FINAL

Bloomberg Transcript

Q2 2021 Earnings Call

Company Participants

- Jim Williamson, EVP and Chief Operating Officer
- John Levenson, Head of Investor Relations
- Juan Andrade, President and Chief Executive Officer
- Mark Kociancic, President and Chief Financial Officer
- Mike Karmilowicz, President & Chief Executive Officer of Insurance

Other Participants

- Elyse Greenspan, Analyst
- Josh Shanker, Analyst
- Meyer Shields, Analyst
- Michael Phillips, Analyst
- Philip Stefano, Analyst

Presentation

Operator

Welcome to the Everest Re Group Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) I would now like to turn the call over to Jon Levenson, Head of Investor Relations.

John Levenson

Good morning, and welcome to the Everest Re Group Limited 2021 first-quarter earnings conference call. The Everest Executives leading today's call are Juan Andrade, President and Chief Executive Officer; Mark Kociancic, Executive Vice President and Chief Financial Officer. We are also joined by other members of the Everest management team. Before we begin, I will preface the comments on today's call by noting that Everest 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 these filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial supplement.

With that, I turn the call over to Juan Andrade.

Juan Andrade {BIO 16371272 <GO>}

Thank you, John. Good morning everyone, and thank you for joining the call. Everest delivered an outstanding second quarter with strong growth and excellent underwriting and investment performance. We set multiple records for our company on both the top and bottom lines. These results serve as the foundation for our exceptional net income result of over $1 billion through the first half of 2021 and there are another important step towards achieving our three year strategic plan objectives and the delivery of superior results to our shareholders.

Everest achieved an annualized total shareholder return of 22.5% through the first half of 2021 while exceeding our three year strategic plan target of 13%. We capitalized on market opportunities to expand our franchises in both reinsurance and insurance driven by relentless execution and the strength of our value proposition to our clients and brokers. Disciplined underwriting drove strong profitability in both reinsurance and insurance in our investment return was a quarterly record for the company.

The standout performance this quarter demonstrate the progress we have made in executing our strategy and the quality of Everest diversified earnings.

As I discussed at our Investor Day in June, our strategy has three building blocks. First is building our underwriting franchises. We are growing our Specialty P&C Insurance platform while expanding its margins. We are, solidifying our leadership position in global P&C reinsurance while we are growing and diversifying this business. Our investment portfolio is a core tool to generate solid returns and we're optimizing the portfolio while sharpening our strategy. Second, we continuously pursue operational excellence this starts with underwriting discipline, supported by system of management oversight and checks and balances beyond underwriting, we are transforming the operating model of the company to achieve greater scalability over time. We are also optimizing capital within our underwriting and investment portfolios. Capital is valued and respected. We are using the most efficient sources of underwriting capital from the capital markets including the ILS investors. In our industry those who execute best win. We're leveraging our flat agile organization to deliver best in class service and risk solutions to our brokers and customers. They routinely side our responsiveness and capabilities as a key reason why they choose to do more business with Everest.

Finally, ESG principles are core of the Everest. This includes focusing on the culture of our company. Culture is one of our key differentiators and it is one of the reasons we can attract and keep top talent. Our culture fuels our success by helping our team be the best it can possibly be. We're investing in the talent of the organization as well as the diversity of our team. At Everest, we have three drivers of earnings. The first driver is about building a high-quality specialty commercial P&C insure the run underwriting excellence and a compelling value proposition. We are embedding data and analytics across the organization, enabling more effective pricing and decision-making, this means we make better underwriting decisions at improved loss ratios.

We are improving our claims outcomes while delivering excellent service to our clients. And we're focusing our distribution efforts to be more sales and results oriented. Our second driver of earnings is average leading global P&C reinsurance platform. We enjoyed a leading market position of a fully scaled platform and we are focused on continuing to grow and optimize our reinsurance business. We are executing an underwriting transformation by improving operational oversight, governance and controls. Our Reinsurance Division is entrepreneurial and nimble, we will maintain it within a framework of pricing, reserving and process discipline. We're further diversifying into higher margin opportunities. And finally, we're expanding our risk financing by further partnering with capital markets and ILS investors.

The third core driver of earnings is the investment portfolio. We have a high quality portfolio and we're focused on the efficient use of capital. The successful execution of our strategies in all three drivers of earnings is clearly evident in our results. I will now discuss our Group Reinsurance and Insurance First Quarter 2021 results.

Starting with the Group results, we grew gross written premiums by 35% and net written premiums by 39%. Our growth was broad and diversified, stemming from one increased exposures and new business opportunities as the US economy recovers. Two, continued double-digit rate increases three expanded shares on attractive renewals and four, strong renewal retention. The combined ratio was 89.3 % and eight point improvement year-over-year. The attritional combined ratio was 87.6% almost a full point, better than prior year with both segments expanding margins. We generated $274 million an underwriting profit compared to 51 million in the second quarter last year. Underwriting profitability remains at the core in everything we do. Net investment income was simply outstanding at $407 million compared to $38 million in the prior year second quarter.

These strong operating results led to a net income for the quarter of $680 million resulting in an annualized return on equity of over 28%. Gross written premiums and reinsurance were up 40% over the second quarter of 2020, we are pleased with the ongoing execution of our 2021 plan. This growth was broad-based in the areas we discussed during our Investor Day as attractive. We achieved this growth while also coming off or reducing shares are less attractive business. We drove continued targeted growth in property CAT which we achieved while lowering our PMLs in peak zones, thus reducing expected volatility and improving risk adjusted economics.

Much of our growth came from our core trading partners that are looking to grow with Everest because of our strong ratings and balance sheet, significant capacity and the ability to right across all lines. The attritional combined ratio ex-COVID 19 pandemic impacts was 86.1 for the quarter, a 60 basis point improvement year-over-year, resulting from our continued focus on loss and expense management. We see risk adjusted returns expanding in almost all treaties and classes of business globally. We're also benefiting from investments in data and analytics. As you can see in our results, our focused actions, improve the quality and profitability of the book.

We are writing a more balanced portfolio with improved economics at an appropriate level of risk. We have achieved improved portfolio economics across all of our 2021 property renewal dates. We improved in every dimension, we increased topline, increased margin and achieve higher ROEs. In casualty and professional lines primary rate increases continue to outpace expected loss trends. Jim Williamson is available to provide additional details during the Q&A. Our insurance division continued its strong performance with excellent growth and underwriting results. We continued to expand margins as we execute our strategy. We wrote over $1 billion in gross written premiums for the first time in a quarter. This represents 25 percent growth year-over-year or 30% growth excluding workers' compensation. This growth is driven by disciplined cycle management, new business opportunities, continued double-digit rate increases and strong renewal retention on existing business. We're also starting to see a steady improvement in overall economic activity. The growth was well diversified and target classes of business where market conditions are prime for profitable growth, including specialty casualty, professional liability, property, transactional liability and trade credit and political risk. We are pleased with this diversification as it is a core tenet of our strategy.

We also delivered strong underwriting results with a 93.5% combined ratio. A 10 point improvement over the same period last year, which was impacted by COVID. The underlying performance was also excellent with a 92.1 attritional combined ratio, a 1.6% improvement over last year and almost 4 points better than the second quarter of 2019. Renewal rate increases continued to exceed our expectations for loss trend of 14% in the quarter excluding workers' compensation and up 11% including workers' compensation. Rate increases were led by excess casualty up 22%, property up 16%, financial lines up 14% and general liability up 9%. We are building a diversified portfolio, steering our mix towards product lines with better rate adequacy and higher long-term margins. We also continued to manage average limits deployed to mitigate volatility. We are pleased with the progress we have made and the strategic direction and granular portfolio management should continue to possibly impact our results going forward. We continue to thoughtfully manage to workers' compensation line, which now represents 10% of our second quarter premiums, down from 14% year-over-year. While this line remains profitable we have pared back monoline guaranteed cost writings and shifted to more loss sensitive, loss ratable business where we share more risk with our customers with more focus on risk mitigation. Workers' compensation is an area of expertise at Everest and we're monitoring market conditions closely for potential opportunities, but these efforts illustrate our disciplined cycle management. Lastly, our strong position in both the E&S and retail channels continues to give us access to a wide opportunities. Michael Karmilowicz is available to provide additional details during the Q&A.

In summary, Everest had an outstanding second quarter with strong growth and exceptional underwriting and investment performance. We have a vibrant and well diversified reinsurance and insurance businesses with experienced leadership and underwriting teams providing industry-leading solutions to our customers. We have significant momentum as we continue to execute our strategic plan. The company has excellent financial strength top talent and a prudent capital management philosophy. We are focused on sustained profitable growth. A more diversified, targeted and deliberate mix of business and superior risk-adjusted returns. We believe the relentless and disciplined execution of our strategy will result in maximizing shareholder returns. I am confident that Everest future and our ability to deliver on our commitments to customers and shareholders.

Now let me turn the call over to Mark Kociancic for additional details on the financials. Mark.

Mark Kociancic {BIO 17852409 <GO>}

Thank you. Juan, and good morning everyone. Everest reported excellent results for the second quarter of 2021 with robust premium growth, excellent underwriting results and truly outstanding investment returns, I'll provide more detail on these points over the next few minutes. The second quarter of 2021 Everest reported gross written premium of $3.2 billion, representing 35% growth over the same quarter a year ago. By segment, reinsurance grew 40% to $2.1 billion and Insurance reported its first ever $1 billion topline quarter representing 25% growth year-over-year.

Turning to net income for the second quarter Everest reported net income of $680 million resulting in an annualized return on equity of 28%. We also reported net operating income of $587 million equal to operating earnings of $14.63 per share and an annualized operating return on equity of 24.5%. All three of our earnings engines provided meaningful contributions with significant underwriting income from both our reinsurance and insurance franchises capped off by net investment income of $407 million, a record quarterly net investment income result. The underwriting income during the quarter of $274 million reflects Everest disciplined execution of our strategy to grow and expand margins, combined ratio was 89.3% for the quarter compared to 97.5% last year. Catastrophe losses during the quarter, of $45 million or pre-tax and net of reinsurance and reinstatement premiums with $35 million in the reinsurance segment and $10 million in the insurance segment representing additional IBNR provisions for winter storm, Uri. The Reinsurance segment cat loss includes a provision for minor events and preliminary IBNR for the European convective storms of late June.

Finally, I know we have not added to our COVID19 incurred loss provision which remains at $511 million with the vast majority remaining as IBNR. Second quarter results continue to reflect the impact of our underwriting and portfolio management initiatives. Our underlying attritional profitability remained strong during the second quarter excluding the catastrophe losses, reinstatement premiums, prior year development and COVID19 pandemic impact. The attritional loss ratio for the group was 60.3% in the second quarter of 2021 compared to 60% in the second quarter of 2020. The year-to-date attritional loss ratio for the group was 60.5% compared with 60.7% a year ago. The attritional combined ratio for the Group was 87.6% for the second quarter compared to 88.5% for the second quarter of 2020 representing a 0.9 point improvement.

Year-to-date attritional combined ratio for the Group was 87.4%, compared with 89.1% a year ago, representing a 1.7 point improvement. Our insurance the attritional loss ratio improved to 64.2% in the second quarter of 2021 compared with 65.1% year-over-year. The attritional combined ratio for insurance improved to 92.1% as compared to 93.7% for the same period of time. Our US Insurance business, which makes up the majority of our insurance business overall continues to run very well with an attritional combined ratio in the high '80s. For reinsurance the second quarter 2021 attritional loss ratio was 59.1% compared with 58.2% a year ago. The increase was due to a mix of business shift and more prudent initial loss picks. The attritional combined ratio was 86.1% for the second quarter, down from 86.7% for the second quarter of 2020. The group commission ratio of 21.8% for the second quarter of 2021 was down 100 basis points from 22.8% reported in Q2 2020 largely due to changes in the composition of our business mix. The expense ratio remained low over 5.5% for the quarter as compared with 5.8% reported a year ago and the expense ratio continues to benefit with our continued focus on expense management and the increased scale and efficiency of our operating model. For the second quarter investment income had an exceptional result of $407 million as compared to $38 million for Q2 2020. Alternative investments accounted for $266 million of income during the second quarter, largely due to increases in the reported net asset values of our diversified limited partnership investments and as a reminder, we report our LP income one quarter in arrears. And in 2020 the market and the world we're starting to experience the impact of COVID 19 while so far in 2021 results continue to benefit from economic and financial markets recovery. Invested assets at the end of the second quarter totaled $27.1 billion compared to $21.6 billion at the end of Q2 2020 and 25.5 billion at year-end 2020. Approximately 80% of our invested assets are comprised of a well diversified high credit quality bond portfolio with a duration of 3.6 years. The remaining investments are allocated to equities and other investment assets, which include private equity investments, cash and short-term investments. Our effective tax rate on operating income for the second quarter of 2021 was 9.3% and 10.6% on net income, this was a favorable variance versus our estimated tax rate of approximately 11% based on the geographic distribution of income. For the first 6 months of 2021 Everest generated a record 1.6 billion of operating cash flow compared to $1.1 billion for the first half of 2020 reflecting the strength of our premium growth year-over-year.

Our balance sheet remains very strong with a capital structure that allows for the efficient deployment of capital and ample capacity to continue to execute on market opportunities. Shareholders' equity was 10.4 billion at the end of the second quarter 2021 compared with 9.7 billion at year-end 2020. We repurchased $16.8 million of shares in the quarter. Our debt leverage ratio is 13.3% or approximately 15.5%, inclusive of our $310 million short-term loans from the Federal Home Loan Bank. Book value per share was $260.32 at the end of the second quarter compared with $241.57 cents at the end of Q1 2021 reflecting dividend adjusted growth of 8.4% and I'll close with one final number. The total shareholder return or TSR target that we detailed in our Investor Day a few weeks ago. Recall that TSR is defined as the annual growth in book value per share, excluding unrealized gains and losses on fixed maturity investments, plus dividends per share and for the year to date the TSR number is 22.5% annualized.

And with that, I'll now turn it back to John.

John Levenson

Thanks, Mark. Operator, we are now ready to open the line for questions. We do ask that you please limit your questions to two or one question, plus one follow-up and then rejoin the queue if you have any remaining questions.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Elyse Greenspan from Wells Fargo. Your line is open, please ask your question.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, thanks, good morning. My first question was on the reinsurance underlying loss ratio. So, you guys mentioned that the increase in the quarter reflects business mix and more prudent and loss picks, I was hoping to just get some more color there. And then how should we think about the loss ratio kind of trending forward from here.

A - Juan Andrade {BIO 16371272 <GO>}

Yeah, thanks. Elyse. This is Juan. So let me start out with that and then I'll ask Jim Williamson to add some additional color specific to your question on the loss ratio. Now, I would start off by saying that Reinsurance reported I think a very strong 86.1 attritional combined ratio in the quarter and 85.8 year to date and we achieved at the underwriting discipline, strong market conditions and a prudent loss picks selection. You've heard us talk about our strategy and the disciplines, we're implementing that squarely focused on continuing to drive world-class margins. But with that, let me ask Jim to give you some additional color on what drove the loss ratio.

A - Jim Williamson {BIO 19072526 <GO>}

Yes, sure. And thanks for the question. Elyse, I mean the first thing I would say, and this is very consistent with the way we've described our value proposition and our strength in the market and that's that we're very nimble in this market, we have portfolios and markets around the world across many lines of business and we look to trade in into those various areas to maximize our total economic returns and that was certainly the case in the second quarter. And you see it in terms of some of our line of business growth where areas like pro rata casualty, were up 64% just incredible results we saw a lot of great opportunities to expand participation with some of our core partners and we took advantage of that. Conversely property cat XOL, which is a line of business where you have a big appetite for, it's a very, very attractive line grew at 17%. So, an excellent result. But obviously lower growth and that's aligned with a very low attritional loss ratio and so mix is absolutely going to play a factor there and it's going to bounce around from quarter to quarter depending on where we see opportunities emerging in the market. So those trades very successful outcome for our company.

And then the next piece around loss picks and again a lot of consistency from us on this topic is we set very prudent loss picks and in particular, if you think about the environment we're trading in with inflation, social inflation, the reopening from COVID, there's a lot of uncertainty in the market in, particularly in some of the longer-tail lines like casualty pro rata where we're growing, our view is we really need to see the results of rate change and the results of underwriting actions by our seems to play through and mature in our book. And so you will expect, as we see those results come through we'll certainly be sharing those results, but it will take time given the nature of our business for that to prove itself.

A - Juan Andrade {BIO 16371272 <GO>}

Elyse and maybe if I could jump back, and this is Juan and just add a couple of quick things, one, I think we also recognize that by growing casualty pro rata, we're also seeing lower volatility then from the growth in Property cat XOL but also keep in mind, what's going on in the environment. So I think this goes directly to your question on expected margin and we are confident based on all our metrics that we're looking at that, we are building future expected margin not only reinsurance, but also an insurance. We're still seeing rate exceeding expected loss cost. From my prepared remarks, you heard about the improvement in economics that we have seen across the board in our renewals last year and this year, particularly in reinsurance. We're basically increasing our margins while lowering our exposure. And again, I point you to the fact that an 85 combined ratio for the year on an attritional basis for reinsurance is excellent.

Q - Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. And then my second question is on capital at your Investor Day in June you pointed to booking to increase your leverage as you work on your three year financial plan. So as we think about the leverage going up, I just want to get a better sense of timing. As you think about adding to your leverage, and as part of the answer to that question, would you guys consider adding to leverage to support capital return via potential share repurchases or would it just be coinciding with when you thought you needed more capital to support the strong premium growth.

A - Mark Kociancic {BIO 17852409 <GO>}

Hi, Elyse, it's Mark. Just a couple of points on that. So I think the primary focus of the capital structure is really to support the organic growth of the business and so we'd look at it in context of supporting the growth and also from an opportunistic point of view of taking advantage of good market conditions to issue that type of debt. So I do foresee that happening over the course of this three year plan I think it makes a lot of sense. Having said that, we are still committed to active capital management so that includes share buybacks, but that would be, what I would call a secondary consideration. It doesn't mean we can't do it simultaneously but the first part is really all about franchise expansion through organic growth.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thanks for the color.

Operator

Your next question comes from the line of Michael Phillips from Morgan Stanley, your line is open, please ask your question.

Q - Michael Phillips {BIO 21023048 <GO>}

Thanks, good morning. I wanted to start with comp Juan, I heard your comments in the opening on how you're making some changes in comp and more loss sensitive accounts. But I guess you know there's been a lot to talk of maybe we're starting to see a change in pricing there. I'm not so sure if that's materializing for you guys. I hope you maybe you can give some color on, specifically on California. If you back out the... the COVID impact of California, it looks like the current, the current accident years are still trending pretty well, pretty good margin there. So when we, guys, just curious what you're seeing there and if that's, if that's the case, should we expect to see a turn in the market, especially for your accounts that others are talking about.

A - Juan Andrade {BIO 16371272 <GO>}

Yeah, Mike. Thanks for the question and I'll give you some additional color and ask Mike to also jump in I start by agreeing with you. I mean, our comp business is still very profitable and I stated that also in our prepared remarks, but we are mindful of how we deploy capital and we do see that pricing has flattened in workers' compensation at this point. Actually, in June we saw it go positive for the first time, so we're looking at that closely and see if that's a hardening of things to come. And as I mentioned in my prepared remarks, we'd like to comp business. But we're also smart about how we deploy capital and we're seeing frankly better return opportunities right now in other lines of business, which I quoted in my remarks, where we're seeing significant rate across the board, but we are starting to see not only the flattening. But again, I would point to the fact that in June, we also started to see positive rate across the board, but let me ask Mike Karmilowicz to give you some additional color.

A - Mike Karmilowicz {BIO 6534478 <GO>}

Sure. Thanks, Juan. And thanks for the question. Yeah. As Juan mentioned, this is a perfect example for cycle management and actually really fully focusing on where we see opportunity and we are starting to see that stabilize across across the country, particularly in California. For the first time we think we're starting to see some pockets in green shoots and with exposure both coming on. we are encouraged by where it's going and ultimately, we think that will be prepared to take advantage of that. You also see our slowing down ultimately in our comp, as far as the first quarter over second quarter. We're starting to see some changes there. So we feel that there is going to be some change in the marketplace, particularly in California. Keep in mind too with California, some of the, some of the reports that just came out from some of the organizations around some underlying cost we've noticed too that some of the overall costs that are associated with, with such as reforms on pharmaceutical and other different things California's performed actually better from a loss cost perspective of some of these things. So we think that by end of the year and on next year. Mike. We'll see some of the starting to benefit us and you'll see us go after the business if that opportunity presents itself.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay, great thanks guys, thanks for all the details there. Second question, should we expect to see any uptick on the insurance side on the amount of business you want to. So just net to gross premiums we expect to see that to tick up over the next year.

A - Mike Karmilowicz {BIO 6534478 <GO>}

Sorry, Mike. You cut out. Can you repeat the question. I'm sorry is this better. Can you hear me okay. Yeah.

Q - Michael Phillips {BIO 21023048 <GO>}

Yeah. Okay, good. Insurance net the gross premiums. We expect to see that to tick up over the next year or so.

A - Mike Karmilowicz {BIO 6534478 <GO>}

Look we have, and you know we started a lot of segments over the years, we've been building this out organically. So we particularly trying to hedge ourselves with some of the Reinsurance in some of these clients we do. I think as you continue to see us gain scale we will definitely see the net tick up with to our growth over time. And as we continue to kind of take the lines in the market to use increase, you'll see that happen.

A - Juan Andrade {BIO 16371272 <GO>}

Yeah, Mike, I would add that we're feeling very confident about the underlying book in the insurance division and particularly in this environment with better pricing, better terms, I think you can expect to see some of that going forward.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay, perfect. Thank you, guys.

Operator

Your next question comes from the line of Josh Shanker from Bank of America. Your line is open, please ask your question.

Q - Josh Shanker {BIO 5292022 <GO>}

Yes, thank you. Two questions on reinsurance, and without naming names when you're growing as fast as you're growing, you need to be taking share from somebody else, who are the market participants? Again, without naming names but giving us a sense of what the market looks like who are by choice ceding share to growers like yourself right now would the marketplace looks like that's allowing you to take so much here?

A - Juan Andrade {BIO 16371272 <GO>}

Yeah, sure, Josh. I appreciate the question. So what I would say is, and we've been very consistent about this, we trade with a fairly select number of core partners and that's what's really driving our growth, whether it's in property casualty in markets in the US or around the world and we are absolutely a preferred market for our clients, we're preferred because we're nimble because we're creative, because we distribute authority to our teams, they make decisions, they move quickly and we're benefiting from all of those things. And in this environment. I think for cedents who who are sophisticated about their buying. They are absolutely looking to trade up in terms of the quality of their partners and we benefit from that and so what we're seeing on programs around the world is we are getting increased signings with our core partners because of our broad capabilities, we're also able to trade into deals with core partners that we may not have been on before. And then obviously as they introduce new programs into the market, we're able to participate there as well. And so we find this to be a very favorable competitive environment that way.

Q - Josh Shanker {BIO 5292022 <GO>}

And the second question, if you talk to a number of competitors in the marketplace, they tend to say that that the litigation environment is still come up from the pandemic, the frequency of reported loss is lower than it should be, but everyone's reserving for it with a I'd say that will accelerate as things sort of return to normal and some extent. As a reinsurer obviously, you're one step away from that and you're relying on the reporting of your students to help you frame your own losses. How does the gums up litigation environment inform how you are thinking your loss picks at this point and preparing for that future?

A - Juan Andrade {BIO 16371272 <GO>}

Yeah, it look. That's a very key point to make and it's an important trend and I think folks who expected some of the downturn and frequency of some of these losses during the period of COVID who thought that that would continue. I think that's a significant mistake. And our view has never been that we should react to that temporary environment and so we've held our loss pick study which is sort of where we started the Q&A today. And so that prudence really puts us in a strong position, as things start to unwind, and you do see a little bit more activity in terms of litigation and things of that nature, we don't have to react the other way either. So that prudence that consistency benefits us when you see these very short-term changes in loss trend, we have to really be picking our losses for the long-term trends that we're experiencing and those trends have not ceased just because of the temporary slowdown due to COVID.

Q - Josh Shanker {BIO 5292022 <GO>}

Have you seen any data that suggests this temporary slowdown as a person?

A - Juan Andrade {BIO 16371272 <GO>}

No, look, I mean in terms of the Reinsurance business to the point that you made in your question the lag of reporting in terms of hard data, it's certainly too early to tell, but obviously we're in constant communications with our cedents. And I would say folks are starting to see some of the results of the reopening we're certainly seeing it in areas like auto for example but that's in the realm of anecdote at this point, Josh. And, Josh, I would, this is Juan I would give you some color on the primary side where you are starting to see frequency come back to more normalized lever particularly around commercial auto general liability et cetera et cetera. So this goes back to the theory that we have since last year, which is the shutdowns and the lockdowns in the COVID pandemic did lead to a temporary change in frequency patterns maybe even severity patterns. But that's not going to be a steady state, I think you will see normalized frequency normalized severity come back.

Q - Josh Shanker {BIO 5292022 <GO>}

Thank for the answers.

A - Juan Andrade {BIO 16371272 <GO>}

Thanks Josh.

Operator

Your next question comes from the line of Meyer Shields from KBW. Your line is open, please ask your question.

Q - Meyer Shields {BIO 4281064 <GO>}

Great, thank you. Good morning. I'm asking this question not so much on the reserving side but from the underwriting side, the property pro rata book is growing. And what we've seen recently is obviously enormous volatility and loss trends for property lines, can you give us a sense in terms of how rapidly your cedents can can't respond to higher property losses with their pricing and underwriting?

A - Juan Andrade {BIO 16371272 <GO>}

Yeah, thanks for the question Meyer, what I would say is, you really have to break it down into its components and I think there are some areas, particularly in the commercial lines, which is really where our book is focused they can respond pretty quickly. And it's, it's a combination of obviously rate which we're seeing very strongly in the market, it's a combination of terms, conditions, attachment points, limits, our cedents and because we do partner with very high quality primary underwriters, they are absolutely aggressively addressing changing conditions in the underlying property market. And so I think it actually happens reasonably quickly. But again, and I hate to sound like a broken record on this, is why we do maintain prudency in our loss picks, because some of these things take time to unfold. And we want to make sure that they get proven out. The other piece that's important. When we think about our own profitability in property pro rata is obviously loss pick is critical, but we also look at things like ceding commission, and so we've seen improvements in terms there and that allows us to get to a place where the overall economics are very attractive and which is why we're willing to grow the line.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's helpful. And my next question with on ceding commissions. Are you seeing the same success in casualty you are in property with regard to I guess declining ceding commissions.

A - Juan Andrade {BIO 16371272 <GO>}

Well, it's obviously a very different market and you hear a lot of the market commentary and you heard it from us. Regarding the rate changes that are happening in a lot of the casualty lines here in the US and around the world. And so to the extent that cedents believe they're creating margin they're obviously going to be seeking increased ceding commissions. We've seen a little bit of that activity. It's very modest at this point and I think for cedents who think about their reinsurers as long-term partners which really describes our core partners, the ones that we've grown with over the last couple of years -- I think they're very balanced about that. And so, while there is some upward pressure and you definitely see people seeking improved ceding commissions in the marketplace. It hasn't had a tremendous impact on our casualty business, we still see great opportunities to write new business, and to expand lines in that market and we expect that to continue.

Q - Meyer Shields {BIO 4281064 <GO>}

Perfect, thank you so much.

Operator

(Operator Instructions) Your next question comes from the line of Phil Stefano from Deutsche Bank. Your line is open, please ask your question.

Q - Philip Stefano {BIO 20346322 <GO>}

Yeah, thanks and good morning of focused more so on the insurance side of how I was hoping you could help give us an impression of what inning we're in the business mix change benefit to the attritional loss ratio. I mean part of the question is that there has been a reticence to recognize the benefit of rate over trend in terms of conditions and et cetera. And I'm wondering if the attritional improvement slow down at some point once the business mix changes played out. But the recognition of the rate versus trend in other industry trends has not come through yet.

A - Juan Andrade {BIO 16371272 <GO>}

Yeah. Phil, this is Juan, and good morning. Also, let me start out -- please recall in, I think it was last quarter's earnings call where we talked about all the levers that we're using to improve the profitability and the margins in our insurance division, but also within reinsurance. Right. So it's not just really about mix, it's also about the granular detail of managing the portfolio of making tough decisions on what account you stay on, where do you want to grow and being very purposeful about shaping the portfolio and being able to grow it. If I look back at what we have been able to do in the insurance Division over the last 18 months, the numbers are pretty clear we have been able to lower the attritional combined ratio by about 6 points over that period of time. Since, really the end of 2019 and a lot of it has been these very presumptive actions on the lines of business that we choose to operate in, not operate in etc. The example workers' compensation that we talked about earlier to Mike's question I think is a perfect example of that. Right. So that gives you a sense that while. Yes, we have been prudent in our loss picks because we view the environment as I said earlier, a temporary environment because of COVID with the frequency changes that we saw in that time, the reality is, there's a lot of work, beyond that and beyond mix that helps us to shape the portfolio going forward. But let me ask Mike Karm, to give you a bit of additional yes, sure.

A - Mike Karmilowicz {BIO 6534478 <GO>}

Thanks, Juan. Yes. So I think the short answer is that we still think we're in early innings. We started a lot of these businesses, we've seen obviously some of that improvement. Come through, and again this is dependent on what's happening in the marketplace. So as you can see, to see opportunity, and we see the opportunity get scale and continue to expand our footprint, I think you'll see some of this continue to play through over time. But again, we feel we're making great progress, but we're still in early innings.

A - Juan Andrade {BIO 16371272 <GO>}

Phil. Thank you. In the last comment I would make to that is, as I said in my prepared remarks, we are seeing rate very comfortably ahead of trend particularly in insurance. So when you think about the expected margin that's being built in addition to the actions that I described on the underwriting side, I think that gives you a sense of where this could be going.

A - Mike Karmilowicz {BIO 6534478 <GO>}

And I think why it's a well for the last thing I'd say is we continue to hold the line on the loss picks for good reason, because we recognize it over time so I think you're seeing us do the prudent thing and do this in a long-term view.

Q - Philip Stefano {BIO 20346322 <GO>}

(inaudible) Thank you. I appreciate it. And so the second question, looking more on the capital management side of the house. And so the commentary, or at least some of the commentary has been around the fact that, look, we can grow organically very quickly, but that doesn't mean we can't repurchase shares concurrently with that growth. We've seen some other Bermuda plays the bit more active in the repurchase momentum just given where valuations are and maybe you can help us think through uses of capital, given where valuations are and maybe to put it more bluntly, why is now not a good time to really step on the gas with repurchases just given where the stock is trading?

A - Mike Karmilowicz {BIO 6534478 <GO>}

Well, Phil, I mean it's a constant question for us because, look, step one is always supporting the franchise expansion, we're in the best market in almost a generation here. So we are privileging that growth you're seeing very strong top line growth on both segments Reinsurance and Insurance. Having said that capital management. We've been active. We could certainly be more active. I don't see any hesitation on our side to do that. I think you will see that in the future and we can complete both sides of that equation grow strongly without any constraints and manage our capital even more efficiently.

Q - Philip Stefano {BIO 20346322 <GO>}

All right. Well, looking forward to seeing it. Thank you.

A - Juan Andrade {BIO 16371272 <GO>}

Thanks, Phil.

Operator

There are no further question at this time, I will hand the call over to the management.

A - Juan Andrade {BIO 16371272 <GO>}

Great, thank you. Everest is a growing and leading global reinsurance and insurance company with a seasoned leadership team, broadly diversified earnings streams and a clear strategy to drive growth and expand margins while reducing volatility. Our goal is simple, drive superior shareholder returns. We have the platform, the financial strength, the talent, the focus and the commitment to succeed. Thank you for your time with us this quarter and for your support of our company.

Operator

This concludes today's conference call. Thank you for participating.