S&P Global
Market Intelligence

Everest Re Group, Ltd. NYSE:RE

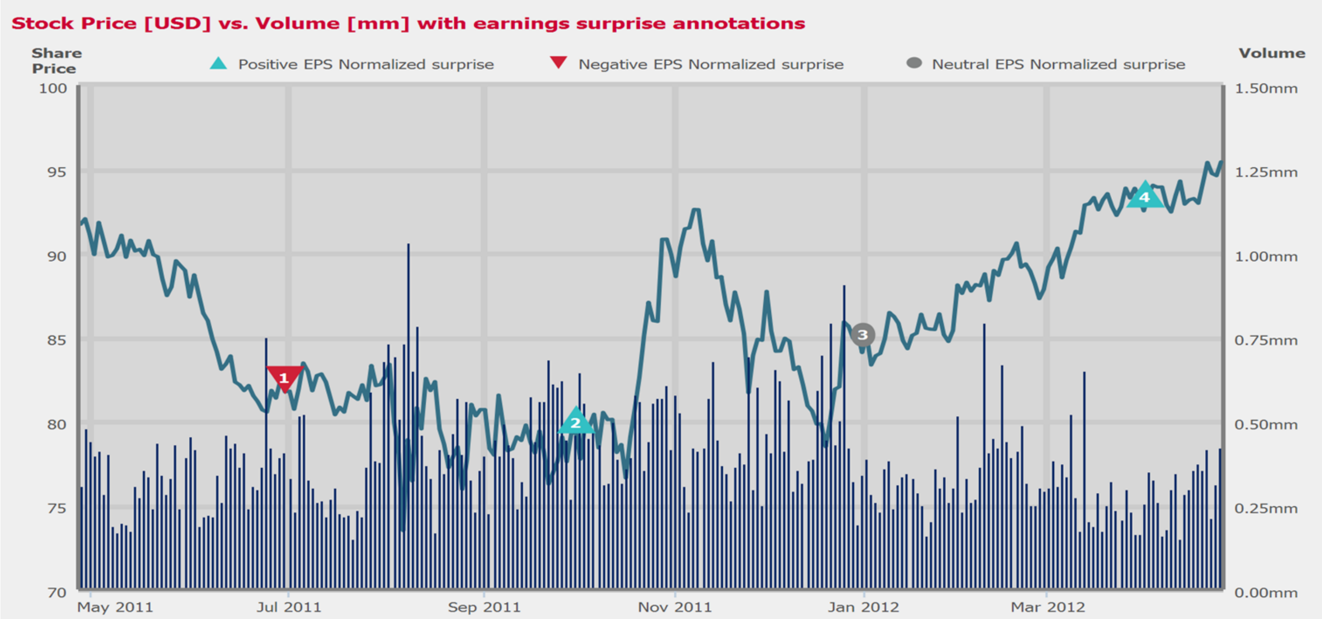
FQ2 2012 Earnings Call Transcripts

Thursday, July 26, 2012 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2012-			-FQ3 2012-	-FY 2012-	-FY 2013-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	3.77	4.25	12.73	2.31	14.14	13.31
Revenue (mm)	1077.97	1037.80	(3.73 %)	1129.18	4342.48	4459.02

Currency: USD
Consensus as of Jul-26-2012 1:28 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2011	2.49	2.46	(1.20 %)
FQ3 2011	2.03	2.70	33.00 %
FQ4 2011	(0.69)	(0.94)	NM
FQ1 2012	3.45	4.48	29.86 %

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Call Participants

EXECUTIVES

Craig William Howie
Executive VP, Treasurer & CFO

Dominic James Addesso
President, CEO & Non-Independent Director

Elizabeth B. Farrell
Vice President, Investor Relations

Joseph Victor Taranto
Chairman of the Board

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Presentation

Operator

Good day everyone, and welcome to the Everest Re Group Ltd. Q2 2012 Earnings Release Call. Today's conference is being recorded, and at this time for opening remarks and introductions I would like to turn the conference over to Beth Farrell. Please go ahead.

Elizabeth B. Farrell
Vice President, Investor Relations

Thank you, Lisa. Good morning and welcome to Everest Re Group's Second Quarter 2012 earnings conference call. On the call with me today are Joe Taranto, the company's Chairman and Chief Executive Officer; Dom Addesso, our President; and Craig Howie, our Chief Financial Officer.

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 Joe.

Joseph Victor Taranto
Chairman of the Board

Thanks, Beth. Good morning. We are pleased with our results through the first 6 months. Our comprehensive income for that period is $519 million. During the 6 months we purchased $225 million of our stock, paid $51 million in dividends, and still increased our surplus $346 million or 6%. Book value per share adjusted for dividends has increased 10%. Our annualized operating earnings ROE was 16%.

Our reinsurance book has been positioned to capitalize on the best opportunities which have generally been on the property risks as rates, terms and conditions improved in the last couple of years in response to lost activity. We have done this without meaningful increasing our PMLs in any peak zones. We are pleased with our mid-year renewals. Dom will provide more detail on this shortly.

Our insurance book has also been positioned to capitalize on our best opportunities. This includes our DNO operations, our A&H medical stop loss business, and select property businesses which continue to be profitable areas for us; as well as the California worker's comp benefits and our general liability book where the market continues to improve; and our crop book. Again, Dom will provide more detail.

Our $16 billion of invested assets continued to perform well, particularly given the challenges of finding quality investments in the current market. As previously announced, I will continue as CEO through the end of 2013 at which point Dom will become the CEO. I'm excited about continuing to lead our company through this year and next, and thrilled to have such a high quality individual, Dom Addesso lead our company for many years thereafter. I like our team, our portfolio and our plan. Our company has never been stronger, our future has never been brighter. Dom?

Dominic James Addesso
President, CEO & Non-Independent Director

Thank you, Joe. Good morning. As Joe indicated, we've had an excellent quarter overall. The year so far is playing out generally as expected with the attritional combined ratio improving by one point compared to the first 6 months of 2011. Rate increases and improving terms are beginning to work through the reinsurance property results. Total CAT premium year-over-year has increased $200 million with approximately half of that in rate increase.

These results are also benefiting from the shift of pro rata to excess. Well this has a dampening effect on premium, the positive impact on margin is flowing through the loss and expense ratios. The combined ratio on our reinsurance property portfolios, which has not yet been fully reflected through earnings has improved by 11 points. On the treaty casualty side we are beginning to see modest rate increase work through the results. It has not yet reached a level where we feel the need to aggressively expand, but the future opportunities may be more appealing over time. In that regard we are beginning to enhance our teams and structure to maximize our resources around the globe.

Overall reinsurance premiums for the quarter were down, but this was due to foreign currency, reinstatement premiums, and the one-time effect of a canceled close share contract. After eliminating the effect of these items, premiums were up 17% for the quarter. This was a result of the previously mentioned rate increases in many of our businesses.

The Florida market at June 1 saw CAT rates move up on average by 5%. Canada property rate movements were similar. The Asian markets had the largest moves, where rates in loss-affected regions were up 20% plus. In Japan, we saw terms improve on proportional treaties although we did move some capacity to excess structures. July renewals in Australia and New Zealand also had an upward movement in rates due to losses in those markets. Increases here were in excess of 10% to 20%. In all other international regions, property rates changes were relatively flat.

As I mentioned, approximately half of the CAT-exposed premium increase was rate, but the balance reflects new business opportunities for us in non-peak zones. Our total CAT-exposed premium through 6 months is $740 million. By year end this is expected to be approximately $1 billion with no material increase in peak PML zones. This expansion reflects our appetite to expand as markets improve and most importantly our ability to execute due to the capability of our staff and the desire of the market for our well-rated capacity.

Improving markets and portfolio changes in both property and casualty has resulted in excess of $100 million in underwriting profit for the quarter and $218 million year-to-date for our reinsurance operations. Excluding tax and reinstatement premiums, the reinsurance segment's combined ratio for the year has trended down to 83.7%. This should continue to improve with the shift to excess.

On the insurance side results for the quarter and year-to-date are unfolding as expected. Our growing primary A&H business plus double digit rate increases continuing in both worker's comp and our general casualty lines are all contributing to a solid 96.5% combined ratio for the quarter. Our professional liability portfolio is also performing well and the runoff of terminated programs is nearing its end.

Currently, the only headwind in the insurance book is the crop business. We have only 24% of the crop portfolio in the most severely affected states, yet we have booked conservatively for the year-to-date a small underwriting profit. While it is still early to predict an outcome here it is less likely to have material impact on the annual results since the total MPCI writings for the year will approximate $135 million and we do purchase stop loss coverage on this book. Overall the insurance book continues to move in the right direction with an underwriting profit for the quarter and year-to-date.

As we move through Q3 the indications for all segments are still positive. We are moving into the US hurricane season and that still has to play itself out, but July property renewals in the US and Australia were strong. The casualty market continues to move in the right direction. For worker's comp we are into our third year of rate increases. Our property portfolio has been expanding into non-peak zones and rates are at sustainable levels. We have made some organizational changes and additions in key management positions in both the US and internationally which will allow us to move forward in expanding our footprint in new and different ways.

Given our size, credit quality and market positioning we are a market that brokers and clients are interested in doing business with. With these changes I'm confident that we can effectively execute on the right transactions and in the right way. I will now ask Craig to take us through further details on the financials.

Craig William Howie
Executive VP, Treasurer & CFO

Thank you, Dom, and good morning everyone. We're pleased to report that Everest had another very strong quarter with after-tax operating income of $223 million or $4.25 per diluted common share. In comparing these results to last year, consideration must be given to the record catastrophes experienced in 2011. Net income for second quarter was $214.6 million or $4.08 per diluted share. Net income includes realized capital losses for the quarter.

On a year-to-date basis, operating income was $462.9 million or $8.72 per share. This represents an annualized operating return on equity of 16.1%. Net income year-to-date is $519.3 million or $9.79 per share. This net income includes realized capital gains for the year. These results are reflective of the year-to-date overall attritional combined ratio improving one point from 87.8% down to 86.6%. This measure excludes the impact of catastrophes and reinstatement premiums.

The total reinsurance attritional combined ratio was 83.7% compared to 84.7% in the prior year. The reinsurance segments would have improved even more if not for the $30 million charge in the marine line for the Costa Concordia cruise ship, $10 million of which was booked this quarter. This includes the estimated $200 million of additional costs to remove the wreck. The insurance segment attritional combined ratio was 98.7% compared to 99.3% in the prior year. This ratio is much better than the 105.8% ratio for the full year of 2011. These improvements should pinwheel as rate increases continue to earn in over time. Also providing better margins is the shift in our portfolio from quota share to excess of loss.

Gross written premiums of $909 million for the quarter were down 8% compared to Q2 2011. This decline is primarily driven by the non-renewal of one large Florida quota share reinsurance contract in the quarter -- more on this later. On a year to date basis, gross written premiums were $1.96 billion. This represents a decline of 2% after adjusting for reinstatement premiums and the effects of foreign currency movements. Earned premiums of $1.04 billion for the quarter were flat compared to the same quarter last year. Earned premiums of $2 billion on a year-to-date basis have not changed significantly year-over-year.

We have achieved strong rate increases on portions of our books, especially on catastrophe-exposed risks. However, the shift in capacity away from proportional risks does mask this effect as excess of loss business carries lower premiums. The reinsurance segments reported year-to-date earned premiums of $1.6 billion, up 1% over 2011. Reinsurance written premiums of $1.5 billion were down 3% over the same period. However, written premiums were flat year-over-year after adjusting for reinstatement premiums and foreign exchange.

For the quarter, written premiums of $654 million were down 10% after adjusting for reinstatement premium and foreign exchange. The decline in the reinsurance written premium this quarter is primarily driven by the nonrenewal of a large Florida quota share contract. The reinsurance segment written premium would have been up 14% for the quarter excluding the impact of the return premium on this transaction. The written premium would have been up 17% excluding the impact of reinstatement premiums and foreign exchange.

The nonrenewal of this contract allowed us to deploy our capital elsewhere and write other excess of loss covers in Florida. In fact, we remain a significant writer of excess loss business in Florida. This fits our strategy of shifting our portfolio towards excess of loss business where we feel underwriting margins have seen the most improvement. We expect to see continued improvement in the expected margins to earn in over time assuming a normal catastrophe year in Florida.

The insurance segment reported $212 million of earned premium for the quarter which was flat compared to Q2 2011. On a year-to-date basis, insurance earned premiums of $392 million were down 8% year-over-year. This is primarily due to the runoff of certain program business and lower crop premium in the current year. Last year the crop premium earned evenly throughout the year as reinsurance premiums.

The insurance segment reflects $35 million of seasonal earned premium from crop business in Q2 with $39 million now earned year-to-date. We expect full year net premium from this book to total about $150 million. We're currently booking the crop business at a 95% combined ratio, but it's still too early to tell the overall impact that the record drought conditions in the US will have on this book. However, as Dom mentioned, the company does purchase stop loss reinsurance coverage for its crop portfolio and the MPCI cover attaches at a 110% loss ratio.

Our reported combined ratio is 89.0%. This is for both the quarter and year to date. All segments reported underwriting gains for both the quarter and on a year-to-date basis. The overall underwriting gain was $114.5 million for the quarter and $224 million for the year so far. Total reinsurance reported an underwriting gain of $107 million for the quarter and a $218.7 million gain year-to-date. The insurance segment reported a $7.4 million underwriting gain for the quarter and a $5.3 million gain year-to-date.

The commission ratio for the quarter is up 2.8 points compared to the prior-year quarter. This increase relates to a number of one-time adjustments and settlements and the change in accounting for deferred acquisition costs. We expect this ratio to return to a normal run rate of 22% to 23% over the next several quarters. For the quarter we recorded $30 million of losses for current year catastrophes. These losses are primarily related to a number of tornadoes and other severe weather in the US this quarter. This brings our year-to-date gross catastrophe losses to $60 million for 2012 or 2.9% of earned premiums.

Regarding 2011 catastrophe losses, we've reallocated a portion of the $50 million CAT IBNR established at the end of last year to cover higher estimates on certain events; in particular, the 2011 New Zealand earthquake. We still have $30 million of this catastrophe IBNR remaining. As for other loss reserves, we released our 2011 global loss development triangles in June. There were really no major changes since the 2010 release, and in fact our quarterly internal reserving analysis continues to develop favorably.

For investments, pre-tax investment income was $149.3 million for the quarter and $301.8 million year-to-date on our $16 billion investment portfolio. Year-to-date, investment income declined $35.6 million from one year ago. This decrease is primarily driven by lower limited partnership income which was down $22 million this year and by declining reinvestment rates.

The quarter reflected $16.6 million of pre-tax realized capital losses and $8.5 million of losses after tax. But, we had $82.1 million of pre-tax revised capital gains on a year-to-date basis and $56.3 million of gains after tax. On income taxes, the 12.9% effective tax rate on operating income for the quarter reflects 1) the impact of the realized capital losses this quarter on the annualized effective tax rate calculation, and 2) other one-time tax adjustments. The 7.4% year-to-date effective tax rate on operating income is within our expected range for the year.

Turning to other miscellaneous items, a $16.3 million derivative loss for the quarter relates to the decline in the equity markets and interest rates during the quarter. On a year-to-date basis we reported a derivative loss of $10.1 million compared to a derivative gain of $4.2 million in the prior year. Other income for both the quarter and the year largely reflects foreign exchange gains in the period as opposed to foreign exchange losses a year ago. This is primarily due to the strengthening of the US dollar against other world currencies.

Operating cash flows were $139 million for the quarter compared to $151 million in second quarter of 2011. As expected, catastrophe loss payouts and income tax payments contributed to this decline. We earned $188.5 million of comprehensive income this quarter. This primarily reflects $215 million of net income for the quarter less foreign currency translation adjustments of $25 million. We now have $590.4 million of comprehensive income year-to-date.

Turning now to capital management, in addition to the dividend payments to shareholders of $25 million we repurchased almost 1 million shares this quarter at a total cost of $100 million. For the year we've repurchased 2.4 million shares at a total cost of $225 million. Since 2006, we've repurchased over 15 million shares at a total cost of $1.3 billion representing over 23% of the outstanding shares at December 31, 2006. The company has 4.9 million shares remaining under a share repurchase authorization from the Board of Directors.

Shareholders' equity increased to $6.4 billion this quarter, up 6% from $6.1 billion at year end 2011. This is after taking into account the $225 million of stock repurchases and the $51 million of dividend paid so far this year. Book value per share increased 9.5% to $123.75 from $112.99 at year end 2011. Our strong capital position leaves us with capacity to maximize our business opportunities as well as continuing our share repurchases. Thank you, and now I'll turn it back to Beth for Q&A.

Elizabeth B. Farrell
Vice President, Investor Relations
Lisa, we're ready to take questions.

Question and Answer

Operator

[Operator instructions] And we'll take our first question from Amit Kumar with Macquarie Research.

Amit Kumar
Macquarie Research

Thanks, and congrats on a very strong quarter. I just had a few sort of clarification-type questions on the crop insurance book, and the color was very helpful that you gave in the opening remarks. First of all, can you just sort of refresh us in what is the crop distribution in the heartland book? It's not corn, it's not predominant just based on where it is, but can you just refresh us what is that distribution?

Dominic James Addesso
President, CEO & Non-Independent Director

You mean the distribution by crop?

Amit Kumar
Macquarie Research

Yes.

Dominic James Addesso
President, CEO & Non-Independent Director

Its normal distribution is corn and soybean; corn and soybean are the main products.

Amit Kumar
Macquarie Research

And then do you have the percentages or…

Dominic James Addesso
President, CEO & Non-Independent Director

Give me a second here, Amit. The information I have in front of me will not let me give you a precise answer, Amit, so I'm going to have to follow up on that question.

Amit Kumar
Macquarie Research

Okay, that's fine. And secondly I know you mentioned the stop loss coverage. Would this be similar to sort of what the industry standard is in terms of where it attaches? Can you give us any other color on that?

Dominic James Addesso
President, CEO & Non-Independent Director

It attaches at a 110%. I think it's 95% and we have a 5% participation. It's 30 points of limit. 95 of 30%, excess of 110%.

Joseph Victor Taranto
Chairman of the Board

It's similar in structure to what most companies purchase.

Amit Kumar
Macquarie Research

Got it, that's very helpful. And I guess the only other question I have for now is you know, obviously your overall book has evolved. You're talking about CAT-exposed premiums being at $1 billion versus right now at $700 million. I'm curious how should we sort of think about the CAT load discussion? I know we've discussed a number in the past but as the book changes how do you think about the CAT load internally?

Dominic James Addesso
President, CEO & Non-Independent Director

That's not changed significantly, Amit. As we've mentioned there's been no major shift in our peak zones and we've pushed out some additional aggregate into non-peak zones but that's not changing materially our annual expected outlook.

Joseph Victor Taranto
Chairman of the Board

And a lot of the change comes from rate increases.

Operator

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

Joshua David Shanker
Deutsche Bank AG, Research Division

I just want to walk through the Florida quota share arrangement a little bit. I wanted to know what impact there was on the expense ratio or the loss ratio in terms of maybe giveback of premiums or something like that that may be one time in nature? Also I wanted to know, does the program dissolve or does it go to a competitor? And then talk a little about the philosophy of letting that program leave and what changed in the economics over the last few years.

Joseph Victor Taranto
Chairman of the Board

I'll start with the latter part of that question with regard to what happened, and then I'll turn it over to Craig to take you through some of the numbers. Basically we would have supported the deal that was in place with us last year, but a competitor offered terms that we could not support. We in fact had a contractual right on the deal that was put forth to do more than 50% but we chose not to do anything, and instead we redeployed our capital into Florida XOL deals which we think offer better returns. So that's the long and short of it, and in terms of that specific deal, but Craig will give you the particulars numbers-wise.

Craig William Howie
Executive VP, Treasurer & CFO

Josh, one of the things is we don't typically discuss any one transaction on a call like this. However what I can tell you is what we did is we portfolio'd out the unearned premium. That unearned premium was $194 million. We have to reverse the corresponding commission and then we have to remove any deferred acquisition costs associated with that on our unearned premium. But this was a one-time transaction and a one-time event. So you're right, that it was an impact as part of our combined ratio for the quarter but there were a number of other adjustments and impacts in that combined ratio as well.

Joshua David Shanker
Deutsche Bank AG, Research Division

Okay no problem. But arguably we can be comfortable saying that the expense ratio in US reinsurance is inflated in Q2?

Joseph Victor Taranto
Chairman of the Board

Correct.

Joseph Victor Taranto
Chairman of the Board

The [indiscernible] points of inflation on the expense, that's on a worldwide basis. So there is a blip in the quarter that drove up the expense ratio that should go away.

Operator

And we have Greg Locraft with Morgan Stanley.

Gregory Locraft
Morgan Stanley, Research Division

I just wanted to get your appetite for buybacks at today's levels given that the valuation really hasn't moved much year to date because you've had so much book value growth.

Joseph Victor Taranto
Chairman of the Board

Our appetite remains strong. We think it's one of the best ways to use the profits, the earnings that we're making. Now we are moving into hurricane season, and so we'll be a bit more cautious in this quarter than perhaps otherwise, but we intend to continue to buy nonetheless.

Gregory Locraft
Morgan Stanley, Research Division

Okay, and then if you can just remind me historically, have you ever bought within the wind season and would that strategy change?

Joseph Victor Taranto
Chairman of the Board

We have but again, we've bought less than we have in other quarters. But you know, at this point we have a lot of excess capital, profits are good. We like the portfolio and the only hesitation is the fact that it's hurricane season. But we like the price and it's really one of the ways of continuing to move the football down the field. We like buying our stock at these levels.

Gregory Locraft
Morgan Stanley, Research Division

Excellent, okay. Thanks. And then just shifting gears back to crop, it's actually pretty amazing. You're not the only carrier but the industry is staring at what at least what would be the largest loss in crop in history, and yet you guys are booking at 95% and are going to obviously therefore make money in the line if your projections prove out. And so I guess what I'm trying to understand is what is going into that expectation of a 95%? What gives you guys confidence that what appears to be the worst industry loss ever is not going to result in you guys losing money in that particular line?

Dominic James Addesso
President, CEO & Non-Independent Director

Greg, it's Dom. It's still very early to be predicting what the outcome is, but also recognizing that it's a limited amount of premium that was earned in Q2 from crop. So that fact that we built a very small underwriting gain, which I think is consistent with what many of the other markets have done; and it's not inconceivable given that, as I mentioned in my script, we could eke out a small profit because at this point only 24% of the states are severely affected.

Now, that could change in the months ahead in either direction and we have ranges around where the result could end up, which include both a strong profit and a modest loss. So it was really much too early to predict how to book this and frankly, given the level of earned premium that we had in the quarter, it wasn't that material at least as in the impact for this quarter. And ultimately as I said, even as the year plays out on the insurance side our annualized premium for crop is $150 million, and of that $135 million is MPCI-related; the remainder is crop hail.

Joseph Victor Taranto

Chairman of the Board

Yes, to follow up on that, that really means that this is 3% of our worldwide premium, and it's got a stop loss on it; and as Dom noted only 25% of the business now is in the states that are performing quite poorly. Having said that, as Dom noted, it remains to play out. It certainly could get worse and we could lose money on this, we'll see. But really in the grand scheme of things it is not a real big deal for us.

Gregory Locraft
Morgan Stanley, Research Division

Excellent, very thorough. And then last is on the top line decline, the loss of the contract which you called out in the quarter, are there any lingering impacts to that as we think about premiums and our models going forward on the top line and the bottom line? Just how we should handle that.

Joseph Victor Taranto
Chairman of the Board

I don't think there are any adverse issues in terms of margins or profits or attritionals going forward. Premiums may be down a bit; they were down this quarter, and we won't have that treaty on an ongoing basis. But really our focus is on margin and profits and attritional. And we don't see any issues on that front.

Dominic James Addesso
President, CEO & Non-Independent Director

In fact, margins really should be going up as again, I indicated moving more of our CAT PML from proportional to excess, we're benefitting not only on the attritional loss ratio but also on the commission ratio.

Gregory Locraft
Morgan Stanley, Research Division

Okay, great, and again, the profitability is strong. But I guess what you're saying though is there will be top line pressure that plays through for at least the next 3 quarters. We've taken one quarter of the decline and it should continue but profits are up because of all the reasons you've stated.

Dominic James Addesso
President, CEO & Non-Independent Director

Greg, what's in that is you think about the rate increases we've had, not only in Florida but around the globe, and a lot of that rate increase is offsetting to a very large degree this one particular transaction.

Joseph Victor Taranto
Chairman of the Board

Yes, and you don't have one quarter in this quarter. You have the whole unearned premium reserve portfolio'd out, so everything that was on the books has been written, but hasn't earned at this point has been reversed. So this is a very unusual quarter in that regard.

Operator

We'll take our next question from Cliff Gallant with KBW.

Clifford Henry Gallant
Keefe, Bruyette, & Woods, Inc., Research Division

just 2 questions: the first just on the switch from quota share to XOL, is that simply a reflection of current market terms or is there something more intrinsic about the business that you prefer in XOL? And then my second question was just on investment income, and we continue to see low yields and the outcome doesn't look good there, is there any sense that you should change your strategy, try to get more yield?

Joseph Victor Taranto

Chairman of the Board

Well, let me start on the first part. What we have found I think looking around the world in the last year or so is XOL rates have been going out where in many cases pro rata rates have not. So more and more that's pushing us into the XOL camp. Having said that we still see pro rata deals that we like doing, and we put those through our models and see how those returns compare to other potential deals. We're talking about CAT deals now and so again, it's a portfolio optimization model that we're using. We want to do the best deals. We have a certain aggregate that we're willing to apply, and we want only the best deals to go into that aggregate. And what shakes out of that shakes out of that. Now, as it turns out, given the trends that's more and more XOL as opposed to pro rata.

Craig William Howie
Executive VP, Treasurer & CFO

From an investment standpoint, Cliff, I don't see a dramatic change in our portfolio here. First of all there's been a lot of changes in the portfolio over the past couple years but right now it's very conservative. It's a diversified portfolio. It's very high credit quality. We don't' have control over the low interest rate environment but we have to live with it. We have to make it up on the underwriting side, and there's been a lot of discussion about underwriting benefits here and a decline in our attritional ratio; and that will make up for it to get to the bottom line ROE.

Dominic James Addesso
President, CEO & Non-Independent Director

Let me also give you a statistic that might help keep this in perspective relative to the pro rata versus excess. And it's not as if, as Joe indicated, that we stopped writing pro rata. It's just reducing the proportion. So in terms of the proportion of pro rata to excess business, in 2010 -- and I'm going back to 2010 because that's a reflection of how it earns through the portfolio -- pro rata was 68%, XOL obviously 32%. In 2011 61%/39%, and in 2012 for June it's 57%/43%. So I mean that just gives you the trend line of the pro rata.

The pro rata is also benefitting, by the way, from underlying increases in primary rates but it's not as if pro rata is falling off a cliff here.

Operator

We'll take our next question from Ian Gutterman with Adage Capital.

Ian Gutterman

Hi. Just can you clarify again for me on the universal contract, I think you said $194 million of unearned premium? Over what time period would you have kept the contract? Over what time period would that have earned out - by the end of the year, does it go into next year?

Joseph Victor Taranto
Chairman of the Board

It would have been one year and you're correct -- the number was $194 million that was portfolio'd out of unearned.

Ian Gutterman

Okay, so basically that's Q3 of this year through Q2 of next year that would of earned out.

Joseph Victor Taranto
Chairman of the Board

Correct.

Ian Gutterman

Got it, okay great. And then can you talk about, just given the portfolio changes you've made in CAT, I don't know if you can give us a Florida only PML or just talk about how you've structured the portfolio in XOL? Are you exposed more to the Florida-only's and nationals, are you playing high layers, low layers, just some sort of sense of what types of events or companies you might be exposed to.

Dominic James Addesso
President, CEO & Non-Independent Director

Our portfolio hasn't changed much in that regard, frankly, and it's pretty well ventilated. We support regionals, locals and national clients. It's a wide array of client list.

Joseph Victor Taranto
Chairman of the Board

And no meaningful change to the PML.

Ian Gutterman

Alright, even though I would have thought -- I mean quite a [indiscernible] implies you pay at dollar one where XOL means you pay obviously higher, so it would seem you'd be less exposed to lower events this year at a minimum. Is that right?

Dominic James Addesso
President, CEO & Non-Independent Director

Well slightly that's true, but there are CAT covers that do attach low. And then of course you can deploy more limit up high and it has a similar PML.

Joseph Victor Taranto
Chairman of the Board

And Ian, our design was to not increase the PML so we've worked backwards from that.

Ian Gutterman

Okay, and maybe just lastly on that is just as you were trying to reallocate onto XOL-type programs, I mean some of your competitors have sort of discussed it being difficult to stay on programs that they liked in the past because of some of these nontraditional competitors coming in. I just wondered how much of a concern was that as you were repositioning or were you sort of playing on a contract that doesn't tend to attract that kind of capital?

Joseph Victor Taranto
Chairman of the Board

You know there's always competition in our business, there always will be; and it comes in from the normal competitors and yes, you do see it come in in unconventional ways here and there, be it sidecars or other things. So yes, there was a little bit more than that recently. Having said that, as Dom noted in Florida as an example rates still went up, so I'm sure it had a dampening effect but rates still went up. And I've found it overall this June and July to be a very sensible market where we were still able to achieve what we were looking to achieve.

To a certain degree, more competition coming in that still keeps it a sensible market is not a bad thing. We don't want so much coming in that it makes it a market that doesn't rate very well, but a lot of the competition that is coming in in an unconventional way only wants to come in if it's a reasonable market and frankly will go away I think if it is not. So put it all together, I don't think it changed the world all that much and we were happy with what we achieved.

Dominic James Addesso
President, CEO & Non-Independent Director

We also have increased demand too, Ian, coming out of model drift as well as companies seeking to buy more protection. So those are some offsetting factors to what you've described.

Ian Gutterman

Of course, of course. Do you have any emerging thoughts as far as a willingness to engage with some of these new form of capital?

Joseph Victor Taranto
Chairman of the Board

We're open. We talk to some of these potential new ventures. If it makes sense for us we could engage. We're open-minded about it.

Operator

Our next question comes from Michael Nannizi with Goldman Sachs.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

So one question I had, you mentioned capital deployment before and you mentioned the nonrenewal of this Florida contract. Just thinking about capital deployment through wind season, I mean does the fact that you have less exposure now it would appear to wind season allow you to get more comfortable with deployment through wind season?

And I guess the second question I think, Joe, you mentioned upfront you're deploying capital relative to the capital you're generating. I guess my question would be why stop there? Why not deploy more if you have enough capital and you feel comfortable that there's enough there to continue? And then I just have one follow-up, thanks.

Joseph Victor Taranto
Chairman of the Board

Well you know I think we will be buying back. In terms of going even more aggressively, let's put everything in perspective. Craig noted we bought back 23% of the stock in recent years and frankly, we've added to that that we plan on continuing to buy in a meaningful way. Beyond that we like having excess capital. We like having capital for business opportunities. It didn't hurt having capital last year when there was a ton of losses out there and some others that downgraded because they didn't have enough capital. So we want to balance everything. We want to keep having high-quality earnings that we can buy back more, and we will just continue to buy back. I think we pitched it at a very reasonable level all things considered.

I think you said something upfront about something that suggested our exposure was down. I think we've said we've kept the PMLs the same but we didn't really say that we've taken them down. So our exposure if you will just looking from a PML point of view to hurricane is still approximately the same in peak zones.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Even after adjusting for the nonrenewal of that one large contract?

Joseph Victor Taranto
Chairman of the Board

Yes, yes because we redeployed that capital to do some other excessive loss contracts.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

And then one follow-up on the crop stuff: I assume that the reason your losses even in a worst case scenario are limited or relatively bracket-able is because of the reinsurance program that you have. And I guess my question is is that all private market reinsurance? Is some of that back to the government? That's my first question.

Dominic James Addesso
President, CEO & Non-Independent Director

What I was referring to is the stop loss program and Craig referenced it as well in his opening comments. That's private reinsurance. That's not the sessions to the federal government, no.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Is there a quota share as well or is it just purely a stop loss?

Dominic James Addesso
President, CEO & Non-Independent Director

Stop loss. We do have quota share with XOL, right.

Michael Steven Nannizzi
Goldman Sachs Group Inc., Research Division

Understood, okay. And then just the last one: the growth -- and it looks like a lot of the premium growth came out of international reinsurance, and I just wanted to understand where are you focusing your attention and do you expect that that will continue to be the engine for premium growth for the remainder of the year? Thanks.

Joseph Victor Taranto
Chairman of the Board

On the international side some of what you're seeing is a rate increase coming out of Australia, coming out of Japan, a little bit continuing in Latin America. But we've been very strong on the international front for years but again, I think much of what you're seeing there most recently is rate increase on the XOL side.

Operator

We'll take our next question from Vinay Misquith with Evercore Partners.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

The first question is on the crop insurance. You mentioned that you're writing on 95% combined ratio. What's your loss ratio for the business that you're working at right now?

Joseph Victor Taranto
Chairman of the Board

The combined is the 95%, yes. The way we book it's 95% combined.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

So the loss ratio would be similar to the combined ratio, correct?

Dominic James Addesso
President, CEO & Non-Independent Director

Well you've got the commission fees in there. We'll get you that number in a second.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

The reason I ask is that the stop loss is that 110% loss ratio so I just wanted to find out the apples to apples.

Dominic James Addesso
President, CEO & Non-Independent Director

The stop loss ratio works off of the entire combined excluding our internal expenses which are small. And the loss ratio is 75% so it's 25% [indiscernible].

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Alright, so just looking at apples to apples it's 110% of the loss ratio was say maybe the 90% to 95% that you're booking at now, correct? I mean that's the potential upside or loss that you may have, correct?

Joseph Victor Taranto
Chairman of the Board

95% could go to another 15 points before the stop loss would begin, yes.

Vinay Gerard Misquith
Evercore ISI Institutional Equities, Research Division

Okay fair enough, great, thanks. The second question was on rate increases. You've had very strong rate increases and that's flattening out right now. Where do you see rate increases going out next year should we have a benign CAT season?

Joseph Victor Taranto
Chairman of the Board

Well, I think they're going to level off if you have little to no CATs. If they stay where they're at I think they'd be leveling off at a very reasonable place where there'd still be some very good opportunities. But I would not expect them to continue up way beyond what they've done in the last couple of years if there was little in the way of catastrophes.

Operator

And there are no further questions. I'd like to turn the conference back over to Mr. Joseph Taranto for any additional or closing remarks.

Joseph Victor Taranto
Chairman of the Board

Well, I will make one comment. We didn't talk much about the casualty market and Dom certainly noted that whereas we're seeing rate increases there and it's getting more promising, it's still not exciting enough for us to really make some bigger bets there. But I would remind everyone that we certainly have the firepower, distribution and people to do so should that end of the market begin to get more interesting.

We have the firepower both on the insurance side and the reinsurance side, so we are hoping that many who are predicting that, that end of the world will continue upward and will continue to improve, we certainly hope that that is the case; and if that is the case we'll be able to do more there. I thought I'd comment on that since we really hadn't addressed it whatsoever. But other than that, thank you for joining us today.

Operator
And that concludes today's teleconference. Thank you for your participation.