Q2 2019 Earnings Call

Company Participants

- Craig William Howie, Executive Vice President, Chief Financial Officer & Treasurer
- Dominic James Addesso, President, Chief Executive Officer & Non-Independent Director
- John P. Doucette, Executive Vice President and President and CEO of the Reinsurance Division
- Jon Levenson, Head of Investor Relations
- Jonathan Martin Zaffino, Executive VP, CEO & President of the Everest Insurance Division

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Joshua David Shanker, Analyst
- Meyer Shields, Analyst
- Mike Phillips, Analyst
- Mike Zaremski, Analyst
- Ryan Tunis, Analyst
- Yaron Kinar, Analyst

Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Everest Re Group Limited Second Quarter 2019 Earnings Call. As a reminder, today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Jon Levenson. Please go ahead, sir.

Jon Levenson {BIO 18636999 <GO>}

Thank you, Sinead, and welcome to the Everest Re Group Limited Second Quarter 2019 Earnings Conference Call. The Everest executives leading today's call are Dom Addesso, President and Chief Executive Officer; Craig Howie, EVP and Chief Financial Officer; John Doucette, EVP and President and CEO of the Reinsurance Division, and Jonathan Zaffino, EVP and President and CEO of the Everest Insurance Division.

Before we begin, I need to preface the comments on today's call by noting that our SEC filings include extensive disclosures with respect to forward-looking statements.

Management comments regarding estimates, projections, and similar are subject to the risks, uncertainties, and assumptions as noted in Everest's SEC filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial supplement.

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

Dominic James Addesso {BIO 1428096 <GO>}

Thanks, Jon. Good morning and welcome to our call this morning where we are pleased to outline the excellent results we had for the quarter. As you've, no doubt, seen by now, our net income per share for the quarter was $8.39, resulting in an ROE of 16.1%. This combined with the first quarter equaled almost $17 per share and a 16.5% ROE. The quarter saw a continued underwriting profitability in both our Reinsurance and Insurance divisions along with a very strong level of investment income.

My colleagues will give many of the details underlying our success, but let me say that we continue to execute successfully on our strategy. For Reinsurance, it has been a diversification effort that over time has seen growth in casualty, mortgage, and non-cat property, and of course, our strategic repositioning in the insurance space, which began just over four years ago, is now hitting its stride. Given our scale, ratings, global franchise and diversification in all our businesses, we can capitalize on the rate momentum we are now seeing in the market.

The rate activity we are seeing, however, is still spotty, and in several instances, not yet at levels they need to be. Nevertheless, this certainly appears to be a market that will continue to see Re. Our observation of capacity pullbacks and an increasing flow into the facultative market and the E&S markets are encouraging signs. Perhaps not a classical hard market, but given industry reserve positions, capital levels and frankly better analytics, the amplitude of prior pricing cycles is likely being replaced with more timely actions.

I believe that is in part what we are seeing now. An element of this is also in reaction to loss trend. There has been much discussion about loss trend over the last couple of weeks. No doubt, it is evident in many classes, but to varying degrees. And while everyone is looking for a pinpoint estimate, there will undoubtedly be varying numbers based on book profile, class, attachment point et cetera. But as a general comment, our rate increases are, for the most part, above trend. In addition, we would expect that loss trend to continue, and accordingly, rate increases will likely persist.

My colleagues will get into the many details on our results, but it is worth emphasizing that over the past several years, we have continued to diversify and reduce volatility. One measure of that is our expected annual cat loss which just a few short years ago was 12 points as a percentage of premium and now stands at approximately 6.5 points. The end result is less volatility and improved profit targets.

Our reinsurance division has successfully diversify its portfolio, as I mentioned earlier, and our insurance segment, now at over 30% of our business. Is growing profitably. At its current pace, as I mentioned last quarter, the sum of the parts should prove to be quite positive.

Thank you. And now to Craig for the financial highlights.

Craig William Howie {BIO 17579923 <GO>}

Thank you, Dom. And good morning, everyone. Everest had another solid quarter of earnings with net income of $343 million in the second quarter of 2019. This compares to net income of $70 million for the second quarter of 2018. On a year-to-date basis, net income was $692 million compared to $280 million for the first half of 2018. Net income included $100 million of net after-tax realized capital gains compared to $9 million of capital losses in the first half of 2018. The 2019 capital gains were primarily attributable to fair value adjustments on the public equity portfolio.

After-tax operating income for the second quarter was $321 million compared to $40 million in 2018. Operating income year-to-date was $603 million compared to $260 million for the first six months of 2018. The 2019 result represents an annualized operating income return on equity of 14.4%. These results were driven by a strong underwriting performance across the Group, stable core investment income, a higher contribution from private equity investments and lower catastrophe losses compared to the first half of 2018.

The overall underwriting gain for the Group was $393 million for the first half compared to an underwriting gain of $20 million in the same period last year. In the second quarter of 2019, the company reported $30 million of net adverse catastrophe development. Catastrophe losses were primarily reported in the international reinsurance segment and related to Typhoon Jebi, which occurred in Japan during the third quarter of 2018. The industry loss estimates for this event rose significantly again this quarter. The initial estimates for Jebi were $3 billion to $7 billion, and at that time, we estimated a conservative estimate based on an $8 billion industry loss.

We have now re-estimated our share of the Typhoon Jebi losses in line with the high end of the new industry range of $14 billion to $16 billion. Although there were a number of loss events in the quarter, including US storm events, none of these events breached our $10 million catastrophe threshold, and as such, are included in our attritional loss estimates. On a year-to-date basis, the results reflected catastrophe losses of $55 million compared to $597 million during the first half of 2018.

Partially offsetting the catastrophe losses was $22 million of favorable prior year reserve development related to non-catastrophe reserves. This prior year favorable development was primarily identified for reserve studies completed in the second quarter of 2019. These reserves related to casualty and property reinsurance business both in the United States and internationally. The redundancy determined from the reserve studies was recognized in the second quarter given the magnitude of the overall indications. These redundancies have developed over time, but we don't revise estimates until the reserve position becomes more mature. We continue to maintain our loss reserve estimates for the more recent years.

Excluding the catastrophe loss and favorable prior year reserve development, the underlying book continues to perform well. The overall attritional combined ratio through the first six months was 88% compared to 87% for the full year of 2018. The attritional loss ratio of 59.5% and the commission ratio of 22.8% were up slightly compared to the same period last year primarily due to business mix in the reinsurance segment, which has been writing more casualty business over the past several quarters.

The Group expense ratio remains low at 5.7% for the first two quarters of 2019. This is flat compared to the same period last year. Our year-to-date reported combined ratio of 88.9% was driven by the strong underwriting performance of both our reinsurance segment and our insurance segment.

Before moving onto investment income, I'd like to point out that we included two new pages in our financial supplement, pages six and 11. These pages detail gross written premium by major line of business for the total Reinsurance and Insurance segments. This provides background detail to the business mix shift and the resulting combined ratio changes we've been referencing.

For investments, pre-tax investment income was $179 million for the quarter and $320 million year-to-date on our $19.8 billion investment portfolio, a new record portfolio size for Everest. For the year-to-date, investment income was up $40 million or 14% from one year ago. This result was primarily driven by the increase from the investment grade fixed income portfolio, which had a higher asset base this year. Additionally, we've seen a recovery in limited partnership income, which was up $11 million for the first half -- from the first half of 2018, as we expected and mentioned in the first quarter.

The pre-tax yield on the overall portfolio was 3.4% compared to 3.1% one year ago as both investment grade and alternative fixed income yields are up year-over-year. The duration of the portfolio remains at just over three years.

On income taxes, the 12% effective tax rate on operating income is associated with the amount and geographic region of the underwriting gains and the investment income expected to be earned for the full year. The effective tax rate is an annualized calculation and includes planned catastrophe losses for the remainder of the year. Lower-than-expected catastrophe losses would cause the tax rate to trend higher than the current 12% rate.

Positive cash flow continues with record operating cash flows of $854 million for the first half of 2019 compared to $133 million in 2018. The increase reflects our growth in premiums and a lower level of paid catastrophe losses in 2019 compared to 2018.

Shareholders' equity for the group was $8.9 billion at the end of the second quarter, another record for Everest, up almost $1 billion or 12% compared to year-end 2018. The increase in shareholders' equity in the first half of 2019 is primarily attributable to $692 million of net income and the recovery in the fair value of the investment portfolio, partially offset by capital return through $114 million of dividends paid as well as $25 million in share buybacks. Everest continues to maintain a very strong capital position with industry-low debt leverage and high liquidity in our investment portfolio in addition to our robust cash flow. The strength of our balance sheet is critical to the success of our business.

Thank you. And now John Doucette will provide a review of the reinsurance operations.

John P. Doucette {BIO 7178336 <GO>}

Thank you, Craig. Good morning. We are pleased to report another strong quarter for the Reinsurance division with $178 million of underwriting profit in Q2 and further diversification of our portfolio, providing stability and balance to our operation. Our global franchise is well positioned with new initiatives, underwriting actions, and rate increases.

We are finally seeing both the property and casualty reinsurance markets move positively, reflecting a combination of recent catastrophe losses, capacity shortages, trapped capital, pockets of poor loss experience, and new found discipline from some of the largest players in both insurance and reinsurance. The upshot is improving original insurance rates, which Jon Zaffino will touch on later, and better reinsurance rate terms and conditions in several parts of our portfolio.

In Florida, we were pleased with our June renewal. Overall, the market was rational with pricing up. We saw a more risk adjusted rate increases on loss affected treaties and increases on many others, but there was a wide range of outcomes with some programs remaining underpriced. I think of this not as a hard market, but as a reasonable market finding its way back to a sustainable balance between serving clients' needs and generating appropriate returns on reinsurance capital. Therefore, we continued our practice of allocating capital to long-term strategic clients and the deals with the best returns.

Our underwriting and modeling teams did a great job positioning Everest to capture more of the best business while shedding less attractive deals. The end result was a reduction of Everest's exposure to property cap and an effort to encourage rate discipline through scarcity of our capacity.

On some deals, we achieved tighter terms and conditions such as LAE cap and lower current limits on proportional treaties. Consequently, we are encouraged with the direction of the Florida market, but more improvement is needed given several years of deterioration, rate pressure and loss cost inflation. Nevertheless, the bottom line for our Florida book is a higher ROE and a reduced model cat loss. We achieved portfolio rate increases that outpace the overall market by strongly differentiating programs through disciplined underwriting. We are pleased that model profitability remains relatively flat despite meaningful reductions to our catastrophe exposures. Switching to July 1st, outside of Florida, US property, renewals were orderly and directionally positive. Rates were up mid-to- high single-digits on a risk adjusted basis. Property business at July 1, outside of the US was generally stable.

With rate increases driven by loss activity or the re-underwriting mandated from some of the Lloyd's Syndicate. As mentioned previously, during the April 1st renewals for Japan, Everest did employ more capacity there given the improved rates. And the Japanese market is preparing for potentially further rate increases for upcoming renewal.

Due to recent loss experience particularly the industries loss creep on JEBI. In the US casualty lines trends remain positive. Despite plentiful potential capacity, the market has grown more discipline in both reinsurance and insurance, as primary rates improve across most line. Casualty reinsurance terms are stable for non-loss affected business; however, poor performance and increasing loss trends over the last several years are prompting reinsurers increase rates and decreased commission because of Everest, 40 plus year history, strong balance sheet and ratings, large market presence, robust, long-term client relationships and responsive underwriting we continue to garner preferential access on casualty reinsurance business.

As we have previously discussed, until about 18 months ago. We have been reducing our casualty writings over the last several years prior to that due to the deterioration in both the insurance and reinsurance casualty markets. This has helped us avoid much of the poor loss experience that has emerged and we are now very well positioned to deploy our underwriting expertise and capacity as the casualty markets improve. In addition to casualty we have significant opportunity in mortgage business shown by the 16% growth in mortgage writings during the first half of this year.

Also of note is the evolution and strong growth of our facultative book globally over the past several years. We have several very experienced fact teams worldwide who are product experts and local market specialist. We now have over $430 million of facultative reinsurance premium in-force, covering property casualty, professional, specialty and order lines across Miami, New York, New Jersey and several other offices in the US as well as in Toronto, Singapore and London. This is an all-time high gross written premium for our facultative book after meaningful growth during the last few years. And it is well diversified as our global back book is broadly split by line approximately 60% casualty and 40% property. And it is also split geographically 60% international and 40% US meaningful improving back opportunities emerged following dislocation in Lloyd's the 2017 and 2018 cat losses and general decrease in D&F capacity.

Tax submission flow is up significantly in all territories in line highlighted by the 26% year-to-date increase in US that fac casualty submissions. On the demand side, our fac clients are seeking both short and long tail limit reduction and exposure management, particularly in auto due to poor experience increased demand is broad based across back including property, casualty, individual risk auto fac, US placements and placements from abroad. Our growth in facultative business exemplifies our ability to capitalize on opportunity around the globe. Writing all P&C lines of fac in key centers all over the world requires a robust global infrastructure and it's hard for competitors to replicate which gives us a sustainable competitive advantage. Our strong growth in fac is more evidence of an improving overall reinsurance market as Dom mentioned earlier, because fac renewals happen much more often than treaty renewal they are good leading indicators of market trend. We are bullish that this improving trend in fac will continue well past 2020, particularly as tough exposures meet limited capacity.

In the firming treaty market. During the second quarter Everest purchased an aggregate property retro program that will help protect us from a large catastrophe loss or series of mid-sized losses. This retro program was designed to refine the shape of our portfolio by further diversifying our capital structure, reducing that volatility, adding flexibility to deploy our capital for interesting and unique opportunities. This retro purchase aides to be better positioned to capture improvement opportunities in the property space, including at January 1, 2020, given the retro market dislocation and trapped capital while managing the volatility of our property book with the combined financial strength of our shareholders.

Common equity, Mt. Logan capital Kilimanjaro cat bonds ILWs, facultative retro protection and now this additional aggregate retro capacity, we are well capitalized and not reliant on any one capital source to finance our underwriting risks.

Moving on to our year-to-date results, our global reinsurance operations at growth of 3% on written and earned premium during the first half of 2019. Growth came from US operations with increased casualty and mortgage writings offset by slightly less premium in treaty property as we push rate and in Bermuda due to some non-renewal of some -- of a few large deals .

we booked in 86.6% combined ratio for reinsurance operations with cat losses of $55 million which included losses from the Townsville monsoon, Australian flooding and some loss -- some additional loss development from Typhoon Jebi as the market loss worsen significantly just as Craig mentioned earlier these cat losses mostly impacted our international segment. Excluding catastrophe losses, the underlying loss ratio of 57.4% for reinsurance operations increased by 0.4 points compared to the full year of 2018.

Given the greater mix of casualty and pro rata business in our portfolio. We continue to be viewed by clients and brokers all over the world as a core go-to trading partner and garner increased opportunities particularly with dislocations of capacity around the world in multiple lines of business. These dislocations and pressure on supply of risk capital include one dislocation due to lower large scale rationalization impact and direct and facultative capacity. And many international portfolios helping to drive improvements in the E&S Primary and facultative books, two ongoing trapped capital from 2017 and 2018 losses and the subsequent market loss deterioration are pushing ILS investors to retrench,withdraw capacity for demand better pricing and terms the resulting dislocation in several property reinsurance market and global retro capacity will likely continue for the upcoming January renewal.

Three, some European reinsurers have been pulling back casualty and professional reinsurance capacity decreasing authorizations on specific programs were pushing casualty rates and terms, which is leaving potential in some clients treaties and creating some upward pressure on casualty rates both of which provide attractive opportunities.

Four, some reinsurers our now bumping up against internal risk capacity limits or rating agency constraints for mortgage causing reduced involvement on new mortgage deal. We believe this mortgage reinsurance capacity constraints for some rated carriers will continue or even grow. Each of these or taken separately and certainly together present robust prospects for profitable growth opportunities for a large global reinsurers with strong capital high ratings and dry powder.

In summary, we are pleased with not only our year-to-date results but also with our strategic positioning for the future. Despite this evolving market we remain focused on building long-term value for our shareholders while being the first call for our clients and broker partners. Thank you and now I will turn it over to Jon Zaffino to review our insurance operations.

Jonathan Martin Zaffino {BIO 16652236 <GO>}

Thanks, Jon and good morning. Our global specialty insurance operations delivered another solid quarter of performance. We continue to experience high quality, profitable growth within our many retail and wholesale underwriting divisions across North America and several international markets. Our growth remained balanced and diversified by geography, product segment and distribution channel. Our insurance operations are well positioned to continue on this path of growth and profitability as clients increasingly rely on Everest Insurance to offer solutions to help them address a growing range of complex risk issues. Our leading balance sheet formidable global infrastructure and outstanding talent, nearly 1,000 strong are increasingly in demand in this transitioning market. The second quarter brought some notable performance achievements highlighted by record reported gross and net written premiums as well as net earned premium. We also experienced the highest level of quarterly submissions across our retail and wholesale operations coupled with the strongest renewal retention. We have experienced, and more than five years and our US direct operations. This speaks to the growing role Everest Insurance plays in the global specialty market.

The second quarter also continued a nearly five year trend or 18 consecutive quarters of year-over-year growth in our business. This focused growth is the result of increased scale and relevance within the many underwriting divisions across our global property and casualty and accident and health operations. We believe significant additional scale can be achieved within our chosen product areas. Allowing us to maintain excellent growth rates into the future. Of course, market conditions dependent.

Most importantly and this quarter builds upon the underwriting profitability achieved in the first quarter of this year and brings our year-to-date underwriting profit to $38 million, a 72% increase over prior year first half. Our second quarter underwriting profit was $19 million, a more than two fold increase over 2018 second quarter and $16 million more that our 2017 second quarter performance.

Further, nine of the last 10 quarters have now produced an underwriting profit, the lone exception being the 3rd quarter of 2017. An area of continued focus for the insurance operation is the attraction of industry-leading talent. Everest Insurance and the greater Everest organization remains a highly desirable home for talented professionals. Across a range of disciplines in fact, hundreds of talented colleagues have chosen to join Everest Insurance over the past several years and we are proud to welcome them into the Everest family. These talent acquisition efforts continue to fuel our growth, enable our capabilities and differentiate us by ensuring we have the right people in place to support our strategic initiatives, our ever expanding books of business and most importantly our growing client base. The evolution of Everest Insurance is a long-term effort and there is always room for further improvement yet we are certainly encouraged by our trajectory to date and are optimistic about our opportunities in the market ahead.

Turning to the financial results for the quarter and year-to-date period. For the second quarter of 2019, the global insurance operations produced $757 million in gross written premium, an increase of $111 million or 70%. Over second quarter of 2018. Year-to-date, gross written premium rose to one $1.4 billion, a $201 million or 17% increase over the same period of 2018. Our net written premium growth matched our top line growth at 17% year-over-year increasing by $80 million to $549 million. Net earned premium in the quarter was $474 million, an increase of $65 million or 16% for the year-to-date period net earned premium increased to 899 million an increase of $97 million or 12% over the prior year period.

The growth in earned premium has been anticipated as various business ventures incepted over the past several years, begin to earn through the P&L at a greater rate. Turning to the combined ratio. For the quarter, the GAAP combined ratio was 96%, a 170 basis point improvement from the second quarter of 2018 and a 310 basis point improvement over the same period in 2017.

Year-to-date, the GAAP combined ratio was 95.8%, a 150 basis point improvement over the comparable prior year period and a 300 basis point improvement over the first half of 2017. The attritional combined ratios for the quarter and year-to-date period are 96% and 95.8% respectively. On the year-to-date basis we see an 80 basis point improvement over 2018 year-to-date results of 96.6%. The quarter's loss and loss adjustment expense ratio improved 290 basis points from the prior year period to 65.8% from 68.7%. This includes the benefit of no cat losses in the current quarter, a result of thoughtful positioning of our various property portfolios.

On a year-to-date basis, the 2019 attritional loss ratio of 65.4%, an 80 basis points improved over last year's 66.2%. Our expense ratio was stable in the quarter, and consistent with the full year of 2018 performance. We continue to take advantage of our improved scale to invest in people, technology and new locations in key markets across the globe. For the year-to-date period the expense ratio was 30.4%, down slightly from the 30.5% in the comparable period of 2018. As we expect that we are seeing the stabilization of our expense ratio year-over-year and quarter-over-quarter as earned premium continues to come through as our businesses mature.

Turning to the operating environment. I would echo the sentiment you have heard from other companies, namely that the trading environment and trading conditions globally continue to improve, as respect to pricing I would break this down into three areas. First, we are seeing improved underlying pricing across all lines except workers' compensation. Second, we see accelerating price improvement in several areas across property, liability and professional lines. And third, for the first time in many quarters, our aggregate renewal price change, which includes exposure change has moved into positive territory registering 2.9% for the quarter, inclusive of workers' compensation. Excluding workers' compensation Everest Insurance produced an aggregate renewal price change of 8.1% in the quarter, which is the strong as we have seen in seven years.

Year-to-date, the renewal price change as they likewise excellent 6.3%. Further, this continues the upward trend and non-workers' compensation rate change that began in the beginning of 2017. And in fact the underlying rate change increased to 7% in the second quarter.

In general, I would say the same themes we have discussed in prior calls are continuing to play out. However, the notable change is the increased momentum. Property lines, cat and non-cat exposed alike continue to gain meaningful rate as does commercial auto, both were up in the low-to-mid teens this quarter. The liability lines Primary and Excess are also beginning to achieve more significant rate, generally in the low-to-mid single digit range, as are the professional and financial lines.

The financial lines initially lag other areas in terms of rate achievement, but are quickly beginning to adjust to the new reality of much needed rate to absorb increased loss cost. So overall, we see a much more constructive environment and as our renewal premium changes indicate, we are optimistic that this trend will continue in the quarters ahead. In conclusions stated simply, this is another quarter of strong growth, increased profitability and meaningful advancements toward our strategic objectives. We look forward to reporting back to you next quarter.

And with that, I'll now turn the call back over to Sinead for Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions) We will now take our first question from Yaron Kinar from Goldman Sachs. Please go ahead. Your line is open.

Q - Yaron Kinar {BIO 17146197 <GO>}

Thank you. Good morning everybody. My first question goes to the underlying or -- your loss ratio and reinsurance. I guess we are seeing about 5.5 points of deterioration year-over-year. You called out business mix loss trend and non-cat weather. Can you maybe help us think about the magnitude of each of those drivers and then maybe as a follow-up to that, how should we think about the 87% underlying combined ratio that you had talked about in the past given that I think it was a little bit in excess of that this quarter?

A - Dominic James Addesso {BIO 1428096 <GO>}

Hello, yeah, this is Dom. I'll start and ask Mr. Doucette to -- and Craig to complement wherever I say. But first of all, I think the comparison against the year ago quarter is a little bit difficult because of the number of adjustments that we made in the second quarter of last year. So we think the more appropriate comparison is to look at the full year, December of '18 against the six months of '18. So the gap that you described is much narrower. Again it's business mix shift, it's certainly conservative loss picks, less of a factor is any loss cost trend, but those are the main drivers of the movement and the other thing to keep in mind is that through six months we still carry fairly good size non-cat, cat loads so that's also reflected in the six months numbers.

We're in the full year that tends to get equalized out. So those are some of the factors, I don't know if Craig or John want to add anything to that.

A - John P. Doucette {BIO 7178336 <GO>}

Yeah, it's John, good morning. Just one thing, I think we had about $32 million of reinstatement premiums in last year's Q2 which also skews, the comparison of just isolating the quarter-over-quarter comparison.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay, that's helpful. I appreciate it. And then my other question is just with regards to premium growth in reinsurance. So I appreciate the color and the opening statements, and I realize that there are a bunch of offsets there. But, and this may be Monday morning quarterbacking here, but I guess I'm looking at the prior year had 13% some growth and gross premiums, about 47% growth in net premiums, definitely saw a slowdown here even as rates have improved. I guess how should we think about the rate, the premium momentum here and I guess, in hindsight, was the capital deployment in 2018 maybe too aggressive leading to some needed to slow down growth and '19?

A - Craig William Howie {BIO 17579923 <GO>}

Yaron, and this is Craig. Just, just to kick this off and then I'll let John jump in as well. But this is something that I think you have to look at. So, you mentioned the growth in the prior year. What I would say to you is the growth this year on a year-to-date basis is actually 5% if you exclude foreign exchange, so you're actually growing on top of that growth from prior year so that's, certainly something I'd ask you to look at.

Q - Yaron Kinar {BIO 17146197 <GO>}

Yeah and too, I don't think this has anything to do with capital in terms of our deployment, it really is opportunity set and where we see it,. And there's a -- there is a -- these are core renewal portfolio, there are some large one-off deals and this year, there were a couple of those deals that we didn't come to you know the renewal terms with the clients and so that again skews the numbers, which is one of the reasons we think it's better to look at the year-to-date numbers as opposed to the quarterly numbers. And we're actively talking to some clients about some large, complicated deals now, and so it could move the other way as well.

So I -- but it's absolutely not capital related.

Okay.

A - Dominic James Addesso {BIO 1428096 <GO>}

And one of the thing I'd add to that, Yaron, is that you know reinsurance by its very nature can be a little lumpy, so I wouldn't necessarily look at any year-over-year increases in premium as some kind of a forecasting tool, if you look at our property pro rata. For example, that moves around a fair bit and to John's point if you can't come to term with a client on a particular deal then you've got to slug a premium that -- pro rata can be lumpy. So you can have a slug of premium that can be here one year and gone the next. It's not particularly troubling. For us, again our franchises is one in which we continue -- each and every year, we gained momentum in the marketplace across many different product sets. So the momentum is still quite fair.

Q - Yaron Kinar {BIO 17146197 <GO>}

Got it. I appreciate the color. And good luck with the rest of the year.

A - John P. Doucette {BIO 7178336 <GO>}

Thank you.

A - Craig William Howie {BIO 17579923 <GO>}

Thank you.

Operator

Thank you and now take our next question from Mike Phillips from Morgan Stanley. Please go ahead.

Q - Mike Phillips {BIO 21023048 <GO>}

Thank you. Good morning, everybody. I wanted to touch on the insurance side. I appreciate all the color there at the end with the conditions are improving. You mentioned -- you mentioned three reasons why, I mean you said liability and professional lines, low-to-mid single-digit rates but much in it -- much needed and loss costs are still rising. So, I guess all that in, if you look at the past. I don't know, 7, 8, 9 quarters. Your core loss ratio or your core combined ratio was around 96 or so and really hasn't moved much from there, I guess how do you think about, given the rate and loss trend environment in the insurance, when do you expect any kind of movement and improvement in that core loss and core combined ratio?

A - Dominic James Addesso {BIO 1428096 <GO>}

I'll start and ask Mr. Zaffino to answer that. Our combined ratio and loss ratio is here again, also driven by mix. So in the insurance operation -- by the way is a great, a great result and we're quite proud of it. But we've got this additional rate activity, rate increases coming into the market, we have not pull down our loss ratios to account for any of that we tend to be more conservative in our loss picks.

So we continue to pick the same loss ratio on a higher premium base on the other hand, again to reflect some level of conservatism where comp with rate decreases we've actually increased our loss pick and will come, given the fact that they were rate decreases that we're facing. So we've kind of short sighted ourselves in a way there and then I guess the last point you mentioned or I mentioned already, but mix, so we have a bit more risk management business in our portfolio than we anticipated, which just by -- and accident and health business which by its very nature books at a higher combined ratio still very profitable, consistently profitable business.

So that's some of the reasons why perhaps we're not seeing as much movement as you would otherwise have expected in the combined. But nevertheless we are still anticipating continued improvement over the quarters and years ahead. So Jonathan, you have anything...

A - Jonathan Martin Zaffino {BIO 16652236 <GO>}

I think that's well said. I would add to that remember, if you look at our strong growth rates from quarter-over-quarter, year-over-year to Dom's point, this can create mix changes that are hard to read from any specific quarter and Dom mentioned our risk management business, which is an excellent business, which tends to run in that sort of mid-90s levels that was a bit of a -- a bigger contribution this quarter. As I also mentioned in my prepared remarks, you know, the earned premium from various new products, new underwriting divisions over the past few years are beginning to earn in and some of the dissipation if you will, of some areas that we had identified as a run off or those that we were deemphasizing our earning out, you're starting to see that intersection happen and we expect that to continue to happen in a beneficial way as we move forward here. So we're focused on delivering underwriting profit. We're going to be conservative in our views of how we recognize Dom's point, some of the rate changes that are earning through but I think those variety of factors are, what you're seeing is the reason for the mid-90s.

Q - Mike Phillips {BIO 21023048 <GO>}

Okay, perfect that's -- thank you for the detail. Appreciate it. I guess more generally then there has been some concerns affecting the overall industry. And kind of rising toward activity and litigation activity and I guess anything you've seen there and if I -- kind of your business and if so, anything that we would see from maybe the paid activity that we can look at it from your Loss Triangles?

A - Jonathan Martin Zaffino {BIO 16652236 <GO>}

This is John again, we're obviously looking at the same dynamics that are being discussed across the industry. It's very difficult to broad-brush any one line of one area, each portfolio is a bit different, how companies address sort of where they hold certain acts -- here it's a bit different. I would say as a general tone we are keeping a close eye on this it's often discussed in the general liability area. We write general liability for instance, across many different areas many different industry segments, each with different dynamics. And we talk about loss trend remember, there is two parts of that, there's frequency and severity, so they're going to differ from area to area. We're keeping an eye on it. We're encouraged by the rate levels that we're starting to see. Net trend is a little bit more muted with some of the exposure growth going on, but whether it's financial lines that's going to be a bit of a different mix, whether you're in Primary or Excess areas, same with the GL, autos has been talked about for quite some time.

So overall, we take a look at the portfolio every quarter, really every day, trying to learn from what we're seeing out there, but I would say we feel pretty comfortable about where we are and even more comfortable as rate starts to build over the ensuing months here.

A - Craig William Howie {BIO 17579923 <GO>}

And fair to say we do not see an explosion in trend. And as I mentioned in my opening comments, what we see in our portfolio and differs by company but what we see in our portfolio is trend is well within our rate increases.

Q - Mike Phillips {BIO 21023048 <GO>}

Perfect. Thank you, guys.

A - Jonathan Martin Zaffino {BIO 16652236 <GO>}

Thank you.

Operator

Thank you. We'll now take our next question from Elyse Greenspan from Wells Fargo. Please go ahead, your line is open.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, thank you.

A - Dominic James Addesso {BIO 1428096 <GO>}

Good morning, Elyse.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Thanks. My first question is going back to the margin conversation and really this is on the reinsurance side of things. So I know it's reflective of your business mix and Dom, I think you said we should look at the full year '18 and kind of compare the second quarter there, but I guess I'm thinking more about going forward, do you expect the mix to continue to tilt more towards casualty and away from property and should we think about the reinsurance. At 86, attritional combined ratio is how we should think about modeling going forward or the half year. Just kind of margin expectations on a forward basis.

A - Dominic James Addesso {BIO 1428096 <GO>}

Right, so the -- for the first half it's 85.4 not 86, not to get too precise, but for on the attritional side. And look at in the reinsurance business it's difficult to predict where the mix will go because as we've talked about many times over many, many quarters, we'll put our capital to where we think the best opportunities are and what emerges next year is a better opportunity. Who knows, but I would say that where we are mix wise today is probably balanced, where we would expect to be over the remaining quarters.

Certainly we would expect more writings in mortgage, which as you know carries a lower combined ratio I don't know that we necessarily see any explosion in casualty from here relative to our other lines of business. So I think the mix is kind of fairly stabilized in terms of where it is today and I will. I would like to emphasize. And I know this is in the point you were quite making here but certainly what we've seen in any of the write-ups the headline of margin deterioration and again, what I'd like to point out is with the growth in premium.

It might be a deterioration in the ratio but the overall absolute dollars of underwriting margins have increased over time. And in combination with a lower in cat load frankly, that gives us, and also I think about the investment income flow without -- over $800 million of positive cash flow in the first half of the year. All of those things are we think improving our profit target, overall profit target, so -- and with the decreased level of volatility. I know that isn't quite more than perhaps you asked but I think where we are now.

A - John P. Doucette {BIO 7178336 <GO>}

And Elyse, this is John, just to add a little more color. I mean, we're close to done within the treaty world of what we're going to put on the books for this year. They will still be facultative throughout the year. And there'll be the odd treaty deal. But obviously not that far along is January 1st and so we'll be watching closely obviously what happens in wind season as well as what we think the capital situation is the supply demand balance and that will dictate how much capital we deployed going forward and you know there continues to seem to be some dislocation and capacity shortages and trapped capital and related -- related events. As I talked about earlier. So we'll watch that and that will influence mix as well as we head into the New Year.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then my second question on -- if we look at your premiums writings on across the property lines. That was helpful disclosure that you guys added to the supplement, they've gone down and if we think about what happened. Obviously, now we had two successive years of high cat losses in your -- John in your remarks, you mentioned some pretty good rate that you guys did see in Florida, but then we don't see that running through the premium written line. With that there were some accounts that were still under priced that you had to come off . Like how do we reconcile. I guess the fact that there were some pretty good rate in Florida and even in other areas of the world and your property rating -- property writings, sorry, have have come down?

A - John P. Doucette {BIO 7178336 <GO>}

You're absolutely right, I mean we pushed rate and one of the ways that the market is going to get hard is -- or okay -- and less people willing to walk away from things and we pushed and we pushed and in some cases, we came off. We also did move up particularly in Florida, we moved up the tower, which again we thought that was a better place, better risk adjusted place to play and that that could be less, less premium, but it doesn't mean that it's less profitable risk adjusted profit. So we were pleased with how we reposition that book and then there certainly been up a couple of pro rata deals where we, we pushed for certain ceding commissions and the current summits and things like that and we didn't get there, but again we're bullish.

We're not retreating from property at all. We thought after $200 billion, $250 billion losses maybe we had a view on what the right rate was to deploy capacity and something we talked about before is, we're also looking at is not in isolation of just property. We're also looking at it has the opportunity set for us to deploy capital whether that's into the casualty space where we see in an emerging situation, obviously the insurance, the facultative both casualty, and international property as well as the mortgage which we remain very bullish on. So we're also, we're looking at it beyond just a property comment. We're looking at it across the whole global portfolio.

A - Dominic James Addesso {BIO 1428096 <GO>}

And as far as the shift that John was talking about. Generally, and this is mainly a Florida comment, the layers down low, lower traction limits we're frankly under-priced in our view and the increases there was nowhere near appropriate and also emphasize that we have increased some of our cat book outside the US, so John mentioned specifically Japan as one example.

A - John P. Doucette {BIO 7178336 <GO>}

So particularly on the Florida part, Elyse, it's John, again. And particularly on the Florida part where the view of the increased risk from some of the social inflation aspects we thought were more prevalent on the lower layers.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then lastly on the tax side, Craig. I think you said you know cats are lower, the tax rate should trend higher, I thought the expectation was for 13% for the year, it was a little bit light -- lighter than that in the Q2 with low cats. Was there something impacting that in the current quarter?

A - Craig William Howie {BIO 17579923 <GO>}

Yeah. In the current quarter, we actually had more income and more foreign source income that came through. So we were able to use more foreign tax credits against that income, Elyse. So that's the reason it dropped to 12% for the first half of the year.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. Thank you very much.

Operator

Thank you will now take our next question from Josh Shanker from Deutsche Bank. Please go ahead, your line is open.

Q - Joshua David Shanker {BIO 5292022 <GO>}

Yeah. Thank you. I guess, and this is for Jon Zaffino. You mentioned that your rate overall, your renewal rate pricing was up 2.9% and I think you said it was up 8.1% excluding workers' comp, workers' comp is about 20% of your portfolio. I'm trying to reconcile those numbers, did I understand you correctly?

A - Jonathan Martin Zaffino {BIO 16652236 <GO>}

Yeah, it's a little more than that. Josh, it's work comps is probably closer to 30%.

Q - Joshua David Shanker {BIO 5292022 <GO>}

And then I guess, the number of assortment. So the, everything, example, workers' compensation of eight point -- I mean, I know I did I just can't make the math -- numbers like that.

A - Jonathan Martin Zaffino {BIO 16652236 <GO>}

Well, here's what you have happening. Number one there is a lot of rate being had now in the property and auto lines. Some of our auto ratings are up year-over-year. We're seeing again increased rate in a number of other areas from financial lines to other liability. Comp, you're getting some exposure look at an increased rate then to what you are in other areas as well. So some of that shows up in renewal price change versus pure rate, so there's a number of -- and then you get mix differences in the quarter as well, so the waitings could be a little different based on timing. So for instance, in the second quarter. We write a few large risk management deals you might see more of the impact on the the work comp thing you might -- it might mitigate some of the other areas and the opposite happens as well.

So all those things kind of moving together.

Q - Joshua David Shanker {BIO 5292022 <GO>}

Okay. And you're still growing comp, I think comp probably is pretty healthy. But what is your flexibility if comp margins begin to change? How quickly can you move in and out of the comp markets?

A - Jonathan Martin Zaffino {BIO 16652236 <GO>}

Yeah, it's a good question. I -- look, I mean we see still a very favorable underlying dynamics and workers' compensation, we are watching more closely the of course the rate pressure in the impact that it has to overall profitability. Some of our growth and work comp has come from again some of the areas that we underwrite loss sensitive programs. So you're getting the benefit of the installation of deductibles in different areas. If we see work comp starting to get to the point where it's not meeting our profitability objectives we will turn the dial well, -- we will move out of some of those, particularly some of those model line areas where we're constantly adjusting rates regularly across the various different statutory companies we have and so on and so forth.

Comp is a smaller part of our book than it's been in a while. Some of that is the relative growth rates of other areas. So we will watch it closely. We feel comfortable with where it is today, but if the economic scenario dips. Further, we will selectively start to move out of different pockets but feel comfortable -- these are the pockets will -- where we will be able to maintain some insulation from underlying loss cost trend.

Q - Joshua David Shanker {BIO 5292022 <GO>}

And can you give any color on where margins are year-over-year in comp and accident year and calendar year basis, you going to give numbers like us -- can we talk about -- has there been a difference and where the initial marks are on comp business?

A - Jonathan Martin Zaffino {BIO 16652236 <GO>}

Fair to say that at this point comp is still very profitable, we don't, -- we don't give specific my ratios disclose that anyway Craig that --

A - Craig William Howie {BIO 17579923 <GO>}

We have not. We've said that it's run in the low '90s. In the past.

A - Jonathan Martin Zaffino {BIO 16652236 <GO>}

I think frankly that's where it's being booked but we think it's better than that.

A - John P. Doucette {BIO 7178336 <GO>}

And just to echo Dom's comment earlier, we did take a little bit more of a conservative view of this year in the comp line in relation to some of the increased rate reductions that we were seeing, so feel pretty confident we're sort of in that range today.

Q - Joshua David Shanker {BIO 5292022 <GO>}

Okay thank you for all the answers.

A - Jonathan Martin Zaffino {BIO 16652236 <GO>}

Thank you.

A - John P. Doucette {BIO 7178336 <GO>}

Thanks Josh.

A - Craig William Howie {BIO 17579923 <GO>}

Thank you.

Operator

Thank you and now take our next question from Mike Zaremski from Credit Suisse. Please go ahead.

Q - Mike Zaremski {BIO 20606248 <GO>}

Hey, good afternoon, first question, in terms of the cat load coming down over time. Is there a dynamic of increasing reinsurance, retro purchase which is flowing through the financials and causing the underlying combined ratio did increase a little bit or is simply diversification and kind of shifting up the tower and whatnot?

A - Craig William Howie {BIO 17579923 <GO>}

Yes, Mr. Doucette to comment as well, but it's mostly about diversifying into other lines of business is growing those more quickly. In this particular six month period. Certainly, as Jon has pointed out we've come off a number of programs that didn't hit our pricing targets that had an impact. Jon made reference to the retro. We did purchase in his opening comments. In part that's part of our typical risk management of our book. We have in the past purchased ILWs and we have cat bonds and Mt. Logan so that's all has been part of the equation. And as you point out moving up the tower certainly decreases premium but gives us similar a better risk adjusted return and you want to add to Jon.

A - Jonathan Martin Zaffino {BIO 16652236 <GO>}

Yeah. Good morning, Mike. Just on the margin, the the hedging, we have a very holistic broad brush hedging strategy and structure. And on the margin that can change the attritional combined ratio. But really, what's driving it is mix shift and growth in certain areas and growth in non-cat areas is driving it more than the hedging.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay, great. Next on the expense ratio just clarification, I think it was up 140 basis points year-over-year. I know, I think, Craig cited and multiples people cited, it's kind of moving into more casualty is so were there any one-time items there are kind of this is, was a clean quarter. When we think about it.

A - Craig William Howie {BIO 17579923 <GO>}

It's purely a mix shift and ceding commissions on pro rata casualty and...

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay. And and lastly, any update, do you expect the Board to make a succession decision in near-term?

A - Craig William Howie {BIO 17579923 <GO>}

Yes. I and by the way, I appreciate everyone's restraints 4-5 calls (Technical Difficulty) who get to that question. But the simple answer to that is yes. And of course, I can't expand on that any further.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thank you.

A - Craig William Howie {BIO 17579923 <GO>}

Thanks, Mike.

Operator

Thank you. We'll now take our next question from Amit Kumar from The Buckingham Research Group. Please go ahead. Your line is open.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks and good morning. Just a few quick follow-ups. The first question goes back to the growth in casualty reinsurance segment. I was just trying to better understand, if I look at casualty reinsurance pro rata. And I guess look at the definition in the K. Can you maybe you can just talk about some of the sub-segments. The growth is coming from, I guess I'm just trying to get some comfort that it's not skewed towards lines such as other liability et cetera where there could be potential slippage in the tort climate?

A - Dominic James Addesso {BIO 1428096 <GO>}

Jon, you have anything on that -- the casualty in the reinsurance side, I will let John to comment I don't know if he has the specifics at hand this morning but clearly casualty includes work comp, includes professional lines, the liability businesses well, it's all included. I don't know if you have a mix handy. We don't have the specific number but up a 1,000 foot view, I would say that the heavier casualty is really about 20% of the portfolio. Recognizing at more we write this in kind of the US in the London market etc. But then we also do write it all over the world. And then a lot of those other world of other areas. It's a, it's a lot more of the softer casualty as well and we are seeing opportunities there and we're seeing opportunities, as I have mentioned before in the back of which our book is 60% casualty and at 60% international.

So also kind of diversifying away from that really heavier casualty book. But we do write a fair bit of comp in there. Embedded in some of the program, environmental and there is a pretty diversified portfolio that we have both in territory and sub lines.

Q - Joshua David Shanker {BIO 5292022 <GO>}

And maybe just related to that this might be for Dom or are you, do you have a view on the discussion on social inflation right now.

A - Dominic James Addesso {BIO 1428096 <GO>}

Look as we recognize that and that we primarily see this, what we're seeing in the inflation area with the loss cost trends. Is mainly in coming from our insurance book reinsurance book given the varieties of treaties that we write. It's hard to call a trend because it can vary by the type of business that you are in the class of business. The territory, etc. So we frankly rely on what we're seeing and the insurance side, at least in the early days. And clearly we see a loss cost trend. Hard to determine whether that's what you're calling social inflation or just traditional severity and frequency.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it.

A - Dominic James Addesso {BIO 1428096 <GO>}

I don't know, don't see any -- necessarily any huge jury awards, if that's what you're getting at coming through our insurance book and or coming through our reinsurance side.

Q - Amit Kumar {BIO 15025799 <GO>}

Yes, that's what I...

A - John P. Doucette {BIO 7178336 <GO>}

And this is John Doucette. I would just add that and also -- within reinsurance. I mean, we have a lot more flexibility in terms of our ability to respond. So first of all, we have been writing long tail business since the '70s in all over the world and we have a lot of experience, a lot of experienced underwriters. A lot of people that understand the markets and we have a lot of data and we've seen, and we've seen things move. And we have seen -- looking at inflation and social inflation and different loss cost trends and things like that. All over the world and we also have the ability to then move by product, by attachment point move in and out of classes that gives us a lot of comfort that we're able to, with our data our expertise, our underwriting capabilities to be able to recognize that and respond to it and we do that all over the world. And so we feel is something that we need to focus on and we do focus on, but we feel we have to keep the right capabilities to be able to respond appropriately and timely to it.

A - Dominic James Addesso {BIO 1428096 <GO>}

So to sum that up. I would say that we don't necessarily see any "shock to the system." coming from what everyone is identifying as loss cost trends. But it is something that we and the rest of the industry frankly are addressing and are dealing with and recognizing that it's a factor in reshaping portfolios, taking a look at rates etc. And I think everyone is being very deliberate about that.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. The only other question I had was on Mt. Logan. The AUN fell and there is obviously talk about in the past on regarding Stone Ridge's redemptions. How are you thinking about the future of this entity?

A - John P. Doucette {BIO 7178336 <GO>}

Yeah, this is John. So, it's what at -- Mt. Logan is a core strategic vehicle for us as we -- as we manage our catastrophe risks, but it's one of them and we look at, we have the cat bonds we buy traditional reinsurance, we buy traditional retro for Facultative for treaty. We now have the new aggregate retro. So it's -- will turn dialed up and down. Based on that we have continue to add and look to add investors into the mix and normal course of business we will continue to do that, but we're not trying to grow for the sake of growing.

It's one of the strategic dials it has very specific values to Everest, but, so do some of the other ones. And so we look across all of these as part of the holistic hedging strategy and structure that we have and you know we have the ability to turn up and down other deals as well.

Q - Amit Kumar {BIO 15025799 <GO>}

And what's the Investor percentage. If you could just remind me, that's the last question I have? The percentage. I think previously you've given that number. Thanks.

A - John P. Doucette {BIO 7178336 <GO>}

I don't recall ever given that number.

Q - Amit Kumar {BIO 15025799 <GO>}

I think it was 85. I'll follow up offline. Thanks for the answers. And good luck for the future.

A - John P. Doucette {BIO 7178336 <GO>}

Thank you, Amit. Thank you.

Operator

Thank you will now take our next question from Ryan Tunis from Autonomous Research. Go ahead.

Q - Ryan Tunis {BIO 16502263 <GO>}

Hey, thanks. I guess my first question is just on how -- you said the PML exposures are down June 1st. Just curious if you could give us an order of magnitude around that?

A - John P. Doucette {BIO 7178336 <GO>}

Good morning, Ryan, it's John. So I mean, it varies -- we track 75 zones. It varies a lot by territory and by return period and based on what products that we offer and where the attachments are, you get very different answers to that along the way.

Q - Ryan Tunis {BIO 16502263 <GO>}

Is it -- the property cat premium it showed down on a gross basis, is it fair to assume that on a net basis, it was down a similar amount or as a steeper decline?

A - John P. Doucette {BIO 7178336 <GO>}

Can look at premium if you're trying to look across the premium, to determine of PML decrease that...

Q - Ryan Tunis {BIO 16502263 <GO>}

No, no, I'm just curious in terms of -- I can see the gross reduction in property cat premiums. I'm just trying to think about what profitability looks like in later cat type season. So I'm trying to get a figure, a sense of how much of that premium came down?

A - John P. Doucette {BIO 7178336 <GO>}

I think we don't have that split out, but I think across the entire reinsurance. I mean, I think they are directionally moving about the same.

Q - Ryan Tunis {BIO 16502263 <GO>}

Okay and then my last question is just on, I couldn't help but notice that there were no Kilimanjaro cat bond deals in the first half of the year and I. I think we've seen those in the past few. And I think that there is about $0.5 billion of limit maturing at year-end, I guess kind of same thing that Amit asked on Mt. Logan, how are you thinking about the affordability of those programs and in this environment. How are you thinking about those upcoming maturities?

A - John P. Doucette {BIO 7178336 <GO>}

I think the answer is it's too soon to tell what we would want to do as we had to the exploration which happens in November in December and it will depend on pricing. It will depend on the wind season and things like that. And we do track the cat bond market and the pricing spreads widened for a while and then they came in a little bit. So it will be one and there'll be a lot of factors that we look at what is our gross book looks like, what are the alternative hedges look like. But right now we're not in a position to know whether what we would do for that or any of the other hedges.

Q - Ryan Tunis {BIO 16502263 <GO>}

Understood, thanks.

A - John P. Doucette {BIO 7178336 <GO>}

Thank you.

Operator

Thank you. Will now take our next question from Meyer Shields from KBW. Please go ahead, your line is open.

Q - Meyer Shields {BIO 4281064 <GO>}

Great, thanks. And I appreciate your patience on this call. I don't know -- I'm guessing just a quick question for Craig. I was hoping you could walk us through the earnings impact of the decline in Mt. Logan, assets under management?

A - Craig William Howie {BIO 17579923 <GO>}

So the earnings impact from the fee income that we receive that shows up in our books and records is relatively immaterial. And what I mean by that is for the quarter. It was down about $1 million overall for the year, we are up about $2 million. So relatively immaterial and that comes through other income, other expense.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's helpful. And then second, I guess, I'm trying to balance the year-to-date decline in interest rates with the growing presence of longer-tail lines of business in gross written premiums. Should we anticipate net written premium -- I'm sorry. Net investment income going up or going down as we consider those factors?

A - Craig William Howie {BIO 17579923 <GO>}

Or into next year. Are you talking for the remainder of this year?

Q - Meyer Shields {BIO 4281064 <GO>}

I was thinking next year, but happy to hear how you're thinking about it.

A - Craig William Howie {BIO 17579923 <GO>}

Well, with strong cash flow, as I pointed out, when my previous answers -- the first half of the year. Certainly increased asset base will be a bigger driver we think and kind of maybe what the Fed does, but we think then what interest rates do. So to that -- to that degree than we would anticipate a growing investment income number.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Excellent. Thank you very much.

A - Craig William Howie {BIO 17579923 <GO>}

Thank you.

Operator

Thank you. We'll now take our final question from Brian Meredith from UBS, please go ahead, your line is open.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, thanks for having me. It's a couple of quick ones hopefully here. First one, Craig. What is new money yields look like right now versus kind of your book yield?

A - Craig William Howie {BIO 17579923 <GO>}

On an overall basis it's about 3.5%. Brian, but it really depends on what you're investing in, investment grade is probably slightly below that. But any bank loans or high-yield investments that we have alternative investments would be higher than that.

Q - Brian Meredith {BIO 3108204 <GO>}

Right. Obviously, yes. So, okay. So still pretty positive good.

A - Craig William Howie {BIO 17579923 <GO>}

Thanks.

Q - Brian Meredith {BIO 3108204 <GO>}

Second question -- I'm just curious, it's thoughts on kind of the crop environment outlook here given kind of what's been going on with crops in the Midwest (inaudible) exceeding et cetera.?

A - John P. Doucette {BIO 7178336 <GO>}

Yeah, good morning Brian, it's John. So...

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah.

A - John P. Doucette {BIO 7178336 <GO>}

So it was obviously a late start to the season, given the weather conditions and there was some prevented planting, and I know there's been some talk of that the prevented planting claims that you know they are -- they are likely to some there, which will have -- potentially have a -- an upward pressure on the, loss ratio. But you know it's still early days that can recover. We don't know what's going to happen. It's both yield and revenue. And so the yield and recover, it's maybe a little bit more focused on or depending on what happens late in the year in terms of the temperatures on what's going to impact the harvest and in terms of what the crop prices are? We don't know, I mean that you know, if we knew that we are going to do a reinsurance as well.

Q - Brian Meredith {BIO 3108204 <GO>}

And then last one for you, John. Just curious, you made a comment that you thought that the I guess alternative capacity alternative capital, the reinsurance would continue to be somewhat constrained going into one more renewals, just curious why you think that is?

A - John P. Doucette {BIO 7178336 <GO>}

So I think it's a combination of things. I think both some trapped capital that's still exists. And we think, well, but it's also I think the development that the markets on Irma, the development now that the markets on Jebi and I think -- and then you have weather is a surprise or not maybe would depend on who is looking at it, but the situation with a couple of the alternative cat managers and how -- what's happened to them, but so I think the sentiment among investors has been strained over the last couple of years.

Having had five years of no-cat, basically, a very low cat, below average cats and then to have the two years with the losses. And then also have the development, I think has really focused a lot of the old alternative investors particularly ones that we call tourists that are really just they're just in it because it sounds different and interesting I think are really focusing on whether this is something they want to do. And I think all of that will map to a healthier reinsurance market and healthier retro market as the alternative investment manager is going to be held the higher standards on transparency, rate change, collateral lease and things like that.

All that points to us -- to a healthier property market in 2020 at January one and beyond.

Q - Brian Meredith {BIO 3108204 <GO>}

Understand. Thank you.

A - Dominic James Addesso {BIO 1428096 <GO>}

Okay. I think we have no further questions, I guess.

A - Craig William Howie {BIO 17579923 <GO>}

Right.

A - Dominic James Addesso {BIO 1428096 <GO>}

Thanks everyone for your dialog this morning and patients and a little over, but that's fine. And I can't help but wanted to emphasize that the strategic journey that we've been on is proving successful. I just caution us all to sometimes not to focus one individual metric and for us I think the focus on the fact that our increased diversification has increased our absolute dollar margin -- even though our combined ratios may increase due to a lower proportion of cap business but the advantage there's less volatility along, but along with an overall improved profit target and by the way I include investment income on that. We are a unique franchise, global franchise that is delivering returns at the highest levels of the industry right now. An exceedingly well positioned for the future. So again, thank you for your interest and look forward to your dialog and questions in the weeks ahead. Take care, have a good day.

A - Craig William Howie {BIO 17579923 <GO>}

Thank you.

Operator

Thank you, this concludes today's call. Thank you for your participation, you may now disconnect.