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# Everest Group, Ltd. NYSE:EG

*Earnings Call*

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# Call Participants

## EXECUTIVES

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*President, CEO & Director*

**Mark Kociancic**
*Executive VP & Group CFO*

**Matthew Jay Rohrmann**
*Senior VP & Head of Investor Relations*

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**Charles Gregory Peters**
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# Presentation

**Operator**

Good day, and welcome to the Everest Group Limited Third Quarter 2024 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Matthew Rohrmann, Senior Vice President, Head of Investor Relations. Please go ahead.

**Matthew Jay Rohrmann**
*Senior VP & Head of Investor Relations*

Good morning, everyone, and welcome to the Everest Group Limited Third Quarter of 2024 Earnings Conference Call. The Everest executives leading today's call are Juan Andrade, President and CEO; and Mark Kociancic, Executive Vice President and CFO. We are also joined by other members of the Everest management team.

Before we begin, I'll profusely comment by noting that today's call will include forward-looking statements. Actual results may differ materially, and we undertake no obligation to publicly update forward-looking statements. Management comments regarding estimates, projections and similar are subject to the risks, uncertainties and assumptions as noted in Everest's SEC filings.

Management may also refer to certain non-GAAP financial measures. Available explanation reconciliations to GAAP can be found in the earnings release and financial supplement on our website.

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

**Juan Carlos Andrade**
*President, CEO & Director*

Thank you, Matt. Good morning, everyone. Thank you for joining us. We delivered another successful quarter with strong operating income, driven by healthy underwriting results and investment income. This resulted in an annualized total shareholder return of 19.4% and an annualized operating return on equity of 18.7% year-to-date.

These results reflect our underwriting discipline and prudent risk management, which position the company to generate leading returns, despite what has already been another year in which industry catastrophe losses were higher than normal. Our thoughts are with all the people affected by these catastrophes across the globe, from Hurricane Beryl's impact in the Caribbean, the Storm Boris in Europe and most recently in the U.S. First, hit hard by Hurricane Helene in late September and then by Hurricane Milton in early October. It has been an active third quarter, and the impact of these natural catastrophes further strengthen our conviction that we have the right strategy.

Our reinsurance franchise is generating excellent results, and it's differentiating itself as a lead market. We are well positioned to benefit from attractive market conditions in a number of lines of business as we approach the January 1 renewals and beyond.

In our insurance segment, we made progress on a number of fronts, including improving the portfolio mix by growing in lines of business with higher expected profit trajectories and pulling back in less attractive lines, and continuing to gain traction internationally. Our primary focus in insurance remains on building an increasingly profitable, resilient and diversified portfolio. Additionally, our investment portfolio continued to outperform, generating nearly $500 million of net investment income in the third quarter.

With that backdrop, I will now turn to our third quarter financial highlights, beginning at the group level. We grew the company with a focus on property and specialty lines, where we see the highest expected risk-adjusted returns. Growth in these lines is well into the double digits for both segments.

Currently, we are pulling back in certain casualty lines and subclasses in North America that are less attractive and are more prone to social inflation pressures. These disciplined cycle and portfolio management actions contributed to an improvement of 50 basis points in our attritional loss ratio. The combined ratio included approximately 8 points of catastrophe losses from 3 hurricanes, Canadian storms and wildfires and a major flood event in Europe.

Over the past few years, we have proactively exited or reduced our exposure to the largest seasons in Florida. We have lowered our share with Florida specialists, and we have optimized our diversification throughout the state, and we have reduced our overall exposure to U.S. accounts that are heavily exposed to secondary perils, including flooding.

These actions have allowed us to grow our property catastrophe portfolio with higher levels of expected profitability and drive strong results even when events happen. The success of these portfolio management efforts is illustrated by our Helene loss of $78 million, net of recoveries and reinstatement premiums.

Based on our preliminary assessment to date, we estimate that losses from Hurricane Milton, which made landfall as a Category 3 in early October, will impact Everest's fourth quarter results in the range of $300 million to $400 million on a pretax basis, net of recoveries and reinstatement premiums. Our estimated range is based on information that is preliminarily available, which projects a total insurance industry loss of $25 billion to $35 billion. This again reinforces the importance of our actions to manage natural catastrophe volatility and build a resilient portfolio.

Turning now to our reinsurance business. Our third quarter results were once again excellent. We continue to execute on our portfolio and cycle management initiatives to maximize risk-adjusted returns. This was evident in growth in the quarter, driven by property catastrophe excess of loss and property pro rata, which remained attractive, and where we grew in the mid to high teens.

Conversely, as a result of our prudence in casualty lines, casualty pro rata and casualty excess of loss premium, growth rates decreased to levels in the mid-single-digit range. This is a result of the actions we have discussed in prior calls all year.

So far year-to-date, we have actively shed over $400 million of casualty renewal premiums as we see these lines as less attractive and in need of further correction in terms of underlying pricing and ceding commissions. We continue to see strong opportunities to expand the portfolio in those lines with the best expected returns, primarily property and specialty.

Both the attritional loss and attritional combined ratios improved, resulting in $245 million of underwriting profit. The quarter included catastrophe losses of $239 million net of recoveries and reinstatement premiums, again, reflecting the resilience we have built into this business. Our strategy to focus on top-tier seedings further enables us to produce consistent returns throughout the cycle.

In the aftermath of Milton and other international events, we expect property catastrophe pricing in North America and Europe to firm, heading into the January 1 renewals.

Demand for our capacity has also increased. Following recent catastrophe events and high-quality cedents continue to expand their relationship with us. In addition, Everest underwriting strategies have allowed us to build what we believe to be meaningful embedded margin in our reinsurance reserves. Our reinsurance segment is well positioned to continue generating strong margins.

Now turning to insurance. Our increasingly diversified insurance platform positions us to be agile, as evidenced by our discipline this quarter. For example, we have favorable market conditions in well-priced short tail and specialty lines and strong capabilities in our expanding international business. So we leaned into this, and we grew by double digits.

Conversely, we are increasingly cautious in certain casualty lines in the U.S. as the environment remains challenging. This is the long-term value of the increasingly diversified platform that we have created. We can play offense and defense to pursue the most economically attractive opportunities.

With regards to North America, we achieved an average rate increase of 11% across the portfolio, excluding workers' compensation and financial lines. Rate in the aggregate remains above expected loss trend.

In casualty lines such as general liability, commercial auto liability and excess liability, rate accelerated well into the high teens. These rate increases are necessary to respond to the elevated loss activity that we're experiencing as an industry and as a company. Everest continues to closely monitor the persistent problem of social inflation and legal system of use in the United States.

In U.S. casualty lines, we are focused on continuing to take action in classes exposed to this trend. For example, real estate, habitational and leisure accounts, and we are taking decisive underwriting actions. Our teams are selective on new business, achieving strong rate increases and nonrenewing underperforming accounts.

As a disciplined underwriting company, our goal is to ensure we are writing business only where pricing is adequate to earn our target risk-adjusted return. We expect the combination of these actions to result in a higher margin and more consistently profitable book.

In addition to our standard quarterly reserve review process, we will conclude our annual long-tail deep dive reserve studies within the insurance segment in the back half of the fourth quarter, and we will continue to take a conservative approach to the findings.

In conclusion, let me step back and summarize the status of our businesses. Our reinsurance business is firing on all cylinders. We are the lead treaty market for most of our global clients, and we have a nimble and profitable facultative business with a global footprint.

In insurance, our short-tail and specialty underwriting in the U.S. is strong, and we are increasingly local and relevant to our key brokers in markets across the country. We have upgraded important talent, and we are investing in people and automation to keep driving that business.

Similarly, our international insurance expansion is exceeding expectations. We have hired the best leaders in the business to drive that initiative. They've built an excellent book of business, and all of our performance indicators are pointing in the right direction. That leaves one area of the portfolio where we are taking ongoing and aggressive actions, segments of our insurance casualty book in the U.S. that are exposed to the real issues of legal system abuse.

So looking ahead, we will remain disciplined and opportunistic in our underwriting, while building franchise value through best-in-class execution for our clients. Our diversified businesses and our high-performing investment portfolio, coupled with our very strong balance sheet and our significant capital strength, give us the flexibility and the optionality to position Everest for the long term as we focus on delivering industry-leading returns through the cycle.

With that, I'll turn it over to Mark to review the financials in more detail.

**Mark Kociancic**
*Executive VP & Group CFO*

Thank you, Juan, and good morning, everyone. Everest had another strong quarter, delivering solid growth in operating income and net investment income. This drove operating earnings per share of $14.62 and an annualized total shareholder return of over 19%.

Our Reinsurance division continues to differentiate itself in the market, delivering another strong underwriting quarter. The Insurance division continued to gain traction in key markets internationally, while at the same time, growing materially in short-tail lines and remaining conservative in certain casualty lines as we continue to recalibrate the North American portfolio and focus on improving underwriting profitability.

Looking at the group results. Everest reported gross written premiums of $4.4 billion, representing approximately 1% growth in constant dollars and excluding reinstatement premiums. The combined ratio was 93.1% for the quarter, driven by an improvement in the attritional loss ratio, offset by higher CAT losses when compared to the prior year figures relatively benign third quarter.

CAT losses of $279 million in the quarter, net of recoveries and reinstatement premiums were driven by several events globally, including Hurricanes Helene, Beryl and Debby as well as weather events in Europe and Canada.

The group attritional loss ratio was 58.5%, a 50 basis point improvement over the prior year's quarter, and the group's commission ratio decreased to 21.1%. The group expense ratio improved from the prior year to 6%, while at the same time, we continue to invest in talent and systems within both franchises.

Moving to the segment results and starting with reinsurance. Gross written premiums grew 1.7% in constant dollars when adjusting for reinstatement premiums during the quarter. Growth in the quarter was driven by property and specialty lines, while we continue to remain disciplined in casualty lines.

Property Pro Rata and property CAT XOL grew 19% and 15% in the quarter, respectively. And when normalizing growth in Property CAT XOL on a 12-month basis, growth increases to 22%. Casualty Pro Rata and Casualty XOL decreased in the quarter by 7.2% and 5.9%, respectively. As Juan mentioned, we expect pricing to firm heading into the January 1 renewals, and are well positioned to capitalize on favorable market conditions, particularly in property and specialty lines.

We continue to see the written premium mix shift towards property and short-tail lines, which stands at 56% property and 44% casualty, a 6-point shift from the prior year. The net earned premium mix stands at approximately 55% property and 45% casualty. Consistent with prior quarters, growth will continue to favor short-tail line businesses, which will become more pronounced on an earned basis.

The attritional loss ratio improved 60 basis points to 56.9% during the quarter. The attritional combined ratio improved 140 basis points to 83.5% as we continue to improve the scale and durability of the portfolio, in addition to the business mix benefits.

The commission ratio improved 90 basis points to 23.9%, and underwriting expense ratio was in line with the prior year at 2.5%. Combined ratio was 91.8% and includes 9.1 points of CAT losses, driven by the storm activity previously mentioned, while the prior year third quarter included 6.4 points of catastrophe losses.

Moving to insurance. Gross written premiums decreased approximately 2% in constant dollars to $1.2 billion. As stated in prior calls, we are proactively shaping the portfolio mix towards the most accretive lines of business, and we made further progress in the quarter. We also continued to scale our primary franchise globally.

While the North America business was down overall, we continue to generate strong growth in retail property and specialty lines, each increasing in the double digits. This growth was offset by reductions in certain casualty lines in North America, which were down in aggregate by almost 20%, driven by our intentional portfolio actions, as Juan described earlier.

Our international business continues to grow well into the double digits. And we also continue to be conservative in monoline workers' comp, medical stop-loss and public company D&O. As we stated previously, we expect the drag associated with the runoff of our A&H medical stop-loss business to be completed by the end of the year. We will continue to focus on prudent risk selection rate adequacy and holding the line on terms and conditions.

Following the third quarter, we announced an agreement for Ryan Specialty to acquire our EverSports and Entertainment Insurance business. The deal is a win for all parties, and is well aligned with the strategic objectives of both organizations, and this transaction will be accounted for in the fourth quarter.

The attritional loss ratio was 63.3% in the quarter, and this is consistent with the prior year and reflects our actions to shape the portfolio while remaining disciplined, particularly in casualty lines. The commission ratio increased by 40 basis points to 12.2% in the quarter. The underwriting related expense ratio increased by 80 basis points as we continue to make investments in our global platform, drive underwriting discipline in North America and scale our international operations.

The segment combined ratio increased to 97.1% in the quarter, which includes 4.2 percentage points of catastrophe losses. The prior year third quarter benefited from a relatively benign level of CAT losses.

And moving on to investments. Net investment income was $496 million in the quarter, an increase of $90 million versus the prior year third quarter. The increase was driven primarily by higher assets under management and higher new money yields versus maturing assets. Alternative assets generated $72 million of net investment income, a slight decrease from the prior year.

Overall, our book yield improved from 4.2% to 4.8% year-over-year. We continue to have a short asset duration of approximately 3.1 years, given the attractive level of short rates, the investment portfolio remains well positioned for the current environment, and the fixed income portfolio benefits from an average credit rating AA-.

For the third quarter of 2024, our operating income tax rate was 10.7%, modestly lower than the second quarter, and driven by the mix of jurisdictional profits in the quarter.

Our capital strength continues to provide us the ability to pursue profitable growth and opportunistically repurchase shares, and we repurchased 272,000 shares in the quarter amounting to $100 million or an average of $367.3 per share. Year-to-date, we've repurchased 536,000 shares amounting to $200 million. We will look to continue to opportunistically repurchase shares.

Shareholders' equity ended the quarter at $15.3 billion or $15.6 billion excluding net unrealized depreciation on available for sale fixed income securities.

At the end of the quarter, net after-tax unrealized losses on the available-for-sale fixed income portfolio equaled approximately $220 million, a decrease of $716 million as compared to the end of the second quarter, resulting from interest rate decreases.

Cash flow from operations was $1.7 billion during the quarter, and book value per share ended the quarter at $356.77, an improvement of 19.1% from year-end 2023, when adjusted for dividends of $5.75 per share year-to-date.

Book value per share, excluding net unrealized depreciation on available for sale fixed income securities, stood at $361.87 versus $320.95 per share at year-end 2023, representing an increase of approximately 12.7%. Net debt leverage at quarter end stood at 14.3%, modestly lower on a sequential and year-over-year basis.

In conclusion, Everest had another strong quarter, generating a total shareholder return in excess of our target. Our diversified franchises, well-positioned investment portfolio and our meaningful excess capital positions us well going forward.

And with that, I'll turn the call over back to Matt.

**Matthew Jay Rohrmann**
*Senior VP & Head of Investor Relations*
Thanks, Mark. Operator, we're now ready to open the line for questions. We do ask that you please limit your questions to one question plus one follow-up, then rejoin the queue if you have additional questions.

# Question and Answer

**Operator**

[Operator Instructions] And the first question comes from Yaron Kinar with Jefferies.

**Yaron Joseph Kinar**
*Jefferies LLC, Research Division*

So first, I realize that liability lines are not monolithic. But I think that's the cut in premiums in the face of high teen insurance rates, and embedded margins in reinsurance may cause some confusion. So I guess, what would you say to investors who may be concerned that the cuts and casualty premiums are a sign of higher accident year loss picks to come and/or for the need for reserve strengthening?

**Juan Carlos Andrade**
*President, CEO & Director*

Yaron, it's Juan Andrade. Thanks for the question. Let me start, and then I'll ask some of my colleagues to jump in as well.

One of the things to keep in mind about our strategy is that diversification is one of the cornerstones. We're very nimble and we're very opportunistic. You see that in that 6% operating expense ratio for the quarter and that we consistently deliver. So we're able to move when we see the opportunities.

So for us, cycle management and portfolio management, it's what we do, and it's what we do to ensure that we get the best possible returns. You've seen us do this before. We've done it in workers' compensation. We've done it in public D&O. We've done it with our medical stop-loss book, and we certainly did it in our property book back in 2022 before rates firmed up prior to Hurricane Ian.

So we see the best opportunities today, as I just said in my remarks, in property and specialty lines. And while there's still some casualty lines out there that we like, there's also others that we don't, given the environment. The environment remains elevated.

We've stated our intentions previously to achieve a more optional balance in our portfolio, particularly in North America insurance. We've also talked about before the fact that in our reinsurance portfolio, we're starting to skew the mix more towards property catastrophe in property in general because of the rate and the terms and conditions that we like.

And so when you think about pricing being enough, particularly in the casualty lines in the primary business, loss trend is also elevated, right? And it has been elevated for quite some time. And we do expect social inflation to remain an issue. That's why we're being cautious in these lines of business. And this is one of the reasons why we've stated in the past that we're changing the mix of our portfolio to be more focused on those lines of business that we find more accretive.

So really, none of this is new news. I mean it's information that we've talked about publicly in the past. And it's really about constantly examining the portfolio to create the highest quality book.

**Yaron Joseph Kinar**
*Jefferies LLC, Research Division*

Got it. And then maybe shifting a little bit here. Do you still expect to achieve the updated 93% to 94% reported combined ratio guide for insurance that you offered in the last quarter and in the second half of this year?

**Mark Kociancic**
*Executive VP & Group CFO*

Well, Yaron, it's Mark. So I think the 93% to 94%, it really depends on where we are with the CAT. I think the fundamentals underneath that are still there, probably more importantly, where we were guiding towards was the 92% in the back half of 2025. And I think we still feel confident about getting to that target.

Ultimately, you're going to see several pieces move us towards that direction. So starting with increasing the scaling of the premium in the insurance franchise. The mix of business, I think, will provide us with a favorable combined split and then obviously focus on expense leverage.

**Operator**

And the next question comes from Gregory Peters with Raymond James.

**Charles Gregory Peters**
*Raymond James & Associates, Inc., Research Division*

So I just wanted to have you provide further detail on your answer there, Mark. Increasing scale, you commented on the higher expenses inside the insurance segment. Can you frame for us how we should think about the expense ratio, both commission and other underwriting expenses in the insurance segment when we model out in '25 and '26?

**Mark Kociancic**
*Executive VP & Group CFO*

Yes. So Greg, I think on the commission ratio, you're going to see something that is broadly stable with what you're seeing in the third quarter, maybe slightly elevated as we shed -- as we complete our shedding of A&H business in 2024. But the mix of business, I think, will keep it relatively stable towards that 12%-ish type level.

The general expense, it's really 2 pieces. There's -- we continue to invest in our franchises, both North America and internationally. And so those dollars get spent upfront in terms of people, systems and so on when we're setting up our locations for further development. And the earned premium that we expect thereafter is really what's going to drive that ratio down. So we're still in somewhat of a growth or investment phase in certain areas of insurance. So I can see the expense ratio being somewhat elevated now, but fundamentally moving down as we get that premium scaling.

And we've seen the benefits of some of the additions we made a couple of years ago, especially internationally in terms of hitting those teams to develop their premiums in their markets. And so we know that can be done. We feel good about it. It's really more of a timing issue than anything else.

**Charles Gregory Peters**
*Raymond James & Associates, Inc., Research Division*

Okay. That makes sense. I guess I'll pivot to pricing and reinsurance. It feels like following Monte Carlo, following relatively benign year-to-date CAT experience that at least through September, price talk in property CAT was trending down maybe 10%, give or take, maybe a little bit more. Maybe the recent Hurricane Milton may stabilize a little bit, but we're approaching year-end. And I know the reinsurance market always talks up price. And I know that the cedents always talk down price.

As we sort of go through the next 2 months. I know you said in your comments, Juan, that you expect pricing to hold maybe stable, but it feels like the pricing trend is down. So maybe you could give us some updated perspectives on pricing and reinsurance as we go into the January 1 renewals?

**Juan Carlos Andrade**
*President, CEO & Director*

No, for sure, Greg. Thanks for the question. I hope everything was fine with your homes down in Florida, given the impact of the hurricanes.

Look, what I said in my remarks is that we expect firming to take place at the 1/1 renewals. And we see that. And I think you're right that when we were all in Monte Carlo not too long ago, the talk was probably that pricing could come down somewhere around minus 5%, minus 10% for U.S. property CAT, et cetera.

But I think there's a few things that have changed since Monte Carlo similar to what happened in 2022 post-Ian. We had 2 major storms hit the United States, right, in Milton and Helene within essentially a week of each other. And I think that certainly sets the perspective on what's happening out there, right? I mean we're seeing rapid intensification. We're seeing very powerful storms, et cetera. So that's the U.S. component.

The other part of it is Europe, right? So the thought process in Europe was also likely that things were going to be probably down minus 5%, et cetera. But you have the floods in place this year, last year. Now we have Storm Boris in the third quarter, et cetera. So our thinking is that pricing is likely to go up plus 5%, plus 10%, both in the U.S. as well as in Europe.

And ultimately, we'll see at the end of the day when the dust to settle. But I know our teams are actively quoting right now, and we're actively engaged in that renewal process.

**Operator**

And the next question comes from Josh Shanker with Bank of America.

**Joshua David Shanker**
*BofA Securities, Research Division*

I definitely want to follow up on that comment. So is this a negotiation going on right now? Is there a tough sort of argument? If you talk to brokers, I think everyone says pricing should be down 5%. I think it used to be down 5%, maybe down 5% now. You're saying -- this is confident you're saying plus 5%, plus 10% here. Is this a January -- December 31 sort of negotiation that's going to bear out? Or are there firm orders that are telling you positive pricing is in the offering?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Insurance Division*

Sure. Josh, this is Jim Williamson. I mean we're not at firm order terms yet. It's very early in the process. I do expect this to be fairly down to the wire in terms of the negotiation.

But if you step back for a minute and think about some of the fundamentals, some of the things Juan touched on, first of all, it's been a very active CAT quarter. Now it has been a little less active if you're a reinsurer than if you're a primary, but the fact is the losses are in the system. It's over $100 billion a year.

Again, we've had several major hurricanes and the most recent one, while I think not as bad as people had feared, I don't think it takes a lot of imagination to recall that if it shifted to the north and Tampa, it would have been a much larger, maybe 2x or more type of event. So that's in everyone's mind.

The other factors that I think are critical, and it is against the backdrop of elevated loss and climate change and capital management. As our clients are looking to buy more capacity, demand is rising quite substantially. And we've already had a number of conversations with core clients who are looking to buy more. So that is certainly a factor.

And then lastly, I would say, our clients, in particular, are looking to buy more from Everest. I mean the quality of our capacity is second to none. And I think that just -- that peaks that demand for our paper. And I mean it's something north of 1/3 of our North America CAT deals have nonconcurrent terms, which I think will be very favorable for us as well. So I think all of that ladders up to a situation when we think rates will be firming and we think expected returns will be very strong.

**Joshua David Shanker**
*BofA Securities, Research Division*

And just quickly, you mentioned this potential loss that Milton put on. That's really about 6/1 more than its about 1/1 or do you think that has a 1/1 impact?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Insurance Division*

No. I think it has -- absolutely has a 1/1 impact. Now clearly, it's going to have more of a 1/1 impact on diversified U.S. CAT programs than it would on a program in Europe. Europe's got its own problems, obviously.

So there is going to be some differentiation based on where in the world the program is. But I think for all U.S. programs, they all have a variety of Southeast exposures. And I think the fact that there is this intensified hurricane activity and the near miss, I absolutely think it will weigh on pricing.

**Joshua David Shanker**
*BofA Securities, Research Division*

Right. And then on Mark's comments, you talked about the changes in the mix in the reinsurance business and how that's going to affect the loss ratios. Just to clarify both, should we expect that as the larger portion of short-tail business works that weigh in, we should see the loss ratio decline year-over-year with a modestly higher CAT load to it?

**Mark Kociancic**
*Executive VP & Group CFO*

Josh, it's Mark. I just want to clarify, you're talking about insurance or reinsurance? I missed that part.

**Joshua David Shanker**
*BofA Securities, Research Division*

Reinsurance. The pullback from longer-term lines and the short tail lines.

**Mark Kociancic**
*Executive VP & Group CFO*

Yes. Look, generally speaking, yes. But the only caution I would provide is we obviously review the loss picks for relevance, particularly on casualty now that we're in a what I would call a higher risk environment given the elevated loss trends. But generally speaking, I would say, yes.

**Operator**

The next question comes from Alex Scott with Barclays.

**Taylor Alexander Scott**
*Barclays Bank PLC, Research Division*

I was hoping we could come back to the reserve study in that you're going through in 4Q. I mean just from the pullback and it becoming seemingly much more significant this quarter, in some of the comments, it appears that your view of loss trend maybe changed more substantially since the last time you looked at this. And I just want to understand that dynamic and how impactful could this be for capital? I'm just trying to understand in the context of the share buybacks that were a bit higher and capital that maybe gets deployed towards property next year?

**Mark Kociancic**
*Executive VP & Group CFO*

Alex, it's Mark. I think the short answer is I really don't see scenario that impacts share buyback or excess capital strength that we currently have. So I mean, that's the short answer on that part.

I think the other pieces are we continue to build a well-diversified business. And so we're seeing strong margins, particular in property and shorter tail lines of business. It's really North American casualty that is the elevated risk factor for the industry, and that would include us and that's what we'll keep our eye on as we complete our studies.

**Taylor Alexander Scott**
*Barclays Bank PLC, Research Division*

Got it. That's helpful. And then we've heard commentary from some other [ primaries ] that have suggested competition in property, at least at the primary level, has been very intense actually in the third quarter. I mean -- can you talk about what you're seeing there and maybe the change in behavior that you're seeing post some of these storms?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Insurance Division*

Sure, Alex. This is Jim Williamson. Yes, a couple of comments. One, I mean, obviously, that's the headline. I would say if you look at the U.S., for example, and you peel that back, most commercial property in the retail channel is actually still taking rate increases. And I think that is often overlooked. But we still see that in our middle market portfolio, for example, we're still in a positive rate environment.

What is more competitive, I would say, is the wholesale market where you had just significant rate taking over the last few years, I'd say risks are priced very adequately. And so you're going to see increased competition as people want to -- would they want to write those deals.

And similarly, in large shared and layered programs of the best quality risk, the highly engineered global accounts, again, significant rate increases over the last few years, very attractive opportunities. You're going to see some heightened competition there, which is going to take headline rate levels down, I think, still very attractive.

And then obviously, we're seeing a little bit more competitiveness out of the London market. And again, I know I'm repeating myself, but we still think it's very, very attractive. So I think it's very much mix.

Now I do think recent events will help to ameliorate some of those trends. I don't necessarily expect some of those more competitive areas to suddenly flip to taking rate increases. But I do think it will give folks pause and maintain adequate pricing levels for longer than you otherwise would have had.

**Operator**

The next question comes from Meyer Shields of Keefe, Bruyette & Woods.

**Meyer Shields**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Great. I guess going back to the reserve issue, it sounds, if I'm interpreting your comments correctly, like there's much more confidence in the reinsurance segment reserve than in insurance. I was hoping you could walk us through the differences there that leads to that differentiation?

**Mark Kociancic**
*Executive VP & Group CFO*

Yes. Meyer, it's Mark again. So maybe just to expand the commentary, set the stage with where we are industry at large here. So I think we're clearly seeing North American casualty lines with elevated loss activity that's been persistent for several quarters for quite some time. And so that gives generally higher risk environment for U.S. casualty. So you don't know what the outcomes are going to be, and you don't know the ultimate length of time. So it creates higher risk.

When you look at our reinsurance portfolio, you've got a very well-diversified portfolio, short-tail, financial lines, casualty, international business and so forth, a very mature organization, multiple lines, geographies.

And we track cedent data. We've done, I think, a very good job of constructing the reinsurance portfolio over the last few years, in particular, with an eye on casualty as well as other lines. And so preemptively, we've been more cautious, I would say, on casualty in terms of ceding selection, terms, ceding commissions and pricing discipline.

So when you think about all that and what I would argue is a pretty clear embedded margin in a lot of the shorter tail and financial lines that we have, we feel good about that strength as we deal with the higher risk environment that U.S. casualty is creating.

Now if we move to insurance, we don't have that same level of diversification yet. We are heavier on U.S. casualty proportionately in the portfolio. Now we're moving into a more diversified portfolio. I think you're seeing a meaningful shift year-over-year in terms of the composition of U.S. casualty relative to the overall insurance portfolio. And so we have similar findings in terms of elevated levels of loss activity during the year from U.S. casualty lines, and that's the kind of data that we're taking into account on the reserve studies.

Generally speaking, we're still seeing good performance from the property and shorter tail lines in insurance. No question about that. But Juan highlighted earlier in his script that we do have specific casualty lines that we're recalibrating.

And that's one of the fundamentals of managing in a higher-risk casualty environment. You've got to ensure that you've got price adequacy, you're getting paid for the risk and that you're also managing cycle management appropriately, which means shifting your resources to more -- towards more attractive lines ultimately. And when you reach that stage, I think you're better able to manage the volatility that can come from these types of macro factors like the social inflation that's a legal system abuse that's quite pervasive over the last several quarters.

**Juan Carlos Andrade**
*President, CEO & Director*

Meyer, this is Juan. I would add just one comment to what Mark said, particularly on your question regarding reinsurance. Please keep in mind that our reinsurance teams are pricing actuaries. They set their own loss picks. And those loss picks are often different from the picks that we get from our clients for the same portfolios.

So adverse development, particularly -- in a particular client's book, doesn't necessarily mean or translate into adverse development in our reinsurance book. And I think it's important to keep that in mind.

**Meyer Shields**
*Keefe, Bruyette, & Woods, Inc., Research Division*

Yes. That is very, very helpful. Just a quick question. I was looking for an update on the status of licenses in the countries where you're building out the insurance, I guess, growth target?

**Juan Carlos Andrade**
*President, CEO & Director*

Yes. No, great question. I'm happy to say that everything is up and running now. I think in the last quarter, I mentioned that we had a couple of delays. Since then, those operations are up and running. A a matter of fact, I've been in 4 continents in the last 2, 3 months with all our local teams. We're writing business. Everything is up and running. And so we're good to go with all the countries that we set out to open up to this point.

**Operator**

And the next question comes from Brian Meredith, UBS.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

A couple of them here. First, I'm just curious, given the shift you're seeing right now to more property from casualty, is the 6-point CAT load still kind of a good one to think of? Or could it potentially trend a little higher given the shift you've got going on?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Insurance Division*

Yes, Brian, this is Jim Williamson. Yes, look, I think the way we've described our expected CAT losses is still relevant. We are writing a very diversified portfolio of property. We're not -- particularly when you look at our insurance business, we're not overextending ourselves in peak zones. We're also being very thoughtful about how much CAT exposure we're taking on a per risk basis. And I would say that we tend to write larger, more highly engineered property accounts in our insurance business, which, by their nature, are going to be less CAT exposed and have less CAT volatility associated with them. So while we do monitor, obviously, accumulation very closely, it's not moving the needle on a macro basis for the company.

**Mark Kociancic**
*Executive VP & Group CFO*

Brian, sorry, it's Mark. I was just going to add a couple of points to what Jim started with. So one is in the hedging program or the capital shield that we're managing in our CAT program, we're doing things that really emphasize better gross returns, minimizing basis risk, all within our risk appetite. And so I think you've got a more fulsome diversified set of PMLs by zone, as Jim was mentioning.

And then second, probably more importantly is I think when you look at the actual performance, especially relatively speaking versus peers, you're going to see that our CAT losses are proportionately smaller. I would argue they are meaningfully better performance than some of the others. And just take a look at our Helene loss this quarter. I think that's a good proof point. And I would also point to the 2023 performance of our reinsurance CAT loss ratio relative to peers.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Yes, makes sense. And then just one other quick one here, Juan, and kind of an add-on kind of what Meyer's question was, the international build-out. As we think about the insurance business going forward here, we're obviously seeing the year-over-year operating expense growth slow right now, obviously, as that build-out is getting closer to completion.

Should I think about operating expenses in the insurance units perhaps growing faster still than kind of your premiums are growing, given that buildout and given what's going on with the casualty kind of call it retrenchment, but just disciplined?

**Juan Carlos Andrade**
*President, CEO & Director*

Yes, Brian. So this is Juan. Let me start with that. I think one of the points that Mark made earlier in his response is that you still have a little bit of a J-curve effect in the investment in the international business. But we see that earned premium starting to come online. And frankly, the earned premium is coming a bit better than what we had anticipated in our own plans. So I think that's something to keep in mind.

The other thing for us is that we've opened up the countries to what I've answered just to Meyer, that we wanted to open at this point in time. So what you're going to see us doing, particularly in 2025, is really dig in deeper into these countries that we've already made investment. And so that should help -- certainly help the growth rate, the earned premium come in from that perspective.

**Brian Robert Meredith**
*UBS Investment Bank, Research Division*

Got you. And then assuming it's international, it's largely property?

**Juan Carlos Andrade**
*President, CEO & Director*

It's mostly short tail. So it's -- the majority is property. We write also a lot of specialty type business, think about marine, those kinds of things. But there is a component of international casualty and a component of financial lines. But you're right, depending on the region in the country, that's going to be the minority.

So that's one of the points I've made in prior calls that part of the strategic reason for doing this is we do get a mix benefit on the loss ratios from this business. They tend to run significantly better because it is more property. Some of it is less CAT exposed, et cetera.

**Mark Kociancic**
*Executive VP & Group CFO*

Brian, it's Mark. Sorry, just to add one point, similar to what Yaron was getting at in his second question upfront. Combined ratio guidance towards the lower end of where we are right now for the second half of '25, that's clearly one of the factors that we foresee. So I can see a bit of stubbornness as this J curve works its way through for the next couple of quarters. But then I would expect the premium side, the net earned and the scaling to start to kick in with more impact than the actual expense growth. And that's where you would see the ratio -- expense ratio subside.

**Operator**

The next question comes from Michael Zaremski with BMO.

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

A lot of questions and focus on kind of the deep dive you'll be doing on casualty in 4Q. Just curious, so if you put out the global triangles, but they're just -- they're not as helpful to most investors versus the statutory type of data that investors can see in your U.S. portfolio because on the U.S. side, you can see the loss picks by vintage and IBNR and et cetera, et cetera. So I guess it's more of a request or maybe a question too. To the extent you are doing this big deep dive, would you be willing to eventually show us your reserves on a statutory disclosure basis on a company-wide level for casualty? Is that something you consider?

**Mark Kociancic**
*Executive VP & Group CFO*

Yes, Mike, it's Mark. I think we took a step forward in the 2024 disclosures in late July, early August to improve the granularity and the transparency of the reserves, and that's something that I think we'll continue to do, hopefully take another step in 2025. We definitely want to have that level of understanding in the marketplace with what's going on. And we'll obviously take this kind of feedback into account as we pursue that objective.

**Michael David Zaremski**
*BMO Capital Markets Equity Research*

Okay. And maybe just a clarification on the -- I think -- I'm thinking about this correctly, but on the insurance segment, kind of the back half of 2025, guidance of closer to 92%, that is including a CAT load. But you're saying that you've been beating on CATs, right? You expect to have a small market share of catastrophes going forward. So I just want to make sure that is inclusive of CAT load, right?

**Mark Kociancic**
*Executive VP & Group CFO*

That's correct.

**Operator**

Next question comes from David Motemaden with Evercore ISI.

**David Kenneth Motemaden**
*Evercore ISI Institutional Equities, Research Division*

I wanted to just come back to the reserves on the casualty insurance side. And just maybe just get a quick check in on how actual to expected has trended on that book here through the third quarter, just because it seems like something has changed this quarter compared to the first half. So I'm just wondering if there's anything new that you guys are seeing in the underlying book this quarter?

**Mark Kociancic**
*Executive VP & Group CFO*

David, it's Mark. I would say we are seeing elevated loss activity in Q3. The loss trend itself, I think we made some general comments that it's been clearly elevated and a minor increase in the trend over the last several quarters, but the loss activity itself in U.S. casualty lines has definitely spiked somewhat in Q3. And we're seeing that principally in excess casualty, GL commercial auto.

Now on the flip side, we would also -- we have a lot of other lines in insurance, never mind reinsurance. And so when you're looking at things like property or even workers' comp or some of the financial lines, we're clearly seeing some favorable loss activity on that side. And so the loss activity is one factor. The reserve studies go into a whole bunch of aspects that take that into account, and that's what we would expect to come out of our Q4 process.

**David Kenneth Motemaden**
*Evercore ISI Institutional Equities, Research Division*

Got it. Okay. So yes, I guess I do see that the mix did shift more to short-tail on the insurance book. And then I guess -- so that should have had a benefit, I think, on the underlying or the attritional loss ratio there. But I guess it sounds like the reason why that was flat is just higher loss ratios on the casualty side. Is that the correct interpretation of the moving pieces just in the flat attritional loss ratio in the insurance book?

**Mark Kociancic**
*Executive VP & Group CFO*

Yes. Generally speaking, so a couple of points. I think the mix is intentional for a couple of reasons. One, it's more accretive or economically attractive business. We're definitely trying to improve the overall diversification of our portfolio mix. That was something we've been moving towards for quite some time, and we're -- we've been able to do that with meaningful momentum both in North America as well as adding the international portfolio.

And so you're getting some favorable impacts from that mix of business shift from the reduction of the A&H portfolio actions that we've referenced throughout the quarters. And then taking into account the impact of casualty expected loss ratios being more prudent or in line with our expectations there. And that's why you don't see that much of an improvement in the combined ratio versus the comparatives despite this shift in the mix of business.

**Operator**

Next question comes from Hristian Getsov with Wells Fargo Securities.

**Hristian Getsov**
*Wells Fargo Securities, LLC, Research Division*

How long do you think it will take for casualty, this is reinsurance specific, to firm enough in terms of just given its long tail nature for you to become more constructive? I know it's not going to be like a huge pricing shift like we saw in property. But I guess, what do you need to see there for you to kind of return to growth in those segments?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Insurance Division*

Yes, Hristian, this is Jim Williamson. One thing to keep in mind, most reinsurance casualty is on a quota share basis, and so what's really going to drive our view of any individual account is a couple of things. It's how much rate obviously is our client achieving? What is the composition of their portfolio? And then what ceding commission does that deal demand to close?

And so what we've seen is, obviously, not all portfolios are created equal. We price each and every deal ground up. There are many deals we like. We leaned into some of those deals in 2024 and actually expanded share with core clients, and then other deals just sort of don't make the grade and that's why, in total, our portfolio has come down a bit.

So what I would expect that we need to see in order to get to a better spot would be a broader-based improvement in underlying economics. So that's more rate acceleration, which we are starting to see in some places. I think we need to see some amelioration, some of the social inflation factors that are occurring in the market. And then we need to see more improvement in ceding commissions, which have come down a bit, but those take backs have been relatively modest.

**Hristian Getsov**
*Wells Fargo Securities, LLC, Research Division*

Got you. And then I know you guys said that you expect prop CAT pricing to be up, call it, 5% to 10% at 1/1. But could you provide a breakout of your expectations for U.S. business versus international?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Insurance Division*

Yes. Hristian, it's Jim again. Yes, look, I think we're relatively -- it's relatively consistent across territories. I do think U.S. will be up slightly more than Europe. We expect Europe to recover some pricing given what Juan had commented on earlier, which is just this persistent issue of pretty widespread severe conductive storm flooding, hail, et cetera, is what we saw with Storm Boris. So we think a correction is needed there.

There are other international markets, though, that I think are in a pretty good place, where you may see more of a flat pricing environment, and I would point to markets like Australia and Japan. So it's mixed.

I think the key point to take away, though, is those markets that have experienced loss, we expect to be firming. And I think -- and this is a general global comment, I think property CAT pretty much around the world is well priced and attractive to us, and we're going to continue to lean into it.

**Operator**

And the next question comes from Andrew Kligerman with TD Cowen.

**Andrew Scott Kligerman**
*TD Cowen, Research Division*

Maybe I'll just ask a quick question. It has been interesting with the commentary we're hearing on the property markets and Jim pointed out earlier, it's in wholesale, large global and lending. So I'm wondering, of the reinsurance portfolio where you're seeing, I guess, like close to 40% of your book is excess of loss, non-CAT and pro rata and then maybe in insurance, about 23% -- about 1/4 of the book is property short-tail stuff. Could you give us a sense of what the proportion of the book relates to those 3 areas that are seeing more competition, not necessarily a specific number, but just the materiality of that business to Everest.

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Insurance Division*

Andrew, it's Jim Williamson. So I mean, first of all, when it comes to the property CAT XOL, which is a core part of our reinsurance business, you really have to separate that from the rest because it has its own competitive dynamics, and we talked about that.

The pieces of the business that I would unpack for you would be property pro rata and then our insurance property book.

In property pro rata, our reinsurance portfolio, we've leaned very heavily in the U.S. into what I would describe as more of that core casualty business I've described, more E&S where I think pricing is very strong. It's a little less susceptible to some of the factors that we described. And so yes, there's a portion that will be more competitive. But by and large, I think we've got the right portfolio mix.

And then in insurance, I would say it's mix. We do write middle-market property where I think prices continue to rise. We're also writing those highly engineered shared and layer deals that I talked about where you are seeing a little more price pressure. But what's most important is not necessarily the direction of rate. It's where we are relative to adequacy.

And I would say uniformly in all of the areas where we're writing property, we are at or, in many cases, well above what we consider to be adequate pricing. And so we can write all of those areas and feel good about the profit that we'll earn.

**Andrew Scott Kligerman**
*TD Cowen, Research Division*

Excellent. And maybe along the same line cyber, how are you seeing pricing there in insurance and reinsurance? And are you leaning in?

**James Allan Williamson**
*Executive VP, Group COO & Head of Everest Insurance Division*

Yes. So cyber pricing is sort of in a place where it continues to come down a bit. It's a very small portion of our overall portfolio in both businesses. We write a little bit more in reinsurance where terms and conditions, particularly for cyber quota share treaties have been excellent, in particular, our ability to achieve pretty tight loss ratio caps. So we still think it's attractive. We're not necessarily growing that book, but it is very attractive still.

On the insurance side, prices are coming down. I think there's a little bit more sensibility around that. We did experience a period where I think prices have obviously come up very strongly, more than adequately priced. You see a little more competition. So we're being very cautious about that, though. And as I said, it's a very small portion of our insurance portfolio.

**Operator**

This concludes our question-and-answer session. I would like to turn the conference back over to Juan Andrade for any closing comments.

**Juan Carlos Andrade**
*President, CEO & Director*

Thank you all for your questions and the excellent discussion today. I look forward to meeting again to discuss our fourth quarter results. Thank you, and have a great day.

**Operator**
Thank you. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.