S&P Global
Market Intelligence

Everest Re Group, Ltd. NYSE:RE

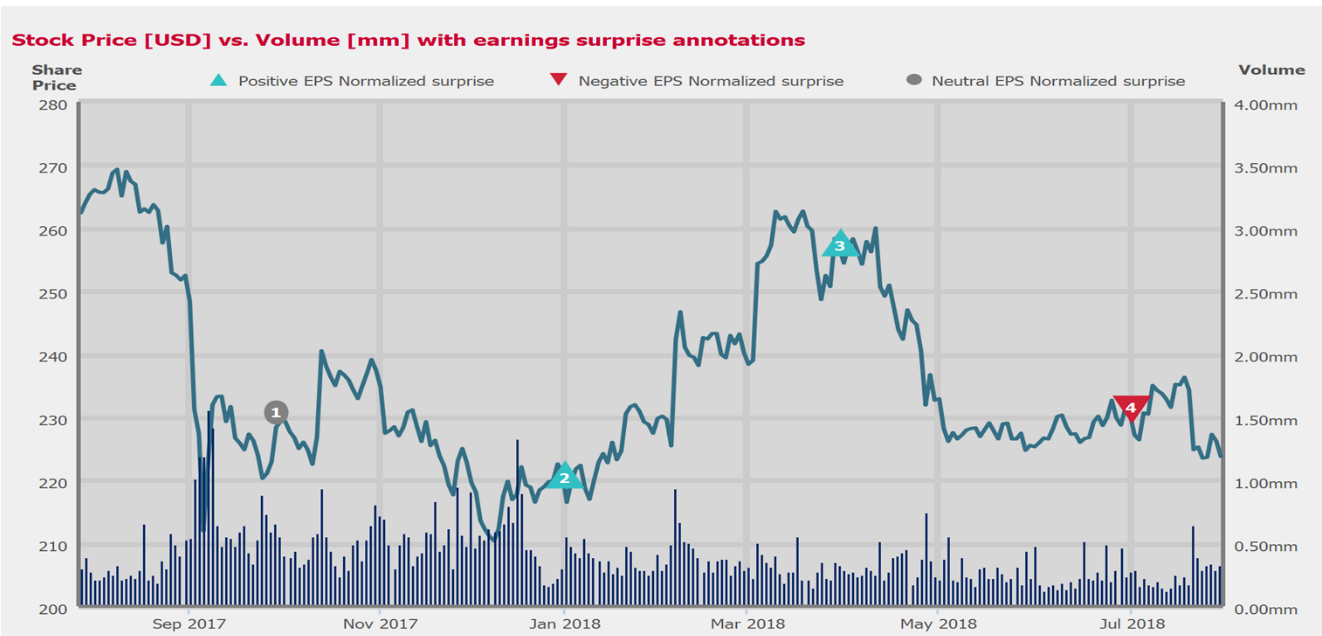
FQ3 2018 Earnings Call Transcripts

Tuesday, October 30, 2018 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2018-			-FQ4 2018-	-FY 2018-	-FY 2019-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	2.97	4.09	▲37.71	7.84	17.57	23.84
Revenue (mm)	1849.97	-	-	1840.26	7078.34	7660.62

Currency: USD
Consensus as of Oct-30-2018 9:41 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2017	(16.13)	(16.43)	NM
FQ4 2017	5.29	13.48	▲154.82 %
FQ1 2018	5.33	5.34	▲0.19 %
FQ2 2018	1.08	0.98	▼(9.26 %)

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Call Participants

EXECUTIVES

Craig William Howie
Executive VP, Treasurer & CFO

Dominic James Addesso
President, CEO & Non-Independent Director

John Paul Doucette
Executive VP, President of the Reinsurance Division & CEO of the Reinsurance Division

Jonathan Martin Zaffino
Executive VP, CEO of the Everest Insurance & President of the Everest Insurance

ANALYSTS

Amit Kumar
The Buckingham Research Group Incorporated

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

Kai Pan
Morgan Stanley, Research Division

Michael David Zaremski
Crédit Suisse AG, Research Division

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Presentation

Operator

Good morning, and welcome to the Everest Re Group's Third Quarter 2018 Earnings Conference Call. Today's call is being recorded. On the call today are Dom Addesso, the company's President and Chief Executive Officer; Craig Howie, Chief Financial Officer; John Doucette, President and CEO of Reinsurance Operations; and Jon Zaffino, President and CEO of Insurance Operations.

Before we begin, please note, the company's SEC filings include extensive disclosures with respect to forward-looking statements. In that regard, statements made during today's call which are forward-looking in nature, such as statements about projections, estimates, expectations and the like, are subject to various risks. Actual results could differ materially from current projections or expectations. The SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now let me turn the call over to Dom Addesso.

Dominic James Addesso
President, CEO & Non-Independent Director

Thank you. Good morning. Last night, we released earnings per share of $5.02 for the third quarter. Despite the number of catastrophes for the industry in the quarter, this turned out to be a quarter for us with a solid ROE. This result reflects a strong quarter for investment income, continued strong underwriting income from attritional results and tax benefits achieved from our portfolio of composition. These factors, coupled with a positive equity market resulting in realized gains for the quarter, produced a 9.7% annualized net income ROE for the quarter.

No doubt that it has been an active last 15 months for cat losses, and of course, one more quarter to go with already some known cash. While it's been challenging for those individuals and businesses directly impacted by these events, these are challenges to which we have responded well, and in fact, better than most.

Over that time, we continued to produce positive results, and we anticipate the same in the fourth quarter. Our portfolio of composition is able to absorb volatility, and over the longer term, including these recent years, has produced total shareholder return of over 12%.

On an ROE basis, over the last 5 years, Everest has outperformed by approximately 300 basis points, a top 20 peers listing as compiled by A.M. Best.

Nevertheless, we must always look forward. And as all of us recognize, there are significant questions, which persist around our industry. Most notably, the influx of third-party capital and price adequacy. That is why you may have observed that over time our net annual expected cat load has drifted down from over 12 combined ratio points to currently less than 9 and will likely drift down into next year. This has been and will continue to be the result of deliberate execution of our strategy, a combination of reducing and diversifying our cat portfolio and diversifying into other segments of the business. You will hear more about this from my colleagues.

We continue to believe the future is bright for Everest, given the scale we have in the business and our breadth of underwriting and capital management capabilities. And therefore, the ability to leverage that into the better opportunities the market offers and to participate meaningfully in new classes and constructs. We see the recent catastrophe events as being a strong proof point of our value proposition and this, along with our client's focus on earnings volatility, has continuing to increase demand for our products and services.

Thank you for your participation this morning, and I look forward to our dialogue during the Q&A. I'll now turn it over to Craig for detailed financial results.

Craig William Howie

Executive VP, Treasurer & CFO

Thank you, Dom, and good morning, everyone. Everest had net income of $206 million for the third quarter of 2018. This compares to a net loss of $639 million for the third quarter last year, a quarter heavily impacted by catastrophe losses.

On a year-to-date basis, net income was $486 million compared to a net loss of $102 million for the first 9 months of 2017. Net income year-to-date included $35 million of net after-tax realized capital gains compared to $79 million of capital gains in the first 9 months of 2017. The capital gains were primarily attributable to fair value adjustments on the public equity portfolio.

After-tax operating income for the third quarter was $167 million compared to a loss of $624 million in 2017. Operating income year-to-date was $428 million compared to a loss of $123 million for the first 9 months of 2017.

The group recorded a modest underwriting gain of $278,000 for the third quarter, essentially a breakeven result with a 100% combined ratio. This compared to an underwriting loss of $1 billion in the third quarter of 2017, with combined ratio of 164%.

Year-to-date underwriting gain for the group was $21 million compared to an underwriting loss of $705 million for the same period last year. The year-to-date combined ratio was 99.6% compared to 116.5% reported for the first 9 months of 2017, reflecting the higher catastrophe losses in 2017. These results reflect a series of major catastrophe events that are driving both the quarter and the year-to-date figures for both 2017 and 2018.

In the third quarter of 2018, the group saw $240 million of net pretax catastrophe losses compared to $1.4 billion in the third quarter of 2017. The breakdown on the pretax loss estimates by event is as follows: Hurricane Florence was $90 million; Typhoon Jebi was $80 million; Typhoon Trami was $25 million; the 2018 California wildfires were $25 million; and the Japan floods were $20 million.

On a year-to-date basis, the results reflected net pretax estimated catastrophe losses of $837 million in 2018 compared to $1.4 billion in 2017. Excluding the catastrophe events and favorable prior year development, the underlying book continues to perform well with an overall current year attritional combined ratio of 85.8% for the first 9 months compared to 85.6% for the same period in 2017.

Our year-to-date group expense ratio remains low at 5.7%, while our commission ratio of 22.1% remains relatively stable. When looking at year-over-year comparisons, it should be noted that the 2017 commission and expense ratios benefited from higher reinstatement premiums arising from the 2017 catastrophe events.

For investments, pretax investment income was $161 million for the quarter and $441 million year-to-date on our $18.7 billion investment portfolio. Year-to-date, investment income was up $47 million or 12% from 1 year ago. This result continues to be driven by the increase in limited partnership income, which was up $29 million from the first 9 months of 2017. However, $13 million of the limited partnership income this quarter came from a distribution of one investment and will not reoccur in the future.

The pretax yield on the overall portfolio was 3.2% compared to 3.0% 1 year ago, as both investment-grade and alternative fixed income yields are up year-over-year. The new money rates are now in excess of our total portfolio yield. This will boost future net investment income.

On income taxes, the tax benefit we recorded was the result of the amount in geographic region of the losses associated with the catastrophes. The effective tax rate is an annualized calculation that includes planned catastrophe losses for the remainder of the year. We expect to report a tax benefit for the full year since additional catastrophe losses are anticipated in the fourth quarter.

Positive cash flow continues with operating cash flows of $544 million for the first 9 months of 2018 compared to $1 billion in 2017. The year-over-year decline reflects a higher level of paid catastrophe losses in 2018 from the 2017 catastrophe events.

Shareholders' equity for the group was $8.3 billion at the end of the third quarter and was essentially flat compared to year-end 2017. The $40 million slight decline in year-to-date shareholders' equity is primarily attributable to the $255 million mark-to-market impact on the investment portfolio and capital returned through $159 million of dividends paid as well as $75 million of share buybacks, offset by $486 million of net income.

As a result of the share buybacks and dividends, the company has returned 48% of net income to shareholders to date in 2018. The catastrophe losses in 2017 and 2018 have had no impact on our strong capital position.

Thank you, and now John Doucette will provide a review of the Reinsurance operations.

John Paul Doucette
Executive VP, President of the Reinsurance Division & CEO of the Reinsurance Division

Thank you, Craig. Good morning. Everest Re continues to focus on relevance to our customers, global spread and line of business diversity in our expanding portfolio and proactive and efficient use of our capital. Our strategy is focused on long-term profitable growth, sustainability and responsiveness to our clients and brokers. We are built to withstand the volatility that we manage for our clients, whether that is from increased frequency of property catastrophes, shock losses in casualty and professional liability classes, credit risk, mortgage risk or any other risks needing mitigation.

Although we manage volatile risks, we are disciplined and thoughtful underwriters, expanding our business by offering tailored products and solutions across our global underwriting platform and in all property and casualty lines.

In Q3 of 2018, we had $240 million of losses net of reinsurance from the events in the U.S. and Japan. This continued frequency of catastrophe losses has put upward pressure on rates, and as a core reinsurer, we are positioned to capture the benefits of any market uplift.

That being said, the cumulative compression of property margins over the last several years has had the corresponding impact of stabilizing the casualty reinsurance market and some other nonproperty lines of business, which can no longer rely on rates subsidization from the property cat lines of business. Overall, we have correspondingly deployed more capital across many long-tailed and short-tailed lines, which exclude cat exposure, highlighted by our underwriting profit from non-cat exposed classes, reaching $190 million through 9 months in 2018, up $70 million over the same period last year from similar lines of business.

Recognizing this improving market dynamic for non-cat exposed lines, we targeted and bound several large casualty treaties this year at attractive ROEs, and we know that several more new casualty treaties are coming to the market soon, both from larger global clients and smaller regional companies, which could continue to improve overall reinsurance terms going forward and expand the opportunity set to profitably deploy capital. Similarly, we are viewed as a premier and disciplined reinsurance partner in the expanding mortgage space as well as in specialty lines and structured reinsurance products and continue to see new opportunities in these lines.

As I have said before, this new paradigm of capital restructuring, Insurtech and technology innovation and other disruptive forces impacting our industry collectively will continue to test all insurers and reinsurers. And only those, such as Everest, with our long-standing global franchise and access to profitable diversified business through an efficient operating platform, will continue to thrive in this new world.

Now I will turn to our quarterly and year-to-date results. In Q3 2018, overall, the Reinsurance division grew gross written premiums year-over-year by 7% to $1.7 billion. When removing effects of foreign exchange and reinstatement premiums, last Q3 due to the catastrophes, it is up 18%, primarily due to increases in both property and casualty quota share business. Our overall Q3 combined ratio was 100.1%. This breakeven underwriting result was driven by an elevated cat loss ratio of 17.4%, primarily due to Hurricane Florence, California wildfires, Typhoons Jebi and Trami and the Japanese floods. Year-to-date, our gross written premiums were up 20% to $4.5 billion, and the overall combined ratio was 100.1%, which includes all cat losses incurred during the year.

As pro rata business has become more attractive due to a combination of better original insurance rates in certain lines and improving ceding commissions and other reinsurance terms, our business mix includes more pro rata than in prior years. Pro rata typically carries less volatility than excess of loss business but offset by higher ratios.

This is highlighted by our property pro rata premium, contributing roughly half of the premium growth this year, though with tightly control limits, including low occurrence limits as a percentage of premium. Additionally, casualty quota share and other nonproperty quota share line also accounted for roughly half of the premium growth seen this year. Notably, our attritional loss and combined ratios were only up slightly to 55.1% and 82.3%, respectively. We also closed more deals in credit, structured reinsurance and the mortgage reinsurance space, allowing profitable capital deployment, facilitating the premium growth. And we believe that we have a solid runway in front of us in these respective areas to continue to grow and profitably diversify our writings in non-cat exposed lines of business over the coming years. And therefore, we would expect to see continued material growth in the underwriting profit margin contribution over the coming years from non-cat exposed business, as we saw the high double-digit annualized growth in underwriting profit margin so far year-to-date compared to last year in these classes.

So while we saw a slight increase in attritional combined ratio percentage, our notional dollars of underwriting profit from these lines are up, and we expect this trend to continue in 2019 and beyond in these non-cat exposed lines of business.

Year-to-date, the U.S. reinsurance operations had a 14% increase in gross written premiums to $2.2 billion. Adjusting for reinstatement premiums and foreign exchange, written premium grew by 20%.

The increase in premium was driven by some large casualty quota share treaties, including capital relief deal and mortgage reinsurance writings. In addition, some large global clients purchased additional reinsurance, including casualty and property pro rata after reassessing internal risk targets, following the cat events of 2017. These buyers seek reinsurers that can holistically address their reinsurance needs in multiple classes around the world, and Everest, with our global footprint was in a solid position to win attractive business.

The U.S. combined ratio was elevated at 107.5% due to catastrophe losses incurred in 2018. While our attritional loss ratio improved slightly to 55%, our attritional combined ratio is up 1.6 points to 81.6% due to higher ceding commissions. But this is in exchange for tighter current limits and other risk-mitigating features in the treaties.

The Bermuda operations grew 34% to $1.2 billion of gross written premium year-to-date. Zurich and London were primary contributors to this growth, with increased casualty and multiline sessions from large global clients, expanded European casualty and motor treaty business and growth and maturation of our political risk, surety, trade credit book.

The loss ratio declined 16.7 points to 60.9% due to the lower amount of cat losses year-on-year. The attritional combined ratio decreased by almost 1 point to 87%. The international reinsurance operation also grew significantly to $1.1 billion. Gross written premium year-to-date increased by 21%. The growth included additional Latin American, Middle Eastern, African and Asian writings, providing Everest with broad-based international diversification.

In Latin America and in the Caribbean, post the 2017 cat losses, we saw rate increases and some new additional opportunities both at 1/1/2018, but also throughout 2018 during other renewal dates for loss-affected treaties.

In Asia, we saw opportunities in crop and facultative business, offset by a reduction in Chinese property pro rata business, which we nonrenewed due to deteriorating margins.

The international segment's combined ratio dropped to 97.7% from 133.4% in the prior year period. Year-to-date, 2018 has been affected by catastrophe losses from Jebi, Trami and the Japanese floods. However, the attritional combined ratio is essentially flat at 79.2%.

Looking forward, it is too soon to tell how exactly the market will respond to this year's losses, following the record losses of 2017, an active 2018 the third quarter and most recently, Hurricane Michael. However, with approximately $115 billion and climbing of market losses over the last 18 months, retraction and dislocation across various lines in Lloyd's and other markets, outsized losses in the energy market prior year cat development from several reinsurance clients and shrinking casualty reserve redundancies. It is hard to see how there cannot be some upward pressure on rates heading into this major renewal season. We do not predict rates, but we plan to be able to identify, respond and successfully executive in a variety of market conditions, which may vary by line, by territory and by product around the world.

Thank you, and now I will turn it over to Jon Zaffino to review our Insurance operations.

Jonathan Martin Zaffino
Executive VP, CEO of the Everest Insurance & President of the Everest Insurance

Thank you, John, and good morning. Everest Insurance has just completed another quarter of continued progress and a solid execution. With each passing quarter, we gained traction and see growth across our various portfolios, fueled by our deep specialty product set, the continued addition of talented colleagues, strength of relationships and a strong balance sheet.

We're seeing a stable and resilient combined ratio, aided by the maturation of the many businesses launched over the course of the past 3 years. As premiums continued to earn in and as we realized the impact of decisive underwriting actions taken to dampen the impact of more challenging lines of business, the overall business mix changes for the better, and we see the benefits in the form of a less volatile combined ratio.

Once again, we are emerging from a third quarter marked by significant cat activity, and once again, we can report that the Everest Insurance franchise has proven to be resilient, standing ready to respond to our customers' needs in the face of these natural disasters.

Overall, we remain pleased with the continued growth and development of our global insurance platform. As we've shared in the past, our vision to organically build a world-class specialty diversified insurance organization that is relevant within the global specialty P&C industry is being realized. Underwriting profit for both the quarter and year-to-date period, growth in gross written premium, improvement in the attritional loss ratio and continued expense discipline is evidence that the strategy we have defined is sound, and we have the right talent onboard to execute on our plan.

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

For the third quarter of 2018, the global insurance operations produced $517 million in gross written premium, an increase of $37 million or 8% over third quarter 2017. Year-to-date, we achieved $1.7 billion in gross written premium, representing growth of $184 million or 12% over the comparable period in 2017. These strong growth rates have been achieved despite several underwriting actions that have resulted in our controlled exit of various lines of business. As in prior quarters, contributions remained balanced across the diverse group of underwriting operations, particularly the direct broker units within the Everest insurance global platform. This also represents the 15th consecutive quarter of growth for global insurance.

Turning to net premiums. Net written premium for the quarter was $385 million, an increase of $15 million or 4%. Year-to-date, net written premium was $1.2 billion, growing by $61 million or 5% over the prior year period.

Net earned premium in the quarter was $419 million, an increase of $43 million or 11% and $1.2 billion year-to-date, an increase of $157 million or 15% over the prior year period.

Our GAAP combined ratio for the quarter was 99.6%, significantly lower than last year's quarter, which included the historic 2017 cat events. Excluding the current quarter's 2.8 points of cat activity, the attritional combined ratio was 96.9%, which compares favorably to the third quarter '17 attritional of 98% and continues a 2-year trend of improvement over the third quarter 2016 attritional of 99.5%.

Encouragingly and as anticipated, Everest Insurance has now produced an underwriting profit in 6 out of the last 7 quarters. The underlying loss and loss adjustment expense ratio for the third quarter of this year was 66.4%, a 2-point improvement over last year's 68.4% and a 3.4-point improvement over 3Q 2016 of 69.8%.

On a year-to-date basis, the GAAP combined ratio was 98.1%, inclusive of 1.4 points of net cat loss, thus delivering $23 million of underwriting profit, a $171 million improvement year-over-year.

The year-to-date attritional combined ratio for the global insurance operations produced a 96.7%, essentially flat over the year-to-date '17 period, yet 60 basis points below the 97.1% for the comparable period in 2016. The main variance here is the expense ratio which came in at 30.5% in both the third quarter and year-to-date periods, which was up 90 basis points and 1%, respectively, over the same period last year.

As we've stated in prior calls, an expense ratio of roughly 30% remains very competitive in the specialty insurance segment and is in line with our plan. Importantly, the underlying loss and loss adjustment expense ratio showed a 70 basis point improvement year-to-date, coming in at 66.3% versus the prior year period of 67%. The key point, year-over-year, we are seeing a downward drift in the attritional loss ratio. This is a result of improved mix of business, the benefits from our continued commitment to add profitable lines of business to our portfolio and the strategic underwriting actions of the past 3 years.

Let me offer a brief word on the third quarter cat activity. Despite an active quarter for industry cat losses, our 2018 results are favorable as compared against several metrics. Everest Insurance booked $12 million or 2.8 points of net cat losses in the quarter, mainly from the impact of Florence and a smaller amount for California wildfire. The volatility from these events were well managed across our various underwriting operations.

Our many underwriting actions and hedging strategies implemented over the past 2 years have proven effective. Similar to any participant within the specialty P&C industry, we are not immune from the impact of severe weather. However, with the growth and maturation of our platform, our ability to manage the volatility has indeed improved.

Turning to the trading environment forward. The conditions exhibited in the prior quarters remained largely unchanged. Certain lines of business continued to achieve needed positive rates, namely commercial, auto and property, and as respect to property, that's a common on both the attritional and cat side. Other lines of business are showing signs of improving, namely Umbrella & Excess, and yet other lines are showing positive rate but not at the magnitude needed. This includes the general liability markets and many of the professional lines.

Workers' compensation continues to experience rate reduction as a reflection of the positive underlying fundamental and the like. Outside of workers' compensation, our composite rate increases in the quarter were a positive 4.3%, bringing our year-to-date total to a plus 4.8%. The slight decline in the quarter is as much a function of changing mix of business as it is reflective of a slowdown in rate.

So in conclusion, we remain pleased with the continued progress we are making in the establishment of a world-class specialty insurer. The nearly 90,000 submissions we have received year-to-date speak to our relevance. Further, the underlying performance of our diverse books of business remains encouraging, and hence, we feel we are well positioned to create value for all of our constituents in the evolving market ahead. We look forward to reporting back to you on our progress next quarter.

And I'll turn it back to Craig for Q&A.

Craig William Howie
Executive VP, Treasurer & CFO

Thanks, Jon. Jonathan, we are ready, and you can open the line for any questions that we may have.

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question, you guys have shown pretty strong growth in your reinsurance business, which continued in the third quarter about 17% if you back out reinstatements, these statements from both periods. So I guess my question is, do you think that this growth can be sustainable? Obviously, just assuming more or less stable kind of January 1, 2019, renewal season because, I guess, more of the growth has really come from pro rata business and shifting away from cat into other casualty lines. So can we continue to see high double-digit growth from here?

Dominic James Addesso
President, CEO & Non-Independent Director

Certainly into the fourth quarter, as that premiums continues to earn and you'll see those kinds of percentage. But into next year, I certainly wouldn't put that high of the growth rate on our reinsurance business. But we still think it's -- we're entering a part of the cycle where there are opportunities emerging outside of cat. We do see increased demand from global ceding companies. We're seeing increased demand in mortgage space and opportunities there. So there are opportunities, whether or not it would reach double-digit teens into next year, that's hard to predict. But certainly, we would expect to continue to see growth opportunities in the marketplace. The secondary question of course is whether or not those opportunities will meet our underwriting guidelines in terms of pricing, in terms of conditions, et cetera? So it's still an unknown, but perhaps, a growth year into next year, but certainly, I don't -- we don't believe at this pace.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then in terms of margins. So you guys -- the underlying loss ratio deteriorated in the third quarter. You guys, kind of, made a point it's due to the shifting of the mix to pro rata and casualty business and so that typically does run at higher loss ratios. The second quarter saw a little bit of a different trend as the loss ratio did improve on an underlying basis. So is the right way to look at the year-to-date? And I guess as the business continues to earn in, in the fourth quarter into next year, would you expect, I guess, at year-to-date about a 50 basis points or so deterioration in your underlying combined ratio?

Dominic James Addesso
President, CEO & Non-Independent Director

So first thing is, let me comment on the second quarter, just to go backwards a minute. And I want to refresh everyone's memory that the second quarter we had a very low frequency of what we call non-cat cats, so that had a positive impact on the second quarter loss ratio. And we do think that it is more appropriate to look at the combined ratio on a year-to-date basis. And we do think that our combined ratios, frankly, on a year-to-date basis has not changed all that much. In fact, on an attritional combined ratio, year-to-date, September 2008, 85.8%. That compares against the year-to-date a year ago of 85.6%. So 0.02 of a point movement in that. That's pretty stable, and that's kind of where we would expect it to be through time, very stable. The -- John Doucette, and it's worth reemphasizing, mentioned in his remarks, the underwriting profit. This is why he emphasized it sometimes can be misleading to just look from the combined ratio metrics, although we use them as well. But of course you have to use them against the right premium base, and I think that's frankly what -- where some of the misses have been -- has been using a higher combined ratio but not applying it to a higher premium base. And that's why, again, it's worth highlighting the actual notional dollars of profit that we've improved year-over-year. So this year, we've had a $190 million of underwriting profit from our non-cat portfolios on the reinsurance side and insurance, and last year, that was $120 million. So an improvement of $70 million. And sometimes when you just use the combined ratio statistics, that -- and you misapply the combined ratio to the wrong premium base, you miss the underwriting profit pickup. So rather long answer to your question Elyse, but I hope that addresses your question.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Yes, that was very helpful. And then just one last question. Particularly for Jebi, can you just let us know what level insured losses you're using? AR and RMS come out, kind of, in that $2 billion to $5.5 billion range? And then further, is your exposure there mainly XOL or aggregate or both? And if industry loss estimates rose for that event, as we're hearing some chatter in the market, could your net loss that you guys set up this quarter be impacted negatively?

Dominic James Addesso
President, CEO & Non-Independent Director

So first, our exposure to that loss is predominantly an XOL, if not solely an XOL event. And in each of the events that Craig highlighted in his remarks, we used either the highest end of the estimates, in some cases, above the high-end range from the industry estimates. Now clearly the -- it's still early with many of these events, and we're not saying that losses can't change. Of course, they could go in either direction. But we think in the aggregate, we've done a pretty conservative job of reserving these events. There is no read across the last year because it's a much different fact pattern. So we're very comfortable with the estimates, but with the absolute caveat that events can change. But even with what you described, depending on the severity of it, we think we've got that covered in large part.

Operator

[Operator Instructions] We'll take our next question from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

Just first question, follow-up to Elyse question on the attritional combined ratio. You mentioned the decline mostly because of mix change to pro rata and casualty lines. I just wondered, could you comment -- also comment on the pricing trends versus loss cost trend? Is there any impact from that as well?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, as John Doucette indicated that across many of the lines of business that we entertained, particularly in the casualty space, there has been a primary space, there's been generally rate increase, and of course Jon Zaffino highlighted that as well, of course, absent workers' comp. And when we look at -- I know your comment is -- or question, I think, was focused on the reinsurance side. When we underwrite those accounts, we build in -- a trend. So we do have trends opened into our assumptions about where that market's going. And remember that on the pro rata business, the biggest benefit that we've seen or the improvement that we've seen from the reinsurers' perspective is on ceding commissions, where that's just over the previous, call it, 5 years, ceding commissions were on the rise and was making that portfolio not suitable to put on the books. And again, it's worth reminding everyone that Everest has been, I think, terrific at cycle management. We took our -- 6 years ago, we took our casualty portfolio down to just a few hundred million, I'm talking again on the reinsurance side. And of course, now as market conditions have been improving, not only in primary rates, but also on ceding commission terms, we've now found it suitable to reenter that space. So again, good underwriting, cycle management are all things that we adhere to. I don't know if that answers your question.

Kai Pan
Morgan Stanley, Research Division

That's very helpful. And could you quantify how much benefits you're getting from the reduced ceding commission?

Dominic James Addesso
President, CEO & Non-Independent Director

Not specifically. Again, I'll just come back to the underwriting profit numbers that I cited earlier, that across all of our portfolio, that underwriting profit increased $70 million to $190 million.

John Paul Doucette
Executive VP, President of the Reinsurance Division & CEO of the Reinsurance Division

That's year-to-date.

Dominic James Addesso
President, CEO & Non-Independent Director

That's a -- it's a 9-month comment, by the way, yes.

Kai Pan
Morgan Stanley, Research Division

Got it. That's a year-to-date number. Okay. My second question on Hurricane Michael. Do you have any preliminary estimates about the losses? And do you -- can you talk about relative to Florence? And also, how do you approach to reserving of that? Do you see LAE issues or AOB issues continue to be an issue as we've seen in Irma?

Dominic James Addesso
President, CEO & Non-Independent Director

So answer to the first question is, we don't have a reliable estimate that we can disclose at this point. It's still early days. At this point, we only received, frankly, some level of detail from only 1 client. Other information that we're seeing is based on modeled results. And the process that we will go through to reserve that event would be using industry estimates, using our models, using underwriter estimates, market share, and generally, reserving towards the higher end of those -- picking the highest of those individual estimates. The -- we do believe that from what we're hearing and observing that the event is towards the higher end of the estimates we've seen down in the street, but yet we've not been able to translate that into a loss estimate that we can put forth at this point. As far as the issues that rose in Irma, we do not think that they will be the same. Certainly the AOB threat and the carry-on effect of losses will always be there. But of course, in this particular case, there are more total losses than what we saw in Irma, so that theoretically should have less -- should be less of an AOB issue. The loss adjustment expense issue will be less of an issue as well, even though we will reserve that at -- with the market surge -- demand-surge factor.

Kai Pan
Morgan Stanley, Research Division

Okay. That's very helpful. And last one, if I may, given the micro losses and upcoming January renewals, how do you approach the buybacks towards the year-end?

Dominic James Addesso
President, CEO & Non-Independent Director

The -- again, we don't really telegraph buybacks. We do think we have excess capital to deploy in that space if we think the price is appropriate. And certainly, at these levels, we think it's certainly a good value. We are obviously approaching the end of the season. So as you know, in the third quarter, we get -- even though we did buy back some stock, we do get a little cautious given wind season. That's coming -- it's in our rearview mirror, so that will be potentially an opportunity. We also will look at the opportunity relative to what does occur on 1/1. As again, it's been mentioned, we would anticipate that our cat load going into next year will even be lower again. So that does decrease some of the volatility, perhaps even freeing up more capital in that regard.

Operator

We'll take our next question from Amit Kumar with The Buckingham Research Group.

Amit Kumar
The Buckingham Research Group Incorporated

Just maybe a few follow-ups. The first question is going back the discussion on capital management. Are you, sort of, blacked out till we have a better sense of the micro loss?

Dominic James Addesso
President, CEO & Non-Independent Director

That's entirely possible.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. That's helpful. The second question relates going back to the discussion on pricing renewals and expectations going forward. Do you get the sense that the Irma loss development, the material development for the industry, is playing a role and will pressure pricing upwards materially for 1/1? Or am I overthinking that component?

Dominic James Addesso
President, CEO & Non-Independent Director

We don't think you're overthinking it, we do think that it will -- it does create some pressure. We have commentary about material, TBD, but I'll ask John Doucette to maybe share some thoughts on that as well.

John Paul Doucette
Executive VP, President of the Reinsurance Division & CEO of the Reinsurance Division

Yes, Amit. I mean it's a combination of things of which the development that was seen by many companies for Irma, but not just Irma. There was development for a lot of reinsurance clients in Maria, particularly in Puerto Rico. So I mean those are some of the things that happened. But in addition to that, we add $150 billion in growing of losses that happened. And I think that's something that needs to be factored in as well as just the reserve redundancies, where do they stand. We've seen a lot of large losses, like in the energy market. So there's -- there clearly seems to be -- well, there's a lot of capital around. There's talks on how much that's going to be stable when it comes to the alternative capital who probably -- several of those players probably had 2 years of not great results. And so the question is, not just can and will it reload? It also, I think, will also be the question on what the returns and profitability targets that capital requires to come back in. So there's a lot of different things. There's the 2 major, major profitability reviews that are happening in Lloyd's that could affect $5 billion of renewal premium, both individual syndicates with nonperformance as well as lines of business across the market that aren't performing well. I mean, that all sounds like different macro forces that will look to potentially increase demand and have an impact on supply. And we also, frankly, see clients that seemed to be tired of volatility. Going back to the earlier question from Elyse, there are -- we are seeing clients coming back into the market. They want to reinsure and lock -- and potentially decrease their own volatility, which means there maybe, whether it's on the casualty or the property or the specialty side, there may be an increase in the buys that happened. And that, as Dom said, is tough for us to predict what that will do when it comes to our top line. We do think that will stabilize and potentially improve pricing in certain areas, certainly pockets that we would expect to see some improvement in pricing.

Amit Kumar
The Buckingham Research Group Incorporated

That's helpful. The final question on the net investment income. The LP delta from private equity, can you just remind us -- I went back to the K, just remind us maybe just a bit more color, what exactly are these LP investments in?

Dominic James Addesso
President, CEO & Non-Independent Director

The LP investments that we have are primarily in private equity and/or credit. These are investments that we've made over a longer period of time that have helped us with getting better yield on the overall portfolio. But the amount of investments that we put in place over time has been relatively consistent over the past few years. And what you've seen is a higher level of returns from these investments over that period of time, Amit. Again, no major changes in our overall portfolio. Predominately the portfolio is made up of investment-grade fixed income portfolio, but we do have alternative investments, not only in the limited partnerships, but also bank loans, which are floating rate as well as high-yield -- some high-yield investments as well. Our total private equity is about $1.5 billion out of our almost $19 billion investment portfolio. So -- and as Craig says, some of that private equity is credit related. Mezzanine debt, et cetera.

Amit Kumar
The Buckingham Research Group Incorporated

And is there like an additional commitment to PE -- I'm sorry, LP investments which you have to make? Or is it steady state from here onwards?

Dominic James Addesso
President, CEO & Non-Independent Director

No. We have committed funds to the private equity space that would carry out into the succeeding years, but that would not be an outsized percentage relative to our -- how we anticipate the total investment portfolio to grow. So $1.5 billion will probably -- will likely go up, but not at a disproportionate percentage to the portfolio. Right now, the private equity portfolio stands at about 8%. I don't expect that to change remarkably.

Operator

We'll take our next question from Mike Zaremski with Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

Follow-up to Amit's question first. The investment expenses are running $8 million or so higher year-to-date, is that correlated with a higher alternative investment income? Or is that a run rate we should be thinking about?

Craig William Howie
Executive VP, Treasurer & CFO

It is -- Mike, this is Craig. It is in line with the investment managers that we use for some of these types of investments, and you could expect that to be at a normal run rate.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay, great. In the prepared remarks about U.S. reinsurance, and I might be getting this a little wrong, you talked about tighter limits. And I know you mentioned, Dom, risk-mitigation features, I think that was you Dom, in the treaty. So just curious, were you referring to a deal that the media reported earlier this fall? And maybe you can also explain what -- at a higher level, what risk-mitigation features means?

Dominic James Addesso
President, CEO & Non-Independent Director

That was not me, that was John Doucette, and therefore, I'll ask him to respond. Although, keep in mind that we are particularly sensitive to talking about individual clients. So I'll -- with that, I'll ask John to dance through that one.

John Paul Doucette

Executive VP, President of the Reinsurance Division & CEO of the Reinsurance Division

Mike, so the comment was more, I think, a broader comment, it wasn't deal specific. It was really talking about on proportional business, particularly in the property space. I think that we wanted to highlight that we have -- there's a lot of property quota shares that are out there, and we write a few of them, we write them with clients we know and like and respect. But we also -- a lot of the time, those have very tight occurrence limits, cat occurrence limits as a function of the overall premium. So while the premium growth in property went up, it doesn't correspondingly mean that there is a meaningful change in the PML for that. That was the main point that we were trying to get too. But -- and then beyond that, whether it's by the line of business and certainly in some of the structured areas, there will be different contract-specific features that NOB gives and takes in different parts, and whether that's what the contract says, some swing rating, different sub-limits, things like that, that could happen and that could be across basically any classes of business that we see. Back to what Dom has said at the beginning, we were more bearish than a lot of our competitors for a long time in the casualty space, and we think our view of the world pour out as we cut our book tremendously. And we are seeing opportunities that we hadn't seen a while in the casualty space in general, also the global clients are coming back in, and they can -- that's lumpy, but they are looking for people that can trade with them in multiple classes all around the world. And we have the ability and expertise to deploy underwriting capacity in all property and casualty lines all over the world. And so we are seeing -- continue to see traction with the global. And again, what the contract features are will vary tremendously contract by contract.

Dominic James Addesso
President, CEO & Non-Independent Director

By the way, I mean, it's great answer. But one of other inuring -- risk-mitigating feature could be inuring reinsurance, which is another thing that I've just looked at as an underwriting feature of many of these accounts that we put on the books, meaning inuring reinsurance that our client is buying.

John Paul Doucette
Executive VP, President of the Reinsurance Division & CEO of the Reinsurance Division

And we stand with them which protections that they get either built-in actually into the contract or deemed into the contract that we will have a recovery rate that matches the -- that will match the terms, attachment point limit, of the coverage that they buy. And we factor that into our risk assessment as we try to decide if it's an attractive deal on a risk-adjusted basis to deploy capital into.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay, that's helpful. And just a follow-up on that. In terms of being less bearish in casualty, is that -- are you -- is that partly due to the new money rates being higher than the portfolio yield? Or is this simply due to just noninvestment income opportunities you guys are seeing?

Dominic James Addesso
President, CEO & Non-Independent Director

Underwriting first. We view ourself as an underwriting shop, and that's the #1 priority.

John Paul Doucette
Executive VP, President of the Reinsurance Division & CEO of the Reinsurance Division

It's the underwriting margin.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. And lastly, I'm just curious, there's been a -- I'm not an expert on the mortgage insurance space, but there's been a flurry of kind of reinsurance, capital market, bonds and deals announced in recent months, so just curious, does that compete with the traditional mortgage reinsurance that you guys have been a leader in?

Dominic James Addesso
President, CEO & Non-Independent Director

I'll take that one too. So we are -- we write mortgage reinsurance, we write it for the GSEs, we write it for the MIs and we also write a little bit of mortgage reinsurance outside of North America and a couple countries that have high-capital loading, such as Australia, France, potentially Germany, et cetera, they were looking at that. But the predominant -- our predominant mortgage book is with the GSEs and then also the MIs. So a lot of them are deploying -- risk -- are using hedging and risk-mitigation strategies in at least 2 different capacities through traditional reinsurance as well as through the capital market. And the GSEs, in particular, have a dual mandate to use both channels, and they have a mandate to try to develop the hedging markets, whether it's on the capital market side or traditional reinsurers and they continue to do that. And so I would say net-net-net it's a positive because while there are different products, they are looking to build this out into a more sustainable class of business and we think the combination will do that.

Operator

We'll take our next question from Yaron Kinar with Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

My first question is just thinking about cat loads. If we look at 2017's events and look at the shift in your business mix since then, more into pro rata, more into casualty, do you have a sense of what the loss ratio or book value impact would have been from 2017 events have they occurred today?

Dominic James Addesso
President, CEO & Non-Independent Director

Have the 2017 events occurred today?

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Yes.

Dominic James Addesso
President, CEO & Non-Independent Director

Not sure I understand that meaning? Meaning that reunderwriting of the portfolio would impact less? Let me answer it this way because I don't know that I have that precised answer. Our cat load in -- not only in combined ratio points, but also in nominal dollars, has been coming down over the last couple of years. Reminder that a few years ago, it was up to 12 points, now it's less than 8 or less than 9, likely to be less than 8 going into next year. But even in absolute -- and that's partly a result of diversification of our book of business across other lines of business, the growth of the insurance, many growth of the -- in the different classes that John Doucette emphasized. So the diversification certainly helps that. But even in notional dollars, the number has come down. It was approaching $600 million last year, it's in the mid-$500 million into this year and it will be lower than that into next year, in absolute dollars. In addition, our one in 100 PML in all of our peak zones is down year-over-year modestly, but that's the best I can do in terms of answering that question. I don't have a pro forma in terms of overlying last year's events into this year's portfolio.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And then you'd mentioned some adverse industry development for Irma and Maria that's still ongoing. Do you -- if this continues, do you think there's still a risk that your loss ratios or your loss fixed for those events could further deteriorate? Or are you now at a point that even if there is further industry deterioration, you've kind of -- you're comfortable with these reserves?

Dominic James Addesso

President, CEO & Non-Independent Director

We think that our reserve position can withstand further industry loss deterioration. But as you say, on all of these events, you never know. But we think that the way it's reserve currently, we're talking about last year's events and now and even this year's events, we think that it can withstand further into "industry deterioration"

John Paul Doucette
Executive VP, President of the Reinsurance Division & CEO of the Reinsurance Division

But we did factor that in -- we heard from some clients and then we factored that into our loss fix. So the fact that some emergencies happen more recently, that doesn't change our view per se right now.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. So that was already factored in last quarter's update?

Dominic James Addesso
President, CEO & Non-Independent Director

Yes.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. And last question, just on the casualty market and reinsurance. So if I understood your comments correctly, you are a little more constructive on opportunities there today than you had been in the past. Is that more from a pricing perspective? Or is a lost cost that, I guess, I was just a little surprised to hear more constructive commentary there, given that it seems like loss cost trends are deteriorating at least on the underlying side?

John Paul Doucette
Executive VP, President of the Reinsurance Division & CEO of the Reinsurance Division

Yes. So I mean -- so -- and there's the 2 world, the insurance world that John talked about in that will vary, and if you want color, you can get on the primary side. But on the reinsurance side, there's a lot of additional moving parts, right? There's the reinsurance terms conditions, what's the ceding commission. A lot of the book that we write out of the London and Zürich is done on an excess of loss basis. So it's a little bit bifurcated from what the original rates are. So then it's a rate on exposure what we're getting and we're seeing improving opportunities on our ability to execute that. But I think in general, it's also just more supply and demand that we see the large global clients want to do more with the company like Everest. They maybe full on some of the European reinsurers. They may -- a lot of clients are tightening up their credit, their reinsurance security panel, so they're tightening the credit. So that means there's less supply for some of the long-tail lines of business, the reinsurance that they want to buy. And we think that is a positive that happens. We also -- one of the things that we're seeing is, again, I think some of the clients who had centralized a lot of their buying, I think they're saying, well, there was actually in the older you got -- rewind the tape 5, 6, 7 years, and before that where there was much more engagement between the reinsurance underwriters and the insurance underwriters, not just the ceded Re desk of the reinsurance buyers. And I think there's more feedback loop. And I think some of these insurance companies are realizing that there's a real value that experienced reinsurance underwriters can add by providing insight, because we see across the whole market, we see what lines of business or subclasses are making money or losing money, what products are making money or losing money and it allows us to give that insight when we do underwriting audits, which we do a lot of them. We underwrite our clients a lot. And I think that -- we're seeing the value of that as a lot of our clients are focused on their volatility, how do they improve their results and they're looking to use reinsurance as a value proposition, not just to get lowest ceding commission, but use it truly to get better gross underwriting results.

Dominic James Addesso
President, CEO & Non-Independent Director

And keep one thing in mind, and I recognized where your question comes from, which is really more of a beta play. Make no mistake, this is not a beta play in the market. We underwrite each individual account and client and therefore, they may need -- they are likely making improvements into the -- in their portfolio that could be different than what you're describing as the overall market.

Operator

Ladies and gentlemen, we will be taking our last question from Joshua Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

So the -- yes, I've talked to Jon Zaffino in the past and you, Dom, about the insurance improvement situation. I think a year ago we were talking about material improvement in the combined ratio for that business. And look, I mean, being in the mid-90s, there's nothing wrong with that, but I don't know over the past 9 months, have the margins -- underlying margins of that business improved? I can't tell that from the numbers. And is that -- are your expeditions that were a year ago? Or is the turnaround slower than you thought?

Dominic James Addesso
President, CEO & Non-Independent Director

I think it's just through the 9 months, it's probably where I would've anticipated it to be. Remember we've got 1 more quarter to go here, and we've got year-end reserve reviews to evaluate. In the main, it is trending and it's on the trajectory that -- on a trajectory that I'm very pleased with. As you say, something in the mid-90s is quite attractive. And I also know that what our loss reserve posture has been in terms of how go about picking loss ratio. So we think it's conservative. So it's -- as we look forward, we're quite enthused about where this portfolio is trending.

Jonathan Martin Zaffino
Executive VP, CEO of the Everest Insurance & President of the Everest Insurance

And I would just add to that, Josh. I think we're very encouraged by the growth in many new initiatives that we launched over the last several years, which -- if you recall, those were carefully chosen selected lines of business. As those continue to make up the larger and larger part of our portfolio, as they continue to wind down, as I think I mentioned in some of my remarks, certain portfolios that we are exiting in a controlled way, which there's still obviously an earned premium lag in the P&L. As you see that transition continue to happen and gain momentum, in addition what Dom mentioned, taking a prudently cautious view of current accident years, we're pretty encouraged by where we are.

Joshua David Shanker
Deutsche Bank AG, Research Division

And you mentioned Dom that you still have year-end reserve reviews to go. In the past couple of years, the fourth quarter prior year reserve releases have been quite significant. At that time, have you also been rebasing the current accident year has there been in the past 4Qs material changes to your in-year accident pick in that fourth quarter?

Dominic James Addesso
President, CEO & Non-Independent Director

No. Generally, not. The only thing we look at that has to do with current year accident picks would be on the property side to the extent that we've had -- we've either had what we call non-cat cats, and if we had some then we keep those reserves there in place. If we haven't had any non-cat cats, like we did in the second quarter, then we would adjust that current accident here for the very, very short tail lines for the non-cat cat piece. Is that what your -- does that fit to your question?

Joshua David Shanker
Deutsche Bank AG, Research Division

Yes, I think so. So well, I guess just coming back to the first question, you said, coming to the fourth quarter, you still have year-end reserve reviews. But we shouldn't expect this is going to significantly impact your combined ratio in the insurance business through 9 months? Or maybe it could, maybe I'm missing something there?

Dominic James Addesso
President, CEO & Non-Independent Director

Well, any reserve redundancies or additions, obviously, are going to effect the combined ratio on a year-to-date basis for the 12 months here, Craig, I think maybe understand...

Craig William Howie
Executive VP, Treasurer & CFO

Yes, Josh. So I think I understand what you're asking. The prior year reserves reviews that would be completed would show up on the prior year line and would not be included in the attritional loss for the year.

Dominic James Addesso
President, CEO & Non-Independent Director

Okay, I'm sorry.

Joshua David Shanker
Deutsche Bank AG, Research Division

Yes. So I mean, I guess, the one thing in my view, I was expecting despite good results in insurance, I was expecting 2018 to be better than 2017. So far it's been equivalent, which is fine. But I'm just trying to understand like any signal maybe the fourth quarter might change that. I'm just understand -- trying to understand how the fourth quarter might -- anything could change of course. But is there something that I'm not understanding about the fourth quarter, I guess?

Dominic James Addesso
President, CEO & Non-Independent Director

I got you. And I think the way we're answering your question is more about how we're viewing the profitability of the book. And of course, we don't -- as we've outlined in the past, we hold reserves for periods of years as it relates to the current accident year. So you don't see those improvements coming through, we believe, are there. They take a couple of years to emerge.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. The ultimate might be lower than in the current pick.

Dominic James Addesso
President, CEO & Non-Independent Director

You got it.

Okay. that's -- sorry for going over. But we're glad to do it. Thanks, again, for your interest and your questions. We spoke this morning about lots of things. I believe it's worth emphasizing that Everest is a franchise that is not only has thrived over the Michael's -- over the market cycle with above average total shareholder returns, but it's one -- it's a franchise which is evolving and diversifying based on where the future market opportunities are and we've talked a lot about that this morning. Our goal remains the same, deliver above average returns on capital as we have done through time.

Again, thank you for your interest at this morning, I look forward to speaking with many of you over the weeks ahead.

Operator
Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.