S&P Global
Market Intelligence

Everest Re Group, Ltd. NYSE:RE

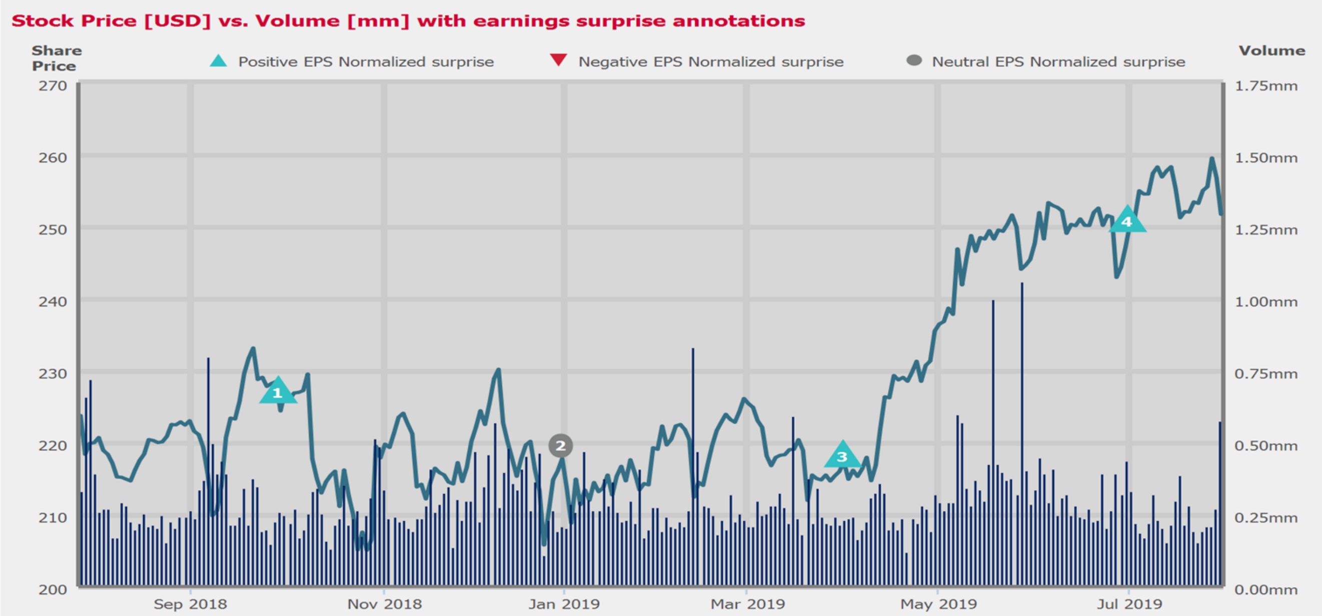
FQ2 2019 Earnings Call Transcripts

Tuesday, July 30, 2019 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	6.47	7.85	▲21.33	3.33	25.34	25.28
Revenue (mm)	1982.63	-	-	2056.49	8031.90	8531.77

Currency: USD
Consensus as of Jul-30-2019 10:47 AM GMT



- EPS NORMALIZED -			
	CONSENSUS	ACTUAL	SURPRISE
FQ3 2018	2.97	4.09	▲37.71 %
FQ4 2018	(5.99)	(5.89)	NM
FQ1 2019	5.90	6.91	▲17.12 %
FQ2 2019	6.47	7.85	▲21.33 %

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Call Participants

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Executive VP, CFO & Treasurer

Dominic James Addesso
President, CEO & Non-Independent Director

John Paul Doucette
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Presentation

Operator

Good day, ladies and gentlemen, and welcome to the Everest Re Group, Ltd. Second Quarter 2019 Earnings Call. As a reminder, today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Jon Levenson. Please go ahead, sir.

Jon Levenson
Head of Investor Relations

Thank you, Shenae, and welcome to the Everest Re Group, Ltd. Second Quarter 2019 Earnings Conference Call. The Everest executives leading today's call are Dom Addesso, President and Chief Executive Officer; Craig Howie, EVP and Chief Financial Officer; John Doucette, EVP and President and CEO of the Reinsurance Division; and Jonathan Zaffino, EVP and President and CEO of the Everest Insurance Division.

Before we begin, I need to preface the comments on today's call by noting that our SEC filings include 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 Everest's SEC filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled on our earnings release and financial supplements.

With that, I turn the call over to Dom Addesso.

Dominic James Addesso
President, CEO & Non-Independent Director

Thanks, Jon. Good morning, and welcome to our call this morning, where we are pleased to outline the excellent results we had for the quarter. As you have no doubt seen by now, our net income per share for the quarter was $8.39, resulting in an ROE of 16.1%.

This, combined with the first quarter, equaled almost $17 per share and a 16.5% ROE. The quarter saw continued underwriting profitability in both our Reinsurance and Insurance divisions, along with a very strong level of investment income.

My colleagues will give many of the details underlying our success but let me say that we continue to execute successfully on our strategy. For Reinsurance, it has been a diversification effort that, over time, has seen growth in casualty, mortgage and non-cat profit. And of course, our strategic repositioning in the insurance space, which began just over 4 years ago, is now hitting its stride.

Given our scale, ratings, global franchise and diversification in all our businesses, we can capitalize on the rate momentum we are now seeing in the market. The rate activity we are seeing, however, is still spotty and, in several instances, not yet at levels they need to be. Nevertheless, this certainly appears to be a market that we'll continue to cede rate. Our observation of capacity pullbacks and an increasing flow into the facultative market and the E&S markets are encouraging signs. Perhaps not a classical hard market, but given industry reserve positions, capital levels and, frankly, better analytics, the amplitude of prior pricing cycles is likely being replaced with more timely actions.

I believe that is in part what we are seeing now. An element of this is also in reaction to loss trend. There has been much discussion about loss trend over the last couple weeks. No doubt it is evident in many classes but to varying degrees. And while everyone is looking for a pinpoint estimate, there will undoubtedly be varying numbers based on book profile, class, attachment point, et cetera.

But as a general comment, our rate increases are, for the most part, above trend. In addition, we would expect that loss trend to continue, and accordingly, rate increases will likely persist.

My colleagues will get into the many details on our results, but it is worth emphasizing that over the past several years, we have continued to diversify and reduce volatility. One measure of that is our expected annual cat load, which, just a few short years ago, was 12 points as a percentage of premium and now stands at approximately 6.5 points. The end result is less volatility and improved profit targets.

Our Reinsurance division has successfully diversified its portfolio, as I mentioned earlier. And our Insurance segment, now at over 30% of our business, is growing profitably. At its current pace, as I mentioned last quarter, the some of the parts should prove to be quite positive.

Thank you, and now to Craig for the financial highlights.

Craig William Howie
Executive VP, CFO & Treasurer

Thank you, Dom, and good morning, everyone. Everest had another solid quarter of earnings, with net income of $343 million in the second quarter of 2019. This compares to net income of $70 million for the second quarter of 2018. On a year-to-date basis, net income was $692 million compared to $280 million for the first half of 2018.

Net income included $100 million of net after-tax realized capital gains compared to $9 million of capital losses in the first half of 2018. The 2019 capital gains were primarily attributable to fair value adjustments on the public equity portfolio.

After-tax operating income for the second quarter was $321 million compared to $40 million in 2018. Operating income year-to-date was $603 million compared to $260 million for the first 6 months of 2018. The 2019 result represents an annualized operating income return on equity of 14.4%.

These results were driven by a strong underwriting performance across the group, stable core investment income, a higher contribution from private equity investments and lower catastrophe losses compared to the first half of 2018. The overall underwriting gain for the group was $393 million for the first half compared to an underwriting gain of $20 million in the same period last year.

In the second quarter of 2019, the company reported $30 million of net adverse catastrophe development. The catastrophe losses were primarily reported in the international Reinsurance segment and related to Typhoon Jebi, which occurred in Japan during the third quarter of 2018. The industry loss estimates for this event rose significantly again this quarter. The initial estimates for Jebi were $3 billion to $7 billion, and at that time, we estimated our conservative estimate based on an $8 billion industry loss. We have now reestimated our share of the Typhoon Jebi losses in line with the high end of the new industry range of $14 billion to $16 billion.

Although there were a number of loss events in the quarter, including U.S. storm events, none of these events breached our $10 million catastrophe threshold and, as such, are included in our attritional loss estimates.

On a year-to-date basis, the results reflected catastrophe losses of $55 million compared to $597 million during the first half of 2018. Partially offsetting the catastrophe losses was $22 million of favorable prior year reserve development related to non-catastrophe reserves. This prior year favorable development was primarily identified through reserve studies completed in the second quarter of 2019. These reserves related to casualty and property reinsurance business, both from the United States and international.

The redundancy determined from the reserve studies was recognized in the second quarter given the magnitude of the overall indications. These redundancies have developed over time, but we don't revise estimates until the reserve position becomes more mature. We continue to maintain our loss reserve estimates for the more recent years.

Excluding the catastrophe loss and favorable prior year reserve development, the underlying book continues to perform well. The overall attritional combined ratio through the first 6 months was 88% compared to 87% for the full year of 2018. The attritional loss ratio of 59.5% and the commission ratio of 22.8% were up slightly compared to the same period last year primarily due to business mix in the Reinsurance segment, which has been writing more casualty business over the past several quarters. The group expense ratio remains low at 5.7% for the first 2 quarters of 2019. This is flat compared to the same period last year. Our year-to-date reported combined ratio of 88.9% was driven by the strong underwriting performance of both our Reinsurance segment and our Insurance segment.

Before moving on to investment income, I'd like to point out that we included 2 new pages in our financial supplement, Pages 6 and 11. These pages detail gross written premium by major line of business for the total Reinsurance and Insurance segments. This provides background detail to the business mix shift and the resulting combined ratio changes we've been referencing.

For investments, pretax investment income was $179 million for the quarter and $320 million year-to-date on our $19.8 billion investment portfolio, a new record portfolio size for Everest. For the year-to-date, investment income was up $40 million or 14% from 1 year ago. This result was primarily driven by the increase from the investment-grade fixed income portfolio, which had a higher asset base this year. Additionally, we have seen a recovery in limited partnership income, which was up $11 million for the first half -- from the first half of 2018, as we expected and mentioned in the first quarter.

The pretax yield on the overall portfolio was 3.4% compared to 3.1% 1 year ago as both investment-grade and alternative fixed income yields are up year-over-year. The duration of the portfolio remains at just over 3 years.

On income taxes, the 12% effective tax rate on operating income is associated with the amount and geographic region of the underwriting gains and the investment income expected to be earned for the full year. The effective tax rate is an annualized calculation and includes planned catastrophe losses for the remainder of the year. Lower-than-expected catastrophe losses would cause the tax rate to trend higher than the current 12% rate.

Positive cash flow continues with record operating cash flows of $854 million for the first half of 2019 compared to $133 million in 2018. The increase reflects our growth in premiums and a lower level of paid catastrophe losses in 2019 compared to 2018.

Shareholders' equity for the group was $8.9 billion at the end of the second quarter, another record for Everest, up almost $1 billion or 12% compared to year-end 2018. The increase in shareholders' equity from the first half of 2019 is primarily attributable to the $692 million of net income and the recovery in the fair value of the investment portfolio, partially offset by capital returned through $114 million of dividends paid as well as $25 million in share buybacks.

Everest continues to maintain a very strong capital position with industry-low debt leverage and high liquidity in our investment portfolio in addition to our robust cash flow. The strength of our balance sheet is critical for the success of our business.

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

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

Thank you, Craig. Good morning. We are pleased to report another strong quarter for the Reinsurance division with $178 million of underwriting profit in Q2 and further diversification of our portfolio, providing stability and balance to our operation. Our global franchise is well positioned from new initiatives, underwriting actions and rate increases.

We are finally seeing both the property and casualty reinsurance markets move positively, reflecting a combination of recent catastrophe losses, capacity shortages, trapped capital, pockets of poor loss experience and newfound discipline from some of the largest players in both insurance and reinsurance. The upshot is improving original insurance rates, which Jon Zaffino will touch on later, and better reinsurance rates, terms and conditions in several parts of our portfolio.

In Florida, we were pleased with our June renewals. Overall, the market was rational, with pricing up. We saw more risk-adjusted rate increases on loss-affected treaties and increases on many others, but there was a wide range of outcomes, with some programs remaining underpriced. I think of this not as a hard market but as a reasonable market, finding its way back to a sustainable balance between serving clients' needs and generating appropriate returns on reinsurance capital.

Therefore, we continued our practice of allocating capital to long-term strategic clients and the deals with the best returns. Our underwriting and modeling teams did a great job positioning Everest to capture more of the best business while shedding less attractive deals. The end result was a reduction of Everest's exposure to property cat and an effort to encourage rate discipline through scarcity of our capacity.

On some deals, we achieved tighter terms and conditions such as LAE caps and lower occurrence limits on proportional treaties. Consequently, we are encouraged with the direction of the Florida market, but more improvement is needed given several years of deterioration from rate pressure and loss cost inflation.

Nevertheless, the bottom line for our Florida book is a higher ROE and a reduced model cat load. We achieved portfolio rate increases that outpaced the overall market by strongly differentiating programs through disciplined underwriting. We are pleased that model profitability remains relatively flat despite meaningful reductions to our catastrophe exposures.

Switching to July 1, outside of Florida, U.S. property renewals were orderly and directionally positive. Rates were up mid- to high single digits on a risk-adjusted basis. Property business at July 1 outside of the U.S. was generally stable, with rate increases driven by loss activity or the re-underwriting mandated from some of the Lloyds Syndicates.

As mentioned previously, during the April 1 renewals for Japan, Everest did employ more capacity there given the improved rates. And the Japanese market is preparing for potentially further rate increases for upcoming renewal due to recent loss experience, particularly the industry's loss creep on Jebi.

In the U.S. casualty lines, trends remained positive. Despite plentiful potential capacity, the market has grown more disciplined in both reinsurance and insurance as primary rates improve across most lines. Casualty reinsurance terms are stable for non-loss-affected business. However, poor performance and increasing loss trends over the last several years are prompting reinsurers to increase rates and decrease commission.

Because of Everest's 40-plus year history, strong balance sheet and ratings, large market presence, robust long-term client relationships and responsive underwriting, we continue to garner preferential access on casualty reinsurance business. As we have previously discussed, until about 18 months ago, we had been reducing our casualty writings over the last several years prior to that due to the deterioration in both the insurance and reinsurance casualty markets. This has helped us avoid much of the poor loss experience that has emerged, and we are now very well positioned to deploy our underwriting expertise and capacity as the casualty markets improve.

In addition to casualty, we have significant opportunity in mortgage business, shown by the 16% growth in mortgage writings during the first half of this year. Also of note is the evolution and strong growth of our Facultative book globally over the past several years.

We have several very experienced fac teams worldwide, who are product experts and local market specialists. We now have over $430 million of facultative reinsurance premium enforced covering property, casualty, professional, specialty and auto lines across Miami, New York, New Jersey and several other offices in the U.S. as well as in Toronto, Singapore and London.

This is an all-time high gross written premium for our Facultative book after meaningful growth during the last few years. And it is well diversified as our global fac book is broadly split by line approximately 60% casualty and 40% property. And it is also split geographically 60% international and 40% U.S. Meaningful, improving fac opportunities emerged following dislocation in Lloyds, the 2017 and 2018 cat losses and general decrease in D&F capacity. Fac submission flow is up significantly in all territories and lines, highlighted by the 26% year-to-date increase in U.S. fac casualty submissions.

On the demand side, our fac clients are seeking both short- and long-tail limit reduction and exposure management, particularly in auto due to poor experience. Increased demand is broad-based across fac, including property, casualty, individual risk, autofac, U.S. placements and placements from abroad. Our growth in Facultative business exemplifies our ability to capitalize on opportunity around the globe. Writing all P&C lines of fac in key centers all over the world requires a robust global infrastructure, and it's hard for competitors to replicate, which gives us a sustainable, competitive advantage.

Our strong growth in fac is more evidence of an improving overall reinsurance market, as Dom mentioned earlier. Because fac renewals happen much more often than treaty renewals, they are good leading indicators of market trends. We are bullish that this improving trend in fac will continue well past 2020, particularly as tough exposures meet limited capacity in the firming treaty market.

During the second quarter, Everest purchased an aggregate property retro program that will help protect us from a large catastrophe loss or series of midsized losses. This retro program was designed to refine the shape of our portfolio by further diversifying our capital structure, reducing net volatility, adding flexibility to deploy our capital for interesting and unique opportunities. This retro purchase aids us to be better positioned to capture improving opportunities in the property space, including at January 1, 2020, given the retro market dislocation and trapped capital, while managing the volatility of our property book.

With the combined financial strength of our shareholders' common equity, Mt. Logan capital, Kilimanjaro cat bonds, IOWs, Facultative retro protection and now this additional aggregate retro capacity, we are well capitalized and not reliant on any one capital source to finance our underwriting risks.

Moving on to our year-to-date results. Our global Reinsurance operations had growth of 3% on written and earned premium during the first half of 2019. Growth came from U.S. operations with increased casualty and mortgage writings, offset by slightly less premium in Treaty Property as we pushed rate and in Bermuda due to some nonrenewal of a few large deals.

We booked an 86.6% combined ratio for Reinsurance operation with cat losses of $55 million, which included losses from the Townsville monsoon, Australian flooding and some loss -- some additional loss development from Typhoon Jebi as the market loss worsened significantly, just as Craig mentioned earlier. These cat losses mostly impacted our international segment. Excluding catastrophe losses, the underlying loss ratio of 57.4% for Reinsurance operations increased by 0.4 points compared to the full year 2018 given the greater mix of casualty and pro rata business in our portfolio.

We continue to be viewed by clients and brokers all over the world as a core go-to trading partner and garner increased opportunities, particularly with dislocations of capacity around the world in multiple lines of business. These dislocations and pressure on supply of risk capital include: One, dislocation due to Lloyds large-scale rationalization impacting direct and facultative capacity and many international portfolios, helping to drive improvements into E&S primary and Facultative books.

Two, ongoing trapped capital from 2017 and 2018 losses and the subsequent market loss deterioration are pushing ILS investors to retrench, withdraw capacity or demand better pricing and terms. The resulting dislocation in several property reinsurance markets, and global retro capacity will likely continue for the upcoming January renewal.

Three, some European reinsurers have been pulling back casualty and professional reinsurance capacity, decreasing authorizations on specific programs or pushing casualty rates and terms, which is leaving potential holes in some clients' treaties and creating some upward pressure on casualty rates, both of which provide attractive opportunities.

Four, some reinsurers are now bumping up against internal risk capacity limits or rating agency constraints for mortgage, causing reduced involvement on new mortgage deal. We believe this mortgage reinsurance capacity constraint for some rated carriers will continue or even grow.

Each of these 4 taken separately and, certainly, together present robust prospects for profitable growth opportunities for large global reinsurers with strong capital, high ratings and dry powder.

In summary, we are pleased with not only our year-to-date results but also with our strategic positioning for the future. Despite this evolving market, we remain focused on building long-term value for our shareholders while being the first call for our clients and broker partners.

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

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

Thanks, John, and good morning. Our global specialty insurance operations delivered another solid quarter of performance. We continue to experience high-quality, profitable growth within our many retail and wholesale underwriting divisions across North America and several international markets.

Our growth remains balanced and diversified by geography, product segment and distribution channel. Our Insurance operations are well positioned to continue on this path of growth and profitability as clients increasingly rely on Everest Insurance to offer solutions to help them address a growing range of complex risk issues. Our leading balance sheet, formidable global infrastructure and outstanding talent, nearly a thousand strong, are increasingly in demand in this transitioning market.

The second quarter brought some notable performance achievements, highlighted by a record reported gross and net written premiums as well as net earned premium. We also experienced the highest level of quarterly submissions across our retail and wholesale operations, coupled with the strongest renewal retention we have experienced in more than 5 years in our U.S. direct operations. This speaks to the growing role Everest Insurance plays in the global specialty market.

The second quarter also continued a nearly 5-year trend or 18 consecutive quarters of year-over-year growth in our business. This focused growth is the result of increased scale and relevance within the many underwriting divisions across our global property and casualty, and accident and health operations. We believe significant additional scale can be achieved within our chosen product areas, allowing us to maintain excellent growth rates into the future, of course, market conditions dependent.

Most importantly, this quarter builds upon the underwriting profitability achieved in the first quarter of this year and brings our year-to-date underwriting profit to $38 million, a 72% increase over prior year first half. Our second quarter underwriting profit was $19 million, a more than twofold increase over 2018 second quarter and $16 million more than our 2017 second quarter performance. Further, 9 of the last 10 quarters have now produced an underwriting profit, the lone exception being the third quarter of 2017.

An area of continued focus for the Insurance operation is the attraction of industry-leading talent. Everest Insurance and the greater Everest organization remains a highly desirable home for talented professionals across a range of disciplines. In fact, hundreds of talented colleagues have chosen to join Everest Insurance over the past several years, and we are proud to welcome them into the Everest family. These talent acquisition efforts continue to fuel our growth, enable our capabilities and differentiate us by ensuring we have the right people in place to support our strategic initiatives, our ever-expanding books of business and most importantly, our growing client base.

The evolution of Everest Insurance is a long-term effort, and there's always room for further improvement, yet we are certainly encouraged by our trajectory to date and are optimistic about our opportunities in the market ahead.

Turning to the financial results for the quarter and year-to-date period. For the second quarter of 2019, the global Insurance operations produced $757 million in gross written premium, an increase of $111 million or 17% over second quarter of 2018. Year-to-date, gross written premium rose to $1.4 billion, a $201 million or 17% increase over the same period of 2018. Our net written premium growth matched our top line growth at 17% year-over-year, increasing by $80 million to $549 million. Net earned premium in the quarter was $474 million, an increase of $65 million or 16%. For the year-to-date period, net earned premium increased to $899 million, an increase of $97 million or 12% over the prior year period. The growth in earned premium has been anticipated as various business ventures incepted over the past several years begin to earn through the P&L at a greater rate.

Turning to the combined ratio. For the quarter, the GAAP combined ratio was 96%, a 170 basis point improvement from the second quarter of 2018 and a 310 basis point improvement over the same period in 2017. Year-to-date, the GAAP combined ratio was 95.8%, a 150 basis point improvement over the comparable prior year period and 300 basis point improved over the first half of 2017.

The attritional combined ratios for the quarter and year-to-date period are 96% and 95.8%, respectively. On the year-to-date basis, we see an 80 basis point improvement over 2018's year-to-date result of 96.6%. The quarter's loss and loss adjustment expense ratio improved 290 basis points from the prior year period to 65.8% from 68.7%. This includes the benefit of no cat losses in the current quarter, a result of thoughtful positioning of our various property portfolios. On a year-to-date basis, the 2019 attritional loss ratio of 65.4% is 80 basis points improved over last year's 66.2%.

Our expense ratio was stable in the quarter and consistent with the full year 2018 performance. We continue to take advantage of our improved scale to invest in people, technology and new locations in key markets across the globe. For the year-to-date period, the expense ratio was 30.4%, down slightly from the 30.5% in the comparable period of 2018. As we expected, we are seeing a stabilization of our expense ratio year-over-year and quarter-over-quarter as earned premium continues to come through as our businesses mature.

Turning to the operating environment. I would echo the sentiment you have heard from other companies, namely that the trading environment and trading conditions globally continue to improve. As with respect to pricing, I would break this down into 3 areas. First, we are seeing improved underlying pricing across all lines, except workers' compensation. Second, we see accelerating price improvements in several areas across property, liability and professional lines. And third, for the first time in many quarters, our aggregate renewal price change, which includes exposure change, has moved into positive territory, registering 2.9% for the quarter, inclusive of workers' compensation. Excluding workers' compensation, Everest Insurance produced an aggregate renewal price change of 8.1% in the quarter, which is the strongest we have seen in 7 years. Year-to-date, the renewal price change is a likewise excellent 6.3%.

Further, this continues the upward trend in nonworkers' compensation rate change that began in the beginning of 2017. And in fact, the underlying rate change increased to 7% in the second quarter.

In general, I would say the same themes we have discussed in prior calls are continuing to play out. However, the notable change is the increased momentum. Property lines, cat- and non-cat-exposed alike, continue to gain meaningful rate as does commercial auto. Both were up in the low to mid-teens this quarter.

The liability lines, primary and excess, are also beginning to achieve more significant rate, generally in the low to mid-single-digit range, as are the professional and financial lines. The financial lines initially lagged other areas in terms of rate achievements but are quickly beginning to adjust to the new reality of much-needed rate to absorb increased loss cost.

So overall, we see a much more constructive environment. And as our renewal premium changes indicate, we are optimistic that this trend will continue in the quarters ahead.

In conclusion, stated simply, this is another quarter of strong growth, increased profitability and meaningful advancements toward our strategic objectives.
We look forward to reporting back to you next quarter. And with that, I'll now turn the call back over to Shenae for Q&A.

Question and Answer

Operator

[Operator Instructions] We'll now take our first question from Yaron Kinar from Goldman Sachs.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

My first question goes to the underlying -- or the [accident year] loss ratio in Reinsurance. I guess we're seeing about 5.5 points of deterioration year-over-year. You called out business mix, loss trend and non-cat weather. Can you maybe help us think about the magnitude of each of those drivers? And then maybe as a follow-up to that, how should we think of that 87% underlying combined ratio that you had talked about in the past given that, I think, it was a little bit in excess of that for this quarter?

Dominic James Addesso
President, CEO & Non-Independent Director

Yaron, this is Dom. I will start and then ask Mr. Doucette to -- and/or Craig to complement whatever I say. But first of all, I think the comparison against the year-ago quarter is a little bit difficult because of the number of adjustments that we made in the second quarter of last year. So we think the more appropriate comparison is to look at the full year December of '18 against the 6 months of '18. So the gap that you described is much narrower. Again, it's business mix shift. It's certainly conservative loss picks. Less of a factor is any loss cost trend. But those are the main drivers of the movement. And the other thing to keep in mind is that through 6 months, we still carry a fairly good size of non-cat/cat loads, so that's also reflected in those 6-month numbers, whereas in the full year, that tends to get equalized out. So those are some of the factors. I don't know if Craig or John would want to add anything to that.

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

Yes. Yaron, it's John. Just one thing. I think we have about $32 million of reinstatement premiums in last year's Q2, which also skews the comparison of just isolating the quarter-over-quarter comparison.

Yaron Joseph Kinar
Goldman Sachs Group Inc., Research Division

Okay. That's helpful. I appreciate it. And then my other question is just with regards to premium growth in Reinsurance. So I appreciate the color in the opening statements, and I realize that there are a bunch of offsets there. And this may be Monday morning quarterbacking here, but I guess I'm looking at the prior year, you had, what, 30-some percent growth in gross premiums, about 40-some percent growth in net premiums; definitely saw a slowdown here even as rates have improved. I guess how should we think about the premium momentum here? And I guess in hindsight, was the capital deployment in '18 maybe too aggressive, leading to some need to slow down growth in '19?

Craig William Howie
Executive VP, CFO & Treasurer

Yaron, this is Craig just to kick this off, and then I'll let John jump in as well. But this is something that I think you have to look at: So you mentioned the growth in the prior year. What I would say to you is the growth this year, on a year-to-date basis, is actually 5% if you exclude foreign exchange. So you're actually growing on top of that growth from prior year. So that's certainly something I'd ask you to look at.

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

I don't think this has anything to do with capital in terms of our deployment. It really is opportunity set and where we see it. There's our core renewal portfolio, there are some large one-off deals, and this year, there were a couple of those deals that we didn't come to the renewal terms with the clients. And so that, again, skews the numbers, which is one of the reasons we think it's better to look at the year-to-date numbers as opposed to the quarterly numbers. And we're actively talking to some clients about some large complicated deals now. And so it could move the other way as well. So I -- but it's absolutely not capital-related.

Dominic James Addesso
President, CEO & Non-Independent Director

One other thing I'd add to that, Yaron, is that reinsurance by its very nature can be a little lumpy. So I wouldn't necessarily look at any year-over-year increases in premium as some kind of a forecasting tool. If you look at our property pro rata, for example, that moves around a fair bit. And to John's point, if you can't come to term with a client on a particular deal, then you've got a slug of premium that pro rata can be lumpy, so you can have a slug of premium that can be here one year and gone the next. That's not particularly troubling for us. Again, our franchise is one in which -- each and every year, we gain momentum in the marketplace across many different product sets, so the momentum is still quite favorable.

Operator

And we'll now take our next question from Mike Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

I wanted to touch on the insurance side. I appreciate all the color there, again with the conditions are improving, you mentioned 3 reasons why. You said liability and professional lines low to mid-single-digit rates, but much-needed in loss costs are still rising. So I guess, all that in, if you look at the past, I don't know, 7, 8, 9 quarters, your core loss ratio -- or your combined ratio is around 96 or so, and really hasn't moved much from there. I guess, how do you think about, given the rate and loss trend environment in insurance, when do you expect any kind of movement and improvement in that core loss -- in that core combined ratio?

Dominic James Addesso
President, CEO & Non-Independent Director

I will start and then ask Zaffino to add to it. But our combined ratio and loss ratio is here again, also driven by mix. So in the insurance operation, which, by the way, is a great result, and we're quite proud of it, but we've got this additional rate activity rate increases coming into the market. We have not pulled down our loss ratios to account for any of that. We tend to be more conservative on our loss pick. So we continue to pick the same loss ratio on a higher premium base. On the other hand, again to reflect some level of conservatism, work comp with rate decreases, we've actually increased our loss pick in work comp, given the fact that there were rate decreases that we were facing.

So we're -- we've kind of shortsighted ourselves in a way there. And then I guess, the last point to mention -- or I mentioned already, but mix. So we have a bit more risk management business in our portfolio than we anticipated, which just -- and accident and health business, which by its very nature, books at a higher combined ratio; still very profitable, consistently profitable business. So that's some of the reasons why, perhaps, we're not seeing as much movement as you would otherwise have expected in the combined. But nevertheless, we are still anticipating continued improvements over the quarters and years ahead. So Jonathan, you have anything to add?

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

I think that's well said. I would add to that. Remember, if you look at our strong growth rates, from quarter-over-quarter, year-over-year, to Dom's point, this can create mix changes that are hard to read from any specific quarter. And Dom mentioned our risk management business, which is an excellent business, which tends to run in that sort of mid-90s level, so that was a bit of a bigger contribution this quarter. As I also mentioned in my prepared remarks, the earned premium from various new products, new underwriting divisions over the past few years are beginning to earn in and some of the dissipation, if you will, of some areas that we had identified as a runoff or those that we were deemphasizing are earning out, you're starting to see that intersection happen, and we expect that to continue to happen in a beneficial way as we move forward here.

So we're focused on delivering underwriting profit. We're going to be conservative in our views of how we recognize, to Dom's point, some of the rate changes that are earnings through. But I think those variety of factors are what you're seeing as the reason for the mid-90s.

Michael Wayne Phillips
Morgan Stanley, Research Division

Okay, perfect. Thank you for all that detail, appreciate it. I guess more generally then, there's been some concerns affecting the overall industry in kind of rising tort activity and litigation activity. And I guess, anything you've seen there, and -- affecting any of your businesses? And if so, anything that we would see from maybe the paid activity that we can look at from your loss triangles?

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

No, we're -- look, we're -- this is Jon again. We're obviously looking at the same dynamics that are being discussed across the industry. It's very difficult to broad-brush any one line, one area. Each portfolio is a bit different, how companies address sort of where they hold certain accident years is a bit different. I would say as a general tone, we are keeping a close eye on this. It's often discussed in the general liability area. We write general liabilities, for instances, across many different areas, many different industry segments, each with different dynamics. When we talk about loss trend, remember, there's 2 parts to that: there's frequency and severity. So they're going to differ from area to area. We're keeping an eye on it. We're encouraged by the rate levels that we're starting to see. Net trend is a little bit more muted with some of the exposure growth going on. But whether it's financial lines, that's going to be a bit of a different mix whether you're in primary or excess areas, same with GL. Auto has been talked about for quite some time. So overall, we take a look at the portfolio every quarter, really every day, trying to learn from what we're seeing out there. But I would say we feel pretty comfortable about where we are, and even more comfortable as rate starts to build over the ensuing months here.

Dominic James Addesso
President, CEO & Non-Independent Director

And it's fair to say, we do not see any explosion in trend. And as I mentioned in my opening comments, what we see in our portfolio -- and it differs by company, but what we see in our portfolio is trend is well within our rate increases.

Operator

And we'll now take our next question from Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question is going back to the margin conversation and really this is on the reinsurance side of things. So I know it's reflective of your business mix and Dom, I think you said we should look at the full year '18 and kind of compare the second quarter there. But I guess I'm thinking more about going forward. Do you expect the mix to continue to tilt more towards casualty and away from property? And should we think about the reinsurance that 86 attritional combined ratio is how we should think about modeling going forward? Or the half year just kind of margin expectations on a forward basis?

Dominic James Addesso
President, CEO & Non-Independent Director

So for the first half, it's 85.4, not 86, not to get precise, but -- on the attritional side. And look, in the reinsurance business, it's difficult to predict where the mix will go, because as we've talked about many times over many, many quarters, we'll put our capital to where we think the best opportunities are. And what emerges next year as the better opportunity, who knows? But I would say that where we are mix-wise today is probably balanced. Where we'd expect to be over the remaining quarters? Certainly, we would expect more writings in mortgage, which, as you know, carries a lower combined ratio. And I don't know that we necessarily see any explosion in casualty from here relative to our other lines of business. So I think the mix is kind of fairly stabilized in terms of where it is today.

And I will -- I'd like to emphasize, I know this isn't the point you were quite making here, but certainly, what we've seen in many of the write-ups is the headline of margin deterioration. And again, what I'd like to point out is with the growth in premium, it might be a deterioration in the ratio, but the overall absolute dollars of underwriting margins have increased over time. And in combination with a lowering cat load, frankly, that gives us -- and also think about the investment income flow, we've got over $800 million of positive cash flow in the first half of the year, all of those things are, we think, improving our profit target, overall profit target. So -- and with a decreased level of volatility. I know that isn't quite -- more than perhaps you asked, but I think worthy of note.

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

And Elyse, this is John, just to add a little more color. I mean we're close to done within the treaty or with what we're going to put on the books for this year, they'll still facultative throughout the year and they'll be the odd treaty deal. But obviously, not that far along is January 1. And so we'll be watching closely obviously what happens in wind season as well as what we think the capital situation is, the supply-demand balance, and that will dictate how much capital we deploy going forward. And there continues to seem to be some dislocation and capacity shortages and trapped capital and related events, as I talked about earlier. So we'll watch that and that will influence mix as well as we head into the new year.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then my second question. If we look at your premium’s writings across the property lines, that was helpful disclosure that you guys added to the supplement. They've gone down. And if you think about what happened obviously, we had 2 successive years of high cat losses. In your -- John, in your remarks, you mentioned some pretty good rate that you guys did see in Florida. But then we don't see that running through the premium written line. Was it that there were some accounts that were still underpriced that you had to come off? Like how do we reconcile, I guess, the fact that there were some pretty good rate in Florida and even in other areas of the world and your property rating -- property writing, sorry, has come down?

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

So you're absolutely right. I mean we pushed rate. And one of the ways that the market is going to get hard is -- and less people are willing to walk away from things, and we pushed, and we pushed, and in some cases, we came off. We also did move up. Particularly in Florida, we moved up the tower, which, again, we thought that was a better place, better risk-adjusted place to play. And net that could be less premium, but it doesn't mean that it's less profit or risk-adjusted profit. So we were pleased with how we repositioned that book. And then as there's certainly been a couple of pro rata deals where we pushed for certain ceding commissions and occurrence limits and things like that, and we didn't get there. But again, we're bullish. We're not retreating from property at all. We thought after $200 billion, $250 billion in losses, maybe we had a view on what the right rate was to deploy the capacity. And something we talked about before, is we're also looking at it not in isolation of just property, we're also looking at it as the opportunity set for us to deploy capital whether that's into the casualty space where we see an emerging situation, obviously the insurance, the facultative, both casualty and international property as well as the mortgage, which we remained very bullish on. So we're also -- we're looking at it beyond just a property comment. We're looking at it across the whole global portfolio.

Dominic James Addesso

President, CEO & Non-Independent Director

And as far as the shift, that John was talking about, generally, and this is mainly a Florida comment, the layers down low, lower attaching limits were frankly underpriced in our view. And the increases there were nowhere near appropriate. And also emphasize that we have increased some of our capital outside the U.S. So John mentioned specifically Japan as one example. So...

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

We're, particularly on the Florida part -- Elyse, this is John again. Particularly on the Florida part where -- the view of the increased risk from some of the social inflation aspects, we thought were more prevalent on the lower layers.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. That's helpful. And then lastly, on the tax side, Craig, I think you said if cats are lower, the tax rate should trend higher. I thought the expectation was for a 13% for the year. It was a little bit lighter than that on the Q2 with low cat. Was there something impacting that in the current quarter?

Craig William Howie
Executive VP, CFO & Treasurer

Yes, in the current quarter, we actually had more income and more foreign-sourced income that came through, so we were able to use more foreign tax credits against that income, Elyse. So that's the reason it dropped to 12% for the first half of the year.

Operator

We'll now take our next question from Josh Shanker from Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

I guess this is for Jon Zaffino. You mentioned that your rate overall, your renewal rate pricing was up 2.9%. And I think you said it was up 8.1% excluding workers' comp. Workers' comp is about 20% of your portfolio. I'm trying to reconcile those numbers. Did I understand you correctly?

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

Yes, it's a little more than that, Josh. It's -- work comp is probably closer to 30%.

Joshua David Shanker
Deutsche Bank AG, Research Division

And I guess the numbers -- so the -- everything except for workers' comp is up 8 point -- I mean I don't know I just can't make the math work with numbers like that.

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

Here's what you have happening: Number one, there is a lot of rate being had now in the property and auto lines; some of our auto writings are up year-over-year; we're seeing, again, increased rate in a number of other areas from financial lines to other liability; comp, you're getting some exposure lift, at an increased rate than to what you are in other areas as well, so some of that shows up in renewal price change versus pure rate. So there's a number -- and you're getting mix differences in the quarter as well. So the weightings could be a little different based on timing. So for instance, in the second quarter, if we write a few large risk management deals, you might see more of the impact on the -- from the work comp book then it might mitigate some of the other areas and the opposite happens as well. So all those things kind of moving together.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And you're still growing in comp. I think comp probably is pretty healthy. But what is your flexibility if comp margins begin to change? How quickly can you move in and out of the comp markets?

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

Yes. That's a good question. Look, we see still very favorable underlying dynamics in workers' compensation. We are watching more closely the -- of course, the rate pressure and the impact that has to overall profitability. Some of our growth in work comp has come from, again, some of the areas that we underwrite to loss-sensitive programs. So you're getting the benefit of the insulation of deductibles in different areas. If we see work comp starting to get to the point where it's not meeting our profitability objectives, we will turn the dial. We will move out of some of those -- particularly some of those model line areas, where we're constantly adjusting rates regularly across the various different statutory companies we have and so on and so forth. Comp is a smaller part of our book than it's been in a while. Some of that is the relative growth rate of other areas. So we will watch it closely. We feel comfortable with where it is today, but if the economic scenario dips further, we will selectively start to move out of different pockets but feel comfortable there's other pockets where we will be able to maintain some insulation from underlying loss cost and trend.

Joshua David Shanker
Deutsche Bank AG, Research Division

And can you give any color on where margins are year-over-year in comp on accident year and calendar year basis? Showing good numbers but I guess can we talk about -- has there been a difference in where the initial marks are on comp business?

Dominic James Addesso
President, CEO & Non-Independent Director

Fair to say that at this point, comp is still very profitable. We don't give specific combined ratios. Did we disclose that anywhere, Craig, in our...?

Craig William Howie
Executive VP, CFO & Treasurer

We have not. We have said that it's more in the low 90s in the past.

Dominic James Addesso
President, CEO & Non-Independent Director

I think it's frankly better. That's where it's being booked. But we think it's better than that.

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

And just to echo Dom's comment earlier, we did take a little bit more of a conservative view this year in the comp line in relation to some of the increased rate reductions that we were seeing. So feel pretty confident we're sort of in that range today.

Operator

And now take our next question from Mike Zaremski from Crédit Suisse.

Michael David Zaremski
Crédit Suisse AG, Research Division

First question, in terms of the cat load coming down over time, is there a dynamic of increasing reinsurance retro purchase, which is flowing through the financials and causing the underlined combined ratio to increase a little bit? Or is it simply diversification and kind of shifting up the tower and whatnot?

Dominic James Addesso
President, CEO & Non-Independent Director

I'll ask Mr. Doucette to comment as well. But it's mostly about diversifying in the other lines of businesses growing those more quickly. In this particular 6-month period, certainly, as Jon has pointed out, we've come off a number of programs that didn't hit our pricing target. That had an impact. Jon made reference to the retro we did purchase, in his opening comments, in part -- that's part of our typical risk management of our book. We have in the past purchased ILWs and we have cat bonds and Mt. Logan. So that has been part of the equation. And as you point out, moving up the tower certainly decreases premium, but gives us similar or better risk-adjusted returns. Anything you want to add to that, John?

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

Yes. Just on the margin, the hedging, we have a very holistic broad-brushed hedging strategy and structure. And on the margin, that can change the attritional combined ratio. But really what's driving it is mix shift and growth in certain areas. And growth in noncat areas is driving it more than the hedging.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. Great. Next on the expense ratio, just a clarification. I think it was up 140 basis points year-over-year. And I know I think Craig cited and multiple people cited it's kind of moving into more casualty. So where there any onetime items there? Or kind of this is -- was a clean quarter when we think about it?

Dominic James Addesso
President, CEO & Non-Independent Director

Purely a mix shift and ceding commissions on pro rata casualty and product.

Michael David Zaremski
Crédit Suisse AG, Research Division

Okay. And lastly, any update -- do you expect the Board to make a succession decision near term?

Dominic James Addesso
President, CEO & Non-Independent Director

Yes. And by the way, I appreciate everyone's restraint. It took 4, 5 callers to get to that question, but the simple answer to that is yes. And of course, I can't expound on that any further.

Operator

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

Amit Kumar
The Buckingham Research Group Incorporated

Just a few quick follow-ups. The first question goes back to the growth in casualty reinsurance segment. I will just kind of better understand if I look at casualty reinsurance pro rata, and I guess, look at the definition in the K, can you maybe even just talk about some of the subsegments the growth is coming from? I guess I'm just trying to get some comfort that it is not skewed towards lines such as other liability, et cetera where there could be potential slippage in the tort climate.

Dominic James Addesso
President, CEO & Non-Independent Director

John, you have anything on that? Certainly, casualty on the reinsurance side, I'm going to let John to comment. I don't know if we have the specifics at hand this morning, but clearly, casualty includes work comp, includes professional lines, liability, businesses, it's all included. I don't know if we have the mix handy.

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

We don't have the specific number, but up at a 1,000-foot view I would say that the heavier casualty is really about 20% of the portfolio, recognizing that more we write this in kind of the U.S. and the London market, et cetera. But then we also do write it all over the world and in a lot of those other worlds -- other areas, it's a lot more of the softer casualty as well, and we are seeing opportunities there. And we are seeing opportunities, as I mentioned before, in the back of which our book is 60% casualty and 60% international. So also kind of diversifying away from the really heavier casualty book. But we do write a fair bit of comp in there embedded in some of the program environmental, and there is a pretty diversified portfolio that we have both in territory and sublines.

Amit Kumar
The Buckingham Research Group Incorporated

And maybe just related to that, this might be for Dom or you. Do you have a view on the discussion on social inflation right now?

Dominic James Addesso
President, CEO & Non-Independent Director

Look, we recognize that -- we primarily see this -- what we're seeing in the inflation area with the loss cost trend, is mainly in -- coming from our insurance book. Reinsurance book, given the varieties of treaties that we write, it's hard to call a trend because it can vary by the type of business that you're in, the class of business, the territory, et cetera. So we frankly rely on what we're seeing on the insurance side, at least in the early days. And clearly, we see a loss cost trend. Hard to determine whether that's what you're calling social inflation or just traditional severity in frequency at this point. I don't know that we see any -- necessarily any huge jury awards, if that's what you're getting at, coming through our insurance book and/or coming through our reinsurance side.

Amit Kumar
The Buckingham Research Group Incorporated

Yes, that's what I was looking for.

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

And this is John Doucette. I would just add that it also -- within reinsurance, I mean, we have a lot more flexibility in terms of our ability to respond. So first of all, we have been writing long-tail business since the 70s in -- all over the world. And we have a lot of experience, a lot of experienced underwriters, a lot of people that understand the market, and we have a lot of data. And we've seen things move, and we've seen looking at inflation and social inflation and different loss cost trends and things like that all over the world. And we also have the ability to then move by product, by attachment point, move in and out of classes that gives us a lot of comfort that we're able to, with our data, our expertise, our underwriting capabilities, to be able to recognize that and respond to it. And we do that all over the world. And so we feel it's something that we need to focus on, and we do focus on, but we feel we have the right capability to be able to respond appropriately and timely to it.

Dominic James Addesso
President, CEO & Non-Independent Director

So to sum that up, I would say that we don't necessarily see any "shock to the system" coming from whatever one is identifying as loss cost trend. But it is something that we and the rest of the industry, frankly, are addressing and are dealing with and recognizing that it's a factor in reshaping portfolios, taking the look at rates, et cetera, and I think everyone is being very deliberate about that.

Amit Kumar
The Buckingham Research Group Incorporated

Got it. The only other question I had was on Mt. Logan. The AUM fell, and there's obviously talk about in the past on -- regarding Stone Ridge's redemptions. How are you thinking about the future of this entity?

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

Yes. This is John. So it's one of -- Mt. Logan is a core strategic vehicle for us as we manage our catastrophe risks. But it's one of them. And we look at -- we have the cat bonds, we buy traditional reinsurance, we buy traditional retro for facultative, for treaty. We now have the new aggregate retro. So it's -- we'll turn dials up and down based on that. We have continued to add and look to add investors into the mix, and normal course of business we would continue to do that. But we're not trying to grow for the sake of growing. It's one of the strategic dials. It has very specific values to Everest, but so do some of the other ones. And so we look across all of these as part of the holistic hedging strategy and structure that we have. And we have the ability to turn up and down other dials as well.

Amit Kumar
The Buckingham Research Group Incorporated

And what's the investor percentage if you could just remind me? That's the last question I have. The percentage, I think previously you've given that number.

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

I don't recall ever giving that number.

Amit Kumar
The Buckingham Research Group Incorporated

I think it was 85 -- I'll follow up off-line.

Operator

We'll now take our next question from Ryan Tunis from Autonomous Research.

Ryan James Tunis
Autonomous Research LLP

I guess my first question is just on a -- you said that the PML exposures are down June 1. Just curious if you could give us an order of magnitude around that.

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

Ryan, it's John. So I mean look, it varies. We track 75 zones. It varies a lot by territory and by return period. And based on what products that we offer and where the attachments are, you get very different answers to that along the way.

Ryan James Tunis
Autonomous Research LLP

Is it -- the property cat for you, it showed down on a gross basis. Is it fair to assume that on a net basis, it was down a similar amount or a steeper decline?

Dominic James Addesso
President, CEO & Non-Independent Director

Can't look at premium. If you're trying to look across the premium to determine a PML decrease?

Ryan James Tunis
Autonomous Research LLP

No, I'm just curious, in terms of, I can see the gross reduction in property cat premiums. I'm just trying to think about what profitability looks like in later cat type season. So just trying to a figure -- a sense of how much net premium came down.

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

So I think -- we don't have that split out, but I think across the entire reinsurance, I mean, I think they're directionally moving about the same.

Ryan James Tunis
Autonomous Research LLP

Okay. And then my last question is just on, I couldn't help but notice that there were no Kilimanjaro cat bond deals in the first half of the year, and I think we've seen those in the past few. I think that there's about $0.5 billion of limit maturing at year-end. I guess kind of the same thing that Amit asked on Mt. Logan, how are you thinking about the affordability of those programs? And in this environment, how are you thinking about those upcoming maturities?

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

So I think the answer is it's too soon to tell what we would want to do as we head to the expiration, which happens in November and December. And it will depend on pricing, it will depend on the wind season and things like that. We do track the cat bond market and the pricing spreads widened for a while and then they came in a little bit. So it will be one -- there will be a lot of factors that we look at. What does our gross book look like? What do the alternative hedges look like? But right now we're not in a position to know whether -- what we would do for that or any of the other hedges.

Operator

We'll now take our next question from Meyer Shields from KBW.

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

I'm guessing this is a question for Craig. I was hoping if you could walk us through the earnings impact of the decline in Mt. Logan assets under management.

Craig William Howie
Executive VP, CFO & Treasurer

So the earnings impact from the fee income that we received that shows up in our books and records is relatively immaterial. And what I mean by that is for the quarter, it was down about $1 million. Overall, for the year, we are up about $2 million. So relatively immaterial, and that comes through other income, other expense.

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

Okay. That's helpful. And then second, I guess I'm trying to balance the year-to-date decline in interest rates with the growing presence of longer-term lines of business in gross written premiums. Should we anticipate net written premium -- I'm sorry, net investment income going up or going down as we consider those factors?

Dominic James Addesso
President, CEO & Non-Independent Director

More into next year or are you talking for the remainder of this year?

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

I was thinking next year, but I'm happy to hear however you're thinking about it.

Dominic James Addesso
President, CEO & Non-Independent Director

Well, with the strong cash flow, as I pointed out in one of my previous answers, for the first half of the year, certainly, increased asset base will be a bigger driver, we think, depending on maybe what the Fed does, but we think then what interest rates did. So to that degree, then we would anticipate a growing investment income number.

Operator

We'll now take our final question from Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just a couple of quick ones hopefully here. First one, Craig, what is new money yields look like right now versus kind of your book yield?

Craig William Howie
Executive VP, CFO & Treasurer

On an overall basis, it's about 3.5%, Brian. But it really depends on what you're investing in. Investment-grade is probably slightly below that. But any bank loans or high-yield investments that we have, alternative investments, would be higher than that.

Brian Robert Meredith
UBS Investment Bank, Research Division

Right. Obviously, yes, so. Okay. So still pretty positive. Good. Second question, I'm just curious, thoughts on kind of the crop environment outlook here, given kind of what's been going on with crops in the Midwest late planting and seeding, et cetera?

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

Brian, it's John. So there was obviously a late start to the season given the weather condition and then there was some preventive planning. And I know there's been some talk of that, that the preventive planning claims that there are likely some there which will have -- potentially have an upward pressure on the loss ratio. But it's still early days. That can recover. We don't know what's going to happen. It's both yield and revenue. And so the yield part can recover. It's maybe a little bit more focused on -- or dependent on what happens late in the year in terms of the temperatures, on what's going to impact the harvest. And in terms of what the crop prices are, we don't know. I mean, that -- if we knew that we wouldn't be reinsurance, so...

Brian Robert Meredith
UBS Investment Bank, Research Division

Yes. And then one last one for you, John. I'm just curious, you made a comment that you thought that, I guess, alternative capacity, alternative capital in the reinsurance would continue to be somewhat constrained going into [1-year] renewals. Just curious why you think that is.

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

So I think it's a combination of things. I think both some trapped capital that still exists and we think will, but it's also I think the development that the market saw on Irma, the development now that the markets saw on Jebi. And I think -- and then you have -- whether it was a surprise or not, maybe would depend on who’s looking at it, but the situation with a couple of the alternative cap managers and how -- what's happened to them. But -- so I think the sentiment among investors has been strained over the last couple of years having had 5 years of no caps basically or very low caps, below average caps. And then to have the 2 years with the losses and then also have the development, I think has really focused a lot of the alternative investors, particularly ones that we call tourists, that are really just -- they're just in it because it sounds different and interesting, I think are really focusing on whether this is something they want to do. And I think all of that will map to a healthier reinsurance market and a healthier retro market as the alternative investment managers are going to be held to higher standards on transparency, rate change, collateral lease and things like that. All that points to us to a healthier property market in 2020 at January 1 and beyond.

Dominic James Addesso
President, CEO & Non-Independent Director

Okay. I think we have no further questions, I guess?

Thanks, everyone, for your dialogue this morning and patience. We went a little over, but that's fine. And I can't help but wanted to emphasize that the strategic journey that we've been on is proving successful. And I just caution us all to -- sometimes not to focus on one individual metric. And for us, I think, to focus on the fact that our increased diversification has increased our absolute dollar margin, even though our combined ratios may increase due to a low portion of cat business, but the advantage is less volatility, but along with an overall improved profit target. And by the way, I include investment income on that.

We are a unique franchise, global franchise, that is delivering returns at the highest levels of the industry right now and exceedingly well positioned for the future. So again, thank you for your interest, and look forward to your dialogue and questions in the weeks ahead. Take care. Have a good day.

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

Thank you.

Operator
Thank you. This concludes today's call. Thank you for your participation. You may now disconnect.