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Q1 2020 Everest Re Group Ltd Earnings Call

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## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the Everest Re Group Limited First Quarter 2020 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd now like to turn the conference over to Mr. Jon Levenson. Please go ahead, sir.

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### **Jon Levenson** *Everest Re Group, Ltd. - Head of IR*

Thank you, Nadia, and welcome to the Everest Re Group, Ltd. 2020 First Quarter Earnings Conference Call. The Everest executives leading today's call are Juan Andrade, President and Chief Executive Officer; Craig Howie, EVP and Chief Financial Officer; and John Doucette, EVP and President and CEO of the Reinsurance division. We are also joined today by other members of the Everest management team.

Before we begin, I will preface the comments on today's call by noting that Everest's SEC filings include 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 its 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 Andrade.

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### **Juan Carlos Andrade** *Everest Re Group, Ltd. - President, CEO & Director*

Thank you, Jon, and good morning, everyone, and thank you for joining the call. First and foremost, I hope you, your families, your friends and your neighbors are all staying healthy and safe. On behalf of our company, I want to offer our heartfelt condolences to all of those, including many in the Everest family who have lost loved ones during this difficult time. Our sincere thanks go to those medical professionals and first responders who are putting themselves at risk to keep everyone safe. Also, to all of those who are working hard to keep the supply chains going: the truck drivers, delivery drivers, grocery store employees and everyone else, thank you.

I also want to thank all of Everest employees for their spirit and their unflagging commitment to serve our customers. We took early, proactive and decisive actions to protect the health and safety of our employees, their families and our stakeholders. As a result, Everest continues to successfully operate remotely. We are doing our part in support of the global economy by serving all of our customers and stakeholders without interruption. Our move to remote work was planful with a well-executed organizational resiliency plan and an underlying technology infrastructure that performs seamlessly and an information technology organization that has performed admirably. Our employees have been flexible, resilient and productive. We have received accolades regarding our responsiveness and our stability.

We also continue to support our local communities around the world in their pandemic relief efforts. These are leadership moments for



people and companies. Our culture of collaboration, thoughtful assumption of risk, humility and relentless execution are at the bedrock of our performance. I am incredibly proud of our people and our company.

Our diversified global platform, with its broad mix of products, distribution and geography, remains an important source of stable capacity to our broker partners and customers. Our capital position remains a source of strength with high-quality invested assets, significant liquidity and low financial leverage.

Despite the pandemic and the economic downturn, Everest remains profitable, as reflected in our reported 98.6 combined ratio or 89.9 excluding catastrophe losses and the pandemic IBNR loss provision. Additionally, Everest remains resilient, as reflected by both our 21% growth rate in gross written premium and by our capital position. We have built a strong capital foundation over the years, holding \$8.6 billion of shareholders' equity at March 31, 2020. While this is a decrease from year-end 2019, this decrease primarily results from: one, the sharp decline in the fair value of the investment portfolio, which has now substantially recovered since the end of the quarter; two, share repurchases and dividends paid; and three, the pandemic loss IBNR provision.

Most importantly, our capital position continues to exceed what we need to run the business with excess capital relative to rating agency and regulatory requirements. We have substantial liquidity from the cash we hold, and the cash flow from operations, which was over \$0.5 billion for the quarter, or up 10% from 2019. We have significant access to capital markets, including plenty of debt capacity as we carry very little debt compared to all of our peers at less than 7% of our capital when most of our peers typically carry upwards of 20% to 30%. Lastly, our industry-leading expense ratio also gives us operating flexibility, which is particularly critical in times of uncertainty.

Turning to the first quarter of 2020. Everest remains strong and is well positioned with broad capabilities and top talent. And we remain focused on solving our clients' most critical risk transfer needs in a disciplined and profitable way. We demonstrated excellent momentum across both of our Reinsurance and Insurance businesses with gross written premium growth of 16% and 33%, respectively. We also continued to benefit from improved market conditions during the quarter, which I will discuss in a moment.

Excluding catastrophes and the pandemic IBNR loss estimate, our underlying combined ratios for the group at 89.9 and each of our divisions, Reinsurance at 87.7 and Insurance at 95.6, are reflective of the strong underwriting performance across the group and the earnings generating power of the franchise. Underwriting profitability remains at the core of everything we do.

Our Reinsurance division had a strong January 1 renewal season. We continue to judiciously deploy capital, and we underwrote a high-performing book that is focused on strong economic returns while improving the diversification and balance of our overall portfolio. We also saw stronger opportunities in several areas such as retro and facultative risk.

As the quarter progressed, we saw continued momentum across the portfolio. John Doucette will provide additional details on market conditions and the underlying growth.

Our Insurance division's growth remained strong and consistent with recent quarters. The drivers for this growth were: number one, strong and widespread rate momentum. Excluding workers' compensation, the rate increase was plus 24% or plus 17% net of a handful of large deals booked in the quarter and over 12% including workers' compensation. This is an improvement from the fourth quarter of 2019 where the rate increase was almost plus 12 excluding workers' compensation and plus 4 all in.

We also saw continued strength in the E&S space with strong submission flow and market conditions continuing to tighten in property and casualty in both primary and excess lines. We also had strong renewal retention in both our retail and wholesale businesses. And we had increased productivity resulting from additional underwriters hired in 2019 that are now fully onboarded and providing capacity to address the increased submission flow.

The insurance growth was also balanced and diversified across our many lines of business. Strong rate and tightening terms drove the growth in the long-tail line. Despite the impacts of the pandemic in the quarter, our underlying insurance portfolio continues to perform well, and we are seeing the benefits of our various investments in portfolio optimization efforts, all of which position us well for this environment.



Turning to investments. Net investment income of \$148 million was up 5% from the first quarter of 2019. Our investment portfolio had been and is defensively positioned with over 75% in investment-grade fixed income bonds and less than 4% allocated to public equities. Most of our risk is bond risk, and we also have the ability to hold bonds until they mature. In addition, we have continued to further reposition our portfolio, moving up in fixed income credit quality and reducing equity exposure.

As per our April 23 announcement, we have taken \$150 million IBNR loss provision in the first quarter related to the COVID-19 pandemic. These losses relate to event cancellation, business interruption and other coverages such as accident and health and workers' compensation. Our estimate was based on an analysis completed during the first quarter. This analysis was a thorough cross-functional review of the in-force portfolio by line of business, industry and geography. The review was completed by a team of professionals representing every area of the company. Given the fluid and continuing nature of this pandemic, this is an ongoing event and so is our analysis. While our analysis looked at all aspects of our global portfolio, our estimate does not take into account legal, regulatory or legislative intervention that could retroactively mandate or expand coverage provisions.

As stated in our release, our philosophy is to recognize and react to expected future losses on a timely basis. We will be tracking pandemic losses separately from our attritional losses and as an ongoing event.

With regard to our specialty insurance business, we have limited exposure to event cancellation, accident and health, workers' compensation and business interruption. Our property policies have unambiguous policy language that requires direct physical loss for business interruption coverage to be triggered. Additionally, the majority of the property policies in force contain a virus exclusion. Only a very small number of policies have endorsed sublimits typically less than \$25,000 and with short-duration caps that would offer BI for a notable -- notifiable human disease. These exposures have already been recognized as part of the overall IBNR loss estimate for the quarter.

The majority of the IBNR loss provision was for the Reinsurance business given the relative size of this portfolio compared to our Insurance businesses. It is important to note that as a reinsurer, we have contractual terms and conditions, such as retentions, limits, event definitions, hours clauses and other coverage provisions that will apply to this ongoing event. Thus, we do not simply follow the fortunes. It will be very fact-specific.

We have also done a thorough review of our mortgage reinsurance contracts. Based on our view of the economic situation that is aided by both external information and our own proprietary internal modeling, we currently believe that our loss picks and reserves remain adequate. We will continue evaluating this business as the economic situation unfolds.

In summary, Everest showed forward momentum, resiliency and profitability in the first quarter of 2020. We effectively transitioned to running our company remotely. And as always, we'll remain a consistent and trusted provider of capacity to our customers. Given the uncertainties in the current public health and economic environment, there could be an adverse impact on results for the property and casualty industry and Everest for the remaining part of the year. The impact is clearly dependent on the shape and length of the recovery.

While the economic environment has changed, Everest remains a high-quality franchise with broad capabilities, a global platform and top talent. We remain focused on solving our clients' most critical risk transfer needs in a disciplined and profitable way. We have the right culture, the right platform and relevance with our clients and trading partners and the capital base to see us through this time.

Now let me turn it over to Craig to provide additional details on the financials. Craig?

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**Craig William Howie Everest Re Group, Ltd. - Executive VP, CFO & Treasurer**

Thank you, Juan, and good morning, everyone. Everest reported net income of \$17 million for the first quarter of 2020. This compares to net income of \$355 million for the first quarter of 2019. Net income included \$172 million of net after-tax realized capital losses compared to \$74 million of capital gains in the first quarter last year. The 2020 capital losses were primarily attributable to fair value adjustments on the public equity portfolio.



Operating income for the quarter was \$164 million driven by strong underwriting results across the group, stable net investment income and lower catastrophe losses, offset by a COVID-19 pandemic IBNR loss estimate of \$150 million. The overall underwriting gain for the group was \$29 million for the quarter compared to an underwriting gain of \$196 million in the same period last year.

In the first quarter of 2020, Everest saw \$30 million of catastrophe losses related to fires and hailstorms in Australia and a tornado in Nashville, Tennessee. This compares to \$25 million of catastrophe losses reported during the first quarter of 2019. Overall, our prior year catastrophe loss estimates continue to hold.

The combined ratio was 98.6% for the first quarter of 2020 compared to 88.7% for the first quarter of 2019. Excluding the catastrophe events and the impact of the COVID pandemic, comparable combined ratios were 89.9% for the first quarter of 2020 and 87.4% for the first quarter of 2019. Excluding the pandemic IBNR loss estimate, the attritional loss ratio was 61.5%, up from 60.2% for the full year of 2019 primarily due to the continued change in business mix.

For the Reinsurance segment, the attritional loss ratio, excluding the pandemic loss estimate, was 59.8%, up from 58.2% for the full year of 2019. This increase was related to the continued business mix shift toward more pro rata premium, which carry a higher loss pick but allow us to benefit directly from the firming primary market. Pro rata premium is less volatile than excess premium, and we will see the benefit earn into our results as we let the loss picks season over time.

For the Insurance segment, the attritional loss ratio, excluding the pandemic loss estimate, remained very steady at 66.1%, essentially flat compared to 66.0% for the full year of 2019.

As you can see in the financial supplement, we also experienced more growth in areas that typically carry a higher loss pick and -- but a lower overall combined ratio. Our U.S. insurance franchise, which makes up the majority of our global insurance business, continues to run an attritional combined ratio in the low 90s, excluding the pandemic loss estimate.

The group commission ratio of 22% was down slightly compared to prior year. The group expense ratio remains low at 6.3% and was higher than last year due to an increase in nonrecurring incentive compensation, benefits and payroll taxes in the first quarter, which will normalize during the rest of the year.

Before moving to investments, I'd like to point out that we are now reporting 2 segments: Reinsurance and Insurance. This is consistent with the way the business is managed and the way management views the company's results.

For investments, pretax investment income was \$148 million for the quarter from our \$20 billion investment portfolio. Investment income was 5% above the first quarter of last year. This result was primarily driven by the increase in investment-grade fixed income portfolio, which had a higher asset base this year, and higher limited partnership income quarter-over-quarter. Since we report most partnership income on a quarter lag, the global equity market performance in the first quarter will be reflected in the limited partnership investment results in the second quarter.

The Pretax yield on the overall portfolio was 2.9%, about flat compared to 1 year ago.

For our investment-grade portfolio, the new money rate was 2.7% for the quarter. Other income included \$21 million of foreign exchange gains in the quarter.

On income taxes, the \$60 million tax benefit for the quarter included a \$31 million tax benefit related to the CARES Act, which extended the carryback period for cats- losses to 5 years. Excluding this benefit, the effective tax rate on operating income was 12%, in line with our expected tax rate for the full year. Positive cash flow continues with operating cash flow of \$506 million compared to \$460 million for the first quarter of 2019. This increase reflects a lower level of paid catastrophe losses in 2020 compared to 2019 and an increase in cash flow from our ongoing growth in insurance and reinsurance premiums.

Shareholders' equity for the group was \$8.6 billion at the end of the first quarter, down from \$9.1 billion at year-end 2019. The movement



in shareholders' equity since year-end 2019 is primarily attributable to the sharp decline in the fair value of the investment portfolio and by capital return for \$200 million of share buybacks and \$63 million of dividends paid in the quarter.

The reduction in investment portfolio valuation came from the realized losses in the equity portfolio and the \$248 million mark-to-market impact on the fixed income assets resulting from the widening of credit spreads. These mark-to-market adjustments have substantially recovered since the end of the quarter.

During the first quarter, we made some tactical adjustments to reposition the portfolio by moving up in credit quality and further reducing our equity exposure.

As Juan said, our capital position remains a source of strength with high-quality invested assets, significant liquidity and low financial leverage in addition to our robust cash flow. The strength of our balance sheet is critical to the success of our business.

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

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**John Paul Doucette Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division**

Thank you, Craig. Good morning. As Juan did at the start of the call, I would like to add my sympathies to our reinsurance trading partners and their families affected by the coronavirus pandemic. Like the rest of the group, the Reinsurance division, supported by our dedicated IT colleagues and our newly completed next-generation global underwriting platform was able to transition to 100% work from home without missing a beat. We are reviewing submissions, quoting and binding facultative and treaty business and settling claims.

Now I will review the quarter. During Q1, the Reinsurance division increased our gross written premium to a record of \$1.8 billion, up 16% from last year. Q1 growth was driven by January rate increases in loss-exposed areas and retro and writing more PURPLE products and casualty business due to improving conditions there. Growth was widespread, spanning territories and lines, including the U.S., international, casualty and property and short- and long-tail facultative reinsurance.

Excluding COVID-19 losses, our underlying reinsurance loss ratio was up by 2 points largely due to more pro rata premium written over the last year. Pro rata business directly benefits from an improvement in original rates while ceding commissions have generally been stable and, in some cases, improved. Those improved original rates will take some time to be recognized in our loss picks.

Note that the volatility associated with \$1 of pro rata premium is generally lower than \$1 of excess premium, and combined ratio alone can obscure risk-adjusted returns. We are pleased both with our progress at building a more diversified, profitable, sustainable gross portfolio and that we are seeing some tailwinds in the reinsurance market in casualty, property, retro, specialty and fac to help us achieve a stronger, more profitable portfolio.

Everest's facultative operations continue to see an increase in demand. In the U.S. and international, we are continuing to see significant double-digit rate increases in short-tail and long-tail fac, with dramatic increase in submission count. Given that facultative renews on multiple inception dates, it is a good forward indicator of reinsurance demand and pricing. For our casualty business, original rates on certain lines have shown some increases, which will earn through on our pro rata premiums.

As always, we are deploying our shareholders' capital judiciously, seeking to build the strongest reinsurance portfolio possible while maximizing returns, while limiting our downside risk through increased diversification and balance.

Now to comment on recent and upcoming renewals. April renewals showed continued rate momentum in loss-affected and capacity-constrained segments. Japanese wind and retro rates showed strong increases, consistent with the need to maintain appropriate returns. Looking near term, particularly the upcoming June Florida renewals, we expect rates will be affected by limited capacity, recent losses and the market's heightened sensitivity to risk due to climate change and social inflation. Also, there is a strain on alternative capital, traditionally large players in Florida. Therefore, we continue to see upward pricing momentum in Florida along with improved terms and conditions.

Now turning to mortgage. With the ongoing economic disruption, primary mortgage insurers could see increased losses along with regulatory capital pressure. However, housing fundamentals are stronger today than they were heading into the financial crisis with higher credit scores, tighter housing supply and lower-risk products. Our reinsurance mortgage book is seasoned and pegged conservatively.

To give you some color on our mortgage book. By limit, our book is roughly 80% GSEs and 20% mortgage insurance. Virtually all business we write is on a QM basis. The underwriting box we participate in is very controlled and tightly underwritten, meaning our portfolio has no exotic products and has high FICO scores particularly on the GSE business.

From the beginning of Everest entering the mortgage space, our pricing assumptions were and remain more conservative than the external vendor models that we use to validate our pricing assumptions.

Regarding the MI treaties we reinsure, we effectively play in an excess position, thus avoiding the working layer losses and resulting in a meaningful buffer in gross loss ratio deterioration before we suffer any economic loss to our reinsurance treaties. Deterioration in this buffer range decreases the size of the profit commissions we would typically pay to the MIs but at no economic cost to us.

Regarding our GSE business. Given our more conservative view of underwriting, pricing and capital modeling, we preferred higher layers over lower layers in these programs, and we have weighted our book to higher attachment points accordingly. Much of our exposure has been seasoned for several years, which benefits from home price appreciation. Going forward, credit standards at nearly all stages of mortgage origination are tightening and improving, therefore increasing the credit quality of borrowers in our book.

Additionally, early government intervention in the economic crisis to support borrowers and lenders, including the broad offering of forbearance, will mitigate potential losses and help keep people in their homes and avoid default. We are continually reevaluating the dynamics of this economically sensitive line to prudently manage our mortgage exposures now and on a go-forward basis.

Now I will give some comments on the overall market ahead. Despite the uncertainty the industry faces, we cautiously anticipate that the reinsurance markets will remain healthy for the highly rated traditional reinsurers who can deploy capacity in multiple lines of business around the world while also meeting clients' increasing counterparty credit requirements. This view is based on current reinsurance industry dynamics and the supply-demand curve.

Starting with the market supply. More stable capital remains in place while some of the opportunistic capital is exiting. Alternative capital investors are reevaluating the thesis that reinsurance is a non-correlated asset class. Potential uncertainty from COVID-19 and the possibility of more trapped capital compounds frustrations of these investors from the last 3 years of cats and subsequent loss creep from several events. This is in addition to higher relative return hurdle requirements given the increased price of risk across virtually all risk asset classes.

On the demand side, clients have increased reinsurance purchases for risk management and capital support particularly as some of them come under capital or earnings pressure given the volatile markets. The flight to quality continues as reinsurance buyers and brokers are increasingly focused on the stability and quality of counterparties to protect program continuity and mitigate counterparty credit exposures in these volatile times. The length of the economic downturn will ultimately be a key factor impacting reinsurance demand. These market dynamics benefit Everest as we deliver stable capacity with strong security as a long-standing client-focused partner. Regardless of where the market turns, we will focus our capacity on those clients that align with our philosophy of prudent underwriting and sound claims handling practices.

In summary, Everest is built to withstand volatility and uncertainty such as we are seeing now. We continue to prove our resilience, our solution-driven partnerships with long-standing clients and our ability to execute through these unprecedented times.

Thank you, and now I will turn it back over to Jon Levenson.

**Jon Levenson Everest Re Group, Ltd. - Head of IR**

Great. Thanks, John. We'd like to open up the call for questions. (Operator Instructions) Nadia, could you please open up for Q&A?

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) We'll take our first question from Mike Zaremski from Crédit Suisse.

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**Michael David Zaremski Crédit Suisse AG, Research Division - Research Analyst**

My first question, I'll go with mortgage insurance. I think many investors feel that ultimately, the vast majority of mortgage borrowers who defer or miss payments will ultimately cure. But it would be helpful if maybe you can help us size up kind of where your excess layers kind of kick in from maybe a loss ratio standpoint, but some kind of framework to understand if you guys kind of play in the 100% combined ratio and up on -- when we're looking at the mortgage insurers or kind of how to frame your exposure there.

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**Juan Carlos Andrade Everest Re Group, Ltd. - President, CEO & Director**

Yes. And this is Juan Andrade. Look, I think to echo some of the comments that John Doucette made in his opening remarks, you know, from our perspective, I think there's really 3 things to consider. Number one is where we play as a reinsurer; and number two, the fact that we see this more as a frequency-driven event essentially driven by unemployment. And so that certainly helps our view of all of this. The other part of that is that unlike the 2008 financial crisis, I think as we look at the mortgage products, the better original underwriting, I think, here will pay off. There's also much earlier intervention by the government, much tighter supply of housing, too. We also believe we have some very conservative loss picks on this.

But let me ask John to answer your question more specifically on structure. John?

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**John Paul Doucette Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division**

Yes. Thanks, Juan. Mike, thanks for the question. So again, I think you need to think of the world in 2 different buckets. One is on the mortgage insurance side, and one is on the GSE side. So on the GSE side, that's really more like a credit mortgage catastrophe. And so it's hard to map that to a loss ratio because as Juan said, there's frequency and severity tied to different percentages of default. So it's not really a loss ratio.

On the mortgage insurance side, these are typically quota share deals. But then as I mentioned, given the profit commissions that go back, it roughly -- it's effectively like an excess deal that it catches at about an 80 combined ratio.

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**Michael David Zaremski Crédit Suisse AG, Research Division - Research Analyst**

Okay. And on the GSE side, is there a way to frame maybe what -- is it a cumulative loss of like 2.5%? Or any numbers you could put around -- on the GSE side that could help us?

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**John Paul Doucette Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division**

Yes. And it'll vary by layer. I would just go back to the point I did say, which is -- so some of the GSEs have broad layers that they offer one layer, so -- and a much bigger stretch. Other ones have various layers. And where we had the opportunity, we would typically play higher up on -- further remote away from risk. But it's hard to map it to -- there's a lot of moving parts to the answer as to what the default rates are and things like that. And it's very much a function of -- because the GSEs also have the benefit of an earned cover from the MI. So if there's MI insurance on it, so there's -- it's not a -- there's no simple linear answer on that about what the default is. It depends on the type of the default, the frequency, severity, what drove it.

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**Michael David Zaremski Crédit Suisse AG, Research Division - Research Analyst**

Understood. My last question, switching gears to primary insurance. I think one of the most frequent questions we receive is trying to understand whether each insurer has a material amount of policies, property-related business interruption policies that may not have a

virus exclusion specifically. And I know -- I think part of the IBNR charge you took included business interruption. But is there any way you could frame whether you -- a portion of your book doesn't have a virus exclusion and whether you're reserving or making some reserves for those policies?

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**Juan Carlos Andrade Everest Re Group, Ltd. - President, CEO & Director**

Yes. Thanks, Mike. And I would go to -- this is Juan. And I would go back to my prepared remarks where I basically said that the majority of the property policies in the primary insurance book do contain a virus exclusion. And we only have a very small -- frankly, it's a very, very small segment where we do offer sublimited coverage. And I mentioned that it's less than \$25,000 with very short gaps on duration. And all of that is included in the estimate that we put up for the quarter.

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**Michael David Zaremski Crédit Suisse AG, Research Division - Research Analyst**

That's helpful, thank you.

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**Operator**

We'll next go with Yaron Kinar from Goldman Sachs.

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**Yaron Joseph Kinar Goldman Sachs Group Inc., Research Division - Research Analyst**

First question, probably for Juan. I think in your opening comments, you said that you had limited exposures in the Insurance segment to workers' comp among others. I was hoping that maybe you could help us -- or maybe explain how you come to that determination in the context of workers' comp premiums, I think, accounting for about 1/5 of the segment GPW?

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**Juan Carlos Andrade Everest Re Group, Ltd. - President, CEO & Director**

Yes, I'd be happy to talk to you about that. I would say, number one is we really don't have exposure to frontline first responders and very minimal exposure to the frontline health workers, the health care workers in the portfolio. So that essentially is how we come to that conclusion. So as we went through this very thorough process that I mentioned, we looked at industry profile for businesses that we deemed essential. And that's where the IBNR provision really was put up for those kinds of businesses. But again, when you look at those industries that would be most affected, health care workers, first responders, et cetera, we have very minimal exposure in the portfolio.

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**Yaron Joseph Kinar Goldman Sachs Group Inc., Research Division - Research Analyst**

Okay. And if you broaden that -- the more broad category of essential workers, how would you think about that?

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**Juan Carlos Andrade Everest Re Group, Ltd. - President, CEO & Director**

Yes. And that's essentially the provision that is included in the IBNR that we put up for the quarter. So if you look at our total workers' compensation book, again, the exposure to health care workers, first responders is not there. When it comes back to what we consider to be essential workers, that is really the provision that was taken for the quarter. So we believe that we've already accrued for that.

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**Yaron Joseph Kinar Goldman Sachs Group Inc., Research Division - Research Analyst**

Great, that's very helpful.

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**Operator**

We'll next go with Brian Meredith from UBS.

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**Brian Robert Meredith UBS Investment Bank, Research Division - MD, Financials Research Sector Head & Global Insurance Strategist**

Yes. Let me just follow up on that one. I noted today that California came out and, I guess, officially expanded presumption of coverage for employees there. So I'm assuming that your estimate actually included the expanded presumption of coverage for workers' compensation?

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**Juan Carlos Andrade Everest Re Group, Ltd. - President, CEO & Director**

No, it is not. So that's recent information, right? Look, our point of view on presumption of coverage is that it's something that needs to be taken very seriously obviously. Any broad sweeping presumption measures, frankly, can cause long-lasting harm to the industry and

don't make a lot of sense for a number of reasons. Retroactively restructuring the underpinnings of the workers' compensation system to shift the burden of proof of cost to employers and their insurers really undermines the spirit of the workers' compensation system. And that's not something that companies have underwritten or priced for, and thus, it materially weakens the system. And so that is something that needs to be considered. It also violates well-established principles for workers' comp law that the claimant has the burden of proving his or her claim was a workplace injury and is a covered claim. And so that's the way we tend to view this, but our estimate does not include an expansion of presumption at this point in time.

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**Operator**

We'll next go with Ryan Tunis from Autonomous Research.

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**Ryan James Tunis *Autonomous Research LLP - Partner of Property & Casualty Insurance***

My first question, we were given this stat on another call this morning about the percent of the exposure to personal lines or homeowners-type businesses versus commercial lines within the property cat book. By client, do you have a -- could you provide us with that breakdown?

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**Juan Carlos Andrade *Everest Re Group, Ltd. - President, CEO & Director***

Thanks, Ryan. Let me ask John Doucette to jump in and help me answer that question.

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**John Paul Doucette *Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division***

Yes. Look, that's a -- we write \$6.5 billion of premium around the world. A good chunk of that is property. It's going to vary all over the place. By territory, within property, we write quota share per risk and catastrophe. And there's a mix, and it'll vary within region in the U.S. as well. So there's no simple answer to that.

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**Ryan James Tunis *Autonomous Research LLP - Partner of Property & Casualty Insurance***

Got it. And then my other one, I guess, is trying to think about -- I guess what I'm trying to think about is if there is like a second wave later in the year, whether or not that would constitute a second event. So maybe trying to get some clarification. I'm not sure how to ask the question, but some clarification on, like, what would a conservative reading be of the end of this as an event from a reinsurance standpoint? Like what conservatively would, I guess, close the book on the losses associated with this first lockdown?

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**Juan Carlos Andrade *Everest Re Group, Ltd. - President, CEO & Director***

Yes. Ryan, this is Juan. Let me jump in there, and I'll ask John to supplement my answer. I think this is where you come back to my comments that this is not a follow-the-fortunes event for Everest, right? When you start looking at event definition, including hours clauses, limiting duration of an event, outlining the radius or the contiguous environment that's involved, this is where all of that is going to come in into play for us, right? And so John, maybe you can more specifically answer that also.

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**John Paul Doucette *Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division***

Yes. Thanks, Juan. And I think it's important to point out that not only is the event going on, but we have rolling inception dates that are happening all the time. And we just finished 4/1s. We had some 5/1s in the U.S., May 1. Florida is coming up June 1. And in July, we have a lot of renewals kind of all over the world. And facultative is ongoing throughout the year, many times a year. We have inceptions.

And one of the things to point out that I think is important is that we are pursuing terms and conditions that help narrow or exclude pandemic risk. And that will ripple into some of the things you're saying about the go forward. And that will help mitigate, limit or exclude the potential losses going forward. And we're certainly not alone doing that. Other -- while we are leading the charge, many other reinsurers are doing it as well. And I think that will help narrow whatever the scope of this turns out to be. But there's a lot of economic facts and things to come in terms of -- to answer your question better than that.

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**Operator**

We next go with Meyer Shields.

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

Can you hear me?



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**Juan Carlos Andrade Everest Re Group, Ltd. - President, CEO & Director**

Yes, Meyer, we can hear you.

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

Okay. Great. I have a question on business interruption. I'm hoping you can explain the position and maybe the reserving stance on the question of whether commercial property policies that don't include a virus exclusion but require direct physical damage, is it Everest's position that, that is still an absolute event? Or are there some reserves that -- or some reserves that you established for that?

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**Juan Carlos Andrade Everest Re Group, Ltd. - President, CEO & Director**

Yes. No, Meyer. So this is Juan. Look, I think as I said in my opening remarks, we absolutely believe that physical damage absolutely is unambiguous in the coverage of this, right? If you think about it, there's double triggers, right? Number one, there has to be covered physical damage, which, again I believe is pretty unambiguous in the wording. And secondly, we also have virus exclusions on the portfolio. So I think that's the other trigger. So the answer would be yes to your question, do we believe it would hold?

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

Okay. The second question, I was just hoping that given the comments that Craig had made about moving up the credit quality curve since the end of the quarter, can you give a sense as to new money rates?

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**Juan Carlos Andrade Everest Re Group, Ltd. - President, CEO & Director**

Sure. Craig, can you take that, please? Craig?

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**Craig William Howie Everest Re Group, Ltd. - Executive VP, CFO & Treasurer**

Thank you. Sorry. Meyer, I saw on your -- or I mentioned in my prepared remarks that our new money rate for the investment-grade portfolio was about 2.7% on average for the quarter. What we did see was due to some of the widening of the credit spreads and some of the actions that we took in the quarter, we actually saw better rates in March than we did for the overall quarter. So they were higher and closer to the 2.9% range. On average, we saw -- across investment-grade and some below investment-grade, we saw a purchase yield of about 3.2% for the quarter.

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

Okay. That covers April in essence as well?

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**Craig William Howie Everest Re Group, Ltd. - Executive VP, CFO & Treasurer**

I'm sorry, I didn't hear that?

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

Yes. I was wondering whether that covers the sort of April yield as well.

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**Craig William Howie Everest Re Group, Ltd. - Executive VP, CFO & Treasurer**

Well, the April yield is probably -- as I said to you, it's closer to the 2.7% on the investment-grade portfolio. And then some of the high yield that we are seeing so far is still over 5%.

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**Operator**

We'll next go with Elyse Greenspan from Wells Fargo.

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**Elyse Beth Greenspan Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst**

My first question, going back on the business interruption and COVID discussion and just on the reinsurance side, I recognize -- I think someone else asked about the commercial versus personal breakdowns as well. Maybe you can give us those percentages. But is there a way for you to give us a high-level view of what policies could be at risk in terms of accounts that have virus exclusions so they don't -- just as we kind of think about this being an ongoing event and what additional losses would come to Everest on the catastrophe reinsurance side?

**Juan Carlos Andrade Everest Re Group, Ltd. - President, CEO & Director**

Sure, Elyse. And this is Juan, and let me start off with that. Look, I mean this is still obviously a fluid and ongoing event. And we put a pretty thorough process in place in the first quarter that, as I mentioned in my remarks, is ongoing as far as how we're going to be able to continue to refine the estimates as we go forward. On the reinsurance side, that basically involved spending time with clients, brokers, essentially looking at some of the underlying contracts, et cetera, to be able to get a handle on that. And what we know is that the underlying business that we're protecting, the vast majority of that requires physical damage before providing any cover on the business interruption side of things. And also in the U.S. specifically, most of the underlying policies in those portfolios that we're protecting also will include the virus exclusion.

But let me turn it over for John Doucette to give you maybe a bit more additional color on that.

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**John Paul Doucette Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division**

Yes. I would -- I don't really have that much to add. As we've said, we're also -- our top-down bottom-up review, we looked internally, externally, talked to a whole lot of brokers, clients looking at our -- not just our catastrophe book but our contingency book just across all lines of business. We did a kind of first-principles review of everything that helped us get to the number that we got to and, again, trying of factor in retentions, deductibles, hours clauses, radiuses, contracts, some on a named peril basis and other provisions that vary. And we -- again, we looked and -- across, did a very thorough review, had a lot of people looking at it and are comfortable, based on what we know today, that we have put up a reasonable provision for that.

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**Elyse Beth Greenspan Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst**

And then my second question is on the retro side. If you could just give us a more up-- to-date view of the pricing within that business. And then this is more specific to your outbound purchases. Would you guys look to potentially buy less retro and keep more business net? And can you just have a current view of the pricing that's going on in the retro market?

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**Juan Carlos Andrade Everest Re Group, Ltd. - President, CEO & Director**

John, can you take that?

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**John Paul Doucette Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division**

Yes. Thanks, Juan. Yes, thanks, Elyse. Good question. And so retro is predominantly not exclusively January 1. A lot of it covers -- a very solid majority happen at January 1. And so we have seen a few that have come up the summer off-cycle and do it at March, April, May, June. And I think -- so we have seen increased pricing there. And I think that the alternative capital that I talked about in my prepared remarks, we're seeing and hearing a lot of noise about redemptions and, again, frustrations with the losses and kind of a comparison to other places to deploy the capacity. So I think there's a lot of noise there that we think will continue for a while. And that will have a direct impact on the retro market.

In terms of our hedges, we look at a whole suite of hedges and really try to build a holistic program that has different attachment points, different product types, different geographic coverages, different durations of how long they're in place. And as you will recall, we renewed our catastrophe bonds. We have almost \$3 billion in catastrophe bonds in place. We renewed them in November, December. The ones that had expired, we bought lower down. And again, in hindsight, we're glad we took the capital that was available to us then, even though it had been a slight increase in rates. And those are multiyear deals, and they'll be in place for the next several years. And because the pricing's already locked in, the cost of that capital, the cost of that or the rate change embedded in that on a go-forward basis is 0.

We also have Logan, our strategic partner and continue -- Logan is about flat from January to now, and continue to use that as a very important hedging mechanism. And the cost of that goes basically, Logan rides up and down with us as they take quota shares of different layers of -- and build, we build portfolios for them where they help us hedge. We do buy traditional reinsurance in retro. We will remain pricing sensitive to using that as a form of hedge. And we also buy ILWs, and we've been in the ILW market since January, looking and buying up ILWs as another way for us to hedge.

**Operator**

We'll next go with Ron Bobman from Capital Returns.

**Ronald David Bobman *Capital Returns Management, LLC - President***

I had 2 questions. One, trying to get some handle around sort of the reinsurance buying demand from the market. I guess that would be sort of directed to John principally. John, with primary property companies presumably having some affirmative BI exposure and losses and presumably some amount unknown, the sort of tail risk, whether it be sort of judicial decision, litigation-oriented, et cetera, and the unknown and significant amount of that, what should a primary company be thinking and sort of doing now, if at all, as far as buying additional reinsurance? And what I'm really sort of thinking about is sort of third event cover if some amount from COVID is going to tap their first tower.

**John Paul Doucette *Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division***

Thanks. Appreciate the question. So look, we are seeing a lot of interesting things about demand out there. But I would broaden it beyond people are buying specifically for COVID. People are looking because it's been a bumpy few years for the industry. And I think people's view, whether it's wildfires, Japanese wind, different exposures that happen and the development that we saw, so I think that overall, there's a view of derisking and a lower risk appetite. And that was around and building before COVID. And I think that today, people will be looking not just to how do I protect against COVID, but how do I use reinsurance to help manage volatility in my earnings from typical covers, typical perils as well as consider more capital protection.

So -- and I think -- so we are seeing demand from larger buyers. We're seeing demand from smaller ones that are rating-sensitive or have ratings pressure. And a lot of our clients had asset issues due to the impact of the COVID environment, which also drives reinsurance demand.

**Ronald David Bobman *Capital Returns Management, LLC - President***

Okay. And then the \$3 billion in cat bonds that you mentioned and then separately the ILWs, do those -- is pandemic a named peril that those -- the cat bonds and separately the ILWs would provide protection for?

**John Paul Doucette *Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division***

They -- both the ILWs and the catastrophe bond are named peril, and a pandemic is not a named peril, I mean.

**Juan Carlos Andrade *Everest Re Group, Ltd. - President, CEO & Director***

One last comment I would add to Ron's question, too. If you're also thinking about Everest insurance, we also feel that we have a very good reinsurance program that's in place with regard to all of this. So I just wanted to finish that thought.

**Operator**

We'll next go with Yaron Kinar from Goldman Sachs for a follow-up question.

**Yaron Joseph Kinar *Goldman Sachs Group Inc., Research Division - Research Analyst***

I thought maybe I'd move away from COVID questions. I noticed there was a little bit of an uptick in the accident year loss ratio in insurance. Can you maybe talk about what drove that?

**Juan Carlos Andrade *Everest Re Group, Ltd. - President, CEO & Director***

Yes. Sure thing, Yaron. This is Juan. I think as Craig mentioned also in his opening comments, when you look at the loss ratio for the quarter, very close or very stable to where we were at the end of the year. There's really a main driver on sort of the uptick, and that really has to do with mix. We saw a bit more growth in A&H, in casualty and in risk management. And those lines of business basically could carry higher loss picks than some of the other lines of business. So I would attribute it basically to the mix and the growth in those specific lines.

**Yaron Joseph Kinar *Goldman Sachs Group Inc., Research Division - Research Analyst***

Got it. And is that mix also impacting part of the decline in the expense ratio year-over-year?



**Juan Carlos Andrade Everest Re Group, Ltd. - President, CEO & Director**

The expense ratio exactly, that was primarily on the commission side of things where because we did write some more risk management business, et cetera, you also had a mitigating effect on that. So that would be correct.

**Operator**

It appears that we have no more questions in the private -- in the question queue. (Operator Instructions)

**Jon Levenson Everest Re Group, Ltd. - Head of IR**

Nadia, pardon, I think we're done with questions. And we'd like to hand the call back over to Juan for some closing comments.

**Juan Carlos Andrade Everest Re Group, Ltd. - President, CEO & Director**

Great. Thank you, Jon, and thank you for everyone today. And again, as I said, I'm glad that everyone seems to be doing okay. Look, as far as just some quick summary remarks, over the years, our company has built a reputation for strong operating performance with a strong capital position built to withstand catastrophes. And while no one could have predicted an event of this magnitude, we do stand ready to serve our customers and our brokers, and we will have the strength and stability that they will have come to rely on us over the last 5 decades. So we will keep refining our estimates, and we will keep working on this, but we will also be there for our customers as they need us. Thank you for your time.

**Operator**

This concludes today's call. Thank you for your participation. You may now disconnect.

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