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Earnings Call

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Call Participants

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Presentation

Operator

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

I would now like to turn the conference over to Matt Rohrmann, Head of Investor Relations. Please go ahead.

Matthew Jay Rohrmann
Senior VP & Head of Investor Relations

Thanks, Dave. Good morning, everyone, and welcome to the Everest Group Limited Fourth Quarter of 2024 Earnings Conference Call. The Everest executives leading today's call are Jim Williamson, our President and CEO; and Mark Kociancic, Executive Vice President and CFO. We are also joined by the members of the Everest management team. Before we begin, I will preface the comments by noting that today's call will include forward-looking statements.

Actual results may differ materially, and we will 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 over SEC filings.

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 explanations or reconciliations to GAAP can be found in our earnings release and financial supplement on our website.

With that, I'll turn the call over to Jim.

James Allan Williamson
CEO, President & Director

Thanks, Matt, and good morning, everyone. Let me begin by addressing 2 recent tragedies: the wildfires in California and a plane crash in Washington, D.C. last Wednesday. The human toll of both events is devastating. Our thoughts and prayers are with the people, families and communities affected. We are particularly grateful to the first responders who worked tirelessly during and in the aftermath of these events.

Everest stands ready to put its financial resources to work and fulfill its societal mission of aiding recovery. Both of these events remain ongoing from a loss assessment perspective. Regarding the L.A. wildfires, I would expect Everest to take a pretax net loss for the group of between $350 million and $450 million, equating to a 1% market share. Most of this loss will impact our Reinsurance division.

We are confident in the underwriting of this exposure by both our insurance and reinsurance teams and our share of loss reflects careful client selection. Most cedents are unable to provide expected loss ranges, except in those cases where a total loss to their reinsurance program is nearly certain. As a result, this loss estimate remains a broad range based on the most widely used industry loss figures. Specific to the aviation tragedy, it's too early to provide a loss estimate for the event but we expect it to be well managed in our Q1 results.

Moving on to our fourth quarter results. As we discussed last week, Everest's decisive reserve action added $1.7 billion to net reserves including over $200 million of additions to our 2024 loss picks. It's worth emphasizing that despite the impact of our reserve strengthening, Everest earned $1.3 billion in operating income for the year and achieved a 9% operating return on equity.

While these results are not consistent with the goals for our company, they speak to the resilience of our business as strong income streams in reinsurance and investments more than offset needed reserve strengthening, predominantly in U.S. casualty lines. Putting aside the reserving action for a moment, let me unpack our current period business performance, starting with reinsurance, where results were once again excellent.

Despite an elevated cat year, including a major hurricane in the fourth quarter, we earned $286 million and $1.2 billion of underwriting income for the quarter and year, respectively. Fourth quarter all-in combined ratio, excluding the impact of prior year favorable cat development and profit commissions due to reserve releases in our mortgage book is 91.5%. This result clearly demonstrates Everest's ability to absorb significant cat activity and still deliver.

Premium growth in the quarter, excluding the impact of reinstatement premiums, was 12.6%. This is a result of strong execution with our core clients, particularly in property lines as well as selective expansion in some of our specialty underwriting areas and international business. This growth was offset by the effects of the discipline we're exercising in U.S. exposed treaty casualty.

Our casualty pro rata book was down more than 7% in the quarter which really understates the extent of our disciplined actions, which were offset by growth in non-U.S. casualty. Everest has been an early and consistent voice regarding the changes needed in the U.S. casualty quota share market. Ceding commissions are too high and capacity is generally available regardless of the quality of the cedent.

Faced with those conditions, we've maintained our singular focus on underwriting discipline and cedent selection. To highlight the point, since the January 1, 2024, renewal, we walked away from nearly $750 million in North American casualty quota share business. Our approach in this line is simple, we conducted thorough ground-up underwriting and loss cost review of each treaty, and we cut back anything that doesn't meet our return expectations, period.

Moving on to the January 1, 2025, renewal where our team again executed at the highest levels. Overall, our total Reinsurance division bound premium was down by about 3% during the renewal driven mostly by the aforementioned casualty discipline which was offset by growth on the very best deals in the market, mostly in property and specialty lines.

Although property cat prices were down generally between 5% and 15% for loss reprograms, overall rate levels remain above what we need to be willing to deploy capacity in most markets. An exception to my view on the property cat market is Continental Europe. European cat activity in the form of severe conductive storm, hail and flooding is clearly a rising trend. Those events drove significant annual losses.

France, Germany, Italy and Eastern Europe have all been particularly affected over the last several years. After a thorough review of our modeling and analytics for these perils, we reached the conclusion that we needed to charge more for European cat exposure, in some cases, significantly more. As a result, our average modeled loss costs increased by about 10%.

We fully exited over 20 deals, significantly cut back on many others, while increasing moderately on the most profitable layers and programs. Going forward, we expect the California wildfires to serve as a reminder as if one was needed to all property reinsurance underwriters of the need to maintain pricing discipline and achieve adequate rate. The global property cat reinsurance market overall remains attractive for Everest capacity.

As I have said, our customers prefer to do more business with Everest when they can, which means we will continue to enjoy the option of choosing where to put our capacity to work. Moving to insurance. Overall gross written premium was down marginally due to our casualty remediation, offset by growth in short tail and specialty lines. Of course, the published combined ratios for the quarter and year are unacceptable. But if you look at it purely on a current period basis, our 2024 combined ratio is 100.7%.

That is certainly not good but it gives us a launching point for our portfolio remediation that we can work with. Our international operation continues to grow with a strong overall written premium increase in key short-tail and specialty lines. Despite substantial investments in people and infrastructure, the international insurance business earned an underwriting profit in 2024.

Our loss ratio in that business is excellent and consistent actual versus expected data in what is largely a short-tail portfolio gives us confidence in our loss picks. In 2025, we're focused on increasing scale in the

12 markets we're operating in. We do not expect to enter additional markets this year, which will result in greater premium leverage against expenses as we move forward.

Finally, our North American insurance business is making great strides in remediating our casualty portfolio. Consistent with our actions in Q3, 40% of our casualty premiums in the fourth quarter were not renewed, including actions in our Everest Sports portfolio now captured in our other segments. In our ongoing insurance business, this results in a premium reduction in our U.S. specialty casualty business of approximately 23%. This is despite accelerated rate achievement in GL, auto liability and umbrella access, ranging from 14% to 27%.

Loss cost inflation remained steady at an elevated level. And as we discussed last week, we will be assuming 12-plus points of average trend across those lines. Also, the last quarter affected by the runoff of our medical stop-loss business, impact in the quarter was $75 million. Our team in the field has done a good job pipelining and underwriting a number of large risk management accounts.

These are well structured with sophisticated clients who understand the need to manage exposure in a heavy social inflation environment. Recent wins in this business include a multiline solution for a leading global industrial firm, property cross-sell to an existing casualty account in the public advocacy arena and a large deductible casualty program for a consumer products company.

We set ourselves apart from the competition on these deals through the quality of our relationships, breadth of our offering and specialized services. Results of our portfolio remediation, coupled with the targeted growth are already being reflected in our data. Our Specialty Casualty business made up 25% of our global insurance premiums in Q4 down from over 30% 1 year ago, and the quality of the accounts has improved dramatically. As I said on our pre-release call, we will take no credit in our loss picks for this, but I certainly expect it to yield increasing margin over time.

And now I'll turn it over to Mark to discuss the financials in more detail.

Mark Kociancic
Executive VP & Group CFO

Thank you, Jim, and good morning, everyone. As we discussed last week, 2024 was a pivotal year of transformation for Everest. We took decisive action to fortify our U.S. casualty reserves following a comprehensive reserve review, and it's reflected in our fourth quarter 2024 results. Looking at the group results, Everest reported gross written premiums of $4.7 billion, representing 7.2% growth in constant dollars and excluding reinstatement premiums.

The combined ratio was 135.5% for the quarter. This includes unfavorable development of prior year loss reserves of $1.5 billion or 37.6 points on the combined ratio. We also strengthened current accident year losses by $229 million with total strengthening of $1.7 billion for the full year and fourth quarter 2024. Net losses in the quarter contributed 5.3 points to the combined ratio, largely driven by Hurricane Milton. We also had releases on prior year events, largely driven by Hurricane Ian, which partially offset cat losses this quarter, which, as a reminder, run through the catastrophe line in the segment P&L.

I would also note that the prior year quarter had much lower than average cat capacity, the group attritional loss ratio was 63.9%, a 490 basis point increase over the prior year's quarter. This reflects the current accident year strengthening I mentioned a few moments ago, primarily within our insurance segment. The group's commission ratio was 21.2% when excluding the impact of 1.8 points from the profit commissions associated with favorable reserve development in the reinsurance segment related to the mortgage business and consistent with the prior year. The group expense ratio was 6.2% in the quarter as we continue to invest in talent and systems within both franchises.

Moving to the segment results and starting with reinsurance. Reinsurance gross premiums grew 12.6% in constant dollars when adjusting for reinstatement premiums during the quarter. The strong growth was primarily driven by strong double-digit increases in property pro rata and property cat XOL, partially offset by continued discipline in casualty lines.

For the full year 2024, property cat XOL grew approximately 26.2% versus the prior year. Combined ratio was 90.4% in the fourth quarter. The prior year fourth quarter combined ratio of 78.9% included 15.3 points of favorable prior year reserve development. As you saw in our press release last week, favorable development in property and mortgage lines fully offset reserve strengthening in U.S. casualty lines. Catastrophe losses contributed 5.4 points to the combined ratio in the quarter consistent with the prior year.

This quarter's cat losses were largely driven by $275 million of losses from Hurricane Milton and were partially offset by $125 million of releases on prior year events, namely Hurricane Ian. Attritional loss ratio improved 90 basis points to 56.9%, which was primarily driven by mix as we continue to grow strongly in property cat XOL and reduce our casualty pro rata business. Attritional combined ratio improved 140 basis points to 83.7% when excluding the impact of $68 million in profit commissions associated with favorable mortgage reserve development this quarter.

The prior year quarter included $94 million of profit commission related to loss reserve releases in mortgage lines. Normalized commission ratio was 24% when you exclude the 2.3 points attributed to the profit commissions associated with favorable development in reinsurance. The underwriting related expense ratio was 2.5%, consistent with the prior year.

Moving to Insurance. Gross premiums written decreased 1.6% in constant dollars to $1.4 billion, driven by our decisive actions to shed underperforming U.S. casualty business. We are targeting growth in the most accretive lines to improve the portfolio quality and further diversify the book. We made meaningful progress this quarter with property and specialty lines each growing above 30% in the quarter.

This growth was offset by the aggressive underwriting action we are taking in specialty casualty lines centered around U.S. casualty lines as well as the runoff of our A&H medical stop-loss business, which was completed in Q4. As you saw in our press release last week, we strengthened U.S. casualty prior year reserves in our recently redefined insurance segment by approximately $1.1 billion in the quarter.

We also strengthened current accident year losses by $206 million, which is reflected in the increased attritional loss ratio of 84% this quarter and 68.1% for the full year 2024. Combined ratio also included 5.3 points of catastrophe losses, primarily driven by losses from Hurricane Milton, while the prior year fourth quarter benefited from a relatively benign level of cat losses.

Commission ratio increased 100 basis points, largely driven by business mix and the underwriting related expense ratio was 17.9% with the increase largely driven by the continued investment in our global platform and slower earned premium growth as we rationalize our U.S. casualty portfolio. We recently formed our other segment to enhance disclosure around non-core lines of business, strengthened reserves by $425 million in the quarter, which includes an increase of $22 million to current accident year losses.

The other segment includes $1.1 billion of net reserves. Moving on, net investment income increased to $473 million for the quarter, driven primarily by higher assets under management. Alternative assets generated $41 million of net investment income, which was in line with the prior year. Overall, our book yield was stable at 4.7% and our reinvestment rate is just north of 5%. We continue to have a short asset duration of approximately 3.1 years and the fixed income portfolio benefits from an average credit rating of AA-.

Our investment portfolio remains well positioned for the current environment. For the fourth quarter of 2024, our operating income tax rate was minus 16.6%, which was lower than our working assumption of 11% to 12% for the year due to the net operating loss this quarter. However, the full year operating effective tax rate was 9%, which is closer to our expected range. Shareholders' equity ended the quarter at $13.9 billion, or $14.7 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 equates to approximately $849 million, an increase of $629 million as compared to the end of the third quarter and this was driven by increases in the treasury yield curve. Cash flow from operations was $780 million during the quarter and approximately $5 billion for the full year. Book value per share ended the quarter at $322.97, an improvement of 8.7% from year-end 2023 when adjusted for dividends of $7.75 per share year-to-date.

Book value per share, excluding net unrealized depreciation on available for sale fixed income securities stood at $342.7 and versus $320.95 per share at year-end 2023, representing an increase of approximately 6.8%. Our full year 2024 total shareholder return was 9.2%. Net debt leverage at quarter end stood at 15.6%, modestly lower from year-end 2023. Everest continues to have a strong financial position. We are focused on achieving our mid-teens total shareholder return over the cycle.

We are well positioned to execute our strategic initiatives and we will look to continue to opportunistically repurchase shares this year and this quarter specifically.

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

Matthew Jay Rohrmann
Senior VP & Head of Investor Relations
Thanks, Mark. Dave, we are now ready to open the line for questions. We do ask you please limit your questions to 1 question plus 1 followup, then rejoin the queue if you have additional questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Gregory Peters with Raymond James.

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

For my first question, I'm going to focus on the insurance segment. And I'm wondering if you could give us some additional detail on how you plan to manage volatility considering that you're non-renewing all this casualty business, and you'll have rising exposures to the property short-tail business in the international segment.

James Allan Williamson
CEO, President & Director

Greg, this is Jim. Thanks for the question. Look, it's pretty straightforward. I mean, we're very diligent around P&L management in each of our divisions and we're very careful about how we plan for the coming year, for example, on where we're going to deploy capital and at what terms and conditions. We also very strategically, as you can imagine, in our insurance business, leverage the use of outbound reinsurance to manage per risk as well as overall volatility.

And so while the short-tail book in the insurance division is growing very nicely as you would have seen in this quarter, and we're happy about it. We're happy about the pricing levels and the quality of the accounts we're writing. In terms of moving our overall group risk profile, it's really not moving the needle at this point. And as it continues to grow, we'll just manage it within our general PML framework.

So not something that is outside of our ability to very thoughtfully approach.

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

Okay. My follow-up question is on the capital management comments. Mark, you -- well, in the press release, you acknowledged that you didn't buy any stock back during the quarter. I assume that's because of the review issue. Can you give us sort of some framework about what your budget looks like for capital management activities. Should we think about it in terms of a payout ratio with dividends and share repurchase on total income for the year? Or perhaps just give us some framework on how we should be thinking about that.

Mark Kociancic
Executive VP & Group CFO

Greg, it's Mark. Thanks for the question. I think there's a lot of factors that go into it. So if you start with, obviously, the fact we have, I think, still a strong financial position coming out of year-end 2024 despite the significant reserve charge, and we've got a very good earnings engine in the company. Last week, we made the guidance of mid-teens full shareholder return over the cycle.

We feel confident about that as an immediate objective and something that's set for 2025. A few other points. I think the growth rate of the company is one factor that goes into the equation, being able to execute our organic plan. That's something we feel confident you're seeing us being cautious with casualty on the reinsurance side, disciplined, in particular, on the insurance side, and property remains very attractive as to other specialty lines. But I do think you'll see less overall growth than in some prior years.

And that will free up resources, I think, for more capital management type actions. And then lastly, I think when you get into the equation, obviously, the attractiveness of our share price at the present time creates a very compelling incentive to buy back so as I mentioned in my prepared remarks, I fully expect us to be active this quarter.

Operator

The next question comes from Meyer Shields with Keefe, Bruyette, & Woods. Please go ahead.

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

Jim, I want to drill down a little bit in terms of, I guess, what, on the outside, we can expect in terms of Insurance segment loss ratio progress. In other words, I understand the sustained 12% plus loss trend for casualty lines. But should we expect things like the runoff of the weaker portfolios or other business mix issues? Is that going to show up in 2025?

James Allan Williamson
CEO, President & Director

Yes. Meyer, it's Jim. Thanks for the question. So we definitely provided a little bit of insight around this during the pre-release call and I think there are 2 key points. Number one, the prudence that we applied in the construction of the reserve actions that we took as well as the topping off of the 2024 loss fix is a level of prudence that we plan on continuing in 2025.

And you'll see that in how we select our casualty loss picks during this year. But we also indicated, I think it is very important that mechanically, mix is moving quite quickly. And of course, that's -- as I indicated in my prepared remarks, that aspect of it in terms of the shift of mix is already showing up in our data. And so yes, as mix improves, the total loss ratio, obviously, that's a very positive tailwind for us to think about as we move through 2025.

Mark Kociancic
Executive VP & Group CFO

Meyer, this is Mark. Just one point on Jim's remarks. So if you look at our financial supplement on the Insurance segment, you'll see a current year loss ratio -- attritional loss ratio of 68.3%. And that obviously takes into account the current year strengthening for 2024. And that's with remediation underway in the casualty segment and a mix of business that is moving towards a more balanced portfolio as we shed some of the casualty numbers.

So I think that's kind of the starting point for where the portfolio was. Now to your point, obviously, there are still unearned premium that is earning out into 2025 with some of the older casualty business that we likely will not renew and that will be a bit of a drag in 2025, but that's something we've expected, we forecasted, and we clearly have 2 other pieces that I would say are favorable.

So one is the mix of business aspect that Jim mentioned. And then the second is really the approach we're taking to the casualty account renewals and new business in general in terms of rate. So I see those as favorable -- two favorable impacts that will help that loss ratio development improve year-over-year and still respect the loss trend assumption we gave last week, plus the prudence actions that we indicated that are going to be taking place in U.S. liability in particular.

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

Okay. Perfect. That's very helpful. Second question, it sounds like some casualty lines are improving rapidly. When you look at that, there may be a business you don't want to write in 2025, but maybe by 2026, it's good enough. So are you maintaining, I guess, full run rate expenses in anticipation of eventual profitability? I just -- I'm not sure how that aspect of expense management plays in.

James Allan Williamson
CEO, President & Director

Well, yes. So if your question is, are we continuing to invest in our business very thoughtfully, the answer is yes. Now we're also very prudent expense managers, as you clearly see in the overall group expense ratio in our Reinsurance business. Obviously, insurance expense ratio is elevated slightly because of the investments we're making as well as the impact the remediation has on earned premium.

But as we go forward, I'd expect that phenomenon to sort of persist for a while because there are great opportunities for us to make prudent investments in the business and the remediation puts a little bit of a lid on some earned premium. But we're going to manage it very carefully, Meyer, on a quarter-by-quarter basis to ensure that the level of investments we're making is consistent with our ability to generate the margin we need.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

In the prepared remarks and whatnot in addition to the sports book being sold, you're also exiting the medical stop loss business. Why or why not is the medical stop loss business, a business that I can't be taking care of in a one renewal type methodology like the rest of the businesses? Why can you just raise the price in the business that sticks sticks and what leaves leaves?

James Allan Williamson
CEO, President & Director

Yes, Josh, it's Jim. Thanks for the question. We essentially non-renewed a major block, the block that was causing us difficulties in our medical stop-loss business at the beginning of 2024. And it is a block, but it has renewal dates that occur throughout the year. So it wasn't a matter of getting increased price. We didn't want to be on the business, we non-renewed it, and it just takes the year for the full impact to the financials to run through, which is now done.

So we won't be talking about the runoff of medical stop loss in 2025.

Joshua David Shanker
BofA Securities, Research Division

All right. And another quick one. Obviously, I think it's very clear, your thoughts about the wildfire as it regards you were booked. And as a general rule, should we think about Everest as being a 1% market share loss of major global events? Or is there more ground up sort of analysis in how you're thinking about your exposure to California wildfires?

James Allan Williamson
CEO, President & Director

Sure, Josh. Jim again. Good question. Look, this is this 1% market share that we've indicated for this event is the result of exceptional underwriting. The simple fact is there are a number of large contributors to what will be an industry loss of -- pick whatever number you like, we're kind of in the 35% to 45% range. Some others like different numbers, that's fine.

But a number of the major contributors to that industry loss are not clients of Everest. And the reason they're not clients of Everest is because we assessed the programs on offer and did not believe they offered us an adequate risk-adjusted return for the exposure involved. So we said no, and others said yes. And so you'll see different market shares, et cetera, which is a ground-up result of the underwriting actions that get taken.

There could be an entirely different loss in an entirely different market where we get different opportunities, and it will result in a different market share of the loss. It's not about trying to create peanut butter and outcome. It's pursuing the best quality deals for all of the perils we take and all the different geographies we compete in all day, every day. I mean, that's what we do here.

Operator

The next question comes from Alex Scott with Barclays.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

I thought I'd ask you what your view is of the impact of the wildfires just on reinsurance pricing and as you kind of head into midyear, what do you anticipate -- I mean, maybe also any comments you have on how it affects your aggregate treaty setting in the wind season?

James Allan Williamson
CEO, President & Director

Yes. Alex, it's Jim. So look, I think obviously, this is a pretty -- this is a big event. And whether you like the $35 billion number or $45 billion number or you prefer a number bigger than that. This is a major event. That certainly -- you would expect it to have a positive impact on prices. What I tend to hear from people is that if there was a move to decrease rates in a reasonable fashion at 1/1, which I indicated, we've seen 5% to 15% of loss-free programs, that's probably ameliorated.

Obviously, it will take time for that to play out. But look, I think you add that with the fact that a lot of our clients are looking to buy more overall cover. There's a lot of increased demand in the market. And then you further look at the fact that those clients, if they have their choice, would rather do more of that cover with Everest. I think that means there's a terrific opportunity for us to continue to be very, very selective in the deals we're writing and to get terrific economics, which I think is a very favorable thing.

You mentioned aggregate deals. I don't know if you mentioned just our total exposure or you meant aggregate specifically, we're not a writer of aggregate covers for the most part. In terms of our total deployed capacity, if pricing is very attractive, we're ready, willing, able to do more for sure. If pricing is not as attractive, we do less. I mean that's -- again, that's how we manage our renewal cycles as they come.

Taylor Alexander Scott
Barclays Bank PLC, Research Division

That's really helpful. Second one I wanted to ask was just around as we approach the Schedule P type disclosures that you all provided in your 10-K and also just thinking through some of the conversations you probably had with your investor base coming away from the initial pre-announcement of the reserve actions. I mean, is there anything that you would point to us that we should focus on beyond just some of the basics around paid to incurs and trying to understand some of those things.

As we go in and we're comparing contrast and all of that, what do you think is the key to focus on and sort of, I guess, proof points around the actions that have been taken being enough?

Mark Kociancic
Executive VP & Group CFO

Alex, it's Mark. So look, I think there are several factors to take into account. We tried to outline a bunch of them last week in our pre-call presentation and narrative. So several metrics on IBNR, the ultimate loss ratios. Ultimately, the global loss triangles, I think, supply the best granular data that you can use to compare. So for me, I mean, that's the best place to start.

You'll get probably a bit more out of the cake, but that part is going to give you, I think, what you ultimately will need. The second thing is really the commentary we've given on highlighting how that book has developed. So specific classes of business that we're problematic how we've gone about shaping the portfolio going forward.

And I think that discipline and the commentary we're giving on a quarterly basis that reinforces the execution of our plan here on the remediation is critical to getting the confidence. And then when you get these quarterly measurements such as the K or the Q or the GLTs on an annual basis, you'll be able to see more clearly how the IBNRs outstanding stack up, how the ULRs are looking, just the overall business performance.

And so I think that will give you -- that combination will give you the confidence level you're going to need over time.

Operator

The next question comes from David Motemaden with Evercore ISI.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

I had a question, it sounds like we've heard as well from some of your peers, just the conditions in the casualty re market have caused you guys to step back which makes sense. I guess I'm wondering, it sounds like you guys non-renewed $750 million throughout the course of '24. It sounds like that's continued here at 1/1. I'm wondering if you can help us think through just holistically, what sort of cat load we should be thinking about for Everest now that there's been a more -- a bigger shift towards property and short-tail lines from casualty?

Mark Kociancic
Executive VP & Group CFO

So David, it's Mark. The cat load is still broadly consistent in the multiyear approach we've taken since 2020. What we have done, and we started a couple of years ago is really trying to make more of our gross exposure net. And so we had a fairly large reliance or impact from our cat bond issuance over the last several years and prior to 2020 and so we've reduced our reliance on those, and we're taking more of the gross on a net basis now.

So you're seeing that appetite expand naturally because we believe the expected returns are still very attractive. I don't think the growth is growing very much. It's really more of a net that is expanding primarily because of the cat bonds.

James Allan Williamson
CEO, President & Director

Yes, David, this is Jim. I think that's spot on. Let me just step back for a moment, though, and approach it a little bit in terms of how we think about the cat book itself because the way we do this is really straightforward. I mean we're trying to build a cat book that is high margin and also very resilient to loss. So that in the event that there is an outsized cat loss somewhere in the world or you have a pretty big cat like a California wildfire that you don't necessarily expect a wildfire to be $40 billion or $50 billion, et cetera, you can still have a book that can earn a profit. And in my mind, yes, the fact that there's less casualty in the denominator can move the percentage of how you think about the cat load. But the fact is what we're trying to do is build a cat book that can manage its own losses and still turn a profit.

And we've had multiple years now where there have been really outsized industry losses and the year of Ian is a good example where we essentially in that year, which was a big year for cat losses, we got to a breakeven piece in our cat book. And that's at the core of what we're doing here. So I get the modeling aspects and the earned premium aspects, but it's about cat management to get to the outcomes we want.

David Kenneth Motemaden
Evercore ISI Institutional Equities, Research Division

Got it. Understood. I appreciate that color. My follow-up question, also just on the casualty reinsurance book. And it sounds like some of your peers have made an effort to enhance the flow of information and data capture with their cedents. Have you guys been doing something similar and stepped up your engagement with your cedents? If so, how far along in that process are you? Any findings you can share would be helpful.

James Allan Williamson
CEO, President & Director

Yes. I mean, absolutely. That's been a discipline of ours very consistently over the last several years, ensuring best quality data from all of our customers. And look, I think it goes well beyond just making sure that the renewal submissions are complete. For us, it's about having direct actuary to actuary discussions with incremental data sharing so that we can really understand the trends that are affecting our cedents books.

Its claims to claims, conversations during the course of the year so that we understand how they're managing their claims volumes, what they're seeing in that underlying data. We obviously study all publicly available data very carefully. So it's multifaceted. It's been a consistent discipline of ours. Obviously, we welcome our competitors joining in that approach because it just will further enhance the data available to everyone.

But I think fundamentally, if we really want to move the needle on data quality and availability further, it's going to be about making sure that we're only deploying capacity to those clients who can demonstrate in their data that they're doing a good job managing their portfolios. Where we don't see that, we're moving away, whether that's the data itself doesn't look good or the data doesn't exist, that's not for us.

So that's very fundamental to the discipline we're exercising.

Operator

The next question comes from Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Mark, any updates on what you think the tax rate will look like in 2025?

Mark Kociancic
Executive VP & Group CFO

Yes. So I would estimate a range. Clearly, that's higher than the 11% to 12% as we have a 15% rate coming into Bermuda. I would estimate our range -- working range to be somewhere in the 17% to 18% effective tax rate for the group as a whole. And that would assume kind of a normal distribution of geographic income. Obviously, cat fall or any other kind of large loss type impacts can skew it, but I'd say it's something like that. And that's the overall tax rate.

Brian Robert Meredith
UBS Investment Bank, Research Division

Appreciate it. That's helpful. And then a second question also, just any thoughts on what cash flow could look like this year given some of the actions you're taking with the portfolio? We expect it to be below 2024?

Mark Kociancic
Executive VP & Group CFO

I think we'll be in a similar range. We have outperformed our expected cash flow forecasts for the plans for the last few years. So I've been pleasantly surprised with that. I'd say one of the biggest factors is really natural catastrophes. I think our reserve or loss payment patterns are pretty good in that respect for what we're projecting in 2025. And it's probably the cat fall that will determine whether or not we hit something close to the $5 billion this year.

Operator

The next question comes from Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is on the California fire losses, right? So you guys came out with a range that a little bit less right from what we saw from some other rangers that have gone as high as $50 billion. I'm just trying to get a sense of what would be like the discrepancy between your insured loss estimate and others. And I thought -- I'm assuming you guys -- I think you said you don't have a lot of losses from cedents right now. So can you just verify that last comment? And then just help us reconcile why your insured range might be a little bit less than what some other reinsurers are seeing?

James Allan Williamson
CEO, President & Director

Yes. Elyse, it's Jim. Well, I don't know how other people get to their numbers, so I can't really reconcile it for you. But what I can say is if you look at the industry loss estimates that are floating around, there is a pretty broad range on it. I think we're kind of on the upper end of the types of numbers I've seen, if you like, $50 billion better than our loss, I would expect it to be roughly $500 million.

The reason why I'm feeling pretty good about the range that I described earlier, and I feel great about the performance of our team vis-a-vis that market share number is because of the quality of the underwriting that took place. And I can't emphasize this enough. We passed up deliberately for very specific reasons on a number of deals that got completely clobbered in this event, and that's how you ladder upgraded underwriting over time.

So very proud of what the team has done that way. And look, obviously, we're in conversations with our teams. I think the issue is loss adjusting an event like this is very challenging. There have been public access issues that are pretty well described, I think it will take time for people to hone in their own numbers, which is why we're still working with a range and not a point estimate.

But I'm pretty confident given what we are on and what we are not on in the numbers that I shared with you earlier.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my follow-up is on reserves. Looking at the presentation that you guys provided last week on your reinsurance casualty reserves and then also on your insurance casualty reserves. And it does look like the accident year loss pick for recent years in your casualty reinsurance book are being booked substantially better than casualty insurance.

Can you just kind of talk through what would be causing the difference between those? Maybe it's business mix? Just trying to reconcile, right, why you'd be booking U.S. casualty reinsurance significantly better than insurance. And then have you guys said what loss cost you're assuming for your casualty reinsurance book?

James Allan Williamson
CEO, President & Director

Yes. Elyse, it's Jim again. Look, I mean, the explanation is pretty straightforward, and I'm going to be blunt. Our clients for our reinsurance portfolio, we've been very selective in our cedent selection process. They are top quartile underwriters of casualty, and they've demonstrated very consistently that they outperformed the average loss ratio in the market by a substantial margin.

We've seen that in our data. We see that in the submissions for the renewals. And obviously, wherever we don't continue to see that, we move away, which is why we've moved away from $750 million of business. And that's why you get to a loss ratio that looks the way it does. And then you contrast that with our insurance business was not top quartile, overconcentrated in certain classes, et cetera, that get you to a much worse outcome.

So there's really not a linkage between the 2 that you should have in your mind. It's 2 entirely different portfolios. In terms of expected trend level, I mean, we are very prudent across both divisions and, I would say, consistent across both divisions. That doesn't mean the number will always be the same, but the approach is very consistent. It's based on the data. It's based on, I think, a very conservative view of the development of the casualty market.

Mark Kociancic
Executive VP & Group CFO

Yes. Elyse, just a couple of points on that last piece on the loss trend. So we gave a figure last week in the pre-call on Tuesday, roughly an average of 12% for excess umbrella, GL and commercial auto. So depending on the mix of business, it's something approaching that for both sides of the equation, reinsurance and insurance.

Operator

The next question comes from Michael Zaremski with BMO.

Daniel Cohen
BMO Capital Markets Equity Research

It's Dan on for Mike. Just maybe going back to the insurance loss ratio, we could see looking at the deck last week, it was running about low to mid-90s now. Just wondering if you could maybe quantify how much worse of a loss ratio is associated with the non-renewed business versus the retained business.

Mark Kociancic
Executive VP & Group CFO

Mike, it's Mark. It varies -- it really varies by line. I will say, let me break it down into a few components for you. So I would start with the other segment which contains that sports and leisure book that we essentially put into runoff. That for us, I think, was the most disappointing and you're looking at a triple-digit type of loss ratio.

It's predominantly excess and GL lines of business. And then when you get into some of the other classes of business having the insurance segment, you've got a varying range of ultimate loss ratios. So in some cases, you're dealing with the triple digits, the 100, 110, 120 type levels. You've clearly got other classes of casualty that are performing much better than that.

It really varies. And clearly, we're focused on rate adequacy there. So in terms of the renewal process going forward, we're on this with just a laser focus and making sure that it's either non-renewed or it's renewed with the rate that's necessary.

Daniel Cohen
BMO Capital Markets Equity Research

Then maybe could you walk through that same dynamic maybe for the $750 million you walked away from in reinsurance casualty?

James Allan Williamson
CEO, President & Director

Yes, sure, Dan. It's Jim. Look, it's going to be -- it's going to very much ideal. And I'm not going to characterize it in terms of a number. But I will tell you -- in some cases, because remember, we started with a pretty high-quality book of ceding. So we're not dealing with the types of challenges that Mark described relative to our insurance business. It's more of just when you evaluate the whole portfolio, there's clearly cedents who in our -- from our perspective, maybe they're not keeping up with trend, or there's something in their claims process that we feel is not fit for purpose at this moment in the casualty cycle and with the challenges of social inflation. It could be they have expanded their appetite in a way that we don't think is favorable.

So it's not always that there's this major distinction or inferior loss ratio relative to our average portfolio. It's the underwriting that indicates to us that we're not going to have the confidence we want to have going forward, but not nearly the same deltas and performance as what Mark described.

Operator

The next question comes from Wes Carmichael with Autonomous Research.

Wesley Collin Carmichael
Autonomous Research US LP

In your commentary on capital management, Mark, I think there was a high-level comment on less growth overall, which, I guess, is understandable currently. But is there any framing you can do on how you're thinking about top line going forward, especially if you're thinking about the potentially non-renewed business, what's the kind of underlying growth you're thinking about going forward?

Mark Kociancic
Executive VP & Group CFO

Wes, so we're not providing guidance. I think from a qualitative standpoint, you've seen us be pretty disciplined on the casualty shedding or underwriting in terms of the reinsurance segment, that's going to continue. Clearly, there are pockets of casualty. I expect us to add in the normal course of business.

It's not all a shedding story, both sides, reinsurance and insurance. And property remains very attractive. I mean, the rate adequacy is clearly there, and that's something we definitely want to lean into where it makes sense. I just don't see the same level of growth that we had, for example, a couple of years ago in both sides.

Last point, our international insurance business has been growing double digits for quite some time. Broadly speaking, lion's share of it is a short-tail book, and it's been performing very well. And I would expect that type of natural growth to continue as we're relatively small in the market and starting from a small base.

And so that's something that I would expect to be a positive for us in 2025.

Wesley Collin Carmichael
Autonomous Research US LP

That's helpful. And I think there was a release last [indiscernible] for Everest. Can you just talk about how strategic it is for Everest to maintain its current ratings?

Mark Kociancic
Executive VP & Group CFO

Sorry, you cut out for a second. Wes, a release you said?

Wesley Collin Carmichael
Autonomous Research US LP

Yes. I think S&P changed its outlook to negative. I'm just wondering how maintaining its -- maintaining ratings right now is to Everest strategically?

Mark Kociancic
Executive VP & Group CFO

Well, it's fundamental to offer the A+ financial strength rating, and that's clearly secure, not in danger at all. The S&P negative outlook is something we respect. We'll work with them not something that concerns us very much, but clearly something we have to manage. But the overall financial strength is in a solid spot.

Operator
This concludes our question-and-answer session. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.