Q2 2020 Earnings Call

Company Participants

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

Other Participants

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

Presentation

Operator

Good day and welcome to the Everest Re Group Second Quarter 2020 Earning Conference Call. Today's conference is being recorded.

Now at this time, I'd like to turn the conference over to Mr. Jon Levenson. Please go ahead, sir.

Jon Levenson {BIO 18636999 <GO>}

Thank you, Cody, and welcome to the Everest Re Group Limited 2020 Second Quarter Earnings Conference Call. The Everest Executives leading today's call are Juan Andrade, President and Chief Executive Officer; Craig Howie, EVP and Chief Financial Officer; John Doucette, EVP and President and CEO of the Reinsurance Division. 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>}

Thank you, Jon. Good morning everyone and thank you for joining the call. The world is struggling with the greatest public health threat in the last century, which has resulted in economic and great personal suffering at the same time individuals are rightfully calling for positive social change and seeking an end to racism and inequality. At Everest we stand together with our colleagues around the world against racism and discrimination. We have an unwavering commitment to supporting diversity, equity and inclusion in our workplace.

In the context of this public health, economic and social, environment Everest is serving our customers and providing the strength and stability that they have come to rely on for almost five decades. Our business is running smoothly. We are performing well and our people continue to demonstrate the passion and resilience that differentiates Everest. The health and safety of our employees and our customers are paramount. I am very proud of our team and very thankful for the hard work and perseverance in delivering the solid results we're reporting today for the second quarter and for the first half of 2020.

Our ability to leverage our capital position, our global platform and our success in executing against our objectives even under adverse conditions, positions us very well for continued profitable growth. We have strong and broad-based forward momentum across both our Reinsurance and Insurance Division. Our growth stems from a combination of new business opportunities resulting from our strong financial ratings, deep distribution and diverse portfolio as well as increased rate levels and high retention rates.

We sequentially improved our underwriting profitability in the second quarter and we continue to demonstrate strong structural expense management discipline. Our industry-leading expense ratio continues to give us operating flexibility. We also reported significantly improved net income compared to the first quarter as we benefited from the upswing in the capital markets during the second quarter and our shareholders' equity grew to a record $9.3 billion as of June 30. Our book value per share was $232 and $0.32, up 8% from the first quarter of 2020 and up 4% compared to year-end 2019. Our excess capital position remains a source of strength as evidenced by A plus financial strength ratings recently affirmed with stable outlooks. Everest has the capital to play off in this market. If we work to identify a need for additional capital, our low debt ratio gives us a high degree of flexibility. Our capital position, our focus on execution, our people and our emphasis on solving problems for our customers keep us well positioned to pursue all business opportunities that meet our underwriting appetite.

Before I specifically addressed our second quarter results, let me share how we're driving the company forward. Our focus is on sustainably growing a balanced and diversified insurance and reinsurance portfolio by line of business and geography through the relentless execution of our strategies to deliver consistent underwriting profitability. We are nimble. We are opportunistic. We are capturing current market conditions that meet our return requirements. On the revenue side this is about creating greater optionality and diversification across our entire business. With a broad mix of products, customer segments, distribution and selective local presence, we are capitalizing on growth opportunities around the world and balancing the highs and lows of our industry and economic cycles.

This is why having vibrant reinsurance and insurance businesses is a key element of our strategy. The growth of the Insurance Division with gross written premiums now exceeding $3 billion on a trailing 12-month basis with sustained attritional profitability is vital to greater balance in the organization. But this growth is not at the expense of our Reinsurance Division. Today, we are a top 10 global reinsurer, a growing specialty insurer, and we are building on these positions in this market. As a group, we are playing offense to improve and further solidify our position with the best mix of talent, product and services. We are enhancing and sharpening the strategy and tightening the execution and operating wisdoms [ph]. We are deploying our sizable balance sheet and diverse capital base to expand our relevance in our chosen market.

On the margin side, the focus is on underwriting profit. We are maintaining and enhancing our underwriting results with active portfolio management, strong risk governance and excellent analytics. We are reducing exposure in areas not meeting the right risk return profile and we're dynamically deploying that capital to areas that do. Our strategic utilization of alternative capital will enable us to further diversify the portfolio. We are focused on claims management to deliver consistently accurate outcomes with superior service. We're maintaining our expense leadership to more efficient and scalable operating model enabled by the latest technology including artificial intelligence and natural language processing tools. On investments, we continue to generate strong cash flows that are invested in conservative, high credit quality portfolios. We remain well-diversified. All of this will deliver growth in earnings over time, resulting in book value per share growth.

Turning to the second quarter of 2020, we demonstrated continued momentum across the group with 11% growth in gross written premiums excluding the impact of foreign exchange. The growth was broad-based across both our reinsurance and insurance businesses with gross written premium growth of 11% and 10% respectively, also excluding the impact of foreign exchange. We continue to benefit from improved insurance and reinsurance market conditions during the quarter, which I will discuss in a moment. Excluding catastrophes and the pandemic impacts, our IP and our loss provision and a small amount of associated credit impacts, our attritional combined ratios for the Group at 88.5% in each of our segments, reinsurance at 86.7% and insurance and 93.7% are reflective of the strong underwriting performance across the Group and the earnings generating power of this franchise. Underwriting profitability remains at the core of everything we do.

On a six-month year-to-date basis Everest has grown 15% and delivered an 89.1% attritional combined ratio, excluding pandemic impact. Our Reinsurance segment had strong growth for the quarter. We continue to successfully execute our strategies to underwrite high performing book of business with higher economic returns at the important April 1, June 1 and July 1 renewals. We continue to see excellent Reinsurance opportunities in several areas such as faculties of risk, property and in certain territories including the US, Canada, Latin America and Asia. This environment gives us the opportunity to better shape our book toward deals with better terms and pricing that walk away from others that do not meet our pricing hurdles. Traditional capital from highly rated carriers like (inaudible) has become more relevant when supply is tight, particularly given the more limited availability of alternative capital. We see this favorable pricing environment continuing for the foreseeable future even with pandemic related economic headwinds. Reinsurance profitability was also strong for the division with the 95.3% combined ratio, including COVID impacts and an 86.7% excluding the COVID impacts. John Doucette will provide additional details on market conditions.

Our insurance segment growth remained strong for the quarter at 10% and with improvement in underlying performance, the attritional combined ratio excluding the pandemic impacts improved to 93.7% for the quarter compared to 96% in the second quarter of 2019. We are strategically managing the Insurance portfolio to build a more diversified business and steer our mix towards product lines that we expect to earn higher margins long-term. The maturation of several new product lines launched over the last several years, as well as a wide market footprint give us access to significant opportunities. For the quarter, the main insurance growth drivers were, strong and widespread rate momentum, excluding workers' comp of plus 18% and including workers' compensation of over plus 12%. This is the highest overall rate change we had seen in a long time. Insurance written rate also continues to exceed loss trend across our core P&C lines of business. We also saw continued strength in the excess and surplus Lines space. We had strong renewal retention in both our retail and E&S businesses, but this growth is offset by pandemic-related headwinds in lines heavily impacted by lower payrolls and lower business activity.

Turning to investments. Net investment income decreased to $38 million for the second quarter, the drop was attributable to negative returns from our limited partnerships, which we mentioned in our first quarter call report on a one quarter lag. Given the lag, this drop reflects the market turmoil, which occurred in March. The second quarter recovery in the public markets provides a basis for expecting an improvement and limited partnerships, which will be reported in the third quarter. The amount of the recovery is difficult to predict given the ongoing uncertainty caused by the pandemic. Regarding COVID-19 impacts, as per our July 23 announcement, we have taken the $160 million loss provision in the second quarter made up substantially of IBNR. The majority of this loss provision of $130 million was for the Reinsurance business. These losses relate to event cancellation or postponement, business interruption and workers compensation.

We have also increased our IBNR for allocated loss adjustment expenses based on anticipated cost to investigate and defend some portion of claims. We are taking a measured approach to our loss estimation process that is based on credible and supportable information. This is an ongoing event and very different than the natural catastrophe. We are continuously monitoring this evolving situation and recognizing potential exposure based on the most up-to-date information available. Our second quarter estimate was based on a refreshed analysis updated with the latest information from our clients. While our analysis continues to include all aspects of our global portfolio, our estimate does not take into account legal, regulatory or legislative intervention that could retroactively mandate or expand coverage provisions.

After $30 million loss provision for the second quarter in our specialty insurance business, the majority was from event cancellation and postponement policies as the nature and duration of the pandemic has increased the likelihood of cancellations into early 2021. Smaller portion of the insurance loss provision was predominantly loss adjustment expenses for business interruption policy. As stated last quarter our property policies have unambiguous policy language, but requires direct physical loss for business interruption coverage to be triggered. Additionally, the majority of the property policies in force contain a virus exclusion. Only a very small number of policies have endorsed sublimits that would offer BI coverage for notifiable human disease. This exposures have already been recognized as part of the overall IBNR estimate.

Workers' compensation represents the smallest portion of the insurance provision in the quarter. We have refreshed our analysis based on the industry profile for businesses, which have now been deemed essential by many states. However, this is not a significant amount. Our portfolio has no known exposure to first responders and very minimal exposure to front line healthcare workers. With regard to the reinsurance loss provision, we have updated our analysis based on information from cedents and brokers. It is important to reiterate that as a reinsurer our analysis will be very fact- specific to each situation in each contract. We have also updated our review of our mortgage reinsurance contract. Based on our current view of the macroeconomic situation, updated client information and our internal modeling, we remain comfortable with our exposure and with our loss reserves. We will continue to evaluating this business as the economic situation unfolds.

In summary, Everest continues to gain traction and forward momentum despite the macroeconomic uncertainty and a rapidly changing external environment. We are operating smoothly with the health and safety of our employees and their families top of mind. I am optimistic about our future. We have a talented team, a global platform and a strong capital position, which allows us to capture the improving opportunities in front of us. Lastly, I want to welcome Mike Karmilowicz to the call today. As you saw in our recent announcement, I am pleased to introduce Mike as a new CEO of our Insurance Division. Mike's promotion is an acknowledgment of the key role he played in the growth of the Insurance business over the past several years and provides continuity so Everest can execute on our winning strategy. He will be available to answer your questions today.

Now, let me turn it over to Craig to provide additional details on the financials.

Craig W. Howie {BIO 17579923 <GO>}

Thank you, Juan, and good morning everyone. Everest delivered another solid quarter of financial results. For the second quarter of 2020, Everest reported net income of $191 million. This compares to net income of $17 million in the first quarter of 2020 and $333 million for the second quarter of 2019. On a year-to-date basis, net income was $207 million compared to $687 million for the first half of 2019. Net income included $22 million of net after-tax realized capital losses compared to $100 million of capital gains in the first half of 2019. These results were driven by a strong underwriting performance across the Group, stable investment income from fixed maturities and low catastrophe losses partially offset by a COVID-19 pandemic loss estimate of $310 million and negative limited partnership investment returns.

The overall underwriting gain for the Group was $51 million for the second quarter and $80 million for the first half, compared to an underwriting gain of $393 million in the first half of last year. The company continues to grow premium in 2020. Year-to-date gross written premium was $4.9 billion up $646 million or 15% compared to the first six months of 2019. This reflects growth in both segments with insurance up 20% and reinsurance up 13% compared to last year.

In the second quarter of 2020, the company reported $15 million of catastrophe losses related to the civil unrest in the US. Although, there were a number of loss events in the quarter, notable, 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 $45 million compared to $55 million during the first half of 2019. The Group combined ratio was 98.1% for the first six months, compared to 95.5% for the 2019. Excluding the catastrophe losses and the impact from the COVID-19 pandemic, the comparable combined ratios were 89.1% for the first six months of 2020 and 88.4% for the full year of 2019, mostly attributable to business mix changes that impact the attritional loss ratio. Excluding the pandemic loss estimates, the Group's attritional loss ratio was 60.7% up from 60.2% for the full year 2019, primarily due to the continued change in Reinsurance business mix.

For the Reinsurance segment, the attritional loss ratio, excluding the pandemic loss estimate was 59.0% up from 58.2% for the full year 2019. This increase was related to the continued shift towards more pro rata business, which requires a higher loss pick, but allows us to benefit directly from the firming primary market. Pro rata premium is less volatile than excess premium and we will see the benefits earn into our results as we let the loss (inaudible) season over time.

From the Insurance segment the attritional loss ratio, excluding the impacts from the pandemic was 65.4% down, compared to 66.0% for the full year 2019. Our US franchise, which makes up the majority of our global insurance business continues to run an attritional combined ratio in the low 90s excluding the pandemic loss estimate. The group commission ratio of 22.4% was down compared to the prior year due to business mix and more ceding commission received in the insurance segment. Group expense ratio remains low at 5.8% in the second quarter and 6.1% for the first half of 2020 in line with our expectations.

During the second quarter, we saw a reduced expenses for new hires, travel, entertainment and conferences. On loss reserves, we completed several reserve studies during the quarter related to some smaller classes of business. The overall indications were not material enough to warrant any action on these studies during the second quarter. For investments pre-tax investment income was $186 million year-to-date on our $21.6 billion investment portfolio. As Juan mentioned in his remarks, investment income in the second quarter was impacted by $88 million of limited partnership losses. Fixed income portfolio remained stable and produced $272 million of investment income year-to-date, compared to $253 million for the same period last year. The pre-tax yield to maturity on the investment portfolio was 3.4% stable compared to 3.4% one year ago. We've been able to maintain consistent yield to maturity without a dramatic shift in the overall investment portfolio. We expect to maintain our asset allocation and a conservative well diversified high credit quality bond portfolio with conservative duration.

For our investment grade portfolio, the new money rate was 2.7% for the quarter. Other income and expense included $24 million of foreign exchange losses during the first six months of 2020. On income taxes, the year-to-date tax benefit of $14 million included a $31 million tax benefit related to the Cares Act that we reported in the first quarter. Excluding this benefit, the effective tax rate on operating income was a 11% in line with our expected tax rate for the full year. Positive cash flow continues with record operating cash flow of $1.1 billion for the first half of 2020 compared to $854 million in 2019. This increase reflects our growth in premiums and a lower level of paid catastrophe losses in 2020 compared to 2019.

Shareholders' equity for the group was $9.3 billion at the end of the second quarter, a new record for Everest up from $9.1 billion at year-end 2019. The increase in shareholders' equity in the first half of 2020 is primarily attributable to the $207 million of net income and the significant recovery in the fair value of the investment portfolio. The mark-to-market impact on the fixed-income assets improved from an unrealized loss of $248 million in the first quarter to an unrealized gain of $545 million in the second quarter of 2020. Everest continues to maintain a very strong capital position with industry low debt leverage and high liquidity in our investment portfolio.

Thank you, and now John Doucette will provide a review of the Reinsurance operations.

John P. Doucette {BIO 7178336 <GO>}

Thank you, Craig, and good morning. Having now finished our June and July renewals, we are increasingly optimistic about the reinsurance market in our position as a global provider of Reinsurance solutions. The flight to quality by Reinsurance buyers continues. And highly rated reinsurers like Everest with solid financial strength and global underwriting capabilities will do well in this market. The expanded opportunity set allowed us to improve our portfolio across virtually all geographies and classes of business.

As Juan stated earlier, Everest market positioning, combined with healthier market conditions led to strong growth in gross written premiums for this quarter and for the first half of this year. For net written premium the growth was even higher at 15% for the second quarter as we retained more business given our capital strength, the improved underwriting environment and the shifting economics of retrocession purchases. Overall, we have a larger and more profitable portfolio than we did last year. By many measures of risk and return, the expected performance of writing this year is improved versus the expected performance of the last underwriting year.

Our portfolio's growth has been broad-based with significant contributions from our global facultative operations, which are seeing large increases in submission activity and strong pricing trends. Encouragingly, rates are increasingly -- increasing strongly even in markets with sufficient capacity. In terms of property cat market conditions overall remained strong, particularly at peak zones and recently loss affected areas. Cat renewals in Florida and the US generally experienced double-digit rate increases with higher increases on loss affected business leading to higher expected margins and profits. In our Florida cat book, we wrote more premium versus last year, but with less exposed limit. As a result of our underwriting execution and rate increases, our expected dollar margin for Florida is meaningfully higher. We also refocused our capacity on fewer core clients.

Regarding our global property portfolio. We executed our plan. Expected profits grew considerably as we retain more economics due to a smaller outwards retro spend. However, we maintain hedging capacity through Mt. Logan and our catastrophe bonds. Across our peak cat exposures, our net PML increased mid-year, relative to January's net PML, reflecting our plan to capture this markets improved profitability. The net PML increases are predominantly further in the tail of the distribution.

Competition from ILS capacity was less pronounced during the mid-year renewals due to investor frustration from multiple bad industry cat loss years, adverse development and trapped capital by several ILS managers. The retro market is favorable for sellers and as a net seller of retro, we captured strong double-digit rate increases and demand from recurring retro buyers remains robust.

We also deployed more capacity in property pro rata business with original rate improvement and tighter occurrence gaps. The well-priced cat exposure of this class contributed somewhat to the increased PML. The casualty reinsurance markets are also improving directly from increased excess rates or indirectly as original business rates benefit pro rata deals. Excess casualty rate increases generally range from single digits to well into double digits varying by and ceding and product. Casualty ceding commissions improved slightly. While the casualty market improved, we still walked away from some large renewals priced below our return requirements.

Nevertheless, we have several compelling opportunities to partner with our global clients in several classes of business either through new deals brought to the market or increased shares on improved renewals. In Australia and Asia market firming continued throughout the year with earlier renewal rates increasing less than later renewal rates. For these mid-year renewals more business net return hurdles and we wrote more premium accordingly. Our long-term relationships in Asia cultivated over the last 30 plus years allowed us to capture better opportunities and in times like these those situations become more pronounced. Likewise quality underwriting opportunities presented themselves in Canada, as rate increases were achieved across several different lines of business in both fac and treaty. Therefore, we have been increase in our shares on several Canadian programs.

Finally some comments on our mortgage book. We remain comfortable with our exposure, loss picks and loss reserves on our mortgage writings. The majority of our in-force mortgage business will not be impaired by the pandemic and thus housing fundamentals and post-economic recovery, unemployment deteriorate significantly. This is in part because of our generally high attachment points and our conservative underwriting and pricing of mortgage, also unlike the primary mortgage insurers we as a reinsurer can and do book significant IBNR reserves.

In summary, disruptions facing our industry and our personal lives create uncertainty around the future of many businesses and economic sectors as a leading provider of reinsurance solutions, we maintain a strong position to absorb volatility and diversify that uncertainty for our clients with our robust balance sheet global presence and capital resources, while generating solid returns for our shareholders.

Thank you, and now I will turn it back over to Juan.

Juan C. Andrade {BIO 16371272 <GO>}

Thanks, John. I feel good about the direction of the insurance and the reinsurance market. And I am pleased with our execution and our momentum. We have grown our premium by 15% in the first six months of 2020. Our first priority is to profitably deploy our capital for organic business growth in disheartening market environment. We continue to find ways to put our capital to work and we see strong opportunities ahead.

Now, let me turn it over to Jon Levenson to open it up for your questions.

Jon Levenson {BIO 18636999 <GO>}

Great, thanks Juan. Cody, I see we have a number of participants in queue. Can you please open the Q&A.

Questions And Answers

Operator

(Operator Instructions) We'll first take our question from Mike Zaremski with Credit Suisse. Please go ahead.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay, thanks. First question, appreciate all the the color regarding the COVID losses that were booked. Curious, we got a lot of questions from investors about how to think about the COVID impact going forward. And I know it's complex, given all of your losses are coming through the Reinsurance division. But in regards to your conversations with cedents, are some of them thinking that there's likely to be more losses trickling in during the back half of the year as there is a very complex situation as further assessed or -- and some insurers, I think mostly primary insurers are trying to say that they think they kind of have most of their loss picks on booked, unless things get materially worse regarding COVID?

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

Yea, Mike. Thank you. This is Juan Andrade. Look, I think we have a very solid estimate based on what we know today. We have a good process that is underlying the estimates really from the beginning of this crisis and we certainly talked about it in the last call. All that being said, this event is still underway, right. The crisis is still ongoing and much of this is going to be determined by the length of this prices as well as by any actions that are taken by governments along the way. So I think in that sense, there is some uncertainty as to where were the losses, particularly on the reinsurance side may go as seasons are still trying to grapple with their own numbers and essentially come up to a good estimate. Now, but again I would say, from my perspective we do have a solid estimate based on what we know and that's what has been the approach and the perspective that we have taken from the very beginning. And as we have more updated information we will be updating that as well.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay, great. My last follow-up question is regarding your outlier low leverage level. And I think we appreciate, you guys are playing offense, clearly can see it. PMLs came up a little bit, but still kind of well below historical levels. You're seeing certain participants in the industry either raise debt equity. new start-ups. So, your thought process change in terms of the opportunity cost of holding a lot of excess capital, is it changing or is it kind of plan A, it's still just, let's keep kind of trying to grow the topline in excess of our ROE plus the dividend and just kind of use of our excess over the the coming three to five years that way.

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

Yeah, so let me start and then that I would ask Craig Howie to jump in as well. Mike, what I would say is our, our capital management philosophy hasn't changed. I start out with the fact that we have more than ample capital to deal in face off with the opportunities we're in this market today and I think you see it from our numbers right that we've been very forward leaning and being able to continue to grow in this environment.

We also have a very low debt leverage, right. So as I mentioned in my remarks to the extent that we see any opportunities that, that are relevant for us that are accretive for us, but at that point in time, we have the flexibility to increase our capital. But as I sit here today, look, I feel very good about our capital position. We also have over $13 billion in deployable capacity right. When you think about policyholder surplus plus what we hold in, in our bonds, what we hold in Mt. Logan, et cetera, et cetera, we have plenty of capacity to work with in this market. So from that perspective, our philosophy continues to deploy capital into this market, particularly given the favorable conditions that we're seeing right now. Craig, is there anything you would add?

A - Craig W. Howie {BIO 17579923 <GO>}

Juan, I think you covered it. I do think that just to state the obvious, that if we did want to build our balance sheet, we have sufficient low leverage and certainly one of the lowest debt leverage is in the industry to be able to do so.

Q - Mike Zaremski {BIO 20606248 <GO>}

Yeah, and so -- would you -- if you had to put more capital work, are you leaning more towards reinsurance in the near term or primary insurance to deploy that they access?

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

Yeah, it's a great question. Fortunately, we're in a pretty good position right in the sense that you don't have to choose which of your children you like most. We see opportunities in both sides, right. And so I think it's -- as I articulated and John Doucette articulated, we're seeing some really good opportunities on the facultative risk side, some very good opportunities in property as well. All of that being said, you also heard from John, that we're being very disciplined. So if things do not meet our economic return criteria, we will walk away from it just like what we did at some of the recent renewals. But we see plenty of opportunity to deploy capital there. The same thing in insurance, you saw the growth rate there. We see great opportunities in property, both wholesale and retail. We see very good opportunities in excess casualty. We see very good opportunities in D&O. So right now, because of our capital base, we are looking at where we can play offense in this market and deploying our capital that make it -- we can grow and essentially take advantage of the favorable conditions.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thank you.

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

Thanks, Mike.

Operator

Thank you will now take our next question from Josh Shanker with Bank of America.

Q - Joshua Shanker {BIO 5292022 <GO>}

Yeah, thank you for taking my question and good morning everybody. So I thought you took the PML, but of course, and following on what might good thing. Is there any change in the cat load guidance? And if we think about next year if things go the way you want them to go, where would you ideally wants to be setting your PML and your cat load guidance? What would be a healthy market and a healthy PML in an attractive market for cat protection?

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

Yes. Josh, this is Juan. So for this year there is no change in our cat load from that perspective, but let me ask John Doucette to speak to the PMLs.

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

Yeah. Thanks, Juan. Thanks Josh for the question. So as I mentioned in the script, we have seen opportunities and as we put in the investor presentation, the PMLs are up now, Southeast wind is 7% of equity up from 5.7%. And really it's going to be a function of the -- of what we see in the market. We expect -- we'd like Florida, but we were disciplined. We did shed some clients and non-performing accounts that didn't meet our return thresholds.

And that was true at July 1 as well and we expect it to be true at January 1 [ph]. So we do expect to see momentum continuing into January 1 and beyond. We think it's a great market to be a seller of retro. We are top two seller of retro among rated reinsurers. And Juan alluded to, we have the capital across the Kilimanjaro bonds, Logan and of course our common equity and debt. We have the capital and flexibility to write the book that we see that's in front of us and what the market gives to us, but we do expect to see robust demand in January 1 and going forward.

Q - Joshua Shanker {BIO 5292022 <GO>}

And then a little education in casualty pro rata risk. If, I may cede [ph] it in and I have a pool of risk that I'm raising prices on and I think improving margins on. When I negotiate a treaty with a reinsurance to protect me from some of that business because maybe I need balance sheet protection or is it say balance sheet, which is not big enough. And if you look, our business is going to be more profitable next year, so we're going to raise the ceding commissions on and to what extent is there is fueling [ph] on how much profitability you can receive in any rising rate environment for risk, if it's sort of tempered by the ceding commissions being charged for improving profitable -- profitability on that same risk?

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

Yeah. Thank you. That's a great question. And I think first principles, that's why we're agnostic to the form that we take -- we've taken reinsurance risk, whether that's casualty, property, specialty and mortgage, we look at it across. We looked at it as to how we want to deploy capital and that will vary by product. And likewise our clients will look to see whether they want to do things on a proportional basis, in excess basis, excess to loss per risk basis, and that vary. Some of them will change that over time, but that's why in my statement, in my comments, I mentioned that the casualty market we're seeing improving, but we're seeing a little bit of improvement in ceding commissions given the market that we're in.

But we are seeing a lot more of the benefits coming through the original the primary rates on the insurance operation. So -- and it also -- I think it's, we need to remember that there are a whole lot of clients out there that write their business using different capital levels and some have capital, a lot of capital support, so that gives them flexibility, whether they do something potentially on a pro rata basis or an excess basis, but then a lot of our clients around the world, again, they don't have a lot of capital and so sometimes they need to delever their premium and so they do need to buy proportional treaties and in your -- that's in US, that's international, that's (inaudible) where it will vary again by line of business. And that gives us the opportunity by having the ability to dynamically allocate capital by line, by territory and by product, excess of loss or pro rata, it gives us the best chance to capture what we see as the opportunity in front of us profitably.

Q - Joshua Shanker {BIO 5292022 <GO>}

Well Good luck in the renewals next year.

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

Thank you very much, Josh.

Operator

Thank you will take our next question from Yaron Kinar with Goldman Sachs.

Q - Yaron Kinar {BIO 17146197 <GO>}

Thank you. Good morning, everybody. I guess first question, I do want to go back to the capital raise question. It sounds like the environment is a very constructive one, and you see it probably -- with the likes going into 2021, so the decision to not raise capital today, I'm just trying to understand how that fits into this construct? Do not see sufficient opportunities to deploy capital that you would raise? Is it the market not attractive enough? I guess at what point -- what would make you want to raise capital that you're not seeing today?

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

Sure. Yaron, so thank you for the question. This Juan. Look, number one, I would start with the fact that for us this is a dynamic process, right. Well, we sort of assessing capital, our needs, the environment that sort of thing. So it's not a fixed point in time, it's a very dynamic discussion that we have within the company. We're following the current opportunities to be quite attractive and hopefully you saw that from frankly the bullish nature of my comments, and those that John said on this call.

I think you see that from the growth rates and how we're managing to execute on the opportunities that we see in this market. But our position right now is, look, I mean where we sit with the capital that we have right now, we feel that we have more than enough to be on offense in this marketplace. Unlike others who have had to raise capital for defensive purposes, we're not in that situation, right. We're actually in a good place right now. Now, I did say in my remarks that this environment is very fluid and if we identify opportunities that we see that are accretive to our bottom line, then we certainly have the flexibility to be able to do that. But again I would like Craig to see if he's got any additional thoughts on that.

A - Craig W. Howie {BIO 17579923 <GO>}

Yeah. Juan I agree. If you're going to raise capital, it should be accretive. And certainly timing comes into play as well, if you're raising equity capital, certainly the earlier in the year was a good time to do it. Instead of waiting towards election times, but we didn't need to raise equity capital. We didn't need to build scale. We already have the scale. We're not trying to fund M&A at this point in time. And we're not trying to replace retro coverage at this point in time. So, certainly as the market changes, we still have flexibility, especially with respect to our debt leverage.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay, thank you. And my second question, with regards to the reinsurance COVID losses, can you maybe explain what the difference is between being fact specific to each situation, in each contract as opposed to following the fortune? Like, what's the distinction that you're making?

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

Yeah. Yaron happy to talk about this. Look, every contract is going to be different, right. I think unlike a natural catastrophes, there's going to be ours [ph] plus, there's going to be events definitions, there's going to be different attachment points, et cetera. So that's really one, when we say that that's what we mean with is that, this is not a panacea and we're going to look at each contract by it's make, by its nature, by merits, by it's own facts and then we will make claims adjudication decisions based on that.

Q - Yaron Kinar {BIO 17146197 <GO>}

And that's not trying to following the fortunate?

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

Well, I think, following the fortunes would imply that essentially any loss that you seems to report, there has been COVID loss would be automatically accepted. And essentially what I'm saying, what we're saying as a company is, it's very fact-specific and that will be put against the contractual requirements in the wording in each of our contracts.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. Thank you.

Operator

Thank you. We will now move on to next question question from Elyse Greenspan with Wells Fargo.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, thanks, good morning. Sorry, I also have a question to follow up on the capital side of things. Is there a way that you've been tell us that -- I know you pointed -- you're right that you have your own common equity Logan as well Kilimanjaro that help support increased writings heading into what seems like a really strong market in 2021. But can you give us a sense on your current capital base by assuming on more increase to leverage, which sounds that you're holding off on that for the time being. How much growth could Everest absorb on its own capital base today in 2021?

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

Sure. I would Craig Howie to answer that.

A - Craig W. Howie {BIO 17579923 <GO>}

Well, Elyse it depends on which capital measure you're looking at. And right now we feel that we can grow both sides of our book, both reinsurance and the insurance with the capital base that we have today and that even goes into looking forward to January 1 renewals on a reinsurance basis. So that's why we feel as though, given the market, and given where we are today, that we have enough capital to not miss out on any opportunities in the current market conditions.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then my second question on the leverage side, obviously you guys have pointed out your under-levered relative to your peers. And there are sort of internal market, you guys are dealing to go to and then I guess in that answer, how high is the rating agencies letting take you leverage? And can you also provide with an updated AUM for Logan, I'm not sure you guys provided that earlier? Thank you.

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

Craig?

A - Craig W. Howie {BIO 17579923 <GO>}

Yeah. So at least with respect to our leverage, certainly from a rating agency perspective, where -- what they are doing currently right now is allowing people to increase their current leverage, as you know we were closer to 6%. We could easily grow that capital to 20% leverage without any question or concern at all. Most of our peers are in the 20% and upwards of 30% range as you go now. So from that standpoint, we have plenty of room to grow and expand that leverage. As far as the Logan AUM question, our Logan AUM was -- we were able to grow the AUM slightly this quarter, but it is down from year-end. We were about $800 million.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Thank you for the color.

Operator

Thank you. We'll now take our next question from Ryan Tunis with Autonomous Research. Please go ahead.

Q - Ryan Tunis {BIO 16502263 <GO>}

Great guys, good afternoon. So I'm actually interested in John Doucette's perspective because I would think, looking at Slide 15, that slide would be driving you nuts, because you've been here. We made Everest for years and then ' 15, '16, '17, '18 the PML was double digits and pricing was a lot worse and common sense shows that you want your

PMLs to be better or higher when pricing is better and now they're only at 7%. So I guess the question is like what's the lesson here? Was is too high back again or are you more in the camp of, I'm chomping at the bit to deploy more capital at this moment, because this is when you really want to be in quite a bit higher in terms of PMLs?

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

Yeah, good morning, Ryan. Thanks for the question. So a couple of things. So what we've been saying for a while is that we want to -- we're not just a one-trick pony within property. And if you rewind the tape, Property, our view that property was -- it was more attractive on a relative basis and by the lines and you talked about being more bearish on casualty than some of our competitors. So what we've seen, a couple of things. We have seen property -- improvement in property prices. We've all seen improvement in casualty. As you know, we've been growing out our mortgage book substantially. We're seeing nice increases and opportunities in specialty lines of business and so we're deploying more capacity along the way there.

And really I think what we're trying to do is capture what we see as the opportunity in front of us. We've also talked about on prior calls, kind of an elevated risk that we've seen in a social -- when you think about social inflation and things in Florida tied to like assignment of benefits and climate change and other risks that also have caused us to make sure that we're deploying, what we view as the right amount of capacity, so a combination -- and so that elevated the return requirements that we needed to deploy increased capacity. And again our view as to when we head into Janaury 1, we expect to see a robust January 1 particularly in cat -- peak zone cat and retro, and we'll deploy capacity accordingly. So we'll do it, but will also be, we'll do it based on what the market terms and conditions are. What the clients' demands are. But we'll also be looking across all lines of business and territories to really build the best book we can.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thanks. And then just follow-up for one on the insurance side, you said in the press release that pricing is exceeding loss trend. We are actually seeing modest improvement of the underlying combined ratio in that business. It's probably not arithmetically, what you think it would be, given the level of rate, we're getting. So I guess, how would you describe, I guess the cadence of the pace of margin improvement we're seeing in insurance relatively in better [ph] rate? Thanks.

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

Yes. Thanks, Ryan. Look, what I would say is we are definitely seeing loss trend being essentially below our written price change. We're seeing a lot more rate right now ahead of -- ahead of trend and that's a good thing. That being said, though, we are also keeping our loss picks up and conservative given the environment in all of this, right. So while you're seeing rate ahead of loss trend, the fact that you're seeing some frequency benefit on some lines of business, at this point in time, we think it's just prudent to maintain the loss picks, where they are. And so over time, you will see that margin improvement. And so that's basically how we're looking at that.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thank you.

Operator

Thank you. We'll move on to our next question from Meyer Shields with KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thank you. So it's one, I guess the question. I know it's way too early to have a estimate for losses from the Beirut explosion, but how should we think about that impacting various insurance and reinsurance markets?

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

I'm sorry Meyer, I couldn't hear the first part of your question.

Q - Meyer Shields {BIO 4281064 <GO>}

I'm trying to get a sense in terms of directionally, when you've got something like the Beirut explosion, obviously far too early for any estimate of losses, but should we think of this as an insurance event or reinsurance event?

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

Got it. So if we're looking at, at Beirut specifically, I think as you pointed out, look it's probably too early to tell. We are a global company and I would expect that we will have some loss out of that. I would expect the loss if it comes, it will be more on the reinsurance side than on the primary insurance side at least for Everest.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, thank you. Very helpful. I'm getting a couple of questions about the modest adverse reserve development in the insurance segment and was hoping either Juan or Craig to comment on the playback?

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

Yeah, sure. This is Juan. Meyer, I'd be happy to talk to you about that. Number one, it's very small, right. So it's less than $5 million and it's really an increase on a specific large loss that came through in the quarter in our international insurance operation. So it's not meaningful from that perspective. And as you know our reserving philosophy has been that we react quickly to bad news and frankly, we felt the prudent to recognize that in this quarter and we recognize the development.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. So (inaudible) actual loss emergence instead of new assessment...

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

Yes.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. And then final question then quarterly numbers are going to bounce around a lot that -- within insurance, the other specialty lines went down year-over-year, is that more economically sensitive line than some of the other specialty lines?

A - Craig W. Howie {BIO 17579923 <GO>}

Yeah, let me add -- ask Mike Karm to jump to give you a little bit of color on that as well, so Mike.

A - Mike Karmilowicz {BIO 6534478 <GO>}

Sure. Thanks for the question. That actually is definitely an economic impact. That business usually is transactional list, which is M&A, which is obviously impacted by the COVID and the pandemic and then other lines on the credit side. So some of those actions we've seen were deliberate and actually slowing that business down given what's going on with the pandemic and its impact to the credit markets.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, fantastic. Thank you so much.

Operator

Thank you. We move on to our next question from Brian Meredith with UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes, thanks. A couple here. One, I just want to clarify, I think you said in you response Ryan's question that you didn't take any frequency benefit in the quarter either on comp or short-term property lines in insurance segment?

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

Yeah. So that's, that's correct Brian. We are not taking any frequency benefit in the quarter for any of the lines of business where we have seen lower frequency so far this year. At this point in time, we think that's pretty mature. And the reason for that is pretty straightforward. While you do see claims counts down in some lines of business like commercial auto and workers' comp and in GL, exposures were also down, which also result in premium refunds, right. So the impact on severity was clear yet. And so I think you really need to look at longer term averages because some of these frequency decreases may be temporary, and we don't know what the bounce back is going to be once the economies fully reopen.

Q - Brian Meredith {BIO 3108204 <GO>}

Got it. it makes sense. And I guess adding on to that, just curious one, could you give your perspective on with social inflation kind of current looks like in which our outlook is here as the economy reopens and with respect to that, is there anything that you can do right now with contract wordings in the insurance space to potentially mitigate for the COVID-19 related claims here going forward?

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

Yeah. No, absolutely. This is something that frankly we have been all over from the very beginning of this crisis. And I give a lot of credit to our corporate underwriting teams and our Chief Underwriting Officer on that. Look, this is consistent with what I just said about frequency. I think as the economy begins to reopen again, a lot of the trend indicators that were there prior to the pandemic, the fact you gave rise to some of the rate increases that we're seeing now across the board are still going to be there, right.

So that hasn't gone away, but we are taking a number of actions, whether it's been pushing rate, tightening terms and conditions reviewing contract wordings. We've also been putting pandemic exclusions in place across the board. We've also withdrawn capacity from certain territories, certain product, certain lines of business that frankly we weren't comfortable with as far as the risk assessment or the coverage that was being granted.

And as you just asked on the earlier question regarding other specialty and insurance. We're also remaining cautious on certain of the economically sensitive line. So we're taking a pretty deep and thoughtful approach to our underwriting from the very beginning of this pandemic up in order to provide protection for the book going forward.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, thank you.

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

Thanks Brian.

Operator

Thank you. We will take our next question from Phil Stefano with Deutsche Bank. Please go ahead.

Q - Phil Stefano {BIO 18965951 <GO>}

Yeah. Thanks and good morning. I was hoping you could talk about the reserving process for the COVID charges on the insurance business? And I think Juan, you had mentioned in your opening remarks that there were some events into 2021 that are contemplated. So maybe you can just give us a flavor for kind of the timeline and how you're thinking about reserving there?

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

Yeah, absolutely. Look, I would tell you that the estimate that we have on the insurance side is a solid estimate as I mentioned before, particularly for event cancellation type policies, we are looking at probably 2021 at this point in time and this goes back to one of the questions I was asked earlier about the nature of this event in what I mentioned is -- look, this is an ongoing event and a lot of this will depend on the length and shape of it frankly. But on contingency, we are definitely looking at early 2021 at this point in time.

Q - Phil Stefano {BIO 18965951 <GO>}

And so, the reason I'm asking the follow-up, then it leads to the reinsurance side of how -- I'm getting the impression on these calls, first quarter and probably even most of second quarter that auditors are having a different feel for how far they're allowing people to look in the reserving process. On the reinsurance book, when you had conversations with (inaudible), is the horizon there allowing to contemplate in any way complicating your ability to reserve on the reinsurance side? How are those conversations goin? Is the time how you're contemplating a reinsurance really different than the insurance side of your book?

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

Yeah, so let me give you my thoughts on that and then I would ask John Doucette to jump in as well. So look, I think the process has been very similar from the perspective of the detailed discussions that we've been having with our cedents, we've been having with brokers, trying to understand the book of business.

Obviously, the difference being that on the reinsurance side, it's much more global book. We have some very large cedents and they're still trying to grapple in some ways as you've seen in the lot of the calls with their own exposure. And so from that perspective on the reinsurance side we do get a bit of a lag as far as the information is concerned with some of this information, but I think as far as the time horizon is concerned, our conversations with the cedents have been -- they're looking at similar timeframes through the end of this year, beginning of next year. But John, I don't know if you would like to add some color to that also?

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

Yeah. Thanks. Juan. And as you said, there clearly is a information lag in terms of when the reinsurers hear things plus everybody has to go look at the contracts in terms of how -- again going back to contract-specific, fact-specific what of the retention clauses, what were the retentions for the (inaudible) clauses, what are other terms and conditions, exclusions that are in the contract and I think that just takes a while to understand.

And our clients, again, it varies by territory what the original wording is and so there's a lot of moving parts that really result in this as well as, as we've said this being an ongoing event that it makes it a lot more complicated, but we feel comfortable. Based on all the information we have today with both the process that we put in place to identify as well as what we have booked again given the information we have today.

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

Yeah. The last thing that I would add to that is, remember the assessments we have out there are really management's best estimate and what the auditors will review was really be approach on how management essentially achieved those estimates.

Q - Phil Stefano {BIO 18965951 <GO>}

Got it. Well, thanks and hope everyone continues to do well.

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

Thank you.

Operator

Thank you. And next is a follow-up from Mike Zaremski with Credit Suisse.

Q - Mike Zaremski {BIO 20606248 <GO>}

Great, thanks. Just two quick follow-ups. Any California wildfire subrogation benefits this quarter are expected and also just want to confirm regarding the mortgage insurance book, I believe you said that losses weren't booked unless the situation deteriorates or did you say that there was some (inaudible) put out, but you don't expect kind of losses unless things deteriorate?

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

Yeah. Thanks, Mike. Let me start off with mortgage first and then I'll ask Craig to talk about subrogation question. We have not put up in estimates for mortgage because we don't think we need to. We think our loss estimates and we think our reserves are fine, more than adequate at this point in time, so we have not put up anything for the mortgage book. Craig?

A - Craig W. Howie {BIO 17579923 <GO>}

With respect to the California wildfires subrogation, first of all on the reinsurance side, we'll see a lag in reporting from our cedents on that. The PG&E settlement just happened this quarter. So it will take some time before it gets reported to us. On the insurance side, we don't expect much subrogation at all, since we had very few losses related to the California wildfires in our insurance segment.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay. SO on the reinsurance we can -- can you kind of look at what the -- we can see what your losses were in does expect a certain percentage of that to potentially come back in the coming quarters?

A - Craig W. Howie {BIO 17579923 <GO>}

It depends on each season and it depends on each contract that we have with them and how much coverage we have with them and then they will report back to us depending on what their settlement was out of the PG&E settlement.

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

Yeah, this is John. I just wanted to add. So it very much is a function of what was the gross wildfire loss and then where do they reinsurance? What is the attachment point and the limit? So, some of it -- it could meaningfully impact. There are ceded losses, in some cases, it could have no impact on the ceded losses. So we're really in a wait and see as Craig said, waiting to see what the settlement if any was and what they report as the benefit of the reinsurers and when and if they do that will book that into our numbers.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thank you.

Operator

Thank you. We'll take our last question from Josh Shanker again with Bank of America.

Q - Joshua Shanker {BIO 5292022 <GO>}

I walked out. Thank you very much. This is probably easy and (inaudible) can you talk about the insurance or reinsurance markets in Lebanon given the news last week and how we might want to think about that?

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

Good question out. Now, I'll ask maybe John Doucette to start on the reinsurance side?

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

Yeah, so I mean again very early days. It's a small market and we're looking at what the -- first, we're looking at what the coverages are that are offered in the region. So far, some of the brokers have come back with some modest coverages that are there. And really we're still -- it's too early to tell in terms of what ripple effect is both for the building -- the specific building that was at risk, but then also the broader, the territory, the neighborhood that was impacted around that. So frankly, we're looking at it, but -- it's a relatively small market.

Q - Joshua Shanker {BIO 5292022 <GO>}

And is your exposure in line with your global market share?

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

Well, we're still assessing that. We don't have -- we certainly would expect it to be, but it does vary by territory, but we don't have any reason to think it wouldn't be?

A - Craig W. Howie {BIO 17579923 <GO>}

Yeah, I think it would be helpful to add that indigenous exposure would be de minimis, right. I think any exposure for the company really would be at global treaties from global seasons that sort of thing.

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

Correct.

Q - Joshua Shanker {BIO 5292022 <GO>}

That makes perfect sense. Thank you for the answers.

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

Thank you. Josh.

Operator

Thank you. And that does conclude our question and answer session. I would like to turn the conference back over to management for any additional or closing remarks.

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

Great. Thank you and thank you for joining us today and we look forward to continuing the discussions next quarter. But before I let you go just echo what I said earlier, we feel very good about wherever stands right now. We feel very good about our traction, our momentum in our ability to execute in this market. So thank you for your support, for your questions and I hope you stay safe.

Operator

Thank you. That does conclude today's conference. Thank you all for your participation, You may now disconnect.