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Everest Re Group, Ltd. NYSE:RE

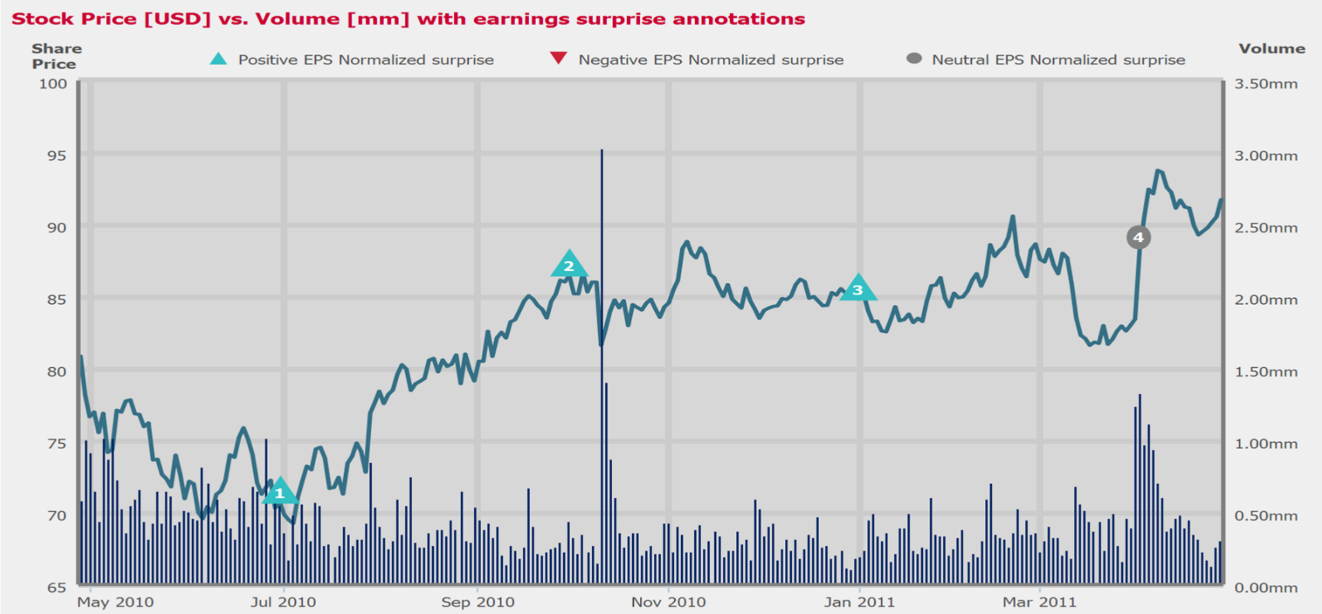
FQ2 2011 Earnings Call Transcripts

Thursday, July 28, 2011 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2011-			-FQ3 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.49	2.46	▲(1.20 %)	2.12	1.72	11.42
Revenue (mm)	1073.98	1176.79	▲9.57	1119.13	4491.55	4514.45

Currency: USD
Consensus as of Jul-28-2011 1:03 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2010	2.79	3.18	▲1 13.98 %
FQ3 2010	2.65	2.67	▲2 0.75 %
FQ4 2010	2.94	4.70	▲3 59.86 %
FQ1 2011	(4.47)	(5.95)	NM

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Call Participants

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Vice President, Investor Relations

Joseph Victor Taranto
Chairman of the Board

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Brian Meredith
UBS

Cliff Gallant
Keefe, Bruyette & Woods.

Gregory Locraft
Morgan Stanley

Jay Gelb
Barclays Capital

Jerry Fine
Charter Oak Partners

Matthew Heimermann
JPMorgan

Ron Bobman
Capital Returns

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Presentation

Operator

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

Elizabeth B. Farrell
Vice President, Investor Relations

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

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

Now, let me turn the call over to Joe.

Joseph Victor Taranto
Chairman of the Board

Good morning, thank you Beth. For the first six months of this year the industry and for that matter of the world as experience catastrophes on a scale never seen before. Neither history nor any models could have forecasted the devastation experience. Despite these events Everest has maintained its extremely strong capital position. Shareholders equity at the end of June is $6.2 billion or 2% down from the $6.3 billion at December 31st, 2010. Despite second quarter catastrophes, Everest earned $134 million in operating earnings for an annualized ROE of 9.5%.

And in the quarter, we increased capital by $238 million or 4%. Given these events, property catastrophe prices have gone up and we are achieving higher risk adjusted returns. While some parts of the property and casualty market are seeing upward rate corrections other parts are not. Our approach is to continue to be disciplined and only right business at proper prices. This has led and will continue to lead to shifts in our business composite. I am pleased with the underwriting portfolio that we have constructed through the most recent renewal cycles. And I believe we are positioned to do well despite a challenging marketplace.

Let me take you through some of these underwriting particulars. First let's begin with our insurances operation. Insurance business is roughly 25% of our overall business. A couple of years back, it was mostly casualty business much return through MGAs. Today it has a significant short tail specialty component led by Heartland our Crop Insurance Company and a growing majority of our business is written directly. About one third of our business is property or crop business, which is running quite well for the first six months even though parts of the country have experienced severe weather. We expect our premium from crop business to continue to grow into 2012 and 2013.

Roughly another third of our business is workers comp, mostly California workers comp. Through June, we have achieved an overall rate increase of 15% and this is on top of a 9% rate increase we had achieved in 2010. This is the only pocket of casualty business where meaningful increases are being achieved. We have been in the market for many years and have an experienced team that is focused on achieving an underwriting profit.

Another 15-ish percent of our book is our special casualty business written out of New York and Canada, this is primarily D&O for financial institutions. We stated this unit in 2008 when there was a tremendous

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market need. Our team has generated great results in the last 2.5 years. Unfortunately this market has recently become more competitive. Many having short memories of the 2008 financial chaos, still we will be disciplined and I expect we will continue to perform quite well.

The remaining 20% of our book is general casualty, rates continue to flat at best. We have greatly reduced this book in response to market conditions and will continue to do so if the market does not improve. In total, our insurance operation booked an underwriting profit for the quarter, albeit a small one, at 99 combined. Nonetheless, I believe we are positioned to continue do well despite the challenging market as we remain disciplined, growing in areas where we can profit and reducing in areas where we cannot.

Turning to our reinsurance operations; for our U.S. book, we continue to reduce our casualty business as we stayed focus on an underwriting profit. We are largely down to a core group of clients, so we believe we'll be disciplined themselves. On the property side, we were very pleased with the June Florida renewals. Catastrophe excess loss coverage experienced rate increase between 10% and 15%. We also achieved improvements on our pro rata deals and underlying insurance rates are finally being allowed to increase by the Department of Insurance. Our plan was more rates, more premiums, bigger upside and yet not growing our PML or downside. I'm pleased that we have fully achieved our plan.

Moving to our specialty book, which includes marine aviation surety and accidents and health, our position in marine and aviation remains quite small as we find minimal opportunities today. Although the recent BP loss and Griffin loss should create some opportunities going forward in the energy sector. Surety is the steady book for us, but not growing given the lack of construction in the US. Our biggest division is accidents and health and our main product is our medical stop loss. Our dedicated unit has done an outstanding job of achieving an underwriting profit. We believe we will be able to continue to expand our writings in this sector especially as the new healthcare bill increases the need for this product.

For our international book, which is mainly property business well spread around the world, on 71 business, catastrophe business we achieved modest rate increase perhaps on the order of 5-ish percent for countries that did not experience losses. Of course, Japan, Australia, New Zealand, in those areas significant increases were achieved. Once again, our plan was more upside with no additional PML or downside. In fact, our PMLs for the bigger peak zones were lower. We continue to see growth opportunities in newer areas including Brazil and China.

Our Bermuda operation includes our UK and Continental European business as well as business written out of Bermuda. This sector have little business that actually comes up with 71. Much of our retro business is written out of Bermuda. We continue to have ample capacity for one-one renewals and continue to believe that prices will be considerably higher.

Summarizing, we are prepared to modify our book as its necessary in response to market conditions. Our well-established global franchise continues to provide access to the best opportunities. Our staff continues to focus on future profits. We are not just sitting back and waiting for some broad market change. Last but not least, a few months ago, the Board initiated a search for a new Present. Discussions were held with a number of high-quality executives and the best candidates, namely Dom Addesso was chosen. Dom has valuable experience both on the financial and operational side for our industry. He has helped Everest considerably as CFO. And we have chosen to broaden his role, so we can help us even more.

A search for our new CFO is underway. Dom will remain CFO until that position is filled and then he will move more fully to the operational side. John Doucette has been promoted to Chief Underwriting Officer for Worldwide Reinsurance. Likewise, given the great job that John has already done for Everest, we were keen to expand his role, so we could benefit more broadly.

My personal congratulations to Dom and John. Now, Dom will take you through the financials.

Dominic James Addesso
President, CEO & Non-Independent Director

Thank you, Joe and good morning. The net income for the quarter of $2.41 per diluted share was as previously announced reduced by catastrophe losses. This loss is net of reinstatement premiums and taxes

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amounted to $90 million in the quarter or $1.65 per share and included losses from events that occurred in both the first and second quarters.

This amount is slightly above the pre-announced levels due to a late report from one client that indicated significantly higher losses for the first quarter New Zealand earthquake event. The net pre-tax catastrophe loss estimate included $55 million of strengthening on first quarter events, primarily due to the New Zealand earthquake and $58 million were second quarter events, largely resulting from the Midwest tornados.

As previously announced, we do not expect the third earthquake in New Zealand to be greater than $10 million, which is our catastrophe loss threshold. And therefore, this event would be absorbed into attritional losses. Despite these catastrophe losses, the combined ratios stood at 98% for the quarter, eliminating the effects of prior year development catastrophe losses and related reinstatement premiums, the attritional loss ratio and combined ratio were 59.7% and 87.2% respectively. These attritional ratios are consistent with the prior year and with improvements in pricing, terms and conditions on the renewal book, it reflects our conservative reserving posture for the current year.

The variance in the commission ratio quarter-over-quarter was driven by the impact of reinstatement premiums on the calculations. On a year-to-date basis, it is in line. With respect to our prior accident year loss position, the quarter included favorable development of two tenths of a point on a combined ratio. Our internal interim reserving metrics remained quite favorable.

Premiums for the quarter and year-to-date were down slightly over the prior year. The reinsurance segments overall were down primarily due to non-renewed US casualty business as a result of continued competitive market conditions.

Property reinsurance was also down as we repositioned our book in catastrophe exposed zones. The Insurance segment however was up as new business ventures we entered into mainly the acquisition of Heartland provided for growth in the sector.

With respect to results by segment I will start with insurance which reported a 99.2% combined ratio, compared to 105.7% in last year's second quarter and a 102.8% in the first quarter of this year. These improvements are driven by the strategic portfolio changes beginning to take hold with growth in our crop insurance California DIC and the D&O book.

Workers compensation is still being booked at a conservative level above 100 combined but we fully expect this to improve as continuing rate increases over the last 18 months as referenced by Joe Taranto. Within the US reinsurance segment results were impacted by the second quarter cat losses specifically the Midwest Tornados resulting in a reported combined ratio 105.5%.

In future quarters we expect 3D property to benefit from improved terms particularly as it relates to the most recent Florida renewals. 3D casualty remains at an underwriting profit with a 98.9% combined ratio. Although as mentioned previously on a declining premium base the soft market conditions persist here.

In the Specialty segment it was overall a positive quarter at a 98 combined ratio despite marine, and aviation running at a 114% due to the (inaudible) energy loss. The overall results were high by positive results in A&H and surety at a 91.6% and an 87.2% combined ratio respectively.

A&H is the largest line within the segment at $70 million of gross premium writings year-to-date up over 18% for the year as a result of new initiatives in the primary medical stop loss product. The International segment had a 95.3% combined ratio for the quarter despite 18 points or $58 million of cat losses.

Rate increases beginning last year in Latin America and continuing into this year in Australia, New Zealand and Japan are likely to lead to more positive attritional results. And finally the Bermuda segment had a profitable quarter with a 91.5% combined ratio as this segment had a relatively modest impact from cat losses in the quarter.

On the investment income front, we continue to feel the impact of lower reinvestment rates as net investment income is down 4% or $7 million quarter-over-quarter. Over the last 12 months there have

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been sales calls and maturities in our fixed income investments totaling $2.5 billion to the book yield of 4.8%.

During that time $2.1 billion was reinvested in fixed income securities at a book yield of 3.7% for difference in yield of 1.1%. Remaining funds were reinvested in emerging market debt and equity with an emphasis on dividends as we seek to offset some of this loss yield.

This is also done with a bias towards continuing to shorten the duration of our portfolio as well as maintain an overall credit quality of AA or better. With respect to credit risk it should be noted in the beginning last year we eliminated our exposure to Portugal, Ireland and Greece sovereign bonds and have reduced our holdings in Spain and Italy sovereigns.

In addition we have reviewed our holdings of European banks for their exposures to sovereign debt to minimize default risk related to the debt crisis of the European countries. Realized losses for the quarter mainly relate to the sales of municipal bonds as we completed our repositioning of that sector.

Turning to some miscellaneous items which include other expense for the quarter of 13 million which was primarily foreign exchange related losses. And was a small derivative loss on the equity put contracts driven by interest rates and the indices. The combined effect of all these activities resulted in net income for the quarter of a $131 million. Add to that after-tax unrealized gains in our bond portfolio of $112 million and a translation gain of a $11 million provided for $254 million of total comprehensive income.

As a result shareholders equity rose to $6.2 billion at June 30 from $5.9 billion at March 31. Although at this level it is slightly below the $6.3 billion at year end. This decline in GAAP equity was a result of the net loss for the first six months of the year plus share repurchase in the first quarter and dividends paid to date.

On a per share basis, our book values stands at $113.21 compared to $109.07 at March 31. Our continued strong and growing capital account positions us well for potential business opportunities. I will now turn it back to Beth for Q&A. Thank you.

Elizabeth B. Farrell
Vice President, Investor Relations
Jessica, we'll now take questions.

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Question and Answer

Operator

Thank you. (Operator Instructions) And we'll take our first question from Jay Gelb with Barclays Capital.

Jay Gelb
Barclays Capital

Thank you. Good morning. Could you give us a bit more clarity on the decline in premium volume for the US reinsurance and international book and whether you see more of a shift towards short-tail lines?

Dominic James Addesso
President, CEO & Non-Independent Director

In terms of color commentary, we've had the US reinsurance base and our overall premium is down in part due to crock reinsurance being down on year-to-date basis as we transition that book into the insurance space. In addition, our treaty property premium again, US reinsurance has shifted dramatically to more of an XOL position. So year-over-year our XOL premium is up approximately 20%. And on the international space…

Joseph Victor Taranto
Chairman of the Board

We've been - really about the casualty component for the US.

Dominic James Addesso
President, CEO & Non-Independent Director

And the casualty was down $15 million on a year-to-date basis for US reinsurance reasons that we sited earlier. Does that address your US reinsurance questions or treaty property and or treaty property?

Jay Gelb
Barclays Capital

Yes.

Dominic James Addesso
President, CEO & Non-Independent Director

Before we get into international. On the international side, we - our premium is down slightly particularly in our catastrophe exposed areas, but our PML is down dramatically in many of those zones and rate increases as Joe had mentioned earlier, in the international space, our - in the cat expo in the places where the losses, rates are up 20% to 40% in the loss free zones rates are up anywhere from 5% to 10%, most of the rate increases as it relates to Japan because of the expansion of many of those contracts will really not like to be realized until 71.

Jay Gelb
Barclays Capital

Okay.

Dominic James Addesso
President, CEO & Non-Independent Director

Follow-up there?

Jay Gelb
Barclays Capital

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No. Next issue would be on RMS, what's your expectation in terms of what the impact is to your PMLs and excess capital position and what in turn could that mean for share buybacks going forward?

Joseph Victor Taranto
Chairman of the Board

It means very little, we primarily use the air model although I guess we could say, we really use our own model, which does look to air. As an eye towards our mission and some other factors as well, but we really haven't used RMS. And so our changes are minimal at this point relative to when we spoke last and it really isn't affecting the way we view our PML. Our PML for only major zones including Florida are down a bit from a few months ago. So in terms of having the capital to do more should one-one present a great opportunity on retro or property areas we have ample capacity.

Jay Gelb
Barclays Capital

Great. And then just on the follow-up on share buybacks thoughts going forward?

Joseph Victor Taranto
Chairman of the Board

Well our plans remains for hurricane season to not to be buying anything back. but candidly, we're quite keen after that to and all likelihood get back to doing some meaningful buyback unless they have some overwhelming business opportunities in the market at that point.

Jay Gelb
Barclays Capital

Great. Thank you.

Operator

And we’ll take our next question from Matthew Heimermann with JPMorgan.

Matthew Heimermann
JPMorgan

Hi, good morning everybody.

Dominic James Addesso
President, CEO & Non-Independent Director

Good morning.

Matthew Heimermann
JPMorgan

A couple of questions, one Dom, would you might just quantifying or providing a little bit more detail with respect to the US reinsurance just maybe give us a sense of what crop was last year and maybe what the year-to-date drop looks like, just so we can better model that. And then also just maybe give us a sense of - on the treaty property side just what pro rata property premiums, how they're changing in the quarter too, just to get a sense of kind of beginning and the end there?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, our crop insurance business is down $21 million year-to-date. Is that which we are looking for there?

Matthew Heimermann
JPMorgan

Yes that's helpful. And what - can you remind us what it was in total last year?

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Dominic James Addesso
President, CEO & Non-Independent Director

Last year, our crop business year-to-date was $22.5 million.

Matthew Heimermann
JPMorgan

Okay. All right, perfect.

Dominic James Addesso
President, CEO & Non-Independent Director

Okay. And I'm sorry what was the second question?

Matthew Heimermann
JPMorgan

The other one was just - you gave us a sense of what the XOL premiums are up, but obviously, XOL consumes a lot more PML per dollar premium than pro rata. So just was curious how the pro rata was changing, because I would suspect that was down decently to kind of get the overall numbers to work out.

Dominic James Addesso
President, CEO & Non-Independent Director

Yes, our pro rata premium was down year-over-year, year-to-date basis close to $200 million on premium.

Matthew Heimermann
JPMorgan

Okay.

Joseph Victor Taranto
Chairman of the Board

Matt, let me throw in looking forward. You know my sense when we look out the next year lets say, July 1 of this year into next. We will do more property premium than we did on a worldwide basis both in the US and on a worldwide basis than we did taking July backwards for a year, and this is just on the back of rate increase in some additional opportunities that some of which came up in June and July, but I think more will present themselves as the year goes on.

But may be more importantly in terms of expected profit I just see the risk dynamic on both the pro rata that we're doing and on the XOL that we're doing much more favorable going forward, and in terms of expected ROEs and just premium and upside, downside analysis it does provide us for I think a better expected number.

So I do think premiums will be up going forward, but again, the most important thing is the expected profit dynamics looks very good going forward.

Dominic James Addesso
President, CEO & Non-Independent Director

Now let me also add to that to not confuse the issue, the premium number that I sited that was down includes both property and casualty. All right.

Matthew Heimermann
JPMorgan

The 200?

Dominic James Addesso
President, CEO & Non-Independent Director

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Right.

Matthew Heimermann
JPMorgan

Property and casualty in total. Okay that's helpful.

Joseph Victor Taranto
Chairman of the Board

And then on the [guarantee] side I would add on that and that's a little buffer to predict, but you can hear that we've not bullish on that we've cut back quite a bit and unless the market has a meaningful change I don't expect that would be up in the coming year.

Matthew Heimermann
JPMorgan

That's fair and I don't think that really is all that surprising of a comment given the market back up I guess. In terms of the, can you give us a sense of geographically in the states where you made the biggest shift from pro rata to XOL?

Dominic James Addesso
President, CEO & Non-Independent Director

Well it happened; the predominant change was in North Carolina.

Joseph Victor Taranto
Chairman of the Board

And Texas goes the other way.

Matthew Heimermann
JPMorgan

All right. That's helpful. And then, just with respect to, and I apologize these are a little bit more numbers focused, but the attritional losses, you kind of suggested that there was, I think you said less than $10 million in international, which would have been related to the third earthquake. Could you just quantify in dollar terms what the marine loss was and then in the attrition in the US just so we can take some of the noise out of the numbers?

Dominic James Addesso
President, CEO & Non-Independent Director

While the Griffin loss, if you're asking about that is likely to be somewhere between $15 million to $25 million to us that's kind of the range of estimates we have around that. The $10 million that I was referencing is our cat threshold so any good loss any cat event above $10 million gets recorded as a cat loss, below that's covered in our attritional expected loss and that is covered in our expected loss pick for attritional loss pick for the international segment. Does that, I don't whether it answers your question.

Matthew Heimermann
JPMorgan

No. Were there any other notable items that didn't get crossed by this cat?

Dominic James Addesso
President, CEO & Non-Independent Director

No.

Matthew Heimermann
JPMorgan

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Okay. And then, I guess with respect to, and this is the last one, just when we think about Heartland and the insurance segment, is there, because right now I believe you're sill recognizing that or writing it on a reinsurance basis. And that'll switch to your own paper. It may have already switched, I guess. But is there going to be a difference in terms of just the composition of margins going forward? In other words, should we expect maybe a little bit better expense ratio performance as that starts to get written on a direct basis?

Joseph Victor Taranto
Chairman of the Board

It would improve slightly.

Dominic James Addesso
President, CEO & Non-Independent Director

Yes, yes.

Matthew Heimermann
JPMorgan

Okay. and then I guess last one big picture, with just the - with all of the potential consolidation going on in the sector right now, with some of the potential consolidation going on in the sector, how do you feel like that impacts your competitive position?

Joseph Victor Taranto
Chairman of the Board

Well, I think its probably marginally improves it you know there will be some dislocation as a result of combinations, some of it will be with regard to clients some of it will be with regard to employees and of course there is a whole lot of distraction that goes as these things take place. So we’re happy to not be distracted and we are happy to be looking at what is going on and basically trying to figure out how we can benefit from it.

Matthew Heimermann
JPMorgan

Okay. Thank you much.

Dominic James Addesso
President, CEO & Non-Independent Director

Thank you, Matt.

Operator

And we’ll take our next question from Cliff Gallant with Keefe, Bruyette & Woods.

Cliff Gallant
Keefe, Bruyette & Woods.

Good morning.

Dominic James Addesso
President, CEO & Non-Independent Director

Good morning.

Cliff Gallant
Keefe, Bruyette & Woods.

A quick question on your reserving I know that year-to-date, you've had slightly favorable development. Could you talk at all about it on an accident year basis? Are there some years where you are seeing an

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adverse development and offsetting with others? Just a little bit more detail in terms of what you're seeing in terms of that?

Dominic James Addesso
President, CEO & Non-Independent Director

What we do in the interim periods is that we look at what we call our actual versus expected and it's not a detailed accident year reviewed. And as I suggested in my remarks, those metrics are coming up quite favorable. We really can't answer that question specifically until we do our full reserve study near the end of the year. We do undertake a number of smaller reserve study, meaning, reserve studies on a less material segments or lines of business in these interim periods and all of those segments are performing favorably.

Cliff Gallant
Keefe, Bruyette & Woods.

Okay, thanks.

Joseph Victor Taranto
Chairman of the Board

Let me expand on that and play actual for a moment. What Dom is referring to is, our reserve studies indicate the outcome of those studies is, there will be a certain amount of reported loss during the year, all accidents years combined. And then we compare what's actually coming in versus what we expected to come in, and so far, those comparisons are looking quite good for us.

Cliff Gallant
Keefe, Bruyette & Woods.

Okay. Thank you very much.

Operator

And we'll go next to question comes from the line of Gregory Locraft with Morgan Stanley.

Gregory Locraft
Morgan Stanley

Hi, thanks. I wanted to just ask a bit about the loss trend on the longer tail casualty lines. Are you seeing any kind of pickup in frequency or severity on those lines? We've been hearing from a few carriers that an inflection point may have been reached.

Dominic James Addesso
President, CEO & Non-Independent Director

We're not seeing any increase in frequency and frankly severity is within our expected tolerances. Nothing unusual...

Joseph Victor Taranto
Chairman of the Board

Nothing surprising.

Dominic James Addesso
President, CEO & Non-Independent Director

Surprising there.

Gregory Locraft
Morgan Stanley

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Okay, great. And then actually again, on the loss side, again, a carrier came out on the asbestos line and took a bigger than expected charge recently. Do you have any thoughts with regards to the asbestos environment, any change in loss trend there that is worth calling out?

Dominic James Addesso
President, CEO & Non-Independent Director

No change from what we see on our side. Clearly, it is a complicated area in terms of claims, management claims, litigation et cetera. We'd look at that quarterly, we actually have separate reserve committee meetings on just those areas and that is still performing in within our expected tolerances as well. So nothing new that we're seeing there. We did show a small rather immaterial amount on the ANE line. This quarter as you may have noted that was not an Asbestos loss, it was an environmental loss. Frankly we haven't seen an environment, new environmental losses reported in some time, quite some time. And so we just decided to take that new case and put it up in reserve. So that's nothing, what you see there was not Asbestos, it was environmental.

Gregory Locraft
Morgan Stanley

Okay, great. That's very helpful. And then last is, just thinking forward into 2012 clearly you sound like property is going to be -- is sort of where the action is. Can you help us think about how that line might unfold under different loss amounts emanating from the upcoming hurricane season? So, you know, if there's no losses in the season, how do you think it'll play out if there's an average season which is $18 billion of losses. You know, what do you think would play out? And then obviously, I think we all know what will happen if it's bigger than that.

Joseph Victor Taranto
Chairman of the Board

Well, I think you've kind of answered it already, Greg, but if there's no losses I think you'll still see a very, very healthy market for CAT business one-one with the rates going up more modestly than they would have - if there are losses. I think the retro market even if there are no hurricane losses, we'll still see meaningful rate increases over what it was written at a year ago.

So we are more bullish on the property side, retro, Florida, other places around the world. Now, we're still pushing for the best terms and conditions and rates and we still recognize that this as volatile business, just look back the last year and a half, there's a reason rates are up. And I think we've pushed as hard as anyone to get the best terms that we can. But we are pleased that there is more to operate with on the property side. We're also pleased with some of the other things that are going on, the California comp responding, crop business doing well for us so far than medical stop loss. So it's a mix back still casualty is not where I'd like it to be. But overall, feel much better about things than a few months ago.

Gregory Locraft
Morgan Stanley

Okay, great. And then if it's just an average year, Joe, how do you think it might play out? There is never an average.

Joseph Victor Taranto
Chairman of the Board

Even an average year is going to amp up changes. You take their $18 million and that maybe average and that may mean that you still make money your Florida accounts, because you've charged that and then something. But I think there is the psychological part as well as the economic part, which is just what's going on in the world, how much do we rely on history, which didn't have four major earthquakes happening and year and a half? How much do we rely on models that cannot contemplate everything? I think a lot of people are saying, let's be very pragmatic about this, and realize that this is a cover that is much needed, it has a lot of volatility and my gut instinct is I don't care what model say, we did more rate. So I think that whole notion will be filled by even unexpected amount of losses in Florida.

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Gregory Locraft
Morgan Stanley

Great thanks.

Operator

And will go next to Brian Meredith with UBS

Brian Meredith
UBS

Yeah good morning. A couple of quick questions here for you, first just on - understand little bit. Is there going to be some seasonality that the premium pattern coming through on insurance business on that one.

Dominic James Addesso
President, CEO & Non-Independent Director

I don't believe so I mean there should be I mean the seasonality to the way that premium comes on the books.

Brian Meredith
UBS

Right.

Dominic James Addesso
President, CEO & Non-Independent Director

Our earnings pattern would moderate that.

Brian Meredith
UBS

Okay. So you don't earn it with kind of exposure?

Dominic James Addesso
President, CEO & Non-Independent Director

No.

Brian Meredith
UBS

Okay. And then second question, Joe, just curious, on the property retro business, I understand your reason for optimism that things could potentially get better here for that marketplace, but to what extent do the capital markets kind of limit pricing and maybe your ability to do deals in that business given the impact of capital markets and the property retro market?

Joseph Victor Taranto
Chairman of the Board

Well, they are part of the supply and so they are a factor but even then I have seen some announcements for some new players coming in or some new capital coming in it really does not feel like it's a whole lot right now relative to what I expect the demand debate. Of course all these new players coming in they want higher rates than last year or two, which is not like they want lower rates. So I just don't think it is going to modify the market all that much plus I think there will be some very good demand by the buyers that have just taken some pretty good lumps in the last couple of years.

Brian Meredith
UBS

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<TAG>Great and then just quickly, if I look at kind of what you're saying on pricing going up and use the AR models, just curious, on your property renewals that you had, what kind of increase can we kind of think about with respect to ROEs in your business? Imagine it was fairly accretive from an ROE perspective.

Dominic James Addesso
President, CEO & Non-Independent Director

We are thinking, Brian we are thinking that its in two to three point range in terms of increase in ROE.

Brian Meredith
UBS

And what kind of ROE do you think you're generating?

Joseph Victor Taranto
Chairman of the Board

Well I think John is referring to the worldwide ROE when you kind of blend all of our products together.

Brian Meredith
UBS

Okay.

Joseph Victor Taranto
Chairman of the Board

But most of that two or three increase came from the property side of things and particularly from the cat side of things where the potential returns have gone much higher than what they were before and I think in almost all cases rate over 20% but I think when you put that together with the casualty and all other lines of business Dom and I our best guess was 13% on a going forward basis.

Brian Meredith
UBS

Great. Thank you.

Operator

And we’ll go next to Ron Bobman with Capital Returns.

Ron Bobman
Capital Returns

Hi, thanks. Patiently waiting for my opportunity. I have a question about the Florida primary market. You both made a couple of comments, not only with respect to rate from a reinsurance perspective improving, but also terms and conditions at least with respect to your book and your treaties that you've written. I'm wondering if those primary companies, in your view, are they in a better place now, sort of a better profit picture, expected profit picture than they were, I don't know, a year or two ago? Sort of the consensus was there a bit between a rock and a hard place, unable to make money in even a no cat year, with the sinkholes improving and the primary rates improving, but with higher reinsurance costs and maybe structural changes to their treaties. Joe, do you think or Dom, do you think they are better off now than they were a year ago when you look at the pluses and the minuses or the same or worse off? Thanks a lot and best of luck.

Joseph Victor Taranto
Chairman of the Board

I think they are better half, you know I think they have been allowed to get rate increases in the past year or so. Many of our clients took 15% rate increase three months back I think many of them are believing that they will be able to implement another 15% rate increase now. So that will tally to 30%, 35% rate

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increase there seems to be some talk on the political side to help them what sinkholes and the few of the other things. Yes reinsurance costs are a big part of the equation for them too and you're right that is just one up. So that goes the other way. But still when you put it all together I think they are better half today then they were a couple of years ago. But, it's still not easy for them.

Ron Bobman
Capital Returns

<TAG>Okay. Thank you very much. Congrats, Mr. President also.

Dominic James Addesso
President, CEO & Non-Independent Director

Okay.

Operator

(Operator Instructions) We will go next to Jerry Fine with Charter Oak Partners.

Jerry Fine
Charter Oak Partners

Joe, first of all, congratulations on a good quarter. A lot of people on this call have known you for many years and you have consistently stated your reserving policy has been and is to not manipulate reserves to manage earnings. In other words, to reserve, I think as you stated, conservatively but honestly where you think they should be. A number of the sell side analysts on this call have stated in print that they question RE's reserves and they won't recommend the stock because of that. I'd just be interested in how you feel at this point in time about Everest's current reserve position? Thank you.

Joseph Victor Taranto
Chairman of the Board

Well, I think you've stated it, Jerry that we put up the numbers as we see them. Whatever that is, we do the best job that we can, we always have. We believe that everyone is supposed to do it that way. I'm not sure if it always gets done that way, but that's certainly what we endeavor to do and always have and always will.

Jerry Fine
Charter Oak Partners

And how do you feel when you see that in print from some well-known firms?

Joseph Victor Taranto
Chairman of the Board

While it's clearly, we see it other wise, Jerry.

Jerry Fine
Charter Oak Partners

Got you. One last question, to make sure I got this right. When we stated that we had hopefully realized it's just a whatever, 13% on a going forward basis ROE on a $113 book that's $14.70 a share. Am I doing the math right?

Joseph Victor Taranto
Chairman of the Board

No. Your math is correct.

Jerry Fine
Charter Oak Partners

Got you. I used to have problems with math. Thanks a lot guys.

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Operator

There are no further questions in the queue. At this time, I would like to turn the call back to Beth Farrell for any additional or closing remarks.

Elizabeth B. Farrell
Vice President, Investor Relations

Thank you for participating in our call. We'll see you next quarter. Thank you.

Joseph Victor Taranto
Chairman of the Board

Thank you.

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

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