S&P Global
Market Intelligence

Everest Group, Ltd. NYSE:EG

Earnings Call

Thursday, October 26, 2023 1:00 PM GMT

Call Participants

EXECUTIVES

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Juan Carlos Andrade
President, CEO & Director

Mark Kociancic
Group Chief Financial Officer

Matthew Jay Rohrmann
Senior VP & Head of Investor Relations

Michael Karmilowicz
Executive VP and President & CEO of Everest Insurance®

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Joshua David Shanker
BofA Securities, Research Division

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

Michael Augustus Ward
Citigroup Inc., Research Division

Michael David Zaremski
BMO Capital Markets Equity Research

Ryan James Tunis
Autonomous Research US LP

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

Yaron Joseph Kinar
Jefferies LLC, Research Division

Presentation

Operator

Welcome to the Everest Group Ltd Third Quarter 2023 Earnings Conference Call. [Operator Instructions]. Please note, this event is being recorded.

I would now like to turn the conference over to Mr. Matthew Rohrmann, Senior Vice President, Head of Investor Relations. Please go ahead.

Matthew Jay Rohrmann
Senior VP & Head of Investor Relations

Good morning, everyone, and welcome to Everest Group Limited Third Quarter of 2023 Earnings Conference Call. The Everest executives leading today's call are Juan Andrade, President and CEO; and Mark Kociancic, Executive Vice President and CFO. We're also joined by other members of the Everest management team.

Before we begin, I'll preface the comments on today's call by noting that Everest SEC filings, including extensive disclosures with respect to forward-looking statements. Management comments regarding estimates, projections and similar are subject to the risks, uncertainties and assumptions as noted in these filings. Management may also refer to certain non-GAAP financial measures. These items are reconciled in our earnings release and financial supplement. With that, I'll turn the call over to Juan.

Juan Carlos Andrade
President, CEO & Director

Thank you, Matt. Good morning, everyone. Thank you for joining us. Everest's Third Quarter performance was excellent. We delivered outstanding returns, including a near 20% operating return on equity and an annualized total shareholder return of 25%. We are leaning into the hard reinsurance market, where favorable conditions and a flight to quality persist.

As a lead reinsurance market and preferred partner, we are taking advantage of strong pricing while deepening our client relationships and expanding our global portfolio at significantly improved risk-adjusted returns.

We are positioned for success as we head into the January renewals. We also remain on track for January 2024 for the full deployment of the equity capital raised in May. Our primary insurance business delivered strong underwriting income with a significant year-over-year improvement in the third quarter. And our high-quality investment portfolio continues to support our underwriting performance with outstanding returns.

We achieved these results despite another active catastrophe quarter. We tracked over 80 material events globally this quarter, resulting in a 9-month year-to-date industry loss estimated at roughly $93 billion. The industry is on course for another $100 billion loss this year. This reinforces the need for continued underwriting discipline and for additional pricing increases across all lines.

As the world becomes increasingly complex, Everest value proposition, it's in greater demand. As you have heard me say before, we are on offense with strong tailwinds across all of our earnings streams, a strong balance sheet and top-tier global talent powering it all.

With that, I'll turn to our third quarter financial highlights, beginning at the group level. In addition to delivering exceptional returns, we drove substantial improvements across our group key financial metrics, underwriting income, net investment income, operating income and net income and we delivered record increases in operating cash flow and book value per share.

We grew the business at significantly expanded margins. Gross written premiums increased by 23% year-over-year in constant dollars, led by record quarterly reinsurance growth. We generated $613 million in net operating income, a significant year-over-year increase, and we have generated $1.7 billion year-to-date. The group combined ratio of 91.4% also improved year-over-year by 21 points, which translates to an underwriting profit of over $300 million for the quarter and nearly $1 billion in underwriting profit year-to-date.

Our attritional loss and combined ratios both improved by more than 1 point year-over-year to 59% and 86.5%, respectively. We generated more than $400 million in net investment income in the third quarter and we delivered over $1 billion of net investment income year-to-date. In addition to the improved interest rate environment, this year-over-year improvement was driven by strong returns from both our fixed income and our alternative investments.

Turning now to our reinsurance business. The reinsurance division delivered an exceptional quarter with outstanding top and bottom line results and superb execution by our team. Leading into the strength of the market, we maintained our strategy of targeted and nimble capital deployment with core clients, resulting in significant growth across virtually all business lines and geographies at materially improved risk-adjusted returns. We grew gross written premiums on a constant dollar basis and excluding reinstatements, by 33% to $3.2 billion for the quarter. This is a new record for the division.

In property catastrophe, where the market remains outstanding, premiums, excluding reinstatements, were up 41% from last year. Property pro-rata premiums increased 44%. Casualty pro-rata premiums were up as well at 20% while we carefully manage the casualty market cycle and target best-in-class clients.

Internationally, we expanded in key target growth markets across Europe, Asia and Latin America. We also grew in specialty lines with strong margins, including aviation, marine and mortgage. Despite the active catastrophe quarter, we improved our catastrophe loss ratio significantly year-over-year, reflecting our deliberate and consistent actions to manage volatility. The attritional loss and combined ratios were down year-over-year by 1.6 and almost 2 points, respectively, with the overall combined ratio improving to 91%. This helped us achieve an underwriting profit of $234 million.

Looking ahead, our outlook for the January 1, 2024 renewal remains strong. We fully expect the robust pricing and favorable conditions to continue. And as a lead market, we stand to benefit. Our nimble, creative and collaborative approach allows us to simultaneously improve our economics and strengthen client relationships. This tremendous relationship equity will serve us well. Expectations for pricing and terms and conditions in the global property market are now well understood, which should make future renewals more orderly.

At recent industry events, including Monte Carlo and CIAB, our clients told us that they want more of our capacity and want to further broaden their partnership with us. Our confidence in our strategy and in the strength and durability of the market is high. I am excited by the magnitude of the opportunity we have created for the business. We are extremely well positioned with the expertise, global capabilities and financial strength to seize this generational market opportunity and to optimize the portfolio for the long term.

Now turning to our Insurance division. In our primary business, rate continues to exceed loss trend with improvements across multiple lines. We achieved an 11% increase in our core portfolio, excluding workers' compensation and financial lines.

In addition to property, improved pricing was particularly strong in marine and other specialty lines. We grew the business approximately 4% and generated more than $1 billion in gross written premiums. Growth in the quarter was diversified and particularly strong across property, where we see excellent opportunities and specialty lines such as marine, aviation, trade credit and political risk. The growth was offset by reductions in workers' compensation and financial lines where the market is less attractive.

Additionally, we are gaining traction internationally, where we are methodically scaling our capabilities and our platform. Our focus remains on driving bottom line growth. We continue our disciplined underwriting to take advantage of high-margin opportunities and reduce exposure in pockets of business that do not meet our profitability objectives.

The attritional loss ratio improved year-over-year to 63%. Our pretax catastrophe losses at $10 million, net of estimated recoveries and reinstatement premiums were modest, leading to an improvement in the reported combined ratio to 92.6%. We achieved an underwriting profit of $66 million in the quarter and a record profit of $196 million year-to-date.

We continue to attract and develop best-in-class talent. We share our vision for the company and our commitment to world-class customer service. I am bullish about the momentum we have created for our business and Everest's position in the market. We have every advantage at our disposal, a world-class team, strong and diversified reinsurance and insurance platforms and market tailwinds at our back to accelerate our progress and build even greater value for our shareholders.

With that, I'll turn it over to Mark to review the financials in more detail.

Mark Kociancic
Group Chief Financial Officer

Thank you, Juan, and good morning, everyone. Everest had another very strong quarter and built upon the momentum we saw in the first half of the year. The company reported operating income of $613 million or $14.14 per diluted share in the quarter, equating to an operating income return on equity of 19.2%. Year-to-date, total shareholder return or TSR, stands at 24.5% annualized.

We significantly improved our overall combined ratio while generating double-digit growth as pricing and terms remain attractive in most lines of business around the world.

The company's strong performance in the third quarter was led by our team's high level of execution in our core markets and we have a number of tailwinds across both of our businesses heading into the last quarter of the year and into 2024.

Looking at the group results for the third quarter of 2023, Everest reported gross written premium of $4.4 billion, representing 23.4% growth in constant dollars year-over-year. The combined ratio was 91.4%, which includes 5 points of losses or $175 million from pretax natural catastrophes, net of estimated recoveries. The natural catastrophe losses in the quarter were driven by a number of midsized events globally.

Group's attritional loss ratio was 59%, 120 basis point improvement over the prior year's quarter, led by the reinsurance segment, which I'll discuss in more detail in just a moment.

The group's commission ratio increased 50 basis points to 21.4% on mix changes, while the group's expense ratio remains a competitive advantage of 6.1%, up modestly year-over-year as we continue to invest in our talent and systems within both franchises.

Moving to the segment results and starting with reinsurance. Reinsurance gross premiums grew 32.7% in constant dollars when adjusting for reinstatement premiums during the quarter. As Juan mentioned, this was a record for the segment. The strong growth was driven by double-digit increases in Property Pro-Rata, Property Cat XOL, Casualty XOL and Casualty Pro-Rata and was broad-based globally. The combined ratio was 91%, which improved from 115% in the prior year. The prior year period included $620 million of pre-tax catastrophe losses, net of recoveries and reinstatement premiums, largely due to Hurricane Ian.

The attritional loss ratio improved 160 basis points to 57.5% as we continue to achieve more favorable rate in terms, particularly in property, which we expect to continue throughout 2024. The commission ratio was 24.8%, an increase of 90 basis points from the prior year due to the impact of reinstatement premiums from the Q3 Cats last year. There was a modest 30 basis point underlying mix impact benefit, excluding the Q3 2022 reinstatements. The underwriting-related expense ratio was 2.5%, which was essentially flat year-over-year.

We continue to lean into the hard reinsurance market and the equity capital raise deployment remains on track and will be fully deployed by January 1 renewals.

Moving to Insurance. Gross premiums written grew 3.5% in constant dollars to $1.2 billion. As you may have noticed, gross written premium growth was more modest this quarter as the division enjoyed double-digit growth in a diversified mix of property and specialty lines, while being partially offset by lower written premiums in workers' compensation and financial lines. Overall, pricing remains ahead of loss trend, and we continue to see attractive market opportunities across our book of business.

We will also continue to have underwriting discipline in areas we find less attractive as we exhibited this quarter. The combined ratio was 92.6%, which improved from 103.5% in the prior year. The division benefited from a relatively low level of natural catastrophe losses in the quarter in the amount of $10 million net of estimated recoveries and reinstatement premiums, further demonstrating the success of our derisking actions on our portfolio.

The attritional loss ratio improved slightly this quarter to 63.1% driven primarily by business mix, given the higher proportion of longer tail lines of business. The commission ratio improved 120 basis points largely driven by business mix as increased property writings earned through as well as increased volume of seating commissions. The underwriting-related expense ratio was 16.7%, largely driven by certain one-off expenses and the continued investment in our global platform.

And finally, to cover investments, tax and the balance sheet, net investment income increased $255 million to $406 million for the quarter, driven primarily by higher new money yields, our investment in floating rate securities and higher assets under management. Alternative assets generated $75 million of net investment income, a sequential improvement as equity markets have continued to rebound.

Overall, our book yield improved from 3.2% to 4.2% year-over-year, and our reinvestment rate remains close to 6%. We continue to have a short asset duration of approximately 2.7 years given the attractive level of short rates. And as a reminder, the 23% of our fixed income investments are in floating rate securities.

For the third quarter of 2023, our operating income tax rate was 6.5%, which was lower than our working assumption of 11% to 12% for the year, and this was largely due to geographic income splits. Shareholders' equity ended the quarter at $11.3 billion or $13.1 billion, excluding net unrealized depreciation on available-for-sale fixed income securities.

At the end of the quarter, net unrealized losses on the available-for-sale fixed income portfolio equates to approximately $1.9 billion, an increase of $242 million as compared to the end of the second quarter, resulting from rate increases and foreign exchange movements.

Cash flow from operations of $1.4 billion during the quarter was a company record and book value per share ended the quarter at $258.71, an improvement of 22.4% from year-end 2022. When adjusted for dividends of $5.05 per share year-to-date. Book value per share, excluding net unrealized depreciation on available-for-sale fixed income securities stood at $301.76 versus $259.18 per share at year-end 2022, representing an increase of approximately 16.4%. Net leverage at quarter end stood at 18.6%, modestly lower on a sequential and year-over-year basis.

In conclusion, Everest had an excellent third quarter of 2023 and is well positioned heading into the final quarter of the year and into 2024. And with that, I'll turn the call back over to Matt.

Matthew Jay Rohrmann
Senior VP & Head of Investor Relations
Thanks, Mark. Operator, we're now ready to open the line for questions . We do ask that you please limit your questions to 1 question plus 1 follow up, then rejoin the queue if you have additional questions.

Question and Answer

Operator

[Operator Instructions]. The first question comes from the line of Alex Scott with Goldman Sachs.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

First question I had for you is on the demand for Property Cat reinsurance headed into this next year. And I'd just be interested if there's any color you can provide from early discussions and indications around that piece of things in terms of just thinking through last year, the retentions brought up a bit, I think limits in certain cases, weren't taking up as much as insured values were going up, that kind of thing. Are you seeing some willingness to reverse some of those actions? Do you think you'll see that kind of growth in the Property Cat reinsurance market this next year?

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

[indiscernible] on demand is that we see very strong signals that our clients are looking for more Property Cat capacity. And as you say, there was, I think, some pent-up demand at 1/1 of '23 that ultimately didn't get fulfilled. And so they're now back in the market and seeking capacity. We're having discussions with our clients actively about the 1/1 renewal and have also taken advantage of some opportunities to do some private placement activity in the latter half of this year to start filling in that demand.

So I think that's a very strong signal and our view with that is that, that will continue to drive really attractive returns in that market.

As respects retention levels and the market's reaction to that and what might happen next year, our view is, overall, the movement in retentions were necessary and appropriate. There clearly was too much industry loss activity flowing into the reinsurance sector that needs to be retained in the primary market. Now does that mean that every single carrier landed in the right spot, probably not. And I'm sure there'll be some adjustments around the edges. But fundamentally, I don't see any change in terms of going backwards on retentions.

Taylor Alexander Scott
Goldman Sachs Group, Inc., Research Division

Got it. And in terms of a follow-up, I wanted to ask you about Casualty Reinsurance and just your comfort with the price adequacy of the quota-share commissions and so forth. We heard that there was some negativity coming out of Monte Carlo from some of the European reinsurers. What's your perspective on some of the social inflation concerns and how well that's being captured in price and willingness to grow in some of those areas?

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Sure, Alex. It's Jim again. So as you say, I mean, this issue is clearly on the minds of the market, and it's been much discussed, including by Everest with our customers at both Monte-Carlo and CIAB. I think to fully understand our view of the market and what happens next, you really have to understand the context of how we built our book of business.

We've been incredibly deliberate and focused on managing the market cycle, and growing with the best-in-class cedents around the world, right? So we timed it correctly. We grew after the market began to harden. In 2019, we grew with best-in-class underwriters. We did not write the entire market. And I think some market participants did do that, and their results and their market commentary reflects that error.

And you also may have heard recently if you expressed, I think, that reinsurers have been slow to recognize the changes that are happening around social inflation and the other trends you mentioned.

I mean that is absolutely not the case with Everest. You would have seen our approach over the last 3-plus years. We've been very decisive on the reserve front. We've been prudent in our loss picks and which we've maintained by the way, even though pricing over the last couple of years has exceeded our expectations. We've been updating our trend factors on a frequent basis. So we're staying very much close to these trends and staying on top of them.

So today, we're sitting here with a very strong book with the best underwriters in the market. And those underwriters are not sitting by idly waiting for bad things to happen, which, by the way, is why we're starting to see signs of some reacceleration of rate taking among many of our clients, they're managing this closely. That said, social inflation is real. It's a real trend that needs to be managed. And so our approach at whether it's the January 1 renewal that's coming up or really any renewal is to assess each deal on its merits. And we do that in a very rational way. If the deal passes muster and is delivering returns we want, we'll write it. If it doesn't, we're more than happy to move away from it. We have many, many options to deploy our capital, which is why diversification is so important in our business, many different ways to get to our financial goals. And so we have the flexibility to move among deals.

The other point that I would make just relative to a piece of your question around ceding commissions, given all these trends, our expectation is that ceding commissions will continue to improve. We've seen that movement already begin and we expect it to strengthen considerably as we move into 2024.

Operator

The next question comes from the line of Josh Shanker with Bank of America.

Joshua David Shanker
BofA Securities, Research Division

Maybe there's no answer to this question, but obviously, the attachment points have gone up this year and the portfolio is more risk averse than it was a year ago, presumably. Given the moderate and frequent catastrophes this quarter, is there any way of putting in context what the Cat loss would have been had it happened last year instead of this year?

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Sure, Josh, this is Jim. Well, one point I would start with, I know you've made a point that it was a moderate Cat quarter and I think we feel very good about our Cat loss. But this quarter, from an industry perspective was anything but moderate. I mean we tracked over 80 events around the world. You had significant hurricane activity, which fortunately because of landing points, et cetera, did not do significant damage.

But the comment I would make, and as you say, it's sort of an unanswerable question, but you've seen our year-to-date performance in terms of our reported Cat losses. And that's happening against the backdrop of a year that's likely going to be another $100 billion plus industry loss a year, which is incredible, right?

And our expectation is that if you repeated the losses of 2022, for example, our loss this year against those same events would have been meaningfully lower, and that's because of attachment points. It's because of portfolio management, it's because of aggregation, it's our underwriting discipline, it's all those things laddering up. So we have clearly changed and improved the risk profile of the book, particularly when you're talking about a large number of mid- to large-sized Cat losses.

Joshua David Shanker
BofA Securities, Research Division

Okay. And then if I can get one more in. You mentioned that you're ready to deploy the capital you raised earlier in the year at January 1. Is there any way to discuss the degree to which capital is underdeployed right now in 3Q '23? And what the impact might be if you were fully deployed the way you want to be?

James Allan Williamson

Executive VP, Group COO & Head of Everest Reinsurance Division

Yes. Sure, Josh. Jim again. Well, look, so just to kind of go back to what we said after the capital raise, our expectation was that we would begin the deployment meaningfully with the 7/1 renewal that there would be incremental opportunities through the back half of 2023, and then we would complete the deployment at the January 1 renewal.

So, we have done exactly that. We've begun the process of deployment. We had a really strong 7/1. The back half of the year after 7/1 gets quieter, but there's been some nice deal activity both at the renewal periods as well as on a private placement basis. And based on the conversations we've had with our cedents, we see a very strong path to completing the deployment. We really have no concerns around that.

So I'm not going to speculate on, well, what if I just sort of deploy all the capital at 7/1. But what I can say is the path to completing that process, as we described, is incredibly clear.

Mark Kociancic
Group Chief Financial Officer

Josh, it's Mark. Just to add a couple of points to Jim's commentary. So number one, we're obviously very, very certain of our ability to deploy by 1/1. So you're dealing essentially with a 6-month time frame between the raise and the 1/1 deployment along the way. Clearly, we're deploying it where we see fit.

From an investment point of view, it's fully deployed the way we would like it for the time being. No issue for us to carry a little bit of excess capital. That's going to get remunerated to some extent, but will be, like I said, fully deployed by 1/1. And there's no benefit to rushing any kind of deployment. We want to stay disciplined and focused just as our initial plan back in May for the equity raise indicated.

Juan Carlos Andrade
President, CEO & Director

Josh, and this is Juan. Just maybe to put a fine point on it. Rates are still improving in property. And we also got paid a lot more for the risk that we took, and so that's part of the confidence that we have in being able to deploy this fully by the 1/1 renewal.

Joshua David Shanker
BofA Securities, Research Division

And so we should expect a healthy growth with 1/1 given all that you've said?

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Yes, Josh, it's Jim. I mean my expectation is we're going to grow our Property Cat writings with our core clients very nicely. Again, we see significant demand. Our expectation is that risk-adjusted rates will increase at the 1/1 renewal. So lots of opportunity in the environment.

Operator

The next question comes from the line of Yaron Kinar with Jefferies.

Yaron Joseph Kinar
Jefferies LLC, Research Division

My first question piggybacks on your thoughts on 1/1 renewals in the property reinsurance market. So certainly, you sound very constructive. You're also talking about demand being up. What about the supply side? Because I would have thought that with relatively benign reinsurance losses this year and certainly in hurricane season, you're going to see an uptick in capital.

So how are you thinking about that and the kind of supply-demand dynamic, especially for maybe more remote risk, which seems to be where the insurers are more interested in playing right now into 1/1, is the constructive view really driven by supply/demand? Or is it more about sentiment and discipline considering maybe a more balanced equation this year?

Juan Carlos Andrade
President, CEO & Director

Yes. Yaron, this is Juan. Thank you for the question. Look, I think from our perspective, you're seeing a couple of dynamics that really have not fundamentally changed since the beginning of the year since we've been talking about this issue. Number one, there's still definitely a supply and demand imbalance that's out there. And I think as we've discussed before, whether that's $100 billion or $40 billion, it doesn't really matter because it's a pretty big gap between supply and demand. And there has not been a particularly large or moderate influx of capital into the industry to close that gap. So there's definitely that imbalance that continues to exist on the supply side.

In addition to that and building on what Jim said earlier, you're still seeing pent-up demand and increased demand from our cedents across the board. A lot of that is also generated by, frankly, a flight to quality. It is basically cedents wanting to work with more companies like us who have stronger balance sheet, who've been very constructive into renewals, et cetera. So from that perspective, we're not seeing anything in the environment right now that really fundamentally changes the pricing trajectory or the trajectory of this business going into 1/1.

And frankly, further, you saw the growth rates that I quoted earlier in my prepared remarks, where we were up over 40% of property. You heard Jim's comments just a minute ago about what he expects to see at 1/1. So we do expect that tailwind to continue to be behind us as we go forward. But let me ask Jim to jump in and see if he wants to add anything to that.

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Yes. Sure, Yaron. A couple of other points I'd add to what Juan said. I mean there is -- I think you've referred to it as a sentiment, but there's an underwriting discipline that underlies all of this, irrespective of how much capital is available to underwriters. In our industry, every underwriter I've talked to, they want to get paid more for the risk they've been taking, and that's a reflection of the last several years of elevated Cat losses and even what we've seen this year and in this quarter. And I don't see any sign that's dissipating.

And then to your -- the other point you made around more remote layers and that seems like an area where more people want to participate. You've seen some cat bond activity up there, et cetera. I mean that how much rate gets added to the effects of 2023 and at which levels will remain to be seen. But in our view, it doesn't really matter. If there's more supply at the remote level, that means that just below that there'll be great opportunities. We're very flexible and nimble in where we deploy our capital. And so those kinds of impacts don't really reflect our -- or change our opportunity.

Yaron Joseph Kinar
Jefferies LLC, Research Division

That's very helpful. And then if I could maybe shift gears to the Insurance segment. And I think, Mark, in your prepared comments, you talked about some mix shift as maybe driving the loss ratios to stay -- have unchanged year-over-year despite the fact that you're getting rate over trend. Can you maybe elaborate on that a little bit? Because for me as an outsider, if I look at the book, it seems like property and short-tail lines grew by about 40% year-over-year. In aggregate, over the last 12 months, I see other specialty up 40%. And then we see some of the lines that I would have thought have higher attritional loss ratios, such workers' comp and professional liability actually coming in a bit. So I'd love to better understand the dynamics there if you could elaborate?

Mark Kociancic
Group Chief Financial Officer

Okay, Yaron. It's Mark. I'm going to start, and then I'll ask Karm to finish and add some color to it. Look, first of all, I think the attritional loss ratio is pretty much right where it should be. We're still setting conservative loss picks for casualty lines in particular. We are in an elevated risk environment. We want to be prudent on that. We're obviously getting rate, and we're getting the kind of business we want to write in terms of cycle managing this particular marketplace.

So you've seen some increases in writings and decreases in different lines, and that gives you a sense of our discipline in the marketplace. And so that mix in the attritional loss ratio is coming out too broadly stable with last year. We don't see any problem with that. We've got an embedded margin in there that we're quite comfortable with, quite confident in, and we think it takes into account the risk environment that's out there for the different lines we've underwritten.

Michael Karmilowicz
Executive VP and President & CEO of Everest Insurance®

Yes. And Yaron. I would add -- this is Mike Karm. I would add to it a couple of things. First, the focus for us is Juan stated in his opening comments, is about profitability, and we've been leaning into the first party lines pretty heavily, particularly in the property, aviation and marine. And then you see the other specialty lines like you mentioned, we're driving lines like credit [indiscernible] and energy, where we see really, really strong risk-adjusted returns. I think you'll see that play through, hopefully on the [indiscernible]

Ultimately, that's being offset when you think about what we are in that cycle management that Mark mentioned, particularly on the workers' comp and financial lines, and that offsets it. If you think about the quarter for us, we are focused on mix. That is our general focus ultimately is to get the loss ratio continue to get lower. But for us, ultimately, is really trying to make sure that we're leaning into the market where there's opportunity and again, being disciplined around what we don't chase. And we don't chase the lines that we think right now. We're not showing those risk-adjusted returns.

So if you took those out, particularly the workers' comp and particularly the financial lines, our growth would have been where we are year-to-date around 9% plus. So I think for us, we tend to focus on the long term, it's really about generating the right mix and making sure that we're driving the best loss ratio we can do.

Operator

The next question comes from the line of Michael Zaremski with BMO.

Michael David Zaremski
BMO Capital Markets Equity Research

Maybe just looking at the paid-to-incurred ratio ex catastrophes and reserves. It's been, I think, not just you all, but it's been ticking up a bit year-over-year and quarter-over-quarter. Anything worth calling out or talking about in terms of trend there?

Mark Kociancic
Group Chief Financial Officer

Mike, it's Mark. I wouldn't say there's anything specific to say there. I think it's largely your portfolio mix that's just driving that trend, mix of property, the long-tail lines. There's no particular significant set of claims or COVID settlements or anything like that, that's in the mix. So from my standpoint, it's just a natural outcome of the portfolio mix.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. That's helpful. I guess switching gears a bit back to the discussion on ceding commissions. The business mix has changed a lot over time. And I know you used to -- I think the wording it could improve considerably. Any perspective on kind of like if ceding commissions are still -- many points different than they were many years ago, right? But I know your business mix has changed a lot, too. So is there any context about what considerably could mean if things do go -- continue to move in favor of reinsurers into '24?

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Yes, Mike, this is Jim Williamson. Look, we've -- one of the things we said this year is that ceding commissions on Casualty Pro-Rata overall have moved by about 1 point. And obviously, it differs by deal and geography and all those sorts of things. I think our view is that, that will accelerate and needs to accelerate. And we've certainly seen some anecdotes that you probably would have heard of as well of deals in the back half of this year moving by more than that, and we've seen some of that as well. And I think that bodes well for us in 2024 being able to accelerate from that 1 point to a larger number. I'm not going to predict what that ends up being, but the trend line around getting a better outcome is certainly there.

Michael David Zaremski
BMO Capital Markets Equity Research

Okay. Got it. And maybe lastly, just wanted to make sure on Everest historical Cat load guidance, is it correct that your last cat load guidance was less than 6%. And I'm -- I clearly heard -- but we clearly heard what you said about if cat losses last year happened this year, what would happen, but then also you're probably leaning into the marketplace as well and business mix has changed. So just is less than 6% the most recent update?

Mark Kociancic
Group Chief Financial Officer

Yes. Roughly 6% is the expected annual cat load that we would have in our operating plan for the year. Now that's consistent -- broadly consistent with what we said at the IR Day back in '21.

Operator

The next question comes from the line of Mike Ward from Citi.

Michael Augustus Ward
Citigroup Inc., Research Division

I was just wondering if you had any preliminary view on maybe the industry exposure for Hurricane Otis in Acapulco?

Juan Carlos Andrade
President, CEO & Director

Yes. Sure thing, Mike. This is Juan Andrade. Look, I think Otis is a great example of what we've been talking about over the last few minutes. And the reason why frankly, the property cat market will continue to be hard into '24 and '25. Let's put it in the context of what we said earlier, right? We saw 80 events roughly around the world that we were able to track. The industry loss now is at about $93 billion, 9 months year-to-date, headed well probably into $100 billion plus by the end of the year. And now you have something like Otis, which if you follow what happened with that storm, it basically exploded from being a 70-mile an hour storm to be at 165 miles an hour in a period of about 12 hours, which was pretty significant strengthening and then hitting Acapulco, right?

So this is one of the things that when you look at the world, you realize that you still need to continue to push for pricing. You need to continue to push for cash flow points being up, terms and conditions, et cetera. Look, from our perspective, we expect that loss to be modest at the end of the day, I can't speak for others out there. But I think this is also the discipline that you've seen from us on how we manage our volatility and our accumulations around the world.

Michael Augustus Ward
Citigroup Inc., Research Division

That's helpful. Maybe on the expense ratio front, the internal investments seem a little weighted to insurance. I guess as you look to 2024, do you expect that to set up softer comps in that segment or for the group overall?

Mark Kociancic
Group Chief Financial Officer

I missed the last 3 words on that, sorry. Could you repeat it, Mike?

Michael Augustus Ward
Citigroup Inc., Research Division

I was just -- looking into '24, I was wondering if you expect the expense ratio weighted towards insurance to set up softer comps, whether it's insurance or just for the group overall?

Mark Kociancic
Group Chief Financial Officer

Well, we're continuing to expand in insurance, both in North America, but also internationally. So that comes with a bit of front-end-loaded expenses, something we think we can manage well within our combined ratio expectations for the business. It's a bit elevated right now compared to prior years as we start to gear up. But it's not something that I would expect to have any kind of meaningful impact on our combined ratio going forward.

Having said that, I think the benefits of our expansion, this is something we'll get into in our Investor Day, but that's something we feel very confident about going forward in terms of being a future profit driver and an expansion of our franchise offering.

Operator

The next question comes from the line of Ryan Tunis with Autonomous Research.

Ryan James Tunis
Autonomous Research US LP

So I just have one, and I guess it's on the Kilimanjaro bond. So earlier in the year, it looked like you guys let a couple of hundred million of those expire without replacing them. And it looks like there's almost another $0.5 billion of those that expire at year-end. And I'm just curious if there is a plan to replace those with some other form of reinsurance? Or should we think about the capital raise you did earlier this year is potentially going to fill a little bit of that.

Mark Kociancic
Group Chief Financial Officer

Ryan, it's Mark. So let me take a shot at this. I think whenever we talk about our capital shield, we always start with the gross risk that we're underwriting. We essentially want to be gross underwriters. It's not a flow-through or anything else in terms of the use of retrocession cat bonds, et cetera. So that's kind of the starting point.

So we have a substantial laddering of cat bonds, typically over a 4- or 5-year type of duration. There are different layers at which they attach and our book changes as well on the growth side from time to time. So we take the gross portfolio that we're underwriting into account. We take our overall cat position into our account, and then we start to modify. And there's a couple of other factors that would go into it.

So let me just start with the easy stuff. So we always -- we have the ability to use and we prefer to use Mt. Logan, our third-party sidecar vehicle as much as we can in terms of hedging and aligning it with the kind of risk we're taking in property cat. Tactical use of ILWs on a periodic basis is another tool that we use, and we use this proactively, depending on where the efficiency of the pricing and the placements are for cat bonds and ILWs and then Logan, of course.

So we also take into account the capital position. You referenced the capital raise in May as an additional source of capital base for the company. So that definitely enters the equation.

And lastly, I would throw into the mix the economic capital at risk graph that we talk about frequently in our investor deck. And essentially, that space that we're comfortable playing in shows that we have a lot of room to expand risk appetite within our tolerances for tail risk, earnings at risk. And we tend to do that, especially when we see superior margin on the types of risks that we're underwriting, particularly property cat. And so we take all of these factors that I've mentioned to plan out our capital shield going forward.

And so obviously, we had a conscious decision to not renew the -- I think we had two bonds in the spring. We did add another one at a different layer, but net-net, there was a reduction. We've got significant capacity that's up for maturity in -- I believe it's November, December. And that's something that we're taking into account now, but I've given you the framework of how we look at it.

So I can assure you that given our ambition as a gross underwriter and pursuing superior risk-adjusted returns, we're going to look at the options on the capital shield side relative to our gross book as we make those decisions .

Operator

The next question comes from the line of Gregory Peters with Raymond James.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

I guess I wanted to step back with the substantial growth as you're leaning into the market and property and the reinsurance side, I mean you're also reporting the growth in the insurance operations on property short tail. Could you just talk to us about how you're managing risk aggregation because it's a lot of growth and just I'm sure there's a lot of involvement in managing your risk, but give us some perspective there?

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Yes, Greg, this is Jim Williamson. It's clearly an important topic. We have a very robust risk management process at Everest that spans both our reinsurance and our insurance business across really all aspects of the risk we're taking, whether it's property cat, it's credit risk, casualty, et cetera. And there are robust processes underneath that framework where underwriters in the respective divisions are analyzing our aggregation, assessing risk reward. We have a company-wide risk reward scorecard that shows us where we're getting best paid for capital deployment. And we leverage that process to ensure that we're moving capacity to the areas of the business that drive the best returns.

And so what you would have seen, for example, earlier this year, if we rewind the clock in those discussions, Mike Karm and I were staying very close on what was happening in the reinsurance market. And so reinsurance started consuming more of the available capacity because that's where the opportunities lie. That started to balance out a little bit more now as the opportunity in insurance has strengthened so much.

So that's the process we use. If you look at our PMLs by peak zone, we're still in really good shape in all of our peak zones. We do monitor it very carefully. But as Mark indicated, on an earnings and capital at risk, or if you look at our stated risk tolerances in our ORSA filings, et cetera, we're all well within risk tolerances, which gives us room to grow both reinsurance and insurance as these opportunities emerge.

Juan Carlos Andrade
President, CEO & Director

Yes, Greg. And one thing that I would add to what Jim just said, and this is one. A lot of it is rate, not necessarily exposure, right? And that's the trade that we've talked about in the past that is an excellent trade for us, which is, we're able to get significant rate for similar exposure and significantly better risk-adjusted returns. And that's our focus right now. And basically, we're achieving that .

Mark Kociancic
Group Chief Financial Officer

Yes. Sorry, I guess you're going to get all 4 of us, Greg, it's Mark here, and then I'll let Mike finish it off. I just want to add two points. So number one, we have very clearly defined risk tolerances inside the company for how much risk we're willing to take. Those are not going to be breached. Those are governed at the Board level, respected by management, and we have a clear process to manage that stuff, a lot of flexibility there as well.

And number two, we are fairly diversified and broad-based with our exposures as well on a geographic and line basis, which also helps. You're not seeing single concentrations that are onerous in the different zones. Mike?

Michael Karmilowicz
Executive VP and President & CEO of Everest Insurance®

Sure. Yes. And I'll finish it off. I guess just from a perspective, you've seen over the last few years in insurance, we've meaningfully derisked a lot of the portfolio, particularly in the peak zones. Over the last 2 years alone, you saw us exit the Florida condo business, not just because it wasn't profitable, but because it really didn't meet our risk-adjusted returns and we just saw the regulatory environment and litigation environment changing. .

And then more importantly, the specific portfolio actions we've taken around our hurricane 100 PML over 40%, we reduced that. We took our gross limits in our wholesale, which is more cat-prone again and reduce that over 40% deployed limits over the last year.

And what you're seeing from us right now is basically getting much, much better risk-adjusted returns, but really derisking our concentration around these P-zones and really basically diversifying the portfolio, not just domestically, but globally as well.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Well, that's good detail. Juan, I think you mentioned the durability of the market in your prepared remarks and I know very well, many of us are focused on wind in North America wind and which has not been an issue this year, at least in a sort of material way. But there hasn't been many losses in fire at DIC in North America either. And I'm just curious, I know it's rather a specific question, but do you see any change in pricing or terms in fire or DIC going into 1/1 considering the lack of any loss there?

Juan Carlos Andrade
President, CEO & Director

Look, I think -- thanks, Greg. It's Juan. I think ultimately, all of this goes back to the fundamental question as to how much capacity is available for property in general. So I think it is part of the same equation. And so in our view, we expect this market to continue the way it is. You look at the rates that you're getting in wholesale in North America are basically 30% or plus, in retail property in North America, they're 20% to 30%, and that has continued. That sort of gone unabated in this period of time.

So I think that same dynamic that we talked about earlier, where not only is there a supply and demand issue here, but there's also the psychology that Jim was talking about. I think Yaron may have asked the question. The environment hasn't fundamentally changed. And so because of that, I don't think there's going to be a fundamental change in pricing in property ex cat at this point in time.

Operator

The next question comes from the line of Meyer Shields with Keefe, Bruyette, & Woods.

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

And two really quick questions. First, Mark, in addition to the investment spend, I think you noted some onetime expenses in insurance. I was wondering whether there's any way of quantifying that?

Mark Kociancic
Group Chief Financial Officer

Well, onetime expenses. So let me break it down into kind of two components on the insurance expansion. So I would say roughly maybe a little less than 2/3 of our expense is compensation related to human capital. So we are expanding that's going to provide future bandwidth to underwrite and current bandwidth. It's clearly actionable.

The second piece is you are dealing with technology spends as well to improve systems and middle office process type stuff. So that stuff is making its way through. It's very manageable. It's a relatively modest amount, and it's something that comes first and the growth is trailing somewhat. But we definitely see this paying for itself and again, manageable within the combined ratio assumptions that we have for the plan.

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

Okay. Perfect. That's very helpful. Second question, just to make sure I'm not overlooking anything. I think, one, you've talked about a lot of executives have noted that this year -- or sorry, the 1/1 '24 reinsurance renewals should be much more orderly. Is there any benefit to the more chaotic renewals that we saw last year? Did that -- or are there any good guys embedded in that?

Juan Carlos Andrade
President, CEO & Director

Well, look, I mean, you always want to be in a place where your customers, your cedents and the brokers sort of understand the situation and understand what you are, essentially putting forth the storms, conditions, et cetera, et cetera. And I think that was a more challenging renewal last year because the market changed so quickly.

I think what we see now is basically what I articulated earlier, where, at this point in time, I think we all recognize the world that we're living in, we all recognize the environment. Discussions have begun much earlier than they did last year. And so from that perspective, I think that's actually a pretty good thing. So we feel pretty good about it. I think, frankly, the only benefit that I would have seen last year is the fact that Everest was one of the first, if not the first, to get out and offer constructive terms and conditions and pricing, whereas a lot of our competitors were still looking to essentially fill the retro buckets to know how much capacity they had. So I think for us, that was a good guy last year. But ultimately, I think having an orderly market is good for the industry.

Operator

The next question comes from the line of Brian Meredith with UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

Just 1 quick one here. Mt. Logan, I'm just curious kind of plans are for 1/1. Do you think you're going to be able to increase capital there and maybe investor demand for those types of facilities?

James Allan Williamson
Executive VP, Group COO & Head of Everest Reinsurance Division

Yes, Brian, this is Jim Williamson. Yes, Mt. Logan has had a pretty solid year from a capital raising standpoint, particularly against the backdrop of a lot of the big ILS allocators sort of being on the sidelines this year. We've raised over $250 million, AUM sits just under $1.1 billion. So feeling very good about that. .

The team at Mt. Logan has done a terrific job of building a pipeline of what we view as sort of world-leading allocators, being the really smart, long-term money, the sovereign wealth funds, the pensions, et cetera. And we do expect some incremental capital raising at 1/1 and throughout the course of next year.

I will say, as a general comment, I've had a number of discussions recently with some large pension fund allocators, the challenge they still have is they've seen a lot of deterioration in other parts of their portfolio, which tends to bump them up against their ILS risk limits. And that is easing a little bit, but it's still a factor. And so I think -- which, by the way, we view as a good guy, it helps sustain momentum in our underlying market, which is our critical priority. But my guess is that we'll have some nice successes in 2024.

Operator

The last question for today is a follow-up from Mike Ward with Citi.

Michael Augustus Ward
Citigroup Inc., Research Division

I was just wanted to follow up on the Otis and Acapulco. Is there any quantification on the potential industry exposure -- I know it's early.

Juan Carlos Andrade
President, CEO & Director

No, Mike, this is Juan. I think it's so early. I mean, this thing just made landfall really yesterday at this point in time. And for us, as I said, this is a modest exposure based on how we have managed the portfolio to reduce the volatility. But I think it's way too early. We haven't seen anything yet from any of the modeling agencies at this point in time.

Operator

That was the last question.

Juan Carlos Andrade
President, CEO & Director

Okay. Well, thank you all for your questions and for the excellent discussion. We had an excellent quarter, and I look forward to discussing the company's strategic plan at our Investor Day on November 14. I hope to see you all then. Thank you.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.