S&P Capital IQ

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Everest Re Group, Ltd. NYSE:RE

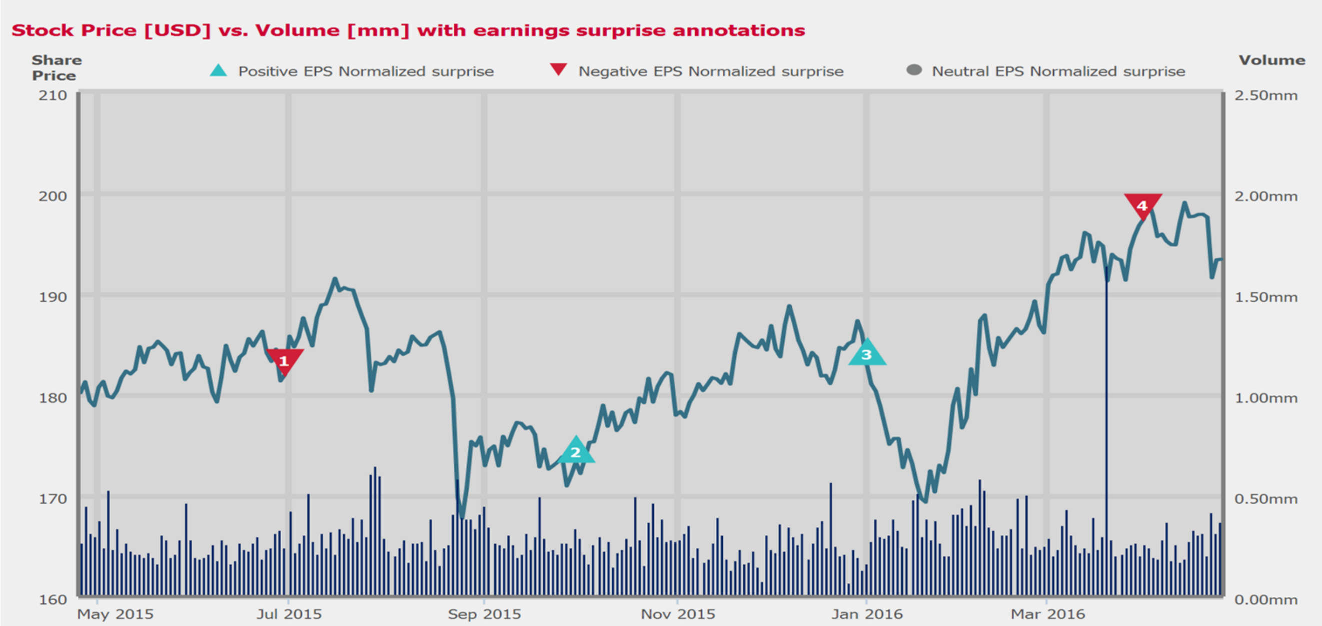
FQ2 2016 Earnings Call Transcripts

Tuesday, July 26, 2016 2:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2016-			-FQ3 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.48	3.17	▼(8.91 %)	3.55	16.37	18.11
Revenue (mm)	1182.25	-	▼(2.30 %)	1433.00	5444.15	5609.43

Currency: USD
Consensus as of Jul-26-2016 11:07 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2015	5.65	5.03	▼(10.97 %)
FQ3 2015	4.03	4.53	▲12.41 %
FQ4 2015	5.35	8.17	▲52.71 %
FQ1 2016	5.54	5.19	▼(6.32 %)

Call Participants

EXECUTIVES

Craig W. Howie
Chief Financial Officer and Executive Vice President

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

Elizabeth B. Farrell
Vice President of Investor Relations

John P. Doucette
CEO & President of the Reinsurance Division

Jonathan M. Zaffino
Senior Vice President and President of the North America Insurance Division

ANALYSTS

Amit Kumar
Macquarie Research

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Jay H. Gelb
Barclays PLC, Research Division

Joshua David Shanker
Deutsche Bank AG, Research Division

Kai Pan
Morgan Stanley, Research Division

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Quentin John McMillan
Keefe, Bruyette, & Woods, Inc., Research Division

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Presentation

Operator

Good day, everyone, and welcome to the Second Quarter 2016 Earnings Call of Everest Re Group Ltd. Today's conference is being recorded.

At this time, for opening remarks and introductions, I would like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead.

Elizabeth B. Farrell
Vice President of Investor Relations

Thank you. Good morning, and welcome to Everest Re Group's Second Quarter Earnings Conference Call. On the call with me today are Dom Addesso, the company's President and Chief Executive Officer; Craig Howie, our Chief Financial Officer; John Doucette, the President and CEO of our Reinsurance Operations; and Jon Zaffino, the President of our North American Insurance Operations.

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

In that regard, I note that statements made during today's call, which are forward-looking in nature, such as statements about projections, estimates, expectations and the like, are subject to various risks.

As you know, actual results could differ materially from current projections or expectations.

Our SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now let me turn the call over to Dom.

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

Thanks, Beth. Good morning. We're pleased to report this morning another favorable quarter, particularly during a period, where there has been a number of global cat events for the industry.

Despite these events, we posted $3.67 of net income per share for the quarter. On an operating income basis, earnings were $3.17 per share compared to $5.03 for last year's second quarter.

This difference is primarily due to cat losses, with the net impact of $105 million after reinstatement premiums and taxes.

Also impacting the quarter were foreign exchange losses of $27 million or $0.44 per share after tax.

Excluding cats, the underlying attritional combined ratio is virtually the same at 86% in this year's second quarter versus last. Furthermore, the attritional loss ratio has actually improved year-over-year. This highlights the changes to business and product mix that have been achieved. You will hear later from the business leaders describing some of those changes. But it is worth emphasizing, as we have in the past, that the flexibility and nimbleness of our business model continues to yield good outcomes.

Of course, offsetting the decrease loss ratio is an increased expense ratio, as we invest in our insurance build-out. As I mentioned in the first quarter, this will moderate through time, thereby allowing the improved loss ratio to work its way to the overall combined ratio.

This moderation is already occurring, as you note the decrease in the expense ratio from the first quarter to the second.

Notable, however, is that the total expense ratio for the Insurance segment, coming in at 28.3% for the quarter, remains several points lower than our competitors. And we intend to maintain this advantage as we expand the operation.

That expansion is well underway. Growth in the insurance book is beginning to take hold, as gross premiums increased by 32% in the quarter. On the other hand, somewhat offsetting this, the decline in the Reinsurance segment. Rate levels and foreign exchange continue to affect this sector. Nevertheless, as John Doucette will later detail, we continue to move our capacity to the better risk-adjusted business and new product areas, particularly credit related. I am always encouraged by our ability to remain bottom line focused.

Another item of interest in the quarter was the recovery of investment income in the lower than expected first quarter due to improvements in our limited partnership investments. On a year-to-date basis, we are still slightly off of last year, but given the continued interest rate levels, this is completely within our expectations. The impact of lower rates will diminish over time as older maturities come in.

While overall returns on capital continue to face pressure, we remain as one of the top performing companies in the industry. In an environment with a so-called "risk-free rate" is low single digit, our returns are quite strong, with a 9.4% ROE and growth in book value per share of 7% in the first 6 months.

Our book value per share growth also benefited slightly from our continued share repurchases during the quarter. However, this was less than anticipated due to a pause in buying when cat events begin to emerge during the quarter. This was not a concern over the amount, but just the fact that we had knowledge of events affecting the quarter.

Finally, we would like to address our other announcement regarding our crop insurance business. As you may have seen, we have received a letter of intent for the purchase of Heartland, our crop MGA, from CGB Diversified Services. This transaction creates an opportunity for us to more quickly expand and diversify our exposure to this business on a more efficient basis.

In the short term, there will be no appreciable premium impact. However, it will now be recorded as reinsurance rather than insurance. In addition, we will see an expected improvement in margin due to the benefit of a lower expense structure. Buyer scale creates a more efficient deal for us, and given their growing presence in the market, we should continue to benefit as a result of our strategic alliance.

In summary, we believe there are many great initiatives underway at Everest. Yes, there are many challenges, but we continue to work through many of them successfully. My colleagues will next offer up some further details on the progress we are making. I look forward to your questions after that. Thank you.

And now to Craig for the financial detail.

Craig W. Howie
Chief Financial Officer and Executive Vice President

Thank you, Dom, and good morning, everyone. Everest had a solid quarter of earnings, with net income of $156 million. This compares to net income of $209 million for the second quarter of 2015. Net income includes realized capital gains and losses.

On a year-to-date basis, net income was $327 million compared to $532 million for the first half of 2015. The primary differences were catastrophe losses and foreign exchange.

After-tax operating income for the second quarter was $134 million compared to $225 million in 2015. Operating income, year-to-date, was $357 million compared to $554 million for the first 6 months of 2015. The overall underwriting gain for the group was $234 million for the first half compared to an underwriting gain of $307 million in the same period last year.

In the second quarter of 2016, the group saw $149 million of current year catastrophe losses, net of reinsurance. Of that total, $90 million related to losses from the Canadian wildfires, $36 million related to Texas hailstorms and $23 million related to the earthquake in Ecuador.

The 2016 cat losses were partially offset by $25 million of favorable development on prior year cat losses, primarily from the 2011 Japan earthquake. The net impact of these losses, after reinstatement premiums and taxes, was $105 million. This compares with $23 million of catastrophes during the same period in 2015.

The overall current year attritional combined ratio through the first 6 months was 85.7%, up from 84.5% for the first half of 2015. This is primarily due to the 1-point increase in the expense ratio.

Our year-to-date expense ratio rose to 5.7%, as we anticipated with the build out of the insurance platform and our Lloyd's syndicate, but it was below our first quarter 2016 expense ratio of 5.9%.

Foreign exchange is reported in other income. For the first half of 2016, foreign exchange losses were $31 million compared to $44 million of foreign exchange gains in the first 6 months of 2015. Both of these results are unusual, and represent a $75 million pretax swing year-over-year.

The 2016 foreign exchange losses, primarily reflect the weakening of the British pound during 2016 related to the Brexit vote.

The foreign exchange impact is effectively an accounting mismatch since it's offset in shareholders' equity for the translation adjustments and unrealized gains due to the positive impact of holding foreign investments that are available for sale.

Overall, we maintained an economic neutral position with respect to foreign exchange, matching assets with liabilities in most major world currencies.

Other income also included $3 million of earnings and fees from Mt. Logan Re in the first 6 months of 2016 compared to $7 million of income in the first half of last year. The decline essentially represents the impact of catastrophe losses during the first half of 2016.

On income taxes, the 11.9% year-to-date effective tax rate on operating income was lower than the 13.9% tax rate at this time, last year. This was primarily due to the foreign exchange losses and the higher level of catastrophe losses in 2016.

Stable cash flow continues with operating cash flows of $674 million for the first half of 2016 compared to $532 million in 2015, which in part is reflective of our strong reserve position compared to actual paid losses.

As for loss reserves, last week, we released our sixth annual global loss development triangles for 2015. There were no major changes since the 2014 release.

Our overall quarterly internal reserving metrics continue to be favorable. Shareholders' equity for the group was $8 billion at the end of the second quarter, up $377 million or 5% over year-end 2015. This is the after [ph] taking into account, capital returns through $186 million of share buybacks and the $97 million of dividends paid for the first half of 2016, which combined, represent a return of 87% of net income.

Our strong capital position leads us with capacity to maximize our business opportunities as well as continued share repurchases.

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

John P. Doucette
CEO & President of the Reinsurance Division

Thank you, Craig. Good morning. Despite a very active quarter for the industry, with property catastrophe losses around the world, our reinsurance book performed well with $97 million of underwriting profit. This outcome highlights both strong underwriting by our experienced underwriting teams and the benefit of a mature, well-diversified book of business. We maintain a highly diversified portfolio by line and geography around the globe, which allows underwriting profits in one part of our book to offset losses that might arise in another part of the book.

Our sub 90% combined ratio for reinsurance for the quarter demonstrates the value and robustness of this strategy despite all the cat events.

For our total Reinsurance segment, net premiums were $771 million, down 8%. On a constant currency basis, they're down approximately 6% as we carefully manage our net reinsurance book with hedges, higher attachment points and reduced exposures on deals with less attractive risk-adjusted returns.

Our reinsurance underwriting profit was $80 million lower than the underwriting profit in Q2 2015. The difference driven predominantly by the $85 million in cat loss this quarter in the Reinsurance segment compared to $27 million of cat losses in Q2 last year.

As Craig indicated, cat losses this quarter emanated from Canadian wildfires, Texas hailstorm and flooding and the Ecuador earthquake. Underwriting profits were also impacted by lower net earned premium and exchange rate fluctuations. Drivers of low -- lower net premium this quarter were nonrenewals and reductions on some property pro rata treaties, which did not meet our risk-adjusted return requirements.

The attritional loss ratio this quarter is 53%, 2 points below Q2 last year and in line with Q1 as well as the full year 2015. Business mix and deployment of capacity in profitable areas such as mortgage and credit, helped us maintain strong loss ratios despite tough reinsurance market conditions.

The Q2 attritional combined ratio of 82.1% is up slightly from the 2015 full year 81.8%, but down 1 point when compared to Q2 2015. The improvement was largely driven by a 4-point year-over-year improvement in U.S. reinsurance, which had been impacted by a higher level of attritional losses for weather and large risk events last year.

The International segment also improved with lower commissions in the quarter. The Bermuda segment though, experienced a higher attritional combined ratio, primarily due to commission and changes in business mix.

Now some color on our June and July 1 reinsurance renewals, which reflect approximately 10% and 15%, respectively of our full year reinsurance premium.

June 1 renewals are mainly Florida. Changes in programs varied, but the renewal process was orderly. Some of the largest programs shrank as we expected, and we reallocated capacity to larger and new layers for preferred clients. Rates were up by low single digits. The Florida renewal market felt like it had found a floor, with more treaties, not fully placed and more shortfall covers coming to Everest.

We are pleased with the overall results of our June 1 renewal, and with the re-underwriting of some underperforming treaties, we head into the wind season with somewhat reduced net PML for southeast wind compared to last wind season.

At July 1, the U.S. property market also felt as though it had bottomed out and the rates were closer to flat. This provides a good start to the upcoming 1/1 renewal discussions.

Outside the U.S., the July 1 market conditions for short tail were less rosy and still very competitive in Europe and Latin America. However, Asia and Australia renewals were better as we found more attractive places to deploy our capacity.

In Canada, the Fort McMurray wildfire loss is the largest insured loss in Canadian history. And reinsurance rates were up substantially. We seized the opportunity to deploy more capacity at higher pricing, particularly with the demand for backup covers in this region.

The other loss affected areas around the globe also had increased rates of July 1. The market for 7/1 casualty business also felt as though it was finding a floor, with several programs renewing as expiring, more resistance by reinsurers to broaden terms and conditions, and some high profile treaties with low take up were either pulled from the market or repriced with more favorable terms.

Anecdotally, we have heard some broker conversation is now shifting to managing client expectations on renewal pricing terms and conditions. We continue to find pockets of attractive long-tailed reinsurance, including auto liability business. And we also continue to provide meaningful capacity in the mortgage base, where there remains a robust pipeline of attractive business.

In recent months, we continue to add strong talent to our reinsurance underwriting bench. In Europe, U.S., Latin America, Singapore, Canada and Bermuda as well as further expanding our footprint into one-off structured risk solutions. These deals are complex, difficult to source and will require a broad set of underwriting, accounting, actuarial, legal, tax, contract boarding and structuring capabilities to execute them successfully. These opportunities are diversifying and much more shielded from the broader market pressures. And therefore, provide meaningful margin and strong risk-adjusted returns adding to Everest's bottom line.

We are also seeing several reinsurance opportunities, driven by macro issues including: capital and solvency requirements created by the market turmoil including Brexit; Solvency II, Dodd-Frank and related regulatory changes around the globe; profit and expense pressures at large clients, who are now motivated to buy more reinsurance; Florida and other clients looking to expand geographically and need additional reinsurance capacity to support their growth; and some global clients are buying down retentions for individual risks or territories.

Even in the midst of a tough market, these and other demand drivers provide accretive opportunities for Everest to capture as a leading global reinsurer.

In Mt. Logan, we increased the number of investors, opened new funds, and raised additional capital from existing investors. Overall, AUM is about flat compared to last quarter, given some redemptions. We expect long-term growth and interest by investors to continue, given the unique Logan Everest value proposition, which has resulted in best-in-class returns every year since Logan's launch.

As we've reached Logan's third anniversary, new types of investors, which we have been engaging with for some time, open up to potentially invest in the platform. Through Logan and additionally, Kilimanjaro cat bonds, traditional reinsurance and ILWs, we continue to optimize our net book, which remains well within our long-standing group risk appetite.

We are pleased with the outcome of both our quarter's underwriting results in the face of several cat losses and large risk losses and the outcome of our June and July renewals despite the current market conditions, and we are well poised for a solid finish in the back half of 2016.

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

Jonathan M. Zaffino
Senior Vice President and President of the North America Insurance Division

Thanks, John and good morning. Everest Insurance continued its expansion in the second quarter, as we made steady progress on our core strategic initiatives. We experienced another quarter of solid growth across our global operation, marking the sixth consecutive quarter of underlying growth, with contributions from each insurance business unit.

Echoing earlier commentary, the North American Division's results, our largest insurance division, were impacted by cat activity within the quarter. Despite this, our underlying attritional performance was solid and in line with our expectations.

As announced yesterday, and discussed on this call, given the sale of Heartland, I will share 2016 numbers with you excluding this operation. The full results including Heartland are outlined in the financial supplement released yesterday.

Our global insurance operations, inclusive of the North America division and Lloyd's gross written premium increased 23% quarter-over-quarter to $405 million while net written premiums grew to $343 million, an increase of 19% over the prior year quarter.

Looking at the first half, again, excluding Heartland, we produced gross written premium of $764 million, an increase of 17%; and net written premium of $652 million, an increase of 12%. As mentioned in previous call, net written premium growth slightly lags gross written premium growth, primarily due to a marginally more conservative reinsurance strategy in our U.S. operations as we add new businesses.

The Insurance segment GAAP combined ratio for the quarter ex Heartland was 109%, impacted by 13 points of cat activity or $38 million. This was attributable to exposure within our U.S. and Canadian property portfolios from the Texas hail events in April and the Fort McMurray wildfire. On an attritional basis, the calendar year combined for the quarter improved to 95.7%, while the attritional loss and loss expense ratio for the quarter improved 130 basis points over the comparable prior year period to 66.9%.

I'll now turn to the performance of our major Insurance segments, provide an update on market conditions and also briefly comment on the strategic expansion of the Everest insurance platform.

Although the quarter was impacted by cat activity in the U.S. and Canada, we remain very encouraged regarding our progress in the build out of our global insurance operation, the results of the underlying portfolio and the opportunities ahead.

Within our P&C operations, both our U.S. and Canadian units demonstrated solid growth in the quarter, gross written premium was up nearly 18% in the U.S., and up 22% in Canada. Further, our Lloyd's insurance operations contributed nearly $11 million in gross written premium in the quarter to this segment, which we expect to accelerate in the months ahead.

Nearly every underwriting unit contributed to these results, although similar to the first quarter, the growth varied across units and lines of business.

Of note, in the second quarter, we were pleased to see a meaningful contribution of 5% of premiums from our various new North American underwriting units, launched principally over the past 6 months. Again, it is early in the growth phase for these businesses and we remain optimistic about their trajectory.

Our A&H group experienced another strong quarter of growth, registering a nearly 42% increase quarter-over-quarter. Our efforts to enhance our platform via expanded product and distribution capabilities are proving successful and opportunities in certain medical stop-loss markets headlined this quarter's growth.

Turning to the rate picture. The second quarter evidenced many of the same dynamics and challenges as those in the first quarter. While we did experience marginally more rate pressure in the second quarter, actual results were mixed by line of business. As noted earlier, our attritional loss ratio continues to improve despite this pressure. Due to changes in our mix of business and various underwriting actions taken on select portfolios and the achievement of positive rate in various areas, namely commercial auto. Further, we continue to believe that for the majority of lines, we are operating within a relatively tight range, thus the magnitude of rate volatility is limited.

In the U.S., the property market overall continues to see low double-digit rate decreases on average. However, there are signs of moderation as the market seeks a bottom. Clearly, pressure from recent cat activity in the quarter is having an impact, but it's too soon to quantify this. Additionally, we are also noticing some select tightening in terms, particularly in states prone to convective storm activity.

Third-party casualty lines are mixed, with slight pressure or even flattening for both general liability and excess causality lines. Once again, offset by positive rate movements in commercial auto. As in the prior quarter, management and professional lines continued to experience mid-single-digit decreases overall. The remains more intense pressure on excess layers with the rate reductions moderating on the primary.

The work comp market also experienced moderately more pressure in the second quarter with low to mid-single-digit decreases being common. The remaining pockets of opportunity across classes, segments and geographies, although we continue to note new and expanded competition in this market, and we'll watch this closely in the months ahead.

And within the A&H market, the medical stop-loss segment remains competitive other than for accounts with challenging loss experience.

Turning to Canada, the liability market mimics that of the U.S., slight rate adjustments are noted yet remained essentially flat year-over-year. The property market likewise remains relatively flat.

Post the Fort McMurray loss, there have been some pockets of increased rate adjustments within various territories and classes of business. Although early, we are not seeing any wholesale firming across lines. We will keep a close eye on the market to see if the tone changes as we near the 1/1 reinsurance renewals.

So again, a mixed market landscape depending on the manufacturers, influencing the various lines of business. That stated, due to our increased product depth across geographies, we are able to seize profitable growth opportunities despite challenging market conditions.

Final thought regarding the strategic expansion of our global insurance operations. We continue to capitalize on the dislocation within the commercial market to build out our global specialty insurance capabilities with a new and enhanced products, additional leadership and underwriting depth, and expanded geographic reach. Each of our operations are making excellent progress on their 2016 goals, and we anticipate increased momentum from actions executed over the past year.

With that, let me turn it back over to Beth for Q&A

Elizabeth B. Farrell
Vice President of Investor Relations
Operator, we are ready to take questions now.

Question and Answer

Operator

[Operator Instructions] Our first question is from the line of Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Maybe, I'll start a bit on the insurance book and the growth there, clearly a very nice growth. Is -- are the dynamics in the markets that you're growing in, is there a shortage of capital that is allowing for you to pursue growth and continue to see a profitability improve? Or what other dynamics are at play, just because of -- I haven't seen a lot of growth in insurance from some of our other companies so far. So I'm -- just want to get an understanding of the dynamics there.

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

Michael, I don't think it's a case of capital. We all know that this industry is awash in capital. I think, it's really taking the opportunity to -- there are certain markets, and in particular that in this array companies are changing and the marketplace is always influx. And I think, brokers are, in particular, always looking for highly rated carriers to come into the space. Either replace markets that are reshaping their own portfolios or their distribution for one reason or another or changes in their own teams. In addition, perhaps upgrading some of the credit quality of markets that they offer to their customers. So it's more -- it's not about capital. It's more about taking advantage of opportunities from what I would describe as dislocation. And the offering that we can make to brokers of top quality paper.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Okay. So these are opportunities that you're not winning on price specifically. You are able to come into the market to help fill the gap based on the profile of reinsurance counterparties, you're -- either the brokers or the insurance one, is that?

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

Good, good. I thought, what I was answering was an insurance question. I thought, that's what you're referencing, correct?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Yes. You're insured. So either brokers, you're placing -- you said that brokers like your rating and profile. And so I would think that either the brokers wants you there, and that's part of the reason why you can write the business at attractive profitability or the insured themselves want you there, is that?

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

What I was specifically addressing though was the Insurance segment, not the reinsurance segment, although some of the same qualities are there as well. And also, remember that on the insurance side, we've hired some notable talent in the industry and with that, comes relationships and business flows that way as well.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. I think, I was saying insureds, not insurance, but okay. That's fair. And then, I guess, is it possible to give us a little bit more color on the impact of the sale of the crop business? How much premium should come out of the insurance segment? How much should we expect to come into one of the Reinsurance segment? I'm guessing U.S. reinsurance, just any context on -- and was there a dollar amount for the sale? Or was it all kind of part and partial of an exchange of the franchise for a reinsurance agreement on the back of that?

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

Okay. Well, we're not at this point, since it's just really a letter of intent, we're not disclosing [indiscernible] of the transaction. But I can tell you that there will be no material impact, gain or loss from the sale of the company. As I mentioned in my comments, the premium impact, at least in the short term will be -- to the group will be minimal. It will be about the same in other words. So right now, we have approximately $200 million of premium in the insurance space. That will transition forward to -- it'll be reflected in the Reinsurance segment. So it will be about the same, at least in the short term. And then, of course, going forward, our participation with the buyer on reinsurance arrangements could -- and their expansion would -- could make that, the reinsurance premium go up over time. But it's again premium change to the group, it just basically shifting it from one segment to the other, at -- what we think is improved profitability.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Okay. Great. And then just on the prior year development of attritional cat. I just wanted to understand, was there a reason that number -- the 2011 development didn't go into a prior year category? And why it ended up in -- I mean that was just accounting, but why that ended up in the current accident quarter attritional cat load?

Craig W. Howie
Chief Financial Officer and Executive Vice President

Mike, this is Craig. We show cats on one line. That's the only reason that we don't break out prior year cats and current year cats, that's the only significance. That's the reason we broke it out in our discussion topic for the call.

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

That's where it was quartered originally. So it flows through the same line item, if you will, on the segment report.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Okay. So in the past, when you had reinsurance prior development, that's been casualty development or underlying loss ratio development, but not catastrophe development? Is that the difference?

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

That is correct.

Craig W. Howie
Chief Financial Officer and Executive Vice President

Right.

Operator

Our next question is from the line of Jay Gelb with Barclays.

Jay H. Gelb

Barclays PLC, Research Division

I think, there was a fair amount of concern going into the second quarter around the catastrophe loss exposure, especially in Canada. When you think about the end result of roughly 10 points of earned premium and still generating around a 9% return on equity on an operating basis in the first half, how does that shake out relative to what you would have thought of a catastrophe of these magnitudes in the quarter?

Craig W. Howie
Chief Financial Officer and Executive Vice President

How did that translate into earnings?

Jay H. Gelb
Barclays PLC, Research Division

No, I mean is it -- would you expect it to be this size? Or when you go through your risk management process, would you expect it to be a bigger impact? Or maybe that's just kind of a jumping off point, where you can talk about the risk management framework.

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

Well, I think, this loss and how it impacted our results was kind of what we would have expected. We always speak to kind of writing business with the best risk-adjusted return. So as an example, in Canada, we tended not to write reinsurance due to the heavy personal lines exposure. So that obviously had some benefit to us. In addition, at least for the last renewal season, we tended to be in the higher attaching layers. So the lower layers were -- did not meet our risk-adjusted return characteristics. So yes, it kind of translated into what we would have expected. And not -- given our presence in Canada, we did not experience any kind of an outsized loss generally because we're directing our underwriting to those areas that we feel give us the best returns. I don't know if that's frankly what you're asking, but.

Jay H. Gelb
Barclays PLC, Research Division

It is, yes, and that's helpful. My next question was on the International Reinsurance segment. The 14% gross written premium growth in the second quarter. Can you give us some insight in terms of what was driving that? And whether we should anticipate growth at that level going forward?

Craig W. Howie
Chief Financial Officer and Executive Vice President

I think, that was adjustments due to some large transactions that happened in 2015. So this is the 2016 year is more consistent with what you would expect to see going forward. There were accounting adjustments made in 2015, which is causing that comparison.

Jay H. Gelb
Barclays PLC, Research Division

Okay. So just to clarify that 14% growth is normalized for international?

John P. Doucette
CEO & President of the Reinsurance Division

Jay, it's John. I think, the way to think about it is look at the entire 6 months of last year and compare it to the entire 6 months of this year. And that is a more appropriate comparison because it would basically, and kind of when we talked about it on the last quarter, and it kind of washes over the first 6 months of the year.

Jay H. Gelb
Barclays PLC, Research Division

Okay. So normalized down high single digits, gross?

John P. Doucette
CEO & President of the Reinsurance Division

Right. And that's partially driven by the FX.

Operator

Our next question is from the line of Quentin McMillan with KBW.

Quentin John McMillan
Keefe, Bruyette, & Woods, Inc., Research Division

Just a quick numbers-related question. Dom, I think, you had mentioned $27 million in FX losses. I just wanted to ask about Mt. Logan. Is the remainder of the other income expense bucket, the $28.4 million, is that all just a small loss from Mt. Logan, basically?

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

Mt. Logan actually had $3 million of income year-to-date. For the number $27 million by the way, was after-tax. Right?

Craig W. Howie
Chief Financial Officer and Executive Vice President

[indiscernible] after-tax.

Quentin John McMillan
Keefe, Bruyette, & Woods, Inc., Research Division

My apologies. So the $28.4 million is $3 million gain from Mt. Logan and then like a $31 million pretax loss in FX, is that about right?

Craig W. Howie
Chief Financial Officer and Executive Vice President

$3 million of gain was for the year, Quentin.

Quentin John McMillan
Keefe, Bruyette, & Woods, Inc., Research Division

Oh, for the year. I apologize. Okay. But just for the quarter -- okay, I think, the rest of the numbers are actually in 1Q so I can break it out that way. Secondly, just John, thanks very much for sort of just talking about the cat related losses in the quarter. I just want to sort of understand a little bit more, it sounds like you were saying that it came from Canada and then from the Texas hailstorms, but the $38 million is a lot higher than we've ever seen out of that portfolio. Can you just talk to us about sort of why there might have been elevated property losses in the cat line this quarter? And should we expect the sort of a higher cat load in the insurance segment going forward?

John P. Doucette
CEO & President of the Reinsurance Division

Yes, Quentin, I don't think it's really out of line from our perspective. You remember, we've been steadily growing our E&S property book over the last several years. It's been incredibly profitable for us. We do manage all of our accumulation at the group level. So in relation to a number of different benchmarks, we look at, first and foremost, group accumulation in our cat model, but secondly, also our representative market share and any given market, the nature of the underlying event, both, obviously, to extreme events here with Fort McMurray and the Texas hail. So the number might seem bigger than -- just in addition to the depth of these books of business. We think it's very much in line.

Quentin John McMillan
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. So if I could just say that slightly different way, is sometimes the wind doesn't blow your way, this might just have been a little bit of an outsized quarter, correct?

John P. Doucette
CEO & President of the Reinsurance Division

I think, that's fair.

Quentin John McMillan
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then just last question. Dom, you had mentioned in the first quarter, the 11% growth rate in the Insurance segment was a little bit below what we should expect for the full year, but the 20% you had previously mentioned maybe not quite in that level, given the strong growth in the second quarter, is it safe to assume that you guys are targeting more of a 20%-plus type growth rate? Or still sort of no real change?

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

Our growth rate in the insurance sector will certainly be in the high teens. I don't know if we can readily admit to over 20%. But again, that's going to be based on what the market opportunity presents to us. If pricing continues its deteriorating to any great degree, and perhaps we pullback in certain areas. But we've got a number of new initiatives that we're just getting off the ground. So I think, the growth rate should be solid teens.

Operator

Next question is from the line of Amit Kumar with Macquarie.

Amit Kumar
Macquarie Research

Just a few follow-ups. The first question is on the Canadian wildfire. Can you tell us what industry loss you had used to compute that number?

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

Amit, we did not -- we really don't go at it really that way. That's certainly can be one methodology, but we obviously had people on the ground assessing what was going on there as well as report from our clients. And it's a little difficult with this type of an event because the models aren't necessarily built for this -- for wildfires. So basing an estimate off of an industry loss is, in our view, very difficult. And frankly not really appropriate. You can use that as a benchmark, but at the end of the day, it really is about being on -- within the site as well as talking frequently to our clients and getting reports from our clients.

Amit Kumar
Macquarie Research

Got it. That's a fair comment. And was Mt. Logan impacted by these cats?

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

A little bit, yes. Sure.

Amit Kumar
Macquarie Research

And that the reception, I know that you're talking about the reception from investors, did that change? Because as you mentioned, this is not a model to peril?

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

Yes, not to my knowledge. We have not heard any negative feedback from investors about these kinds of events.

Jonathan M. Zaffino
Senior Vice President and President of the North America Insurance Division

Amit, this is Jon. I think, we communicate a lot with them on a regular basis. The Logan team does and talks about the types of losses and exposures that they have. And the Logan investors get access to a global portfolio. And frankly expect to get losses all over the world, not just from hurricane, not just from earthquake, and -- but again from, given the returns that Logan had seen, Logan investors had seen, it's really our best-in-class, I think, it just highlights the strength of the diversification and the value of the mousetrap, the value proportion of the mousetrap that we built between Logan and Everest. And I think that the investors, there was nothing out of line for the investors tied to, to the Canadian wildfires.

Amit Kumar
Macquarie Research

That's very helpful. And just moving on to capital management. I know you talked about, I think, buybacks were blacked out for maybe a period, how many days were you sort of blacked out? Because I'm looking at the buyback number, it's higher than Q1. And just trying to reconcile that and asking myself, is the evaluation a still attractive to ramp the buyback during the wind season? Or should we think differently about that?

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

Well, first of all, it's not technically a blackout period. What I had mentioned was that we -- because we possessed material nonpublic information about cat events and the fact that those reports of what those losses might be were streaming in, if it came frankly a little difficult for us to be in the market. Not because of the size of the event, but more because we were in the possession of material nonpublic information. But I don't know if that technically be called a blackout period. As Craig pointed out earlier, we returned almost 90% between dividends and share repurchases, 90% of income. So frankly, that's not out of line with what we've said we would do in the past. So...

Amit Kumar
Macquarie Research

Got it. And okay that's helpful. And then just finally, wrapping up, I know, there was this question on Heartland, and I appreciate it's difficult to share all the mechanics. I'm curious what led to the decision. Was it a function of scale? Or was it A&O payments? What prompted it? And was it sort of shopped around? Maybe just some background on that would be very helpful. Because you've seen other companies also do these kind of things. I'm just curious as of the background.

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

As we've said in response to questions about our crop operation for a long time, that we are always looking at strategic options. So the strategic options in the earlier days, many months ago, were more about how we could build scale and how we could diversify. Because those were the 2 things that we needed to do, to be successful as a primary MPCI writer. And folks at Heartland, certainly did put forth a great effort, but given the market dynamics, it was very, very difficult to -- as we found out, to grow it organically and to diversify. And when we represented this opportunity this option from BTB, it was something that as we looked at it, we said, well, this would be away, given their scale, they're already there in the space and we can immediately get the diversification, the scale that we need, and that's what led to the decision to move in this direction. But it was always with an eye towards wanting to grow it and diversify it, and recognizing that needed to be a scale business.

Operator

Next question is from the line of Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

I was just hoping on to talk a little bit more about the insurance book, why is it pointed to about a 96% kind of attritional combined ratio x the crop business. Is that the right kind of margin to assume on that book, kind of on a go forward basis? And then just tying into that, in terms of your just expense ratio, you did mention that it came down a bit sequentially. Is that something we should expect to continue to see as we go forward with the rest of this year?

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

So the 96%, I would expect overall to frankly improve a little bit more from there as we grow the Lloyd's operation. The Lloyd's premium has been slow to book just because of the accounting that takes place in our Lloyd's operation. And frankly if you look at the attritional, without Lloyd's, it's more like a 95%. So as Lloyd's begins to improve its economics, which it will do through the balance of the year, that attritional combined ratio we would expect to move even lower. The improving expense ratio, as I've said in the last quarter, I would expect that to continue to moderate over time. But compared to historical levels, it will probably still be above those for, certainly, probably the next 12 months at least. But trending down towards a more normalized level.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then in the reinsurance commentary, you guys mentioned some one-off structured big [ph] solutions? Is there kind of a way to quantify kind of the impact of that on a top line? Was that a Q2 comment? Or was that more about when you guys were looking forward towards the rest of this year?

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

That's really -- those kinds of transactions generally are pretty lumpy. And so no there really isn't a way to quantify that frankly on a top line basis. And I think, the value in mentioning that was more of a strategic choice and direction that we're taking relative to our bottom line focus. These are transactions that require a lot of time, and so there really isn't any smoothness of the premium that we can outline for sure.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay. And then last on, just the capital management. You guys, last year at the Q3, was actually when you were the most active in terms of capital return. Is there any thought process behind slowing down repurchases surrounding hurricane season? Or is it kind of a similar philosophy to last year, where just depending upon opportunity?

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

Probably depends upon opportunity. We do tend to be more cautious going in the wind season. But that obviously, is relative to the opportunity as well.

Operator

Next question is from the line of Sarah DeWitt JPMorgan.

Sarah Elizabeth DeWitt

JP Morgan Chase & Co, Research Division

On the insurance business, given your new initiatives there, how big do you think the segment could be over time?

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

What's time?

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

3 to 5 years?

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

Certainly, it could easily double.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay, great. And what's driving that? Is it mostly from new hires? Or can you just elaborate a bit more on that?

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

Well, I think, certainly, new hires. You need to have a staff in place in order to garner the business, but it's really more about distribution relationships and opportunities in the marketplace to fill in void created by the disruption in the market that I mentioned earlier.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay, great. And then on reinsurance prices. Do you think prices are bottoming? And what's your outlook there going forward?

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

Well, I do think, it does appear that certain sectors that we are kind of hitting the bottom. I'm not though here predicting that next quarter or the quarter after that, we'll see some uptick. Perhaps we'll be at this bottom point for a while. But I do think that at these levels, there really isn't any room to go lower. If you want to maintain any semblance of adequate returns on your capital. So and I think that's, those are the pressures that we all face. And you do are seeing some discipline in the marketplace for now. But I'm not -- I'm certainly not predicting any major uptick at this point. So there are still opportunities. You are seeing some areas that are showing rate increase in the loss-affected regions so those will be the opportunities to think about going forward.

Operator

Next question is from the line of Kai Pan from Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

The first question is just a follow-up on the Heartland deal. And I just wonder from your experience for the last 3 years, buying a business, eventually like sold did [ph], does that change your appetite? How do you think about acquisitions?

Dominic James Addesso

Chief Executive Officer, President and Non-Independent Director

Well, Kai, as you know, we have not been that acquisitive. So I'm not -- it doesn't necessarily change my appetite. You always have to be very mindful of any kind of acquisition, what it's going to do to the business? Is it strategic? What are the integration concerns? Et cetera. The -- in this particular case, the acquisition was done because it was around a skill set that we didn't have, the marketplace was changing, but then it changed again on us, and we were really unable to really get the scale and the diversification we needed. But no, it doesn't necessarily change our appetite from looking at transactions that are -- that can be strategically important to us. But having said that, we are not a very acquisitive company.

Kai Pan
Morgan Stanley, Research Division

Okay. That's fair. Just sort of curious because this is a rare deal you have done in the past few years, it didn't turn out as well as you have hoped for. Then for the -- if the business, $200 million is transferred from the insurance to reinsurance, you mentioned a better combined ratio. The Insurance segment, I think, in the past you were targeting $95 million, if you look at the reinsurance they're running in the low $80 millions. Is that a magnitude of difference in term of profitability?

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

No. I mean, crop business doesn't run to the low 80s on an expected basis. It's probably more high 80s, with 90s kind of business.

Kai Pan
Morgan Stanley, Research Division

Okay. And then on the foreign exchange losses, I just want to make sure this is like mark-to-market, especially if the interest -- if the exchange rate stays the same, you will not see big movement in the third quarter.

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

That's correct. It's quarter-to-quarter.

Kai Pan
Morgan Stanley, Research Division

Okay, great, great. And lastly -- and just very philosophically, if you look at insurance segment, you're growing pretty fast. Is there any risk you worry about growing that business that fast? What could be the downside there? Because if you look the history of the insurance operation, the profitability of it has been like a near break even. And what give you confidence by growing it at like high teens and if at the same time, you can have -- actually you can improve on the combined ratio you're already having right now.

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

Well, the insurance model today is much different than it was 5 to 10 years ago, right? Which was mostly a program-oriented model. So that's number one. Number two, I think, we've offered or added an awful lot of great talent to the organization that's focused on the underwriting of business. So it's risk by risk, which we think gives us potential for a better outcome as well as kind of an reengineering if you will of our program business. So those 2 things, we think, will help dramatically. In addition, keep in mind that we're not growing at these kind of percentages in one line of business and one territory. It's a very diversified play across a wide distribution network. And so it's that I think will also ensure that we have good outcome.

Operator

Next question is from the line of Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

The first question, and during the prepared statements that John, you said that the Heartland -- the x Heartland combined ratio for insurance was 109. Is it reasonable for me to think that historically, Heartland has been, a maybe 150 basis point, 200 basis point drag on your results?

John P. Doucette
CEO & President of the Reinsurance Division

150 basis points of what? On combined ratio?

Joshua David Shanker
Deutsche Bank AG, Research Division

The combined ratio, yes.

John P. Doucette
CEO & President of the Reinsurance Division

Don't know if that's the right math, or not, Josh, but.

Joshua David Shanker
Deutsche Bank AG, Research Division

That's why I'm asking.

John P. Doucette
CEO & President of the Reinsurance Division

I mean, generally, that business over time has been running at just the Heartland operation. So I do think it's -- I don't think over time, I think, it's been over 100. We have insurance losses, I don't think it would be that quite high. The current quarter, it's running at about a 120, 119 for the current quarter.

Joshua David Shanker
Deutsche Bank AG, Research Division

And the premium on that is?

John P. Doucette
CEO & President of the Reinsurance Division

For the current quarter, the end premium is about $31 million.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay. And this is going to sound incredibly nitpicky, I apologize, but I have gotten a few questions about it. When did you know what -- you guys were sort of -- due to material nonpublic information, you guys were locked out of repurchasing shares. But you could have put out a press release and then sort of brought yourself back in the market. When did you know what sort of the cats were? Why didn't you put out a press release? And I guess, when did you know you had favorable development, which kind of offset your need to put out a press release?

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

Yes, Josh that is incredibly nitpicky. The challenge with Canada was that the number was moving around quite a bit. And we did have a number early on, and in fact, as we got more and more information that number frankly got a little bit better, but it kept changing. And we did not have -- because of the question I was asked earlier, we didn't think it was appropriate -- we weren't getting a right answer by using kind of an industry loss estimate x market share, given how we participated in that particular event with those particular clients. It wasn't a simple matter of taking an industry loss estimate and a market share number. We had to have reports from clients as well as on the ground investigation. We didn't know that frankly until relatively late in the game, probably 2 weeks ago. First that we were comfortable with the number. In the meantime, as we have said in the past, we generally look at is an event or series of events going to be within our expected cat load. And we kind of thought that this was probably going to come in at the expected cat load and therefore, a release on the event was not required. That's kind of what we said in the past. Had we felt that this was going to be materially above our expected cat load then we probably would have had to reconsider whether to put something else.

Operator

Ladies and gentlemen, that's all the time we have for questions. I'd like to turn the call over for closing remarks.

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

Good. Well, thanks, everybody, for participating in the call. As I mentioned, we're quite satisfied with our results given the frequency events -- of events. Some of which didn't even reach the level of cats for us. So that's a testament to the -- our numbers. Our insurance initiative, as we've mentioned, is going well. And with crop moving to the reinsurance segment, improved underlying performance of this book should become more apparent on a go-forward basis. On the reinsurance side, we continue to manage through the cycle. And as noted in some areas, our PMLs were down, pricing does appear to be bottoming, and we are well positioned to shift when warranted. So again, thank you all, and talk to many of you in the weeks ahead. Thanks again.

Operator
Ladies and gentlemen, that does conclude our conference for today. Thank you again for your participation. And you may now disconnect.