

EVEREST RE GROUP LTD
Form 10-K
March 01, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2018
 Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission file number 1-15731
EVEREST RE GROUP, LTD.
(Exact name of registrant as specified in its charter)

Bermuda 98-0365432
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

Seon Place – 4th Floor
141 Front Street
PO Box HM 845
Hamilton HM 19, Bermuda
441-295-0006

(Address, including zip code, and telephone number, including area code, of registrant's principal executive office)

Securities
registered
pursuant to
Section 12(b) of
the Act:

Title
of
Each Name of
Class Each
Common Exchange
Shares, on Which
\$.01 Registered
par New York
value Stock
per Exchange
share

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

YES NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

YES NO

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES NO

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. []

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

Indicate by check mark if the registrant is an emerging growth company and has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange act.

YES NO

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES NO

The aggregate market value on June 30, 2018, the last business day of the registrant's most recently completed second quarter, of the voting shares held by non-affiliates of the registrant was \$9,417,452 thousand.

At February 1, 2019, the number of shares outstanding of the registrant's common shares was 40,675,221.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 10, 11, 12, 13 and 14 of Form 10-K is incorporated by reference into Part III hereof from the registrant's proxy statement for the 2018 Annual General Meeting of Shareholders, which will be filed with the Securities and Exchange Commission within 120 days of the close of the registrant's fiscal year ended December 31, 2018.

EVEREST RE GROUP, LTD

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PART I

Unless otherwise indicated, all financial data in this document have been prepared using accounting principles generally accepted in the United States of America (“GAAP”). As used in this document, “Group” means Everest Re Group, Ltd.; “Holdings Ireland” means Everest Underwriting Group (Ireland) Limited; “Ireland Re” means Everest Reinsurance Company (Ireland), designated activity company; “Holdings” means Everest Reinsurance Holdings, Inc.; “Everest Re” means Everest Reinsurance Company and its subsidiaries (unless the context otherwise requires); and the “Company”, “we”, “us”, and “our” means Everest Re Group, Ltd. and its subsidiaries.

ITEM 1. BUSINESS

The Company.

Group, a Bermuda company, was established in 1999 as a wholly-owned subsidiary of Holdings. On February 24, 2000, a corporate restructuring was completed and Group became the new parent holding company of Holdings. Holdings continues to be the holding company for the Company’s U.S. based operations. Holders of shares of common stock of Holdings automatically became holders of the same number of common shares of Group. Prior to the restructuring, Group had no significant assets or capitalization and had not engaged in any business or prior activities other than in connection with the restructuring.

In connection with the February 24, 2000 restructuring, Group established a Bermuda-based reinsurance subsidiary, Everest Reinsurance (Bermuda), Ltd. (“Bermuda Re”), which commenced business in the second half of 2000. Group also formed Everest Global Services, Inc., a Delaware subsidiary, to perform administrative functions for Group and its U.S. based and non-U.S. based subsidiaries.

On December 30, 2008, Group contributed Holdings to its Irish holding company, Holdings Ireland. Holdings Ireland is a direct subsidiary of Group and was established to serve as a holding company for the U.S. and Irish reinsurance and insurance subsidiaries. Effective July 1, 2016, the Company established a new Irish holding company, Everest Dublin Insurance Holdings Limited (Ireland) (“Everest Dublin Holdings”) and contributed Ireland Re to Everest Dublin Holdings.

Holdings, a Delaware corporation, was established in 1993 to serve as the parent holding company of Everest Re, a Delaware property and casualty reinsurer formed in 1973. Until October 6, 1995, Holdings was an indirect wholly-owned subsidiary of The Prudential Insurance Company of America (“The Prudential”). On October 6, 1995, The Prudential sold its entire interest in Holdings in an initial public offering.

During the fourth quarter of 2017, the Company established a new Irish insurance subsidiary, Everest Insurance Ireland, designated activity company (“Ireland Insurance”), which writes insurance business mainly in the European markets.

During the third quarter of 2016, the Company established domestic subsidiaries, Everest Premier Insurance Company (“Everest Premier”) and Everest Denali Insurance Company (“Everest Denali”), which are being used in the continued expansion of the Insurance operations.

Effective August 24, 2016, the Company sold its wholly-owned subsidiary, Heartland Crop Insurance Company (“Heartland”), a managing agent for crop insurance, to CGB Diversified Services, Inc. (“CGB”). The operating results of Heartland for the period owned are included within the Company’s financial statements.

The Company’s principal business, conducted through its operating segments, is the underwriting of reinsurance and insurance in the U.S., Bermuda and international markets. The Company had gross written premiums, in 2018, of \$8.5 billion with approximately 73% representing reinsurance and 27% representing insurance. Shareholders’ equity at December 31, 2018 was \$7.9 billion. The Company underwrites reinsurance both through brokers and directly with

ceding companies, giving it the flexibility to pursue business based on the ceding company's preferred reinsurance purchasing method. The Company underwrites insurance principally through brokers, surplus lines brokers and general agent relationships. Group's active operating subsidiaries, other than Ireland Insurance which is not yet rated, are each rated A+ ("Superior") by

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A.M. Best Company (“A.M. Best”), a leading provider of insurer ratings that assigns financial strength ratings to insurance companies based on their ability to meet their obligations to policyholders.

Following is a summary of the Company’s principal operating subsidiaries:

Bermuda Re, a Bermuda insurance company and a direct subsidiary of Group, is registered in Bermuda as a Class 4 insurer and long-term insurer and is authorized to write property and casualty and life and annuity business. Bermuda Re commenced business in the second half of 2000. Bermuda Re’s UK branch writes property and casualty reinsurance to the United Kingdom and European markets. At December 31, 2018, Bermuda Re had shareholder’s equity of \$3.1 billion.

Everest International Reinsurance, Ltd. (“Everest International”), a Bermuda insurance company and a direct subsidiary of Group, is registered in Bermuda as a Class 4 insurer and is authorized to write property and casualty business. Through 2018, all of Everest International’s business has been inter-affiliate quota share reinsurance assumed from Everest Re, the UK branch of Bermuda Re, Ireland Re and Ireland Insurance. In 2015, Everest International issued additional capital as part of a capital restructuring initiative within the Company to support a planned increase in international business production, which includes supporting Group’s Lloyd’s of London Syndicate corporate member. At December 31, 2018, Everest International had shareholder’s equity of \$2.7 billion.

Ireland Re, an Ireland reinsurance company and an indirect subsidiary of Group, is licensed to write non-life reinsurance, both directly and through brokers, for the London and European markets.

Ireland Insurance, an Ireland insurance company and an indirect subsidiary of Group, is licensed to write insurance for the European markets.

Everest Re, a Delaware insurance company and a direct subsidiary of Holdings, is a licensed property and casualty insurer and/or reinsurer in all states, the District of Columbia, Puerto Rico and Guam and is authorized to conduct reinsurance business in Canada, Singapore and Brazil. Everest Re underwrites property and casualty reinsurance for insurance and reinsurance companies in the U.S. and international markets. At December 31, 2018, Everest Re had statutory surplus of \$3.7 billion.

Everest Insurance Company of Canada (“Everest Canada”), a Canadian insurance company and direct subsidiary of Holdings Ireland, is licensed to write property and casualty insurance in all Canadian provinces.

Everest National Insurance Company (“Everest National”), a Delaware insurance company and a direct subsidiary of Everest Re, is licensed in 50 states, the District of Columbia and Puerto Rico and is authorized to write property and casualty insurance on an admitted basis in the jurisdictions in which it is licensed. The majority of Everest National’s business is reinsured by its parent, Everest Re.

Everest Indemnity Insurance Company (“Everest Indemnity”), a Delaware insurance company and a direct subsidiary of Everest Re, writes excess and surplus lines insurance business in the U.S. on a non-admitted basis. Excess and surplus lines insurance is specialty property and liability coverage that an insurer not licensed to write insurance in a particular jurisdiction is permitted to provide to insureds when the specific specialty coverage is unavailable from admitted insurers. Everest Indemnity is licensed in Delaware and is eligible to write business on a non-admitted basis in all other states, the District of Columbia and Puerto Rico. The majority of Everest Indemnity’s business is reinsured by its parent, Everest Re.

Everest Security Insurance Company (“Everest Security”), a Georgia insurance company and a direct subsidiary of Everest Re, writes property and casualty insurance on an admitted basis in Georgia and Alabama and is approved as an eligible surplus lines insurer in Delaware. The majority of Everest Security’s business is reinsured by its parent,

Everest Re.

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Everest International Assurance, Ltd. (“Everest Assurance”), a Bermuda company and a direct subsidiary of Holdings is registered in Bermuda as a Class 3A general business insurer and as a Class C long-term insurer. Everest Assurance has made a one-time election under section 953(d) of the U.S. Internal Revenue Code to be a U.S. income tax paying “Controlled Foreign Corporation.” By making this election, Everest Assurance is authorized to write life reinsurance and casualty reinsurance in both Bermuda and the U.S.

Everest Denali, a Delaware insurance company and a direct subsidiary of Everest Re, is licensed to write property and casualty insurance in 49 states and the District of Columbia.

Everest Premier, a Delaware insurance company and a direct subsidiary of Everest Re, is licensed to write property and casualty insurance in 49 states and the District of Columbia.

Heartland, a Kansas based managing general agent and a direct subsidiary of Holdings, was acquired on January 2, 2011. Heartland specializes in crop insurance, which is written mainly through Everest National. Effective August 24, 2016, the Company sold Heartland to CGB. The operating results of Heartland for the period owned are included within the Company’s financial statements.

Reinsurance Industry Overview.

Reinsurance is an arrangement in which an insurance company, the reinsurer, agrees to indemnify another insurance or reinsurance company, the ceding company, against all or a portion of the insurance risks underwritten by the ceding company under one or more insurance contracts. Reinsurance can provide a ceding company with several benefits, including a reduction in its net liability on individual risks or classes of risks, catastrophe protection from large and/or multiple losses and/or a reduction in operating leverage as measured by the ratio of net premiums and reserves to capital. Reinsurance also provides a ceding company with additional underwriting capacity by permitting it to accept larger risks and write more business than would be acceptable relative to the ceding company’s financial resources. Reinsurance does not discharge the ceding company from its liability to policyholders; rather, it reimburses the ceding company for covered losses.

There are two basic types of reinsurance arrangements: treaty and facultative. Treaty reinsurance obligates the ceding company to cede and the reinsurer to assume a specified portion of a type or category of risks insured by the ceding company. Treaty reinsurers do not separately evaluate each of the individual risks assumed under their treaties, instead, the reinsurer relies upon the pricing and underwriting decisions made by the ceding company. In facultative reinsurance, the ceding company cedes and the reinsurer assumes all or part of the risk under a single insurance contract. Facultative reinsurance is negotiated separately for each insurance contract that is reinsured. Facultative reinsurance, when purchased by ceding companies, usually is intended to cover individual risks not covered by their reinsurance treaties because of the dollar limits involved or because the risk is unusual.

Both treaty and facultative reinsurance can be written on either a pro rata basis or an excess of loss basis. Under pro rata reinsurance, the ceding company and the reinsurer share the premiums as well as the losses and expenses in an agreed proportion. Under excess of loss reinsurance, the reinsurer indemnifies the ceding company against all or a specified portion of losses and expenses in excess of a specified dollar amount, known as the ceding company's retention or reinsurer's attachment point, generally subject to a negotiated reinsurance contract limit.

In pro rata reinsurance, the reinsurer generally pays the ceding company a ceding commission. The ceding commission generally is based on the ceding company’s cost of acquiring the business being reinsured (commissions, premium taxes, assessments and miscellaneous administrative expense and may contain profit sharing provisions, whereby the ceding commission is adjusted based on loss experience). Premiums paid by the ceding company to a reinsurer for excess of loss reinsurance are not directly proportional to the premiums that the ceding company receives because the reinsurer does not assume a proportionate risk. There is usually no ceding commission on excess of loss reinsurance.

Reinsurers may purchase reinsurance to cover their own risk exposure. Reinsurance of a reinsurer's business is called a retrocession. Reinsurance companies cede risks under retrocessional agreements to other reinsurers, known as retrocessionaires, for reasons similar to those that cause insurers to purchase reinsurance: to reduce net liability on individual or classes of risks, protect against catastrophic losses, stabilize financial ratios and obtain additional underwriting capacity.

Reinsurance can be written through intermediaries, generally professional reinsurance brokers, or directly with ceding companies. From a ceding company's perspective, the broker and the direct distribution channels have advantages and disadvantages. A ceding company's decision to select one distribution channel over the other will be influenced by its perception of such advantages and disadvantages relative to the reinsurance coverage being placed.

Business Strategy.

The Company's business strategy is to sustain its leadership position within targeted reinsurance and insurance markets, provide effective management throughout the property and casualty underwriting cycle and thereby achieve an attractive return for its shareholders. The Company's underwriting strategies seek to capitalize on its i) financial strength and capacity, ii) global franchise, iii) stable and experienced management team, iv) diversified product and distribution offerings, v) underwriting expertise and disciplined approach, vi) efficient and low-cost operating structure and vii) effective enterprise risk management practices.

The Company offers treaty and facultative reinsurance and admitted and non-admitted insurance. The Company's products include the full range of property and casualty reinsurance and insurance coverages, including marine, aviation, surety, errors and omissions liability ("E&O"), directors' and officers' liability ("D&O"), medical malpractice, other specialty lines, accident and health ("A&H") and workers' compensation.

The Company's underwriting strategies emphasizes underwriting profitability over premium volume. Key elements of this strategy include careful risk selection, appropriate pricing through strict underwriting discipline and adjustment of the Company's business mix in response to changing market conditions. The Company focuses on reinsuring companies that effectively manage the underwriting cycle through proper analysis and pricing of underlying risks and whose underwriting guidelines and performance are compatible with its objectives.

The Company's underwriting strategies emphasize flexibility and responsiveness to changing market conditions. The Company believes that its existing strengths, including its broad underwriting expertise, global presence, strong financial ratings and substantial capital, facilitate adjustments to its mix of business geographically, by line of business and by type of coverage, allowing it to participate in those market opportunities that provide the greatest potential for underwriting profitability. The Company's insurance operations complement these strategies by accessing business that is not available on a reinsurance basis. The Company carefully monitors its mix of business across all operations to avoid unacceptable geographic or other risk concentrations.

Commencing in 2015 the Company initiated a strategic build out of its insurance platform through the investment in key leadership hires which in turn has brought significant underwriting talent and stronger direction in achieving its insurance program strategic goals of increased premium volume and improved underwriting results. Recent growth is coming from highly diversified areas including newly launched lines of business, as well as product and geographic expansion in existing lines of business. The Company is building a world-class insurance platform capable of offering products across lines and geographies, complementing its leading global reinsurance franchise. As part of this initiative, the Company launched a new syndicate through Lloyd's of London and formed Ireland Insurance, providing access to additional international business and new product opportunities to further diversify and broaden its insurance portfolio going forward.

Marketing.

The Company writes business on a worldwide basis for many different customers and lines of business, thereby obtaining a broad spread of risk. The Company is not substantially dependent on any single customer, small group of customers, line of business or geographic area. For the 2018 calendar year, no single customer (ceding company or insured) generated more than 3% of the Company's gross written premiums. The

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Company believes that a reduction of business from any one customer would not have a material adverse effect on its future financial condition or results of operations.

Approximately 66%, 27% and 7% of the Company's 2018 gross written premiums were written in the broker reinsurance, insurance and direct reinsurance markets, respectively.

The broker reinsurance market consists of several substantial national and international brokers and a number of smaller specialized brokers. Brokers do not have the authority to bind the Company with respect to reinsurance agreements, nor does the Company commit in advance to accept any portion of a broker's submitted business. Reinsurance business from any ceding company, whether new or renewal, is subject to acceptance by the Company. Brokerage fees are generally paid by reinsurers. The Company's ten largest brokers accounted for an aggregate of approximately 52% of gross written premiums in 2018. The largest broker, Marsh and McLennan, accounted for approximately 20% of gross written premiums. The second largest broker, Aon Benfield Re, accounted for approximately 16% of gross written premiums. The Company believes that a reduction of business assumed from any one broker would not have a material adverse effect on the Company.

The direct reinsurance market remains an important distribution channel for reinsurance business written by the Company. Direct placement of reinsurance enables the Company to access clients who prefer to place their reinsurance directly with reinsurers based upon the reinsurer's in-depth understanding of the ceding company's needs.

The Company's insurance business writes direct business targeting commercial, property and casualty. It also writes business through brokers, surplus lines brokers and general agents. In 2018, Arrowhead General Insurance Agency accounted for approximately 3% of the Company's gross written premium. No other single general agent generated more than 2% of the Company's gross written premiums.

The Company continually evaluates each business relationship, including the underwriting expertise and experience brought to bear through the involved distribution channel, performs analyses to evaluate financial security, monitors performance and adjusts underwriting decisions accordingly.

Segment Results.

The U.S. Reinsurance operation writes property and casualty reinsurance and specialty lines of business, including Marine, Aviation, Surety and Accident and Health ("A&H") business, on both a treaty and facultative basis, through reinsurance brokers, as well as directly with ceding companies primarily within the U.S. The International operation writes non-U.S. property and casualty reinsurance through Everest Re's branches in Canada and Singapore and through offices in Brazil, Miami and New Jersey. The Bermuda operation provides reinsurance and insurance to worldwide property and casualty markets through brokers and directly with ceding companies from its Bermuda office and reinsurance to the United Kingdom and European markets through its UK branch and Ireland Re. The Insurance operation writes property and casualty insurance directly and through brokers, surplus lines brokers and general agents within the U.S., Canada and Europe.

These segments are managed independently, but conform with corporate guidelines with respect to pricing, risk management, control of aggregate catastrophe exposures, capital, investments and support operations. Management generally monitors and evaluates the financial performance of these operating segments based upon their underwriting results.

Underwriting results include earned premium less losses and loss adjustment expenses ("LAE") incurred, commission and brokerage expenses and other underwriting expenses. We measure our underwriting results using ratios, in particular loss, commission and brokerage and other underwriting expense ratios, which, respectively, divide incurred losses, commissions and brokerage and other underwriting expenses by premiums earned. The Company utilizes inter-affiliate reinsurance, although such reinsurance does not materially impact segment results, as business is

generally reported within the segment in which the business was first produced. For selected financial information regarding these segments, see ITEM 8, “Financial Statements and Supplementary Data” - Note 17 of Notes to Consolidated Financial Statements and ITEM 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operation - Segment Results”.

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Underwriting Operations.

The following five year table presents the distribution of the Company's gross written premiums by its segments: U.S. Reinsurance, International, Bermuda and Insurance. The premiums for each segment are further split between property and casualty business and, for reinsurance business, between pro rata or excess of loss business:

Gross Written Premiums by Segment										
Years Ended December 31, 2018										
(Dollars in millions)	2018		2017		2016		2015		2014	
U.S.										
Reinsurance										
Property										
Pro Rata ⁽¹⁾	\$1,069.6	12.6 %	\$848.4	11.8 %	\$495.2	8.2 %	\$591.3	10.0 %	\$665.7	11.6 %
Excess	1,031.9	12.2 %	1,085.2	15.1 %	1,054.2	17.5 %	1,065.3	18.1 %	887.6	15.4 %
Casualty										
Pro Rata ⁽¹⁾	702.2	8.3 %	460.7	6.4 %	378.2	6.3 %	319.9	5.4 %	382.4	6.6 %
Excess	210.6	2.5 %	198.7	2.8 %	198.2	3.3 %	171.3	2.9 %	218.8	3.8 %
Total ⁽²⁾	3,014.3	35.6 %	2,593.0	36.1 %	2,125.8	35.2 %	2,147.9	36.5 %	2,154.5	37.4 %
International										
Property										
Pro Rata ⁽¹⁾	\$679.8	8.0 %	\$577.5	8.1 %	671.9	11.1 %	699.3	11.9 %	846.0	14.7 %
Excess	424.7	5.0 %	377.9	5.3 %	337.4	5.6 %	411.2	7.0 %	488.1	8.5 %
Casualty										
Pro Rata ⁽¹⁾	281.0	3.3 %	236.4	3.3 %	111.7	1.9 %	113.4	1.9 %	152.9	2.7 %
Excess	158.4	1.9 %	125.0	1.7 %	109.7	1.8 %	110.4	1.9 %	116.5	2.0 %
Total ⁽²⁾	1,543.9	18.2 %	1,316.7	18.4 %	1,230.7	20.4 %	1,334.2	22.6 %	1,603.6	27.8 %
Bermuda										
			 							