S&P Capital IQ

CONTENTS

Everest Re Group, Ltd. NYSE:RE

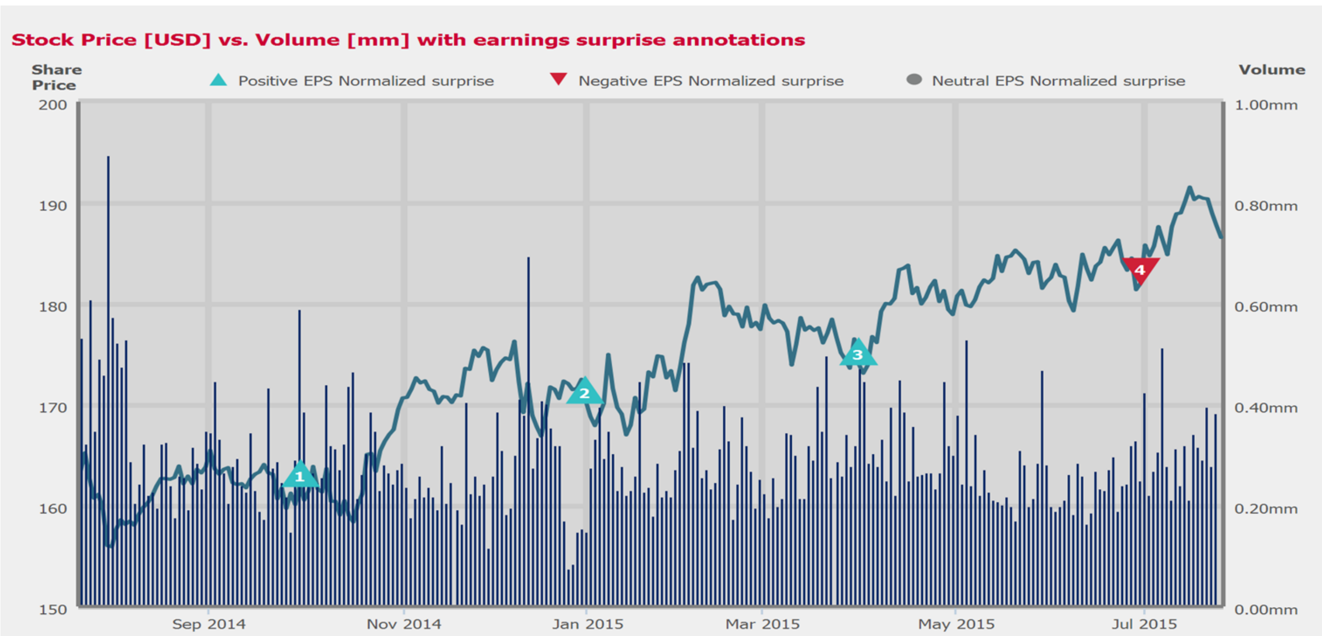
FQ3 2015 Earnings Call Transcripts

Tuesday, October 27, 2015 2:30 PM GMT

S&P Capital IQ Estimates

	-FQ3 2015-			-FQ4 2015-	-FY 2015-	-FY 2016-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	4.03	4.53	▲12.41	4.89	21.83	18.39
Revenue (mm)	1512.85	-	▲3.20	-	-	5454.23

Currency: USD
Consensus as of Oct-27-2015 11:01 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2014	4.99	6.12	▲22.65 %
FQ4 2014	5.76	7.28	▲26.39 %
FQ1 2015	5.86	7.34	▲25.26 %
FQ2 2015	5.65	5.03	▼(10.97 %)

Call Participants

EXECUTIVES

Craig W. Howie
Chief Financial Officer and Executive Vice President

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

Elizabeth B. Farrell
Vice President of Investor Relations

John P. Doucette
CEO & President of the Reinsurance Division

ANALYSTS

Amit Kumar
Macquarie Research

Ian Gutterman
Balyasny Asset Management L.P.

Joshua David Shanker
Deutsche Bank AG, Research Division

Kai Pan
Morgan Stanley, Research Division

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

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

Presentation

Operator

Good day, everyone, and welcome to the Third Quarter 2015 Earnings Call from Everest Re Group. Today's conference is being recorded. At this time, for opening remarks and introductions, I'd like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead, ma'am.

Elizabeth B. Farrell
Vice President of Investor Relations

Thanks, Johnny. Good morning, and welcome to Everest Re Group's Third Quarter 2015 Earnings Conference Call. On the call with me today are Dom Addesso, the company's President and Chief Executive Officer; John Doucette, our Chief Underwriting Officer; 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 productions, estimates, expectations and the like are subject to various risks. As you know, actual results could differ materially from current projection or expectation. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements.

Now let me turn the call over to Dom.

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

Thanks, Beth, and good morning. We are pleased to report another favorable quarter despite industry losses in China and Chile. For us, these 2 events totaled $100 million gross and $79 million net of tax and reinsurance. Nevertheless, we were still able to generate $200 million of operating income, producing an ROE for the quarter of 11%.

Also impacting the quarter was lower investment income due to reduced limited partnership income. Investment returns continue to be an obvious challenge, which means an even greater resolve to produce adequate underwriting profit as evidenced by our year-to-date underwriting gain of $574 million and a year-to-date ROE of 14%.

I expect both our quarter and year-to-date results to be better than overall industry performance due to our well-diversified portfolio and expense advantage.

The underwriting gain for the quarter was $155 million and absent the China loss, the attritional combined ratio stood at approximately 82%. While reinsurance segments drive the underwriting profit, the insurance operation has improved its attritional combined ratio year-over-year by almost 5 points for the 9 months. This is a result of a number of quarters of improving rates as well as profitable growth of almost 30% during the 9 months. Reinsurance, including Mt. Logan on the other hand, have premium decline of approximately 6% on a year-to-date basis, but on a constant dollar basis, our reinsurance premium is down 3%.

Several factors are contributing to this. The market environment is an important element of this where renewal rates are down, which also causes us to non- renew certain programs or layers. Offsetting this somewhat is the ability to move our capacity to more profitable but different layers, typically at higher attachment points and therefore, less premium per dollar of limit.

This portfolio optimization is done in concert with our various hedging strategies, which include use of cat bonds, ILWs and Mt. Logan. Market conditions may flatten out as industry returns are subpar, capital growth is slowing and demand potential may be on the horizon. However, in the near term, we are not likely to see a market that will dramatically change our plans, a price adequacy is mixed. This means we would continue to expect that most of our growth would come from our insurance units.

The ongoing emphasis on adding superior talent and broadening our broker relationships will be key to our continued success there. In addition, broadening our insurance platform by developing our Lloyd's Syndicate and a new Bermuda-based insurance platform will be immediately accretive.

There are many new and exciting initiatives taking place at Everest in both the reinsurance and insurance businesses. New products and effective use of capital markets in the reinsurance portfolio to line of business and geographic expansion in our insurance segment. These are all efforts that enable us to continue to generate superior returns on our capital compared to the overall market.

Thank you. And I'll turn it over to Craig for the financial report.

Craig W. Howie
Chief Financial Officer and Executive Vice President

Thank you, Dom, and good morning, everyone. Everest had another strong quarter of earnings with operating income of $200 million or $4.53 per diluted common share. This compares to operating income of $280 million or $6.12 per share for the third quarter of 2014.

On a year-date basis, operating income was $755 million or $16.92 per share compared to $812 million or $17.46 per share in 2014. The 2015 result represents an annualized return on equity of 14%. These results reflected a slight increase in the overall current year-to-date attritional combined ratio of 84.2%, up from 81.9% for the same period last year. This attritional measure includes a $60 million gross loss estimate for the explosions at the Chinese port of Tianjin.

The estimate was based on a $3.25 billion industry loss estimate for this event. Net income year-to-date was $621 million or $13.92 per share compared to $859 million or $18.47 per share in 2014. Net income included $134 million of net aftertax realized capital losses compared to $47 million of capital gains last year, or a difference of about $4 per share year-over-year.

The 2015 capital losses were primarily attributable to fair value adjustments on the equity portfolio and impairments on the fixed income portfolio. The impairments mainly related to credit write-downs on energy investments. Since the end of September, the majority of the fair value adjustments on the equity portfolio have already recovered.

On a year-to-date basis, the overall results reflected gross catastrophe losses of $70 million in 2015 compared to $75 million in 2014. The third quarter of 2015 reflected $40 million of gross current year catastrophe losses related to the earthquake in Chile. This compares to $30 million of cats during the third quarter of 2014.

Our reported combined ratio was 85.8% for the first 9 months of 2015 compared to 83.7% in 2014. The higher 2015 ratio includes Tianjin loss as well as numerous weather-related losses during the year that did not meet our $10 million catastrophe threshold.

The year-to-date commission ratio of 21.8% was slightly up from 21.5% in 2014, primarily due to higher contingent commissions. Our expense ratio remains low at 4.8% on a year-to-date basis. Expense dollars are up from 2014 due to new hires and the buildout of our insurance platform.

For investments, pretax investment income was $116 million for the quarter and $363 million year-to-date on our $17.6 billion investment portfolio. Investment income year-to-date declined $33 million from 1 year ago. This decrease was primarily driven by the low interest rate environment and by the decline in limited partnership [indiscernible]

Operator

Please stand by. We are experiencing technical difficulties. Today's conference will resume momentarily.

[Technical Difficulty]

We have been rejoined by management. Please go ahead.

Craig W. Howie

Chief Financial Officer and Executive Vice President

This is Craig Howie, I know we were cut off. I'm sorry, if I repeated -- if I'm repeating anything that I've previously mentioned. But I'm going to start again with taxes. So on income taxes, the overall year-to-date 2015 tax expense was $67 million lower than 2014, mainly due to the 2015 capital losses which reduced income. Operating income does not include capital gains or losses. The 14.8% annualized effective tax rate on operating income is primarily driven by lower-than-planned catastrophe losses, resulting in higher-than-expected taxable income for the year.

A 14% to 16% effective tax rate on operating income for the year is in line with our expectations, given our planned cat losses for the remainder of the year. Strong cash flow continues with operating cash flows of 98 -- $988 million for the first 9 months of 2015 compared to $926 million in 2014.

Shareholders' equity at the end of the quarter was $7.5 billion, essentially flat compared to year-end 2014. This is after taking into account capital return for $325 million of share buybacks and $126 million of dividends paid in the first 9 months of 2015, representing a total return of capital to shareholders of over $450 million so far this year.

Book value per share increased over 4% to $173.76 from $166.75 at year-end 2014. Our continued strong capital balance positions us well for potential business opportunities as well as continuing stock repurchases.

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

John P. Doucette
CEO & President of the Reinsurance Division

Thank you, Craig. Good morning. As Dom highlighted, we had a very solid underwriting results into the third quarter of 2015 despite the industry's macro challenges. Our group gross written premium for Q3 was $1.7 billion, up over $50 million from Q3 of last year, with diverging trends in reinsurance and insurance.

Quarter-over-quarter, our reinsurance book declined modestly, driven in part by foreign exchange, while insurance growth accelerated meaningfully due to our many growth initiatives. I will provide more details shortly.

Our group net written premium for Q3 was $1.6 billion, which was up 3% compared to Q3 last year. Year-to-date, our group net written premium of $4 billion is up about 1% year-over-year and generated group underwriting profits of $574 million.

For our reinsurance segments, all reinsurance gross written premium, including Logan, was $1.2 billion for the quarter, down 5% from Q3 last year. But on a constant dollar basis, premium was down only 2%.

As discussed last quarter, we have been declining, reducing and nonrenewing unattractively priced business. In addition, as previously discussed, we restructured a deal for a significant client that continues to impact the top line. However, the expected profits are essentially unchanged.

Our reinsurance book, including Mt. Logan, generated $142 million of underwriting profit in Q3, a $77 million decrease compared to last Q3, driven predominantly by the $100 million of losses related to the explosion at the Chinese port of Tianjin and also the Chile earthquake.

The Tianjin loss, while not a natural catastrophe, was the largest insured industrial loss in Asia and also one of the most complex losses in recent history, making the outcome uncertain. But as Craig reported, we have conservatively estimated our loss by assuming industry losses at the high end of the range.

Year-to-date, our reinsurance segments, including Mt. Logan, generated $574 million of underwriting profit. We are pleased with these underwriting results, particularly in light of this quarter's loss events and the prevailing soft market.

With respect to Logan, AUM or assets under management is essentially flat from last quarter at about $830 million, as we do not typically take in money between 7/1 and 1/1, but investor appetite remains strong for the Everest Logan value proposition. Logan is core to our hedging strategy, supplemented by cat bond, ILWs, traditional [ph] reinsurance and retrocessional protection, we successfully enhance our capital efficiency, while delivering meaningful capacity to support our underwriting strategies.

Turning to the insurance operation. We are progressing with the strategic buildout of our platform, while focusing on improving the bottom line results. This has been accomplished through the investment in key leadership hires, which in turn have brought significant underwriting talent and stronger direction toward achieving our strategic goals.

Through 9 months, premium in this segment is up 29% to $1.2 billion. This growth is highly diversified coming from many areas, including several newly launched lines of business as well as product and geographic expansion in existing lines of business. We are building a world-class insurance platform, capable of offering products across lines and geographies, complementing our leading global reinsurance franchise.

Year-to-date, we are up 35% in gross written premium on our direct brokerage business, which is underwritten internally by Everest underwriters. Our program business is up 10% year-to-date. This split growth trend is consistent with last quarter and our expectations as we continue building out our retail books.

Insurance rates remain mixed with some lines seeing modest rate improvement and others coming under pressure. For the year, our rate monitoring systems indicate relatively flat risk-adjusted pricing across all lines, which we are pleased with in this rating environment.

Bottom line, our quarterly insurance results for Q3 included an underwriting profit of $12 million, with a 96.5% combined ratio over 10 points better than our Q3 combined ratio last year. The underlying accident year results remain profitable, and we are driving improvement in our loss and expense ratio through our rebalancing of the portfolio by risk, by product and by geography as we gain economies of scale.

As previously announced, we received approval in principle from Lloyds to launch our syndicate number 2786. We expect to obtain final approval to start business on January 1, 2016. Our Lloyds syndicate will provide Everest access to additional international business and new product opportunities, enabling us to further diversify and broaden our insurance portfolio in 2016 and beyond.

Now some further detail on what we are seeing in each insurance market. For California worker's comp, gross written premium is up 13% to $75 million for Q3 compared to Q3 last year with a mid-90s combined ratio, but rates are under pressure with increased competition. Professional liability premium dominated by our financial institutions book was $40 million for the quarter, flat compared to last Q3 and we continue to see rate pressure, driven by excess capacity. Other casualty business is relatively flat quarter-over-quarter, but the combined ratio has been improving as our new initiative is seeing traction and enhanced diversification. In the short-tail business, including property, DIC, nonstandard auto and contingency business, written premium was $80 million for the quarter, an increase of over 38% from last Q3, as we have deployed more property insurance capacity and geographically diversified the book.

Despite rate pressure in property, our opportunity to deploy capital at attractive returns remains, with the book running at a high-80s combined ratio. Similarly, our contingency business continues to grow at a nice rate with attractive opportunities and new strategic relationships, while running at a mid-90s combined ratio. Accident and health premium was up over 40% in Q3 compared to last Q3 to approximately $30 million as several new initiatives gain traction and is running at a low-90s combined ratio.

Crop conditions remain favorable and commodity prices are stable. Our crop insurance premium is up and more geographically diversified. We are running at a slight underwriting profit for the quarter, a meaningful improvement over last Q3. The outlook is favorable for profitable 2015 results.

In summary, given our new growth initiatives, particularly on the insurance side as well as our ability to deploy capital effectively on the reinsurance side due to our core strengths and sustainable competitive advantages, we continue to achieve bottom line results that are among the best in the industry.

Thank you. And now back to Beth for Q&A.

Elizabeth B. Farrell
Vice President of Investor Relations
Yes, Tony. We are ready for questions. But first, I'd like to apologize for the connection issue, which seems to be coming from our end. If we have a future collection issue, please stay on the line and we will call back in. Thank you. Tony?

Question and Answer

Operator

[Operator Instructions] We'll take our first question from Amit Kumar with Macquarie Research.

Amit Kumar
Macquarie Research

Maybe 2 quick question. Number 1 is the discussion on the underlying [indiscernible] in the insurance segment. Can you talk about -- I know you talked about the 10 point improvement. If you adjusted for the agriculture book, what would that number be ex Ag for the insurance book on an underlying basis, on an apples-to-apples basis?

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

Give us 1 second. It's 96% for the quarter, Amit, as far as our attritional combined ratio without crop, it's 96% compared to 95% last year -- I'm sorry, 96% for the quarter, 94% year-to-date.

Amit Kumar
Macquarie Research

Got it. Okay, that's helpful. The other question I had was the discussion, obviously on growth versus capital versus not talking about the Lloyds which has a stamp capacity of, I guess, $151 million. Now the buyback this quarter was a bit higher than I guess what we were expecting and I'm trying to sort of think about that. Was it higher because of some sort of catch up, because on the Q2 call you had said that it was running a bit lower? Is that simply the fact, or is this sort of a new normal? How should we think about the repurchase this quarter?

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

I think, Amit, you should think about, perhaps, a little bit of a catch up. We were lighter than we certainly anticipated in the second quarter as the price target ran away from us a little bit in the second quarter and we just continue to have steady progress towards repurchasing shares. And we continue that into the third quarter, particularly as we grew going through the quarter, it seemed as if it was going to be a light cat, cat quarter.

Amit Kumar
Macquarie Research

Got it. And then can you just touch up on the Lloyds, is that fully ramp up, the $151 million stamp capacity?

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

We expect to go live with Lloyds on -- first of the year, subject to final approval by the franchise board, our business plan, et cetera, but we are on track to do that effective 1/1.

Operator

Next we will move to Joshua Shanker with Deutsche Bank.

Joshua David Shanker
Deutsche Bank AG, Research Division

Dom, whether you like it or not, everyone looks at you as all bad things happening in Latin America must be happening to Everest Re. And so in the largest recorded hurricane in history is bearing down on Puerto

Vallarta, how should we think about the pricing in Mexican market? How should we think of Ag risks that Everest is taking? Why or why not are investors seriously concerned about Everest to their benefit or to their detriment?

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

Well, I can't speak to why investors are conspicuously concerned or not concerned. All I can speak to is what we try to do. We manage our accumulations by each of our zones, and of course, as you know and others know, our largest zone is in the Southeast U.S. and of course, we manage that down from there. Relative to what was happening in Mexico, as an example, or in Latin America, for that matter, the industry was quite lucky, of course, that, that event did not hit some of the more occupied regions and the resort areas. Interestingly enough, in more recent times, we actually downsized a lot of participations in Mexico due to pricing terms and conditions. And as we continue to emphasize in each of these calls, we will look for fairly priced transactions. And if we can't -- if it cannot meet our hurdle rates, we will terminate or look to change our participations in some ways that matches our adjusted return targets that we have. So we continue to manage our PMLs consistent with our balance sheet. And we believe that what we're doing in terms of managing our risk through cat bonds, ILWs and Mt. Logan effectively rightsizes that risk relative to our balance sheet. So I think we benefit, frankly, from the diversification that we have across the globe as opposed to thinking about a particular event in some region of the world. As you probably have noted, our Tianjin loss was probably slightly below what others have reported, and again, I think it's a result of those actions that I have just described, where we actually got off some deals, and then actually our exposure will turn out to be less. In Chile, we were at much less proportional business than we did previously, and of course, that event, again, hitting offshore. The insurance loss was not as great as maybe was originally feared. So I think on balance, again, the portfolio is diversified across the globe, which frankly, we believe, benefits us from a return perspective in using our balance sheet most effectively. I'd hope that at all -- I hope that answered your question.

Joshua David Shanker
Deutsche Bank AG, Research Division

To some extent. It's open ended question. The other question I had is as you mentioned in the previous question there that the stock price got a little bit away from you in 2Q. The stock price was like between $180 and $185 in the quarter. Are you trying where possible to buy stock at book value and not above? Is $180 to $185 when you have $175 book value, a significant premium to where you want to buy?

Operator

Pardon the interruption, Mr Shanker, It looks we did unfortunately, lose our speakers once again. If you could please hold your questions. We'll get them reestablished as soon as possible.

[Technical Difficulty]

Operator

And we've been rejoined by our speakers. And Joshua, if you wanted to ask your last question again?

Joshua David Shanker
Deutsche Bank AG, Research Division

Yes, must be that industry low expense ratio coming through here guys. I don't know.

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

Apparently, we were going to make the same comment, but...

Joshua David Shanker
Deutsche Bank AG, Research Division

It happened to be my associates who pointed that out by the way. So that question was you mentioned in the previous question that the stock kind of got away from your repurchase desires in the second quarter. It was only bobbing between $180 and $185, are you trying to buy at book and not above?

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

Not necessarily. We do look out over a 6- to 12-month period, but we just had a price target for that particular period and the stock has kept moving ahead of that. It's nothing more complicated than that. And we think over the long term, we have been repurchasing stock and we look to do it not at a specific target that we care to share in a public setting, but we just have a measured approach to how we do it and over the long term, we've returned plenty of capital.

Operator

Next we'll move to Vinay Misquith with Sterne Agee.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

So I just wanted to follow up on the capital question. You have several new initiatives this year. You also have the launch next year. Curious about whether you want to build that capital next year? Or do think you could return all the earnings that you generate to shareholders next year?

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

Vinay, I'll give the question the standard response to the question that we get every quarter in that regard just you folks find unique ways to answer -- ask it each time, and it's we don't put out any forecast any of our repurchase plans. We look it quarter-to-quarter based upon what we think of the opportunities that are ahead of us and based on where the stock is trading. So we don't commit to any levels of repurchases, particularly out a year in advance.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

Sure. But let me just put it in another way.

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

You can try.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

Do you have sufficient capital right now on the books to write the new business? Or do you need to build up some more capital?

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

We do have sufficient capital. We do like to maintain some bit of excess capital. But again, as I've mentioned in previous calls, you know the ratings agencies have increased, particularly S&P has increased their capital requirements. So that excess position has shrunk a bit, just based on ratings agency actions.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

Sure, fair enough. And then on the growth on the primary insurance side, that appears that some of the growth came from the short-tail lines, I think it was up 40% this quarter and also the accident in held. And also, you're planning to go under Lloyds. Help us understand the risk management that's in place for that. These lines seem to be I think under some pressure now. So help us understand what risk management put in place for that.

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

Well, we do have -- first of all, we have our risk management committee that reports regularly to the board, so I will point that out. And we monitor, your question is about accumulations...

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

But I'd say, Dom, sort of more in the sense of, I'm -- people in the industry are saying [indiscernible] weaken the lines and we're seeing that -- I mean, you see growth right now from Everest, so just curious where you are finding pockets, yes.

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

Well, let me just add to that. The cost pricing is, I would say, it's weird, does not mean necessarily that it's not adequate. So for example, as John Doucette highlighted in his comments, we talked about casualty being flat year-over-year, so that's kind of a reflection of what's going on in the market, and perhaps what we feel are adequate returns relative to what we've seen. In the property space, we're still seeing many opportunities. A&H is a specialty segment, which experience nice growth in as well as in new product opportunities. Our contingency business/sports and entertainment book is again a specialty business that is not necessarily subject to some of the pricing pressures that you mentioned. In addition, we've done some things in Canada, which have given us some growth. California DIC, while things have flattened out there, it still returns -- to adjusted return perspective, it's still very good business. So all of these pockets, we do monitor rates each and every month and quarter in all of our classes of business on the insurance side.

John P. Doucette
CEO & President of the Reinsurance Division

And Vinay, it's John. I just want to add a couple more things. You mentioned property, specifically. We've talked about this before, but I think it's worth repeating. We have one global catastrophe property and catastrophe pricing and accumulation system, which every underwriter around the globe, whether that's insurance, facultative, treaty, ILWs, selling, buying, retro and products we've talked about before, PURPLE, whether it's from individual building or it's a territory, multiple territories or worldwide capacity. And we have a view of risk built up by a lot of analytics and a lot -- a dedicated cat team that is central. And we can look at the relative pricing and the absolute pricing over time and across product irrespective of where it is, what form, what territory. And we can allocate capital [indiscernible].

Operator

And pardon the interruption, it appears that we are still experiencing some technical difficulties. Please remain on the line and we'll get our speakers reconnected as soon as possible.

[Technical Difficulty]

Operator

And we've been reconnected with our speakers.

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

Again, we apologize. We tried -- we're going to a different room and different phone. Let's see if this works better. So I think John was responding to the question when we got cut off. Is it Correct?

Vinay Gerard Misquith

Sterne Agee & Leach Inc., Research Division

Yes.

John P. Doucette
CEO & President of the Reinsurance Division

So just to finish the thought and again, I apologize if I'm repeating myself. We have one system for globally, by product, irrespective of the product, every underwriter on their desk has that, it rolls up for realtime accumulations, realtime pricing, whether it's insurance, fact, treaty, retro or any other products that we sell. We have a new chief underwriting officer as part of the building out the insurance leadership team whose job is responsible to make sure we're getting paid adequately for the risk that we're taking on a risk-adjusted basis. And we continue to have the advantage of the various capital markets convergence, vehicles and structures that allow us to have capital efficiencies for the products that we sell and help the group get the most capital efficiency and the best risk-adjusted return.

Vinay Gerard Misquith
Sterne Agee & Leach Inc., Research Division

Sure. That's helpful. And are you seeing pricing on the primary side better than on the reinsurance for property?

John P. Doucette
CEO & President of the Reinsurance Division

It varies. It doesn't boil down necessarily to one answer, but directionally, there's certainly cases of that. Yes.

Operator

And our next question will come from Kai Pan with Morgan Stanley.

Kai Pan
Morgan Stanley, Research Division

And I would add that we probably should all buy basically interruption insurance for conference calls. All right, I will to start with, on your take on the upcoming BCAR changes, what potentially impact for the reinsurance demand?

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

I can't comment specifically, because I'm not sure that we know all the details of those changes at this point other than to know that we do expect that we'll have some impact for certain clients. And that is, I did mention in my comments, that would expect some increase in demand and frankly, that would be one of the reasons that we'd expect some increase in demand. But I really can't give you any specific on what that might be for the industry as a whole.

Kai Pan
Morgan Stanley, Research Division

Okay. Then more broadly for the sort of upcoming renewing in January 1, seems like you're more confident at this time that the rate will becoming more stabilized than the past renewal incidents. So what could go wrong from here?

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

Well, I suppose what could go wrong is that rates are down another 5 to 10, that would be wrong. And that would cause us to continue to make major modifications to our portfolio. But coming back from 2 major industry events, there is certainly mixed thoughts on that subject. But given where we see the industry, where we see returns, what we see from capital markets perspective, it doesn't look to me as if it should be a market that's continuing to slide dramatically.

Kai Pan
Morgan Stanley, Research Division

Okay, that's great. Then just quick number question. Do you have a breakdown of the $6 million Tianjin losses by segments? And also on Volkswagen, what's your view on industry exposure as Everest Re's exposure on that event?

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

The Tianjin loss by segment, when you say segment, meaning our segments?

Kai Pan
Morgan Stanley, Research Division

Yes, reported segments.

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

I'll ask Craig to...

Craig W. Howie
Chief Financial Officer and Executive Vice President

The majority of it is in international, our international segment. So essentially, from our Singapore office, but also from our Bermuda operations as well.

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

I'm sorry, what was the second question, Kai?

Kai Pan
Morgan Stanley, Research Division

On the Volkswagen, potential industry exposure there.

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

There, I think we have something like $12 million of limits exposed to Volkswagen, and we have not heard anything on that point.

Kai Pan
Morgan Stanley, Research Division

Okay, that's great. Well, last question, if I may, the insurance gross and margin. Looks like you are growing pretty fast, especially in short-tail and accidents held, which has lower combined ratio, underlying combined ratio than the group. So shall we expect mid-90s combined ratio continue to improve, given the high gross like coming in from those lower combined ratio business? And also if you're stepping back, last year you have higher gross in the primary line of business was in early 2000, and which eventually doesn't help the company. So I just wonder what give you confidence that what are you doing now that's different and your confidence, by your probability going forward?

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

There's a lot to that question. First of all, yes. That's certainly our plan to continue to have the insurance combined ratio, continue to trend down and we have every expectation that, that would happen over time. Relative to the early 2000s, well a part of that growth was California comp, which actually, over the very long time period, the 13 to 15 years that we're talking about was hugely profitable. Yes, there were periods where the comp turned into a loss for a period there. But if you look at the body of work over that entire cycle, it's been extremely profitable, probably close to $1 billion of profit in total. The other parts of growth from the insurance space that emanated from -- in the time period that you're referencing was a lot of program business and it's -- we decided we are deemphasizing the growth, our growth primarily is coming from the brokerage space, the retail space, where we are underwriting risk by risk and not relying or dependent as much upon growth in the program space. Doesn't mean that we won't continue to do business with great partners in that space. It just means that we're a lot more selective and we have other way in which to grow the insurance portfolio. And by that, I mean, in direct brokerage space, where you control the account and you control the underwriting at the desk level.

Operator

Next we will move to Sarah DeWitt with JPMorgan.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

As you look out a bit longer term, how do you see the business mix evolving between insurance versus reinsurance?

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

Well, as I mentioned, in my comments, I expect from the short term given what we expect out of the reinsurance space that it's likely to be that insurance will become a bigger part of the pie. If you look out over the very long term, I would expect that to be the case as well as we look to rebalance our portfolio. But we don't have any -- put out any of prognostications about -- what that percentage may or may not be. We frankly take advantage of what the marketplace is giving us in each part of the cycle whether that -- and so if pricing looks more adequate and a very hard market in the reinsurance space then you're likely to see strong gross perk there. It doesn't mean that it would necessarily be change our appetite in the insurance side. It's just a matter of which segment is growing faster than the next due to pricing adequacy.

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Okay. And then I think historically, you've targeted a 12% to 13% ROE, assuming normalized catastrophe losses. Is that still an achievable goal, as we think about 2016? And I think that'll probably be better than the industry as well.

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

If you are asking, including cat losses or excluding cat losses?

Sarah Elizabeth DeWitt
JP Morgan Chase & Co, Research Division

Including some level of normalized catastrophe losses.

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

I do think that's potentially achievable. I don't know given where pricing is today on a reinsurance side, ex cat, whether 13 might be pushing it. But again, we don't forecast our results, but relative to what real rates are, I think that's still a great return. But I do think that our target's low teens, absolutely.

Operator

Next we will move to Meyer Shields with KBW.

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

So 2 maybe big picture questions. One, is there any reason to expect the historical cycle in California works comp to not play out with this year, next year looking really, really good and the things are getting worse?

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

I don't know that I'd on any line of business that I'd fight any historical cycle. So there are cycles in every segment of our business, and I don't know why California comp would be any different than any other segment of business.

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

Okay. Me neither. Second, setting aside pricing trends and underwriting decisions, is there any risk to the reinsurance book from the efforts you have in insurance in general or maybe opening a Lloyds platform from companies that you're not competing with more directly?

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

I think that risk is moderate at worst. I think that as you look across the industry landscape, most enterprises have both an insurance and a reinsurance footprint. Even to the point where some more traditional insurance enterprises have started up reinsurance arms. So I don't see that as much of a threat. In particular, what we do in the insurance side is mostly specialty lines business.

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

Right. Understood. Is the run rate for expenses in insurance likely to rise as Lloyds goes live?

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

Well, we've already -- in our numbers already this year-to-date, we've expanded some monies to get this project off the ground. And certainly, Lloyd's does have slightly higher expense ratio. But given the amount of premium relative to our $5 billion of gross premium across the organization, I'm not sure that, it would make really make much of a difference.

Operator

And we'll take our final question from Ian Gutterman with Balyasny.

Ian Gutterman
Balyasny Asset Management L.P.

I guess on the insurance business, is there any -- as the book is growing and changing, is there any seasonality to it? I guess the reason I ask is normally Q3 has been a little higher than the first 2 quarters, but this year was much higher. Is there something seasonal about that? Or is that just the increased growth and this is -- think it is sort of more of a normalized?

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

Well, the insurance side, remember, is influenced by crop which does have seasonality to it. To the extent that there is some seasonality that would come from a property E&S book, to the extent that we have some of that in the Southeastern U.S. We haven't had any major events so there hasn't been losses coming from that. And again, property E&S up to the extent that is growing, and it has been growing in the Northeast could have some impact from winter storms. So yes, there'll be pockets of seasonality across the portfolio. John, wanted to add some stuff.

John P. Doucette
CEO & President of the Reinsurance Division

The second part of your question was, or is it tied to growth initiatives, and we've been talking about growth initiatives and we've been putting in place a lot of different resources. We've been hiring talent, we've been building the infrastructure on the insurance side and that takes time. We've been talking about that for several quarters, and it's starting to kick in including in this third quarter. But we're seeing the fruits of the plan and the resources and the labor that we've committed to growing the insurance book. So it's that combined with the seasonality that Dom alluded to.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. And I clearly realize it, but I just didn't know it if I should just kind of -- a little bit of the magnitude of the increase is [indiscernible] as always, just trying to get at that, okay. And then moving on, I guess just a follow-up on the Lloyds question. Can you talk more about specific business plan? I mean, I don't know if -- what stamp capacity you've been approved for, but what sort of lines of business you're targeting initially? Is it going to be prop type stuff or might you try to do like cover holders or even some casualty sort of what's the focus going to be?

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

It's -- significant portion of it is professional liability, D&O, E&O, commercial D&O and E&O. We also are -- we'll have some reinsurance business that will flow through the syndicate, particularly as our China and perhaps our Australian business, because of expense advantages of running it through that platform relative to keeping it on the reinsurance space -- I mean the company paper. Because particularly changes in China from a regulatory perspective, we won't have to put bricks and mortar in China, that's one example. We will be granting cover holder status to a number of underwriting units around the globe to utilize the syndicate. There will be some sports and entertainment business, for example, and contingency business that would come into the syndicate generally.

John P. Doucette
CEO & President of the Reinsurance Division

And the stamp capacity is $150 million, roughly.

Ian Gutterman
Balyasny Asset Management L.P.

Got it. Great. And then on Tianjin, this feels to me, I mean, I guess I am asking for your opinion and maybe some detail as well. It feels to me like this is one of those losses maybe like a Deepwater or a Costa, where it's just so hard to -- everything seems, the primaries themself don't really have any great insight into what the loss is. And it seems when we get those test of events they tend to creep over time. Does this feel like one of those where your worried about creep? And if so, as you're looking at how much put up this quarter had, how did you account for that?

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

I'm not sure that it's really like Costa because with that it was a salvage situation and that really is what was driving up the cost tremendously. Here, you have frankly complete destruction, my understanding is that the area has been completely leveled. And I don't know that because there are discrete values, I think that it will be -- that would be less of an issue as contrasted with Costa I guess the other question will be, maybe the warrants certainty would revolve around any kind of BI, contingent BI claims that might be coming out of it. But again, we reserved it at the high end of the range based on the estimates. As I mentioned before, answer to a different -- for another question, our participation in the region actually reduced so we're not -- we're feeling comfortable with our pick. But I'm not sure that any movement around that pick is necessarily all that material to us.

Ian Gutterman
Balyasny Asset Management L.P.

Perfect. And then just lastly just to follow-up on the BCAR question from earlier. What about -- as far as your underwriting appetite, has anything potentially changed there? And I think one of the more heated topics on that is the changes in the tail factor on cat. Does that -- it have to change how you will look at tail beyond 2 50 or maybe how will look at aggregate covers versus occurrence covers, things like that as far as your appetite to write them?

John P. Doucette
CEO & President of the Reinsurance Division

So we have always looked at in terms of pricing and accumulation all points on the curve to the 1 in 10,000 and beyond, we look at AO, we look annual occurrence, we look at aggregate, we look at multiple events, we look at things that happened, whether it's 2005 with Katrina, Rita, William -- Wilma or 2011 with multiple events around the world. So we think about that as we create, manage our book and try to get the best risk-adjusted return. In general, if BCAR, which we think it will increase demand and therefore increase limit that's going to be purchased potentially by our customers, that and therefore, upward pressure on pricing, that's a good thing. And we have the capital to support that, and we, including both our own equity capital and the various hedges that we've been talking about for many quarters now that we've put in place. So we think that's going to put upward pressure and upward demand and we like that.

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

Now I understand from the moderator that, that was the last question but because of our interruptions, if there are other questions, we certainly would spend a few minutes.

Operator

[Operator Instructions] And it appears we have no further questions at this time.

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

Okay, that's fine. Just wanted to offer that up.

Elizabeth B. Farrell
Vice President of Investor Relations

Thank you, and as always, we'll see you next quarter.

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

Thank you very much and again, apologies for the connection issues we've had. We appreciate the interest. Again, we think we've had an excellent quarter. We've had some events, but I think what you've seen the way Everest has performed, with the scale and diversification of our book, despite those industry losses, we are still able to produce very, very good returns. I think it's just a reflection of how we manage our book of business. Thanks, again, for your interest.

Operator
Thank you. This does conclude today's conference. You may disconnect anytime, and have a great day.