Q3 2013 Earnings Call

Company Participants

- Beth Farrell, VP, IR
- Craig Howie, EVP and CFO
- Dom Addesso, President
- Joe Taranto, Chairman and CEO

Other Participants

- Amit Kumar, Analyst
- Gregory Locraft, Analyst
- Ian Gutterman, Analyst
- Jay Gelb, Analyst
- Joshua Shanker, Analyst
- Michael Nannizzi, Analyst
- Vinay Misquith, Analyst

Presentation

Operator

Good day and welcome to the Everest Re Group, Ltd. Third Quarter 2013 earnings call. As a reminder, today's conference is being recorded.

For opening remarks and introductions, I would like to turn the conference over to Beth Farrell, Vice President of Investor Relations. Please go ahead.

Beth Farrell {BIO 19732216 <GO>}

Thank you, Evelyn. Good morning. Welcome to Everest Re Group's Third Quarter 2013 earnings conference call. On the call with me today are Joe Taranto, the Company's Chairman and Chief Executive Officer; Dom Addesso, our President; and Craig Howie, our Chief Financial Officer.

Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to forward-looking statements. In that regard, I note that statements made during today's call which are forward-looking in nature, such as statements about projections, estimates, expectations, and the like, are subject to various risks. As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements. Let me turn the call over to Joe.

Joe Taranto {BIO 1495653 <GO>}

Thanks, Beth. Good morning.

I am extremely pleased with our results for the first nine months. Our worldwide gross written premium has increased by 24%. Our worldwide reinsurance premium increased by 26%, and our insurance premium increased by 18%. More important, we've been able to meaningfully increase our expected margins, lower our attritional combined by almost 5 points over 2012, and maintain excellent ROEs on the business written.

This has been accomplished in a market where industry capacity has been increasing, which highlights what a terrific job our team has done. Some of the reasons we've accomplished what we have include -

First, being nimble. A good example of this was increasing our pro-rata Florida business as that sector continued to improve from higher insurance rates as well as lower excess of loss reinsurance costs.

Second, offering new products. A good example of this is our Purple product in property catastrophe business; as well as the formation of our specialty reinsurance products unit, which focuses on one-off, unique deals.

Third, benefiting from significant insurance rate increases in workers' compensation, general liability, Florida homeowners, and other lines.

Fourth, using the advantages provided by our established international platform. These advantages include great client relationships that have been cultivated over many years of trading, terrific financial ratings, a nimble culture, and a very efficient expense structure.

I want to thank our team, which I believe is the best team in the business, for doing such a terrific job.

Moving on to earnings, we have had $895 million of net income for the nine months, for an annualized ROE of 19%. Our combined ratio is 85.6%, which includes 4.8 points of catastrophe losses. Our expense ratio remains one of the lowest in the business.

Book value per share has grown to over $140 per share. Through nine months, we have increased shareholder value by 8.2% despite falling bond prices and catastrophes. Nine-month earnings were very strong, with underwriting income hitting an all-time high of $0.5 billion, and this was despite $153 million of catastrophe losses, net of reinstatement premiums; and booking our crop business to a loss, which Dom will cover in his report.

In fact, our underwriting income has been so profitable relative to our plan that we had to adjust our yearly expected tax rate in the Third Quarter. Craig will provide more color on this shortly.

In the last nine months, we returned $620 million to shareholders between dividends and stock repurchases. Buying back $550 million of stock, which represents 8.3% of the beginning of the year outstanding shares, underscores our confidence in the future. We expect to continue to generate healthy profits, more than I can see putting to work on our business at this point. Accordingly, we expect to continue to give back to shareholders through buyback and dividends.

In summary, I am very proud of our performance through the first nine months. We have a great deal of momentum at Everest that will continue to benefit us, top line and bottom line, into 2014. We have never been positioned better, never been stronger.

Dom will now go through the operational review, and then Craig will take you through the financial highlights.

Dom Addesso {BIO 1428096 <GO>}

Thank you, Joe. Good morning.

As Joe highlighted, we had a terrific nine months. It was bolstered by another good quarter of underwriting results. The operating results were off the trend of recent quarters, due to investment income and an income tax adjustment to the first; and Second Quarters' estimated taxes as a result of better than planned cat losses year to date -- essentially resulting in a cumulative adjustment, all hitting in the Third Quarter.

Investment income was off due to lower income from limited partnerships. We expect that to return to normal patterns over the future quarters. However, core underwriting results for the quarter remained strong, with an underwriting gain of $222 million, excluding cats. This result is consistent with prior quarters this year and well above the prior year's quarterly results.

Examining results by segment, you will note that in the reinsurance segments, gross premiums written are up 25% for the year and 24% for the quarter. Premiums are up in each of the reinsurance segments, but the most dramatic growth was in the US segment. This a result of new product initiatives, as well as new Florida quota shares and additional cat writings outside our peak zones.

The additional cat business is a strategy deployed globally and has provided growth in all segments. The diversification benefit to our portfolio provides for margin expansion without increased peak zone PMLs and only a modest 1.5 point rise in our annual expected cat load.

On the product front, Joe has already referenced our pillar product, which is a part of the aforementioned deployment of additional cat aggregate. In addition, we have expanded our appetite in the credit space by supporting financial guarantors and mortgage portfolios.

Although relatively small, some interesting residual value opportunities are also areas that have provided growth. And finally in terms of growth, our casualty lines are also benefiting from some new opportunity as well as some lift in rates.

All in all, our reinsurance portfolio is better balanced, and our teams at each of our locales are finding unique opportunities that are accretive to the bottom line. The marketplace is increasingly seeking to align with firms of our size and talent, and we are seeing the benefits of our financial strength and varied risk appetite.

All of these efforts have produced a combined ratio for all reinsurance of 82.2% for the nine months compared with 84.6% last year, despite cat losses increasing to 6 points in 2013 versus 3.5 points in 2012. This highlights the benefits of increased writings into a more diversified footprint, thereby providing the ability to absorb cat losses while maintaining solid profitability.

The Cat losses in the quarter included $20 million from Toronto floods and $20 million from German hail, both Third Quarter events. In addition, we experienced $35 million of development on the Second Quarter flood in Calgary. This event occurred very late in the Second Quarter. It was not until we were well into the Third Quarter that industry loss estimates doubled, and reports came in from clients that caused us to increase our estimates.

The magnitude of these losses to these specific regions would suggest that rates there will likely improve. These events present opportunities for us to consider expanding our risk appetite as we continually balance and broaden our portfolio. This might mean that as other markets get weaker, we contract. However, the addition of Mt. Logan will allow us to continue in the market and broaden our reach. While still relatively small, we are expecting our additional capital raise from Mt. Logan to meet or possibly even exceed our goal for the year-end.

Turning to the insurance operations, the results for the nine months remain profitable at a 98.8% combined ratio or a 97.5% on an attritional basis. This compares to a 102.8% attritional combined ratio in the prior year.

The results for the most recent quarter, although at a breakeven underwriting result, slipped a bit from the Second Quarter due in part to a more conservative loss estimate on the crop portfolio. In this book, approximately 39% is for the corn crop. Although corn yields are expected to be very good, the current commodity price is 20%-plus down from the base price. Depending on yields, this may or may not produce a loss on the corn crop. Other crops, mainly soy, are profitable.

We have elected to increase our loss pick to take into account the decline in the price of corn. As a result, the entire crop book had a slight loss for the quarter. The cumulative effect of this adjustment lowered the total result for the entire insurance segment to a breakeven for the quarter.

Our other businesses within the insurance segment are doing well. California workers' comp remains profitable, and the nonstandard auto book is now solidly in the black, with the increased scale provided by our new business venture there. Both of these classes of business were the main drivers behind the 18% increase in year-to-date premiums. The California workers' comp book continues to realize double-digit rate increases for the fourth straight year, well in excess of trend.

The other classes, which include professional liability, accident and health stop-loss, general casualty, environmental liability, and property and excess and surplus lines are all profitable. Growth has been the strongest in casualty and the E&S property as rate increases in these sectors make this more appealing to grow. This insurance strategy provides ballast to our overall results. When reinsurance rates are weakening, we can deploy capacity from our insurance platform.

Overall, as you may have recognized over the past several quarters, we have a number of new initiatives and changes to our portfolio. The results of the past nine months are a consequence of many of those efforts. And going forward, as the growth in premium written flows into earned premium, future quarters should benefit from continued improvement in the attritional loss ratio.

We will continue to adapt and move into the markets that present the greatest opportunities and withdraw from those that are weak. Our structure and culture allow us to execute in this way, and you should continue to expect that from us.

Thank you. And Craig will now give you some further detail on the financials.

Craig Howie {BIO 17579923 <GO>}

Thank you, Dom. Good morning, everyone. We are pleased to report that Everest had another very strong quarter of earnings, with net income of $235 million or $4.81 per diluted common share. This compares to net income of $251 million or $4.82 per share for the Third Quarter of 2012.

Net income includes realized capital gains and losses. On a year-to-date basis, net income was $895 million or $17.94 per share, compared to $770 million or $14.61 per share in 2012. The 2013 result represents an annualized return on equity of 19%.

Operating income year to date was $759 million or $15.22 per share. This represents a 19% increase over operating income of $12.78 per share last year. These results were driven by a $147 million increase in underwriting income, representing a 42% increase year over year.

As you just heard from Joe and Dom, there are a number of strategic initiatives that are driving these improved results. This increase in underwriting income was partially offset by higher income taxes and lower net investment income compared to the first nine months of 2012.

The results continue to reflect the improvement in the overall current-year attritional combined ratio, which has declined almost 5 points, from 86.0% to 81.1% on a year-to-date basis. This measure excludes the impact of catastrophes, reinstatement premiums, and prior-period loss development.

The total reinsurance attritional combined ratio was 76.9% for the first nine months of 2013 compared to 81.8% in the prior year. The insurance segment attritional combined ratio was 97.5% year to date compared to 102.8% in the prior year.

All segments reported increases in premium volume for the year, and all segments reported underwriting gains on a year-to-date basis. Total reinsurance reported an underwriting gain of $142 million for the quarter compared to a $157 million underwriting gain last year.

For the first nine months of 2013, total reinsurance reported an underwriting gain of $487 million compared to a $376 million gain last year. The insurance segment reported a slight underwriting loss of $208,000 for the quarter compared to a loss of $28 million last year.

On a year-to-date basis the insurance segment reported an underwriting gain of $9 million compared to a loss of $23 million in 2012. The 2013 results reflected a crop loss of $10 million for the year, primarily due to the seasonality of crop premiums, but also included estimates to reflect the decline in the corn commodity prices.

The overall underwriting gain for the Group was $147 million for the quarter compared to an underwriting gain of $129 million for the same period last year. On a year-to-date basis, the underwriting gain was $500 million compared to a gain of $353 million in 2012.

These results reflect $75 million of current-year catastrophe losses in the Third Quarter of 2013 compared to $25 million of cats during the Third Quarter of 2012. On a year-to-date basis, catastrophe losses were $165 million in 2013 compared to $85 million in 2012.

We added an additional segment to our financial supplement this quarter for the activity related to Mt. Logan Re. You also will notice the noncontrolling interests in Mt. Logan Re's operating results and equity are presented as separate captions in the Company's financial statements.

Our reported combined ratio was 85.6% for the first nine months of 2013 compared to 88.4% in 2012. For investments, pretax investment income was $128 million for the quarter and $422 million year to date on our $16 billion investment portfolio.

Both the quarter and year-to-date investment income amounts are below last year. This result is primarily driven by the low interest rate environment and the cash flow used for share buybacks and the redemption of debt. The redemption of our 6.2% debt, which occurred earlier this year, reduced interest expense by over $5 million this quarter.

The first nine months reflected $136 million of net after-tax realized capital gains compared to $97 million last year. These gains are mainly attributable to fair value adjustments on the equity portfolio. Over the past few years, we have shifted over $1 billion of our investment portfolio from fixed income to equity securities, effectively trading investment income for capital gains. Although these gains are included in net income, they are not reflected in operating income.

On income taxes, the increase in the effective tax rate is primarily driven by lower than planned catastrophe losses in the quarter, resulting in higher than expected taxable income for the year. The year-to-date operating income effective tax rate increased from 12.3% to 15%. This resulted in a 21.7% tax rate, or a $24 million adjustment for the quarter, in order to catch up on a year-to-date basis. The 15% effective tax rate for the year is in line with our expectations in a year with lower than planned cat losses.

Strong cash flow continues, with operating cash flows of $776 million for the first nine months of 2013 compared to $479 million in 2012. This is primarily due to lower catastrophe loss payments.

Shareholders' equity at the end of the quarter was $6.7 billion, relatively flat compared to the balance at year-end 2012. This is after taking into account capital return from $550 million of share buybacks and $71 million of dividends paid in the first nine months of 2013. It also reflects a $348 million decline in the value in the bond portfolio, mainly due to the rise in interest rates this year.

Book value per share increased 7% to $140.20 from $130.96 at year-end 2012. Our continued strong capital balance positions us well for potential business opportunities.

Thank you, and now I'll turn it back to Beth for Q&A.

Beth Farrell {BIO 19732216 <GO>}

Yes, Evelyn, we are now prepared to take questions.

Questions And Answers

Operator

Thank you. [Operator Instructions] Gregory Locraft, Morgan Stanley.

Q - Gregory Locraft {BIO 16836287 <GO>}

To ask about the tax rate. Craig, I think you had mentioned -- but just going forward from here, how should we model the Corporate rate?

A - Craig Howie {BIO 17579923 <GO>}

Greg, that's a good question, because what happens is, from an overall standpoint historically, we have planned the majority of our catastrophe losses in the Third Quarter. So from an accounting standpoint, you have to calculate your effective tax rate on an annualized basis. And given that you are calculating on an annualized basis, we still planned for a substantial amount of our catastrophes to happen in that Third Quarter.

When they didn't happen, of course, we had more income than was expected for the year, and therefore a higher tax rate. So on a normalized basis, when we plan for our catastrophes, we would have expected a rate somewhere between 12% and 13%. That rate will be in this 15% range for lower than planned catastrophes for the year.

Q - Gregory Locraft {BIO 16836287 <GO>}

Okay, that's very clear -- Go ahead, I'm sorry?

A - Craig Howie {BIO 17579923 <GO>}

If we have no cats in a given year, that rate could go up from the 15% as well.

Q - Gregory Locraft {BIO 16836287 <GO>}

Okay. And effectively, the way you book it is First Quarter, Second Quarter is kind of the normal -- you plan on normalized. And then after you get through the third, you have a pretty good feel as to what the year is, and at that point you -- like this quarter, you then will adjust accordingly?

A - Craig Howie {BIO 17579923 <GO>}

Yes. That is correct, Greg, but just to give you an idea, we still have planned catastrophes in the Fourth Quarter. And if those catastrophes do not happen in the Fourth Quarter, the tax rate could even be higher than the 15% that we have now.

Q - Gregory Locraft {BIO 16836287 <GO>}

Okay. Great. Great. And then, shifting gears to Mt. Logan, just stepping back, what does Mt. Logan allow you to do as a corporation? How are you selling your traditional reinsurance product versus Mt. Logan in the marketplace? What does one offer that the other doesn't, and how do the two together work?

A - Dom Addesso {BIO 1428096 <GO>}

Greg, this is Dom. We do not offer a separate product -- a separate Mt. Logan product into the marketplace. What Mt. Logan does for us is it actually allows us to increase our capacity; and in essence, Mt. Logan acts as a retrocessionaire to Everest.

So the products that we're offering the marketplace continue to be the Everest brand, and Mount Logan is essentially invisible to the client. So the benefit of that, of course, is that clients are receiving increased capacity, increased lines from us, with rated paper, traditional paper, reinstatable cover -- a very much traditional product.

Q - Gregory Locraft {BIO 16836287 <GO>}

Okay, and then how are you competing -- how is the more traditional offering competing vis-a-vis the alternative offerings, like a Mt. Logan in the marketplace? And I understand that that's at a different part of the stack. But what are you doing from an innovation perspective to help meet your clients' needs in a world of a lot of alternative capital?

A - Dom Addesso {BIO 1428096 <GO>}

Well, the traditional product offers something that the capital markets product does not, in one case, which is typically it's not reinstatable. Typically we are offering a -- or we are offering on the traditional side a U&L product, which is not always the case or typically the case in a capital markets context. And that is not always appealing to clients.

And, I guess, third, there is always the issue of collectability and disputes over coverage, which is something that you typically would not get in a traditional product offering. So there are unique differences between the two products.

And that is not to suggest that the capital markets does not have a place in providing solutions to clients. It's just that there are unique differences that capital markets are not appealing to all buyers.

A - Joe Taranto {BIO 1495653 <GO>}

Let me answer that. There's relationships that go back many years that give people a great deal of comfort -- that even if there are losses, there will be a continued relationship that will meet and provide their needs.

A - Dom Addesso {BIO 1428096 <GO>}

Yes, and that's also a great point. And also, the other point on the capital markets side is that if there is a loss, there is always a question of collateral release. So to follow on to what Joe was mentioning about continuity and being able to offer up renewal terms after a loss, sometimes in a capital markets context that is not always possible. So that's some of the differences.

Q - Gregory Locraft {BIO 16836287 <GO>}

Okay, great, thanks. And then one last one is just -- can you give us an early read on the January 1s? What are you seeing and hearing in the marketplace?

A - Joe Taranto {BIO 1495653 <GO>}

Well, it's a little bit early. We're not working on those just yet, and we really won't get into those until December. So what we hear in the marketplace is probably the same thing that you hear in the marketplace -- mostly coming from brokers -- which is the anticipation that there will be some more capital.

And with this being a good year in terms of not that much in the way of losses, if that continues through January 1, then you probably will have programs that have been lossfree looking to get a little bit of a haircut, which is understandable. That is normal in our marketplace. Meanwhile, those situations where there have been losses will be looking to have some increases. So I think that is the dynamic, but we're not into doing the business just yet.

Q - Gregory Locraft {BIO 16836287 <GO>}

Okay, great, thanks a lot.

Operator

[Operator Instructions] Jay Gelb, Barclays.

Q - Jay Gelb {BIO 21247396 <GO>}

Thank you. Good morning. If I look at the Third Quarter result on an operating earnings basis, around $4.20; you add back the $0.50 tax impact; and, of course, there was the spillover effect of a couple of Canadian catastrophes; and you mentioned the impact of lower corn pricing on the insurance result -- we get to roughly $19 of annualized EPS.

And then, Dom, you talked about improvement in the attritional loss ratio going forward. So I know you don't usually give guidance, but I am hoping maybe you can reflect on where you see that earnings power going forward relative to that $19 I just mentioned.

A - Joe Taranto {BIO 1495653 <GO>}

Well, let me state that I agree with essentially where you're coming from. We are very pleased with the underwriting income that we have generated -- $0.5 billion through nine months.

Our written premium has grown, which means that our earned premium will continue to grow. Our attritional is probably stabilizing at a very good number, much lower than what it was a year ago. So if you start doing that multiplication, you come up with a much bigger underwriting gain before catastrophes.

And that's just where we're headed at this particular point. Meanwhile, we continue to do well on the business, have good expectations for January 1. Yes, tax was a bit of a one-off. Limited partnerships we think came in a bit low this quarter, and that will rebound. So yes, Jay, I kind of agree with what you're pointing to, even though we don't give guidance, that we see good days ahead.

A - Dom Addesso {BIO 1428096 <GO>}

I think the math gets you to a number, as you described it, I think, well in excess of the $19. So, again, we are not about giving guidance. But I think what you were describing leads you to a higher number than what you suggested.

But the other thing that I'd mention is the -- was a little bit off in the quarter, again, was the investment income; and, again, limited partnerships. That comes back a little bit; that helps as well.

And also, Craig mentioned it in his opening remarks about some of the shift from -- if we shift some of our equity exposure from limited partnerships where we've been taking that allocation down a little bit over time, and refocusing that more towards the straight equity markets, public equity markets -- and that, of course, has been below the line, so to speak, or not reflected in the operating income. But sometimes that's missed, and I think it shouldn't always be.

Q - Jay Gelb {BIO 21247396 <GO>}

That's a fair point. Dom, what was the impact in the US insurance segment from crop resulting in an overall breakeven underwriting result, compared to what it probably would have normally been?

A - Dom Addesso {BIO 1428096 <GO>}

We had -- Craig, you might know that number before we -- what was the adjustment we made for the --

A - Craig Howie {BIO 17579923 <GO>}

Overall crop?

A - Dom Addesso {BIO 1428096 <GO>}

Yes.

A - Craig Howie {BIO 17579923 <GO>}

So overall crop ended the quarter at just slightly a loss, Jay. It was about $500,000 of a loss for the period.

A - Dom Addesso {BIO 1428096 <GO>}

I think his question is what it would've been running at.

A - Craig Howie {BIO 17579923 <GO>}

Would have been running?

Q - Jay Gelb {BIO 21247396 <GO>}

Say, if you ran that at a 90 combined, how much impact is that in the quarter, dollar-wise?

A - Dom Addesso {BIO 1428096 <GO>}

So we had about -- from an earned premium perspective, $140 million; add another 10%.

A - Craig Howie {BIO 17579923 <GO>}

So 10 points from $140 million.

A - Dom Addesso {BIO 1428096 <GO>}

That's right.

Q - Jay Gelb {BIO 21247396 <GO>}

All right, thank you.

A - Dom Addesso {BIO 1428096 <GO>}

Does that answer your question, Jay?

Operator

And he has been removed from the queue. Sorry about that. We'll move on to our next question. Joshua Shanker, Deutsche Bank.

Q - Joshua Shanker {BIO 5292022 <GO>}

Good morning, everyone. Can we talk a little bit about Greg's question on the taxes? I guess I don't understand. If you made extra profitability in property cat, which I assume a lot of those underwriting profits are domiciled in Bermuda, wouldn't tax rate go down? Or are these contracts with -- I guess that resided here in the States?

A - Craig Howie {BIO 17579923 <GO>}

They are both, and you are absolutely right, Josh. This is Craig. You have to look at the geographic region where it was earned, and then the tax rate in that region. So we have a large book of business here that -- for property catastrophe that writes in the US. That is profitable, and it's going to be taxed at US tax rates.

Q - Joshua Shanker {BIO 5292022 <GO>}

And just a lesson in trying to understand how that's a -- can that stuff be off shored? Or why the preferred location for that being in the US as a domicile?

A - Craig Howie {BIO 17579923 <GO>}

Well, it's a good mix of business for us. We have global catastrophe writings. Some of them end up offshore; some of them stay here in the US. We are a US writer, whereas a lot of our competitors are not writing as much in the US. But we do have a lot of US property catastrophe business that remains here in the US.

If there is a loss on that business, that loss also remains here. So effectively, you are getting a tax deduction for that loss. Again, if there's no loss or less than what we had planned for, that is the reason for a higher tax rate.

Q - Joshua Shanker {BIO 5292022 <GO>}

And so you did have --.

A - Dom Addesso {BIO 1428096 <GO>}

Let me just add to that. Take Canada, for example. There is an advantage to being able to offer up our product and our offering through a domestic enterprise as well as here in the States. There is some advantage to that.

But -- and you have to be careful that you don't just look at the income tax impact, because to the extent that you are writing US offshore, you have the excise tax that is a part of the cost as well. So let's not just focus on the income tax.

A - Joe Taranto {BIO 1495653 <GO>}

We like being able to distribute the business both in Bermuda, and in the US and Canada, and elsewhere where we are close to the customer. But as Craig pointed out, when you do it in the US, we are cognizant of the accumulations -- including the after-tax accumulations. So the fact that it is subject to tax allows us, frankly, to write more aggregate. But we think it all works out to maximize that we continue to distribute our product both in Bermuda and in the US.

Q - Joshua Shanker {BIO 5292022 <GO>}

Okay, that's good; that's very fair. And can we get some greater granularity on quota share cat versus excessive loss cat by region? Not thinking about -- really, not even January 1 -- thinking about July 1 renewals, and what you guys did, and trying to understand a more granular view of pricing?

A - Joe Taranto {BIO 1495653 <GO>}

Well, we continue to do quota share. And as you'd note, some of it is cat. Probably the biggest quota share cats come out of Florida. We were very pleased with what we put together this past June and July. As we noted, prices have been going up on the insurance product in Florida. And frankly, the quota share that we write tends to be subject to excess of loss protection, where rates have come down.

So that product has just gotten better for the underlying carriers and for ourselves. So we grew there quite nicely, and that was more of our cat writings.

Looking forward six months from now, we certainly would look to continue the quota shares, many of them, in Florida. I think rates will still be very healthy. You might have more of a benefit from excess of loss rates being down. We have some very good relationships there.

And I would add, when it comes to writing the quota shares, frankly, we have a whole lot less competition, including the alternate capital world that just doesn't participate in that part of the marketplace. So we would look for that to be a continued good part of what we do on a going-forward basis.

Q - Joshua Shanker {BIO 5292022 <GO>}

And so if I look at the growth rate on reinsurance between growing rate versus growing units or exposure, can you give us any granularity along those lines?

A - Joe Taranto {BIO 1495653 <GO>}

Well, I think -- let me start with the top line. We've grown 25% this year, and in reinsurance, more than that. So that is terrific. I am not going to say that we will continue that into next year, although I think we could continue to grow quite nicely.

Probably the best way to look at it is the attritional combined ratio overall, which is 5 points better than a year ago, but kind of stabilizing at this point in time. So I kind of look at it like the margin is still increasing, because the earned premium and written premium is increasing. But in terms of the attritional, I think that will stay just about where it's at for the months to come.

A - Dom Addesso {BIO 1428096 <GO>}

A lot of the growth you are seeing, Josh, is exposure growth, and deploying away from our peak PML zones, as I had mentioned in my opening remarks. And rate is mixed. It depends on the territory; it depends on the region, whether it has been loss affected. So it's hard to characterize that overall, but if you -- most of the growth is spreading our aggregate deeper into many of the regions that we do business in, and that is both US and international.

Q - Joshua Shanker {BIO 5292022 <GO>}

Thank you for the color.

Operator

Michael Nannizzi, Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks. I think somebody asked this before, but I just wanted to try and dig a little further on the insurance business. If we back out crop, can we find out what the profitability in the quarter was, and what the ex-crop premiums were?

A - Craig Howie {BIO 17579923 <GO>}

Michael, this is Craig. If you are backing out crop from the quarter?

Q - Michael Nannizzi {BIO 15198493 <GO>}

From insurance, right? So the other insurance business -- I just want to understand what was the underlying profile of the non-crop business within the insurance segment.

A - Craig Howie {BIO 17579923 <GO>}

Okay. So as we had mentioned -- I think Dom and I both mentioned the attritional combined ratio for the period, excluding crop, was 96%. So overall, a profitable book; as far as the amount of premiums earned for the year, about $600 million in premiums earned. But again, stripping out crop, a good, solid book of business.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. Thanks. And then as far as Mt. Logan is concerned, is there a different return hurdle for business that gets placed into that structure versus the business that you retain on your own?

A - Dom Addesso {BIO 1428096 <GO>}

No. Basically, we are required to retain a significant portion of any business that we seed into Mt. Logan. So it's the same metrics.

A - Joe Taranto {BIO 1495653 <GO>}

I was going to say, it's done in a very fair way, as Dom noted. Investors, having said that, do have a choice as to which portions of the business they want to be involved with, and setting their risk parameters, which kind of lead to different potential ROEs. So there are different ways to participate in Mt. Logan.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it, got. And then, Dom, you mentioned reinstatement as sort of a differentiator between traditional and alternative capital. Do you think at some point that that is potentially solvable as far as alternative markets are concerned? Or is that always going to be a difference between the traditional and alternative markets?

A - Dom Addesso {BIO 1428096 <GO>}

I think some of those features are already in the capital market products. So it's not that it's not a solvable problem; it's just that it's more difficult to accomplish, given the risk appetite of investors. That's all. The traditional product is a more seamless offering. That was really my only point.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got you, got you. Great, thank you.

Operator

Vinay Misquith, Evercore Partners.

Q - Vinay Misquith {BIO 6989856 <GO>}

Hi. Good morning. The first question is on the property cat premium. I believe it is about $1.2 billion. Just wanted to get a sense for whether some proportion of that is pro rata, as you said before, and some proportion is just now in excess of loss?

And the reason I ask is, let's assume that there is a 10% decline -- and I'm not saying that there is, but let's say there is. During the detail on renewals, you guys may not be hit with the entire 10%, because some of your business is normal excess of loss and some of it is pro rata?

A - Dom Addesso {BIO 1428096 <GO>}

The split on an earned premium basis right now is, as you mentioned, something close to $1.2 billion. The overwhelming majority of that is excess of loss, at, say, $950 million; and then the balance is pro rata on an earned premium basis.

Now, that's going to change a little bit over time as the Florida quota shares continue to earn into premium. But also, keep in mind, to the point you're making or trying to make, is that as we are -- not all of the improvement that you have seen in the traditional -- in the attritional ratio is coming from renewal rate, right? A big portion of it is new business that we're writing. So you can get margin expansion by, as I mentioned before, increasing, spreading our aggregate away from some of our peak zones, which is -- frankly, in the peak zones is where you are getting most of the rate pressure.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. The second question was on the accident year combined ratio ex-cats and reinsurance segment. That ticked up quarter over quarter. Just curious if that is a business mix issue, or is that because of pricing?

A - Dom Addesso {BIO 1428096 <GO>}

It's a couple of things. One, we did have some currency adjustment from some of our international business that ticked up a little bit in the loss ratio. And some of it is mix as some of the pro rata earns in.

But again, as we write some more XOL going into the first of the year, we will start to see that moderate again. I wouldn't look into that as any kind of long-term trend.

And again, I know we've somewhat emphasized the year-to-date, but we think that is a more important metric to look at -- whether you're looking at premium, because of variability that can occur in any one particular quarter, and looking at attritional combined ratios.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. Just as a follow-up to that, would it be fair to assume that if pricing on property cat declined next year, that that attritional should go up a little bit?

A - Dom Addesso {BIO 1428096 <GO>}

Not necessarily, if we're deploying new cat ag away from some of our peak zones.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay. That is interesting. And you mentioned that the cat load would be increasing 1.5 points. If you could just help us understand what the normalized cat load is for the year?

A - Dom Addesso {BIO 1428096 <GO>}

This year, 10 points. That will be rising modestly into next year.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. And just one last question, if I may, just on the buyback. Since you've grown so much this year, should we expect lower buybacks in 100% of earnings?

A - Joe Taranto {BIO 1495653 <GO>}

To be determined. We really don't forecast, and so we will be discussing that amongst ourselves and with the Board as we go forward. But as I noted, I still see earnings coming in that we won't be able to use fully on business, unless something changes. And that being the case, we will look to deploy that on buybacks and dividends.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, thank you.

Operator

Amit Kumar, Macquarie Capital.

Q - Amit Kumar {BIO 15025799 <GO>}

Good morning. Just a quick follow-up on the crop end. And I apologize for all these questions.

What average price did you use for corn? I guess what I'm trying to figure out is, if prices keep on moving, could there be a potential impact on Q4 results? Or have you already accounted for that?

A - Dom Addesso {BIO 1428096 <GO>}

Price is -- right now, I think the price is somewhere a $4.40, $4.41 for corn. And it's the October average, so there was only a few days left. We're not really expecting that to move much from here, particularly since it is a 30-day average that is used.

And also, keep in mind that it is difficult to generalize what the result will be, because it is field by field. You will have individual acreages which will more than likely be yielding in excess of 100%. So you can't paint the entire portfolio -- every account necessarily having a loss just because commodity prices are down.

A - Joe Taranto {BIO 1495653 <GO>}

But the prices won't change much from what we've used per the contracts.

Q - Amit Kumar {BIO 15025799 <GO>}

And I guess all this being equal, could there be -- I guess there could be. Would there be an additional impact on Q4 results, too? Or have you accounted -- is there a buffer in Q3 numbers?

A - Dom Addesso {BIO 1428096 <GO>}

It is difficult to predict what the result will be for corn. We think what we have booked from the Third Quarter should be sufficient. But as claims are presented, that could change the number up or down. There's no way to predict that at this point. We think it's a reasonable estimate, though, for sure at this point.

Q - Amit Kumar {BIO 15025799 <GO>}

Okay. That's actually helpful. Two other quick follow-ups. First was on capital management, on the previous question. In the pace of buyback, have you talked about what your thoughts are recently on a special dividend? Or is that off the table?

A - Joe Taranto {BIO 1495653 <GO>}

I wouldn't say it's off the table. Everything is on the table. And the Board will discuss this and decide what they think is best, whether it is regular dividend being changed, or special dividend, or buyback. And so far, as you know, we have kind of preferred buyback. But everything will be considered; nothing is off the table.

Q - Amit Kumar {BIO 15025799 <GO>}

Okay. And going back on Mt. Logan, and I know there have been a few questions. Is there cyclicality to their premiums and losses? Or is it more sort of ratable through the year?

A - Dom Addesso {BIO 1428096 <GO>}

Seasonality, you said, to --

Q - Amit Kumar {BIO 15025799 <GO>}

Yes. Is it more of a Q3 and Q1 number? Or is there an impact every quarter? I guess when I look at the model --

A - Dom Addesso {BIO 1428096 <GO>}

It could be -- from Mt. Logan's, since they are writing a piece of our portfolio, it would be similar to the patterns that would be evident in our portfolio. So it would be consistent with our own book.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. That is actually helpful. And then, just finally, on the California comp, you mentioned somewhat the pricing discussion. Can you expand on that, and maybe also touch upon 863 and the recent 9.5% rate filing? I guess it's a vibrant market, so it doesn't change that much. But can you just talk about the recent developments and your outlook? Thanks.

A - Dom Addesso {BIO 1428096 <GO>}

We had another quarter in California comp of approximately 14% rate increase. And that is, on a year-to-date basis, a very similar number. We are beginning to see some of the markets begin to -- companies begin to come back into the market, which would suggest that, like we view it, it's a reasonably profitable segment. So I really have no thoughts on some of the changes that you're referencing, but--.

A - Joe Taranto {BIO 1495653 <GO>}

Well, with regard to rate, we can charge what we want to charge, so we are not stuck on writing something else.

Q - Amit Kumar {BIO 15025799 <GO>}

Yes. That's one thing. But, I mean, when you talk about competition, does that change your outlook for the future?

A - Joe Taranto {BIO 1495653 <GO>}

Well, we will see where it goes. We have some of the competition coming in, and some of it is smart companies that know what they're doing that are becoming more attracted to the market and want to grow. And we understand that, because rates are up more than exposures by a good amount in the last four years. So this is to be expected.

We're still getting good rate increase. We still have a good persistency ratio, but it is something that we have to monitor. And it's not any great surprise, with rates up probably 60% in the last four years, that more people are looking to get into the game or expand.

Q - Amit Kumar {BIO 15025799 <GO>}

And anything on the loss cost trends, which has changed recently, or no?

A - Joe Taranto {BIO 1495653 <GO>}

No, nothing dramatic. We still believe that the rate increases that we're getting and have gotten for the last four years are well in excess of the loss cost trends.

Q - Amit Kumar {BIO 15025799 <GO>}

What would the delta be of its excess?

A - Joe Taranto {BIO 1495653 <GO>}

Well, we have probably been getting -- well, as I said, we probably have 60% in the last four years. Maybe more in terms of compounded rate increases. I don't see the loss cost being more than half of that. I see it being less than half of that.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Okay. That's all I have. Thanks for all the answers.

Operator

Ian Gutterman, BAM.

Q - Ian Gutterman {BIO 3106649 <GO>}

I just wanted to follow up on a couple of things. First, on that last question on the Cal comp, I believe the WCIRB showed that loss costs are starting to pick up a little bit again. Are you not seeing that in your book, then? And do you have any idea why they are seeing that?

A - Joe Taranto {BIO 1495653 <GO>}

No, I don't, Ian. And no, we aren't particularly seeing that. There is some legislation that is being proposed that I think may trend the future a little bit. But no, we haven't seen anything dramatic.

Q - Ian Gutterman {BIO 3106649 <GO>}

Okay, good. And then to follow up on Josh's question about your cat writings, can you give a split of -- out of the $1.2 billion, how much is onshore versus offshore domiciled?

A - Dom Addesso {BIO 1428096 <GO>}

You know what, Ian? I don't have that number easily available.

A - Joe Taranto {BIO 1495653 <GO>}

We'll be happy to get back to you on that one, Ian.

Q - Ian Gutterman {BIO 3106649 <GO>}

Okay. And then just for some color on it, the stuff that is written onshore, should I assume that's not the large, national carrier, syndicated-type programs -- that these are more, maybe, regional type stuff?

I was just kind of curious why you would choose onshore. I know you mentioned some of these just were onshore, but do they look different than what we think of as being Bermuda-type placements?

A - Dom Addesso {BIO 1428096 <GO>}

No. It's similar play. These are programs that would be placed in the US, and London, and Bermuda. Nothing different or unique about what we are writing in the US versus what we are writing in Bermuda.

Q - Ian Gutterman {BIO 3106649 <GO>}

Okay. So then why wouldn't you write it offshore if you could, I guess? I don't -- if your competitors are writing it offshore, why wouldn't you?

A - Joe Taranto {BIO 1495653 <GO>}

Well, again, some of it just gets into whether or not we want to be closer to the client and the broker that is really working on the deal. But as I noted, Ian, even if we write it onshore, meaning US, we are cognizant to the fact that if something then happens, we're going to have a third of that go to the US government in terms of reinsurance. And frankly, in our mind, the great equalizer was accumulations, which -- there is only so much we can do. And that dictates the total amount, so that means we can do 50% more in the US because of that reinsurance.

So it's not so simple that just because you do it in Bermuda, it's a better place, purely for tax reasons. So some of this gets down to the clients; some of it gets down to the broker. There's a whole variety of reasons. But as I said, I am happy that we get to see these things both in Bermuda, in London, and New York, and decide what's best for us and the client at the end of the day.

Q - Ian Gutterman {BIO 3106649 <GO>}

Got it. Okay. Thank you, so much.

Operator

Michael Nannizzi, Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Any changes in the crop book in terms of ceding? Are you looking at ceding more business, less business? Or is that relationship -- do you expect that relationship to sort of hold steady?

A - Dom Addesso {BIO 1428096 <GO>}

No, we don't expect any significant change in the percentage of what we cede. That's something we evaluate each and every year as to what particular policies will go into the federal government program.

Q - Michael Nannizzi {BIO 15198493 <GO>}

And do you use commodities to hedge corn or soybean prices through the year, or do you just look at the reinsurance markets as a way to provide you with some protection there?

A - Dom Addesso {BIO 1428096 <GO>}

We do not use the financial markets for hedging.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it, thanks. And then, just last one -- kind of looking at January 1, I think, Joe, you had mentioned you were pretty optimistic about January 1. Is that from a risk-adjusted return perspective, or from an absolute year-over-year pricing on your own book perspective?

A - Joe Taranto {BIO 1495653 <GO>}

Well, I think where I was coming from is just all that we have cooking here at the Company. We have just made some very good strides in the last couple of years.

As I said, there is a lot of momentum. Frankly, look at the numbers -- 25% growth top line, and look at the bottom line. We really have written more business at the regional level. As Dom noted, we're doing more business that is not really affecting the PML in the peak zones.

You see what we've done in Florida. We have a new unit writing some unique deals, and we're very pleased with what they have put on the books, which has taken us into some other products.

I think where I was coming from is not getting so concerned about whether rates are going to change 4% on the cat side January 1, but just looking overall with what we've put together -- insurance, reinsurance, domestic, and international -- and saying, I like what's cooking; and I like what's going on. And frankly, if you look at the numbers, you can see what's happened. And I expect more good things to come.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. Okay. Great. Thank you.

Operator

That does conclude the question-and-answer session. I would like to turn the conference back to your Group for any additional or closing remarks.

A - Beth Farrell {BIO 19732216 <GO>}

I would just like to thank everybody for participating, and we will speak with you again next quarter. Thank you.

Operator

And that does conclude today's conference. Thank you, all for your participation.