RE - Q2 2011 Everest Re Group Ltd Earnings Conference Call

Event Date/Time: Jul. 28, 2011 / 2:30PM GMT
CORPORATE PARTICIPANTS

Beth Farrell
Everest Re Group Ltd - VP IR

Joe Taranto
Everest Re Group Ltd - Chairman, CEO

Dom Addesso
Everest Re Group Ltd - President, CFO

CONFERENCE CALL PARTICIPANTS

Jay Gelb
Barclays Capital - Analyst

Matthew Heimermann
JP Morgan Chase & Co. - Analyst

Cliff Gallant
Keefe, Bruyette & Woods - Analyst

Gregory Locraft
Morgan Stanley - Analyst

Brian Meredith
UBS - Analyst

Ron Bobman
Capital Returns - Analyst

Jerry Fine
Charter Oak Partners - Analyst

PRESENTATION

Operator

Good day, everyone. Welcome to the Everest Re Group Ltd.'s second quarter 2011 earnings call. Today's conference is being recorded. At this time, for opening remarks and introductions, I would like to turn the conference over to Beth Farrell. Please go ahead, ma'am.

Beth Farrell - Everest Re Group Ltd - VP IR

Thank you, Jessica. Good morning and welcome to Everest Re Group's second quarter 2011 earnings conference call. With me today are Joe Taranto, the Company's Chairman and Chief Executive Officer, and Dom Addesso, our President and Chief Financial Officer. Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to forward-looking statements. In that regard, I 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 Joe. presentation.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

Good morning. Thank you, Beth. For the first 6 months of this year, the industry, and for that matter the world, has experienced catastrophes on a scale never seen before. Neither history nor any models could have forecasted the devastation experienced.
Despite these events, Everest has maintained its extremely strong capital position, shareholders equity at the end of June is $6.2 billion or 2% down from the $6.3 billion at December 31, 2010. Despite second quarter catastrophes, Everest earned $134 million in operating earnings for an annualized ROE of 9.5%. In the quarter, we increased capital by $238 million or 4%.

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

Let me take you through some of these underwriting particulars. First, let’s begin with our insurance operation. Insurance business is roughly 25% of our overall business. A couple of years back, it was mostly casualty business, much written through MGAs. Today it has a significant short tail specially component led by Heartland, our crop insurance company, and a growing majority of our business is written directly. About one-third of our business is property or crop business, which is running quite well for the first 6 months, even though parts of the country have experienced severe weather. We expect our premium from crop business to continue to grow into 2012 and 2013.

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

Another 15%-ish of our book is our special casualty business written out of New York and Canada, this is primarily D&O for financial institutions. We started this unit in 2008 when there was a tremendous market need. Our team has generated great results in the last 2.5 years. Unfortunately, this market has recently become more competitive. Many having short memories of the 2008 financial chaos. Still, we will be disciplined and I expect we will continue to perform quite well.

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

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

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

For our international book, which is mainly property business, well spread around the world, on 7-1 business, catastrophe business we achieved modest rate increases perhaps on the order of 5%-ish for countries that did not experience losses. Of
course, Japan, Australia, New Zealand, and those areas significant increases were achieved. Once again, our plan was more upside with no additional PML or downside. In fact, our PMLs for the bigger peak zones were lowered.

We continued to see growth opportunities in newer areas including Brazil and China. Our Bermuda operation includes our UK and Continental European business as well as business written out of Bermuda. This sector had little business that actually comes up at 7-1. Much of our retro business is written out of Bermuda.

We continue to have ample capacity for 1-1 renewals and continue to believe that prices will be considerably higher. Summarizing, we are prepared to modify our book as is necessary in response to market conditions. Our well-established global franchise continues to provide access to the best opportunities. Our staff continues to focus on future profits. We are not just sitting back and waiting for some broad market change.

Last but not least, a few months ago, the Board initiated a search for a new President. Discussions were held with a number of high-quality executives and the best candidate, namely Dom Addesso, was chosen. Dom has valuable experience both on the financial and operational side of our industry. He has helped Everest considerably as CFO, and we have chosen to broaden his role so he can help us even more. A search for a new CFO is under way. Dom will remain CFO until that position is filled and then he will move more fully to the operational side.

John Doucette has been promoted to Chief Underwriting Officer for Worldwide Re Insurance, likewise given the great job that John has already done for Everest, we were keen to expand his role so we could benefit more broadly. My personal congratulations to Dom and John. Now, Dom will take you through the financials.

---

**Dom Addesso - Everest Re Group Ltd - President, CFO**

Thank you, Joe, and good morning. The net income for the quarter of $2.41 per diluted share was, as previously announced, reduced by catastrophe losses. These losses, net of reinstatement premiums and taxes amounted to $90 million in the quarter or $1.65 per share and included losses from events that occurred in both the first and second quarters. This amount is slightly above the pre-announced levels due to a late report from 1 client that indicated significantly higher losses for the first quarter New Zealand earthquake event. The net pretax catastrophe loss estimate included $55 million of strengthening on first quarter events, primarily due to the New Zealand earthquake and $58 million for second quarter events, largely resulting from the midwest tornadoes.

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

With respect to our prior accident year loss position, the quarter included favorable development of 0.2 points on the combined ratio. Now, our internal interim reserving metrics remain quite favorable. Premiums for the quarter and year to date were down slightly over the prior year. The reinsurance segments overall were down primarily due to non-renewed US casualty business as a result of continued competitive market conditions. Property reinsurance was also down as we repositioned our book in catastrophe-exposed zones. The insurance segment, however, was up as the new business ventures we entered into, namely the acquisition of Heartland provided for growth in this sector.

With respect to results by segment, I will start with insurance, which reported a 99.2% combined ratio, compared to 105.7% in last year’s second quarter and a 102.8% in the first quarter of this year. These improvements are driven by the strategic portfolio
changes beginning to take hold with growth in our crop insurance, California DIC and the D&O book. Workers compensation is still being booked at a conservative level, above 100% combined. But, we fully expect this to improve as continuing rate increases over the last 18 months, as referenced by Joe, earn through.

Within the US reinsurance segment, the results were impacted by the second quarter cat losses, specifically the midwest tornadoes, resulting in the reported combined ratio of 105.5%. In future quarters, we expect treaty property to benefit from improved terms, particularly as it relates to the most recent Florida renewals. Treaty casualty remain at an underlying profit with a 98.9% combined ratio. Although, as mentioned previously on a declining premium base, as soft market conditions persist here.

In the specialty segment it was overall a positive quarter at a 98% combined ratio. Despite marine and aviation running at 114% due to the Griffin Energy loss. The overall results were buoyed by positive results in A&H and Surety at a 91.6% and an 87.2% combined ratio respectively. A&H is the largest line within this segment at $70 million of gross premium writings year to date, up over 18% for the year as a result of new initiatives in the primary medical stop loss product.

The international segment had a 95.3% combined ratio for the quarter despite 18 points or $58 million of cat losses. Rate increases beginning last year in Latin America and continuing into this year in Australia, New Zealand and Japan are likely to lead to more positive attritional results. Finally, the Bermuda segment had a profitable quarter with a 91.5% combined ratio as this segment had a relatively modest impact from cat losses in the quarter. On the investment income front, we continue to feel the impact of lower reinvestment rates as net investment income was down 4%, or $7 million quarter over quarter. Over the last 12 months, there have been sales, calls and maturities in our fixed income investments totaling $2.5 billion with a book yield of 4.8%. During that time, $2.1 billion was reinvested in fixed income securities at a book yield of 3.7% for a difference in yield of 1.1%.

Remaining funds were reinvested in emerging market debt and equity with an emphasis on dividends as we seek to offset some of this loss yield. This is also done with a bias towards continuing to shorten the duration of our portfolio, as well as maintain an overall credit quality of AA or better. With respect to credit risk, it should be noted that beginning last year, we eliminated our exposure to Portugal, Ireland and Greece sovereign bonds and have reduced our holdings in Spain and Italy sovereigns. In addition, we have reviewed our holdings of European banks for their exposures to sovereign debt to minimize default risk related to the debt crisis of the European peripheral countries. Realized losses for the quarter mainly relate to the sale of municipal bonds as we completed our repositioning of that sector.

Turning to some miscellaneous items which include other expense for the quarter of $13 million, which was primarily foreign exchange-related losses. It was a small derivative loss on the equity put contracts driven by interest rates and the indices. The combined effect of all these activities resulted in net income for the quarter of $131 million. Add to that, after tax unrealized gains on our bond portfolio of $112 million, and a translation gain of $11 million provided for $254 million of total comprehensive income. As a result, shareholders equity rose to $6.2 billion at June 30 from $5.9 billion at March 31. Although at this level it is slightly below the $6.3 billion at year end.

This decline in GAAP equity was a result of the net loss for the first 6 months of the year, plus share repurchases in the first quarter and dividend paid to date. On a per share basis, our book value stands at $113.21 compared to $109.07 at March 31. Our continued strong and growing capital account positions us well for potential business opportunities. I will now turn this back to Beth for Q&A. Thank you.
Jay Gelb - Barclays Capital - Analyst

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

Dom Addesso - Everest Re Group Ltd - President, CFO

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

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

Before you leave out the casualty component for the US.

Dom Addesso - Everest Re Group Ltd - President, CFO

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

Jay Gelb - Barclays Capital - Analyst

Yes.

Dom Addesso - Everest Re Group Ltd - President, CFO

Before we move on to international. On the international side, our premium is down slightly, particularly in our catastrophe-exposed areas but our PML is down dramatically in many of those zones. And rate increases, as Joe had mentioned earlier, in the international space are in the places where there were losses, rates were up 20% to 40%. In loss-free zones, rates are up anywhere from 5% to 10%. Most of the rate increases as it relates to Japan, because of the extension of many of those contracts, will really not likely be realized until 7-1.

Jay Gelb - Barclays Capital - Analyst

Okay.

Dom Addesso - Everest Re Group Ltd - President, CFO

Follow-up to that?
Jay Gelb - Barclays Capital - Analyst

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

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

It means very little, Jay. We primarily use the AR model. Although, I guess we could say we really use our own model which does look to AR as an eye towards RMS, and some other factors as well. We really haven’t used RMS. Our changes are minimal at this point, relative to when we spoke last. It really isn’t affecting the way we view our PML. Our PML for all the major zones, including Florida, are down a bit from a few months ago. So, in terms of having the capital to do more, should 1-1 present a great opportunity on retro or other property areas, we have ample capacity.

Jay Gelb - Barclays Capital - Analyst

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

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

Well, our plans remain for hurricane season to not be buying anything back. But candidly, we’re quite keen after that to in all likelihood get back to doing some meaningful buyback unless there’s some overwhelming business opportunities in the market at that point.

Jay Gelb - Barclays Capital - Analyst

Great. Thank you.

Operator

Matthew Heimermann, JPMorgan.

Matthew Heimermann - JPMorgan Chase & Co. - Analyst

Hi, good morning, everybody. Couple questions. One, Dom, would you mind just quantifying or providing a little bit more detail with respect to the US reinsurance. Just maybe give us a sense of what crop was last year and maybe what the year-to-date drop looks like, just so we can better model that. And then, also just maybe give us a sense of, on the treaty property side, just what pro rata property premiums -- how they’re changing in the quarter too, just to get a sense of kind of the yin and the yang there.

Dom Addesso - Everest Re Group Ltd - President, CFO

Our crop reinsurance business is down $21 million year-to-date. Is that what you were looking for there?

Matthew Heimermann - JPMorgan Chase & Co. - Analyst

Yes, that’s helpful. And what -- can you remind us what it was in total last year?
Dom Addesso - Everest Re Group Ltd - President, CFO
Last year, our crop business year-to-date was $22.5 million.

Matthew Heimermann - JPMorgan Chase & Co. - Analyst
Okay. Perfect.

Dom Addesso - Everest Re Group Ltd - President, CFO
Okay. I'm sorry, what was the second question?

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

Dom Addesso - Everest Re Group Ltd - President, CFO
Yes. Our pro rata premium was down year-over-year, a year-to-date basis close to $200 million earned premium.

Matthew Heimermann - JPMorgan Chase & Co. - Analyst
Okay.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO
Matt, let me throw in, looking forward, my sense when you look at the next year, let's say July 1 of this year and to next. We will do more property premium than we did on a worldwide basis -- both in the US and in a worldwide basis, than we did taking July backwards for a year. This is just on the back of rate increases and some additional opportunities, some of which came up in June and July. I think more will present themselves as the year goes on. Maybe more importantly, in terms of expected profit, I just see the risk dynamic on both the pro rata that we're doing and on the XOL that we're doing, much more favorable going forward. In terms of expected ROEs and just premium and upside downside analysis, it just provides for a better expected number. I do think premiums will be up going forward, but again, the most important thing is the expected profit dynamic looks very good going forward.

Dom Addesso - Everest Re Group Ltd - President, CFO
Let me also add to that, to not confuse the issue, the premium number that I cited that was down includes both property and casualty.

Matthew Heimermann - JPMorgan Chase & Co. - Analyst
The 200?
Dom Addesso - Everest Re Group Ltd - President, CFO
Right.

Matthew Heimermann - JPMorgan Chase & Co. - Analyst
Property and casualty in total. Okay that's helpful.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO
And on the casualty side, I would add, Matt, that's a little tougher to predict, but, you know, you can hear that we're not bullish on that, we've cut back quite a bit. And unless the market has a meaningful change, I don't expect that would be up in the coming year.

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

Dom Addesso - Everest Re Group Ltd - President, CFO
Well, it happened – the predominant change was in North Carolina.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO
And Texas was the other one.

Dom Addesso - Everest Re Group Ltd - President, CFO
Texas.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO
Yes.

Matthew Heimermann - JPMorgan Chase & Co. - Analyst
All right. That's helpful. Just with respect to, and I apologize these are a little bit more numbers focused, but the attritional losses, you suggested that there was -- I think you said less than $10 million in international which would have been related to the third earthquake. Could you just quantify in dollar terms what the marine loss was and then in the attritional in the US, just so we can take some of the noise out of the numbers?
Dom Addesso - Everest Re Group Ltd - President, CFO

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

Matthew Heimermann - JPMorgan Chase & Co. - Analyst

No, were there any other notable items that didn't get classified as cat?

Dom Addesso - Everest Re Group Ltd - President, CFO

No.

Matthew Heimermann - JPMorgan Chase & Co. - Analyst

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

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

It would improve slightly.

Dom Addesso - Everest Re Group Ltd - President, CFO

Yes, yes.

Matthew Heimermann - JPMorgan Chase & Co. - Analyst

Okay. Last one big picture, with just the -- with all of the potential consolidation going on in the sector right now, well, I shouldn't -- with some of the potential consolidation going on in the sector, how do you feel like that impacts your competitive position?

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

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

Matthew Heimermann - JPMorgan Chase & Co. - Analyst

Okay. Thank you much.
Dom Addesso - Everest Re Group Ltd - President, CFO

Thank you, Matt.

Cliff Gallant, Keefe, Bruyette & Woods.

Cliff Gallant - Keefe, Bruyette & Woods - Analyst

Good morning. Quick question on your reserving. I know that year-to-date, you've had slightly favorable development.

Dom Addesso - Everest Re Group Ltd - President, CFO

Yes.

Cliff Gallant - Keefe, Bruyette & Woods - Analyst

Could you talk at all about it on an accident year basis? Are there some years where you are seeing adverse development and offsetting with others? Just a little bit more detail, in terms of what you're seeing in terms of that.

Dom Addesso - Everest Re Group Ltd - President, CFO

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

Cliff Gallant - Keefe, Bruyette & Woods - Analyst

Okay. Thank you.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

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

Cliff Gallant - Keefe, Bruyette & Woods - Analyst

Okay. Thank you very much.
Gregory Locraft, Morgan Stanley.

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

Dom Addesso - Everest Re Group Ltd - President, CFO
We're not seeing any increase in frequency, and frankly, severity is within our expected tolerances. So, nothing unusual --

Joe Taranto - Everest Re Group Ltd - Chairman, CEO
Nothing surprising.

Dom Addesso - Everest Re Group Ltd - President, CFO
Nothing surprising there.

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

Joe Taranto - Everest Re Group Ltd - Chairman, CEO
No change from what we see on our side. Clearly, it is a complicated area in terms of claims management, claims litigation, et cetera. We look at that quarterly. We actually have separate reserve committee meetings on just those areas, and that is still performing within our expected tolerances as well. So, nothing new that we've seen there.

We did show a small, rather immaterial, amount on the A&E line this quarter, as you may have noted. That was not an asbestos loss. It was an environmental loss. Frankly, we haven't seen a new environmental losses reported in quite some time. So, we just decided to take that new case and put it up in reserves. What you see there was not asbestos, it was environmental.

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

I think, you've kind of answered it already, Greg. If there's no losses, I think you'll still see a very, very healthy market for cat business 1-1 with rates going up more modestly that they would if there are losses. I think the retro market, even if there are no hurricane losses, will still see meaningful rate increases over what it was written at a year ago. So, we are more bullish on the property side, retro, Florida, other places around the world.

Now, we're still pushing for the best terms and conditions and rates, and we still recognize that this is volatile business. Just look back at the last year and a half. There's a reason rates are up. I think we've pushed as hard as anyone to get the best terms that we can. We are pleased that there's more to operate with on the property side. We're also pleased with some of the other things that are going on, the California comp responding, the crop business doing well for us so far, the medical stop loss. It's a mixed bag still. Casualty is not where I'd like it to be. Overall, feel much better about things than a few months ago.

Gregory Locraft - Morgan Stanley - Analyst

Okay. Great. If it's just an average year, Joe, how do you think it might play out? There is never an average.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

I think even an average year is going to amp up changes. Take your $18 billion. That may be average and that may mean that you still make money on your Florida accounts because you've charged that and then something. You know there's the psychological part as well as the economic part, which is, just what's going on in the world? How much do we rely on history, which didn't have 4 major earthquakes happening in a year and a half. How much do we rely on models that cannot contemplate everything? I think a lot of people are saying, let's be very pragmatic about this and realize that this is a cover that is much needed, has a lot of volatility, and my gut instinct is, I don't care what models say, we need more rate. I think that whole notion will be fueled by even an expected amount of losses in Florida.

Gregory Locraft - Morgan Stanley - Analyst

Great. Thank you.

Operator

Brian Meredith, UBS. Yes, good morning. A couple quick questions here for you. First, just on the Heartland, just to understand a little bit, is there going to be seasonality to the premium pattern coming through on your insurance business on that one?

Dom Addesso - Everest Re Group Ltd - President, CFO

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

Brian Meredith - UBS - Analyst

Right.

Dom Addesso - Everest Re Group Ltd - President, CFO

Our earnings pattern would moderate that.
Okay. So, you don't earn it with exposure?

No.

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

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

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

Brian, we’re thinking that it’s in the 2 to 3 point range in terms of increase in ROE.

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

Well, I think Dom’s referring to the worldwide ROE when you kind of blend all of our products together.

Okay.
Joe Taranto - Everest Re Group Ltd - Chairman, CEO

But most of that 2 or 3 increase came from the property side of things. Particularly from the cat side of things where the potential returns have gone much higher than what they were before. I think in almost all cases rate over 20%. I think when you put that together with the casualty and all our other lines of business, Dom and I, our best guess was 13% on a going forward basis.

Brian Meredith - UBS - Analyst

Great. Thank you.

Operator

Ron Bobman, Capital Returns.

Ron Bobman - Capital Returns - Analyst

Hi, thanks. Patiently waiting for my opportunity. I have a question about the Florida primary market. You both made a couple of comments, not only with respect to rate from a reinsurance perspective improving, but also terms and conditions at least with respect to your book and your treaties that you’ve written. I’m wondering if those primary companies, in your view, are they in a better place now? A better profit picture, or expected profit picture, than they were, I don’t know, a year or 2 ago? The consensus was that they were a bit between a rock and a hard place, unable to make money in even a no cat year, with the sinkholes improving and the primary rates improving, but with higher reinsurance costs and maybe structural changes to their treaties. Joe, do you think -- or Dom, do you think they are better off now than they were a year ago when you look at the pluses and the minuses, or the same, or worse off? Thanks a lot and best of luck.

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

I think they’re better off. You know, I think they’ve been allowed to get some rate increases in the past year or so. Many of our clients took 15% rate increases a few months back. I think many of them are believing that they’ll be able to implement another 15% rate increase now. So, that will tally to a 30%, 35% rate increase. There seems to be some talk on the political side to help them with sinkholes and a few of the other things.

Yes, reinsurance costs are a big part of the equation for them too. You’re right that just went up. So, that goes the other way. Still, when you put it all together, I think they’re better off today than they were a couple of years ago. It’s still not easy for them.

Ron Bobman - Capital Returns - Analyst

Thank you very much. Congrats, Mr. President also.

Dom Addesso - Everest Re Group Ltd - President, CFO

Well, thank you very much.

Operator

(Operator Instructions) Jerry FIne, Charter Oak Partners.
Jerry Fine - Charter Oak Partners - Analyst

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

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

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

Jerry Fine - Charter Oak Partners - Analyst

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

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

Well, clearly, we see it otherwise, Jerry.

Jerry Fine - Charter Oak Partners - Analyst

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

Joe Taranto - Everest Re Group Ltd - Chairman, CEO

No, your math is correct.

Jerry Fine - Charter Oak Partners - Analyst

Okay, I used to have problems with math. Thanks a lot guys. (Laughter)

Operator

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

Beth Farrell - Everest Re Group Ltd - VP IR

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

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