S&P Capital IQ

CONTENTS

Everest Re Group, Ltd. NYSE:RE

FQ2 2017 Earnings Call Transcripts

Tuesday, July 25, 2017 2:30 PM GMT

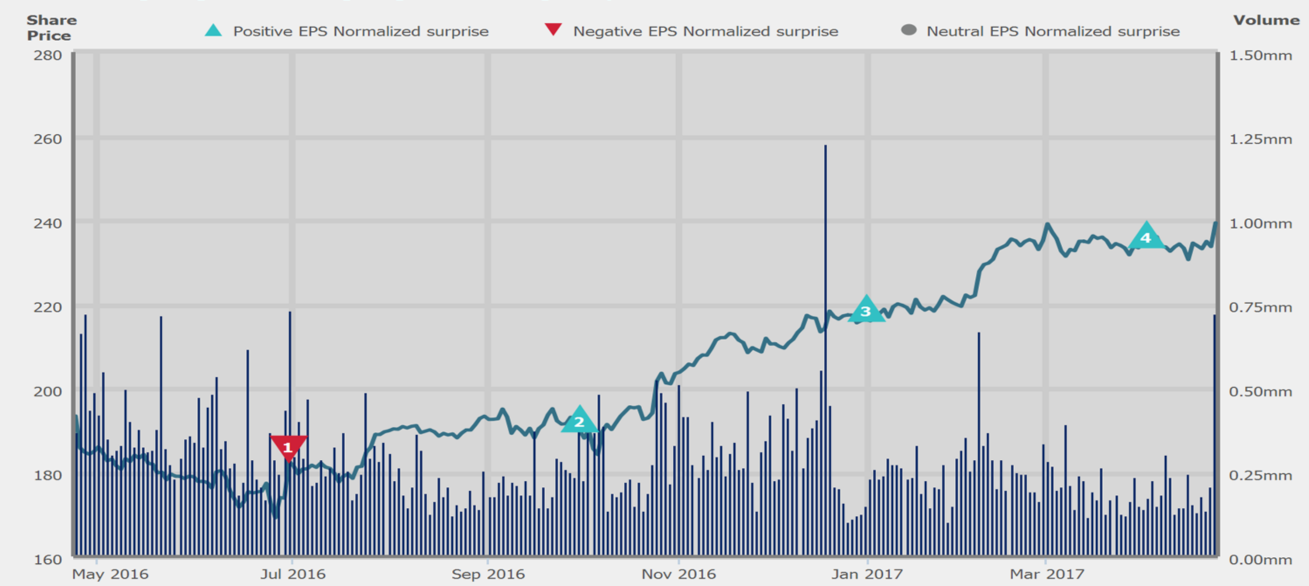
S&P Capital IQ Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	5.30	5.51	▲3.96	4.50	21.64	20.49
Revenue (mm)	1245.55	-	▲7.51	1577.50	5736.90	5881.57

Currency: USD

Consensus as of Jul-25-2017 11:11 AM GMT

Stock Price [USD] vs. Volume [mm] with earnings surprise annotations



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2016	3.48	3.17	▼(8.91 %)
FQ3 2016	4.49	6.53	▲45.43 %
FQ4 2016	3.19	8.83	▲176.80 %
FQ1 2017	5.29	6.29	▲18.90 %

Call Participants

EXECUTIVES

Craig W. Howie
Executive VP & CFO

Dominic James Addesso
President, CEO & Non-Independent Director

Elizabeth B. Farrell
Vice President of Investor Relations

John P. Doucette
Executive VP, President & CEO of the Reinsurance Division

Jonathan M. Zaffino
Executive Vice President

ANALYSTS

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

Kai Pan
Morgan Stanley, Research Division

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

Presentation

Operator

Good day, everyone. Welcome to the Second Quarter 2017 Earnings Call of Everest Re Group, Ltd. Today's conference is being recorded.

At this time, for opening remarks and introductions, I would like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Elizabeth B. Farrell
Vice President of Investor Relations

Thank you. Good morning, and welcome to Everest Re Group's Second Quarter 2017 Earnings Conference Call. On the call with me today are Dom Addesso, the company's President and Chief Executive Officer; Craig Howie, Chief Financial Officer; John Doucette, President and CEO of Reinsurance Operations; and Jon Zaffino, President of North American Insurance Operations.

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

Now let me turn the call over to Dom.

Dominic James Addesso
President, CEO & Non-Independent Director

Thanks, Beth, and good morning to all. We are pleased to be able to report $246 million of net income for the quarter, which was $90 million above last year's second quarter.

On a year-to-date basis, net income rose $210 million to $537 million. These results were primarily driven by excellent underwriting results of $130 million for the quarter and $313 million on a year-to-date basis, which include $54 million of cat losses in the second quarter and $74 million in the 6-month results.

These results are improving year-over-year due to continued growth in premium, along with a lower combined ratio, due in part to lower catastrophe losses in the quarter. More important is the improvement evident in the Insurance segment, where we have an underwriting gain this year versus last.

The attritional combined ratio for insurance has now reached 93.6% for the quarter. The various growth and underwriting initiatives we have implemented are beginning to take hold.

Overall premium is up $238 million or 17%, with growth coming from both reinsurance and insurance. However, on a percentage basis, insurance is up 25% while reinsurance is up 14%. The growth in insurance, which Jonathan will discuss in greater detail in a moment, is well diversified, coming from several new business units. We are extremely encouraged by the growth in all of our segments.

In the reinsurance businesses. While due to market conditions, there are areas where we are contracting, there remains an array of opportunities in the credit and structured solution areas that are contributing to profitable growth.

In addition, as John Doucette will cover in his report, proportional transactions, including crop reinsurance, are presenting profitable opportunities in today's market environment.

The non-U.S. segments have also been a reasonable growth area for us more recently as we have added resources there and established new locations. While reinsurance is still a challenged space, we have been successful in achieving better-than-market returns due to our ability to reallocate our capacity in scale with the better returning opportunities. Our size and relationships matter in this type of market.

Scale also plays a meaningful role in the success we've been having in the Insurance segment. The ability to operate in sophisticated lines of business with meaningful capacity and a strong balance sheet with A+ ratings matter to customers and brokers. These factors have also enabled us to attract terrific talent and, armed with our financial strength, have propelled us to over $1 billion of premium in the first half of the year.

At the same time, we have eliminated a number of underperforming businesses, for example, crop insurance, and we have strengthened our reserve position, all this leading to a profitable first half. And as earned premium begins to catch up with the written premium, we would expect this profit picture to accelerate. Our insurance operation is in the best position that it's ever been and is now a recognized market to brokers and their customers.

On the investment front, there was also positive movement over the prior year as income was up 9% for the first 6 months. This is a result of some rotation into limited partnerships and public equities and traditional fixed income. However, our allocations are still quite conservative relative to the industry. Our investment team has done an outstanding job of enhancing performance through this cycle while maintaining quality.

Overall, our results were excellent, with an ROE of 13% for the first half, our shareholders' equity growing to $8.6 billion and our market cap reaching $11 billion. These factors have led us to just recently being added to the S&P 500, a great accomplishment and acknowledgment to our shareholders and employees.

Now I'll turn it over to Craig for the financial report and look forward to your questions in a bit. Thank you. Craig?

Craig W. Howie
Executive VP & CFO

Thank you, Dom, and good morning, everyone. Everest had a solid quarter of earnings, with net income of $246 million. This compares to net income of $156 million for the second quarter of 2016. On a year-to-date basis, net income was $537 million compared to $327 million for the first half of 2016. The primary differences were an improved underwriting result, higher capital gains, higher investment income, lower catastrophe losses and lower foreign exchange losses compared to the first half of 2016.

Net income included $50 million of net after-tax realized capital gains compared to $30 million of capital losses in the first half of 2016.

After-tax operating income for the second quarter was $227 million compared to $134 million in 2016. Operating income year-to-date was $487 million compared to $357 million for the first 6 months of 2016.

The overall underwriting gain for the group was $313 million for the first half compared to an underwriting gain of $234 million in the same period last year. All segments reported underwriting gains for both the quarter and on a year-to-date basis.

The year-to-date combined ratio for the group was 88.3%, down from 90.7% reported in the first half of 2016, with lower catastrophe losses contributing to this favorable variance.

In the second quarter of 2017, the group saw $54 million of current year catastrophe losses net of reinsurance. Of the total, $25 million related to wildfires in South Africa, $15 million related to U.S. storms in Colorado and $14 million related to floods in Peru. This compares with $124 million of catastrophes during the second quarter of 2016.

On a year-to-date basis, catastrophe losses totaled $74 million compared to $134 million for the first half of 2016. Excluding the catastrophe losses, the current year attritional combined ratio through the first 6 months was 85.6%, essentially flat from 85.7% for the first half of 2016. Our expense ratio remains at 5.8% for the first 2 quarters of 2017.

For investments, pretax investment income was $135 million for the quarter and $257 million year-to-date on our $18 billion investment portfolio. Investment income was up 9% from 1 year ago. This result was primarily driven by the increase in limited partnership income, which was up $14 million for the first half of 2016, primarily due to the turnaround in energy-related investments compared to last year.

The pretax yield on the overall portfolio was 2.9%, with a duration of just over 3 years.

Foreign exchange is reported in other income. For the first half of 2017, foreign exchange losses were $5 million compared to $31 million of foreign exchange losses in the first 6 months of 2016.

The 2016 foreign exchange losses reflected the weakening of the British pound during 2016 related to the Brexit vote.

Other income also included $4 million of earnings and fees from Mt. Logan Re in the first 6 months of 2017 compared to $3 million of income in the first half last year. The increase reflects the lower level of catastrophe losses during the first half of 2017 compared to 2016, resulting in a higher profit share to Everest.

On income taxes, similar to the first quarter of 2017, the 9% year-to-date effective tax rate on operating income was lower than the expected range for the year. The 2017 rate is lower than the 10% tax rate for the full year 2016 due to a FASB tax accounting change related to share-based compensation and the utilization of foreign tax credits for years 2008 and prior. These 2 items reduced the effective tax rate by about 1 point.

The effective tax rate is an annualized calculation that includes planned catastrophe losses for the remainder of the year. Should catastrophe losses come in lower than this estimate, it would be expected that the tax rate would increase.

Stable cash flow continues, with operating cash flows of $634 million for the first half of 2017 compared to $684 million in 2016. The decline reflects a higher level of paid catastrophe losses in 2017 compared to 2016.

Shareholders' equity for the group was $8.6 billion at the end of the second quarter, up $500 million or 6% over year-end 2016. This is after taking into account capital return for $103 million of dividends paid in the first half of 2017. Our capital position remains very strong and continues to grow.

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

John P. Doucette
Executive VP, President & CEO of the Reinsurance Division

Thank you, Craig. Good morning. We are pleased to report another strong quarter with $126 million of reinsurance underwriting profit. The second quarter combined ratio improved to 87.4% from 89.9% in the second quarter 2016. The loss ratio improvement of 1.2 points to 60.2% was driven by lower catastrophe losses, offset by a 3.6 point increase in the attritional loss ratio. This was an anticipated outcome and was mainly due to the crop reinsurance booked new this year as well as the increased property pro rata writings, offset by reduced attritional loss ratios on the international book.

Total gross written premium for the second quarter was $1 billion, an increase of 14% compared to the prior Q2. This growth is due to several factors but largely can be attributed to $54 million of crop premium associated with our strategic crop reinsurance relationship that resulted from the sale of Heartland last year.

In our U.S. Reinsurance segment, second quarter gross written premium was up 17% to $475 million, driven by the new crop treaty and the impact of a large premium portfolio out in Q2 2016. The second quarter combined ratio in this segment was up 8 points, primarily due to the weighting of crop and property pro rata earned premium in the quarter, with higher attritional loss ratios.

While both lines have higher combined ratios, they maintain attractive ROEs due to their low capital consumption. The increased loss ratio was offset by a 1.5 point drop in the expense ratio, mainly due to lower contingent commissions in the quarter.

Our International Reinsurance segment second quarter gross written premium was $320 million, down 6%, partly due to some large one-off deals with strategic clients written in the prior year. Net written premium for the quarter was down 3% but up 7% on a year-to-date basis, due to the impact of timing on the receipt of several accounts.

The combined ratio for the second quarter dropped to 93.7% from 115.8% in Q2 2016 due to lower catastrophe losses given the Fort McMurray wildfires and the Ecuadorian earthquake last year.

The attritional loss ratio also dropped 6.2 points to 50.1% due to continued favorable loss trends. The lower loss ratio was offset by a 2.6 point increase on the expense ratio, primarily driven by the higher mix of pro rata premium affecting the commission ratio.

Our Bermuda segment second quarter gross written premium increased 47% to $238 million, or up 51% on a constant dollar basis. The growth was derived from new product opportunities; timing of certain accounts; additional pro rata treaties in property, credit and casualty line; increased writings in U.K. motor; post Ogden rate changes; and some large multi-class programs with core clients. The combined ratio increased to 90.3% from 88.9% due to a 7.9 point increase in the loss ratio, offset by a 6.5 point decrease in the expense ratio. The loss ratio comparison was affected by a sizable catastrophe reserve release in 2016, a shift in business mix and an increase in the current year loss ratio due to the change in the Ogden discount rate this year. The drop in commission was caused by a larger mix of business with naturally lower commission ratios.

Turning to the 6/1 and 7/1 renewal. Everest continued to dynamically allocate capital to opportunities with the best risk-adjusted returns. Rather than chase the market down on nonperforming deals, we reduced or declined these and selectively deployed capacity towards deals that were priced well.

On balance, this approach resulted in similar amounts of capacity deployed with only a marginal deterioration in expected returns. This ability to successfully shift risk capital is a benefit of our overall portfolio, which grew at 6/1 in Florida and at 7/1 in the U.S., Canada, Latin America, Bermuda, London, Zürich, Singapore, China and Australia, highlighting our very diversified portfolio and global origination capabilities.

We also wrote more structured and customized transactions that are somewhat more shielded from market pressures. International property rates were, on average, down about 5% for us this 1/1 -- this 7/1, with some isolated pockets of rate increases in loss-affected areas.

In the U.S. property markets, June 1 XOL rates continued to edge down. Lower-rated, smaller reinsurers and nontraditional players bore more of the brunt of the rate pressure as seasons gravitated to higher-rated leading reinsurers like Everest who receive larger lines overall and better signings on the more attractively priced layers.

We also cut participation on poorly performing XOL deals. Despite declining their placements, we typically continue to trade with many of those clients on different products or a different attachment point. We saw ongoing demand for our capacity on higher layers, where we currently find better risk-adjusted returns.

This combination of strategies resulted in a better-than-market outcome for us, as we saw rates for our Florida XOL June 1 book being closer to down only about 3% and the rest of our U.S. July 1 book being closer to flat.

In addition, having been impacted by Hurricane Matthew and AOB claim issues, some Florida exposed pro rata deals saw improved reinsurance terms, and we deployed more capacity accordingly to them.

With our strong franchise, we have been able to increase our depth in various U.S. and international markets, continue to expand in areas dislocated by loss activity or grow with existing clients in new lines of business. Repeatedly, we are a go-to-market for shortfall covers, as market stabilization in these specific lines prevent deals from completing at aggressive firm order terms.

In our casualty book, reinsurance terms are mostly stable, but original rate and loss trends pressure economics. We judiciously deploy our capital and cut back when necessary, favoring lines with healthier returns.

Recently, some large casualty deals were not completed at the firm order terms, resulting in either not placing the deal and the clients retaining at net or the buyer had to improve terms for the reinsurers to get the deal fully placed, both signaling the casualty market is trying to find a floor.

The persistent strength and financial success of the Everest franchise reflect the value that we are constantly trying to deliver to our reinsurance clients. We continually strive to build enduring and strategic client relationships, highlighted by the fact that 75% of our reinsurance clients have been trading with us for at least a decade and over 50% of our clients worldwide have been trading with us for over 30 years.

Leveraging our leading global franchise, our empowered underwriters nimbly provide customized solutions to our client, earning us a first look at new and unique market opportunities. Consequently, we remain optimistic about our future and our ability to deploy capital profitably despite a tough market.

All said, the midyear renewal continued the macro theme of delivering the most value for reinsurance clients at the best cost. Thus, the reinsurance market continues to sprint towards: one, more capital efficiency through size, scale and diversification; two, alternative risk transfer mechanisms to enhance capital efficiency and best match capital to risk; three, increased focus on distribution to access profitable business, which is becoming increasingly more important; and four, improved operational and expense efficiencies.

Those reinsurers that can execute on these objectives will succeed in both good and bad reinsurance markets, but those that do not could be disintermediated or diminished as the reinsurance value chain compresses. Everest continues to remain nimble in its approach to this changing market environment, adapting its operating strategies to ensure success today and into the future in the new reinsurance world order.

Thank you. And now I will turn it over to Jon Zaffino to review our insurance operations.

Jonathan M. Zaffino
Executive Vice President

Thank you, John, and good morning. Our global specialty insurance operations delivered a solid quarter of performance. The significantly transformed Everest insurance platform continues to take shape, and the momentum we are generating in the market as a result remains encouraging.

The second quarter marks the highest level of quarterly gross written premium realized in our insurance operations' history. The achievement of this milestone was a result of highly diversified growth generated from over 150 specialty products despite no premium contribution from the now divested Heartland Crop portfolio.

Importantly, this quarter builds upon the underwriting profitability achieved in the first quarter of this year. Most notably, when compared to the second quarter of 2016, we achieved an excess of $30 million of improvement to underwriting profit. The many strategic actions executed upon since 2015 are beginning to take hold and evidence themselves in our results.

Turning to the financial results for the quarter and year-to-date period. As in prior quarters, due to the divestiture of Heartland in late third quarter of 2016, I will discuss comparative results excluding this business.

For the second quarter of 2017, the global insurance operations produced $569 million in gross written premium, an increase of $164 million or 41% over second quarter of 2016, a tremendous result considering the challenging market conditions.

On a year-to-date basis, we achieved $1 billion in gross written premium, again, another record performance. This represents growth of $240 million or 31% over the comparable period in 2016. Contributions were relatively balanced across most underwriting divisions. The significant addition of new products, which continue to gain scale, coupled with strong performance from our many existing product areas, namely accident and health in the quarter, contributed to this excellent result. This represents the 10th consecutive quarter of growth for our global insurance operations.

Also in the quarter, our new product launches and recently assumed portfolios contributed 19% to total premium production, along with an additional 4% from our Lloyd's platform, numbers that are consistent for the year-to-date period.

Let me offer a bit more context at the divisional level. Our property portfolio experienced meaningful growth in the quarter and year-to-date period. The U.S. wholesale property book, aided in part by the previously announced renewal rates transaction closed at the end of the first quarter, was a large driver of this growth. Further contributing was the steady expansion of both our Inland Marine and newly launched Retail Property groups. Growth in various other property portfolios globally was balanced and in line with our expectations. Globally, this line represents roughly 28% of our year-to-date premium production.

Everest Specialty Underwriters, the division focused on professional and management liability and various other specialty products, also grew nearly 25% over the prior year-to-date period.

Growth, however, was not experienced across the board. Some of our management liability books were down significantly in the same period as we simply do not find the rating environment to be supportive of our profitability ambitions. We have been able to redeploy our resources to areas within ESU that better meet our objectives.

The Everest risk management division, which houses our primary large account casualty operation, our monoline work comp unit, the commercial casualty team and our multinational group, also achieved meaningful growth in the quarter and year-to-date period.

Overall, premium production increased 41% and 33%, respectively, over the prior year quarter and year-to-date period, and profitability remained solid.

This business is also a strong bellwether of the growth in our brand across the market. In the case of large account primary, we work with our brokers and risk managers to design thoughtful risk financing casualty programs, inclusive of the suite of services. There are many hurdles entering this business, yet we find ourselves in a position of growing strength as the operation continues to mature.

Everest Underwriting Partners, our delegated authority operation, was essentially flat in the quarter and, in fact, down 3% in the year-to-date period, yet profitability was the strongest we have seen in several quarters. Impacting our growth were various underwriting actions taken to address a few underperforming portfolios, namely nonstandard auto.

Finally, our Lloyd's operation also continued its expansion. The syndicate contributed $24 million to the insurance growth in the quarter and $45 million year-to-date. The steady and cautious build of our portfolio continues with a balanced contribution from several lines of business, including professional indemnity, financial institutions, liability, accident and health and contingency. Again, we remain deliberate in our growth pursuits and will continue to seek opportunities for profitable expansion.

So again, meaningful growth coming from balanced contributions across the global portfolio, yet not all divisions are growing, as profitability remains our #1 objective.

Turning to net premiums. As we've shared in the past, net written premium slightly lags gross written premium growth due to the marginally more conservative reinsurance position we have taken to support the growth across our underwriting divisions.

Net earned premium in the quarter was $364 million, an increase of $70 million or 24%. For the year-to-date period, net earned premium of $688 million increased by $118 million or 21% over the prior year period. Earned premium growth has lagged net written premium growth due to a few factors.

First, our growth rate has accelerated in recent quarters as our new underwriting divisions become fully operationalized in the market. Second, various lines of business we are writing, long-term, very profitable lines, earn over a period longer than 12 months. As these businesses gain additional scale, we expect earned premium growth to accelerate, which we are confident will lead to growing underwriting profit.

Turning to the combined ratio. For the quarter, the GAAP combined ratio was 99.1%, almost a 10 point improvement from the second quarter of 2016. While we are pleased to have produced an underwriting profit of just over $3 million in the quarter, there were some headwinds from various cat events that distort the progress we expect to show on a run rate basis, which I'll get into. On a year-to-date basis, the GAAP combined ratio was 98.8%, a 4 point improvement over the first half of 2016.

Our attritional results for the quarter and year-to-date period are 93.6% and 95.7%, respectively. This compares favorably to 2016's second quarter of 95.7% and 95.8% year-to-date. So again, improvement in the quarter and stability on the year-to-date results.

The quarter's loss and loss adjustment expense ratio improved significantly from the prior year period to 70.3% from 80.2%. As you will recall, the second quarter of 2016 was impacted by significant cat activity from the Texas hailstorms and the Fort McMurray wildfires, which combined had a 13.1 point impact to the loss ratio.

While this quarter was also impacted by a variety of well-publicized cat events, it was not at the same magnitude of last year. On an attritional basis, the second quarter '17 loss ratio improved to 64.8%, 3 points better than the 67.8% attritional produced for the first quarter of this year and 2 points better than the attritional loss ratio of 66.9% in the second quarter of 2016.

We are beginning to see the drift down in the attritional loss ratio based upon an improved mix, the benefits from the many new businesses launched and the strategic underwriting actions over the past 2 years. Looking at the year-to-date period, the GAAP loss ratio improves to 69.3% from the prior year period of 74.3%, a 5 point betterment. The attritional loss ratio also improves a full point to 66.2% from 67.3%.

A few additional comments. First, as I mentioned, the second quarter experienced another elevated level of cat activity in the U.S. PCS cat event [17 32], the Colorado hailstorms, in particular impacted our North American results by almost 4 points.

Second, the significant convective storm events across the first and second quarter added roughly 2 points to our attritional loss ratios. Certainly, all manageable outcomes based on the profitable growth in our earned premium base, but nonetheless creating some quarterly pressure on the results.

We also recognized a small amount of adverse prior year development from our nonstandard auto book of nearly 2 points in the quarter. This is an area we continue to deemphasize in our go-forward portfolio.

Offsetting these increases to our loss ratio was a 4 point improvement in the accident and health division's accident year loss ratio. Our A&H group delivered an outstanding quarter.

Our expense ratio in the second quarter was 28.8%, down from the first quarter result of 30.2%. For the year-to-date period, the expense ratio is 29.5%, up slightly from the 28.5% in the comparable period of 2016. Our operating expense ratio for the second quarter was 12.5% compared to 12.4% for the prior year quarter, essentially flat. Year-to-date operating expenses were 12.8% for '17 compared to 12.2% last year.

Again, we anticipate the expense ratio to stabilize as we continue upon our growth plan and as earned premium continues to come through. As we have stated in prior calls, an expense ratio of roughly 30% remains very competitive in the specialty insurance segment.

Turning to the operating environment. The second quarter trended quite similar to the first quarter. Suffice it to say that it's a competitive market and underwriting excellence is paramount in this environment. Clarity of risk appetite, clear knowledge of the rating environment and the thoughtful assumption of risks are all key attributes of our approach.

As in prior quarters, the overall level of rate change can vary meaningfully by major line of business. In general and outside of commercial and personal auto, there are various degrees of rate pressure. Workers' compensation, particularly in California; professional liability; and various casualty lines are all feeling some degree of mild pressure, generally in the flat to mid-single-digit range, again consistent to prior quarters. Commercial and personal auto remain the outliers and are each achieving low double-digit rate increases across our portfolio.

As discussed in prior calls, we feel the U.S. property market continues to find the bottom. While the rate environment has not turned consistently positive yet, we feel it is flattening out, again with some caveat between cat and non-cat exposed areas. So another quarter of predictable trend for each line, yet with a tone of stabilization across the overall portfolio.

In conclusion, we are pleased with our results to date. As our portfolio continues to gain scale, we are encouraged by the increased resiliency of our platform to achieve underwriting profitability. Our attritional results are especially encouraging. Our many new and existing colleagues continue to execute well on their individual underwriting mandates, and we look forward to continuing our momentum and reporting back to you on our progress next quarter.

Now back to Beth for Q&A.

Elizabeth B. Farrell
Vice President of Investor Relations
Thank you, Jon. Operator, we are ready to take questions at this time.

Question and Answer

Operator

[Operator Instructions] We'll have our first question from Elyse Greenspan.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on the reinsurance growth, pretty strong growth again in the quarter. Last quarter, you guys had pointed to about high single-digit growth as the sustainable level that you saw at the time for that book. The second quarter was stronger than that, and I think part of that was probably due to some of those property pro rata signings you pointed out. But how do you see, I mean, the rest of the year trending just in terms of -- on the growth prospects for your reinsurance business, just based off of how you saw June and July renewals and how you're thinking things through right now?

Dominic James Addesso
President, CEO & Non-Independent Director

Elyse, this is Dom. As -- and I'll ask John to comment as well. But as we mentioned and you mentioned, part of this was due to the shift towards a couple of new proportional deals which -- that earned premium then will have an impact on the remainder of the year, so that will affect premium growth, and then also the crop reinsurance transaction, which will also have similar impact on the remainder of the year. But absent that, the renewal seasons are pretty much over, other than we had in July 1. But again, most of the activities are in the first half of the year in terms of renewals and new business opportunities. The growth areas for us, though, continue to be mortgage, credit, structured solutions. And that's where, absent the other items I just mentioned, that's where, frankly, the growth opportunities are and that -- our previous guidance on that in terms of growth. As you indicated, the high single digit would still remain, unless John has anything to add to that.

John P. Doucette
Executive VP, President & CEO of the Reinsurance Division

No, that's it. I agree.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then in terms of the Insurance business, pretty strong growth and a lot of commentary that you guys gave. If the growth remains at 40%, do you think that, based off of how you put it all together, that you could maintain an underlying margin in the low 90s? And one question I had, you did call out, Jon, the convective storms of about 2 points. Is that stuff that fell outside of your cat definition in the Q2, meaning that the margin might have been better adjusting for that? I'm just trying to tie that together.

Dominic James Addesso
President, CEO & Non-Independent Director

Yes. The 2 points that Jonathan referenced falls within the attritional number that he quoted. So it's not -- in our vernacular, it's not a cat, all right? They're cat events, but they don't get disclosed by us as a cat or recorded in our numbers as a catastrophe. It is in the attrition. And again, in terms of the growth, I think we've said for some time that we would anticipate an improvement in our attritional, and we're at those levels where we think it is sustainable. We have great diversification across the entire platform, so we're not dependent on any one line of business or any one product, which not unlike the reinsurance sector, enables us to increase our capacity or increase our appetite in those lines of business that we feel are giving us the requisite profit and return on our capital and deemphasize those classes of business that are not. It doesn't mean we totally withdraw, but it allows us to shift our capacity around. So several new business units and allows for great diversity across the entire platform. Jonathan, I don't know...

Jonathan M. Zaffino

Executive Vice President

No. That is well said.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then one last question. Can you talk -- the losses in the quarter, you guys saw some losses in South Africa and Peru. Can you just talk about your exposure there? And what kind of returns are you getting in normalized years in both of those markets?

John P. Doucette
Executive VP, President & CEO of the Reinsurance Division

Elyse, this is John. We write a significant portion of our business outside the U.S. and have been strong in many countries around the world, including those. And we write -- in each of those countries, we have a strong franchise and an attractive book of business that we've been writing for many years. They would typically run in the 80s across the cycle, so 80s combined ratio. It could go up or down based on cat activity.

Operator

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

Kai Pan
Morgan Stanley, Research Division

The first question is on the flow up in the Insurance segment. The second quarter top line growth, 41% ex crop, and a margin improvement of 210 basis point, both very impressive. I just wonder, you mentioned it is a very competitive marketplace. Could you tell us a little more how exactly do you gain market share in the marketplace? And why actually improving your margin, because I'm assuming if you grow very fast, you probably -- there are certain so-called, I don't know the term, the new business plan, do you apply to this line of business as well? Can you maintain the margin or even improve the margin going forward?

Dominic James Addesso
President, CEO & Non-Independent Director

Kai, this is Dom. I don't necessarily agree with your assertion or assumption that growth comes -- with growth comes underwriting deterioration. As I just kind of described in response to Elyse's question, the diversification across many different product segments allows us to maintain our underwriting integrity and increase capacity to those lines of business where we're getting adequate returns. We do think that we are improving our attritional. And there's still some improvement that we think we can garner, particularly in the property segment, remembering at the first half of the year for property, as Jonathan pointed out, had a number of cat events but also, as we described, the non-cat cat events adding 2 points to the attritional. And we anticipate that as the year plays out that we'll have some improvement in those areas. So we would certainly anticipate an improvement in combined ratio picture on the insurance side, again, coming from diversity, diversification amongst business unit and products within those various business units. And remembering that we are a specialty insurer, we are not writing small commercial, we're not into BOP business or those areas that are subject to, in our view, some of the more competitive pressures in the marketplace.

Jonathan M. Zaffino
Executive Vice President

Yes. I would just add to that, Kai, that there's really a couple of things here to remember. Number one is that we have doubled our underwriting staff over the last 2 years. So we have a lot more boots on the ground seeking profitable opportunities in the lines of business we have chosen. Secondly, we have launched literally dozens of products. So to Dom's point about diversification across the platform, it's significant. It's coming from a number of different areas. And to the point I tried to raise earlier, it's not -- growth is not linear across our platform. It's not all moving in lockstep. There are several actions being taken still to try to drive a better attritional result. So we're seeing now the effects of all those efforts that have happened over the last couple of years.

Kai Pan
Morgan Stanley, Research Division

My second question on the reinsurance side. You talked a little bit more about what caused the deterioration, 210 basis points. What are the moving parts? And you mentioned about a crop in reinsurance, about property pro rata treaties. How much -- could you quantify how much each basically contributed to the year-over-year deterioration? And do you think that will be a kind of normal -- a stable run rate going forward?

Dominic James Addesso
President, CEO & Non-Independent Director

Would what be a stable run rate, the attritional that we have on the reinsurance?

Kai Pan
Morgan Stanley, Research Division

Yes, exactly. Yes.

Dominic James Addesso
President, CEO & Non-Independent Director

Well, some of that is dependent upon what happens with future rate levels, right? And I don't know that we have all the details that could -- I could give you that. So we do have some of it. So growth in crop, that have 4.6 point impact. We had -- some of the increase due to pro rata had an impact of approximately 3 points. So that will give you some indications on the attrition. That's what was driving the higher attrition.

Kai Pan
Morgan Stanley, Research Division

That's in the U.S. Reinsurance segment?

Dominic James Addesso
President, CEO & Non-Independent Director

That's U.S., yes. And then on the international side, we had 6 point improvement in some of the operations there. Middle East, Africa showing some improvement in the non-cat loss trend. And then we had -- on the Bermuda side, we had an increase due to higher ELR on some of the treaty -- higher ELR pick on some of the treaties we've written. So it varies across the entire portfolio. And so the reason I kind of go through some of this in detail is to reflect the fact that it's what I said before, Everest has -- generally as an operating strategy moves around various lines of businesses. And I can't tell you necessarily what 1/1, for example, will bring us, and we could change our portfolio again. So it's a little difficult to answer.

John P. Doucette
Executive VP, President & CEO of the Reinsurance Division

And Kai, this is John. Just to add a little bit color to that. And a lot of this is you also may be better to look at the year-to-date numbers as opposed to the quarter because there's always going to be quarterly volatility just from large risk losses that happened, non-cat, cat events or weather losses that happened that move these things around. So we think the year-to-date attritional combined ratio is more reflective for the reinsurance operation.

Operator

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

Joshua David Shanker

Deutsche Bank AG, Research Division

You guys have always prided yourselves on expense ratio and expense management while not being much better than peers. So why is it that you need to grow the insurance business to be competitive from an expense management standpoint?

Dominic James Addesso
President, CEO & Non-Independent Director

What do we need to grow the expense ratio to? Is that...

Joshua David Shanker
Deutsche Bank AG, Research Division

No, no, no, the overall volumes where you're at scale, where you think that you can have a competitive run rate expense ratio better than peers?

Jonathan M. Zaffino
Executive Vice President

Josh, this is Jon. I think we're there. Generally, I think we're there now. I mean, if you look at where we are year-to-date, I think that expense ratio compared to those who write the lines of business we do across the geographies we write them, I think it all stack up very, very well and, in fact, well above the peer average. Secondly, when you look at a lot of the activities that we have pursued, our investments have been all across our platform. We're equally excited about the investments we're making in our claims department, our actuarial teams, technology, et cetera. So I think we have a pretty good feel for the expenses that are coming into the system. And against the earned premiums that we're forecasting, I think we feel pretty good about it.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And as you grow, obviously, it requires more capital. You're not buying back stock. You're using it to grow your own business. Are you growing at the pace of excess capital generation? Or is that the limiting factor that you had more capital, you just grow faster? Or are you growing faster than you're generating capital?

Dominic James Addesso
President, CEO & Non-Independent Director

Our capital growth is kind of consistent with our premium growth. Our premium growth is -- we have sufficient capital for the growth that we've had for the first half of the year. If anything, our excess capital position has maybe just inched up a very little bit, but not enough to warrant that we would increase the back end in terms of in the short term. We purchase particularly at the levels that our stock is at today.

Operator

[Operator Instructions] We'll go next to Meyer Shields, KBW.

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

Two really quick questions. One, is it fair to infer within U.S. Reinsurance that the movement to higher attachment point is limiting your exposure to what seems to have been really bad non-catastrophe weather?

John P. Doucette
Executive VP, President & CEO of the Reinsurance Division

Meyer, this is John. There's certainly some of that, that would -- and I think that you saw that last quarter as well that -- some of the noise. So in general, market losses of a certain size are going to be more an insurance loss than a reinsurance loss. And I think, directionally, given what we've been doing with the book, it would mean that it would take larger, the real noteworthy headline cat losses and not just the things you see on TV with the good video images. It would really take larger ones to cause larger losses for us.

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

Okay. And then broadly, I guess, this would be insurance and reinsurance. There's been a lot of commentary about sort of accelerating social inflation. Are you seeing that? How are you booking that in your current accident year pay?

Dominic James Addesso
President, CEO & Non-Independent Director

I'll ask Craig to speak to that.

Craig W. Howie
Executive VP & CFO

I'm sorry, could you repeat the question?

Dominic James Addesso
President, CEO & Non-Independent Director

Social inflation and its impact on our portfolio.

Craig W. Howie
Executive VP & CFO

I think we always take a look at what the inflation is when we look at loss cost trend on the overall portfolio, Meyer. And we look at not only social inflation, but we look at everything that's going on, claim inflation, social inflation. We look at the frequency and severity of the claims as they come through as well. But that's always part of our process as we go through picking our loss estimates.

John P. Doucette
Executive VP, President & CEO of the Reinsurance Division

And Meyer, it's John. Just to add a little more. I think also there's no one simple one line answer to that. We have -- across the group, we have 300 IBNR groups in many lines of business, in many territories around it. And what -- and how social inflation or claims inflation or other things like that are driving loss cost, it is dynamic, it varies. I would say, though, that we have spent a lot of time between feedback groups, between pricing actuaries and underwriters and reserving actuaries in the underwriting and pricing to make sure that we are thoughtful in how we think about that and are able to respond to what we see as changing market conditions.

Dominic James Addesso
President, CEO & Non-Independent Director

And that's not something that's new to the industry. It's something that all companies have to deal with. And if you look at our reserving history, I think it demonstrates that we're properly taking those factors into account in establishing our reserve position.

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

Right. No, no, that's very helpful. I'm just -- I'm trying to get a handle on whether -- on the sort of simplistic trends or aggregate trends that we look at from the outside, whether there's anything material going on.

Dominic James Addesso
President, CEO & Non-Independent Director

No. Loss cost trend has obviously been rather tame for a number of years. And it's a little tough to project when that social inflation, for example, kicks in. But general inflation, of course, has been relatively modest. Other than healthier trends, of course, which impacts the work comp line most significantly.

Operator

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

Kai Pan
Morgan Stanley, Research Division

A couple of follow-ups. First one, there's a -- on your Lloyd's business. Recently, there are some additional interest in the acquisition in the marketplace. You're building your own. At this time, do you prefer build versus buy?

Dominic James Addesso
President, CEO & Non-Independent Director

Across all of our businesses, that's our preference. It doesn't mean, however, that we wouldn't -- if something came across our desk that looked very strategic and could propel us to a different level more quickly and didn't have huge integration issues and/or legacy concerns, we'd certainly consider it. And of course, if you're pointing to Lloyd's, but I would say that Lloyd's is a platform. It's not necessarily the entire strategy, if you will. It's a platform that enables us to execute our Continental European strategy as well as outside of North America and Europe. And we can -- we have other areas that we're pursuing or other platforms that we're considering, again, internal build, that would enable us to move forward on those ventures.

Kai Pan
Morgan Stanley, Research Division

Okay. Last one, if I may, for Craig. It's about the tax rates. So what's your normalized tax rate if you think about your budget level over catastrophe losses?

Craig W. Howie
Executive VP & CFO

Well, we typically have looked at a range before, Kai. When we look at our tax rate, we essentially go and we look at with and without catastrophe losses, as you've heard us say in the past. So last year, for 2016, it was a mild year for tax rates, but -- and we had a full year effective tax rate of about 10%. What I would say to you is if we had no catastrophes in the year, in other words, more taxable income, that rate could go as high as up to 13%. But that would give you a relative range of where I would expect to be.

Operator

That does conclude our question-and-answer session. I'll turn the conference back over to Mr. Addesso for any additional or closing remarks.

Dominic James Addesso
President, CEO & Non-Independent Director

Okay. Thank you very much, and thanks again to all for your participation this morning on the call and your questions. As we mentioned, the growth in the first half for us has been strong, both insurance and reinsurance. But our first priority continues to be underwriting profit. That's why you see us continually optimizing our portfolio on the reinsurance side, for example, as we change attachment points, increase pro rata, nonrenew certain layers, diversify into various regions and rotate into other risk classes like mortgage, credit or structured solutions. So it is with an emphasis on underwriting profit. In the Insurance segment, our underwriting strategy is product specialty and diversification, again, which is, as I said earlier, allows us to provide capacity to the most attractive areas and also clearly minimizes the impact of any one line of business to the extent it reaches some difficulty. So diversification and specialization remain the cornerstone of what we do.

And so for the reasons that I just mentioned, we remain optimistic that through the cycle, we can outperform the overall market.

Again, thank you very much, and I look forward to meeting with many of you in the weeks ahead. Have a good day.

Operator

That does conclude today's conference. Thank you for your participation. You may now disconnect.