![S&P Capital IQ]

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Everest Re Group, Ltd. NYSE:RE

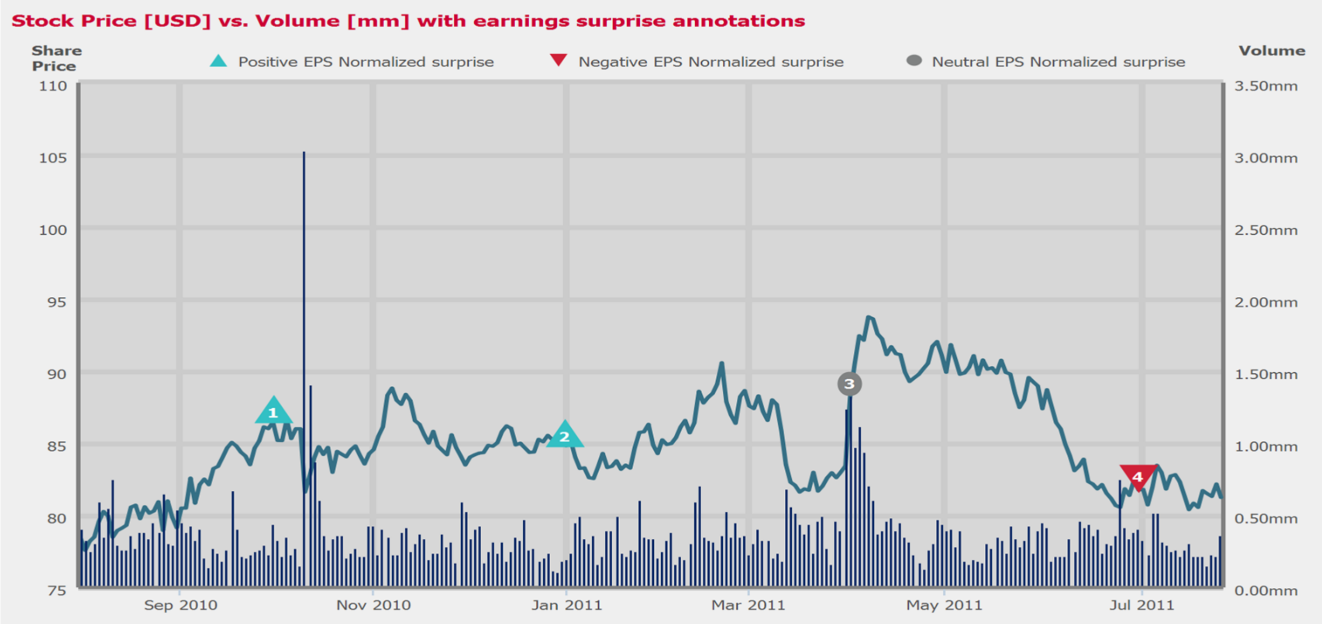
FQ3 2011 Earnings Call Transcripts

Thursday, October 27, 2011 2:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2011-			-FQ4 2011-	-FY 2011-	-FY 2012-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.03	2.70	▲33.00	3.02	1.80	11.63
Revenue (mm)	1105.44	1024.79	▼(7.30 %)	1057.61	4388.22	4450.91

Currency: USD
Consensus as of Oct-27-2011 1:03 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2010	2.65	2.67	▲0.75 %
FQ4 2010	2.94	4.70	▲59.86 %
FQ1 2011	(4.47)	(5.95)	NM
FQ2 2011	2.49	2.46	▼(1.20 %)

Call Participants

EXECUTIVES

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Elizabeth B. Farrell
Vice President of Investor Relations

Joseph V. Taranto
Chairman

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Jay H. Gelb
Barclays PLC, Research Division

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Joshua Shanker

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Vinay Gerard Misquith
Evercore ISI, Research Division

Vinay Misquith

Presentation

Operator

Welcome to the Everest Re Group, Ltd. Third Quarter 2011 Earnings Release Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Beth Farrell, Vice President, Investor Relations. Please go ahead.

Elizabeth B. Farrell
Vice President of Investor Relations

Thank you, Patrica. Good morning, and welcome to Everest Re Group's Third Quarter 2011 Earnings Conference Call. With me today are Joe Taranto, the company's Chairman and Chief Executive Officer; and Dom Addesso, our President and Chief Financial Officer.

Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to forward-looking statements. 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 Joe.

Joseph V. Taranto
Chairman

Thanks, Beth. Good morning. I am pleased to report $147 million of operating income or $2.70 per share for the quarter. This is a solid result when you consider the catastrophes in the quarter and the stock market decline during this period.

The story this year has been one of heavy catastrophes. Property casualty reinsurers know when they budget for expected catastrophe losses at the actual outcome will in all likelihood be anything but what has been budgeted. Mother nature doesn't work that way. Typically, losses will be much lower or much higher. This year, it was the much higher variety. What's important is that Everest has the underwriting, the diversification, the underlying earnings and the capital to manage through this volatility.

Indeed, despite this year's earthquakes, hurricanes, floods and tornados, we still expect to generate an operating profit for the year given a reasonable fourth quarter. Loss protection is what we sell. Without losses, we don't have a product. Heightened losses reinforce to our customers why they buy and reinforce to us and to our competitors the importance of charging rates that will lead to meaningful profits over time.

We expect property catastrophe rates to continue to go up into 2012. We expect retro prices at 1/1 to go up about 15%. We expect catastrophe rates on programs without losses in 2011 to average 5% rate increase. Of course, 1/1 programs with losses will have significant increases. This will include Australian and New Zealand accounts, as well as some U.S. regional accounts.

As we move forward to the 1/1 renewals in 2012, we will continue to execute the following strategies. First, we will continue to reposition our reinsurance portfolio towards the better opportunities. I expect that this will mean we will continue to ride more property business as a percentage of the overall writings and less casualty business. This is based on the expectations that property catastrophe reinsurance rates will continue to improve.

As we did for the June and July renewals, our mindset will be more rate, better terms, better upside with no increase in our higher PML zones. I expect our portfolio will continue to move toward more excess of loss and less pro rata. This is based on the expectation that property excess of loss rates will continue to improve, while underlying insurance rates generally will not meaningfully improve. Of course, there will be exceptions to this rule. For example, Florida homeowner rates are increasing, improving pro rata results.

Second, we will continue to extend our global footprint and distribution capabilities. Whereas we already operate around the globe with a great reputation in ratings, there are always seeds to be planted for the future in different countries and in different products. Our operation in Brazil is a good example of a recent success. Our entry into the China market makes for future opportunities.

Third, we will continue to reposition our insurance operation towards the better opportunities. I expect we will continue to grow our short-tail book, including Heartland, our crop insurance company. We will continue to push for higher rates on our property facilities in Florida and California.

In the third quarter, we averaged 3% rate increase on this property business. We will continue to remain in the workers comp market, where we are more recently averaging 15% rate increases in California.

We will continue to maintain our profitable D&O business written out of New York. We will continue to push for rate increases on our general liability book of business where we average 9% rate increase in the third quarter. We will continue to reduce the amount of standalone access and umbrella business that we are write as this space continues to be very competitive.

At our last report, we expected our crop book to be profitable this year, as it has been most prior years. However, severe weather will now likely make for an unprofitable year when you include our transition and startup costs. This is one of the factors that drove the poor results for the quarter in the insurance segment. Again, most years, we expect this book to be profitable. Given the significant restructuring and rate activity, I expect our insurance book will be much improved in 2012.

Fourth, we will continue to look for the best opportunities for our $16 billion of investments. Finding yield at the appropriate risk level maybe more challenging today than ever and disciplined underwriting is needed both in our insurance and reinsurance deals, as well as our investment strategy.

Fifth, we will continue to buy back stock. Since our last call, we bought back 700,000 shares at a cost of $55 million. Since this time frame was hurricane season, we were more cautious than we need to be between now and the next call.

In summary, our quarter demonstrates the underlying strength of our organization as we posted reasonable results despite unusual losses. Going forward, our market offers select opportunities, as parts of our market are showing improvements in response to losses.

Dom will now drill down through the quarterly numbers and explain what drove these numbers.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Thanks, Joe, and good morning. Before I begin, I would like to bring your attention to the changes in our segment reporting where the specialty segment was combined into the U.S. reinsurance segment except for primary accident and health, which is now included in the insurance segment. In addition, we have provided additional disclosure on our non-U.S. investments, which highlights our limited exposure to European banks and sovereigns in distressed European countries.

As mentioned, despite additional cats in the quarter, we had positive operating results, with a combined ratio of 95.6. I will start with a review of premiums as this is important in understanding the underwriting results for the quarter.

Overall, net written premiums are relatively flat quarter-over-quarter and up slightly over 2% for the year-to-date. These modest changes, however, do not adequately convey the underlying component changes in our book of business. For example, although total net reinsurance premium is down 6% for the quarter and 5% year-to-date, the cat excess of loss component of the book within the total is up approximately 15%, while maintaining relatively flat PMLs.

The offset to the increase in the cat excess of loss was in the pro rata property book, which was down by 12%, and the remaining offset was from a continued reduction in our casualty lines. These changes are significant in that they explain the year-over-year improvement in the year-to-date attritional combined ratio for all reinsurance segments from 85.2% to 82.2% excluding the effect of reinstatement premiums.

A significant portion of the shift in premiums earned occurred in the third quarter, as a result of the June and July renewal dates and since expected loss ratios and commissions are much lower for cat XOL business, we are beginning to see this favorable impact on the loss ratio and the expense ratio.

In addition, our projected attritional loss ratio includes provisions for cat events less than $10 million. The amount reserved exceeded reported losses in this category, and therefore, this provision was reduced by $35 million in the third quarter.

Both the shift in mix and the effect of lower-than-expected small cat losses resulted in an attritional current year combined ratio for the quarter of 77.3% excluding the impact of reinstatement premiums. Adding approximately 15 points of cats in the quarter and positive reserve development resulted in a reinsurance combined ratio for the quarter of 89.3%.

The 15 points of cats in the quarter are a result of Hurricane Irene, estimated at $35 million, an increase of $65 million in the Japan earthquake estimate and an increase of $27 million for the New Zealand earthquake. The increases for Japan and New Zealand were largely in response to additional information provided to the market, in general by large cedants and brokers during the third quarter as they worked through the actual losses. We believe our estimates are at the high end or above certain industry estimates and therefore, reflect a conservative view of ultimate losses.

Turning to insurance operations. The net written premiums were up 44% and 40% for the quarter and year-to-date, respectively. These increases were primarily driven by our new venture in crop insurance plus rate increases in California workers' comp and the recent initiative in primary medical stop loss business. It should be noted, again, that the medical stop loss business has been reclassified to the insurance segment since it is a primary business.

Results in the insurance segment for the quarter have been impacted by 11.6 points of prior development on excess casualty business and workers' comp. On the year-to-date, this had a 3.9 point impact. In addition, cats for the 9 months were 0.5 a point.

After adjusting for these items, the current-year attritional combined ratio stands at 101.8. This compares to 103.8 for the first 9 months of last year. This improvement reflects improving rate conditions across the commercial lines markets, in particular for workers' comp, as well as structural changes to our portfolio with the termination of underperforming programs and growth in professional lines and California DIC.

Current year continues to be impacted by soft casualty rates albeit improving and higher-than-expected losses on the crop book due to severe weather conditions. The latter adversely impacted the quarter by 6 points and the year by 2 points. Looking ahead though, we continue to view the Heartland acquisition as strategically important to the insurance group and expect that its future probability -- profitability will add meaningfully to this segment. When taking this into account, it further highlights the improving trend in the insurance results.

Net investment income amounted to $156 million, which, for the quarter, was up $15 million over last year primarily due to limited partnerships, which had a gain of $16 million this year versus a $1 million loss in last year's quarter. Income from fixed maturities is down due to lower yields, while income from equities is up, reflecting our increased investment in dividend-paying equities. Also, our equity securities income includes fixed income exposure through bond mutual funds, which are classified as equities.

Our realized losses for the quarter were $138 million before tax and $84 million after tax due primarily to fair value adjustments on the equity portfolio. While not impacting earnings, we also had unrealized losses net of tax of $35 million from our bond portfolio. Although interest rates declined during the quarter, we experienced widening of spreads on high yield and other corporate bonds.

Nevertheless, on a year-to-date basis, our unrealized gain position net of tax increased $52 million. And when combined with realized losses net of tax, the overall portfolio experienced just a slight decline of $26 million. As you know though, subsequent to the quarter end, the markets have rallied, and as of last Friday, the overall portfolio is now at a net gain for the year of $48 million. This, of course, along with rising rates recently, should have a positive impact on the derivative loss we experienced in the third quarter that resulted from falling equity markets and interest rates in the third quarter.

And finally, book value at $6.1 billion is down modestly from the second quarter despite good underwriting income -- good operating income due to realized and the unrealized losses on [indiscernible] And foreign currency translation adjustments reflected in other comprehensive income, plus the impact of dividends to stockholders and share repurchases. However, book value per share is up slightly to $113.26 reflecting the fact that we had share repurchases of 597,000 shares during the quarter, amounting to $47 million or an average price of $78 per share. After the quarter closed, we settled on additional 105,000 shares or $8 million or an average price of $78.57, which is not reflected in the third quarter financials.

Our capital position remains in excess of what we need to support the portfolio on a modeled basis. That position has served us well particularly in a year like this for the industry. While we intend to maintain some level of excess capital for market events and opportunities, we are still committed to continued share repurchases in the absence of new opportunities.

Thank you, and I will turn it back to Beth for Q&A.

Elizabeth B. Farrell
Vice President of Investor Relations
Patrica, we are now open for questions and answers.

Question and Answer

Operator

[Operator Instructions] And we'll go to Jay Gelb with Barclays Capital.

Jay H. Gelb
Barclays PLC, Research Division

Can you give us a sense of what drove the reserve strengthening in the U. S. insurance segment in the last quarter?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Sure, Jay. Overall, we generally wait until the fourth quarter reserve studies unless our interim metrics point us to something else. This year, we've seen some unusual large losses on the insurance side, which indicated a need for strengthening. If we see that this in our metrics, we should not and do not wait for the reserve study. Similarly, on the reinsurance side, each quarter our metrics have been improving. This was also the case last year. And therefore, given that our overall metrics still point to total adequacy, it was -- we felt it appropriate to re-bucket certain reserves. But clearly the internal metrics pointed us to needing some reserve additions on the insurance side.

Jay H. Gelb
Barclays PLC, Research Division

What lines were it in particular?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Work comp and excess casualty, most of the excess casualty.

Jay H. Gelb
Barclays PLC, Research Division

Do you expect that…

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Which -- pardon?

Jay H. Gelb
Barclays PLC, Research Division

I'm sorry. Go ahead.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

No, I was going to say that which is a turnabout from last year where we actually -- our reserve study work actually indicated some slight redundancies in our excess casualty book. So it's just something that emerged this year.

Jay H. Gelb
Barclays PLC, Research Division

Would it be unreasonable to expect some further reserve strengthening in 4Q then?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

We really can't say which way that will go in the fourth quarter. We have our reserve studies. Like as I said, we reacted to what we saw emerge in the third quarter and obviously, we took that action. But it's too early to say what our reserve studies will come up with.

Jay H. Gelb
Barclays PLC, Research Division

Okay. And then turning to the investment portfolio. We were anticipating instead of showing profits in the partnership income in the net investment income line, given what happened with hedge funds and private equity in the third quarter, might actually be flat to down. So what drove that in 3Q? And what should we put in there for 4Q?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

I don't know what you should put in there for 4Q and would not dare an estimate on that. As you know that, Jay, that can be very volatile. It is on a quarter lag relative and most many of the limited partnerships use the equity markets as a basis for providing their fair values or estimated values. In our particular case, we've also had some particular individual limited partnerships that had some unique transactions that led to gains. Kinder Morgan, for example, was one of those. That was a very positive outcome for us.

Jay H. Gelb
Barclays PLC, Research Division

So the -- for the -- given the one quarter lag then based on the equity market performance of 3Q, would it be reasonable to expect a loss in 4Q?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

As I said, that's your business, not my business.

Jay H. Gelb
Barclays PLC, Research Division

Okay. But that would be -- that would run through the partnership income line, right, not just derivative realized?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Correct. Correct.

Operator

Josh Shanker with Deutsche Bank.

Joshua Shanker

A couple of questions. Historically, obviously, workers' comp has been an important part of your business and a lot of that business got competed away a few years back. Would you be more aggressive given the market trend? Where do you see the business that you lost in the past? How do you think that's performing now? And how do you look at your own book today?

Joseph V. Taranto
Chairman

Well, as you know, we have a long history in the comp market getting into it in a small way in 2001 and then building it a very big way through 2003, '04 and '05. Yes, subsequent to that, our book -- we took it down in part because we did lose some business, but in part because rates started to come down at that point. So we're still an important player in the market probably doing about $200 million worth of business, but that's down from what was once $900 million. When the market hit its peak in 2004 and '05, we were very pleased with the business with reforms going in, rates going up, and of course, that business led to outrageously wonderful results. Today, it's not quite that. We're pleased with 15% rate increases that we're currently getting that kind of comes on top of rate increases of 9-ish percent last year. So the market is certainly taking a favorable turn. Keeping in mind some of that rate is needed to cover medical inflation. If we don't look at it like we looked at the business in 2004, where it was fantastic. We look at it as if it's okay today, and we'd like to see rate increases continue to build. If that's the case, we may look to grow the book some more than what we're currently thinking. But right now we are a bit cautious, and I think we're pushing for more rate as opposed to more business. And of course, these things work against one another. The more rate you push for, the less business that you do to some degree. So long story short, we're pleased with the book, the direction, the rate increase, and we expect next year to be a good year in that market. And we may grow some, and it may be even more than that depending upon how the rest of the market reacts in terms of joining us in rate increases.

Joshua David Shanker
Deutsche Bank AG, Research Division

When you say next year is going to be a new year on a written or an earned basis?

Joseph V. Taranto
Chairman

Well, I guess, I talk of written premium. At least, that's what I'm thinking of what we actually put on the books next year.

Joshua David Shanker
Deutsche Bank AG, Research Division

Yes. And do you think given a, call it, risk-free rate of 3.5% on the 10-year, 3% on the 10-year that, that it's an attractive market overall for the industry or particularly for Everest?

Joseph V. Taranto
Chairman

Well, the interest rate, you're getting into the investment income aspect, and it certainly is that it's casualty business. There is a tail on it, but we tossed that to the side to some degree even though it does figure into ROE models. We're more old school and wanting to achieve an underwriting profit on this business. I do believe that the current rates it generates a fair rate of return. But as I said, we're looking it for it to increase so we can be even more confident in the business. It's still casualty business that once you write it, it takes a few years to play out before exactly where it's at, so you need to be paid for them.

Joshua David Shanker
Deutsche Bank AG, Research Division

Understood. And finally, on the derivative. If I'm not mistaken, the liability for equity puts is about equal to where it was in 1Q '09. I just like to run through a little bit of how that's calculated a little bit. It's not severe, but I would be surprised that it would be that high today given the markets rallied about 45% since that time.

Joseph V. Taranto
Chairman

Let me tackle it, and Dom, you may want to add to it. We have a bit of a black box formula that we follow to come up with that evaluation. And even though these deals at the end of the day will be determined strictly on stock market price, and we're confident that we'll do well on these deals. The interim evaluation, the quarterly evaluation, the 2 most critical components are, one, is stock market price, but the other is interest rate. Even though that doesn't figure into the final resolution of these, it's kind of a discounted Black-Scholes-type model that's being used. So with interest rates and the key builds [ph] particularly going down pretty dramatically for the quarter and for that period of time that you're talking about, that's had an impact on the estimates, if you will, even though it has no real impact on the ultimate resolution. With the market up pretty strong through October, if it just stays the same, clearly, and interest rates are up a bit too, as Dom noted, this will swing the other way in the fourth quarter.

Operator

Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of things here for you. First of them, Dom, I wonder if you could talk a little bit about what trends you actually were seeing in the excess liability business that resulted in the adverse development.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

I wouldn’t particularly call it a trend, as much as it was higher-than-expected number of large losses.

Brian Robert Meredith
UBS Investment Bank, Research Division

Okay, great. And then the next question, I wonder if you could talk a little bit about your comments about the attritional combined ratio in the quarter. And I think you said part of it’s because you’re -- you went to more property cat excess of loss versus primary property. Does that mean that going forward we're also likely to see maybe higher catastrophe losses?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

No, because the business that -- the shift in business from pro rata to cat XOL was done with basically the same PMLs. So the expected loss would be approximately the same, and that’s just obviously a modeled number. But obviously, what’s happening in the attritional is essentially if you have no cats, the XOL is booked at 0. Right? But you still have -- in the pro rata book, you still have some underlying attritional normal loss ratio.

Joseph V. Taranto
Chairman

And much of the growth in the XOL premium is rate increase.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Right.

Brian Robert Meredith
UBS Investment Bank, Research Division

Got you. And then I guess, because of that shift also should we expect that you’ll have some pressure on top line?

Joseph V. Taranto
Chairman

Well, I wouldn’t call it pressure, but you’re right, Brian. Pro rata pound for pound does give you more top line than XOL. So generally speaking, that trend means we won’t be building top line as fast, but clearly the goal here is to focus on the bottom line.

Operator

Greg Locraft, Morgan Stanley Smith Barney.

Gregory Locraft

Morgan Stanley, Research Division

I actually missed the opening comments, Joe, because I was on another call. So if you mentioned this, please just I can review the transcript. But can you go kind of through each of the lines and give us at a broad brush sort of where pricing is and where loss trend is?

Joseph V. Taranto
Chairman

Yes. I think you're probably more looking at the insurance side than the reinsurance side, Greg.

Gregory Locraft
Morgan Stanley, Research Division

Well I'd love, I guess, pricing color on reinsurance, but, yes.

Joseph V. Taranto
Chairman

All right. Let me give you some overall commentary, because I know -- there's been a lot of discussion, particularly this quarter about pricing. It's clearly, we've seen a broad effort by many insurance companies to draw a line in the sand and stop rates from declining and in fact, get rates rising. I think, this recent quarter showed more success in this effort than we've seen in prior quarters. We had mentioned in the opening that we continue in our insurance book to see some pockets certainly responding, California workers' comp, in the third quarter, we continued to get rate increases that averaged 15%. Our general liability primary rates third quarter, we saw 9% rate increase, which was up pretty significantly from the prior quarter. Our insurance rates, the property rates were up on the order of 3% for the quarter, which is okay, but more is needed. Other areas didn't respond as well. For example, the D&O on the commercial umbrella space, I think, continues to be flat at best and is in need of some rate increase. So I'm not particularly forecasting a hard market. Although, I certainly hope that, that what's coming before too long. In 2001, we did feel as if it was coming, and we increased our market share in many areas. Now our strategy would be kind of to selectively increase where we believe rate to exposure will be quite good, but selectively decrease where we think rates to exposures aren't quite what they need to be. So I think it's good that the latest trend is a beneficial, will broaden the opportunities. Upward corrections are overall helpful, but I don't particularly expect this to the snowball. Taking that from the insurance side to the reinsurance rate side, I think the biggest issue, the biggest event that's happened is property cat rates being up and response to all the losses that we've had in last year and a half. And we see that correction continuing into January and beyond. I noted that I thought retro rates will be up 15%. Cat rates, if you didn't have a loss in 2011, up 5-ish percent, and if you did have a loss in 2011 and now you're coming up at January like many accounts in Australia, New Zealand and many of the U.S. regional accounts, you'll be facing some meaningful rate increases. So I still think, from a reinsurance point, of view, likely our book will push into more property given the dynamics. The overall casualty market, I don't see reinsurance rates changing particularly for reinsurers. And when you get to underneath it, some of the areas that are most supported by reinsurers D&O commercial umbrella because they require big limits and have a lot of volatility. They're not moving just yet as they need to be. So Greg, hopefully that answers your question.

Gregory Locraft
Morgan Stanley, Research Division

That's perfect, Joe. And I guess some leaders of the company have been opining that this looks a lot like a 2000 time frame. Do you echo those comments? It sounds like you're more conservative quite frankly based on the commentary.

Joseph V. Taranto
Chairman

I think you can take away that I'm more conservative. But what I think won't matter in terms of what really happens at the end of the day. So yes, I think I'm happy that things have taken a positive change, and I hope it continues. But in terms of anything getting back to what happened in 2000 to 2003 and '04, I don't feel anything that extreme is going to happen.

Operator

Vinay Misquith with Evercore Partners.

Vinay Misquith

The first question is on your capacity to grow your property cat. I believe you mentioned that your PMLs are flat. So if you could please remind us about your PMLs and how much you can grow on 1/1, please?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Remind you of what, Vinay?

Vinay Gerard Misquith
Evercore ISI, Research Division

Your PMLs.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

For which territories?

Vinay Gerard Misquith
Evercore ISI, Research Division

For your peak territories.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Florida, for example, would be our peak territory, which is 940, but on an economic basis it would be $640 million.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. That's great. And do you have a significant amount of capacity to grow that business on 1/1?

Joseph V. Taranto
Chairman

We're trying -- our plan right now is to not grow the PMLs in the major zones. Now that doesn't mean that we won't write more business, because we may write in zones that aren't in the major zones. We might write second, third loss. We may write in some of the U.S. regions. We haven't been big in the regional space and now we believe rates will be going up, and it may offer better opportunity. So there may be some opportunity for what I'll call sideways growth.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay. That's fair enough. Second, if you could remind us what the dollar value of your excess capital is. You had, in the past, disclosed that number.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

We are -- and I will answer this in the context of what I'd say is excess, excess. And by that I mean that which we think about in terms of our share repurchase program. And we'd like to think about it as about approximately a $500 million number.

Vinay Gerard Misquith
Evercore ISI, Research Division

Okay, that's great. And then just one last one. Last question, did you mention that you had about $35 million of prior quarter to your reserve development this quarter?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Prior year development? No, we have -- the $35 million I was mentioning was a reduction in our provisions for small cats, those cats that are less than $10 million in losses. Is that…

Vinay Gerard Misquith
Evercore ISI, Research Division

So that's prior quarter? Or that's -- sorry, go ahead.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Is that the $35 million that you're referring to?

Vinay Gerard Misquith
Evercore ISI, Research Division

Yes. So that's not a prior year development. That's a prior quarter development, correct?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

No. Correct.

Operator

Matthew Heimermann with JPMorgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Couple of questions. First, just maybe, Joe, could you give us -- I just be curious kind of your conviction around some of the comments you have on reinsurance pricing specifically because it feels like some of the market tone and commentary has softened a bit since Monte Carlo

Joseph V. Taranto
Chairman

Sure. I mean, the reality is we'll see what happens at 1/1, but I think -- let me go back 3 spaces, the convictions I had for June and July, I think those pretty much came to pass. And much of what I say in terms of where I expect rates to go is where we're looking for it to go, where we think it should go and where we will be proactive in trying to make it go. Now, this is pretty simple. A lot of this is based on the last 18 months worth of catastrophe losses. And if my competitors are saying something different, I don't think they're paying attention to what's happened in the last 18 months. So now you will have some regional companies coming up that had some pretty good losses at 1/1. You will have some New Zealand, Australian companies coming up that have had mega losses, and they're coming up for the first time since those losses in 1/1. You'll have retro business, which has continued to percolate as more losses have gone up in Japan and Australia, those have gone into increasing losses in the retro space. And so to me that heightens what the price should be going forward. So I feel it will happen and certainly, we'll be looking to do our part. If it doesn't measure up to that, we'll do less. But you now have at least the logic, which I think is pretty clear and evident, as to why I think that's the case.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Okay. That's fair. And then with the shift to XOL versus -- from pro rata, can you give us a sense of what layers you're -- what layers that shift constitutes within XOL structures, whether that's generally by zone, if that's the easiest way to do it?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

That level of detail, Matt, we really wouldn't have for this call.

Joseph V. Taranto
Chairman

We'll get back to you with color on that, Matt.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

That's fair. And I guess, maybe as you think about it, I'd just be curious kind of thinking about kind of shorter return periods versus -- than what you normally would disclose in your SEC filings. I guess, the other question is just a numbers question on the reinstatements. If you could just give us those figures by segment.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Well, I can give you those figures overall. For the quarter, we've had $13 million of reinstatement premiums. On a year-to-date basis, just shy of $54 million, and obviously, that's all in the reinsurance segment. Give me a second here. I can -- Bermuda was most of the third quarter number, 12.5. On the year-to-date, we got…

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Okay, I've got the rest of them from prior quarters, so that's fine. I just wanted to make sure that this quarter I had it right. Okay. And then just a follow-up on your comment on the underlying loss ratio, so did I hear you right there was a $35 million benefit from lower -- effectively lower RBNI provisions -- IBNR, excuse me, provisions in the current quarter?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Yes. In other words, we've looked at the small cat events, those less than $10 million that occurred during the year, and we've looked at the reserves we were carrying through the first 2 quarters and the third quarter against the actual results. And we've had $35 million of excess reserves relative to those smaller cat events and also, realized that we'll be positively impacted. The provisions for small cat events by definition go down, again and it's the shift into an XOL versus pro rata. The provision for small cats is more relevant when you have a larger pro rata book.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

That makes sense. Going -- when we think about this going forward, is it fair to -- should we expect some seasonality then as we look into next year and years beyond that on a quarterly basis with potentially more favorable back half IBNR or lower IBNR provisions in the back half assuming that either activity is wide or you don't see upward push to the events you do book earlier in the year?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Well, I don't know that I'd go put it quite that way. First of all, there is seasonality for certain types of cats. But there obviously is no season for earthquake events, but you have to keep that in mind. Secondly, again, as we shift more towards the XOL and that becomes a bigger proportion of our cat premium, then the provision that we put up for small cat events in each quarter would be less. I don't know if that helps.

Operator

Our final question, Ian Gutterman with Adage Capital.

Ian Gutterman
Adage Capital Management, L.P.

I guess, first Dom, on the crop, you mentioned pro rata loss due to some startup cost and such, can you quantify how much that is?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

Our startup cost that we've included in this year-to-date results approximate $6 million, somewhere in that range.

Ian Gutterman
Adage Capital Management, L.P.

Or would that be on the combined?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

That would be in the combined, yes.

Ian Gutterman
Adage Capital Management, L.P.

And so how many points on the combined? I'm not sure what the net premium is.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

The premiums for the crop year-to-date -- give me a second, about $120 million.

Joseph V. Taranto
Chairman

And those will be one-time events, Ian. So they won't repeat next year.

Ian Gutterman
Adage Capital Management, L.P.

Okay, right. I was just trying to get a sense of what sort of the core was, because I guess, I thought outside Texas. And maybe I'm not familiar with your geographies, but thought outside Texas come out to be a pretty close to normal crop year.

Joseph V. Taranto
Chairman

No, we had some very hot weather during the summer, over 100 degrees for an extended period of time in the Midwest and the Northern part, if you will, that affected the corn crop quite considerably. So that's kind of what -- in addition to the other things.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

And we won't -- realistically, we're not going to know. obviously, it's a function of not only yield, but also commodity prices, so we're really not going to know the true results of that until February, but given those drought conditions, we felt that prudent to just add something to our reserves for that potential outcome.

It could work back to be a more positive result.

Ian Gutterman
Adage Capital Management, L.P.

Okay. So I was wondering because [indiscernible] the people I talked to it sounds like the harvest was going pretty good so far, so I'm assuming there was something I missed. The other area is when you talked about growing your property book, but without raising your PMLs. I know you mentioned the regional contracts, Joe. But outside that, I mean that kind of implies growing in non-peak zones, like international and places like that. Is that where the growth is coming from?

Joseph V. Taranto
Chairman

Well, I don't know that there'll be -- how much of expansion there'll be. But I think it might more mean second event, third event, things of that nature because when we talk about PMLs, it's for the one major event.

Ian Gutterman
Adage Capital Management, L.P.

Okay. So it's -- got it, I just want to make sure you weren't going into the lower ROE places, overseas stuff.

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

No, in fact our -- you would note that our -- through our Bermuda segment, which has been generally trending down of late, that's due to backing away from some of the European exposures.

Ian Gutterman
Adage Capital Management, L.P.

Got it, okay. So basically the growth will be in sort of low-ROL-type business, but hopefully high ROE?

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

In part.

Joseph V. Taranto
Chairman

I'd say in part. Yeah.

Ian Gutterman
Adage Capital Management, L.P.

Got it, okay. And then just my last one is, Dom, any update on when we can see triangles? Someone had to ask, so...

Dominic James Addesso
Chief Executive Officer, President and Non-Independent Director

That's fine. We do have the work done. It's being -- as I might have mentioned previously, we're having an outside third party take a look at that work. So it's -- I'll just say it's soon. It's certainly before the year-end, but I'm hoping well before that.

Operator

And there are no further questions.

Elizabeth B. Farrell
Vice President of Investor Relations

Okay. We'd like to thank everybody for participating on the call. Thank you.

Operator
And that concludes today's conference. You may now disconnect.