# Everest Re Group, Ltd.

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*Earnings Call*

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# Call Participants

## EXECUTIVES

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*President, CEO & Director*

**Mark Kociancic**
*Executive VP & Group CFO*

**Matthew Jay Rohrmann**
*Senior VP & Head of Investor Relations*

**Michael Karmilowicz**
*Executive VP and President & CEO of the Insurance Division*

## ANALYSTS

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# Presentation

**Operator**

Good day, and welcome to the Everest Re Group First Quarter 2023 Earnings Conference Call. [Operator Instructions] Please note today's event is being recorded.

I would now like to turn the conference over to Matt Rohrmann, Senior Vice President and Head of Investor Relations. Please go ahead.

**Matthew Jay Rohrmann**
*Senior VP & Head of Investor Relations*

Good morning, everyone, and welcome to the Everest Re Group Limited First Quarter of 2023 Earnings Conference Call. The Everest executives leading today's call are Juan Andrade, President and CEO; and Mark Kociancic, Executive Vice President and CFO. We are also joined by other members of the Everest management team.

Before we begin, I will preface the comments on today's call by noting that Everest SEC filings, including extensive disclosures with respect to forward-looking statements. Management comments regarding estimates, projections and similar are subject to the risks, uncertainties and assumptions as noted in these filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial supplement.

With that, I'll turn the call over to Juan.

**Juan Carlos Andrade**
*President, CEO & Director*

Thank you, Matt. Good morning, everyone. Thank you for joining us. Everest started off strong in 2023, with significant growth, increased underwriting profits and operating ROE over 17% and total shareholder return in excess of 14%. We continue to diversify and expand our plan with both of our underwriting businesses delivering profitable broad-based growth.

In reinsurance, our leadership position was abundantly clear in the ongoing hard market flight to quality. Our team's consistent execution resulted in record gross written premiums and expanded margins. We continue to invest in scaling our primary business while remaining disciplined. We capitalized on the diversification of our portfolio and strong pricing environment. This led to stronger underwriting profits over last year.

Everest is uniquely positioned to succeed in this market. We are bringing the full power of the Everest global franchise, together with underwriting discipline and the best talent in the business to drive sustainable returns.

With that, I'll turn to our first quarter financial highlights, beginning at the group level. Group underwriting profit, net investment income, operating income and net income all increased meaningfully in the quarter. Growth was excellent, and we continue to see great opportunities for continued expansion. We grew gross written premiums by almost 20% in constant dollars year-over-year, led by the reinsurance division, which achieved record quarterly premiums. Continued rate increases, exposure growth and strong underwriting discipline create margin expansion and keep us ahead of loss trend.

We delivered $443 million in net operating income, up over 9% from prior year. The group combined ratio was 91.2%, a 40 basis point improvement from last year. It includes 3.7 points of catastrophe losses from the Turkey earthquake and the New Zealand floods and typhoon. We have no meaningful loss activity from the spring storms in the U.S. as our derisking efforts continue to manifest themselves in both our reinsurance and insurance results. We improved our attritional loss ratio 30 basis points year-over-year, reflecting pricing momentum and improving terms.

Underwriting profits were $273 million, which are among the company's highest orderly results over the past 5 years.

Turning to investments. Our high-quality portfolio produced net investment income of $260 million, a 7% improvement from prior year, driven by higher new money yields.

Now turning to our reinsurance business. Reinsurance delivered an outstanding first quarter performance, with significant top and bottom line growth. We capitalized on our well-positioned and scalable reinsurance franchise, our leadership position in the [ hard ] property cat market and our deep client and broker relationships, resulting in excellent outcomes for the portfolio at the January 1 and April 1 renewals.

The precise and disciplined execution by our reinsurance team positioned Everest to succeed in this dynamic market. We targeted attractive opportunities to grow with trusted partners and materially improved risk-adjusted returns. Our practice of setting clear and consistent expectations early with clients and brokers led to significant improvements in pricing and terms and conditions across our portfolio, while building long-term relationship equity. That excess of loss pricing is excellent with risk-adjusted rate changes at January 1 of plus 50% in North America, and over 40% international.

Casualty lines, average rate increases continue to exceed trend. Importantly, our team was distinguished as the preferred reinsurance market by being proactive and constructive with our customers. The value we created with our partners gives us a competitive advantage, helps us deepen our relationships and creates new opportunities. Our momentum continued at the April renewal, where pricing remained strong, up 44% in North America and 26% in international. This builds on prior rate increases in 2022 with expected returns consistent with the levels we saw at January 1.

We grew strategically, most notably in specialty lines, such as marine and aviation, with strong risk-adjusted returns. We expect to benefit from improvements in ceding commissions for the remainder of the year. We expect the strong market conditions to continue through 2023 and into 2024, and we remain on offense in this robust market. Reinsurance top line results were excellent, up 23% on a constant dollar basis, with $2.6 billion in gross written premiums. As I mentioned earlier, this is a quarterly record. Growth was broad-based by line and geography, up double digits across every business unit. Property cat premiums were up 28% from last year, along with casualty and property pro rata premiums at 22% and 19%, respectively.

We delivered a 17% increase in underwriting profit to $207 million on a 90.8% combined ratio, a 60 basis point improvement from 2022. This included pretax catastrophe losses of $108 million, net of estimated recoveries and restatement premiums for the Turkey earthquakes and New Zealand floods and typhoon. Our deliberate efforts to optimize our portfolio and reduce cat volatility continue to improve our portfolio economics.

Both the attritional loss ratio at 58% and the attritional combined ratio at 85.9% improved down 90 basis points and 30 basis points, respectively. Remember, many of the rate and margin improvements made at January 1 and April 1, will take several quarters to earn into our financial results. This should be a meaningful benefit for earned premium throughout the year.

As we head into the upcoming renewals, our value proposition and relationships in the market have never been stronger. We will continue to bolster our global leadership position and maximize our portfolio's performance.

Now turning to insurance, where we delivered another solid performance in the first quarter. We achieved a 92.4% combined ratio in line with our previous assumption, resulting in an underwriting profit of $66 million, up 12% year-over-year. We continue to grow and develop our world-class talent, capabilities and value proposition to enhance our portfolio and increase average share of the global insurance market.

We grew the insurance segment by nearly 12% in constant dollars, and generated over $1 billion in premiums for the eighth consecutive quarter. Growth was broad geographically driven by a diversified mix across property and specialty lines, particularly strong in marine, energy and construction. We remain cautious in certain lines, including monolines worker compensation and public company D&O.

We also benefited from pricing improvements in the first quarter. We achieved an 8% rate increase, excluding workers' compensation across the portfolio, led by property and excess liability with continued strong rate across other lines. This is the second sequential quarter with an increase in the overall level of rate changes achieved. We expect the hard market in reinsurance to put upward pressure on primary insurance pricing. This dynamic should extend the favorable pricing environment and insurance for the foreseeable future and will also benefit our pro rata business in the reinsurance segment.

Despite severe weather in the U.S. in the quarter, our cat losses were immaterial at $2 million. The overall cat result reflects our disciplined portfolio management actions to reduce volatility over the last several years across the company. The attritional loss ratio was 64.2, up modestly year-over-year, primarily due to a current accident year adjustment to a single medical stop-loss program, which we nonrenewed. Mark will provide more detail on this in a few minutes.

Throughout the first quarter, we continued to prudently manage the business, balancing investments in our people and infrastructure as we build the company for the future. We are streamlining and scaling our operations to serve the market with greater efficiency, connectivity and agility as we grow. We are well positioned to seize attractive opportunities in this environment. We are expanding our breadth of innovative products and advancing our leadership across the global P&C market anchored by our underwriting discipline. Our sights are set firmly on shareholders, clients and colleagues as we take full advantage of the robust opportunities in this market.

With that, I'll turn it over to Mark to review the financials in more detail.

**Mark Kociancic**
*Executive VP & Group CFO*

Thank you, Juan, and good morning, everyone. As Juan mentioned, Everest had a strong start to the year. The company reported operating income of $443 million or $11.31 per diluted share in the quarter. The operating ROE was 17.2% for the quarter, while total shareholder return, or TSR, stands at 14.1% year-to-date. We improved our overall attritional loss ratio while generating double-digit growth in constant dollars in both segments as pricing and terms remain attractive in a number of lines at business around the globe.

The company's strong performance in the first quarter was led by our team's high level of execution in our core markets, and we have a number of tailwinds that are back throughout the remainder of the year.

Looking at the group results for the first quarter of 2023, Everest reported gross written premium of $3.7 billion, representing 17.5% growth year-over-year or 19.5% growth in constant dollars. The combined ratio was 91.2%, which includes 3.7 points of losses from natural catastrophes. Group attritional loss ratio was 59.7%, a 30 basis point improvement over the prior year's quarter, led by the reinsurance segment, which I'll discuss in more detail in just a moment.

The group's commission ratio improved 40 basis points to 21.3% on mix changes, while the group expense ratio was 6.4%, up modestly year-over-year as we continue to invest in our talent within both franchises.

Moving to the segment results and starting with reinsurance. The reinsurance gross premiums written grew 23.2% in constant dollars during the quarter. The strong growth came from the successful execution of our 1/1 renewal strategy. A significant amount of the premium growth came from property and casualty pro rata treaties, which will earn in more gradually in excess of loss treaties over the coming quarters. As Juan said, this will be beneficial to earn premium for the rest of the year.

We generated double-digit growth in all 3 of our operating divisions, North America, International and Global Fac. The combined ratio was 90.8%, which includes 5 points related to the Turkish earthquake and New Zealand floods, as Juan noted earlier. Despite these events, our loss experience came in lower than our planned cat mode. The attritional loss ratio improved 90 basis points to 58% as we continue to achieve more favorable rate in terms as well as shifting the book towards accounts with better risk-adjusted margin potential.

The commission ratio was 25%, broadly in line with last year. The underwriting related expense ratio was 2.8%, modestly higher year-over-year, largely driven by the timing of certain expenses. We remain focused on operational efficiency across the entire company.

Moving to Insurance. Gross premiums written grew 11.5% in constant dollars to $1.1 billion, which is impacted by the seasonality and tends to be our lowest quarterly production. Growth was primarily driven by property and specialty lines in the quarter as pricing gained additional momentum from the fourth quarter and remains well ahead of loss trend. The combined ratio was 92.4%, up 50 basis points year-over-year. The attritional loss ratio was higher this quarter at 64.2% as we took a onetime increase in the current accident year on our medical stop-loss business of $15 million.

A portion of our medical stop-loss portfolio saw an increase in large loss activity. We isolated the poor claim performance to a single block of business, took decisive action and nonrenewed it. Best of the medical stop-loss book is performing within expectations. And When assessing any book of business, we want to make sure we are as proactive as possible at triangulating and mitigating any losses as soon as possible.

Commission ratio improved 70 basis points, largely driven by business mix. The underwriting-related expense ratio was 15.9%, which is within our expectations as we continue to expand our global footprint and continue to proactively invest in a number of growth initiatives across the business. We expect to achieve a mid-15% insurance expense ratio by year-end 2023. And we also reaffirmed the 91% and 93% combined ratio assumption for insurance.

And finally, to cover investments, tax and the balance sheet. Net investment income for the quarter was $260 million, with interest income coming in at $264 million, alternative assets at $7 million before expenses of $12 million. We continue to see the benefit of higher new money yields in the fixed income portfolio, while alternative returns should pick up in coming quarters, assuming the broader market remains positive.

Overall, our book yield improved from 2.5% to 3.8% year-over-year, and our reinvestment rate remains well north of 5%. We continue to have a short asset duration of approximately 3 years. And as a reminder, approximately 20% of our fixed income investments are in floating rate securities.

For the first quarter of 2023, our operating income tax rate was 9.2%, benefiting from the geographic distribution of our income streams and thus favorable to our working assumption of 11% to 12% for the year. Shareholders' equity ended the quarter at $9 billion or $10.5 billion, excluding unrealized depreciation and depreciation of securities.

At the end of the quarter, unrealized losses in the fixed income portfolio equate to approximately $1.5 billion, $250 million lower as compared to year-end 2022. Cash flow from operations were strong at just under $1.1 billion during the quarter. Book value per share ended the quarter at $229.49, a sequential improvement of 7.2% adjusted for dividends of $1.65 per share.

Book value per share, excluding unrealized depreciation and depreciation of securities stood at $266.64 versus $259.18 per share at the end of 2022, representing an annualized increase of approximately 3%. Net leverage at quarter end stood at 22.2%, modestly lower on a sequential basis.

In conclusion, Everest ended the first quarter of 2023 in a strong position, with good momentum heading into the upcoming quarters, we continue to see good opportunities to invest in the platform and scalability of our company.

That summarizes our first quarter results. And with that, I'll turn the call back over to Matt.

**Matthew Jay Rohrmann**
*Senior VP & Head of Investor Relations*
Thanks, Mark. Operator, we are now ready to open the line for questions. [Operator Instructions]

# Question and Answer

**Operator**

[Operator Instructions] And today's first question comes from Elyse Greenspan with Wells Fargo.

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

My first question, starting with reinsurance. I appreciate the comments on the call, pointing to it taking time for some of these rate increases to earn in. Just hoping to get a little bit more color on just the cadence of this and how you expect like the strong rates you talked about at 1/1 as well as at 4/1 to earn into your margin, right? So how should that 58% underlying loss ratio that you saw within reinsurance trend over the balance of the year?

**Juan Carlos Andrade**
*President, CEO & Director*

That's great, Elyse. This is Juan Andrade. Good to hear from you. Let me kick it off in first of all, by saying our operating performance for the quarter was excellent. As I just talked about in my opening remarks, we had significant top line growth. We had underwriting profit, operating income and net income all up meaningfully quarter, generating a 17% operating ROE and a 14% TSR.

And I mentioned all of this because we're just getting started. And so directly to your question, it's important to understand that the current environment, particularly in reinsurance, is providing us with meaningful margin expansion. We expect to grow rapidly in 2023 as our reinsurance franchise is very scalable. And our combined ratio should continue to improve on the strength of the rate and improved terms and conditions and mix of business.

Now directly to your question, I think it's also important to understand that the earned premium that we saw come through in the first quarter of the year was really mostly from the fourth quarter of 2022, which basically means that as this earns in into the second quarter, third quarter and fourth quarter, it's going to be earning in at those much higher rate levels that we experienced at January 1 and that we are now experiencing at the April 1 renewals at the same time.

So again, I think the timing of this is going to be over the next few quarters for the rest of the year, but I expect this to be very accretive and to have a positive impact on the portfolio. But let me ask Jim Williamson to maybe add a little bit of color just to give you some perspective, particularly on the 4/1s.

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

Yes. Thanks for the question, Elyse. And I think to add some color to what Juan laid out, just want to give you a little more perspective on what we're actually seeing under the covers, particularly starting with the Jan 1 renewal and then continuing. And a little bit of a view, if you don't mind, on where we see this market going.

As Juan indicated, we had excellent operating performance in Q1, the Jan renewal and really in the lead up to the January renewal which really translated into us having a broad set of opportunities. And when I say broad, I really mean just about every class of business starting clearly with prop cat, but also including casualty, specialty lines, financial lines really in every market around the world. And our growth was very broad-based that way, including our North America treaty business, our international treaty business as well as facultative.

And so when you think about us attacking that, clearly, Jan 1 renewal we talked about a plus 50% in North America, plus 40% international on property cat. That continued into the April renewal where we were over 40% in North America, mid- to upper 20s internationally, which included markets that started taking rate in 2022. So that was exceptional.

At the same time and very important and Mark had touched on this in his opening remarks, we also saw terrific opportunities in both casualty and property pro rata. And so we took those opportunities. And I think our ability to constructively engage our clients and cedents gave us preferred positioning around those opportunities. And what are we seeing? Well, on the casualty side, rate continues to stay ahead of trend. That's what our clients are experiencing.

Ceding commissions are also starting to come down. And so those were terrific opportunities. We leaned into that. On the property side, our view is we're at the very beginning stages of a major correction in the primary property market. and we'll get an opportunity to participate with our clients alongside them on a pro rata basis. And again, a very attractive ceding commission. So that was a meaningful part of our Q1 growth was in pro rata.

And then as we go forward, the 4/1 renewal was outstanding, 5/1 renewal a little bit smaller, but also excellent results. And we're seeing a very consistent theme where property renewals as we go through the renewal period are achieving or exceeding the expected return levels we saw at January 1.

And then I'll end at 6/1 because it is relatively imminent. But our view is that it will be very consistent with that. We think the market will continue to dislocate, we will have incredible opportunities to grow with our best-in-class clients and really allocate our capacity to superior returns. And again, I would expect that to be at or above what we saw at January 1. So all a tremendous amount of really high-quality opportunity that we're capturing. But to Juan's point, it is going to take time for that to earn into our portfolio.

And you started to see it a little bit in the first quarter. Obviously, the effect of Jan 1 begins to earn in. An important point I would make on that earning is we are also at the same time that we're attacking this incredible opportunity. We're also being very prudent on our loss picks. Remember that Cat XOL does not get booked at least at Everest with a 0% attritional loss ratio. We are booking a very prudent attritional loss ratio. And our hope, obviously, is that we don't need those dollars, but we want them to be there in the event that there are attritional cat losses that don't meet our cat threshold.

And so over the next quarter, 2 quarters, 3 quarters, you will start to see that become a bigger and bigger part of our portfolio. And that will exert downward pressure on our loss ratio and our combined ratio.

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

Okay. That's helpful. And then my second question is on the insurance margin, right? You guys had called out the medical stop loss, the impact in the quarter. So if we adjust for that, should we assume that the starting point for the second quarter and the rest of the year should be a 90% or better current accident year ex cat combined ratio in insurance given that, that medical stop lock issue isn't expected to repeat?

**Mark Kociancic**
*Executive VP & Group CFO*

Elyse, it's Mark. So look, we have the 1 bump in the medical stop loss this quarter. It's roughly $15 million charge. We are confirming, and I mentioned it in my script in the prepared remarks, 91% and 93% combined. So we feel very good about the margin that we're adding, the growth that we're adding both domestically and globally. So I think the attritional loss ratio is showing good improvement, definitely sustainable with the margins that we have, and we feel confident about remaining in that 91% to 93%.

**Operator**

And our next question today comes from Yaron Kinar with Jefferies.

**Yaron Joseph Kinar**
*Jefferies LLC, Research Division*

My first question goes to the loss picks. And I'm just curious if you saw any increases in liability or financial lines loss picks, both in insurance and reinsurance?

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

Yes. So Yaron, this is Jim Williamson. Thanks for the question. I'll start with reinsurance. So when I look at our loss picks for the first quarter, I'd really indicate a few things. One, within casualty, obviously, we're always evaluating in a very granular way, our picks even at the subline level. And there were a number of puts and takes within casualty. But the overall casualty loss pick as it earned into the first quarter is very consistent with where we were last year.

And our view is we're continuing to see rate in excess of trend. That's a good guide. At the same time, it's a pretty high risk environment. And so we're being prudent about that. On the financial line side, that's for us, in reinsurance, that really means our mortgage portfolio. And again, we saw incredible opportunities in 2022, in particular, with to GSEs, which is a very high-margin business. But again, we're very prudent in the loss selections there and our loss picks 2023 are exactly the same as our loss picks in 2022 even though we've been moving further away from loss.

And then lastly, on property, on the XOL side, we do see improving loss picks over last year. But again, we're still being, I think, relatively prudent and we don't book cat XOL at 0. We're just a little under 20 for an attritional loss pick there, which is an improvement over last year.

**Yaron Joseph Kinar**
*Jefferies LLC, Research Division*

Actually, I do have a second one, if I could. And just on premium growth, if I may. One, the XOL premium growth was clearly a bit lower than the pricing you saw in property cat. And I just want to confirm if that's a function of moving to higher layers? Or is it a function of shrinking limits? Or what's behind that?

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

Yes, Yaron, it's Jim again. Look, I guess the way I would describe that is really in a couple of ways. One, the first thing we do when we're confronting the breadth of opportunity that I described in the earlier question, is we look to create our own capacity. So a lot of that is moving away from any area of the portfolio where we're not seeing the expected returns we want. An example of that, which was really a factor in 2022 as we were trimming some of our pro rata portfolios, which do have a heavy amount of premium with them.

And then obviously, the second factor, as you described is we are moving further away from loss. And so you do tend to see lower premiums per dollar of exposure, all other things being equal. But what I would also say is all of these things are clearly not equal. The rates online that we're seeing in our portfolio overall from a cat XOL perspective are up year-over-year and quarter-over-quarter, even though we're moving further and further away from loss.

So that's what's driving what we expect to be a very strong premium growth, both in the first quarter and through the rest of the year. But what I would also say, and I think this is crucial, is our modeled expected profit is growing much faster than our written premium. And that's because you're seeing the scissoring of margin expansion happening in those cat XOL treaties, I think that's a really terrific result and our expectation is, and it's certainly been proven out. Jan 1, April 1, May 1, we believe June 1 and really through 1/1/2024, we expect that scissoring effect to continue.

**Operator**

And our next question today comes from Mike Zaremski with BMO.

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

Great. Ceding commissions improving, I believe on the reinsurance side, we mentioned a couple of times in your prepared remarks. Can you provide any updated color and let us know if that is the one impacting the financial statements and if you expect that to continue into the midyear renewals.

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

Yes, Mike, this is Jim Williamson. Thanks for the question. Yes, we have seen improved ceding commissions primarily driven on the casualty side, but also on the property pro rata side. Now remember, when we talk about improved ceding commissions, and we mentioned it in our fourth quarter call, when we were talking about the January 1 renewal, we're giving you indications on a written basis.

And so what we had said last quarter, and I would repeat it, is that we've seen about 1 point improvement in casualty ceding commissions and a little less than that on property, mainly because properties ceding commissions were already relatively lean. We found them to be pretty attractive.

So that's on a written basis. Now that's going to take time, similar to the other comments that we've made, particularly when you're talking about pro rata premium that really earns over 2 years, it takes time for that to be reflected in the financials. So you really haven't started to see that yet, but we expect it to emerge over the coming quarters.

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

Okay. That's helpful. Also another follow-up on the -- in the prepared remarks, the optimism about the property side about beginning stages of a major correction. Maybe you can kind of elaborate there, why we're in the beginning stages. Is this simply because some of the primaries are seeing their reinsurance rates go up a lot, and there's clearly a lot of replacement cost inflation. So the primaries are getting ahead of -- trying to get ahead of an issue? Or -- what are you seeing there? And why do you see that growth being so attractive if some of your primary partners see themselves as kind of being a bit behind the inflation curve?

**Juan Carlos Andrade**
*President, CEO & Director*

Yes. Mike, this is Juan Andrade. Let me start and then I'll ask Mike Karmilowicz to add something to this answer as well. Look, I think it all starts with the fact that we do have a structural supply and demand imbalance, that's taking place in both insurance and reinsurance, frankly, on property cat, right? So on the supply side of things, you have essentially less capacity being deployed by rated companies. You also have less of the ILS capital coming into the market.

And on the demand side, we have all the issues that we've all lived through together, right? You have inflation, which is putting upward pressure on values, there's volatility in the environment from social inflation and other things. So our ceding partners basically are requiring to buy more insurance, more reinsurance along those lines. So that structural supply and demand imbalance, I think, is really what begins part of the equation.

Now Jim has talked about what we have seen on the property side in reinsurance, which is very attractive from a pricing perspective, and we expect to see that through 1/1/'24 maybe beyond. On the primary side, we're seeing basically the same things. We're now basically seeing property rates up in the high teens into the 20s.

And if you're in wholesale, it's plus 30, right? So you're definitely seeing that. And keeping in mind that we have both a wholesale and a retail channel, we are getting that rate on both sides of the equation. So from our perspective, that also makes a lot of sense for us. Also keep in mind that we have also been derisking the insurance side of our business, not just the reinsurance side. It's one of the reasons why you don't see us picking up losses from the spring events in the U.S. Basically, we had $2 million of cat loss in the Insurance segment. So we are seeing pretty significant rate increases on the primary side. We have continued to derisk and our strategy and property has moved more towards middle market retail than anything else. So all of these things, I think, is what makes it fairly attractive for us. But Mike, maybe you can add a few points?

**Michael Karmilowicz**

*Executive VP and President & CEO of the Insurance Division*

Sure. No, I think that's well said, Juan. I guess I would just add a couple of other comments, Mike, to that. One, we continue to push out on the retail side. At the same time, given the market conditions, we've been able to continue to deemphasize the concentration of risk, particularly in the peak zones, the cat prone zones, particularly in the wholesale market.

In addition to that, we've actually now basically helping out with our foundational work we do with our international expansion. We're now spreading that out and diversifying our portfolio across the globe, giving us a lot better balance and overall more risk-adjusted returns that are more consistent and sustainable over the long haul.

**Operator**

And our next question today comes from Brian Meredith with UBS.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

First question, just looking at Florida renewals with the legislation that went through on what are your expectations or what that means for potential capital moving in? And how do you think Everest still position itself for that 6/1 renewal, meaning quota share versus excess of loss?

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

Sure, Brian. It's Jim Williamson. Thanks for the question. Yes, look, I mean, first of all, let me just say that our view on the reform that has occurred is, it's incredibly constructive. I think fact that the government in Florida was able to get such a broad-based perform past is just excellent work. And we think over time, that will be incredibly healthy for the Florida insurance market and will provide much needed relief for our homeowners there.

At the same time, we think it's going to take time for the effects of that reform to prove itself. We don't expect the plaintiff bar to sit idly by while the reforms are implemented. And I think it remains a little bit to be seen on exactly what that will mean. And so we're being very cautious on that. Now we have been a very consistent provider of capacity to the Florida market. And our expectation is that will continue. And our view on pricing, terms and conditions in Florida, for 6/1, we expect really modeled returns to exceed what we saw at Jan 1. So we think 6/1 will be better than Jan 1. The headline rate increases may not be as large because we already took significant rate in '22 but the economics of those programs should be outstanding.

And so our view is as long as that has proven to be true, we'll continue to deploy a similar level of capacity to that market than we did in prior year. Now in terms of our participation, we're almost exclusively an XOL market in Florida. We do have a couple of targeted quota share deals, but they're a relatively small part of the portfolio. And I don't really expect that mix to change.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Great. And then my second question. I'm just curious, of the cat loss, how big was Turkey. And then on that, I'm just curious, given that those are types of programs that have fairly low rate on lines and I'm not sure what the return dynamics are there. Why would you be running that type of business now given just the strength of pricing and the attractive returns in areas like the U.S. and Europe and in other areas of the world?

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

Yes, sure, Brian. It's Jim again. Yes, so on the Turkey quake, a couple of things. One, our loss was $70 million for the Turkey quake. And what I would describe to you in terms of that market is we've been a long-term participant in the Turkey cat market. We have earned outstanding returns in that market, similar to the things that we've done in other parts of our portfolio, though coming in over the last 2 years, we have really significantly reduced our participation in Turkey, primarily in our quota share treaties, which we've cut back significantly.

But we are still an XOL player. We've made a lot of money. Even after this event, our profit position is very strong and the return profile is very good. The other thing that I would indicate on that $70 million losses, if you were to compare what happened in Turkey versus what happened, say, in the U.S. in the first quarter, I think it's -- it's an important contrast to point out. That Turkey quake was probably something like a 1 in 50 event, yet 50,000 people killed in Turkey alone, another 10,000 in Syria; it is a huge human tragedy, our view is that is a real cat loss. And that's where Everest and its value proposition is meant to be called to help that country recover.

And I would contrast that with the U.S. storms in the first quarter, which really, in our view, should be an attritional event for the primary market. And you saw that play out in our portfolio. So that gives you a sense of how we're playing those dynamics and really focusing on leveraging our capacity, we're getting high return and also where you have actual cat losses.

**Operator**

And our next question today comes from Meyer Shields with KBW.

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

Maybe touch upon this a little bit with reinsurance, but I was wondering if you could talk about how, I guess, from the conditions or expected returns are evolving in the international insurance market?

**Juan Carlos Andrade**
*President, CEO & Director*

Say that again, Meyer, please.

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

I'm trying to get a sense of -- look, I think that has a great sense of what's going on in property, but for other lines in insurance, I'm not sure I have a great handle on the opportunity that you're seeing there in terms of how expected returns are evolving.

**Juan Carlos Andrade**
*President, CEO & Director*

Yes, absolutely. I'm happy to start and then I'll ask Mike Karmilowicz to jump in. Look, I think there's a few dynamics to keep in mind in international markets. By definition, they tend to be more short tailed in nature. So that means that they're going to carry lower ELRs than what we have in North America because of our long tail focus in North America traditionally.

So I think that's an important thing to keep in mind. When we look at the broad trends though, we see pricing actually to be quite good in places like Europe, Latin America and Asia for that short tail business. And so for us, that remains pretty attractive. And as we were saying earlier, and I said in my prepared remarks, one of the great things that we're building right now is really a very diversified global insurance company by geography, by product line and by distribution wholesale retail, which enables us to flay and deploy capital where we find the most attractive areas.

So for example, in the U.S. in the quarter, when we see public D&O and maybe workers' compensation, not as attractive as other lines of business, we can move away from those lines, be cautious, as I said, and deploy that capital into other lines of business, which could be again, short tail property in Europe or in Latin America or even within the U.S., given what I said earlier. But that gives us a sense of how we manage the portfolio to get the most economic benefit for the company.

**Michael Karmilowicz**
*Executive VP and President & CEO of the Insurance Division*

Yes. And I think, Meyer, I would just add a comment on the short tail piece. Not only are we seeing the opportunity within property, but also within marine and aviation businesses as well, given our nature of some of these lines, which we don't have legacy issue too, particularly for marine and for specifically aviation. We have tremendous upside. We've hired great talent. We've got good teams that have great people and capabilities to Juan's point. And given what's happening in the reinsurance market, pick on the short-tail lines, you're just now starting to begin to see that rate environment starting to play through. We're just giving us ample opportunity to be able to capitalize on the marketplace right now.

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

Okay. That's very helpful. And then 1 small follow-up, and I may be trying too hard. But I think both Juan and Mark reaffirm the 91% to 93% in insurance for this year's combined ratio. I was hoping you could update us on the reinsurance side?

**Mark Kociancic**
*Executive VP & Group CFO*

Yes. Meyer, it's Mark. So look, on the reinsurance side, we've got a great rate environment right now. And I think Jim articulated a lot of the points that are behind that -- we've clearly got loss experience, supply-demand factors impacting capacity, and our Q1 results are really demonstrating some solid growth. And our reinsurance franchise is very scalable. So we're able to take advantage of that.

I think the rate is well established. We define that quite a bit in our press release and in our opening remarks. And you're going to see property, I think, become a larger component of our combined ratio over time, we're still using prudent loss picks no matter what because you do have the loss experience of the past that cannot go down to the bottom line that quickly, but it is shorter sale business on the property side. So we would expect to realize margin notwithstanding the loss experience of the current year over time.

So I think what we've got is fairly meaningful strength underpinning our combined ratio going forward. So as you see the net earning out with the increase of 2023 premiums, whether it's the pro rata side or the excess of loss with this strong rate environment, the shift towards more property versus casualty and the combined ratio. I think you'll see improvements in the combined ratio within reinsurance specifically. And we definitely see the margin expansion through the renewals, and we know that's going to filter down through the combined ratio over time. So I see this combined ratio question kind of solving itself through actual results in the coming quarters on an improved basis.

**Juan Carlos Andrade**
*President, CEO & Director*

Meyer, I would add just to Mark because I think that was well said. This is one. And I would repeat what I said to Elyse earlier in the call is that our combined ratio should continue to improve on the strength of the rate, improved terms, mix of business, everything that Mark was talking about. And you look at the combined ratio that reinsurance had in this quarter, and I think that gives you a starting point.

**Operator**

Our next question today is a follow up from Yaron Kinar with Jefferies.

**Yaron Joseph Kinar**
*Jefferies LLC, Research Division*

I just want to ask a follow-up on the earning in of the pro rata premiums and reinsurance over a 2-year period. I thought it would be 1 year. Is there a multi-year treaty component there? Or is that just how pro rata is earned? I guess it's a bit new to me.

**Mark Kociancic**
*Executive VP & Group CFO*

Yaron, it's Mark speaking. So it's a standard accounting convention to earn pro rata on what's called an 8s basis. So over an 8-quarter period of time. And it's not a multiyear treaty. It's definitely a 1-year treaty but your cedents are obviously producing business throughout the year, so they could produce premium, for example, in December, and it takes time to earn that out.

So the premium recognition or earnings is really standard in the business for pro rata and it's earned on an 8s basis. And in the first quarter, without getting too technical, you have kind of a slow ramp-up because you would essentially start that earnings really at the midpoint of the first quarter, the 45th day of a 90-day quarter and then it ramps up over time throughout this 8-quarter period.

And so you've got last year's pro rata, whether it's property or casualty, still learning into the '23 earned, for example, you got the '23 writings earning out. And so that shift will occur through the year, combined with whatever the loss picks are and the weighting for those specific segments.

**Yaron Joseph Kinar**
*Jefferies LLC, Research Division*

Got it. That's helpful. And then 1 other follow-up, if I may. I think you called out some timing issues with expenses. When do you expect that to normalize?

**Mark Kociancic**
*Executive VP & Group CFO*

Well, I'll break it into 2 parts. So corporate and underwriting. So on the corporate side, look, we have 2 components, the largest of which is really interest expense. We have a meaningful component of floating rate debt through the FHLB and then a floating rate sub debt and that's based on 3-month sulfur. And so that increased, I would say, roughly $3 million a quarter on the run rate versus, say, Q1 of last year. I think that stabilizes for '23. It's difficult to see SOFR moving that much this year.

So I think what you see in Q1 will hold for the remaining of the year, potentially go down if SOFR goes down. Corporate expenses, I think last year's run rate of approximately $16 million a quarter is a pretty good run rate for this year. So I see pretty good stability, generally speaking, for the corporate side.

On the underwriting, 2 pieces, reinsurance and insurance. So I think on the reinsurance side, we feel good about our expense ratio in general, you see a slightly elevated number in Q1 really for platform expenses for the most part. But I think somewhere in the 2.6%, 2.7% expense ratio type area is a good number for reinsurance in 2023.

On the insurance side, we see that elevating a bit into the mid-15% area. We started off the year at a 15.9%, and I think that's a combination of 2 things: talent acquisition and then a bit on the platform expense as we're building out and scaling our operations internationally and also domestically, but we're adding meaningful talent, especially at a senior level globally within the insurance franchise.

So I think that will pay off over time, but you do pay for it early on in terms of the expense load. I would point out a couple of things. So one, we feel -- we still feel very good about the technical ratio and insurance profitability that's coming in from the commission and ELRs on that standpoint. And hence, my comments in the prepared remarks of affirming our assumption of 91% and 93% combined for the insurance division as a whole. So we see a bit of a mix here in terms of elevated underwriting expense, but still good on 91% and 93% based on sound fundamentals of diversified businesses and the good margin that we're seeing in that business. And I think you'll also see a pretty good growth rate in the -- for the remainder of the year. Typically, we start seasonally with a lower production in Q1 for insurance, and then it tends to ramp up Q2, Q4, in particular. So we do feel that there will be some economies of scale occurring as the division grows even more.

**Yaron Joseph Kinar**
*Jefferies LLC, Research Division*

Thanks for taking my additional question and for the comprehensive color.

**Operator**

And our next question is a follow-up from Elyse Greenspan with Wells Fargo.

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

So I want to go back also to the reinsurance discussion. I appreciate right that you guys are saying some of these contracts are going to take a couple of years to earn in. But maybe asking it in a different way. You guys printed a 58% underlying loss ratio in the first quarter. When this business is fully earned in, and we see the full impact of the rate increases in your financials, what can that 58%, what can that number drop to?

**Mark Kociancic**
*Executive VP & Group CFO*

That's -- look, Elyse, that's -- it's a difficult question to answer. Let me frame it with a few of the components that will be taken into consideration. So I mentioned to you the composition of the business itself. So we do see property coming in stronger. And I think both Juan and Jim really articulated the level of rate increase that we're seeing. I think the growth is self-evident. You're seeing very strong rate. Jim is talking about risk-adjusted returns that are significantly higher. So we believe the margins there are superior, really, really good.

On the flip side, you're still seeing significant casualty growth, especially on the pro rata, and we're using prudent loss picks there because we are in an elevated risk environment. We're getting paid to take that risk. And so you got a mix of business that is still meaningfully impacted by casualty.

And so those are the kind of factors that mix and then the rate itself, which we feel good about, that are going to determine that over time, not to mention whatever the loss experience. But again, the fundamentals are great. This is truly a generational hard market, in particular, for reinsurance property. We're just getting started. We love our positioning and the ability of our franchise, how we're globally positioned to take advantage of it and really be selective and adding value to our clients in this process. So I think that combined ratio will solve itself based on the sound fundamentals.

**Elyse Beth Greenspan**
*Wells Fargo Securities, LLC, Research Division*

And then my -- 1 other for me, your PMLs, given your expectations for what you expect could transpire at midyear, it sounds like you guys are still pretty positive about the reinsurance pricing environment, where would you expect your PMLs to trend once we get through the June and July 1 catastrophe reinsurance renewals?

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

Sure, Elyse. This is Jim Williamson, great question. So first of all, we do see tremendous opportunity, and we are leaning into that, and we have selectively deployed incremental capacity, always within the defined appetite of the group, and we've talked a number of times about our willingness to put both our earnings and capital at risk, and we have plenty of room within that defined appetite to maneuver, and that's certainly what we've been doing.

The other thing that I would say that's a repeat of what you've heard from me in the past, but we always start with creating our own capacity. In any portfolio, there's good, better and best deals. And I can tell you the good deals are not getting capacity anymore. It's really moving to the best deals. And so what that's allowed us to do is selectively expand available capacity. What does that mean? That means gross PMLs go up modestly. It wasn't a huge move, as you saw 1/1 when we printed our PMLs. I expect that trend to kind of play out through the rest of this year.

As I indicated earlier, if 6/1 meets our expectations for pricing and terms, I expect total capacity deployed to be consistent with last year, which I think will produce meaningful increases in premium even more meaningful increases in expected profit, very modest or no real change in PMLs. And then as you roll through the rest of the year, I would expect, again, modest increases in gross PMLs, with even larger increases in premium and profit. So that should give you a view. I don't expect a wild move on the PMLs by any stretch of the imagination.

**Operator**

And ladies and gentlemen, today's final question is a follow-up from Michael Zaremski at BMO.

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

Great. Just 1 quick one. Just kind of thinking through the bullish outlook, generational hard market that term was used dislocation. Just curious, is there -- would there be a scenario in the cards where Everest would want to opportunistically raise capital. The debt capital was -- levels were increased last year, which looks like a great move. Just curious if there's any scenarios in which equity capital need to be raised as well.

**Mark Kociancic**
*Executive VP & Group CFO*

Mike, it's Mark. So look, we feel very good about our positioning in this market. Our ability to execute our plan. We've got the franchise on a global basis. We're a leading reinsurance market. So I think the platform is clearly well demonstrated to meet this opportunity.

We've got a lot of financial flexibility, and I'll just leave it that we're always exploring and evaluating our market opportunities and our capital structure to make it better.

**Operator**

Ladies and gentlemen, this concludes your question-and-answer session. I'd like to turn the conference back over to Juan Andrade for any closing remarks.

**Juan Carlos Andrade**
*President, CEO & Director*

Thank you, and thank you all for being with us today. I think as you can see, our operating performance was excellent in the first quarter. We're off to a strong start, and we're on offense. You've heard some of our commentary here regarding the market and regarding the bullishness. The momentum is strong and our ambitions are high. We're building on our first quarter momentum to continue delivering exceptional value for all of our stakeholders.

So with that, I thank you for your questions, for your time and for the support of the company, and we'll see you soon at our second quarter results. Thank you.

**Operator**
Thank you. This concludes today's conference call. You may now disconnect your lines, and have a wonderful day.