bottom line, our insurance results were profitable year-to-date and for the quarter. With the year-to-date results coming in at a 98.1% attritional combined ratio, and a 93.9% attritional combined ratio excluding crop, which is better than the same result last year.

We continue to be pleased with the underlying trends in our insurance book. We are seeing encouraging results of our insurance growth initiatives over the last several years with noted improvements in both loss ratios and expense ratios, as well as premium growth in all areas of our insurance book, except for Heartland this year. We expect these trends to continue with both top line and bottom line growth in our insurance book.

In summary, the world of insurance and reinsurance is a rapidly changing world and while there may ultimately be a structural shift in the market, we are as well positioned as anyone to benefit from these changes. We remain confident in our ability to achieve profitable growth for our shareholders and we remain bullish on our future.

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

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

Question and Answer

Operator

[Operator Instructions] And we'll go first to Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

Just 2 quick questions. The first question relates to your underlying loss ratio x cats for reinsurance. Looking at the numbers, and I'm wondering you're talking about pricing declines, why wouldn't that number go up? Is that more a business mix shift issue or is there more to it?

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

Amit, this is Dom. There are number of factors, one is mix of business, another would be -- some of it's pro rata and to the extent that primary pricing is increasing, that impacts it. And usually -- and I think your question was just related to the reinsurance book?

Amit Kumar
Macquarie Research

Yes.

Craig W. Howie
Chief Financial Officer and Executive Vice President

And then new products, in particular, is what would be driving that and different lines of business that we are getting into.

Amit Kumar
Macquarie Research

So that is nearly offsetting the double-digit declines in pricing?

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

Correct.

Amit Kumar
Macquarie Research

Got it. The another question I had is just going back to your discussion on the crop. How should we think about the future, with the prices being down but the yields being up? How do you feel -- how does this play out? I know it's a bit early, but we'd just love to get your thoughts for the future on the crop.

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

We've already given part of my answer, which is it is a bit early. And for now, weather is looking favorable. So we're anticipating decent yields. Certainly, commodity prices are down for now, but there's still a lot of room to go on where that market settles out. So -- and then you've got the issue of retentions by the -- or deductibles. The declines have retaining portion of the risk. So we're not anticipating at this point that the turned downward churn in commodity prices would have a factor. But there's still plenty of room to go here.

Amit Kumar
Macquarie Research

What percent of your -- I'm sorry?

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

Your follow-up?

Amit Kumar
Macquarie Research

Yes. What percent of your book is revenue based?

John P. Doucette
CEO & President of the Reinsurance Division

Amit, this is John. Most of it. A vast majority of it is revenue based.

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

Amit, I want -- back also to your first question, which is the decline in property cat pricing, you have to also remember that property cat premium only represents about 25% of our total premiums. So you can have a decline in pricing there, but other than products and other things can -- it's a tightly levered -- the impact of that is highly levered.

Operator

We'll go next to Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I want to talk a little bit about the premium cede in the international segment as it relates to pricing and as it relates to Mt. Logan's participation?

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

Well, some of the premium in the international is a result of some strategic relationships that we have with some large global clients, so that's dominating that. It's heavily reinsured as well. So that's dominating the session there. And then of course, you do have the Mt. Logan impact as well.

Joshua David Shanker
Deutsche Bank AG, Research Division

So the Mt. Logan -- a portion of that would be the minority of the cede?

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

That's correct.

John P. Doucette
CEO & President of the Reinsurance Division

Right. Yes.

Joshua David Shanker
Deutsche Bank AG, Research Division

And these relationships, I guess, you did not have them 1 year ago?

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

That is correct. I mean...

Joshua David Shanker
Deutsche Bank AG, Research Division

How important...

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

We -- excuse me, let me just clarify that. These were clients we had 1 year ago, but these particular transactions were not in place 1 year ago.

John P. Doucette
CEO & President of the Reinsurance Division

Yes.

Joshua David Shanker
Deutsche Bank AG, Research Division

And just what lines of business is this? And in order to get it, you have to have a -- I mean, this -- it's a fairly high cede so I'm just sort of interested in, like, what lines or -- I don't know what you're willing to say about it?

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

It's across all lines of business. It's multi-line approach quota share.

Joshua David Shanker
Deutsche Bank AG, Research Division

And -- okay. But I mean, -- And then I guess -- yes, you want to say as much you want say about it, I guess, that was my only question.

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

Well, I mean, it's essentially the ability for these clients that need Everest in that marketplace with our rating and our capital, and it enables them to increase their participation in the markets that they operate in by partnering up with Everest on these particular transactions.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. So these are reinsurance companies who probably couldn't get the business on their own.

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

No, no, no. They are primary companies, they are primary companies.

Joshua David Shanker
Deutsche Bank AG, Research Division

And so I guess -- I mean, you're retroceding back to the clients? I don't understand why there's high cede, I guess?

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

That is correct.

Operator

We'll go next to Jay Gelb with Barclays.

Jay H. Gelb
Barclays PLC, Research Division

On the international reinsurance segment, with the retention -- the net to gross going down to 70%, do you feel that's just something we should see this quarter? Or will that affect the sessions going forward, which is typically much closer to -- with the net to gross just typically much closer to 100% in international reinsurance?

Craig W. Howie
Chief Financial Officer and Executive Vice President

Jay, this is Craig. I think this is something that we would expect to see going forward as well.

John P. Doucette
CEO & President of the Reinsurance Division

This is John. We would also -- as Logan -- as we continue to cede business from all of the segments, we would see an impact to that at least somewhat within the international segment as well.

Jay H. Gelb
Barclays PLC, Research Division

Okay. Have you said before what portion of Everest Re's businesses is ceded to Logan?

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

You can see that in the segment report in terms of what the growth -- the gross written premiums that were ceded to Logan, in the Logan segment at the back of the analyst report.

Jay H. Gelb
Barclays PLC, Research Division

Okay. So that's is just direct from the Everest Re book?

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

Correct.

John P. Doucette
CEO & President of the Reinsurance Division

Right.

Jay H. Gelb
Barclays PLC, Research Division

Okay. And then on share buybacks, it -- the pace slowed in 2Q relative to 1Q, why was that?

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

Basically, the price of the stock kept going up and exceeding our target in terms of what we gave -- instructions that we gave to our broker. And we just couldn't keep pace with it.

Operator

We will next to Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

The first question is just follow-up on Josh's question on the retro buying. I just -- if you step back and think about strategically, do think it's sort of -- is it a defensive move that you want to retain, maintain and grow the relationship? Or it could be a arbitrage that actually can enhance your margin offensively?

John P. Doucette
CEO & President of the Reinsurance Division

This is John. Lots of times around the world we have opportunities to partner and build strategic relationships with clients and there's a variety of reasons why they do that. And sometimes it's to get access to their business or our business or get -- as Dom said earlier, to give them an opportunity to enhance their writings. And as we've been saying for many quarters now, we've been building strategic relationships with this, which has -- gives us access to what we believe is profitable business on -- and help strengthen relationships with some of our long-standing clients around the globe.

Kai Pan
Morgan Stanley, Research Division

Okay. Then you mentioned on the -- sort of your global reinsurance book, you -- with surprising decline at -- your renewals [ph] expect the -- expected combined ratio to deteriorate about 1 to 2 points. But that -- it seems -- could you give more color on that? Seems more compared with the some of the pricing commentary that you have said about the pricing declines, especially in Florida, pretty big, but it looks like the combined ratio deterioration, relatively moderate. So anything behind that?

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

Well, in part, was what I mentioned before, and I will ask John to comment as well. But again, we -- recollect that, the cat premium, particularly, the cat x to low [ph] premium, our total cat premium is 25% of our total premium volume. So if that pricing is down 10% to 15%, it's not going to be dollar-for-dollar impact of the combined ratio across the entire book. So there is that leverage impact.

John P. Doucette
CEO & President of the Reinsurance Division

Right. And the 10% to 15% was a comment on Florida rates. We also talked about how we move up in programs, where the rates weren't -- we move within programs to -- so that the impact to us may not be 10% to 15%. But then the comment of -- on the 1 to 2 combined-ratio point, that was on our global property book. And I think that just highlights the kind of -- the strength of a diversified portfolio, trading in 80 countries around the world, where we write property reinsurance with clients that we've been trading with for a very long time. And it helps insulate our portfolio and we look to grow areas around the globe where we think we're getting paid to take the risk. And that helps insulate our portfolio for various rate decreases that are happening in different areas.

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

And remember in the first quarter -- or you might remember in the first quarter that we referenced some areas of the world rates were going up, in particular, Canada. So those were -- that's something that helps offset declines that we see in other territories.

Kai Pan
Morgan Stanley, Research Division

Great. Last question for -- maybe for Craig, I saw that you mentioned the tax rates is going to be 14% run rate or I might have missed that?

Craig W. Howie
Chief Financial Officer and Executive Vice President

That's correct, Kai. So let me just explain a little bit. Taxes, operating tax, specifically, operating tax rate is based on the geographic region where the income's earned, right, and then it's also based on the tax rate in that country. What we had is an annualized rate of 14.4%, that's higher than where we were after the first quarter at 13.8%. It's primarily due to the fact that we had lower than planned cat losses. So with a full cat load for the year, we would expect our tax rate to be somewhere between 13% and 14%. And with the remaining cat load for the rest of this year, we expect it to be at about 14.5%. If we look at this with no more cats for the rest of the year, I would expect that rate to even rise further, to about a 15% to 16% rate. So it's really based on -- currently, it's primarily based on the amount of catastrophes that we have or don't have during the year.

Operator

We will go next to Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Dom, I just had a question on, I think, it was to an answer to Amit's question about mix change. So just what lines of business are you growing in? Are you mixing towards where margins are kind of similar or the better than the cat business?

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

Most of it would be in the credit space. John?

John P. Doucette
CEO & President of the Reinsurance Division

It definitely -- we're seeing some. We talked about that the last several quarters, we also are one-off, highly customized products that we think have better -- it's not commodity, there aren't -- they're not just a plain vanilla product that everybody can do. Again, these are -- some of these are very complicated products that we have the underwriting talent, the actuarial, the contract wording, tax, et cetera, to bring to bear. And we're seeing a lot of traction in that.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And how -- from a capital-intensive perspective, how do those products sort of compare to the cat business?

John P. Doucette
CEO & President of the Reinsurance Division

Well, the way we think the capital is, capital where we are full attract -- areas where we are full attract -- either fullness or volatility attracts more capital. So in a lot of cases, we're not that full, and a lot of these products are a little -- have more structure to them. So they don't have the volatility that cat books have. So in general, they attract less capital.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. So this is an area -- it sounds like you're -- you'll continue to move towards there's good margins, you're getting paid for technical expertise that others can't replicate. So that seems like an area that you'll look to continue to grow?

John P. Doucette
CEO & President of the Reinsurance Division

That's our job to find areas like that and others.

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

And it's not just technical expertise, it's also size, capital base, rating, these are all things that give us a unique advantage.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Okay. And can you give an example just like in the -- like the mortgage-guarantee space? Or is this something different?

John P. Doucette
CEO & President of the Reinsurance Division

I mean, there's a whole array of deals, but as Dom said, we've done a lot of different things in the credit space. Some in the mortgage space too.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Okay. And then one question about Mt. Logan. So the capital there was higher than the legacy business, so is that kind of what you would expect that Mt. Logan will run at a higher cat load than the sort of on-balance sheet business? Or is that somewhat anomalistic as we're trying to figure how the relationship between that and to your on-balance sheet business moves?

John P. Doucette
CEO & President of the Reinsurance Division

If I -- this is John. If I understand your question correctly, it's -- what is the embedded cat load as a percentage of premium? Mt. Logan is taking all and only property catastrophe excess the loss business, where Everest on the reinsurance book and the cat load as a percentage of premium as applied to all lines of business, so you would see.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

A more concentrated. Okay.

John P. Doucette
CEO & President of the Reinsurance Division

Yes.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

That makes sense. Okay. And then last question to Dom, I think a number of question, you mentioned 25% cat as a percentage of premiums, do you have any -- what is that in terms of as a percentage of underlying -- or underwriting profitability? Just trying to right size those 2.

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

Well, our underwriting -- expected underwriting profit on a cat book would be running to 50% to 60% combined ratio, that would be kind of what we would expect. Somewhere in there. It depends on territory, it depends on attachment point, a lot of variables there, but that would be kind of the expected outcome of the ground from the catastrophe book. Does that answer your question?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

But I -- maybe I didn't phrase it right. But I guess, if cat premiums are 25% of total premiums, is there an equivalent percentage -- or can we know what the equivalent percentages of just profitability of total, kind of, Everest profitability represented by your cat business?

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

Well, it's a significant portion. No question. Because you've got the cats -- you earn the premium, it's -- and you got commission in brokerage that gets charge against that. It's a significant percentage of profits, no question.

John P. Doucette
CEO & President of the Reinsurance Division

I mean, given the volatility, we would certainty expect it to run to a higher percentage of underwriting profits to -- for us to assume the volatility type to the cat book. And we would -- likewise, we would assume it to run to a lower combined ratio.

Operator

We will go next to Meyer Shields of KBW.

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

Dom, one quick question. I guess, I was a little surprised that you said you're moving up in attachment points in Florida, because my understanding was that the higher the attachment point, the more competitive things were. Am I misreading the situation?

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

I think the situation is dynamic and I was trying to give to a couple of examples, and there's other examples that would be accounted to that. But one thing that I think we saw was some of the Florida companies moved up partially because of not having had cats over the last couple of years, had moved up their retentions. And again, our view of risk may be different than other people see a risk, but there were definitely cases where we thought the pressure on rates was less higher up in people's programs than otherwise.

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

Okay, that's helpful. Two quick numbers questions, if I can, I guess, for Craig. One, the tax rate specifically net investment income also went up in the quarter, is that likely to persist?

Craig W. Howie
Chief Financial Officer and Executive Vice President

That's really based on the where that investment income is. And so when you say likely to persist, if it's in the U.S., it's back to the 35% rate, that's really what it comes down to.

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

Right. Is the mix shifting away or towards the U.S.?

Craig W. Howie
Chief Financial Officer and Executive Vice President

For the gains that happened this period, yes.

Meyer Shields

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

Okay. And we talked about higher commission expense on contingent commissions, is that both U.S. reinsurance and the insurance segment?

Craig W. Howie
Chief Financial Officer and Executive Vice President

It's mostly the reinsurance segment. On the insurance side, most of our contingents arrangements would have been with MGAs. And of course, as you know, we've been shrinking participation in that segment of the market. So while we still have some reserves out there for profit-sharing, contingent payouts, the impact of that is much smaller. It's mostly the reinsurance book.

Operator

Our next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes, a couple of just quick questions here for you. First one, with respect to some of the quota shares stuff -- business you got off of in the quarter, did that impact the second quarter results? Or are we going to see that hit the third quarter? Because I know in the past you've had some ups and downs in your North American business because of some big quota shares you've gotten off of?

Craig W. Howie
Chief Financial Officer and Executive Vice President

There was an impact to the book this period. Again, it's based on the amount of premium that was leaving and being returned. But a small impact to the book this period.

Brian Robert Meredith
UBS Investment Bank, Research Division

So it wasn't big going out. Okay.

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

Yes. But over time, our mix between pro rata and XOL really hit the [indiscernible] dramatically. And in fact, the reference quota share that we're now off of, and particularly in Florida, we've replaced with some other Florida quota shares as well as some quota shares in the Northeast. So again, the book is constantly -- it's fluid, but we would not expect any significant impact. When the complete year unfolds, the year-over-year numbers will not be that dramatically different.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. And then second question, I'm just curious, Dom and John, can you chat a little bit about what you're seeing with respect to demand for casualty reinsurance out there right now? Has it increased at all?

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

If you're willing to pay a high cede, yes, the demand is going up. And in our particular case, we are not playing in many of those high ceding, commission transactions. John, if you have anything further...

John P. Doucette
CEO & President of the Reinsurance Division

Yes. There are certainly have been some cases of people coming into the market that haven't been in, in the past. But yes, I think there's been a long-term trend of kind of tepid demand on casualty business. And again, that's more -- it varies a lot around the globe.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay. So you haven't really seen a change necessarily this quarter where primaries are trying to buy more casualty?

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

Not in any strong trend that we could identify at this point, Brian.

Operator

And we'll go next to Vinay Misquith with Evercore.

Vinay Gerard Misquith
Evercore ISI, Research Division

Just a follow-up on the international retro that was purchased. I believe you said that, that should continue in the future. But this quarter, we saw about 30% increase in gross written premiums. So should that continue into the future? So high gross written premiums and higher retro in the future?

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

Let me -- let's maybe clarify something. It's retrocessional and absolutely, in the way it's booked or what it's called but it's not really retro in the way you're implying. These are transactions that -- where we're participating with some global clients on deals where we're taking the premium in the front-end, and they're participating to a significant degree as a reinsurer of that incoming portfolio. So don't think of it in the terms of, as we're out there buying retro in the retro market, it's not that. We do -- we have increased our "retro buying," just from the mere fact that we have the Mt. Logan facility and various ILWs that they're buying. But it's dwarfed by the strategic transactions that we've been talking about earlier. So that percentage that you see -- you saw in terms of sessions is likely to persist, but it's not necessarily going to grow dramatically from here, unless we find other strategic relationships and transactions to enter into with clients. So that's the best I can do about telling you what's out there in the future with respect to that number.

Vinay Gerard Misquith
Evercore ISI, Research Division

Sure. But since on the gross written and premium lines, you are also taking more on the front-end and then giving that out sort of, on the back, correct? I mean, that's the way to look at it?

Craig W. Howie
Chief Financial Officer and Executive Vice President

Right, right. But it's part of a complete transaction that took a few clients.

Vinay Gerard Misquith
Evercore ISI, Research Division

Sure, that's helpful. The second is, with respect to the primary insurance, I see the expense ratio also going up, were there some one-time items in that?

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

Just -- that was really more of a function of the fact that our Heartland Crop premium was down dramatically this year, as I've mentioned, because of commodity prices. So -- and the commission ratio in the crop book is less than our standard -- the other primary lines of business.

Vinay Gerard Misquith
Evercore ISI, Research Division

Sure, fair enough. And then the last point of the share repurchases is, I think, you answered that question, but if I heard you correctly, you said you can sort of give back all the capital from earnings despite growing your business. I just wanted to understand that correctly. So can you [indiscernible] buybacks...

Craig W. Howie
Chief Financial Officer and Executive Vice President

I don't know that I quite said it that way. I basically that we certainly look -- our share repurchase program looks to be contained within earnings, that does not necessarily mean that we are saying or predicting that we would buy-in up to our actually earnings. It all depends on the price of the stock. It depends on what opportunities we see out in front of us and what our needs for capital are. But certainly, we got a little bit behind our targets in the second quarter, again, due to price movement in the stock.

Operator

And our last question comes from Ian Gutterman with Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

I guess, my first question is sort of big picture. I guess, I'm just sort of puzzled why we're not shrinking the reinsurance book. And what I mean by that is, if we had this conversation a year ago, or even in January, frankly, it seems like the pressure was mostly on cat, but when you talk to people, you made the reference and others have to cash the exceeding commissions, you see -- it seems like that the Lloyd's guy is trying to cause trouble in the other non-cat property lines. I mean, why aren't we shrinking the book instead of growing the book?

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

Because our margins are expanding, and in many cases, the premium or the transactions that we're seeing exceed -- and I don't mean, by a slight margin, exceed our hurdle rates for business. So if we're able to put additional business on the books and still generate double-digit returns on equity to our shareholders, we're going to continue to do that. Also, remember that we've increased -- as we've mentioned, we've had our sponsored cat bond, we've had ILW purchases, our net return on capital on transactions is higher than the gross cost. So in other words, we're improving our ROE by bringing on business and then, using -- taking advantage of the capital markets to lay off a significant portion of that risk, if not, in some cases, all of it. So that's the reason why.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. So when there -- I guess, the reason I asked is there are other reinsurance executives saying, "We're starting to have behavior that is staring to, I guess, maybe not be the late 90's, maybe rhymes with the late 90s." You don't agree with that statement then?

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

Well, because we've got other forms of capital, I mean, you can hedge the exposure, so if -- that we didn't have in the late 90s. So we're able to utilize the capital markets and improve our ROEs, while at the same time, maintaining -- and John mentioned this but it's worth reemphasizing, our net PMLs from the beginning of year have not really changed materially as a percentage of capital. So we're expanding margins with basically the same PML exposure.

Craig W. Howie
Chief Financial Officer and Executive Vice President

I'd like to add a different dimension response to your question. We also are seeing opportunities, there's been a lot of talk about -- that the haves and the have-nots in the reinsurance world. And -- I can't respond to specifically to you say, other reinsurance executives are saying these things, but our opportunity set is not the same as the opportunity set in front of a lot of other reinsurance companies. We see deals around the globe that are shown to 3 or 4 reinsurance companies. We're creating new distribution sources through these new products we have been talking about now for several quarters. So we have significant clients that -- we have global clients that want to do more business with companies like Everest and less business with other people. So there's a lot of other dimensions to this -- to the landscape, and we think we're navigating it pretty well.

Ian Gutterman
Balyasny Asset Management L.P.

That's a very, very good point. Just to follow-up, I normally wouldn't ask about a specific contract, but I think its in the public domain who Citizens reinsures with. You guys took a very large line, I believe, on that need assistance program, I don't think you're on it much or at all the year before. Can you just maybe talk a little bit about why that was a good place to play capacity?

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

Yes. We did take a larger line this year. We liked it. We liked where it attached, and thankfully there were some improvements in the contract wording. That's -- it was one of the reason we didn't put up the bigger line last year. So we were happier with that and met our returns. And so therefore, as we look and headed into our June renewals, we thought it was accretive to the portfolio that we're trying to build and it made sense, particularly, it fit well. And given the way we managed our net PMLs, we thought it was the right thing to do.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. So if I looked at PMLs you had a big up there, a big down on universal. Outside of those 2, would you say your cat book grew in the quarter? Was is it really just those are the 2 big swings and the rest was maybe flat to down?

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

It grew in the quarter. Gross. You remember what I was saying earlier.

Ian Gutterman
Balyasny Asset Management L.P.

X the citizen's growth in that. What I'm to try to get at, was citizen's all of the growth? Or was there other growth even if you didn't do that?

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

There was lots. It was -- one way I would describe this renewal was very volatile. There were a lot -- there was lots of new structures we played at different levels of attachments, our line size has moved up and down more than it has in the past.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. Got it. And just lastly, a numbers question, in the U.S. reinsurance, the acquisition expense ratio historically has been around maybe 22% and when it's a 25% this quarter. Was that a mix thing, was it higher ceding commissions, any color on that?

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

That's the higher contingent commissions in the commission ratio.

Ian Gutterman
Balyasny Asset Management L.P.

Okay. But it's more contingence in them than the base ceding commission has gone up?

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

That's correct.

Operator

And at this time, I would like to turn the conference back to Dom Addesso for a closing remark.

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

Thanks for all your questions this morning. In summary, I'd like to just reemphasize that despite the many challenges that are out there in the marketplace that we've discussed this morning, we remain optimistic about continuing to deliver double-digit ROEs due to our size and ability to navigate through this market. So again thank you for participating on the call this morning.

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