OVERVIEW:
Co. reported 1Q19 net income of $349m.
CORPORATE PARTICIPANTS
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Dominic James Addesso Everest Re Group, Ltd. - President, CEO & Non-Independent Director
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Jon Levenson Everest Re Group, Ltd. - Head of IR
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PRESENTATION
Operator
Good day, and welcome to the Everest Re Group, Ltd. First Quarter 2019 Earnings Call. Today’s conference is being recorded. (Operator Instructions) I would now like to turn the conference over to Jon Levenson. You may begin.

Jon Levenson - Everest Re Group, Ltd. - Head of IR
Thank you, Jon. Good morning, and welcome to the call.

Before we begin, I need to preface the comments on today’s call by noting that our 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 Everest’s SEC filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled on our earnings release and financial supplements.

With that, I turn the call over to Dom Addesso.

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director
Thank you, Jon. Good morning, and welcome to the call.
It was a very strong financial quarter for Everest, with contributions to profit from reinsurance, insurance and investments. We also continue to increase our market profile, with top line growth in both our reinsurance and insurance businesses. My colleagues will provide the details on our results, but before they do, I want to point out a few important insights.

The first relates to top line growth. Within the overall increases in gross written premium, there are classes of business being reduced, where the rates are inadequate, terms and conditions are challenged or, in some cases, the customers no longer desire to cover in whole or part. Nevertheless, given current market conditions, along with our meaningful capacity and experienced underwriting teams, Everest is seeing an increasing number of profitable opportunities with the result and increase in business overall. We are proud of the market position that we have built and appreciate the preferred status we have in the market with customers and intermediaries.

Second is the underlying performance of our business. We have detailed the change in business mix over the past few years and the impact on the loss and acquisition cost ratios. I note that this quarter, the attritional accident year loss ratio of 59.2% is very consistent with the result for the full year 2018. This is noteworthy for 2 reasons. First is that our loss selections do not yet reflect any underwriting actions taken, which is typically recognized as improvements are realized. And second, the earned premium in this quarter still reflects a good portion of business at 2018 rates. Rate increases achieved at January 1 and April 1 reinsurance renewals and any further rate increases will be earned throughout the year providing additional improvement to the attritional results.

Turning to rates. Although it is by no means a traditional hard market, I am encouraged by how the industry is responding to loss activity and trends. While capacity is available, there is a discipline emerging from both balance sheet and third-party capital for cat-related business. In addition to pricing, improving terms and conditions, which are essentially equivalent to rate improvement, are also gaining traction.

Property pricing has been the most responsive. Although it has taken 2 years of losses to bring change to the underwriting and pricing of the most challenging areas, notably wildfire and the AOB and LAE issues in Florida.

Beyond property, the pricing momentum is mixed. Classes of business where profitability is challenged are getting some much needed rate. There is also a renewed discipline around other classes, including commercial auto and professional liability, also reflective of poor results. Other sectors, including energy and excess casualty, are firming, in line with the recognition of advancing loss costs trends and a market that is tightening. And finally, the discipline in London precipitated by tightening capacity at Lloyds and the increase in migration of business from the admitted markets to the E&S space is adding momentum to an improving market. I’m not declaring victory by any stretch, but it is encouraging to see both the primary and reinsurance markets demonstrating a rational response to the issues at hand.

Everest is in a fantastic position to capitalize on this improving market due to our fundamental strengths. Our focus on balance sheet strength and financial security is the starting point. The bedrock of our business is a promise to pay, and to that end, we have kept ample levels of capital, low financial leverage and strong ratings. Over the long term, I am confident that shareholders have benefited from this conservatism as it has allowed Everest to access the best business even during times of market stress that otherwise could have gone elsewhere.

Everest also has tremendous experience and long-standing relationships with the most important trading partners around the world. We have worked with some customers for over 40 years, and as a result, it’s difficult to replicate highly diversified book of profitable business.

And finally, Everest has and will continue to have a strategic focus on long-term performance with a willingness to absorb volatility over the short term. In an improving market, our capacity, relationships and long-term focus are a very powerful combination.

One final thought worth highlighting is that Everest is increasingly known as a market leader within the Specialty Insurance segment. The RIMS conference this year certainly spoke to that dynamic.

Last year, Everest Insurance achieved excellent growth and underwriting results. And here, in the first quarter, accident year results are likely better than market expectations and many of our specialty insurance peers. While our insurance operations may get overlooked by investors sitting alongside one of the largest and premier reinsurance franchises in the world, the reality is that our insurance group is trending to end the year at
record profits and will likely end the year ahead of many of its peers. That is both a size and profit common. I urge you to run the comps and include it’s fair share of investment income.

Although Everest is clearly 1 entity, we have 2 distinct yet complementary businesses, and I encourage you to look at the value of each individually and the resultant sum of the parts. While both reinsurance and insurance benefit from being part of a larger group and the many synergies they create, they each have a great potential and value on their own and into the future.

With that, I turn the call over to Craig.

Craig William Howie - Everest Re Group, Ltd. - Executive VP, CFO & Treasurer
Thank you, Dom, and good morning, everyone.

Everest had a solid quarter of earnings, with net income of $349 million for the first quarter of 2019. This compares to net income of $210 million for the first quarter of 2018. The 2019 result represents an annualized net income return on equity of 17%. Net income included $74 million of net after-tax realized capital gains compared to $19 million of capital losses in the first quarter last year. The 2019 capital gains were primarily attributable to fair value adjustments on the public equity portfolio. After-tax operating income for the first quarter was $282 million compared to $220 million in 2018. This represents an annualized operating return on equity of 14%. These results were driven by strong underwriting results across the group, stable investment income and lower catastrophe losses compared to the first quarter last year. The overall underwriting gain for the group was $196 million for the quarter compared to an underwriting gain of $108 million in the same period last year.

In the first quarter of 2019, Everest saw $25 million of catastrophe losses related to flooding in Australia compared to $100 million of catastrophe losses reported during the first quarter of 2018. Overall, our prior year catastrophe loss estimates continue to hold. We revised the ultimate loss estimates by event and by segment with no change in the overall loss estimates. Estimated net favorable prior year catastrophe development was offset by $24 million of adverse catastrophe development on the third quarter 2018 Japan loss events. No other events breached our $10 million catastrophe threshold in the first quarter of 2019. Therefore, any losses arising from these events were covered in our attritional loss estimates, which include a load for estimates less than $10 million.

The overall current year attritional combined ratio was 87.4%, up slightly from 87.1% in the first quarter of 2018. The attritional loss ratio remained relatively flat at 59.2%, in line with Dom’s earlier comments, while the commission ratio of 22.5% was up slightly compared to the same period last year, primarily due to changes in business mix and contention commission adjustments in the reinsurance segment. The group expense ratio remains low at 5.7% and was lower than prior year due to the increase in earned premium. Our reported combined ratio of 88.7% was lower than first quarter last year, primarily due to the lower reported catastrophe losses in 2019.

For investments, pretax investment income was $141 million for the quarter. This was based on our $19 billion investment portfolio, a new record for Everest. Investment income was 2% above the first quarter of last year. This result was primarily driven by the increase from the investment-grade fixed income portfolio, which had a higher asset base this year. This was partially offset by lower limited partnership income. Since some partnerships report income on a quarter lag, this quarter’s results reflected the poor equity market performance of the 2018 fourth quarter. We would expect there to be improvement in the limited partnership income going forward if the public equity market trading conditions continue to improve in 2019.

The pretax yield on the overall portfolio was 3%, flat compared to 1 year ago. However, both investment-grade and alternative fixed income yields were up year-over-year.

On income taxes, the 12.5% effective tax rate on operating income was close to the 13% tax rate we expect for the full year.

Positive cash flow continues with operating cash flows of $460 million for the first quarter of 2019 compared to $196 million in 2018. The increase reflects a lower level of paid catastrophe losses in 2019 compared to 2018.
Shareholders’ equity for the group was $8.4 billion at the end of the first quarter, up $523 million or 7% compared to year-end 2018. The increase in shareholders’ equity since year-end 2018 is primarily attributable to $349 million of net income and the sharp recovery in a fair value of the investment portfolio, partially offset by capital returned through $57 million of dividends paid and $60 million of share buybacks in the first quarter of 2019. Additionally, we purchased another $9 million of shares after the close of the quarter, for a total of $25 million year-to-date.

Everest continues to maintain a very strong capital position with low debt leverage and high liquidity in our investment portfolio, in addition to our robust cash flow.

As Dom mentioned, the strength of our balance sheet is critical to the success of our business. An attestation to this is the affirmation of our A.M. Best A+ superior rating announced last week.

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.

We are pleased to report a robust underwriting profit and solid premium growth for the Everest Reinsurance Division during the first quarter of 2019. Our business remains well-positioned for the current market and for what we see as the evolving trends over the near term.

While the improving market that is emerging today is not an across-the-board rate lift as we may have seen in years gone by, it nevertheless has the potential to be meaningful and sustainable. And this environment favors companies such as Everest, who have the breadth, depth, flexibility, size and innovation to capture evolving opportunities across all classes of business and territories.

Everest’s success in the current market is based on these fundamental strengths: a global brand and platform; long-standing, broad relationships with clients and brokers built up over the last 4 decades by deeply experienced underwriting teams around the world; meaningful capacity; diversified capital sources; and a strong balance sheet.

This quarter, we continued to see the value of partnership with clients, where the reinsurance relationship is strategic for all involved. As our clients have seen pockets of capacity in certain areas reduced, they increasingly turn to Everest to solve their risk and capital needs. Our ability to withstand market stress and continue to provide meaningful, stable capacity over 45 years is of great value to our customers and their intermediaries.

Reflecting on the latest 2 major renewals, January 1 and April 1, we are encouraged with the rate change trend in the market. While not a hard market by historical standards, increasing evidence of stabilization on both underlying business and reinsurance business continues.

The market has been reconsidering rates on key parallels and is now painfully aware of the risks embedded in historically less conspicuous parallels such as wildfire. The result is a market requiring rate increases and improved terms and conditions on loss-affected business while maintaining generally stable to increasing prices in non-loss affected programs.

Overall reinsurance market capacity remains tight as both traditional and alternative capital are recalibrating their assumptions on loss costs, exposures, risk assessment and various risk perils, particularly given the amount of catastrophe losses over the last 2 years. And they are becoming more selective as to who they will back and the terms and conditions with which they deploy capacity, which is a positive step in the evolution of the overall reinsurance market.

The knock-on effect to non-cat lines is also noteworthy. The market’s broad recognition that cat-exposed profit can no longer subsidize underperforming treaties and other lines of business is resulting in actions on terms, conditions and underlying rates if they’ve been inadequate on a stand-alone basis. At the same time, there is increased demand as our customers re-underwrite their primary books, apply rate increases and seek to manage their net exposure.
Outside of traditional P&C classes, we also find the outlook on our mortgage business robust and continue to see a long runway in the mortgage space for us to deploy capacity profitably in the current forms as well as in new products, structures and distribution sources.

Now for a review of our quarterly results. For the reinsurance division overall, we wrote $1.5 billion of gross premium and reported an 86.5% combined ratio. Premiums were up 9% on a constant dollar basis year-on-year, with casualty as strong contributor to the growth. Original casualty rates have seen pockets of improvement, with reinsurance terms and pricing stable and, in some cases, increasing. Lower catastrophe losses helped drive an improved reinsurance division underwriting profit of $177 million, and our overall attritional loss ratio was about flat at 84.7% despite a larger percentage of the earned premium coming from pro rata business, which typically runs to a higher attritional loss ratio.

Growth was strongest in our U.S. operations, up 19%, largely due to proportional casualty treaties predominantly written in 2018. The overall combined ratio was stable, with our attritional loss ratio down slightly and the attritional combined ratio up 3 points mainly due to commissions, increasing from the greater mix of pro rata business.

The international operations also exhibited strong growth, with premiums up 13% on a constant dollar basis. Increased demand for Facultative reinsurance was a large contributor to the quarter’s growth. And dislocation of capacity in London and other markets improved the opportunities for Everest in many international territories.

Results in the international reinsurance segment were impacted by $25 million of loss from the Townsville monsoon and flooding in Australia as well as from increased loss estimates related to the third quarter 2018 Japanese loss events. However, our attritional loss ratio was flat at 53%, and our attritional combined ratio was down 1 point to 78.6%.

The Bermuda operations had a decrease in gross premium, dropping 9% on a constant dollar basis. However, the year-over-year comparison was affected by premium recognition timing as the first quarter 2018 premiums were bolstered by the timing of premium reported on certain large accounts. Our London and Dublin operations included in this segment showed growth, benefiting from the dislocation in new markets. Profitability metrics are skewed due to some large shifts in prior period cat reserve to other reinsurance segments.

Our attritional loss ratio of 61.6% was up 2.5 points due to an increase in casualty and specialty writings. However, our attritional combined ratio of 87.4% improved slightly.

In summary, the first quarter was a solid start to the year for our reinsurance operations, and we remain well-positioned to capture rate improvements due to recent loss activity and overall favorable underlying market trend.

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

Jonathan Martin Zaffino - Everest Re Group, Ltd. - Executive VP, CEO & President of the Everest Insurance Division

Thanks, John, and good morning.

Our insurance operations are likewise pleased to report a strong start of the year. Our first quarter performance was excellent as measured across several metrics, most importantly the significant increase in underwriting profitability. This solid first quarter profit continued the trend we have demonstrated over the past 2 years, notably by delivering an underwriting profit in 8 of the last 9 quarters.

Underlying growth was excellent in the quarter, and some of the heavier impacts of nonrenewal activity lessened, although have not completely diminished. The Everest global insurance operations produced gross written premium of $595 million for the quarter, an 18% increase over the first quarter of 2018 and a 37% increase over the same period in 2017.

As we have over the past 4 years, we continue to pursue thoughtful and disciplined growth within our chosen product segment across the entirety of our global operations. This is the strongest first quarter production we have experienced in our history, and it marks the 17th consecutive quarter of top line growth across a diversified palate of high-value product areas.
Most importantly in the quarter, the solid growth, combined with outstanding execution, resulted in underwriting profit of $19 million, a 50% increase over the $13 million of underwriting profit in the first quarter of 2018 and a nearly fourfold increase over the first quarter of 2017. Further, our attritional loss in LAE ratio improved 1.1 points to 65%, reflecting the continued migration toward the higher value and diversified specialty books of business and the earned premium impact of these businesses into our results.

The evidence shows that our confidence in pursuing the organic build of a world-class specialty diversified insurance organization has been justified. As we have reported on prior calls, our leadership and underwriting teams across the globe continue to execute well on their individual and collective mandates, particularly during times such as these where we are experiencing transitioning markets. Our teams remain focused on our opportunity set, measured by our robust submission flows across lines of business, continues to grow, something I'll touch on later. We look forward to build on this momentum throughout the year.

Turning to the financial highlights. The global insurance operations produced $595 million in gross written premium in the first quarter, an increase of $90 million or 18% over first quarter 2018. Again, evidence of our growing relevance in the specialty insurance market.

As in prior quarters, contributions remained quite balanced across the diverse group of property and casualty and accident and health underwriting divisions within our global insurance operations. In fact, aside from our program operation, Everest Underwriting Partners, where we've taken underwriting actions in pursuit of improved profitability, every other major business segment in the Everest Insurance portfolio delivered growth above 15% over first quarter of 2018.

Turning to net premiums. For the first quarter of 2019, net premiums written also grew by 18% to $457 million while net earned premium grew by $32 million or 8% to $425 million.

Our reported GAAP combined ratio for the quarter was 95.6%, a solid improvement of 1.2 points over first quarter 2018 and nearly 3 points improved over first quarter 2017. The attritional combined ratio was also 95.6% in the quarter, a 2.4 point improvement over the first quarter 2018, attritional combined of 98% and an 90-basis-point improvement over the full year 2018 attritional combined of 96.5%.

The overall GAAP loss ratio for the first quarter of 2019 was 65%, effectively flat as compared to last year’s 64.9%. The first quarter of 2019 attritional loss ratio ex cat improved further by 1.1 points over the first quarter of 2018 and a further 3.2 point improvement over first quarter 2017 results. As anticipated and discussed on prior calls, the downward drift on the attritional loss ratio continues. This is a result of an improved mix of business, the growing benefit from the many new businesses launched, the improving underlying rate dynamics and the strategic underwriting actions of the past 4 years.

Our expense ratio for the quarter was 30.6%, an improvement of 1.3 points over the prior year period. This is in line with our full year 2018 expense ratio of 30.3%. The first quarter 2019 expense ratio remains very competitive in the specialty insurance market and reflects stabilization around the 30% mark regardless of continued significant investment and talent, new products, new geographies and new technologies.

We continue to recruit and retain the best talent in the industry and have invested in modern office locations to assist our colleagues in serving our customers in their local geographies. To support our talented employees and to enhance our client value proposition, we have committed to a robust program of IT investments in both traditional infrastructure and a variety of cutting-edge and innovative technologies. It is through the hard work of colleagues and their tireless commitment to execution that we have been able to pair this investment and growth with an industry-leading expense ratio.

I’ll turn now to the market conditions, which are clearly painting a picture of an evolving market. One of the barometers used to draw this conclusion is our submission flows in the quarter, which amounted to our third highest on record. This was particularly acute in our various wholesale dedicated businesses, where submission activity is significantly increasing month-to-month.

As for underlying rates, we largely experienced an improving Property and casualty and accident and health pricing picture across the organization, a trend that has continued from last year. The exception has been workers' compensation, where rates remained under pressure. However, our view of profitability within the line remains positive. Excluding workers' compensation, overall property and casualty renewal premium change,
which includes exposure change, was 6.9% in the quarter. Pure rate change on the same basis increased by 5.5% in the quarter. Virtually, all lines showed quarterly improvement led by commercial auto, property and umbrella excess. Encouragingly, financial lines globally also showed strengthening, building on a trend that began in the last 2 quarters of 2018. This is the highest aggregate rate change we have seen in roughly 5 years.

Finally, and this is something that we pay close attention to, terms and conditions also point to improvement, particularly in the property and excess casualty markets. The bottom line for us is that we are focused on achieving adequate technical pricing across our portfolio and are working diligently toward that objective every day.

In conclusion, the first quarter 2019 showed continued progress on our journey, along with solid results. Our vision of building a leading specialty diversified insurance company has become a reality. We have demonstrated that our strategy is sound and, more importantly, that we can execute on that strategy as evidenced by our consistent underwriting profitability across 8 of the last 9 quarters.

More importantly, we believe we are positioned with the right capabilities, products and, of course, talent to service our customers in this evolving market.

We look forward to continuing our positive momentum and reporting back to you next quarter.

With that, I'll turn the call back to Jonathan for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Amit Kumar with The Buckingham Research Group.

Amit Kumar - The Buckingham Research Group Incorporated - Analyst

Just maybe a few questions. The first question is probably for Dom. In the opening remarks, you talked about how the 59.2% was -- obviously did not reflect some of the things we talked about. I was curious, and maybe this ties to -- ties into insurance and reinsurance, how should we think about what would be sort of a normalized fully adjusted number if all the pluses and minuses were to have flown through the numbers?

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director

Amit, we don't forecast earnings or try to give you any specific guidance on the numbers. In large part, that's the job of you and many others. I think what we're trying to suggest is that our first quarter numbers, not surprisingly, would be consistent with our 2018 loss picks on an attritional basis. And I think what we're also trying to suggest is that we've got ahead of us rate increases that were already -- some of which was -- came through in '18. We've got rate increases coming January 1 and April renewals, and then of course, highly anticipated June account.

So I think what we're trying to suggest is that there should be improvement in that number. And that's somewhat, of course, dependent upon what the level of rate increases are, which we don't try to publicly prognosticate on a specific level of rate increase. So you're on your own.

Amit Kumar - The Buckingham Research Group Incorporated - Analyst

No, that's a fair point. I was probably trying to come up with the Q4 comments and back into maybe 2 or 3 points of improvement.
The other question I had was the discussion on reinsurance pricing and the upcoming 6/1 renewal. The 6/1 reinsurance premiums have [obviously seen a growth] substantially for the Q2 2018 versus Q2 2017. I was curious, based on how you're thinking about capital deployment, is it going to be more about risk selection at 6 -- at the upcoming renewal and, net-net, your size of the book remains mostly unchanged? Or how should we think about that?

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director

Well, that of course, Amit, is somewhat dependent upon what's presented to us at 6/1. As we've said, we certainly would anticipate some meaningful rate activity and terms and conditions, which are improving, which essentially is rate. But naturally, that will vary by client. So in some cases, the level of rate activity will vary by client, I guess is where I'll try to leave that.

Our activity at 1/1 reflected some reduction in our exposure, as you could see from our PML's disclosures. And that was, of course, due to the fact that we did not achieve the level of rate increase that we felt was necessary. And on a risk-adjusted basis, some of the accounts were non-renewed. Whether or not that present itself in the same way at 6/1, not very likely. We certainly anticipate 6/1 will be much stronger than what we saw at 1/1.

And what we saw at 4/1, by the way, were meaningful rate increases. And in fact, Japan was an area, for example, where we had pulled back in more recent times due to risk-adjusted pricing going down, but we actually increased slightly our participation in Japan at 4/1.

So it's a mixed bag. It'll be dependent upon what the market opportunities present to us. But I don't know that you'll necessary see us meaningfully increase our exposure.

Amit Kumar - The Buckingham Research Group Incorporated - Analyst

That's a fair point. The final question might be for Craig or John. The $37 million positive movement in the catastrophes in the U.S. reinsurance, where is that from?

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

So Amit, we go through a comprehensive approach -- this is Craig -- to review our cat reserves on a current year basis but also in prior years as well. And we go through them. We look at each of them. However, we reserve on a group-level basis, not a segment-level basis.

These events do not always fit neatly into a segment because the exposure can be written from multiple segments. We tend to react quickly to any adverse development, as you saw from the Japan loss events from 2018 that we took a charge for, but we take our time to react to any favorable development until that position becomes more mature.

So you may see movements between segments, but it's really done at an overall level.

Amit Kumar - The Buckingham Research Group Incorporated - Analyst

Okay. So that $37 million is from several pluses and minuses, I think is what you're saying versus one single event?

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

Correct.
My first question, I was hoping to spend a little bit more time on the forward pricing environment. I recognize we're still on discussions for the midyear renewals. But given what we've seen in the industry with Irma and the development with Irma, I mean can you give us a sense what kind of price increases would you need to see for this to be a successful renewal versus prices? If we get closer to 6/1 and prices fall short of expectations, is there a certain bar where Everest is going to walk away if they're not able to recoup price increases after 2 successive years of losses?

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director

So Elyse, I'm going to ask John to comment -- John Doucette to comment, but let me just say that consistent with what I've said before is that we try not to prognosticate where the rate increases will be going and frankly where they even need to be.

It varies by client, as I mentioned a few minutes ago, depending upon client experience, other relationships, risk-adjusted returns, et cetera, et cetera, et cetera. And frankly, it doesn't really do us any service to be trying to put a specific number or bar on it. I think it probably telegraphs an inconsistent message or an incorrect message to The Street.

And frankly, it -- perhaps depending on the client relationship, it could be the inappropriate target for a specific client. So it doesn't really serve our purpose to be putting a benchmark or drawing a line in the sand, so to speak, as you described. But John, do you have any further...

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

Yes, and thanks, Dom. Elyse, thanks for the question. First, I do want to highlight that there's actually been 3 years of hurricanes hitting Florida, not 2, with Matthew, Irma and Michael. And I think there's been a lot of movement there, and I think there's been -- as Dom said, as we look at this, we need to achieve the rates that we expect at, and that will vary by client. That will vary by product. That will vary by attachment. But we fully intend to differentiate the clients in terms of how they have performed with their losses, with their LAE, with AOB, with their loss creep, et cetera. So that will all factor in.

We clearly see capacity tight as we head into the market both -- as I touched on in my earlier comments, both on the traditional and in the alternative space for a variety of reasons due to some of the aforementioned reasons, but also just the reload -- the alternative capital and the lack of reload.

So a couple of other points, that we continue to look to where we want to allocate capacity and not just property that's not just by a client in Florida. And we are allocating more capacity to global clients, where obviously as Jon Zaffino articulated, deploying more capital and capacity on the insurance space. We're seeing increasing opportunities on the casualty reinsurance space and, as I said, on the mortgage space. So all of that factors into a higher required return threshold for where we are headed into our Florida business.

We don't predict rates, but we think it's going to be a very, very late renewal, potentially messy. And ultimately, we think it'll be profitable for us.

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director

The only thing I'd add to add, Elyse, is that while it's maybe precisely on point to your question, hopefully this helps. I did describe earlier that we've increased our participation in the Japan market. And there, we're seeing rate increases of 20% to 30%. So maybe that gives you some notion of our appetite and maybe perhaps what's needed generally.
Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst

Okay. That's very helpful. And then in terms of your Jebi development in the quarter, so if we look at where your initial loss sat, and we've seen a lot of development across the industry, and so the development that we've seen from you guys, smaller percentage of your initial loss, is there a difference in how you attach on treaties there? Or maybe the level of insured losses you've used when you set up the reserve for the losses in the third quarter of last year? Just any guidance there that we should think about in terms of the development on Jebi?

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director

So we believe that last year, when we established that reserve, we were at the high -- above -- frankly, we're way above where the industry estimates were at the time. So that obviously kept us in good stead as well as the fact that we've essentially -- when you look at the losses in Asia, we're looking at them as a group of losses as with respect to that marketplace. So I think all of those factors combined enabled us to have that managed appropriately.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst

Okay. That's helpful. My last....

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director

Give me one second. I think maybe John Doucette....

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

Yes, and I just want to give a little bit of a frame of our market share in Japan. So if you think back -- since -- over many years, we had post the [Tohoku earthquake] substantial rate increases, and we significantly increased our book of business then. And then over the last several years, there had been a downward pressure on the rates. And we, accordingly, kind of turned our books each year a little bit for the worst performing accounts, and we also were moving up capacity, which I think is reflective of where we find ourselves for the Japanese book overall.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst

Okay. That's helpful. And then my last question was on the expense ratio. It was up a little bit year-over-year. And then if I look within the U.S. reinsurance segment, you saw an uptick -- a decent amount uptick in the commission and brokerage ratio from where you've been trading. Is there something going on there that we should think about in terms of modeling going forward?

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

So Elyse, this is Craig. Expenses year-over-year, one of the things that you saw at year-end, was variable pay expenses, where we're taking down at the end of last year, predominantly due to the profitability of the book. Those are back in normal, ranges for this year overall, but what you're seeing is just a slight uptick in expense dollars. But overall, the expense ratio is staying at a low level of 5.7% overall.

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

Yes, and Elyse, this is John. I just want to add a little more color on the mix change. So we also have been talking about increasing our casualty book of business overall, increasing our pro rata business. And at 1/1, we took action based on rates tied to our property retro and aggregate retro portfolio, and that decreased. The combination of those, all those, do have or did have an impact on the attritional combined ratio.
And the expense ratio, of course, is...

Craig William Howie - Everest Re Group, Ltd. - Executive VP, CFO & Treasurer
is down year-over-year.

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director
Is down over year. But the commission ratio had a -- and I think you referenced the U.S. reinsurance, that had a contingent commission adjustment in the first quarter, a true-up, if you will, due to the mortgage book.

Elyse Beth Greenspan - Wells Fargo Securities, LLC, Research Division - VP and Senior Analyst
And how much was that true-up?

Craig William Howie - Everest Re Group, Ltd. - Executive VP, CFO & Treasurer
Overall, it relates to a bunch of things. It relates to contingent commission and the mortgage true-up, but it's also -- relates to the business mix that we had with more pro rata business coming on the books that John just mentioned.

John Paul Doucette - Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division
And different classes of business that specifically have contingent commissions in them.

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director
So we don't have one specific number for the mortgage adjustment.

Operator
We'll take our next question from Yaron Kinar with Goldman Sachs.

Yaron Joseph Kinar - Goldman Sachs Group Inc., Research Division - Research Analyst
I guess this question is a multi-part question. So first, just looking at the total reinsurance underlying attritional combined ratio of 84.7%. It just seems a little bit lower than the roughly 87% number that I think we had run rated last quarter. So other than maybe contingent commissions or a couple of other minor -- are there any major drivers there that would have resulted in this significant improvement quarter-to-quarter?

John Paul Doucette - Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division
No, I mean we continue to deploy more capacity into the mortgage space, which we think has a robust risk/reward characteristic. And as you may recall, the mortgage books are basically a multiyear deal. They're over several years. So deals from 3 years ago were still getting earned premium,
2 years ago, et cetera, 1 year ago as well as writing new premium. That certainly has the directional impact of improving the attritional combined ratio given the potential profitability in the mortgage portfolio.

Yaron Joseph Kinar - Goldman Sachs Group Inc., Research Division - Research Analyst
Okay. That's helpful. And then, Dom, from your earlier comments, it sounds like between the underwriting actions that you've taken and has been implemented starting in January and the rate increases that you've been seeing, you are expecting an overall improvement. So basically, you are expecting that rates will be an excess of loss trends. Is that kind of broadly true? Are there lines of business or geographies where you actually don't see that to be the case?

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director
Not in any meaningful way. I think generally -- and that's primarily because in any particular class of business in a particular geography, and of course, this can get pretty minute. But if that were the case, then you'd be seeing us take capacity move away from those -- from that sector. I'm not sure that I could really highlight anything that's moving in the wrong direction.

Yaron Joseph Kinar - Goldman Sachs Group Inc., Research Division - Research Analyst
Okay. And then against one last quick one. I think the increase in losses from Japan is for all 3 industry events, so Jebi, Trami and then the flood losses. Would you be able to break that out?

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director
We do not break that out.

Yaron Joseph Kinar - Goldman Sachs Group Inc., Research Division - Research Analyst
Okay. But if I take the 3 industry events together, it would seem like you are in the 80 to 90 basis point market share of those 3 losses based on current [thoughts]. Is that roughly how you're seeing it?

Craig William Howie - Everest Re Group, Ltd. - Executive VP, CFO & Treasurer
Roughly 1%.

Yaron Joseph Kinar - Goldman Sachs Group Inc., Research Division - Research Analyst
Roughly 1%, okay.

Operator
We'll take our next question from Ryan Tunis with Autonomous Research.
**Ryan James Tunis** - *Autonomous Research LLP* - Partner of Property & Casualty Insurance

Just looking for a little bit more color on the texture behind the Japan book now at renewals, maybe in terms of premium size. How much of that is quota share? What’s the weighting between the wind and the quake? And how much of that excess of loss is aggregate or occurrence?

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

Ryan, this is John. So our Japan book is about $60 million -- $50 million to $60 million, up slightly this year over prior year. The mix would be -- I don’t have that in front of us. The mix would be mostly excess of loss business, and that’s mostly property. There’s some other surety, fidelity and some other smaller programs that we write for a lot of the major clients.

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

And then a follow-up for Dom, going back to the prepared remarks about -- thinking about these 2 businesses from a similar parts context. I’m just curious, like what is your ROE outlook on -- where the primary insurance business is today? And where the reinsurance business is?

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**Dominic James Addesso** - *Everest Re Group, Ltd.* - President, CEO & Non-Independent Director

Well, first of all, our -- we would certainly target an ROE in the double digits. Clearly, we would expect a higher ROE out of our reinsurance business and the insurance business given the volatility there. A couple of hundred basis point difference, but that’s about as specific as I think I’d want to get without giving you a specific number, which would then, of course, translate into an earnings projection.

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**Operator**

We’ll take our next question from Joshua Shanker with Deutsche Bank.

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**Joshua David Shanker** - *Deutsche Bank AG, Research Division* - Research Analyst

I want to talk a little bit about pricing, obviously, both sides of the markets. First of all, in terms of the rate increases on the primary inside, and it's not just for you but others, to what extent are broadly discussed industry price increases going to get mitigated by higher outwards reinsurance costs, which you guys will benefit from? And two, in absence of property placing being up -- I’m sure in your non-property lines, you had all seen price increases. But would it be business as usual? Or is there really some (inaudible) going on outside of the property-driven pricing markets?

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**Jonathan Martin Zaffino** - *Everest Re Group, Ltd.* - Executive VP, CEO & President of the Everest Insurance Division

Josh, this is Jon. Let me take that from the primary side. First and foremost, I don’t see this as a reinsurance-driven pricing change. I think some of the underlying fundamental dynamics are such that there are a number of areas that just simply needed to correct the rate action. So we’re seeing that across several lines, some of which I mentioned in my script, we’re actually seeing some of the momentum actually built, which is -- which fundamentally I think is creating a pretty interesting dynamic and outlook.

So we anticipate that to continue as the year moves on. We’re seeing it outside of property. We mentioned the commercial auto, not a new story obviously. But as I mentioned earlier, in the financial lines, you’re starting to see -- particularly in some of the management liability areas, public company D&O, certainly primary layers, you’re starting to see increased rate of change happening there in terms of rate action. So we just see sort of a broad-based move, but a lot of it being driven by underlying fundamentals versus kind of a top down view.
And even though it's not being driven by the reinsurance side, are your clients going to see some of their rate-driven margin expansion curtailed by higher outwards reinsurance costs?

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director

Well, there would be -- we would expect the industry -- the primary industry to obviously realize some of the reinsurance rate increases. I'm not so sure that, that would translate into a margin compression on their end. I think their rate levels -- clearly, the reinsurance spend is only a portion of their gross written premium. But I think the economics are such that I wouldn't necessarily expect any compression for their margin because of increased reinsurance pricing.

Jonathan Martin Zaffino - Everest Re Group, Ltd. - Executive VP, CEO & President of the Everest Insurance Division

And I think -- and John Doucette can speak more of this, but I -- everyone buys differently. So I think it's a very difficult translation of one-to-one. So I don't know, John, if you want to comment on the demand side.

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

Yes. We're clearly seeing a lot of our clients, reinsurance clients, looking to grow -- to buy more frankly, grow their reinsurance treaties. And some of them are property-driven for volatility.

Interestingly, we're still seeing a lot of demand on the casualty side of the house. And that is resulting in -- so to your -- to the original question, we're still seeing non-property rate improvement with improved terms and conditions and lower ceding commissions on the casualty, the broader casualty parts. And then we're also seeing some pickup in some of the specialty reinsurance areas, aviation, marine, et cetera. We're seeing some lift. Some of that's really loss-driven. So we're seeing some opportunities there that we wouldn't have found attractive in prior years, but at a better pricing, we could put more capacity to work there.

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director

The one area, Josh, where you may see some of which you're suggesting could be in Florida with some of the smaller companies, where they may feel a little bit of pressure from rising reinsurance costs, but that would be the only spot where I think that would potentially go through.

Operator

We'll take our next question from Meyer Shields with the KBW.

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

I was hoping you could give us some -- your views on the sophistication of the Japanese catastrophe models compared to the ones we've got, the Southeastern United States?

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

So let's start with, first, all models are wrong. And every time a loss happens, some of the weaknesses get demonstrated. And then there's kind of a look back and [will lead to] impact to cover the losses that happened, and I think that's one of the reasons why we take a pretty holistic view on -- across the whole board and really try to think about it on a first principle phase and so not just be model-driven.
So our -- I think the data is getting better over time overall, but it's still not nearly as good in a lot of international areas as it is in the U.S. That would include Japan. But it has gotten a lot better over the last several years, and the models therefore are also better.

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

No, great. That's very helpful. Second question. I think it's -- my impression, at least, is that you tend to see reinsurance buyers or really all insurers get somewhat more optimistic in their loss picks during stock markets, and then that reverses when rates rise. Can you talk about how you sort of manage against that in the reinsurance book?

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director

Well, I mean it's an interesting observation. And of course, selecting an ELR and knowing the true cause of business, cost of goods sold in this business is something that you never really know for years into the future. So you never really know accurately your cost of goods sold, and it's always a challenge.

So the best way to deal with that is to use all the tools that are available to you, stay true to your process, be conservative and disciplined around how you establish loss reserves and just collect all the data you can. And I think what we've shown and demonstrated is that in our attritional book, we have a fairly good track record over the last half a dozen years or so of reasonably reserving through various market cycles. But look, it's never an exact science, and it's all about being presenting the fair financial picture, which we think we've done.

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

Just to add a little more color. We also benefit -- and this is where I think data and experience with clients, clients' business and different territories. I mean we write this business for 45 years. We write in basically all P&C lines in all territories and have traded with 70% of our clients for decades now. And that's incredibly helpful because we can pull up the prior year submissions. We can pull up similar clients, and we can look and build.

So I think being -- having a global footprint for a long period of time gives us a very strong insight into what we think the market really is, the loss pick really is and the rating environment really is, which I think has helped us time and time again being in that favorable position to be able to execute on that and not just rely specifically on what a specific client information tells us but to be able to pull in across kind of our institutional knowledge on actuarial pricing and trends -- loss trends and whatnot.

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director

And to be specific about our process, and I know we've mentioned this from time to time, what we do in our process is that after the last reserve study, and this will apply to every class of business, we then apply to that last reserve study selection. We apply what's happening with rates. So if there are rate decreases going on in the marketplace, we will take the last reserve study pick and adjust it downward -- or upward, I'm sorry, for any rate decreases and the opposite if there are rate increases going on. So that's how we deal with it specific to our company.

Operator

We'll take our next question from Brian Meredith with UBS.

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

Most of my questions have been asked, but just one quick question here. John, what do you think the impact of the AOB legislation in Florida is going to have on just the pricing environment to the kind of loss cost stuff going forward?
John Paul Doucette - Everest Re Group, Ltd. - Executive VP, President & CEO of the Reinsurance Division

Yes, it's a great question. Again, we try to absorb all the information out there. We don't really try to make specific predictions on what this is going to do after that. I'll go back to 3 years of hurricanes hitting Florida. A lot of capacity, the loss creep that we did see. I think capacity is tight, as Dom alluded to. A lot of the reinsurance clients there, their reinsurance programs are capital for them, and I think they need to be reflective of the not-so-great experience over the last couple of years.

We certainly hope, and we think it's a positive move, that the Florida legislature is addressing this issue. So hopefully, that'll make an overall better, healthier market in the long term.

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

I guess most specifically, do the quota shares actually done in Florida, do you think it'll have any impact on pricing then? Or are you going to kind of just wait, see what happens, call it, a year from now?

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

I think there could be -- I think -- I don't know if your question was insurance pricing, the original pricing or reinsurance pricing. I think there's going to be -- I'm -- there's going to be directional movements up and down on all that stuff. But again, I think the capacity is tighter at this renewal.

Operator

At this time, there are no further questions in the queue.

Dominic James Addesso - Everest Re Group, Ltd. - President, CEO & Non-Independent Director

Good. I'll just sum up here. Thank you for joining this morning and for your questions and discussion.

Certainly, we're off to a good start for the year, but more important is what is likely to unfold as the year progresses. And I think as you heard from us and other market participants, the rate outlook is quite positive. This, along with our many business initiatives and expansion opportunities, causes us to be really optimistic about our future.

So I look forward to interacting with many of you in the weeks ahead, and have a good day. Thanks again.

Operator

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.