S&P Capital IQ

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Everest Re Group, Ltd. NYSE:RE

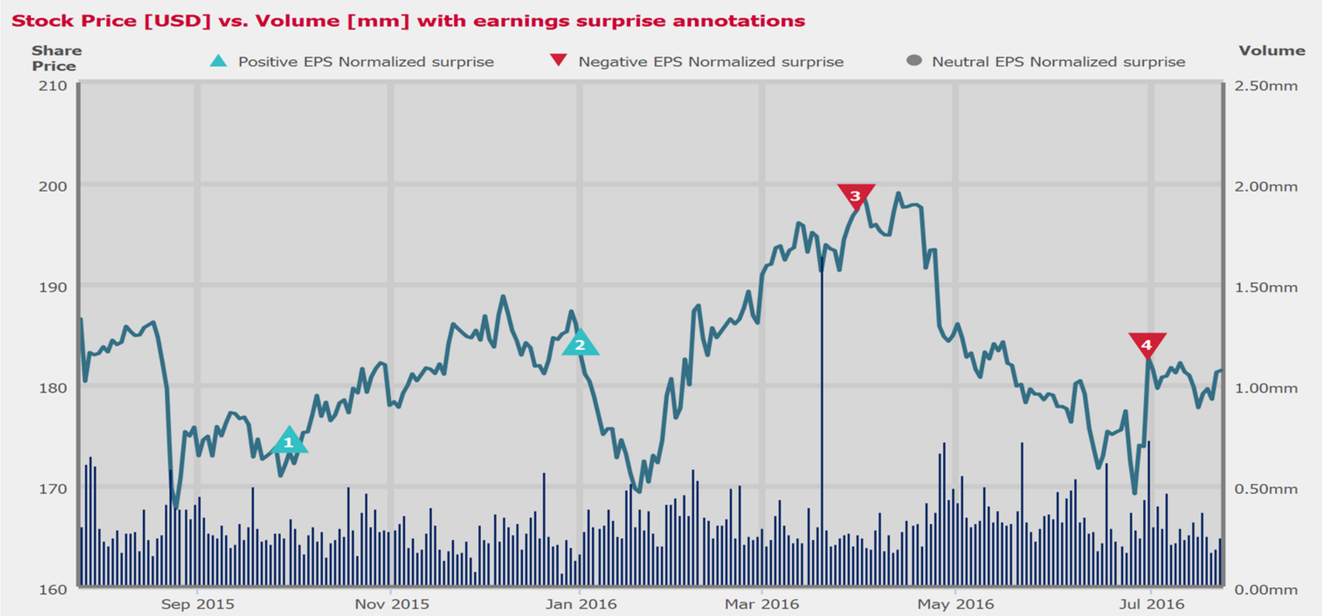
FQ3 2016 Earnings Call Transcripts

Tuesday, October 25, 2016 2:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2016-			-FQ4 2016-	-FY 2016-	-FY 2017-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.49	6.53	▲45.43	4.62	19.15	18.13
Revenue (mm)	1535.97	-	▲1.86	1325.00	5226.00	5391.97

Currency: USD
Consensus as of Oct-25-2016 10:40 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2015	4.03	4.53	▲1 12.41 %
FQ4 2015	5.35	8.17	▲2 52.71 %
FQ1 2016	5.54	5.19	▼3 (6.32 %)
FQ2 2016	3.48	3.17	▼4 (8.91 %)

Call Participants

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Vice President of Investor Relations

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Presentation

Operator

Good day, everyone, and welcome to the Third Quarter 2016 Earnings Call for Everest Re Group. Today's call 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, ma'am.

Elizabeth B. Farrell
Vice President of Investor Relations

Thank you, Keith. Good morning, and welcome to Everest Re Group's third 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, President and CEO of our Reinsurance Operations; and Jon Zaffino, President of 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 this call over to Dom.

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

Thank you, Beth. Good morning, and welcome to our third quarter earnings call. This morning, we have very positive results to report, although many are probably already more interested in next quarter as a consequence of Hurricane Matthew. We will get to that. But first, a bit about the third quarter.

As you've seen, the operating earnings per share were $6.53, which translates to a 14% annualized operating ROE.

This, of course, beats expectations in part due to another light cat quarter. However, that is only part of the story. Overall, the attritional combined ratio has improved year-over-year and I believe represents the more relevant part of the message.

In both the Reinsurance and Insurance segments, there's positive movement. Reinsurance, for example, on a year-to-date basis has improved the attritional combined ratio from an 82.7% to 80.7%. This is partly due to a lower frequency of large risk losses, but also a result of continuing to modify our portfolio in the face of a declining rate environment to achieve the best risk-adjusted return.

In addition and perhaps more impactful are the newer lines of business we are taking on, which in general include mortgage and credit exposure as well as structured products. John Doucette will give some detail on this in his report.

On the Insurance side, the story is also favorable after excluding Heartland, which, as you know, was our crop operation that was sold during the quarter. Excluding crop, the North American insurance operation reported a year-to-date attritional combined ratio of 96.4% [ph]. This is higher than our longer-term objective, partly due to an increased expense ratio, as we are currently ramping up and investing heavily in this segment both domestically and internationally.

This is consistent with the strategy we have discussed in the past. A build versus buy strategy has been our best option as we have been able to capitalize on the Everest brand and the talent availability coming from recent M&A transactions as well as corporate restructurings.

Also elevating the insurance attritional combined ratio this year was an abnormally high level of weather event. Taking all this into account, we are extremely pleased with our portfolio and how the operational build is progressing. Jonathan Zaffino will later give you further details on the insurance operation [ph].

To sum up, our Reinsurance and Insurance operations generated underwriting income, excluding cat losses, through the 9 months of $583 million, which on average is almost $200 million per quarter. When combined with average quarterly investment income, operating earnings are in the range of approximately $315 million per quarter before cat losses. At our current effective tax rate, that equates to approximately $275 million.

This number is relevant as you begin to think about the impact of Hurricane Matthew on fourth quarter results. Currently, our modeled estimate for an industry loss that ranges between $3 billion and $9 billion are $75 million to $200 million, net of taxes and reinstatement premiums. At this early stage, this is our best estimate and would appear to be contained within our otherwise normal quarterly operating earnings.

Turning to other items of note. First is that investment income was above the prior year's quarter; and on a year-to-date basis, essentially flat. Given the current investment environment and that current reinvestment rates are lower than maturing asset, this is an outstanding result.

Not unlike the underwriting portfolio, we take similar action on the investment front. Rotation into good risk-adjusted bets has been the strategy, which has maintained yield but with one of the lowest betas in the industry.

Second, was the aforementioned sale of our crop operation in the third quarter. We clearly were not at the scale we needed to be in order to be sufficiently profitable. The outcome was essentially a transaction, which converted our insurance book into a reinsurance program, taking advantage of the expense synergies that our client can bring to bear in a larger portfolio.

Finally, I would like to highlight the $200 million of share repurchases that were made since last quarter. This brings the year-to-date number to $386 million.

We continue to manage capital with an approach that considers a long-term business opportunity. This essentially means that while we do buy in capital, our bias is that we will continue to find ways to put capital to work profitably and grow the franchise.

Our history would suggest that we have managed this effectively. And therefore, as always, we elect not to give guidance on this point to maintain our flexibility.

While current market conditions do not point to any rapid growth, there remain numerous opportunities to put capital to work. In particular, we see a continued pace in the Insurance segment as well as specialty areas in the Reinsurance segment. Therefore, for now, we will maintain our current capital management strategy of share repurchases and dividends at a level less than our projected earnings.

With that, I want to thank you and turn it over to Craig for the financial highlights.

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 $295 million. This compares to net income of $89 million for the third quarter of 2015. Net income includes realized capital gains and losses.

On a year-to-date basis, net income was $623 million compared to $621 million in 2015. After-tax operating income for the third quarter was $273 million compared to $200 million in 2015.

Operating income year-to-date was $630 million compared to $755 million in 2015. The primary differences were catastrophe losses and foreign exchange.

The overall underwriting gain for the group was $432 million for the first 9 months compared to an underwriting gain of $498 million for the same period last year.

On a year-to-date basis, the overall results reflected gross catastrophe losses of $151 million in 2016 compared to $61 million in 2015.

In the third quarter of 2016, the group saw $18 million of catastrophe losses. These losses primarily related to Hurricane Hermine in Florida. This compares to $34 million of catastrophes during the third quarter of 2015.

The overall current year attritional combined ratio for the first 9 months was 85.2%, down from 85.8% for the same period in 2015. The 2015 attritional ratio included a $60 million loss estimate for the explosions at the Chinese port of Tianjin.

Our year-to-date expense ratio was 5.8%, as we anticipated with the build-out of our Insurance platform and our Lloyds Syndicate.

For investments, pretax investment income was $123 million for the quarter and $358 million year-to-date on our $17.5 billion investment portfolio.

Investment income year-to-date declined only $5 million from 1 year ago. We've been able to maintain investment yield without a dramatic shift in our overall investment portfolio. However, as Dom mentioned, we have gradually shifted allocations within our alternative investment bucket to derisk the portfolio. We have reduced our exposure to emerging market debt and public equity while committing more toward fixed income limited partnership investment, all while maintaining a conservative, well-diversified, high credit quality bond portfolio.

The pretax yield on the overall portfolio was 3% and duration remained at about 3 years.

Foreign exchange is reported in other income. Foreign exchange gains were $2 million in the third quarter. Year-to-date, foreign exchange losses were $29 million compared to $62 million of foreign exchange gains in the first 9 months of 2015. Both of these results are unusual and represent a $91 million pretax swing year-over-year.

The 2016 foreign exchange losses primarily reflect the relative strengthening of the U.S. dollar against other world currencies, including the British pound and the euro.

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

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

Other income also included $10 million of earnings and fees from Mt. Logan Re in the first 9 months of 2016 compared to $15 million of income for the same period last year. The decline essentially represents the higher level of catastrophe losses during 2016.

On income taxes, the 13.2% year-to-date annualized effective tax rate on operating income was lower than the 14.8% tax rate at this time last year. This is primarily due to foreign exchange losses and the higher level of catastrophe losses in 2016.

A 13% to 15% effective tax rate on operating income for the full year is in line with our expectations, depending on the amount of catastrophe losses for the remainder of the year.

Stable cash flow continues, with operating cash flows of $951 million for the first 9 months of 2016 compared to $802 million in 2015, which in part is reflective of our strong reserve position compared to actual paid losses.

Shareholders' equity for the group was $8 billion at the end of the third quarter, up $433 million or 6% over year-end 2015. This is after taking into account capital return through $379 million of share buybacks and the $144 million of dividends paid in the first 9 months of 2016, which combined represent a return of 84% of net income.

Additionally, we repurchased another $7 million of stock after the third quarter closed. These purchases will be reflected in the fourth quarter 2016 financial statement.

Book value per share increased 10% to $196.67 from $178.21 at year-end 2015, generating 12% growth in shareholder value, including dividend.

Our strong capital balance leaves us well positioned for business opportunities as well as continuing 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. We are pleased to report another strong quarter for our Reinsurance operations, delivering $203 million of underwriting profit to the bottom line. This compares very favorably to Q3 last year, with profits up $87 million quarter-over-quarter.

The difference is predominantly driven by higher cats and the loss of the Chinese port, Tianjin last year, ultimately resulting in about an 8 point improvement to the combined ratio to 80.1% this quarter.

The attritional combined ratio also dropped from 85.2% to 78.9%, as the Tianjin losses added 6 points to the third quarter attritional loss ratio last year.

Despite the soft market condition, we successfully executed our reinsurance strategy, with our global reach, long-standing client and broker relationship, responsiveness, strong and sizable balance sheet and innovative capital structures, sustaining and even modestly growing our premium writing.

For the quarter, our total Reinsurance segment gross written premium was $1.25 billion, up 1% from Q3 last year. On a constant currency basis, premiums grew 2%.

Our total reinsurance net written premium was $1.22 billion for Q3, up 13% from last Q3. The net premium result was affected by the Heartland sale and the assumption of this crop portfolio out of the Insurance segment and into the U.S. Reinsurance segment.

Year-to-date, our gross reinsurance premium was down 3%, but down only 1% when adjusted for currency movement. On a net basis, year-to-date reinsurance premium were up 1%.

The U.S. reinsurance premium growth was strong in the quarter, up 9% due to growth in structured reinsurance transaction, in particular in the mortgage and credit space; in addition, the increased premiums on Facultative casualty and crop insurance business. This was offset by lower premium on weather, marine, surety and property pro rata business.

Notably, the structured reinsurance deals require broad expertise and scale to execute and often provide significant benefit over and above the pure risk transfer and consequently are not subject to the same pressures as the remainder of the reinsurance market.

The segment combined ratio was up to 78.4% from 73.8% Q3 last year. We had 3.4 points of cat losses versus none in the prior Q3. This -- driven this quarter by Hurricane Hermine and some development on events that occurred earlier in the year due to late reporting.

Our attritional loss ratio was up almost 5 points due to non-cat weather events in Texas and the Midwest and in addition to a higher loss ratio on the new crop reinsurance premium. Conversely, the crop reinsurance premium has lower expenses, contributing to the 2.3% decline in the commission expense ratio.

Our international Reinsurance segment premium was down 4% for the quarter but only 2% on a constant dollar basis. This was primarily due to lower property pro rata business in the Middle East, which was offset by growth in our Latin America and international-backed business.

Overall, we had better attritional ratios due in part to the Tianjin loss last year as well as better experience in certain regions. Lower cat, including released prior year catastrophe reserve, further benefited results this quarter.

Our Bermuda segment premiums were down 9% or 7% on a constant dollar basis, driven by lower motor business in Europe. Excluding FX, we saw growth in London this quarter. Overall, the combined ratio improved 6.8 points to 90.7%.

The current year attritional loss ratio was down about 15 points, with roughly half due to the impact of the Tianjin loss in last Q3. This was somewhat offset by higher commission expenses due to changes in business mix.

Recently, the reinsurance industry was confronted with its first significant Florida wind loss in over a decade, but Matthew will be a lesser impact to the industry than initially feared. Nonetheless, we are comfortable that our exposures are well controlled given the gross portfolio we have built as well as the various mitigation tactics we employ. Additionally, our global diversification across various lines of insurance and reinsurance buffers the group loss to such event, making them manageable.

Although Matthew will not be a game-changing loss for most collateralized or traditional players, it may test the functioning of various collateral mechanism. As a buyer of both traditional and collateralized reinsurance, we are familiar with the complications and potential headaches of collateralized arrangement.

These complications compound with uncertainty around the ultimate outcome of a large event, such as Matthew, given new cedence and untested claims management processes. However, while Mt. Logan provides a significant collateralized support, ultimately serving our client, it stands behind Everest and is invisible to our ceding, unburdening them from the inherent complexity of such arrangements.

With a suite of solutions to best match the risk capital, including our $8 billion of equity, Mt. Logan, our catastrophe bond and other internal and external sources of capital, we offer our client meaningful capacity from a trusted partner and we continue to look for ways to broaden our value proposition to our clients with these various solutions.

Mt. Logan, in particular, continues to draw interest from new investors, including various pension fund, and we look forward to increasing the scale and the scope of the benefit that Logan provides to Everest clients and shareholders.

With respect to the current activity in the market and looking ahead to 1/1 renewal, the reinsurance market seems to be trying to find a floor, with many underwriters resisting furthering the rate concessions over the last several renewals.

Many competitors' management teams are increasingly realizing that the returns may no longer cover their cost of capital, assuming a normalized level of cat losses; and also seeing that they can easily miss earnings estimates with a few large risk losses or small, medium cat event.

Everest, with its significant expense advantage and broadly diversified global portfolio, continues to produce solid returns despite the competitive rate environment.

Casualty business is also stabilizing as the market is taking a stand against further increases in ceding commissions. We have also seen some aggressive firm order terms for casualty placement face stiff resistance in the casualty treaty markets.

In addition, some of the loss activity seen by our clients sparked demand for Facultative casualty reinsurance, and we continue to see increased demand in the mortgage, credit area.

The casualty reinsurance pricing stabilization is offset somewhat by the moderate decreases in original casualty and E&S rates. We also remain cautious of new large capacity in the broker markets.

Nevertheless, as large insurers continue to bundle their program, they are seeking partners like Everest who have underwriting expertise in all classes of business and in multiple territories around the world.

This plays into our strength as a large, diversified global reinsurer that addresses the market with decades of relationships and creative, responsive underwriting, all at a significant scale.

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

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

Thanks, John, and good morning. I'm pleased to share with you third quarter results for the Everest global insurance operations.

Similar to last quarter and in consideration of the divestiture of Heartland on August 24, I will be discussing our quarterly results excluding this business. The full results of the Insurance segment, inclusive of Heartland, are covered in our financial supplement released yesterday.

As respect to premium production overall, our many strategic initiatives aligned toward the singular objective of building a world-class specialty diversified insurance organization continue to gain momentum. Many of the new underwriting divisions incepted over the past several months are showing increased contributions to our growth and ultimately to profitability.

Third quarter marks the seventh consecutive quarter of underlying growth for our global insurance business, again excluding Heartland. As a result of these efforts, gross written premium in the quarter expanded 25% over the prior year quarter to $371 million. This is reflective of the continued investments we have made in our U.S. and London platforms, along with the continued strong contributions from our Canadian and accident and health operations.

Net written premiums for the quarter increased 23% compared to third quarter of 2015 to $318 million, which is in line with our net-to-gross ratio for the second quarter.

On a year-to-date basis, gross written premiums increased by $185 million or 19% over the prior year period to $1.1 billion. Likewise, net written premiums increased $129 million or 15% to $970 million, which again was in line with our expectations.

Turning to the combined ratio, the GAAP combined ratio for the quarter was 101%, which improves to 99.5% on an attritional basis.

Year-to-date, the GAAP combined ratio was 102.2% again on an attritional basis. Excluding the impact from previously announced cat events and prior year development, the year-to-date combined ratio improves to 97.1%.

This is inclusive of the expenses associated with the build-out of our U.S. and Lloyd's platforms, which added nearly 2 points to the expense ratio year-over-year. We do anticipate our Lloyd's operation will absorb much of this increase as earned premium increasingly works its way through, thus mitigating the impact here.

The loss and loss expense ratio for the quarter was 71.3%, which improves to 69.8% on an attritional basis. The loss and loss expense ratio for the quarter was impacted by some notable property per risk losses and a slight change on the loss ratio for our medical stop-loss business. This was a result of a reevaluation of our experience over the first 6 months of this year and our expectations of this business going forward. It should be noted that this particular unit continues to deliver strong results for us, including post this adjustment.

On a year-to-date basis, the GAAP loss and loss expense ratio was 73.3%, with an attritional of 68.2%, essentially flat year-over-year, with the difference being predominantly 4.4 points of cat activity for events in the second quarter.

I'll now provide some color on the performance of our major insurance portfolio, starting with the North America P&C book, which is our largest business.

The core P&C portfolio delivered 19% growth in the quarter, building upon a similar number from the second quarter this year. Growth was balanced across short tails, specialty and casualty lines. Further, our new business lines launched in the U.S., which have been discussed on recent calls, contributed nearly 11% to gross written premium in the quarter, double the contribution from the second quarter of 2016. We are encouraged by the growing momentum within these portfolios and hence the opportunities ahead.

The accident and health group delivered another solid quarter of growth, with a near 30% increase over the prior year comparable quarter, continuing the consistent trend we have experienced throughout the year. Our efforts to thoughtfully grow our medical stop-loss segment have been successful, as have our efforts to complement this growth with new products across Medicare Supplement, sports disability and short-term medical markets.

Our Lloyd's operation also continued its expansion. The syndicate contributed $16.4 million to insurance growth in the quarter, demonstrating the increased momentum we are gaining within this platform despite a difficult trading environment.

Year-to-date, Lloyd's has now delivered nearly $35 million of premium to the Insurance segment, yet only $9.7 million of earned premium, which again temporarily impacts the expense ratio.

We are encouraged by the growth trajectory of this platform, and we will maintain our discipline in seeking profitable opportunities for growth.

From the rates side, we see a very similar picture to what we witnessed in the second quarter of this year. Within the U.S. market, we've continued to achieve positive rate on auto lines, both commercial and personal, as well as on the general liability side. The professional liability market continues to be competitive, with the rate decreases in the mid-single digit range across lines being common.

The U.S. property market remains in a prolonged soft cycle. However, the magnitude of rate decreases continue to moderate through the third quarter. Large individual risk losses, coupled with the severity of North American cat losses this year, punctuated by the first named storm making landfall in Florida in over a decade, has provided a dampening to the rate decreases often sought. Thus, despite a competitive market dynamic, we believe opportunities for profitable growth through a diversified portfolio remain.

As respects to the Canadian market, again, a similar story to the second quarter. The market remains competitive for most lines of business. For the major lines, liability rates remain essentially flat to prior quarter. Canadian property rates have generally flattened in cat exposed areas within certain provinces. Yet outside of these areas, there remains moderate rate pressure.

We will keep a close eye in a January 1 renewal cycle to see how the market reacts to the record cat losses within Canada this year, particularly the upcoming reinsurance renewals and any corrective rate measures that may follow.

The management liability lines remain very competitive, while other specialty lines are likewise feeling rate pressure but ultimately a bit moderated.

So again, it's a bit of a mixed situation, yet trending similar to prior quarters. The notable difference here is the uncertainty of the property market as we enter year-end.

In conclusion, we look forward to carrying our strong top line momentum into the fourth quarter and into 2017. We are encouraged by the underlying trends of the many new businesses we have cultivated over the past many months and especially with the talented leaders we have attracted to Everest to lead these initiatives for us.

As we continue to add scale to our growing insurance operations, we expect these ventures to become a more and meaningful profit contributor to our global portfolio.

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

Elizabeth B. Farrell
Vice President of Investor Relations
Thank you, Jon. Keith, we are open now to take questions from the audience.

Question and Answer

Operator

[Operator Instructions] And we'll take our first question from Kai Pan with Morgan Stanley.

Okay, we'll go next to Elyse Greenspan with Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

First off, I was hoping to -- in terms of your premium outlook, the commentary on marketing consistent with rate. But as we think about going forward, do you think the Reinsurance growth will kind of stay at about 2% or so ex currency and the Insurance growth kind of stay in line with the Q3 level as we think about the Q4 in 2017?

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

Elyse, we don't really try to give guidance on where we think premium growth will come from. We do, of course, think that directionally, on the Insurance side is -- that will be the side of our business that will grow at some -- at an increased pace relative to Reinsurance. It's hard to say at this point until we get a little further along into renewal season depending on where rates are and depending on what the opportunities that are presented to us. So I think a conservative view like you're describing is not unreasonable, but there's a lot of variability around that number.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, great. And then in terms of the international Reinsurance segment. The underlying loss ratio in that segment was pretty strong, about 47% in the quarter. Was there anything onetime impacting that number?

Craig W. Howie
Chief Financial Officer and Executive Vice President

Elyse, this is Craig. What happened this quarter was we saw -- in the past, we had seen a number of one-off-type losses that were noncatastrophe-type losses that held up the attritional ratio in that segment. We were able to bring that loss ratio down more in line with where it should be, absent those losses.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, great. And then in terms of the Insurance business. Now that the crop sale has been completed, do you think we're at a point where on a go-forward basis that segment will maybe running a little bit off of your long-term goals, but the margins stabilize on a profitable level from here? And then combined with that, when do you think that will -- what time frame do you think we'll see the expense ratio normalize there for some of the hirings that you've done in that business?

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

Well, certainly, for the next several quarters, I think we'll see the expense ratio remain where it is, remembering that we'll continue to pursue growth. So there will be quite a few quarters, frankly, where the written and the earned will be out of line, so to speak. In other words, the written will be well above the earned. We have actually -- our expense growth this -- through the 9 months have actually been consistent with our top line growth. So the rise in the expense ratio is explained just purely by that. I would also add that if you compare our expense ratio to many of our competitors or peer companies, we are well below, well below industry average from an expense ratio point of view. So we're not discouraged by the amount of investment we have to make in order to grow this business. And as far as the overall combined ratio, we should expect that -- given the fact that crop is now out of the picture, we should expect that to be more stable and, frankly, even improve over time, particularly as we grow some more of the specialty lines of business that we're focused on.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

Okay, great. And then one other thing. Is it at all possible in the supplement in the future if maybe you could include the Insurance results, the prior year quarter just on a pro forma basis, excluding the crop business, to help with the comparables? That would be pretty helpful.

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

We appreciate the suggestion, and we'll certainly talk about that. The other thing I want to add, Elyse, to your question is that -- not add to your question, but add in response to your question is that the other thing that affect -- keep in mind that affects reinsurance premium growth, we have a fair bit of pro rata business. So depending on what happens with some of those accounts, that can have an impact on the percentage growth. So you have to keep that in mind as well.

Operator

And next we'll try to go back to Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

So just a follow-up on Hurricane Matthew losses, $75 million to $200 million net losses. I just wonder, could you give a little bit more detail in terms of in Florida or North Carolina? Is it wind or flooding? And how does that compare with your expectation? Because you have been pretty proactively shaping your portfolio in that part of the region.

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

Well, I'm going to make a few comments and then ask John to -- Doucette to jump in here. But I think, frankly, it's a little early to maybe get into the specifics that you're after. The estimates that we used were based on modeled output and, as I said, the industry range. We, frankly, use the $3 billion to $9 billion. I know there is a number lower than that on both the low side and the high side. We just rounded it to $3 billion to $9 billion, so that you had the full range of what the outcomes might be. I don't think the loss here is outside our expectations, frankly. Our market share numbers, again, net -- on this net basis that we're describing here is somewhere between 2% and 3%, probably middle of that would be a good estimate to use. So that's kind of the range of the outcome, and that's not outside of our expectations. John, do you have anything further to add to that?

John P. Doucette
CEO & President of the Reinsurance Division

Thanks, Dom. Good morning, Kai. Just a little bit more on the loss. Most of the loss would be a reinsurance loss to us most likely. Although we would have potentially some insurance losses potentially in South Carolina. And in terms of the overall split of the loss, we would point you that some of it would be coming from the Bahamas, where Everest is one of the larger reinsurers and have been for a long time in the Caribbean, so maybe about 25% of the loss. And again, that number will move around, but I'm just trying to give some directional guidance. But the majority of the loss would be reinsurance loss coming from our Florida client.

Kai Pan
Morgan Stanley, Research Division

That's great. And then given sort of like we have some sizable losses this year, it looks like Jan 1 renewal rates will probably further stabilize. I just wondered, given the current market environment, basically flat pricing, would you expect to keep your reinsurance attritional combined ratio sort of stable going forward or it will continue to have some pressure on the core margin side?

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

I would think that it would be relatively stable. And again, keep in mind that I think in large part, that's a question about property cat, and things can change a lot based on other lines of business: growing the casualty portfolio, growing mortgage, credit. All those things have an impact on the reinsurance attritional combined -- loss ratio and resulting combined ratio. So mix can play a big factor as well as what I mentioned to Elyse, pro rata, if some of those accounts go away or get reduced, that has a favorable impact as well.

Kai Pan
Morgan Stanley, Research Division

Okay, that's great. My last question. We have seen recently some pickup in terms of merge and acquisition activities in the space. And also in the press, there is a specialty insurance business, like a potential looking for sale. I just wonder, looking at your strategy, build versus buy, you're sort like -- are you interested in some of the -- like a potential business out there, you might be interested through acquisitions as well or any particular platform you would like to look into to grow?

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

Well, of course, it's all in the hypothetical because it all depends on what's out there. Generally, I'd have to say that most, if not all, properties that -- or companies who are seeking strategic options, we get an opportunity -- given Everest's size and scale, we get an opportunity to look at. And obviously, we've made the decision to continue on the path that we're on. In most cases -- or in many cases, it can be result of price, it can be cultural fit. Integration is a challenge. And in many cases, in acquisition, you have to look not only to what you can combine but what you have to eliminate. And what we prefer to stay focused on is what we can add to our existing portfolio. In addition, over the last 18 months or so, the market has presented many opportunities to hire some great talent. So we're very pleased with that. And frankly, that's a more cost-effective alternative without having to put the kind of goodwill on the book. Hope that answers your question.

Kai Pan
Morgan Stanley, Research Division

Okay. Yes. And if I may, just quick last one. Is that your survival ratio on asbestos dropped to 5.1 in the quarter? I just wonder, like what do you see the trends there? And when do you do your annual reserve study?

Craig W. Howie
Chief Financial Officer and Executive Vice President

For asbestos, we always look at asbestos on a quarterly basis, Kai. We do the annual review during the fourth quarter. We always continue to look at any and all trends that are out there as well as any clients that are taking charges that we would have exposure to. But again, we'll look at that in the fourth quarter.

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

And if there was anything material, as Craig says, during any particular quarter, we would have to put something up, certainly. But again, it is subject to the year-end reserve review as well.

Operator

And our next question comes from Michael Nannizzi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Just a couple numbers ones if I could. Craig, you mentioned the tax rate would be in that sort of 13% to 15% range. If there are more losses in the U.S. proportionally than in a typical fourth quarter, I would think the tax rate would be lower. Is that -- or is there something else that would cause the tax rate in the fourth quarter?

Craig W. Howie
Chief Financial Officer and Executive Vice President

Michael, that's correct. If there are more losses or at the higher end of the catastrophe losses, we would be at the lower end of that rate that I said, 13% to 15%.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Like the year-to-date is around 13%, right? So then -- so it wouldn't be lower than what you experienced through the year-to-date, it would just be at that same level?

Craig W. Howie
Chief Financial Officer and Executive Vice President

It really depends on how high it is and with respect to our planned losses in the fourth quarter. So again, that's an annualized effective rate. So the guidance that I gave of 13% to 15%, we'd be on the lower end if we had higher catastrophe losses.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. Okay. And then I know we don't see Mt. Logan on a stand-alone basis anymore. But do you -- can you give us some color on sort of what the performance was in that portfolio in the third quarter and whether you would expect the fourth quarter and the impact of Matthew to be similar there as it is in your on-balance sheet book?

Craig W. Howie
Chief Financial Officer and Executive Vice President

Yes. So what we take through are the earnings and fees that we take through to other income. So far year-to-date we've taken through $10 million compared to $15 million last year. The reason that it's lower this year is because of the anticipated estimate for losses in the Logan book were lower the amount of fee that we get until those losses are settled. So essentially, that's what you're seeing for the Logan so far this year.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it. And then any change to 4Q deployment expectations given your sort of early read on Matthew? Or is it within your sort of load enough that it doesn't change your perspective on deployment?

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

How much -- deployment, meaning?

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Sorry, buybacks, capital -- share repurchase.

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

Yes. I think what my comments and my remarks related to really the annual earnings. So quarter, only as it impacts the annual earnings. So again, we look at the entire year. It's not just a quarter.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Got it, okay. And then just one last quick one if I could. Following up on Elyse's question in the international segment. The loss ratio looked like it was mid-40s, pretty low by historical standards, even going back to like hard market years. Was it that losses there were sort of more normal relative to higher losses in the linked quarter last year? Or were they actually sort of even lower than a more normal year, more normal environment?

Craig W. Howie
Chief Financial Officer and Executive Vice President

Yes. So in the past, we had elevated losses, including losses all around the world, Latin America as well as floods in Middle East and North Africa as well. So in essence, what's happened is we've seen lower levels of those losses as well as a different mix of business that's coming through those books. And what you're seeing is a ratio that's more in line with where it should have been in the past.

Operator

Our next question will come from Jay Gelb with Barclays.

Jay H. Gelb
Barclays PLC, Research Division

My only question is Baden-Baden in terms of the kind of European reinsurance conference is ongoing. Any live feedback you can provide us in terms of what the expectations are coming out of there?

John P. Doucette
CEO & President of the Reinsurance Division

Jay, it's John. So it's going on right now. So we haven't had too much feedback from our team that's over there. But we do send a meaningful team from -- covering both Continental Europe, plus Middle Eastern, African clients and others that make it -- make their way there as well. So I think one of the messages that we have is the continued build-out of our capabilities. We've added various people in our European operation, and with that have added product lines that we can support. So I think the larger buyers are continuing to consolidate their placement, which we are a net beneficiary of. And the fact that we have meaningful capacity to deploy with Mt. Logan and Everest is also -- helps us be even more relevant to the client. And as I said, we have been viewed as a stable partner. And with the increase in our capabilities, we expect to have more trading opportunities with our European and Middle East, Africa clients.

Operator

And we'll go next to Josh Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

As we think about 2017 and beyond, as we look at expense ratio in insurance, how much of a drag is there from the significant growth going on? And so where do you think next year with Heartland changing and what not, where does that shake out?

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

Well, as I mentioned before, currently I don't know that I would describe it as a drag given the fact that, as I pointed out, we have, even on the insurance side, one of the lowest expense ratios in the business. So our expense ratio, insurance-wise, year-over-year is elevated by 2 points. I would expect that differential to remain there for a few quarters, if not several quarters because we certainly would expect the written premium growth to far outpace the earned premium growth, and our actual expenses are growing consistent with the written premium growth. So when the earned premium starts to stabilize relative to the written, then you'll start to see that expense ratio come in a bit.

Joshua David Shanker
Deutsche Bank AG, Research Division

So you're putting it at, given the current size of book, at 200 basis point sort of build-out, expense on top. Is that the right way to think about it?

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

That's how we're thinking about it right now, correct. And by the way, my point, though, is that we're calling it a build-out but -- and one word you could use is investment. But the reality is, is that those expenses will be covered once the earned premium comes in to match it; or said a different way, our expense growth is consistent with our written premium growth.

Joshua David Shanker
Deutsche Bank AG, Research Division

And I think there's -- I have to go review the last quarter as well. But as Heartland comes out -- I'm looking back trying to compare 3Q '17 to 3Q '16. On the expense ratio, how is that going to direct it?

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

The expense ratio -- maybe I'll answer it on a combined ratio basis because I think this is what you were getting at. If not, come back again. But right now, our attritional combined ratio is in the mid-90%, right, 95%, 96%, somewhere in there.

Joshua David Shanker
Deutsche Bank AG, Research Division

And you did 101% for the quarter.

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

Yes. But I'm talking about ex-cats and et cetera. So we think that our base book is running right now in the mid-90. We would expect over time, frankly, that number to improve more dramatically from improvements in the book of business and affecting the loss ratio. So that, I think, is where we see the major benefit coming from.

Joshua David Shanker
Deutsche Bank AG, Research Division

And the quota-share relationship with Heartland incepts in 1/1. That's right?

Craig W. Howie
Chief Financial Officer and Executive Vice President

The new quota share, absent our business, in other words, the Heartland was actually sold on August 24. There -- so essentially what happens at that date is that insurance business then transfers over to the Reinsurance business on the Everest books. And then we have a quota share with the new company to take in a certain percentage of their overall book going forward in 2017.

Joshua David Shanker
Deutsche Bank AG, Research Division

On the first day of the year?

Craig W. Howie
Chief Financial Officer and Executive Vice President

Correct.

Joshua David Shanker
Deutsche Bank AG, Research Division

Would that be a considerable -- are we going to notice that in a large way? I mean, I don't know how to model that exactly. Is there -- can you talk -- in this relationship besides of Heartland, how big this new crop business is?

John P. Doucette
CEO & President of the Reinsurance Division

This is John. I think for the next year or so, we would expect it to be about the same size, maybe a little bit larger than what the Heartland book does.

Operator

And we'll take our next question from Quentin McMillan with KBW.

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

Sorry to beat a dead horse in terms of the expense ratio question in the Insurance segment, but I'm just thinking about it on an absolute dollar basis. The dollars that you spent were about $44.5 million in the third quarter. Is the dollar value a better maybe run-rate basis of a way for us to think about it? Because, obviously, you've been very active in the hiring -- just not sure if there was also any incentive bonuses that were paid that maybe get stripped out next year or anything else in there that we should think about outside of the ratio but just on an absolute dollar basis, to help.

Craig W. Howie
Chief Financial Officer and Executive Vice President

By the way, Quentin, thanks for referencing to us as a dead horse. But Quentin, $44 million that Quentin is referencing includes that one. So you have to carve that out. So -- but as we carve that out, back to the point, yes, you're right, expense dollars are definitely up. As Dom said, expense dollars are going to be up as net written premium is up as well because we are growing that book. I don't think you're seeing an outsized increase in expenses with respect to the increase in net premium. So from a percentage basis, the overall ratio, the expense ratio has gone up just over 2 points. And that's the way we're looking at it for now, that it will stay at that level until we build out this book. And then as you see the build-out of this book in some of these new programs, that business will earn in over time. And as it earns in, that's when you'll see that expense ratio start to moderate.

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

And the other way that you might want to think about it, Quentin, is -- in terms of building models, you might want to also consider modeling the expenses -- or looking at our expense ratio relative to written as opposed to earned.

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

That's good, good thought. And then just in terms of -- coming back to 1/1, it sounds like -- John, your expectations sounds like it's for a flattish renewal, which should be better than we've obviously seen recently. Can you just talk about any change in sentiment or perception? Obviously, Matthew was on a crash course to do a lot more damage than what ultimately happened when it turned east. Do you think that there is a psychological impact from that, that we're going to feel at 1/1, where when you go to clients, you'll be able to have a more honest conversation that the risk is real and that there's no more ability to give more in, in pricing? And just sort of talk about that dynamic at the 1/1 renewal, please.

John P. Doucette
CEO & President of the Reinsurance Division

Sure. I think it is something that's real. I think -- remember, this is the first real landfall in 10 years. So I think, that's factoring into the psychology of the conversations and the psychology of the buys of some of the clients. I mean -- but look, there's a lot of capital out there. And we ultimately don't know how it will go, but there'll be pockets, we think, we'll do better than others. We do think that the U.S. is stabilizing, particularly in the property and on the casualty as per the prior conversations about the ceding commissions and casualty rates and pushback we've seen. So I mean, we saw some of that at 6/1 and 7/1 on both the property and the casualty side. So internationally, it really depends on the geographic territory or where the -- where we think -- whether we think rates are going to be flat or not. So -- but I do think -- to your point, I do think that it's not just the Matthew, but it's also risk losses. We've seen some large risk losses that can do some real damage to reinsurers' quarterly income. And I think that also is starting to factor into the conversation.

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

And if I could just sneak one last one in on the mortgage insurance opportunity. You guys have sort of indicated in the past that you'd prefer to play it on the reinsurance side, I believe, because you can have -- be a little bit more nimble to enter and exit the market as you see opportunistic options available to you. But can you just sort of give us a sense of what the -- what size you are and potentially sort of what you might look to grow that book of business over the next couple of years?

John P. Doucette
CEO & President of the Reinsurance Division

So we have written -- several of these deals are multiyear deals, and so they earn in over a 7-year period or longer. And so earned premium, certainly, from the GSEs has not been that high. But from the deals we've already executed, we expect to see future premiums coming in from those, from some of the MIs that depend more on a quota-share basis, those have been larger to date and it really depends on what their capital needs are going forward. As to whether those are going to be a growth opportunity or not, it really depends on a lot of different things. Certainly, the regulations have caused them to delever from a 25:1 to about 18:1, and they're using reinsurance to buffer that capital support. We like that. So we do see -- to answer your question about opportunity and capacity, we see a lot of runway here on the reinsurance side, and we expect to continue to put forth capacity at the appropriate price.

Operator

It appears we have no further questions. I will return the program to our presenters for any closing remarks.

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

Thank you to all that participated in the call. Kind of in summary, let me just say that we're very obviously pleased with the quarter, notwithstanding that through these challenges remaining out there, as you all know. And certainly, market pricing is at the top of the list. And insurance growth, for us, is a journey that requires a lot, a lot of hard work. We remain confident, however, that as far as cycles are concerned, we can -- have proven that we can effectively manage through these cycles, managing our exposures and our PMLs and taking advantage of the opportunities that the market's giving us. On the insurance side, we remain focused on the specialty areas in particular because this gives us better opportunity to avoid commodity-type pricing, for ratings and scale make a difference and give us an opportunity to grow our insurance book. And well, as evident by the questions, expenses are up, but the growth there, as I said, is consistent with our written premium growth and as it should be. The earned just has to catch up. And again, I want to emphasize that we're still best in class on the expense ratio side. So that's something organizationally we pay attention to in both businesses. Overall, our flexibility allows us to commit our capital and resources to the best opportunity, and our plan is to just continue this approach, which has been successful for us in the past. Thanks for your interest in Everest, and have a great day.

Operator

And ladies and gentlemen, this will conclude today's program. Thanks for your participation. You may now disconnect, and have a great day.