Q3 2017 Earnings Call

Company Participants

- Craig Howie, Chief Financial Officer
- Dominic James Addesso, Chief Executive Officer, President
- Elizabeth Farrell, Vice President, Investor Relations
- John Doucette, President and Chief Executive Officer, Reinsurance Division
- Jonathan Zaffino, Executive Vice President, President, North America Insurance Division

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Jay Gelb, Analyst
- Joshua Shanker, Analyst
- Kai Pan, Analyst
- Meyer Shields, Analyst

Presentation

Operator

Good day, everyone. Welcome to the Third Quarter 2017 Earnings Call of Everest Re Group Limited. Today's conference is being recorded. At this time for opening remarks and introductions, I'd like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Elizabeth Farrell {BIO 1986541 <GO>}

Thank you, Jennifer. Good morning, and welcome to Everest Re Group's third quarter 2017 earnings conference call. On the call with me today are Dom Addesso, the company's President and Chief Executive Officer; Craig Howie, our Chief Financial Officer; John Doucette, President and CEO of Reinsurance Operation; and Jon Zaffino, President of North American Insurance Operation.

Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to forward-looking statement. In that regard, I note that statements made during today's call, which are forward-looking in nature, such as statements about projections, estimates, expectations and the like, are subject to various risks. As you know, actual results could differ materially from current projections or expectations.

Our SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now, let me turn the call over to Dom.

Dominic James Addesso {BIO 1428096 <GO>}

Thank you, Beth, and good morning. Let me begin by first extending our sympathies to all of those affected by the recent events. Community at large has responded to the relief efforts but still there is more that can be done.

I'm especially proud of the way our organization has responded on both the business and personal front. We have advanced moneys to our reinsurance clients, so they in turn can quickly settle with their insurers allowing them to start the process of rebuilding their lives and businesses sooner.

On the insurance front, our claim staff is working diligently to do the same. These events carried us with many personal stories but also remind us of the value that our industry and company can bring during times like this. We protect against volatility, and therefore, expect the periodic loss that we will discuss this morning. This means of course, that during times of limited catastrophe loss activity, we should be able to produce strong results at. It also means that after a series of events that claimed $100 billion from the system, there needs to be a reset in the market as we re-evaluate pricing, terms and conditions and the impact of recent news softening has had on the industry's risk adjusted returns.

For this reason, we believe that these recent events will lead to a general market firming across all lines and territories. In non-loss affected areas, the push will be to achieve adequate return levels over a reasonable timeframe. Events like these create a greater awareness in the market around the cost of capital and the price of risk. For those regions affected by loss, the price reaction will be more pronounced. This will start with the retro market since it is heavily supported by the collateralized market whose capital is in large part, locked up. This may very well create some unique opportunities for us, especially given our capital position coming out of these events.

The firming of the retro market will also have a beneficial downstream impact on the rest of the property catastrophe market, and may very well push into other lines. We anticipate that well rated capacity will be in demand and this will drive better rates, terms and conditions across the spectrum. Given our strong risk management practices and laddered protection mechanisms, the losses from these events remained well within our expectations.

One important factor that is often overlooked is the tax benefit that is used to offset the loss. We manage our PMLs on a net basis, meaning, net of tax and reinsurance hedges despite many publications that only highlight our gross PMLs.

Considering the reinsurance and tax recoveries against the third quarter events, our net operating loss for the nine months stands at $180 million. This suggests that with the normal operating result in the fourth quarter inclusive of our cat load, we could achieve a profit for the full year. This would be an excellent outcome in a year with an unprecedented level of catastrophe losses. We managed to these types of scenarios and measure our success over the long-term as we recognize, there will be period volatility.

Over the last five years, including results so far in 2017, our average return on equity is 12%, which we consider exceptional relative to the industry. This is a testament for the long-term value of our strategy. We emerge from these events with the strong capital base and ample reinsurance capacity with our growing Mt. Logan facility, multiyear cat bonds and other third-party reinsurance and are therefore ready to respond to the new market demand.

While I recognize that the cat events are deservedly getting the focus, let me now turn your attention to the underlying business trends that support our long-term success. On the reinsurance front, our effective use of third-party capital has allowed us to grow the book and profits during periods of low cat activity. But yet during one of the highest cat years in recent times, contained a loss within the full year earnings.

Using alternative capital for US cat exposure has allowed for expansion and diversification into other regions, as well as, other lines of business. Another expansion opportunity we have leveraged with this substantially expanded capital base is our insurance business.

For the past two years, we've experienced growth of over 20% in a balanced and well diversified fashion. With that growth and repositioning has come an improvement in the underlying attritional ratios. At $2 billion of annual premium and growing, we are now a known market that brings capacity and ratings to meet the needs of the commercial and specialty marketplace.

The underpinnings of our collective organization have never been stronger. While this year is challenged from an income perspective, over the long term, we are delivering what we promised, higher ROEs for the industry with our disciplined expense model and cat losses that on average are within our expected outcomes.

But I continually remind people, there are never any losses then we don't have a business. The goal is to produce an above average ROE through the cycle, and we believe we have thus far delivered and we'll continue to do so.

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

Craig Howie {BIO 17579923 <GO>}

Thank you, Dom, and good morning, everyone. Everest had a net loss of $639 million or $15.73 per common share for the third quarter of 2017. This compares to net income of $295 million for the third quarter last year or $7.06 per diluted common share.

The operating loss for the quarter was $16.43 per share reflecting the catastrophe losses in the quarter, and the foreign exchange losses of over $1 per share, which is the primary difference from the consensus. The operating loss excludes realized capital gains and losses. You will note, the 2017 earnings per share calculations utilized basic common shares instead of diluted shares due to the loss in the quarter and on a year-to-date basis.

The Group had a net loss on a year-to-date basis of $102 million compared to $623 million of net income in 2016. These results were impacted by a series of major catastrophe events that are driving both the quarter and the year-to-date figures.

In the third quarter of 2017, the Group saw $1.2 billion of net pre-tax catastrophe losses with the net economic impact of $900 million after taxes. The breakdown on the pre-tax loss by event is as follows. Hurricanes Harvey was $270 million, Hurricane Irma was $475 million; Hurricanes Maria was $400 million and the earthquakes in Mexico were $85 million. There is considerable uncertainty in these estimates and we expect it will take several months before relative clarity emerges from the multiple events. However, the company has significant unused retrocessional capacity including aggregate protections which would provide coverage above these estimated levels.

On a year-to-date basis, the results reflected net pre-tax catastrophe losses of $1.3 billion in 2017 compared to $143 million in 2016. Excluding the catastrophe events, the underlying book continues to perform well with an overall current year attritional combined ratio of 85.6% through the first nine months, compared to 85.2% for the same period in 2016.

Our year-to-date expense ratio remains low at 5.3% due to higher earned premium, including reinstatement premiums after the catastrophe event this quarter. For investments, pre-tax investment income was $137 million for the quarter and $394 million year-to-date on our $18 billion investment portfolio.

Year-to-date investment income was up 10% from one year ago. The result was primarily driven by the increase in limited partnership income, which was up over $20 million for the first nine months of 2016. We've been able to maintain investment yield without a shift in our overall investment portfolio. However, we have gradually shifted allocations within our alternative investment bucket by reducing exposure to high yield debt and public equity, while committing more toward limited partnership investments, all while maintaining a conservative, well diversified, high credit quality bond portfolio. The pre-tax yield on the overall portfolio was 3% and the duration remained at just over three years.

Foreign exchange is reported in other income. Foreign exchange losses were $43 million in the third quarter or over $1 of earnings per share. Year-to-date foreign exchange losses were $48 million compared to $29 million of foreign exchange losses in the first nine months of 2016. The foreign exchange impact is effectively an accounting mismatch since its offset in shareholders' equity for translation adjustments. Overall, we maintained an economic neutral position with respect to foreign exchange, matching assets with liabilities in most major world currencies.

Other income also included $6 million loss from Mt. Logan Re in the first nine months of 2017, compared to $10 million of income in the same period last year. That decline essentially represents the higher level of catastrophe losses during 2017.

On income taxes, the tax benefit is based on the actual year-to-date loss, not the annualized effective tax rate. We would expect any fourth quarter income to be taxed on an effective rate of about 10%.

Stable cash flow continues with operating cash flows of over $1 billion for the first nine months of 2017, compared to $961 million in 2016. We expect this will decline as we pay claims for the recent catastrophe events, but still remain positive for the year.

Shareholders' equity for the Group was $8 billion at the end of the third quarter, leaving us well positioned to take advantage of business opportunities.

Thank you. Now, John Doucette will provide a review of the reinsurance operations.

John Doucette {BIO 7178336 <GO>}

Thank you, Craig. Good morning. As a leading global reinsurer, we have consistently achieved industry-leading results in periods with low catastrophe loss activity. But the true test of our franchise and business strategies is our ability to demonstrate resilience in a quarter and in a year with several major catastrophe losses or other large unusual shock losses. While some characteristics of the recent property loss activity were unusual, the magnitude of insured losses was well within our expectation, owing to our proactive and comprehensive risk management efforts.

Learning from other large catastrophe and shock loss years, such as 2001, World Trade Center; 2005, Katrina, Rita and Wilma hurricanes; 2008, global financial crisis and 2011, a string of losses including earthquakes in Japan and New Zealand, floods in Thailand and Australia; and severe convective storms in the US.

We have continually enhanced and refined our Group-wide enterprise risk management framework. This includes our large risk and catastrophe strategy across all underwriting areas within the company. And now both our reinsurance and insurance portfolios, each are expected to benefit from the post-loss market condition. This applies across our underwriting risk spectrum from property insurance, to facultative, to proportional treaty, to property catastrophe excess of loss treaty and ultimately to retro. We believe it is essential that a global, industry-leading specialty reinsurer and insurer such as Everest truly understand its risks and develops a comprehensive, resilient business strategy that allows us to stand with our clients while protecting our investors' capital.

A proactive far-sighted approach is critical to the continuity of an enduring franchise. Expect the unexpected as every loss is different and unique. This includes relentless preparation for Black Swan and other tail events or an accumulation of varying losses across multiple lines of business.

Everest continues to be well positioned to bring tailored solutions and value to our reinsurance client. We pride ourselves not just on paying our clients' losses quickly and efficiently, but also maintaining our financial strength in a quarter with unprecedented catastrophe loss activity. More importantly, we provide continuity to our clients, going on the offense and providing additional support and capacity when it is needed most.

With our global geographic and line of business diversification across our underwriting portfolio, strong earnings power and substantial capital resources, we have once again demonstrated the success of our business strategies which insulate the balance sheet from large events, such as those just experienced.

As we head into the 1/1 renewals and onward into 2018, we will continue to harness capital whether in the form of traditional equity and debt, Kilimanjaro catastrophe bonds, Mt. Logan or other forms of traditional and non-traditional reinsurance capital. Across the spectrum, our accordion like capital structures provide ample dry powder to deploy commensurate with market opportunities. We remain very well positioned today and our existing hedges remain substantially intact with the vast majority of our $2.8 billion of cat bonds still in force and unexhausted, coupled with the growing Logan capital structure, both of which helped Everest efficiently manage its overall net risk appetite.

Uniquely, we manage alternative capital in a fashion that relieves our clients around the globe from the complexities and structural weaknesses of collateral lock up and release mechanisms from unrated reinsurers, while delivering to our clients, our "Evergreen promise to pay" from our highly-rated balance sheet as we have proven over the last 45 years.

Additionally, we have significant portfolios of business across the entire P&C opportunity set, including meaningful books of business in mortgage, casualty, professional liability, structured reinsurance, international property, specialty and other short-tail lines throughout the world that have been unaffected by recent cat loss activity. Thus, our global geographic and business line diversification decreases volatility from any one line of business. Profits from these diversifying lines in territories offset losses such as those recently experienced in the US and Caribbean.

Going forward, we are ready and eager to capture market opportunities that convert the value we provide to our clients into returns for our shareholders. We are especially pleased that we were one of the few reinsurers immediately deploying capital post-event as we actively quoted back-up covers in all loss affected areas to meet the needs of our clients, whether they were US regional clients, large US national clients, retro clients, Lloyds Syndicates or Caribbean reinsurance clients. With financial strength and resilience, we are headed into the January renewals with a clear message that Everest is open for business.

However, that does not mean, we will write reinsurance business at any price. As we have supported our core clients through hard and soft market cycles, the recent losses are a reminder of the value that we deliver. As in the past, we will deploy our capital where that value is most recognized while reducing our positions on business with less attractive pricing, terms and conditions. Our clients can rely on us to offer our reinsurance capacity, whether the same or a higher amount of capacity needed, as long as it meets an appropriate return on capital and the cost of that capital has gone up for the industry.

Now turning to specifics on our result. Excluding reinstatement premiums, gross written premiums for our reinsurance operation increased 13% for the quarter and 15% year-to-date with broad-based growth in our US and Bermuda operations from property insurance, mortgage, strategic quota shares, regearing business, international surety and property and structured reinsurance.

Growth was offset slightly by lower international premium volume in the third quarter due to the renewal of certain structured deals that ran their course. This underscores our ability to not only seize opportunity in property cat business but to continue to write and expand our franchise in diversifying and value-added lines for our clients. While this quarter's reinsurance underwriting results were heavily impacted by the catastrophe losses in the quarter, the underlying trend in these businesses remained solid.

The reinsurance operation's overall attritional loss ratio was up 2.6 points on a year-to-date basis against the comparable period of 2016. This was due to growth in pro rata and crop business, both with naturally higher loss ratios offset by some favorable loss trends in our international operations. Our year-to-date attritional expense ratio dropped over 2 points, benefiting from a business mix with naturally lower commissions.

Despite this year's loss activity, in the long-term, the reinsurance market will continue to trend towards more efficient capital management and scale with better operational and expense management. We believe, we are very well positioned both now and into the future. Our ability to execute on these key drivers provides value to our clients and our shareholders in both hard and soft markets. Our strategy remains nimble and dynamic, and enables us to thrive in this ever-changing market.

Thank you. And now I will turn it over to Jon Zaffino to review our insurance operations.

Jonathan Zaffino {BIO 16652236 <GO>}

Thank you, John, and good morning. As catastrophic events unfolded in the third quarter, particularly of the magnitude and scale that occurred across North America, the resultant impact to the primary insurance market has been predictably quite significant. While the Everest Global insurance operations were not immune the impact of this widespread devastation, the performance of our various books of business, notably, our US property portfolio were in line with our expectations.

Further, we are pleased with the continued growth and development of our global insurance platform. We are increasingly confident that our vision to organically build a world-class diversified insurance organization that is relevant within the global specialty P&C industry is being realized. Our leading growth in written premiums, our enhanced operating platform, the many new product launches, our successful talent acquisition strategies and our growing relationship with a diverse group of trading partners is a testament to this approach. Progress on our journey is also fairly measured by an increasingly resilient underlying combined ratio, which again was solidly profitable for the quarter.

Notably in the quarter, we were pleased to receive conditional approval from the Central Bank of Ireland for our newest European operating platform, Everest Insurance Ireland. This is another example of the thoughtful organic build of our franchise and the expansion of our global underwriting operation. Our Irish operating company will be an important component of our overall international insurance strategy and it's an excellent complement to both our North American and Lloyds operations.

I'll turn now to the financial highlights in the quarter. Following this, I'll provide some comments on the cat activity, experience within the insurance operations along with our views of the operating environment forward.

As in prior quarters, due to the divestiture of Heartland in late third quarter of 2016, I will discuss our comparative results excluding this business.

For the third quarter of 2017, the global insurance operations produced 480 million in gross written premium, an increase of 109 million or 30% over third quarter 2016. Another tremendous result and a recognition of our growing relevance in the specialty P&C market.

On a year-to-date basis, we achieved 1.5 billion in gross written premium, again another solid performance. This represents growth of 349 million or 31% over the comparable period in 2016. As in prior quarters, contributions remained balanced across the diverse group of underwriting divisions within the Everest Insurance global platform.

This also represents the 11th consecutive quarter of growth for our global insurance operation.

Turning to net premiums. As we have shared in the past, net premiums slightly lagged gross written premium growth due to the marginally more conservative reinsurance position we have taken to support the growth across our underwriting divisions. Net earned premium in the quarter was 376 million, an increase of 63 million or 20%. For the year-to-date period, net earned premium of 1.1 billion increased by 181 million or 21% -- excuse me, 20% over the prior year period.

Our GAAP combined ratio for the quarter was 141.4%, clearly impacted by the catastrophe activity in the quarter which contributed 43.5 points of these results. The attritional combined ratio however was 98% in the quarter, which compares favorably to the third quarter 2016 attritional of 99.5%. The underlying loss ratio for the third quarter of this year was 68.4%, a 1.4% improvement over last year's 69.8%.

On a year-to-date basis, the GAAP combined ratio was 113.9 with again nearly 17 points of cat included in this result. The year-to-date attritional combined ratio for the global insurance operations produced 96.5%, which also compares favorably to the 97.1% for the comparable period in 2016. Again, the underlying loss ratio shows 1.2 points of improvement on a year-to-date basis, coming in at 67% from the prior year of 68.2%.

Year-over-year, we are seeing a downward drift in the attritional loss ratio. This is a result of improved mix of business, the benefits from the many new businesses launched and the strategic underwriting actions of the past two years.

Our expense ratio in the third quarter was 29.5%, essentially flat from the 29.7% from the same period last year.

For the year-to-date period, the expense ratio remains 29.5%, up slightly from the 28.9% in the comparable period of 2016. As we have stated in prior calls, an expense ratio of roughly 30% remains very competitive in the Specialty Insurance segment.

Turning now to the cat picture for the quarter, as you heard from Dom and John, Everest as an organization deploys a proactive and multifaceted approach to risk management. The insurance organization is deeply ingrained in these same processes and hence adopts many of the same views and strategies.

The third quarter of 2017 certainly tested the efficacy of these strategies and the insurance operations results were consistent with our expectations, and well within our tolerance. In addition to measuring our performance against modeled assumptions, we also gauge our performance against industry loss and market share analysis. And of course, from a fundamental bottom-up view of our underwriting decisions with a keen focus on any outliers that may emerge from these underwriting strategies and assumptions.

Again, against all of these measures, the various books of business performed well, and as anticipated, in consistent with our global view of risk. And to put some further perspective, we estimate roughly 160 million in net pre-tax losses from the three large cat events of Harvey, Irma and Maria with a concentration of loss emanating from Harvey and Irma. The majority of this exposure was originated from our US property underwriting division covering the wholesale, retail and in the marine markets with some minor contributions from our Lloyd's platform. This loss is against roughly 450 million in annualized worldwide property insurance premium, and roughly 2 billion of similarly annualized premium within the overall insurance operation. Together, these data points suggest, these events are in proportion to our portfolio and again within our various modeled expectations.

One final comment on the cat side. It is important to remember that we are in the middle innings of a significant transformation of our insurance platform. As we have stated previously, this is called a temporary lag in earned premium and several of our new underwriting divisions have yet to achieve critical mass. As these new units continue to grow, as we are demonstrating quarter-after-quarter, we expect that our short tail property exposure will be even more balanced against a larger non-property base. This will further allow us to drive the consistent profitable results we have been experiencing more recently in our attritional combined ratios.

As for the question on market conditions, it is a very fluid situation and we'll take some months to find a balanced view. In fact, the current market is evidencing a fair amount of pricing volatility across lines as we work through this adjustment process. Overall and as we stated, we do believe there is a need for rate firming, certainly within the property markets cat and non-cat alike and also in other markets.

It is our sense that general firming will continue to occur across property lines in different degrees and other major lines of business are likely to experience positive rate movement. Remember certain casualty lines of business, namely commercial auto have been experiencing rate increase for many quarters and based on underlying loss cost trends that needs to continue.

Other lines of business, likewise need to adjust to proper technical pricing and I believe the industry at all levels, understands that we can't perpetuate in an environment where pricing persists below these technical levels. Again each market, each geography and each line of business are different, however, the need to achieve adequate technical pricing remains universal. That is our focus.

In conclusion, despite the impact of the cat events in the quarter, we remain pleased with the continued progress we are making in the establishment of a world-class specialty insurer. The underlying performance of our diverse books of business are encouraging and we feel, we are well positioned to create value for all of our constituents and the evolving market ahead. We look forward to continuing our momentum and reporting back to you on our progress next quarter.

Now back to Beth for Q&A.

Elizabeth Farrell {BIO 1986541 <GO>}

Thanks, Jon. Jennifer, we are open for questions at this time.

Questions And Answers

Operator

(Operator Instructions). And we will go first to Elyse Greenspan with Wells Fargo.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, good morning. My first question, just on going back to your introductory comments. When you pointed to a market firming across all lines and territories. I am just, if we can get more color on -- I mean, if -- is this dependent on alternative capital, reloading or not reloading following the events. I guess, how do you see the dynamics underlying the market firming as we get closer to the January 1 renewals?

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

Well, there is a number of factors, Elyse that lead us to believe that there is -- we'll be in (inaudible). First of all, starting with the various industry events that clearly -- we have been attending throughout past month, starting with Monte Carlo and moving on to PCI and Baden, and the CIAB. The strength of the market in terms of its resolve continues to increase based on our assessment in various talking with customers, brokers and other markets. So that's number one.

And underpinning all that is, it has been -- what I've been saying for some time is that, the returns on capital -- return on equity of the industry in general, as you all know has been in the mid-single digit for a period of time. And therefore, these types of events are unsustainable with mid single-digit ROEs in times of low-to-no cat activity.

So clearly the market has been below technical pricing adequacy. So that's number one.

With respect to alternative capital coming back in, I'll start-off with a good portion -- a significant portion of alternative capital is locked up. And it's our belief that certainly some new capital will come back in, but it's not clear yet that 100% of that at least in the short term is ready to move back in. And frankly, alternative capital is not going to come back in unless it sees some price improvement.

So that's my fundamental belief as to why I think there will be a market firming. I don't think it's dependent on alternative capital. Those technical pricing needs across many of our lines of business not just property. And there has been a reassessment of cost of capital and price as well.

Q - Elyse Greenspan {BIO 17263315 <GO>}

What level of rate do you think we could see on both loss and -- potentially non-loss impacted accounts?

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

I knew, it would eventually get to that question and I am not necessarily going to say that we're expecting x% by the timeframe. I think, you'll see in the retro market a very, very strong double-digit rate increases early on and perhaps that would last into a second renewal season. That of course, as you know was firm retro pricing that has a waterfall impact on the rest of the property cat.

We're already -- as Jonathan somewhat alluded to on the primary side, it's mixed early days but we are seeing -- beginning to see some price movement upward. But that will take a longer period of time to get to what we believe will be rate adequacy. So at the primary level, ultimately, it's in the early days, it's high single-digit , but that might take several months to really play out. On the reinsurance front, straight up property cat, I think, we will start in the teens. Again in loss affected areas and perhaps that will take multiple years to play out. But it is -- we don't know for sure, but clearly we are approaching the January 1 renewals with the anticipation that rates are going up.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, great. I appreciate the color. And then also, if you could talk about the potential implications on the tax side as the nil bill is included within tax reform.

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

Potential implications to the industry, to us , what is -- Where is the (inaudible).

Q - Elyse Greenspan {BIO 17263315 <GO>}

For Everest, sorry. For you guys specifically.

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

There is many derivations of that. We have various companies that are in place, obviously in the US, in Bermuda, in Ireland, in other jurisdictions And we have capital in most of those locations. So depending on what the final shape of that bill is, we will dictate where we position our capital and what companies we will be writing business on.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. Thank you very much. I appreciate the color.

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

Thank you.

Operator

We will go next to Kai Pan with Morgan Stanley.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you, and good morning. First question just a follow-up on Elyse question, on alternative capital. How much was the total losses for Mt. Logan. And what your investors' sort of at-risk appetite up to those events.

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

Let me ask Craig for the total loss for Mt. Logan.

A - Craig Howie {BIO 17579923 <GO>}

The total loss for Mt. Logan was almost $200 million. And then of course I guess quarterly income as well. So you'll see that there -- AUM is down about $160 million for the quarter.

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

And then, I'm sorry -- the second follow on to that Kai was --

Q - Kai Pan {BIO 18669701 <GO>}

What are the sort of your -- the investors in Mt. Logan with the risk appetite following this event?

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

We have -- and have had actually before the events, but even after the events, we have investors that are ready to put capital in. Some reload, some new investors that are interested in going forward with the Logan platform, all with an expectation that rates are going up, that kind of relates back to my earlier response to Elyse.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. My second question is that, you've ceded about 10% of the reinsurance premiums, about 20% of your insurance premiums. So I just wonder, if the retro of reinsurance rates going up some double digits, how would that impact your -- sort of underwriting strategy in terms of net growth [ph].

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

John?

A - John Doucette {BIO 7178336 <GO>}

Good morning, Kai. It's John. So I think there's a lot of dials that we look at both in terms of absolute and relative rate adequacy. So we'll look at it both on the gross side, in terms of how we're going to deploy the capital, to which area, which product line, which territory, and then how much we want to deploy. So how much we want to deploy and how much we want to retain, that will be a function of what we think could be overall rate adequacy is.

And then, yes, we will look to the different hedges, whether it's traditional hedges of reinsurance and retro. But remember, we have a lot of dials to turn on how we get the business from -- as I mentioned, from insurance, reinsurance, all the way to retro. And we have a lot of different dials to turn in terms of how we manage our net risk appetite and net risk exposure.

So, and those include Mt. Logan that takes shares of different pools of risk and stands with Everest on whatever the rates are that we get. And as well as the catastrophe bonds that we have, where we have $2.8 billion of multi-year aggregate catastrophe bond, most of which though is -- the vast majority of that is still intact going forward in the January 1 and later.

To add to that, picked up on something that John's alluded to there. Keep in mind that, what we have been doing through the market cycle here is, the market have been softening over the past couple of years. We've been moving attachment points and deploying our capital to what we felt is the best risk-adjusted returns.

And the -- where we will be going forward, perhaps we'll be changing that again. So that, where the market is getting the appropriate rate increase and where the best risk adjusted returns are is well -- where we will be deploying our capital. So, that could change over the next 12 months.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. If I may, the last question, a quick one on the tax rate. There was an expected tax rate for the fourth quarter, it will be normalized like 11%, 12%

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

I mentioned in my script, Kai, that I believe the tax rate for the fourth quarter, any income earned in the fourth quarter should be an effective rate of about 10%

Q - Kai Pan {BIO 18669701 <GO>}

Great. Well, thank you so much.

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

Thank you, Kai.

Operator

We will go next to Jay Gelb with Barclays.

Q - Jay Gelb {BIO 21247396 <GO>}

Thanks very much. I know you mentioned the view that the third quarter catastrophe losses within your risk parameters. Was there anything coming out after your action reports in the third quarter that Everest possibly could have done different or better, looking back on these catastrophe losses.

A - Craig Howie {BIO 17579923 <GO>}

There is always things around the edges, that you can improve upon, there's nothing material that stands out. I guess, in the very extreme and the absurd could have been -- we would have written no property cat. That is obviously not a realistic scenario. It is -- I have to be honest with you. I think, what we have done on the way, we've managed our portfolio. I think it has been pretty much spot on as again during the -- over the last couple of years, as you know, we've been earning very, very good returns on our capital. We've been leveraging retro market with Capital Markets and allowed us to maintain our writings, while not diminishing our returns on capital and the loss frankly has come out well within our parameters.

So if there's not really -- I suppose, the only other thing that we could have done is again Monday morning quarterback, buy more reinsurance for our insurance portfolio

But looking at it from this vantage point, I'm certain, we would have made the same decisions.

Q - Jay Gelb {BIO 21247396 <GO>}

Thanks, Howie. And using that kind of as a starting point for the next question. The combined -- accounting your combined ratio in the third quarter in the insurance business over 140% is -- what can be done differently there to bring this to obviously not in 2017, but in 2018 and beyond, bring this to a calendar year underwriting profit for the business.

A - Craig Howie {BIO 17579923 <GO>}

Well. I mean, that combined ratio that you cite includes the catastrophe losses. So are you talking attritional or are you talking all in?

Q - Jay Gelb {BIO 21247396 <GO>}

All in. I mean looking out into next year, it's been a number of years, I think since the insurance business has generated an underwriting profit.

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

Well. On an attritional basis, it is generating an underwriting profit. And you'll see the improvement in the attritional combined ratio year-over-year. So, we are moving in the proper direction. We view our cat book, we view on a corporate global basis. So when we are allocating capacity, when we're looking at the marketplace, we're looking at our cat exposure globally and I should say, corporately. So that was well within -- well within our risk appetite.

To the extent that it is, then we could certainly entertain some intercompany reinsurance opportunities that would affect manage that combined ratio perhaps to the point that you're describing. But overall, we are very confident and very pleased with the attritional performance of our book.

Q - Jay Gelb {BIO 21247396 <GO>}

That's helpful. And then two final quick ones. One, any perspectives on exposure in the fourth quarter from the California wildfires? And then separately, since the company is more focused on deploying capital on the business, should we kind of zero out, the potential for share buybacks going into next year?

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

As you know, we don't -- let me answer the wildfire question first. At this point, it's clearly still early, but the losses we've modeled it and what we're hearing from customers and underwriters is that, it was -- it is well within our normal quarterly cat load. So we're not concerned about that event at least at this point.

Relative to share buybacks, as you know, we don't give an indication of what our appetite is. We are in the process of just reformulating if you will, our plans for next year. And we will have perhaps more to say on that in the weeks and months ahead.

Q - Jay Gelb {BIO 21247396 <GO>}

Appreciated. Thank you.

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

Thank you, Jay.

Operator

We will go next to Josh Shanker with Deutsche Bank.

Q - Joshua Shanker {BIO 5292022 <GO>}

Yeah. Good morning, everybody.

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

Good morning, Josh.

Q - Joshua Shanker {BIO 5292022 <GO>}

So I want to square these talks about improving pricing with also your appetite for growth. Compared to many of your peers, you have found opportunities in this marketplace where others haven't. And you grew very nicely in this third quarter as well. If someone says, look, if there is attractive opportunities, pricing maybe doesn't need to go up or how do I square those two things.

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

Well. Is your question on the reinsurance front or the insurance front?

Q - Joshua Shanker {BIO 5292022 <GO>}

Well. Can you talk about -- I mean, clearly, the insurance book is obviously growing faster, but you're also finding -- I guess and financial lines -- you've found opportunities in reinsurance, which is obviously not property. But there's a lot -- not just you, there's a lot who think pricing has to go up, but you are Everest and I respect your work and whatnot, you're finding opportunities in a very helpful way, I think or maybe I'm not reading it correctly.

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

No. So -- in part of reinsurance growth is, -- remember, we have-- we took on a crop reinsurance portfolio, so the growth was coming from that. Mortgage has been growing as well. And then few property -- few pro rata deals have added to that as well. And some of our structured products there, our structured solutions group has been adding some premium as well. Our straight-up property cat business is not really grown all that much year-over-year and that's frankly because of softening market, moving attachment points, all those things in the mix that kind of tapped out -- kind of our appetite on property risk, cat risk.

Q - Joshua Shanker {BIO 5292022 <GO>}

Yes.

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

Is that, I don't know, if that --

Q - Joshua Shanker {BIO 5292022 <GO>}

And then so, as you are adding on business in the primary insurance book, is that business dependent on the industry having cheap reinsurance on the property side just to allow you to grow there?

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

Absolutely, not. And as Jonathan pointed out in his opening comments, we expect the non-property lines actually to grow little faster in the coming quarters, and so you'll see even a better balance between property and non-property.

Q - Joshua Shanker {BIO 5292022 <GO>}

And Doucette, I'll try and dig a little deeper on that. The other question, obviously you guys bought more protection throughout the year lowering your PMLs, but we never really got any numbers to that. Is there any color you can give us on -- on where your PML stand now versus where they stood at the beginning of this year?

A - John Doucette {BIO 7178336 <GO>}

Josh, it's John. Yeah, I mean, I think they were basically materially similar. There was a decrease due to the cat bonds that we issued in -- in the March and April time period, but part of that and we continue to use third party capital as a way to think about managing our portfolio, managing the overall risk appetite shaping it. And so to the extent that we had some additional capacity through the aggregate catastrophe bonds that we purchased that covered Texas, Florida and Puerto Rico among other areas that helped us. In terms of Venice, we went into June 1 and July 1 in terms of the renewal period to maintain a net PML position that we were comfortable with.

Q - Joshua Shanker {BIO 5292022 <GO>}

Okay. Well, thank you for all the color and good luck with this renewal season.

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

Thank you, Josh. Thank you.

Operator

We'll go next to Amit Kumar with Buckingham Research Group.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks and good morning and thanks for the questions. Two questions. So the first question is the discussion on the catastrophe bonds. And I think I -- what I heard was they didn't kick in. Can you remind us and I know, they all have different attachment points, what do the industry losses need to get to for your cat bonds to trigger?

A - John Doucette {BIO 7178336 <GO>}

Good morning. So the catastrophe bonds, some of that we purchased sort of across the $2.8 billion, there is several layers, different perils covered. They all cover North America in some fashion and Puerto Rico several of them and then some of them are on in a current spaces and some of them are -- and including the most recent $1.25 billion as well as some of the previous ones are on an aggregate basis. So these bonds that we purchased are typically done tied to industry losses and then there is different market shares that are applied as per the bond, there were different market shares based on territories that are exposed. So there is not really a simple answer to that question. So the market shares in each of the bonds and each of the territories will vary, as we try to shape the bond to then best hedge our overall portfolio.

So the most latest catastrophe bonds of the 1.25 billion that we issued, they are -- they are done on an industry basis, so people such as yourself can do your own research on whether you think they are expected to be penetrated or not. There had been some markdowns in the bonds that reflected that, there may be some potential penetration to the lowest layer, but that really is going to end up being ultimately up to what the final industry losses are going to be.

Q - Amit Kumar {BIO 15025799 <GO>}

All right. That's a -- that's a fair point. Yeah, it's a bit tough to figure out the weighted index attachment. The second question I had was, I guess the discussion on the missing industry losses and we've sort of raised this topic on other calls as to how do we get to the industry loss of 100 billion plus versus the current addition of the disclosed losses. If the industry loss were to move downwards, does your net loss move up. Can you just help us understand that metric a bit better?

A - John Doucette {BIO 7178336 <GO>}

No, the industry loss moves down. You're expecting our loss to go up is that what you're asking.

Q - Amit Kumar {BIO 15025799 <GO>}

No. I'm thinking about the recoveries, how they trigger in and at what level, they trigger in, that's what I was asking sorry?

A - Craig Howie {BIO 17579923 <GO>}

It -- it's -- our net loss contemplates recoveries from the various instruments that John was just kind of outlining, which does mean that if in the industry loss goes down, our net loss position really doesn't change a whole heck of a lot. Yes, there is some movement that could occur, but it all depends on industry loss, where that loss is coming from what the weightings are, so it's a little difficult to give a precise answer to that. But my point is, is that there shouldn't be within a bond, our net loss position doesn't change a whole heck of a lot is really --

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. And I'm just --

A - Jonathan Zaffino {BIO 16652236 <GO>}

It's the same on the other side, which is if the losses go up because of the various protections including the aggregate catastrophe bonds, I was just talking about which are very close to the aggregate retention being exhausted or slightly into the first layer, it also means that if the industry losses go up that our net loss position won't change materially.

Q - Amit Kumar {BIO 15025799 <GO>}

Fair point. And Dom, any view on this, I guess the missing billions of industry losses. I mean, obviously, we're talking about rate firming, you're quite positive on the market scenario and (Multiple Speakers)

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

All of you smart folks have been -- has been -- have been exploring this and asking managements on all the calls and then looking at it for weeks and you can't find it, I don't know how you expect a simple man like me to figure that out for you. But if there was a place to look, I would look in the -- in the capital markets piece. That's my expectation of where kind of the missing numbers are.

Q - Amit Kumar {BIO 15025799 <GO>}

Yeah and that's a fair point. That's, that's all I have. Thanks for the answers and good luck for the future.

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

Thank you, Amit.

Operator

We'll go next to Meyer Shields with KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. I had two big picture questions and then one more number specific. So Dom I was wondering, one, if you could give us a sense of third party investor elasticity. In other words how various levels of rate changes might affect the supply of third party capital?

And secondly, whether based on your experience it makes sense to hold back some capital from 1/1 renewals in anticipation of better rate changes later in 2018?

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

Two great questions. I -- third party capital is looking to come back into the space or what I would call reload if -- if it can get meaningful rate increases and the definition of meaningful can vary by company, it can vary by investor. Do I -- do I see a material increase in third party capital if we have some level of market firming, I do not. I think first the capital has to be reloaded and I think what your question was implying was, is the third party capital going to increase materially if there is some material increase in pricing, we don't see that just yet.

I also think that the other side of the equation is, is that what we've heard from some clients is that they are more interested in potentially increasing their purchases from rated paper as opposed to third party capital. The whole issue of reinstates are always a problem there. And so there is does seem to be an increased interested -- interest in rated paper. And that doesn't mean by the way that reinsurers like ourselves, which utilize third party capital and see it as an opportunity to expand our capital base wouldn't increase. But to the extent that it does allow reinsurers to perhaps increase the participations with clients directly as opposed to have those clients buy from third party capital, we think that might -- might represent an opportunity certainly in the medium term.

In terms of holding back capital, so that -- we're in a marketplace. We have customers and we have sufficient capital and/or access to capital that will -- we can trade forward or trade in a bigger way if -- if rates are even firming more into the year. I think that the fundamental question is, we won't be deploying capital unless it meets our risk adjusted return hurdles. So that's the first test and if it meets our hurdles and we would anticipate, it would probably even in some circumstances exceed our hurdles, then we will deploy the capital. And there isn't a need to hold back capital in that environment. Does that answered your two questions.

Q - Meyer Shields {BIO 4281064 <GO>}

It does. Certainly well. Thank you. Follow-up, well not follow-up, but within the Insurance segment, I guess both last year and this year, the attritional loss ratio was higher in the third quarter than it was in the preceding two. And I was wondering, is there some soft element to seasonality or is that just lucky draw [ph]?

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

In -- in any one particular quarter, there is adjustments we are making to pick loss ratios. There is -- there is -- our A&H book of business for example, has been -- has been growing, which by definition carries a little bit higher attritional loss ratio. We think it's more appropriate to look at the year-to-date performance and takes out some of those quarterly anomalies, which it's mix of businesses, it's where we are pegging loss ratios in any one particular quarter, we make adjustments in a quarter, but it's the year-to-date number that really is -- what we think and what we look at predominantly. And that's improving year-over-year. That's trending in the right manner.

Q - Meyer Shields {BIO 4281064 <GO>}

Yeah. Absolutely. Thank you very much.

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

Thank you, Meyer.

Operator

And we'll go to our final question from Brian Meredith of UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah. Thanks. A couple of quick questions here for you Dom. The first, I'm just curious at Mt. Logan, how much collateral do you expect to be tied up at the 1/1 renewals? And do you plan on kind of replenishing that with new money here on that?

A - Jonathan Zaffino {BIO 16652236 <GO>}

So John might be helping us.

A - John Doucette {BIO 7178336 <GO>}

Yes, John. So the amount that will be tied up would be consistent with the expected losses that are there, plus the buffer that would be on top of that against the ceded losses. And then in terms of how much we would look to raise or redeploy, we would look -- we're in the process of talking to Logan investors both existing and new ones and we would expect -- we don't know what the final number will be, but we would expect it to be up.

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

(Multiple Speakers) And those investors to make it clear are looking also for rates to be up and they are not looking to deploy capital in a flat to down market.

A - John Doucette {BIO 7178336 <GO>}

Right. And it allows the -- as Dom said earlier, there clearly is a trend in the buyers both in the reinsurance and retro market looking for rated paper because there is some fundamental structural problem, which we're going to see it's going to play out in real time with the collateralized product in terms of collateral release mechanisms, forced collateral release, people may realize they thought they had cover and then they don't have as much cover as they thought or it -- or they don't have continuity of cover from one year to the next, as collateral gets trapped. So there is a clear demand for rated paper and we -- with our balance sheet, our ratings and kind of our 45 year trading relationship with clients around the world expect to be in a good position to capitalize on that. And so part of that would be to make sure that we get the right net risk position to be able to use our different capital structure such as Mt. Logan to help. But basically if Everest gets rate, the Mt. Logan investors benefit from that. So we stay in power, pursue with them.

Q - Brian Meredith {BIO 3108204 <GO>}

Right. Exactly, that's great. And then I'm just curious given history has kind of shown that on the property cat line rate increases tend be fairly short lived that's what you expect at this time around? But given that, would you expect to potentially disproportionally put more into Mt. Logan or some type of a soft capital facility to kind of help manage that risk?

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

I think we have demonstrated over the last couple of years that we deploy our capital in the best risk adjusted areas. We have used third party capital. We will write the business on the basis that we think it's best for the organization and use the capital that's out there in the most -- in the high -- most highly efficient manner possible. So it's difficult to answer that question precisely. But I think what we have demonstrated is that we are flexible and we tend to be within ranges opportunistic and we move our capacity around and we will continue to do that as we trade forward if which you are suggesting is that the -- the firming will be short-lived.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. That's great. And then one last one, I'm just curious. So John, Dom, I appreciate that is -- your point about the industry kind of cost of capital going up here. But do you think that the kind of cost of goods sold for property cat reinsurance based upon models and stuff is also going to rise here. And it is going to drive some of this rate activity or do you not see that happening?

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

I will (inaudible) John to address that.

A - John Doucette {BIO 7178336 <GO>}

Yeah. So I think a lot of times, every time a loss happens, there is always something that the different vendors learn from something different than before and they adjusted it that typically takes a few years to ripple through the system, as they update their models to kind of fit the historical events that or the different events that happened. So certainly, I think, take what happened in Houston, I think there is going to be a heightened awareness to flooding risks in different ways than people certainly some of the vendor models had thought about it before.

But this is true with different earthquakes, whether it was the New Zealand earthquake or you know, the four zones on the Japanese earthquake, it's true. It has been a long time since the catastrophe of that size hit Maria. And I think the modeling agencies will think that through. And for a little while there, we were looking at a cat five hitting Miami and I think that will both change some customer's view of their risk management as well as potentially change some of the vendor model with that, as they think about the possibilities with different storm tracks.

But a lot of that takes -- the customer views may be more happen in real time, as people think about what they are overall, what Board of Directors for some of our clients think about what their risk position is and how much they want to keep net and that may put some upward demand on reinsurance. But in terms of the modeling agencies, it usually takes a little bit to go through the system.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. And then --

A - John Doucette {BIO 7178336 <GO>}

(Multiple Speakers) the bottom line, Brian, I think the -- models are great. Everyone in the industry uses them. Events like this, I think cause all managements to take them with a little bit of grain of salt and recognize that there is risk, that is not evidenced through the models and that in fact will have some impact on the pricing, will have some impact on buying behavior as well.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. And then kind of just one quick numbers question for Craig, let him do some talking here. In the operating expense line, was there any kind of reversal of maybe variable incentive comp that happened?

A - Craig Howie {BIO 17579923 <GO>}

Yes. We -- we did that this quarter as well, Brian just because of matching with the events, but that will be determined again in the fourth quarter depending on where we stand with respect to income in the fourth quarter.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thank you.

A - John Doucette {BIO 7178336 <GO>}

I'm glad, Craig was able to -- be able to respond.

Q - Brian Meredith {BIO 3108204 <GO>}

Thanks, Craig.

A - John Doucette {BIO 7178336 <GO>}

That's it. Okay. So we had all the questions and thanks for those. In summary, I think what you heard this morning is that our risk management practices have contained the losses within our expectations and that kind of permits us to trade forward and participate fully in what we believe and I think the market believes, we will be firming. We think this is true not only because of what markets in general are saying, but also because there will be some dislocation of capital, which as I said before will benefit highly rated paper such as ours. So this is the business we're in, but this does create some opportunities for us going forward. Well, thank you for your participation on the call. And I look forward to our continued dialogue. Happy Halloween.

Operator

This does conclude today's conference. We thank you for your participation.