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Market Intelligence

Everest Re Group, Ltd. NYSE:RE

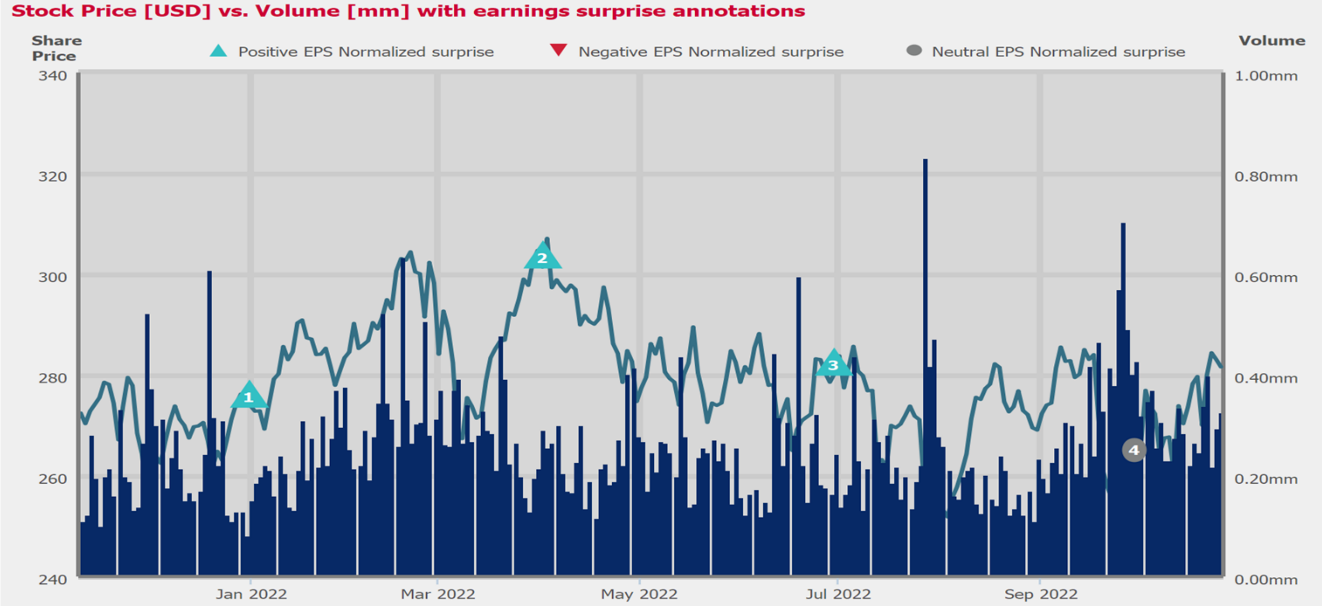
FQ3 2022 Earnings Call Transcripts

Thursday, October 27, 2022 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2022-			-FQ4 2022-	-FY 2022-	-FY 2023-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(5.75)	(5.28)	NM	8.05	24.00	NA
Revenue (mm)	3197.00	3323.00	▲3.94	3248.79	12279.52	NA

Currency: USD
Consensus as of Oct-27-2022 12:38 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2021	8.98	9.12	▲1 1.56 %
FQ1 2022	9.32	10.31	▲2 10.62 %
FQ2 2022	8.01	9.79	▲3 22.22 %
FQ3 2022	(5.75)	(5.28)	NM

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EXECUTIVES

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

Juan Carlos Andrade
President, CEO & Director

Mark Kociancic
Executive VP & Group CFO

Matthew Jay Rohrmann
Senior VP & Head of Investor Relations

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

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UBS Investment Bank, Research Division

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
BofA Securities, Research Division

Meyer Shields
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Michael Wayne Phillips
Morgan Stanley, Research Division

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Jefferies LLC, Research Division

Presentation

Operator

Welcome to the Everest Re Group Third Quarter 2022 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Mr. Matt Rohrmann, Senior Vice President, Head of Finance and Investor Relations. Please go ahead, sir.

Matthew Jay Rohrmann
Senior VP & Head of Investor Relations

Good morning, everyone, and welcome to the Everest Re Group Limited Third Quarter 2022 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 will preface the comments on today's call by noting that Everest's SEC filings, including extensive disclosures with respect to forward-looking statements, management comments regarding estimates, projections and similar are subject to the risks, uncertainties and assumptions as noted in these filings.

Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial supplement.

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

Juan Carlos Andrade
President, CEO & Director

Thank you, Matt, and good morning, everyone. Thank you for joining us today.

The current heightened and complex risk environment underscores the value of Everest's balance sheet and our commitment to support our customers with solutions vital to navigating this turbulent period. Everest's diversification strategy and underwriting discipline mitigated our exposure to one of the largest hurricane losses in U.S. history.

With our well-defined strategy, we are poised to take advantage of the hardening market, focused on segments with the best risk-adjusted returns. Both underwriting businesses delivered sub-90 attritional combined ratios, and we are profitable on a year-to-date basis. Led by top talent, we continued to grow and diversify globally by business and product line. We are focused on executing our strategic plan as we build the company for the long term.

Our purpose is to provide protection and stability in the face of uncertainty. And as someone with roots and family in Florida, the devastation caused by Ian is heartbreaking and our thoughts are with all those affected.

I am grateful to our colleagues around the world who are supporting our customers and communities as they rebuild.

We have improved the company's risk profile across both Reinsurance and Insurance, reducing our CAT exposure with a more durable, resilient portfolio capable of absorbing a historic industry loss like Ian and containing it to an earnings event at just 1% of our estimated industry loss and with our Reinsurance segment being below 1%.

We apply the same consistency and discipline to how we develop the overall portfolio, manage expenses, invest our capital and expand operational efficiencies. In short, we're managing what is in our control and building flexibility into the business.

Everest value proposition has never been more important to our clients and partners, and we are committed as both insurers and reinsurers to being where we are needed.

Now I'll turn to the company's financial results, first from the group and then for each of the underwriting businesses. In the third quarter, we grew gross written premiums by over 6% in constant dollars. Growth was broadly diversified, led by continued double-digit growth in Insurance. We continued to benefit from positive rate and increased exposure growth. We are ahead of loss trend, and that is before the effect of all the deliberate portfolio management actions we are taking to improve margin.

The combined ratio for the group was 112%, including the previously announced pretax catastrophe losses, net of recoveries and reinstatement premiums of $730 million, primarily from Hurricane Ian. It is important to note Everest has additional hedging protection in place in the form of cat bonds. We did not include a cat bond recovery in our net loss estimate. However, recovery start if the PCS industry event for Ian exceeds $48 billion. Mark will provide additional details.

Again, the actions we took in both our businesses to reduce cat exposure have meaningfully benefited us.

In Reinsurance, we significantly scaled back our retro, reduced participation in aggregate programs, shed cat exposed pro rata and exposure to lower layers of cat programs and achieved significant rate increases, higher attachment points and improved terms and conditions in the past several years.

Reinsurance gross and net PMLs have reduced significantly across the entire curve.

And in Insurance, we decreased gross PMLs for Southeast wind by over 40% since last year. Gross exposed limits in our U.S. property portfolio are down more than 35% year-over-year.

Put this in concrete terms, our share of the industry loss for Ian is lower than any other major landfalling hurricanes in more than 15 years.

And we will continue to optimize our portfolio.

Turning to our underlying performance in the third quarter. The group attritional combined ratio improved to 87.6% year-over-year with improvements in both segments and a new historic low for Insurance. The group attritional loss ratio was strong in the quarter at 60.2% with a 70 basis point improvement from last year. This includes an outstanding 110 basis point improvement year-over-year in Reinsurance.

The group expense ratio in the quarter was stable at 5.5% and remains a competitive advantage.

An elevated level of catastrophes during the third quarter resulted in a pretax underwriting loss of $367 million.

Net investment income was $151 million, driven by stronger fixed income returns as new money yields continued to improve. As expected, this was partially offset by volatility in the equity markets.

On a year-to-date basis, we generated net investment income of $620 million despite severe turbulence in all markets. Finally, operating cash flow for the quarter was strong at $1.1 billion.

We continued to execute our strategy despite the challenging environment, evidenced by our year-to-date profitability.

Now turning to our Reinsurance business. Reinsurance gross written premiums increased 3.4% over last year on a constant dollar basis, excluding the impact of reinstatement premiums. Growth was broadly diversified, led by 16% growth in our global casualty and professional lines book, where we are focused on key seasons or achieving strong underlying profit improvement with pricing outpacing loss trend. This was offset by targeted reductions in our property book, which was down 8% over prior year as part of our strategy to improve the diversification and economics of our overall portfolio.

We continued to benefit from a flight to quality, and we grew with our core clients. We're affording those new and expanded opportunities across their portfolios. This strategy serves us well. We bring clients a strong balance sheet, flexibility and expertise allowing us to target higher-margin opportunities in all lines of business and geographies. This is a key advantage of broad diversification.

Combined ratio of 115% was driven by the previously announced pretax catastrophe loss net of recoveries and reinstatement premiums of $620 million from Hurricane Ian as well as the European hail storms Hurricane Fiona and Typhoon Nanmadol. Year-to-date, Reinsurance generated $14 million in underwriting profit.

Our attritional combined ratio of 86.8% improved 30 basis points from the prior year, including a year-over-year attritional loss ratio improvement of 110 basis points to 59.1%. Our attritional loss picks reflect our deliberate actions to improve the portfolio's risk-adjusted profitability. We continue to see improving loss ratios, while the pressure for increased commissions is easing.

Everest is well positioned to benefit from the underlying rate increases and improving terms and conditions in the market post Ian. Events from the year will affect the January 1 renewal in a variety of ways. In North America, we expect the property market to be dislocated, particularly in property cat due to recent losses, combined with economic inflation, increasing demand and a meaningful contraction of capacity. Underlying casualty pricing should remain strong.

Internationally, there are nuances depending on class and region, and we will flex accordingly. We are well positioned with the balance sheet capabilities and relationships to capitalize on the momentum fueling improved economics across property and casualty in a targeted and disciplined manner.

Because of the balance between property and casualty in our book, we have the ability to dynamically deploy capital both across line and geography and can remain nimble and opportunistic as market conditions warrant, always within our defined risk appetite framework. James Williamson is available to provide additional details during the Q&A.

Turning to our Insurance business. where we continue to achieve double-digit growth with sustained margin expansion. Growth in Insurance was strong. We achieved a new third quarter premium record for this segment with over $1.1 billion of gross written premium, up 13% in constant dollars. Growth was broad and diversified across most lines and regions and was especially strong in U.S. casualty. Excluding D&O and transactional liability where the macro environment, a slowdown in M&A activity, IPOs, et cetera, has had an impact on deal flow, our growth was 20%. This is a testament to our underwriting discipline as we focus on trades, meeting our underwriting return objectives.

We are benefiting from additional premium on many inflation-sensitive lines, particularly in property, general liability and workers' compensation.

We continue to exceed loss trends. Renewal rate and exposure ranged from high single digits to double digits for the quarter depending on line and geography, excluding workers' compensation, which is now a small part of our portfolio.

In addition, both earned and new business rates meaningfully exceed renewal rate changes. The new business rate level bodes well for continued margin expansion as these policies renew and lost to more normalized levels in the future.

Increasing rates are important, but risk selection, improving terms and conditions, limits management and growth in inflation-sensitive exposures also contribute meaningfully to sustaining and increasing margins.

Insurance growth was partially offset by continued actions to optimize the portfolio, including reductions in U.S. property catastrophe exposure. The impact of natural catastrophes, primarily Hurricane Ian, led to a $110 million pretax catastrophe loss net of recoveries and reinstatement premiums in the quarter and resulted in a combined ratio of 103.5%. As I mentioned earlier, underwriting actions to diversify our property portfolio made a significant difference in our results.

We will continue to hold our portfolio to manage volatility. This discipline is reflected in our year-to-date underwriting profit of $95 million, and it is indicative of our progress in portfolio composition.

The Insurance division's third quarter attritional combined ratio of 89.8% is the best in its history and a 50 basis point improvement from the third quarter last year. The attritional loss ratio for the quarter was 63.2%, up slightly compared to Q3 2021, driven predominantly by business mix relative to last year. The year-to-date attritional loss ratio, which is less affected by timing and business mix, improved by almost a full point over last year.

We continued to diversify internationally with progress in Europe, Latin America and Asia. We recently opened 2 new Everest Insurance operations in France and in Germany, in addition to our operations in the Netherlands, Chile and Singapore. Our success continues to be powered by investments in great talent, and we continue to fuel our growth with sophisticated data, analytics and systems that support streamlined and best-in-class service across the organization.

Michael Karmilowicz is on the call to provide more detail during the Q&A.

Our discipline and seamless execution are essential to performing in today's environment. We are targeted in our approach. We're highly diversified by geography, business lines, product and in our people. We have a cultural advantage in how we manage the company. We view this as essential to cultivating excellence in our business, and we are proud to have been recently recognized as an industry leader in this area.

I am very optimistic about Everest's ability to deliver superior value to our shareholders, clients and colleagues.

Now I will turn the call over to Mark to take us through the financials in more detail. Mark?

Mark Kociancic
Executive VP & Group CFO

Thank you, Juan, and good morning, everyone. As Juan mentioned, given the impact of Hurricane Ian, Everest reported an operating loss of $5.28 per diluted share in the third quarter. We remain profitable year-to-date with operating income of $14.91 per diluted share, which demonstrates the resiliency of our diversified businesses and the disciplined execution of our strategy.

Net income stands at $101 million year-to-date, while total shareholder return, or TSR, was minus 1% year-to-date, given the cat losses as well as continued volatility in the equity markets. Despite those headwinds, we improved our attritional combined ratio in both segments again while generating disciplined growth as pricing and terms remained attractive in a number of our core lines of business.

Based on the underlying performance of the business, our team continued to execute at a high level despite the cat and macro volatility, and we remain well positioned to take advantage of opportunities present in the current marketplace.

Looking at the group results for the third quarter of 2022, Everest reported gross written premiums of $3.7 billion representing 6% growth in constant dollars. The combined ratio of 112% for the quarter includes 27.4 points of losses from previously announced natural catastrophes, primarily from Hurricane Ian as well as European hailstorms, Hurricane Fiona and several other cat events around the globe.

While it is still early days following Hurricane Ian, our industry and company net cat loss estimates are $55 billion and $600 million, respectively.

Everest also has up to $350 million of cat bond protection that will begin to attach starting at a $48 billion PCS industry loss threshold for Ian. This recovery would be recognized on a pro rata basis up to a $64 billion PCS industry loss level. PCS has currently estimated the loss at roughly $41 billion.

This potential recovery is currently not included in our $600 million Ian loss estimate, but it does provide significant downside protection should the industry loss grow. I would also like to mention that our exposure in Florida, which is primarily homeowners based, mitigates our exposure to auto and flood losses. And that our participation to the NFIP is de minimis.

Group attritional loss ratio was 60.2%, a 70 basis point improvement over the prior year's quarter, led primarily by the Reinsurance segment, which I'll discuss in more detail in just a moment.

The group's commission ratio improved 30 basis points to 20.9% on mix changes, while the group expense ratio was stable at 5.5%.

Moving to the segment results. Starting with Reinsurance. The Reinsurance gross premiums written grew 3.4% to $2.6 billion in constant dollars. Growth in the quarter was driven primarily by casualty pro rata as well as strategic growth in other international lines. Combined ratio of 115% includes 32.5 points related to natural catastrophes, largely attributable to Hurricane Ian. The attritional loss ratio improved 1.1 points to 59.1% as we continued to achieve more favorable rate and terms as well as shifting the book towards accounts with better risk-adjusted return potential.

Commission ratio was 23.9%, broadly in line with last year. The underwriting expense ratio was 2.4% as earned premium grows and we remain focused on operational efficiency across the entire platform.

Moving to Insurance, where we continue to build solid momentum. Gross written premiums grew 13.1% in constant dollars to $1.1 billion in the quarter. The combined ratio for the quarter was 103.5% up modestly year-over-year due to the cat losses I mentioned earlier, but the attritional combined ratio improved 50 basis points to 89.8% for the quarter and 120 basis points year-to-date as rate and exposure continued to outpace trend, further supported by our focus on risk selection and favorable loss experience.

The attritional loss ratio was slightly higher year-over-year due to mix of business. The commission ratio improved 1 point, largely driven by business mix and increased ceding commissions. The underwriting-related expense ratio was 14%, 10 basis points of reduction over the prior year, which is within our expectations as we continue to expand our global footprint and continue to proactively invest in a number of growth initiatives across the business.

And finally, to cover investments, tax and the balance sheet, net investment income for the quarter was $151 million. We are continuing to see the benefit of higher new money yields in the fixed income portfolio, while the lag in reporting for alternatives was a modest drag on results in the quarter.

Overall, our reinvestment rate continues to trend higher as new money yields, which were roughly 4% just a few months ago were now north of 5% in today's market.

We continue to have a short asset duration of approximately 3.1 years. And as a reminder, 22% of our fixed income investments are in floating rate securities. Private equity investments yielded a negative $30 million P&L impact in Q3 as equity markets have declined in 2022. As a reminder, they are reported on a 1-quarter lag.

For the third quarter of 2022, our operating income tax rate was approximately minus 22% due to the geographic mix of income and loss, significantly impacted by the cat losses and thus favorable to our working assumption of 11% to 12% for the year.

Shareholders' equity ended the quarter at $7.6 billion, driven primarily by the third quarter rise in interest rates. There was a corresponding negative $671 million impact on the value of available-for-sale fixed income securities.

Year-to-date, unrealized losses in the fixed income portfolio equates to approximately $2.2 billion. However, operating cash flow of $1.1 billion was very strong during the quarter, and it stands at $2.7 billion year-to-date.

We also repurchased $58 million of our own stock during the quarter as well as approximately $6 million of subordinated debt.

Book value per share ended the quarter at $195.27 per share while the book value, excluding unrealized depreciation and depreciation of securities stood at $245.29 versus $252.12 per share at the end of 2021 due to the lower net income and foreign exchange headwinds of a stronger U.S. dollar.

Net leverage at quarter end stood at 25.1%, an increase in the leverage ratio driven by the unrealized fixed income market value declines noted previously.

In conclusion, Everest ended the third quarter of 2022 with favorable underlying results, notwithstanding the notable catastrophes. We have ample capital to take advantage of the current environment, and we continue to see good opportunities to invest in the platform and scalability of our company.

That summarizes our third quarter results. And with that, I'll turn the call back over to Matt to begin our Q&A.

Matthew Jay Rohrmann
Senior VP & Head of Investor Relations
Thanks, Mark. Operator, we are now ready to open the line for questions. [Operator Instructions]

Question and Answer

Operator

[Operator Instructions] Our first question comes from Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

First question, Juan, is centered around the equity property cat market. And I kind of want to get on to, I guess, both your willingness and ability to take part in that. In the prior year -- You've been talking a lot about reducing volatility and kind of shine away from that business, but now things have changed.

And I would ask on your willingness, how much do you want to grow in that business, but I think the answer is probably going to be what the function of how rates move at the beginning of the year.

So maybe you could share with us, is there some kind of threshold you have in mind where you would like to participate pretty aggressively to be willing to grow in that property cat market?

And then assume that you do want to, how much is your ability to do so inhibited by the markdowns in book value and AOCI impacts, especially with what we're seeing from S&P recently.

Juan Carlos Andrade
President, CEO & Director

That's great, Mike. That's a pretty comprehensive question. So let me give you some thoughts on that, and then I'll invite some of my colleagues as well.

Let me address the growth question first. And as I just said in my prepared remarks, we absolutely continue to see significant opportunities for growth in 2023. And Everest is very well positioned to achieve that growth given the market, as you just described it, also the strong client relationships and broker relationships that we have, relationships that have been built over decades. We also have the strength in the portfolio and we have expertise across lines and geographies that allow us to deploy capacity where we're seeing the best opportunities.

So again, very bullish about the growth opportunities that we see going forward.

In the property cat space, specifically to your question, the hardening that we're already seeing is going to intensify post Ian, and we've seen that in the discussions that we've been having initially in Monte Carlo, but certainly post CIAB and individual discussions that we've been having with our cedes.

Our key priorities with regard to property cat are pretty straightforward. Number one is continue to harden our portfolio from a limits, structure, rate and term standpoint. Basically, continue the work that we've been doing now for the past several years. Number two is get paid significantly more for the risk that we're already taking. And number three, prudently grow with core cedes where we see the opportunity, where we see the alignment of entries, et cetera, all of this, however, within the trading range that we have outlined with respect to natural catastrophe exposure.

Look, Mike, the bottom line is the market affords us tremendous opportunity right now and we will select the best options to maximize our returns and appropriately manage the volatility. So from a growth perspective, that's how we're looking at the market right now.

I would invite Jim Williamson to talk a little bit more specifically about pricing and some of the other questions that you had as well.

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

Sure. Thanks for the question, Mike. It's Jim. Yes, I would reiterate some of what Juan said to start by just really conveying how tremendous we think this market opportunity is. And I think in the U.S., that is really a complete dislocation of the property cat market, and it's going to allow us to do a number of things. Juan describe the categories, let me give you a little bit more detail because I think it's critical.

On the first part, in terms of hardening our portfolio, even while the market has been taking rate over the last couple of years, I think we've still been living, for the most part, with soft market terms, conditions and contracts. So that's a key priority. We're making progress on that front.

I think you'll see us continue to trade away from some of the areas of the market, which really makes us susceptible to climate change, things like aggregate programs, cat exposed pro rata, some of the peak risks that comes along with the retro book.

And then on the second piece, which is really about getting paid more, to put some context around that, I would say the expectation that the market had for pricing going into Monte Carlo in terms of average rate increase is now the minimum for programs that really haven't been affected by loss and it will go up from there. And while I expect clients to try to mitigate some of those rate increases by taking higher attachment points, which we're in favor of, my sense at this point is that rate change will be top line accretive for us even if we are making changes to the portfolio.

And then the last piece around growth with target cedents, that's a very real opportunity for us. We're -- in front of us. We're already having discussions with our core trading partners around the world. There is an intense demand for capacity in general and Everest's capacity specifically, and we are being very thoughtful about picking up high-quality opportunities.

So I think all of that nets up to a higher margin portfolio, a portfolio that's, I would guess, more likely to be bigger after 1/1 than it is today, but also one, as Juan indicated, that's well within the defined trading range that we set out in 2021.

Juan Carlos Andrade
President, CEO & Director

And maybe what I would add to that, Mike, is that at the end of all of this, we can see additional premium coming in because of this, but also reduced exposure overall, which for us is a terrific trade.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. It's pretty comprehensive. Second question then. You talked about the cap on recovery -- potential recovery, given where PCS might have. Are there other potential recoveries that might come that might be more likely for Ian relative to other prior hurricanes that you've experienced? I'm thinking maybe takes that you have more LAE versus loss mix this time that could come back if litigation doesn't take off or things like that.

So other possible recoveries like that, that might happen more so for this storm than prior storms.

Juan Carlos Andrade
President, CEO & Director

Yes. Thanks, Mike. Look, I think a couple of thoughts, and I think Mark Kociancic alluded to some of these in his statement. Look, the cat bond that would start attaching in excess of $48 billion, I think it's a primary downside protection that is definitely worth keeping in mind and thinking about. As you know, PCS is the trigger for that. PCS right now is effectively at $40.9 billion, rounded up to $41 billion. And we could potentially foresee that loss growing to that trigger point at $48 billion. And as Mark mentioned, that would be a pro rata recovery up into the $60 billion range, and it would be significant downside protection.

So I think that's one of the most important things to keep in mind. The other thing that I think Mark mentioned that's worth spending a little bit of time on is our exposure to Florida is particularly to the specialty carriers that focus on homeowners. So to the extent that this is more of an auto loss where it has a higher proportion of auto losses as we are seeing already in the market, that's essentially a good thing for us.

The other thing that is a good thing for us is essentially a higher percentage of flood losses as we're also seeing in the market right now and also the fact that we don't really have a significant participation at all in the NFIP.

So I think all of these things bode well for the estimate that we've put up there.

The other part of it is we do have a good LAE load into our estimates as well, given the dynamics of the Florida environment as well. So from that perspective, we continue to see this as being a prudent estimate that we have out there right now.

But let me ask my colleagues and see if they would add anything to that answer as well.

James Allan Williamson

Executive VP, Group COO & Head of Everest Reinsurance Division

Yes. Sure, Mike, it's Jim Williamson again. Just to add a little bit of flavor to what Juan has already described. On LAE loading in particular, I think we've obviously leveraged a lot of the data we have to come up with a loading for LAE that we think is extremely prudent. And so if there is better-than-expected activity on that front, which I think is possible, that would definitely enure to our benefit.

The other thing I would sort of say to put this in some concrete terms, I mean I think our view would be if the loss ends up being smaller than we've indicated in terms of total industry loss, our view is that our share would remain relatively stable over a reasonable range. So that means our net loss would ultimately come in smaller.

And then to Juan's earlier point, there's also upside protection in the form of cap bonds if PCS calls an industry loss that ends up being larger, which sort of caps our upside dollar value of net loss. So I think it puts us in a really confident position relative to the net loss that we had indicated.

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

And this is Mike Karmilowicz. I would just add on the Insurance division side, we certainly benefit from third-party reinsurance as well. We do obviously have different structures, but not to get into details, but we do have quota share per risk and other cats as well that we'll be able to get some benefit from as well.

Operator

The next question comes from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

So my first question, I guess, picking up on the Reinsurance side. So it sounds like, right, you guys will try to manage any increase within your risk tolerances. But you could write more business, I think you said with the existing clients.

So as you see the market evolving next year, how do you envision that coming together in both your cat load and your P&L? Would they be higher? Or how do you envision managing those next year?

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

Yes, Elyse, this is Jim Williamson. Yes, first of all, to reiterate some of what I said earlier. I mean, I think this is a fantastic market opportunity. And what that translates into is an ability for us to really set terms and conditions in a way that are obviously going to be highly favorable. And I think that will include an ability for us to manage our total exposure as Juan had indicated, while still driving higher revenue and more importantly, much better margins, much better contracts, terms, conditions, attachment points, et cetera.

And so I would say my sense is we're not going to have to stretch our total risk load, whether you measure it in P&L or the cat load in order to drive the types of outcomes we're describing, which again could include some really nice growth as well as margin expansion.

Juan Carlos Andrade
President, CEO & Director

Yes. And I think -- this is Juan Elise, and again, thanks for the question. Again, our goal is to expand risk-adjusted returns, right? It's really to expand our margin. And that's really the significant opportunity that we see in front of us. And as I just said to Mike a few seconds ago, the reality is with the current pricing, the current terms, we think we can grow the top line without necessarily growing the exposure. And our strategy to continue to manage volatility for the long term to diversify the company is still very much in place, but we do have the nuances of this market, which will allow us to make those trades where we think we can expand margins and we can continue to grow given the conditions in place right now.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

And then my second question, you guys pointed out mix impacting the Insurance underlying loss ratio. How should we think about the underlying loss ratio trending from here as you're getting price above trend?

And we're also thinking about mix shift. Would you expect improvement in that number? I'm not just talking about the Q4, I'm also thinking about on 2023 as well.

Juan Carlos Andrade
President, CEO & Director

Yes. No, thank you, Elyse. And look, what I would guide you to is what I said in my prepared remarks, and this is Juan, which is look at the year-to-date attritional loss ratio for the Insurance division. And that's basically 80 basis points better than the prior year. And the way we get there is through a lot of the levers that I've talked about in the past, right? It's the cycle management. It's the diversity of our business mix. We're able to move pretty nimbly to lines that have better risk-adjusted returns, better profitability, et cetera, et cetera.

Our commitment is to continue to improve that profitability and the margin within the Insurance division. And I think as I've said in prior calls, you go back to the end of 2019 where that was running at around 96% now you're running sub-90% on the attritional combined ratio for the division. And that's what you should expect, I mean that's the commitment and that's where we're driving this to going forward.

But I would invite Mike Karmilowicz maybe to add anything to that?

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

Yes. I would just add a couple of things. One, this is a long-term game. We continue to focus on this business that drives the right margins. And other piece too is, we focus heavily on the combined ratio as well. So it's the entire package. And as you've seen over the last -- from a rolling perspective, in the last 24 months, we've actually brought our combined ratio down 24 -- I'm sorry, 5 points alone.

So our goal is to continue to drive the ultimate loss ratio and the overall results of the organization, exactly what Juan said.

Operator

The next question comes from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of questions here. Just firstly, I'm just curious, -- how does the Mt. Logan going to fare in this event?

And I'm just curious on that topic, how does that kind of interplay with Everest's willingness to write kind of gross cat exposure in the marketplace?

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

Sure, Brian. This is Jim Williamson, and a couple of things. Mt. Logan is structured essentially on a quota share basis. And so the results that Everest generates for its own balance sheet are the same results that our Mt. Logan investors experience, which is, I think, a differentiator for us because it creates an incredible alignment of interest.

And it means in situations where we have a large loss event, investors in Mt. Logan are getting the exact experience that we're having on our side. So it will be very consistent that way.

One thing that I would mention. Obviously, any given quarter in the third quarter, in particular, can have elevated cat losses, you really need to look at it over time. And I would say on a year-to-date basis, while we have had significant cat activity this year, we've also collected a great deal of cat premium and that is enuring to the benefit of our Mt. Logan investors.

And so I think -- I don't think there'll be any surprises in that for them. And then just a little comment on the external environment around ILS and fundraising. We have a very robust pipeline of ILS investment opportunities. I think there's a lot of interest in the offering that we have in Mt. Logan, and in particular, based on the factor that I just mentioned around alignment of interest. It is a more challenging environment to raise ILS capital just because people are giving it a rethink, but that's what's driving a lot of the hardening and the dislocation we've seen in the market.

I think the good news is, from our perspective, we think about gross lines management, really is an independent factor. And so whether we raise x or y amount of money in Mt. Logan is not going to affect how we think about our gross line underwriting. We're really looking to drive gross profits. That translates into net profit for our balance sheet as well as good results for our Logan investors and we're going to continue that approach.

Brian Robert Meredith
UBS Investment Bank, Research Division

Great. That's helpful. And then, Juan, I'm just curious, you may have kind of alluded this to in your comments, but what are your thoughts on the casualty reinsurance market here? Are these events going to have a favorable impact on pricing and in terms and conditions in the casualty reinsurance market? And it sounds like you're well positioned to take advantage of that, if that's the case.

Juan Carlos Andrade
President, CEO & Director

Yes, Brian, I would agree with you. Look, I think, number one, I think we are very well positioned for, frankly, the reasons that I stated earlier, right? We're well diversified. We have the client and the broker relationships. We have the balance sheet. And so from that perspective, we feel very good about where we are.

And you saw it in the numbers that we quoted this morning, right? Our global casualty book and Reinsurance grew by 16% in the quarter. And the reason for that is because we do see the opportunity continuing, right? We do expect primary rates to keep up with trend in 2023 in the casualty lines. We expect Reinsurance terms and conditions to be stable to improving, and that will allow us to continue to deploy additional capacity into the space.

And look, when you think about the macro factors that are impacting that, there's a lot of risk in the environment, right? So if you think about social inflation in the U.S., if you think about economic inflation around the world, companies are being very disciplined, right? And so from that perspective, we do expect that pricing terms and conditions to remain favorable throughout 2023.

I think that's, again, a great opportunity for us to continue executing on our strategy, which is diversifying the book. If you look at our numbers in the supplement now, our Reinsurance division is basically now split 50-50 between property and casualty. And that's important because we're not a one-trick pony, right? We have levers to pull, and we're pulling them.

But let me invite Jim to also maybe deepen that answer.

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

Sure. Thanks, Juan. Yes, Brian, I think what our expectation is and what we're starting to see even in the 11/1 renewals, for example, it's relatively light, but we are seeing some indications is that we've really started to see the leveling of ceding commissions play itself out. We expected that to begin to occur. That is, in fact, occurring. In fact, we're starting to see some examples of ceding commissions receding a little bit, which we think is quite healthy.

And I do think to a degree that's tied to what's happening in the property cat market. And when we engage our cedents, we really try to come up with constructive solutions across lines for those customers. And in many cases, they're absolutely willing to discuss ceding commission reduction on core casualty programs. In some cases, related to an increase in available cat capacity or a restructuring of another program.

And so all the cards are on the table that way. And I do think that combined with the ongoing strength in the underlying market that Juan talked about means that casualty will be a great opportunity for us in 2023.

Operator

The next question comes from Josh Shanker from Bank of America.

Joshua David Shanker
BofA Securities, Research Division

I wanted to hear a little bit about your outwards reinsurance purchasing, what might happen to that next year? Or to the extent which you're reliant on the ILS markets and as the next few years go by and perhaps investors in those markets pull capital out, what it means for the degree to which you protect yourself in retro and reinsurance line?

Juan Carlos Andrade

President, CEO & Director

Yes. Thanks, Josh. This is Juan. Let me start that and then I'll ask Mike Karmilowicz to talk more about the ceded Re program within the Insurance division.

Look, I think as we've talked about in the past, we are not dependent on retro, on the ILS market, et cetera, to deploy capacity. And I think that is one of the significant advantages that we have here at Everest, where we have a capital shield, we have the balance sheet to be able to do what we need to do. Some of our pure competitors are not in that situation, and it's going to be a very difficult renewal in some ways on January 1 because they're also still in the point of trying to line up the retro and their capacity, so they know how much they can deploy.

We are not in that situation, and so we're actively working in the market to be able to deploy capacity according to the strategy that we outlined a few minutes ago.

But let me ask Mike to jump in and talk a little bit about the ceded Re program that we employ within the Insurance division.

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

Yes. Thanks, Juan. Thanks, Josh, for the question. I think specific to the Insurance business, the reality is just like Juan said, we're not reliant on third-party coverage even though we do purchase and manage our portfolio that way, it doesn't help, but it doesn't -- we're not necessary for us to execute our business plan.

So we see that market having impact, and I think we'll see some things I don't think it will be material. But for us, having the wherewithal, the financial strength of Everest and having all the different scale that we've created over the last couple of years gives us the availability to be able to execute our plans not being relied on it. I do -- will tell you, I do think it will have impact and behavior on a lot of peers who are reliant on reinsurance.

Joshua David Shanker
BofA Securities, Research Division

And just a question on the investment portfolio. Is there any arbitrage opportunity for you to crystallize and recognize investment losses in order to have the opportunity to redeploy at a higher yield? Or is it just a matter of taking expiring bonds and redeploying them at the current opportunity.

Mark Kociancic
Executive VP & Group CFO

Josh, it's Mark. So we have that opportunity set, but we do have a few other considerations in that kind of decision tree.

So one, you've got the strength of the operating cash flow coming in and the maturing portfolio. So that's feeding quite a bit of cash into the current reinvestment structure that we have in new money yields. The second point is where are we with rates in general. I think the FOMC caught the market off guard in late September with the rate rise, and you have a question here is, are they done? We've seen them kind of undershoot throughout the year. And so it's also a question of when you go in.

Having said that, I would say that we are looking to lengthen duration a bit on the fixed income side. And we do have the significant allocation to floating rate, securities, the 22 points, which rises in that environment. So I think we're quite comfortable with both the pace and the direction that we're moving in. But your first option is definitely something that's on the table if we want it.

Operator

The next question comes from Mike Zaremski from BMO.

Michael Zaremski

Follow-up to the last question on the investment portfolio. I'm curious what's the duration of the floating rate portfolio or maybe the yield that we should think about in the floating rate portfolio?

Mark Kociancic
Executive VP & Group CFO

Well, the duration is de minimis. You're dealing with a 0.1, 0.2 type of effective duration, calculation on it. The yield itself on a stand-alone basis is quite attractive, just depending on the type of CLOs we're dealing with. So it's pretty much an investment-grade portfolio, the AAAs, the BBBs, you're going to get different series of yields between them. So you can get anything from 6 handles to even upwards of a 9 depending on the type of credit quality that's being discussed.

Michael Zaremski

Okay. Interesting. Moving to outside the investment portfolio, clear in the commentary that you feel rates are in excess of loss trend, which bodes well for margins. I heard your commentary on ceding commissions on the Reinsurance side. Kind of just curious, have rates -- and maybe I just need to reread the transcript, there's a lot of good stuff in the prepared remarks. Have rates on the primary side decelerated a bit 3Q versus kind of the first half of the year? Or are they holding kind of up?

Juan Carlos Andrade
President, CEO & Director

Mike, this is Juan. No, they're actually quite steady. And frankly, in some lines, they've actually improved. And so we have not seen a deceleration in the third quarter over the second quarter.

Michael Zaremski

Okay. Okay. Interesting. And just it sounds like you guys don't want to quantify what the dollar amount of recoveries would be between like the $48 million to the $1 billion, if it hits it versus your $55 billion peg on the industry loss? Is I thinking about that correct? It will just be significant?

Mark Kociancic
Executive VP & Group CFO

No, no, no. It was during my prepared remarks, like I was making the point that we have a $350 million limit on our cat bonds between an industry loss of $48.9 billion and approximately $64 billion. It's really a pro rata recovery depending on where PCS ultimately sets their industry loss pay, right? So currently, they are below that, $40.9 billion, if I recall correctly. So there is downside protection. And obviously, our loss pick for the industry is out of $55 billion. So you'd have full recovery in essence with maybe some basis risk between our pegs and whatever the cap bond is coming out with, but that gives you a sense of how it could develop.

Operator

The next question comes from Meyer Shields from KBW.

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

A couple of, I think, quick questions. First, in the context of Mt. Logan or ILS investors, are there new investors that are now looking at the asset classes that you're either speaking with or observing?

Mark Kociancic
Executive VP & Group CFO

There -- it's Mark, Meyer. So there's definitely I think a lot of emphasis on sophisticated investors who have been in the asset space for quite some time. We have, I would say, a pretty good pipeline, a high degree of interest, particularly given the opportunities they have with Everest, the fact that we have such a strong alignment with the underwriting of our cat book in the Reinsurance division. So from that standpoint, like I said, nice pipeline and sophisticated investors and lots of money to deploy tactically at different layers. And we're fortunate that we can meet those different types of appetite because of our scale.

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

Okay. That's very helpful. And then just a small question in terms of operations. When you've got an event like Hurricane Ian, how should we think about the impact on the acquisition expense ratio related to just big cat losses?

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

Yes. Meyer, it's Jim Williamson. I think you might be referring to primarily on the Reinsurance side in terms of what our commission ratio would be in a quarter where we have a significant cat event and reinstatement premiums.

And look, reinstatement premiums do come with acquisition costs. They tend to be significantly lower than our average. And so on balance, they would tend to bring down the average acquisition cost of the division. So I think that's the question you're asking if it's not, though, please let me know.

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

Yes. No, that's helpful. I was actually asking about incentive compensation and whether there's a change to year-to-date numbers because of the loss.

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

Sorry, Meyer state that one more time?

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

I was asking about whether any of the incentive costs are -- that have been accrued in the first half of the year or reverse when you've got a single large loss.

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

Yes. Okay. I see your point, Meyer. Look, on a reinsurance basis, I think that's a relatively minor issue. And so that would not be the factor we're describing. And so there's that component.

I would say, I don't know, Mike, if there's anything that you would add on the Insurance side.

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

No, I don't have anything to add on the insurance side.

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

Yes, I think it's a relatively minor.

Operator

The next question comes from Yaron Kinar from Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

I wanted to circle back to the cat load. And clearly, we're seeing an improvement in the cat load and improvement in the market share, no doubt about that. At the same time, I think if we look at year-to-date cat losses and extrapolate into the fourth quarter, we are getting to about 10% cat load range for the year. And that's off of a, I think, a relatively normal industry cat loss year of, call it, $100 billion, $110 billion. And that just -- I think it's still coming up a little bit ahead of what you had guided to for the year.

So was hoping to get a better understanding of that delta. And I appreciate the fact that you haven't captured any of the cap on recoveries on Ian yet, but I would think that those only start recovering if the loss really starts spiking to the point that we are well above annualized -- normalized cat load?

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

Sure, Yaron. It's Jim Williamson. Thanks for the question. It's going to, I think, take a couple of key points to unpack the question because it's an important one. And I'll start with a little bit of a description on how we arrive at the 6% to give you some perspective on that. And so we leverage both external cap modeling capabilities, the same ones that are used across the industry as well as our own internal analytics to perform a ground-up assessment of our in-force portfolio, which gives us an average view over an extended period of time of what we expect net cat losses to look like.

So it's important to remember, it's an average. And in any given year, obviously, actual results will vary from that average.

In terms of the alignment of that load to total industry losses, or the idea that we're in a period where industry losses are going to range, whether it's -- you think it's $100 billion or $120 billion a year, how does that comport to our cat load.

It's very consistent. Our view is that, that is a relatively normal year. But what you have to keep in mind is what events make up the $100 billion or $120 billion is incredibly important. And I'll share some specific examples just from this third quarter. We're tracking around the world 74 events that occurred during the quarter that are considered cat by the industry, only 3 of them resulted in losses to Everest for the quarter, and we've talked about those.

And so what that means is that there are a lot of events that occur in the industry that will drive loss for primary insurers or some reinsurers that don't result in losses to Everest. And that's because we have a -- we have a definition of a cat. It has to be over $10 million involving multiple cedents. Obviously, our book in various parts of the world is structured to avoid more attritional type of cat losses. So that gives you a sense of that.

And then in a year, where you have a cat 4 nearly cat 5 Florida landfall hurricane, that's obviously going to be much more of a reinsurance event and drive more loss into the reinsurance market, which is what's resulting in our actual cat loss being in excess of our cat load.

So hopefully, that allows you to square the circle. And there's no question that you could have a year with $120 billion of cat losses, where our cat load is less than 6%. It really is that dependent on what events are driving it.

And then the last piece, as you do mention, we're not including any cap on recovery in our estimate of net losses. And my view would be if PCS continues to develop upward and does trigger our cap on. Remember, we called Ian at $55 billion. So my gross loss wouldn't move just because PCS gets to $49 billion, which gives us, I think, a good degree of prudence. And then again, above our $55 billion level, I think that's when the cat recovery really holds our dollar value of net losses at the level that. So we feel very good about that number, and there's a lot of prudence built into it.

Yaron Joseph Kinar
Jefferies LLC, Research Division

Great. That's very reassuring. My second question, and it's amazing what a difference a quarter makes. I think last quarter, I asked about the 8% to 12% CAGR target in Reinsurance for 3 years, maybe coming in a little bit below that expectation. Again, a quarter makes a big difference Just given the different market dynamics, do you think that, that 8% to 12% CAGR may be on the low end now?

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

Yes, Yaron, it's Jim again. I mean I think the first thing I would just remind everybody that, that was an assumption that we made that was built into our strategy for getting to a total shareholder return. We have a lot of levers to drive those returns outside of Reinsurance growth rate. So that would be one key point.

The next is we have driven significant growth. If you think about when we made that call, we were really beginning -- launching off point was the end of 2020, so we have driven very significant growth. It was very front-loaded because we saw that market opportunity, particularly in casualty. So that's very relevant.

But to your broader point is, do I believe that our prospects for growth in 2023 are greater now than I would have believed the last time we talked about it? Absolutely. I think the market opportunity that we all know is in front of us, will give us the opportunity to drive more top line at better margins, probably with less total exposure on the property side.

And then as Juan and others have indicated, on the casualty side, we think there's a renewed opportunity to continue our growth rate in the specialty lines. There's a tremendous amount of dislocation that's occurred due to the war in the Ukraine and other factors. We think that will present some very interesting opportunities. And then we continue to invest in our business, which gives us new capabilities to deliver value to our customers and drive top line growth. So I think, yes, a quarter does make a huge difference on that front.

Juan Carlos Andrade
President, CEO & Director

And Yaron, the last thing I would say, and I've said it before, it's all about risk-adjusted return and expanding margins and profitability. And we see the opportunity to be able to do both.

Operator

The next question comes from Ryan Tunis from Autonomous Research.

Ryan James Tunis
Bernstein Autonomous LLP

Yes. I guess first question, can you just give us an idea of on the reinsurance side from Ian, the complexion of the loss between domestic Florida carriers, national carriers and how concentrated is it in individual programs?

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

Yes. Sure, Ryan. It's Jim Williamson. The first thing to indicate just when we think about our view of the industry loss, we do think this is primarily going to be a residential-driven loss with, obviously, a very large component of home, but probably a bit of an outsized auto loss as well.

For our particular portfolio, we will definitely be concentrated in the Florida specialist. For the most part -- this is a general comment. But for the most part, our large national clients won't see significant attachment in their programs. Obviously, there'll be some loss, but not that significant. They've managed their exposure in Florida very carefully. So there is that factor.

And as Mark had indicated in his comments, I think that's actually quite a good thing for us because potential creep around the loss related to things like auto, for example, or commercial flooding are not going to be a factor for us. So if that -- if those 2 factors were to drive uplift in the ultimate industry loss, that really shouldn't have an impact on our net loss. So I think about that as a very good thing.

Ryan James Tunis
Bernstein Autonomous LLP

Got it. And then just a follow-up, I guess, kind of from a risk management standpoint. If I look at the 10-Q, it would predict a Southeast win loss of this size somewhere between 1 and every 100 and 1 every 250 years. Obviously, Ian is not that rare. So is there any thinking internally about maybe dusting off these models or just putting a little bit more weight towards common sense?

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

Yes, Ryan. Well, one, just with respect to where you ended that question, we use the models for a number of things. But underwriting judgment expertise and a whole lot of common sense go into how we manage risk, how we set our risk threshold, how we price our business, how we decide whether or not to participate in programs, et cetera.

But in terms of your point, look, I think what Ian showed, if you look at our current loss estimate at $55 billion and our net PML statistics, it's showing more like a 1 in 40, 1 in 50, which I don't think the return period on a storm like this is that remote. I think it's more like a 1 in 20 loss range. And the delta between those 2 figures is really our prudence around the cap on recovery because, again, we're publishing net PMLs.

Our expectation, as Mark had indicated, to give you that number, is if PCS catches up to our view of the ultimate industry loss, there's going to be a meaningful cap on recovery, which would lower our net loss, which would -- which square with our published PMLs. So that's why you're seeing a little bit of havoc. It's not anywhere near a 1 in a 100 or 1 in 250.

Ryan James Tunis
Bernstein Autonomous LLP

Got it. I mean the 10-Q says that this for 1 in 20 the last should have been -- the net loss should have been half the size that was.

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

And to Mark's point, we have $350 million of cap on limit that will be in attaching just under $49 billion of PCS event and will exhaust just around $64 billion. So that is a meaningful number. And my view would be -- remember, we've pegged the industry loss at $55 billion. So if PCS begins to catch up to us and development in their numbers is not unprecedented, they can travel upward a long way without having any impact on our view of our gross loss. But we would begin to recover lowering our net loss. And so I think it tracks to my view of what a 1 in 20-ish type of event would look like.

Operator

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

Juan Carlos Andrade
President, CEO & Director

Thank you for your questions and a great discussion today. I think as you can hear from this management team, we are very bullish about the future and the opportunity for all of our stakeholders. The passion, the innovation from our team is palpable in every facet of this business.

Thank you for your time today and for your continued support of our company. We look forward to talking to you at the end of the next quarter.

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