Q3 2020 Earnings Call

FINAL

Company Participants

- John P. Doucette, Executive Vice President and President and Chief Executive Officer, Reinsurance Division
- Jon Levenson, Head of Investor Relations
- Juan C. Andrade, President and Chief Executive Officer
- Mark Kociancic, Executive Vice President and Group Chief Financial Officer
- Mike Karmilowicz, President and Chief Executive Officer, Everest Insurance Division

Other Participants

- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Joshua Shanker, Analyst
- Meyer Shields, Analyst
- Michael Zaremski, Analyst
- Ryan Tunis, Analyst
- Yaron Kinar, Analyst

Presentation

Operator

Welcome to the Everest Re Group Earnings Conference Call. This call is being webcast and will also be available for replay on the Everest website later today. I now would like to turn the call over to Jon Levenson, Head of Investor Relations.

Jon Levenson {BIO 18636999 <GO>}

Good morning, and welcome to the Everest Re Group Limited 2020 third quarter earnings conference call. The Everest executives leading today's call are Juan Andrade, President and Chief Executive Officer; Mark Kociancic, Executive Vice President and Chief Financial Officer. We are also joined by other members of the Everest management team.

Before we begin, I will preface the comments on today's call by noting that Everest SEC filings include extensive disclosures with respect to forward-looking statements. Management comments regarding estimates, projections and similar are subject to the risks, uncertainties and assumptions as noted in these filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial supplement.

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

Juan C. Andrade {BIO 16371272 <GO>}

Good morning, everyone, and thank you for joining the call. For nearly 50 years, Everest has been a source of strength for our customers. This has never been more important than in today's public health, economic, social and natural catastrophe-impacted environment. Our business is running smoothly, we're performing well and our people continue to demonstrate the passion, professionalism and resilience that differentiates Everest.

I am thankful to our employees for their hard work and perseverance in delivering the solid results we are reporting today. I am particularly proud of Everest recently being named by Business Insurance as one of the Best Places to Work in 2020, a meaningful achievement in the current environment.

The economic recovery is uneven and there was significant natural catastrophe activity in the quarter. Despite this, Everest has continued to grow and generate operating profit. Our broadly diversified reinsurance and insurance franchise, our financial strength, deep distribution relationships and our focus on providing solutions to our customers represent the foundation that position us well for the strength we see in the reinsurance and insurance markets today.

In addition, we have added two exceptionally talented and seasoned global executives to our management team. Mark Kociancic, our new Group Chief Financial Officer joins us from SCOR, where he was the Group CFO since 2013. Jim Williamson, our new Group Chief Operating Officer, joins us from Chubb. Both of these executives have made an immediate impact to Everest. I want to thank Craig Howie for his commitment and contributions to the company. Craig has played an important role in the growth and evolution of Everest. Craig will remain with the company until the end of 2020 to assist Mark with a smooth and seamless transition.

We have also further fortified our already strong capital base with a $1 billion senior notes offering completed on October 7. This is very efficient long-term 30-year capital at a low 3.5% coupon.

As I said in the second quarter earnings call, we have the capital to play offense in this improving market and we also have capital flexibility. We chose to exercise some of this flexibility opportunistically, given the state of credit markets and the low borrowing rates available. We will seek to deploy these proceeds as favorable market opportunities continue to develop and in support of our overall strategy to grow book value over time. Our already strong company is now even stronger.

Everest's strength is evidenced by our third quarter results for the group, where despite the high frequency of natural catastrophe activity, we achieved 16% gross written premium growth and improved attritional combined ratio of 85.8%, excluding cat and pandemic impacts. Net investment income of $234 million, operating income profit of $97 million, net income of $243 million, book value per share growth of 7% from year-end 2019 or 9% adjusted for dividends and a record shareholders' equity of $9.6 billion.

Our growth in the quarter stems from a combination of new business opportunities, improved rate levels and high retention rates on our existing book. The underwriting loss for the quarter was driven by the previously announced $300 million in catastrophe losses. This is in the context of an estimated $35 billion industry loss in the third quarter.

We also added $125 million to our COVID-19 loss provision reflecting the ongoing nature of this event and our prudent reserving philosophy. This provision is predominantly IBNR. Excluding catastrophes and the pandemic impacts, our attritional combined ratios for the group and each of our segments, reinsurance at 83% and insurance at 94% improved year-over-year and are reflective of the earnings generating power of the Everest franchise. Underwriting profitability remains at the core of everything we do.

On a nine-month year-to-date basis, Everest has grown 15% and delivered an 88% attritional combined ratio, excluding the pandemic impacts. Everest reinsurance at 20% quarterly growth year-over-year. We executed our strategies to underwrite a high performing book of business with higher economic returns and lower volatility.

We executed on reinsurance opportunities in several classes including facultative risk, property and casualty and in certain territories, including the U.S., Canada and Latin America. Traditional capital from highly rated carriers like Everest has become more relevant and supply is tight. We see the favorable pricing environment continuing for the foreseeable future. We also continue to be disciplined and rigorously evaluate each transaction. John Doucette is available to provide additional details on market conditions during the Q&A.

Everest insurance had solid execution in the quarter with continued underlying margin improvement over 2019 and 6% growth year-over-year, despite exposure reductions in certain lines given the current economic environment. The attritional combined ratio, excluding the pandemic impacts, improved to 94% for the quarter compared to 96% in the third quarter of 2019.

We are strategically managing the insurance portfolio to build a more diversified business and steer our mix towards product lines that earn higher margins over the long term. Our significant position in both the E&S and retail channels give us access to a wide set of opportunities. For the quarter, the main insurance growth drivers were continued rate momentum of plus 19% excluding worker's compensation and plus 13% including worker's compensation.

We had strong growth across property, excess casualty and D&O where market capacity is constrained and we are seeing the strongest rate increases and better terms. We had continued strength in the excess and surplus line space. And we also had strong renewal retention in both our retail and E&S businesses. Mike Karmilowicz is available to provide additional details on market conditions during the Q&A.

Regarding the ongoing COVID-19 pandemic, the $125 million loss provision in the third quarter was comprised of $110 million for reinsurance and $15 million for insurance. Our overall COVID-19 loss provision year-to-date is $435 million, of which 85% is IBNR. Consistent with our analytical rigor, we continue to take a measured approach to our COVID-19 loss estimation that is based on credible, fact-based and supportable information. We instituted a thorough loss estimation process at the start of the pandemic.

It is conducted team by team and contract by contract. As events unfold and more data becomes available, we are continuously testing our estimates. The claims data we are seeing is consistent with our expectations. It is also important to reiterate that as a reinsurer, our analysis is specific to each situation and similar to reserving, we have established an equally prudent and rigorous claims process. We evaluate claims presented based on existing policy and contract terms and conditions.

Lastly, we remain comfortable with the exposure and loss reserves in our mortgage business in the context of the ongoing economic uncertainty from the pandemic. In summary, Everest continued to perform well in the third quarter despite the uncertainty in the world today. We continue to purposely seek the best opportunities to write business at attractive returns. We have a talented team, a diversified global platform and a strong capital position, all of which allows us to provide attractive solutions to our clients and capture the improving opportunities in front of us.

Now, let me welcome Mark Kociancic to the call and turn it over to him for additional details on the financials. Mark?

Mark Kociancic {BIO 17852409 <GO>}

Thank you, Juan, and good morning, everyone. I'm very excited to be joining a great team here at Everest with its excellent talent base and culture. I look forward to contributing to the company's continuing growth and success. I think my industry experience and skill sets will be assets to further augment the great foundation that has been built here at Everest.

Everest delivered a strong set of financial results for the third quarter of 2020. We achieved significant net income and positive operating income, continued our growth into favorable market conditions and strengthened our already robust capital position. For the third quarter of 2020, Everest reported strong net income of $243 million.

This is more than double the $104 million of net income for the third quarter of 2019. On a year-to-date basis, net income was $451 million compared to $792 million for the first nine months of 2019. Year-to-date, net income included $67 million of net after-tax realized capital gains compared to $90 million in the first nine months of 2019.

Third quarter results were driven by strong premium growth across the group, strong investment income performance and improved attritional loss and combined ratios. We also had Q3 catastrophe activity of $300 million, pre-tax and net of reinsurance and reinstatement premiums and we added $125 million COVID-19 pandemic loss provision.

Year-to-date, our COVID-19 provision stands at $435 million and as Juan stated it's predominantly IBNR. The group experienced an underwriting loss in Q3 of $115 million due to the elevated level of natural catastrophes in the quarter as compared to an underwriting loss of $28 million in 2019.

Turning to Everest's market position and growth. On a year-to-date basis, gross written premium was $7.7 billion, up $1 billion or 15% compared to the first three quarters of 2019. This reflects balanced and diversified growth in both segments with reinsurance up 15% and insurance up 15% compared to last year.

During the third quarter of 2020, the company reported $300 million of catastrophe losses. These losses are pre-tax and net of reinsurance and reinstatement premiums and related to hurricanes, Laura, Isaias, Sally, wildfires in California and Oregon and other events including the Midwest United States Derecho windstorm. The after-tax basis amount was approximately $240 million.

On a year-to-date basis, the results reflected net pre-tax and net of reinstatement catastrophe losses of $345 million compared to $335 million during the first nine months of 2019. Excluding the catastrophe losses and the impact from the COVID-19 pandemic, the comparable combined ratios were 85.8% for Q3 2020 and 87.1% for Q3 2019, and 88% through the first nine months of 2020 and 87.7% for the first nine months of 2019. Mostly attributable to the reinsurance business mix changes.

Excluding the pandemic loss estimate, the Group attritional loss ratio for the third quarter of 2020 was 59.3%, down from 59.7% compared to Q3 2019. Excluding the pandemic loss estimate, the group attritional loss ratio for the first nine months of 2020 was 60.2%, up from 59.5% for the first nine months of 2019, primarily due to the continued change in reinsurance business mix year-over-year.

For the Reinsurance segment, the Q3 2020 attritional loss ratio excluding the pandemic loss estimate was 57.5% essentially flat from 57.6% in Q3 2019. Year-to-date, it stood at 58.5% excluding the pandemic loss, up from 57.5% for the first nine months of 2019. This increase was related to the continued shift toward more pro rata business, which carries a higher loss pick versus excess of loss but allows us to benefit directly from the firming primary market.

The reinsurance division have $323 million of year-to-date operating profitability given its $294 million of year-to-date net investment income. For the insurance segment, the Q3 2020 attritional loss ratio excluding the impacts from the pandemic was 64.8% down from 65.9% in Q3 2019. Year-to-date, it stood at 65.2% down compared to 65.6% for the first nine months of 2019.

Our U.S. franchise, which makes up the majority of our insurance business continues to run an attritional combined ratio in the low-90s, excluding the pandemic loss estimate. The insurance division has $62 million of year-to-date operating profitability given its $126 million of year-to-date net investment income. The Q3 group commission ratio of 20.2% was down compared to the prior year Q3 level of 23.3%.

This was driven by business mix and reinsurance notably more facultative business written and earned and also higher ceding commission received in the Insurance segment. The group commission ratio of 21.7% year-to-date was down compared to the prior year figure of 23% largely due to the same reasoning.

The group expense ratio remains low at 6.1% for the first nine months of 2020, in line with our expectations. Q3 investment income increased strongly to $234 million versus $181 million for Q3 2019. For investments, pre-tax investment income was $420 million year-to-date as compared to $501 million for the first nine months of 2019.

The fixed income portfolio generated $408 million of investment income year-to-date compared to $383 million for the same period last year. As expected, net investment income increased substantially as we recorded $89 million quarter-to-date of largely fair market value adjustments of our limited partnership investments in this line.

The limited partnership result was due to the impact of improvement in the economy and financial markets. As a reminder, we report our limited partnership income one quarter in arrears. The pre-tax yield to maturity on the investment portfolio was 3.1% diminishing from 3.4% one year ago. We continue to hold a well diversified, high-credit quality bond portfolio with conservative duration at approximately 3.5 years. The current overall fixed income reinvestment yields are averaging approximately 2%.

Other income and expense included $38 million of foreign exchange gains during the first nine months of 2020 compared to a loss of $44 million for 2019. Regarding income taxes, our effective tax rate on operating income was minus 0.1% through Q3. There is a year-to-date tax benefit of $31 million related to the CARES Act that we reported in the first quarter. Excluding this benefit, the effective tax rate on year-to-date operating income would be 8.9%.

Along with growth and profitability, positive cash flow was a highlight this quarter as we generated record operating cash flows of approximately $1.1 billion for the third quarter of 2020, compared to $633 million in Q3 2019 reflecting the strength of the growth in premiums in 2020 compared to 2019. Everest has a strong balance sheet, which was endorsed by the market with our very attractively received debt raise during October.

Everest solidified its very strong capital position in the aforementioned opportunistic $1 billion senior notes offering in early October with a low coupon of 3.5% and 30-year tenure under very favorable market conditions. This represents very efficient long-term capital for Everest. The debt leverage ratio pro forma for Q3 stands at 15.1%. Shareholders' equity for the group was $9.6 billion at the end of the third quarter, up from $9.1 billion at year-end 2019. The increase in shareholders' equity in the first nine months of 2020 is largely due to the $451 million of net income.

The mark-to-market impact on the fixed-income assets, which increased by $349 million from December 31, 2019, less $387 million of paid dividends and share buybacks. Net book value per share stood at $239.98, up 7% from year-end 2019 or plus 9.3% when adjusted for dividends. Again, I'm very excited about the future of Everest and the opportunity to further help drive its performance off a strong base.

Thank you. And now, I'll turn it back to Jon.

Jon Levenson {BIO 18636999 <GO>}

Great. Thanks, Mark. Operator, we're ready to open the line for questions. And we would ask if everyone can please limit their questions to two, one question plus one follow up. Thanks.

Questions And Answers

Operator

(Operator Instructions) Elyse Greenspan with Wells Fargo, your line is open.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Thanks, good morning. My first question, just looking for a little bit more color on the margin profile within I guess, insurance and reinsurance. So you guys are getting good amounts of rate in both of those businesses showing some good growth as well. So I'm just trying to understand just the level of margin improvement. I know we saw some in the quarter when we backed out cat and the impacts of the pandemic, but I'm just trying to think about the impact of earned rate exceeding trend and how we should think about the margin, the potential for expansion in both reinsurance and insurance for the balance of this year and into 2021.

A - Juan C. Andrade {BIO 16371272 <GO>}

Thanks, Elyse, and this is Juan Andrade. Yeah, and as you note, we saw good margin improvement in the quarter and just to add a little bit of context for that. We are seeing that rate is outpacing our loss trend in most classes of business, particularly in the insurance sector, also in reinsurance. But we are not changing our accident year loss picks at this point in time. We believe again based on our prudent reserving philosophy that we need to let some of this season over time before we actually start taking it to the bottom line.

However though, keep in mind that we also have other levers that we can pull in order to improve margin and improve profitability in our book of business and it's things like portfolio management. Always looking at your portfolio in detail, being able to tweak that we can look at deal structures, we could look at limit deployment, we could look at industry class selection, terms and conditions, et cetera. So from that perspective, we're doing all of that in our goal to continue to improve underwriting profitability for both the insurance and the reinsurance segments.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then my follow up I guess is tied to that. Was there any benefit from COVID in the accident loss ratio, just I'm thinking if there was any kind of frequency benefit within workers' comp or some short tail lines that you took in the quarter or did you not take any of that within your results?

A - Juan C. Andrade {BIO 16371272 <GO>}

No, we did not take any frequency benefit into account in our results. We are seeing frequency benefits in certain lines of business, commercial auto, general liability, workers' compensation, et cetera, but keep in mind, there's also exposure reductions that are taking place at the same time because of economic situation. And so similar to my reply to the earlier question, we're looking at this -- and we're taking a wait-and-see approach before we change any of our loss picks or bake in any frequency benefits at this point in time.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thanks for the color.

A - Juan C. Andrade {BIO 16371272 <GO>}

Thanks, Elyse.

Operator

Yaron Kinar with Goldman Sachs, your line is open.

Q - Yaron Kinar {BIO 17146197 <GO>}

Hi. Can you hear me?

A - Juan C. Andrade {BIO 16371272 <GO>}

We can hear you, Yaron.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. Good morning. Thanks.

A - Juan C. Andrade {BIO 16371272 <GO>}

Good morning.

Q - Yaron Kinar {BIO 17146197 <GO>}

So first question is with regards to the COVID losses. Can you maybe talk a little bit about what lines of business those reserves were put up in?

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah. Sure thing, Yaron. The lines of business were contingency, business interruption and a little bit of worker's compensation as well. And I would point again back to my remarks and remind you that again, the vast majority of that provision was really in reinsurance. It's about $110 million of the $125 million and overall 85% of our provision at this point year-to-date is on an IBNR basis. So I think that gives you a sense for the -- again, the prudent approach that we're taking on this.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. And have you booked I guess in contingency and have you booked those at full limit losses today or is there a potential for additional losses to come?

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah, the way I think about it and I'd point you back to my remarks, Yaron. We have a pretty detailed and rigorous process by which we're estimating our reserves that is based on credible and fact-based information. So given that what we're doing is essentially looking at the fact that this is an ongoing event. It's continuing, I mean you're certainly seeing the situation in Europe these days with some of the additional lockdowns and the spikes, et cetera. So from that perspective it's an ongoing event. And so what we do is, we do a bottom-up treaty by treaty, account by account, profit center by profit center type review and we true it up with the latest information that we have available at the time.

Q - Yaron Kinar {BIO 17146197 <GO>}

Got it. And then my follow-up question is with regards to reserves beyond COVID. You're still relatively new in the role, less than one year, and there is a new CFO now as well. We haven't really seen much movement in reserves this year; as we head into the end of the year, how confident is the management team in the current reserves?

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah. Sure thing. So Yaron what I would say is we have an ongoing and dynamic process to review our reserves and our philosophy hasn't changed, it's really what we have talked about in the past in the sense that we recognize bad news quickly and we require good news to be proven over a longer period of time. And hence, that was a little bit also of my answer to Elyse earlier about accident year loss picks. We need to see some of that season over time, but we're always continuing to review and analyze the portfolio. We have completed some reserve studies on smaller segments earlier in the year and there was no material change in either direction. We will be completing longer-tail segments in the fourth quarter, and if we see any need to take action, we will take action at that point in time but again that's basically the reserving stance in our philosophy.

Q - Yaron Kinar {BIO 17146197 <GO>}

Thank you very much.

A - Juan C. Andrade {BIO 16371272 <GO>}

Sure.

Operator

Brian Meredith with UBS Securities, your line is open.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes, thank you. A couple of questions here. The first one just on the reinsurance space, I noticed drop in casualty XOL and casualty pro rata premiums. I thought that was actually a pretty good market. Now what's going on there, just contracts lost, certain unusual items going on or was it your conscious reason to decrease that?

A - Juan C. Andrade {BIO 16371272 <GO>}

Thanks, Brian. I'll ask John Doucette to please comment on that.

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

Yeah, good morning, Brian. Look, part of that's just timing of accounts and a couple of one-off accounts. But we agreed that it's a good market and we're seeing both on the treaty and the facultative side, proportional casualty and excess of loss casualty opportunities both in the U.S. and international and we had a very good July 1 and continued to see that. And frankly, expect that to be an area of growth for us in 2021.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. And then pivoting over to the insurance kind of similar type of question. I mean, only 5% growth in premium this quarter, I know some of that's probably the pressures from workers' comp but maybe some color around why we aren't seeing better growth there.

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah. Mike Karmilowicz, if you can answer that question please.

A - Mike Karmilowicz {BIO 6534478 <GO>}

Sure. Thanks, Brian for the question. Couple of things, one, stated before that our focus is really in the business with a better margin long term as was mentioned with workers' comp and our diversification. You're seeing that business mix played through the underlying loss ratio. And with that, we are focused over the front foot of capitalizing those markets where we are prepared to drive. So when you think about like excess casualty, you think about D&O and even our core U.S. retail and wholesale property were up 28%. We're driving those goods really hard.

Now there is a drag a little bit that you're seeing with regards to the pandemic, but we are very well positioned and given the opportunity in the marketplace that's in front of us, we think we're going to have significant opportunity in the foreseeable future as the economy comes online.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thank you.

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah, I think what I would add to that, Brian, as well is that, we're executing pretty well and we have the platform both on the E&S side and the retail side. You saw the plus 19% rate that we had in the quarter, which is continuing to build over prior quarters. And when you take away some of the drag from the exposure reductions that you're seeing in the economy, this business will grow double-digits and that's just a matter of the economic recovery playing itself through.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, very helpful thanks, Juan.

A - Juan C. Andrade {BIO 16371272 <GO>}

Sure.

Operator

Michael Zaremski with Credit Suisse. Your line is open.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay, good morning. Thinking about the capital raise I guess from hearing the comments on previous earnings calls it didn't seem like capital was really needed. I heard the comments, Juan, about being opportunistic. So just curious, did something kind of change quarter-over-quarter or is it just simply low debt costs and some growth and do you -- will some of this capital be used for buybacks if buybacks you think will come online now that COVID losses seem to be kind of improving and we're through most of cat season?

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah. Thanks, Mike. So first of all, nothing has changed. We have been in an excess capital position as a company as we've talked about in the past. And for us it was exactly what I said, it was really opportunistic timing given where credit markets were. I mean look, the fact that we printed a 3.5% coupon on 30-year debt is pretty good. I think it's probably one of the lowest if not, some -- the lowest P&C long-term debt coupon that's been printed out there. So the timing, it was really the key for the markets where yields were at the time, that was really the key that drove all of this.

Now as far as what we'll do with that capital again, we were starting in an excess capital position, where now we are at an even stronger capital position, we have flexibility. As I indicated in my remarks, we see some very, very good opportunities right now organically in both the insurance and reinsurance space, given the market conditions so that's part of it. But we're also thinking, as I said in my remarks, about playing this in support of our overall strategy to grow book value, right. So there's different things that we can do over time with this capital.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay, understood. And that would include share buybacks potentially since reopening, Juan?

A - Juan C. Andrade {BIO 16371272 <GO>}

It could in the future, right. I mean if you look at our capital management philosophy, our first priority has always been to deploy capital for organic business growth in the market. We see attractive opportunities there. Beyond that, excess capital can also be used for other things, share repurchases, pay dividends et cetera, et cetera. So there's multiple things that we can do that and that's really my comment about supporting growth in book value over time.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay, great. And last question as a follow-up to Yaron's question about kind of reserve studies. Is there any -- do you think that the new management team coming on board there might be a change to kind of the reserving philosophy as you guys take a kind of a new sets of eyes kind of look at the book I think, versus one that historically you've thrown out just a little bit of reserve releases, some of your peers tend to kind of just book a little bit more conservatively. Just curious if you think there could be any changes there. Thanks.

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah. Thanks, Mike. And keep in mind, I think, as Yaron said, I've been the CEO for less than a year at this point in time, right, so it has been about 10 months. Mark Kociancic is now joining us. But as I stated earlier in the response to his question, the fundamental philosophy of recognizing bad news quickly and requiring good news to be proven over a longer period of time really has not changed from that perspective.

So I go back to the fact that, I'm a fact-based guy. We will look at the information that comes out of our reserve studies and then we will act accordingly.

Q - Michael Zaremski {BIO 20606248 <GO>}

Thank you.

A - Juan C. Andrade {BIO 16371272 <GO>}

Sure.

Operator

Meyer Shields with KBW, your line is open.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. First question to Mark, if I can. You mentioned I think that insurance ceding commissions were up and that was helping the expense ratio in that segment. I guess a little surprising are -- my impression is that ceding commissions are generally coming down as one of the aspects of the hard market, so I was hoping you could add some color to what's going on there.

A - Mark Kociancic {BIO 17852409 <GO>}

Yeah, Brian...

A - Juan C. Andrade {BIO 16371272 <GO>}

Meyer.

A - Mike Karmilowicz {BIO 6534478 <GO>}

Meyer, sorry about that. Yeah, with ceding commissions what we're seeing in the insurance space is an elevated level of ceded premium really due to the business mix of what we have. And so we're ceding a bit more business out in certain lines, which is leading to higher ceding commissions coming in there but that's more of a business mix situations.

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah. So it's not so much a change in the percentage for the actual ceding commission but rather the business mix that's flowing through.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's very helpful. The second question I guess earlier this week we had one of the Bermuda reinsurers talked about being more conservative in their interpretation of potential catastrophes than vendor model. I was hoping you could talk about how Everest sees that.

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah, thanks, Meyer, this is Juan. Look, I think, climate change is a real thing, right. It would be crazy to deny that climate change exists. I'm also acutely aware that our industry plays a critical role, frankly in economic and social recovery after extreme weather events. And you look at what's been happening particularly in the Gulf Coast and frankly my heart goes out to these people having spent a lot of time in my career working and living down there, the frequency of activity that's hit them in the past quarter is just not good.

From the perspective of how we think about it, I think modeling is a big part of it and we certainly have a really world-class modeling capability that looks at everything from sea temperatures to atmospheric saturation to changes in economic valuations and we look at all of that. However, what I would say is though, no single computer model is going to be able to predict consistently the long-term impact of climate change.

So this is when you have to really come back to the skill set that your underwriters bring and the underwriting judgment that we have. And so from our perspective that's part of how you have seen some of our PMLs reduce over time, right. The fact that we're looking to grow a diversified book of business to be able to manage that type of volatility even better.

And then other thing that I would say is, as you look at our hedging, right, the fact that we do pretty significant risk transfer to our third-party capital tools like Kilimanjaro, Mt. Logan, et cetera, and that's part of the suite of how we think about all of this. So hopefully that provides a little bit of context on how we think about it, Meyer.

Q - Meyer Shields {BIO 4281064 <GO>}

It does. Thanks so much.

A - Juan C. Andrade {BIO 16371272 <GO>}

Thank you.

Operator

Ryan Tunis with Autonomous Research, your line is open. Ryan, your line is open.

Q - Ryan Tunis {BIO 16502263 <GO>}

Sorry, guys, I was on mute. Sorry about that. Can you hear me, Juan?

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah. Ryan, I can hear you. Good morning.

Q - Ryan Tunis {BIO 16502263 <GO>}

Sorry about that. Yeah, good morning. So you said you've been here 10 months, so you are pretty familiar with Everest now, some management changes. I guess, just taking a step back a broad question, as you think about 2021, what are the main parts of Everest that you think need to get better. And what are you thinking like some of the main improvements might be?

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah, it's a good question. Look I start with the fact that I think we have a great company and a great culture and frankly based on the numbers that you see us continue to report, we're attacking this environment, right. The pricing is there, the execution is there, so I feel pretty good about all of that. We certainly have strengthened the management team with two executives who have global capabilities, who have a lot of strategic strength and I feel very, very good about that. Look, I think for us the opportunity is how do you continue to execute in the middle of all of this, right?

The context of a pandemic, the context of an economic recession and the context of a very strong underwriting market. So for me, those are good problems to have, which is how do you continue to take a great franchise and moving forward in that environment and do it successfully.

Q - Ryan Tunis {BIO 16502263 <GO>}

That's helpful. And then my follow up I guess just for John Doucette, the $300 million in cats seems like a lot less than maybe what Everest might have had in past years. I don't know if that's how you're thinking about it or not, but I'm just curious if-- what's your observation on cat experience this third quarter versus maybe what you would have had in a similar type of cat year in '18 or '19. How does that reflect some of the changes you made in the book?

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

Yeah. Thanks, Ryan. Good morning. And so, a couple of things. So as we've talked about on prior earnings calls, you break it into a couple of parts, break it into wildfires. So we had talked about how we didn't think the industry was charging enough of what we thought was required for the elevated risk for the wildfires. And so we pushed rates, terms, conditions and irrespective of getting a lot of improvements. We also decided and made a conscious decision to cut our gross wildfire exposure.

And then on the -- on some of the property in the wind exposed areas, yes, we've been seeing a lot of rate but we also talked about a view of an elevated risk, a combination of the climate change that Juan talked about before, but also seeing social inflation things like assignment of benefits and how that impacts things. And so that along with exposure growth and just frankly our increased cost of capital because our ability to deploy capital profitably into many other lines of business and we expect to be doing that going into 1/1 as we see improving rates, terms, conditions.

Our cost to deploy property ag has continued to go up, cat capacity. So that certainly was helpful in terms of our market share and absolute dollars of loss. But frankly, that wasn't an accident, this was all intentional.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thank you.

Operator

Josh Shanker with Bank of America, your line is open.

Q - Joshua Shanker {BIO 5292022 <GO>}

Yeah, good morning, everybody.

A - Juan C. Andrade {BIO 16371272 <GO>}

Morning, Josh.

Q - Joshua Shanker {BIO 5292022 <GO>}

I want to talk a little bit in relation to Meyer's question about ceding commissions but on the reinsurance side. Obviously this is a very good quarter in terms of the commission expense ratio, the best since 3Q '17. I've been looking at the mix of business, it seems like quota share casualty went down and it doesn't seem like there was a lot of ceding commissions from the events. Maybe you can walk through that number a little bit and give us some thoughts on how it might compare with where it might be in 2021?

A - Juan C. Andrade {BIO 16371272 <GO>}

Yeah. So John Doucette, maybe you can provide some color on that?

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

Yeah. Thank you. Good question. So I mean part of it is mix of business but part of it also, I think there was also a computation we had mentioned a couple of quarters ago that had to do with prior year that kind of had an offset between what was in the commission, on the commission side and the loss reserve. So it was kind of a push financially but it did move some of the numbers around. And I think that's part of what you're seeing. So and then in terms of what we would expect going forward. We would encourage you to look at the year-to-date numbers for what the commission ratio as a better indicator than any one quarter.

Q - Joshua Shanker {BIO 5292022 <GO>}

Okay, that's -- and then if we're thinking about business mix going forward, orientation for 2021 between XOL versus pro rata between property versus casualty, do you have any preview on how you think you might orient the book coming next year?

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

Yeah, it's a great question and we're spending a lot of time thinking about that, strategizing about it with our underwriters all over the world. So look, I mean the bottom line is, we're pretty bullish on many opportunities across many lines of business going into 1/1 and there's a variety of reasons for that. We're seeing a flight to quality and a flight back to the traditional model, which we think will greatly benefit us across many lines.

Our global clients are continuing to want to buy more and buy more from people like Everest. So that's a significant opportunity and then whether it's property or casualty or specialty, marine and aviation, political risk trade, credit assurity, we have underwriting expertise in all of these lines of business all over the world. And so we are ready. We get the team, we have the capital as Juan and Mark talked about, we have the franchise, the distribution and we're really leaning forward.

And then in terms of where it will be, we see opportunities in all of those. We expect the casualty market partially because the reinsurance panels, the security requirements on reinsurance panels for long tail business casualty professional that's hard for a lot of people to get access to that business, so we have the distribution and the relationships and again the underwriting expertise. So we expect to see a strong 2021 when it comes to the long tail.

But of course, we're looking at the most dislocated property retro mark that we've seen in 15, 20 years. And so again, we'll look to deploy capacity and capital. And then we spent a lot of time and we've talked about this before, kind of a dynamic capital allocation, not just between short tail, long tail but then within each of the respective areas. What's the best territory, what's the best product, structure that we want to deploy and so it's hard to know how that will all settle out, but rest assured we are bullish about the opportunity presented to us and our ability to execute it going into 1/1.

Q - Joshua Shanker {BIO 5292022 <GO>}

Thank you very much for the answers.

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

You're welcome.

Operator

There are no further questions at this time, I would now like to turn it back over to the Everest team for final remarks.

A - Juan C. Andrade {BIO 16371272 <GO>}

Thank you, and thank you for your time today. I think as you've heard from us, Everest is well positioned for this market. We have the financial strength, we have a preferred market presence, we have a diversified global platform, we're very nimble, so we can go either way and take advantage of the opportunities.

We have a deep distribution set of relationships, we have great people and we have a great culture. So we do feel pretty good about the market environment and the situation that Everest is positioned on to capture.

Thank you for your time today and we look forward to updating you at the next quarter.

Operator

This concludes today's earnings call. We thank you for your participation, you may now disconnect.