S&P Capital IQ

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Everest Re Group, Ltd. NYSE:RE

FQ4 2009 Earnings Call Transcripts

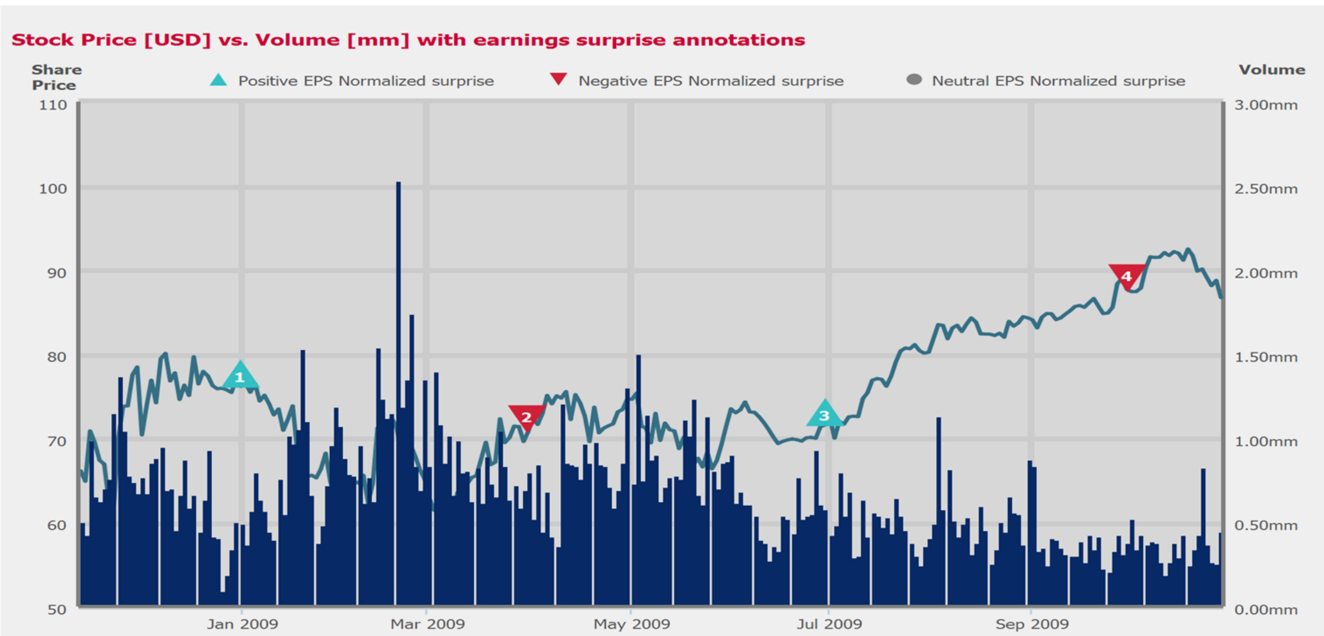
Thursday, February 11, 2010 6:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2009-			-FQ1 2010-	-FY 2009-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	3.39	3.19	(5.90 %)	3.11	12.71	12.51
Revenue (mm)	921.32	975.02	5.83	1048.77	3853.52	3929.76

Currency: USD

Consensus as of Feb-11-2010 2:31 PM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ4 2008	2.78	2.93	5.40 %
FQ1 2009	2.84	1.73	(39.08 %)
FQ2 2009	2.97	4.16	40.07 %
FQ3 2009	3.47	3.43	(1.15 %)

Call Participants

EXECUTIVES

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

Elizabeth B. Farrell
Vice President of Investor Relations

Joseph V. Taranto
Chairman

Ralph E. Jones
Former Chief Executive Officer

ANALYSTS

Brian Robert Meredith
UBS Investment Bank, Research Division

Jay H. Gelb
Barclays PLC, Research Division

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Presentation

Operator

Good day, everyone, and welcome to the Fourth Quarter 2009 Earnings Release Call of Everest Group Ltd. (sic) [Everest Re Group Ltd.] [Operator Instructions] And at this time, for opening remarks and introductions, I would like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead, ma'am.

Elizabeth B. Farrell
Vice President of Investor Relations

Thank you, Caitlin. Good morning, and welcome to Everest Re Group's Fourth Quarter and Full Year 2009 Earnings Conference Call. With me today are Joe Taranto, the Company's Chairman and Chief Executive Officer; Ralph Jones, President and Chief Operating Officer; and Dom Addesso, our Chief Financial Officer.

Before we begin, I will preface our comments by noting that our SEC filings include extensive disclosures with respect to forward-looking statements. In that regard, I note that statements made during today's call, which are forward-looking in nature, such as statements about projections, estimates, expectations and the like, are subject to various risks. As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements. And let me turn the call over to Joe Taranto.

Joseph V. Taranto
Chairman

Thanks, Beth. Good afternoon, everyone. Looking back at 2009, we're pleased with what we achieved. Most notably, we were able to increase our worldwide premium base by 12% to $4.1 billion, as we capitalized on market dislocations and property rate increases created by the financial meltdown from late 2008.

Our successes included a great start from our new office in Brazil; growing our International books on attractive accounts, which was aided by some of our major competitors having financial problems; maintaining a leadership position in the retro property market and the Florida property market; maintaining our core Casualty Reinsurance clients; starting a new insurance operation to respond to the future need for our financial institution directors' and officers' liability; and adding a new insurance program for smaller financial institutions.

Looking forward, I was pleased with our January 1 renewals, and the quality of our portfolio remains very strong. This comes despite catastrophe excess rates being somewhat lower and a continued slow decline in casualty insurance rates. Let me explain why.

First, much of the momentum we had in the international reinsurance sector, including the development of our presence in Brazil, continued in 2010. Further, on our U.S. Property Reinsurance portfolio, we added a couple of new meaningful single-state accounts that although cat [catastrophe] in nature, didn't add to our largest zone. Hence, more premium and more spread.

Much of our worldwide Property Reinsurance book is done on a pro rata basis, not excess of loss, and accordingly, not impacted by excess of loss catastrophe rate changes. This includes most of our business in Florida as well. And although the Florida treaties renew mid-year, our clients have recently been given permission by the Insurance Department to charge higher rates. On our pro rata accounts, these increases will enure to our benefit as well, increasing our premium and our potential margin.

Our Casualty Reinsurance book is half of what it was a few years ago, as we have responded to rate changes in the market. Our Reinsurance book has switched from predominantly casualty in 2004 to predominantly property in 2010. We have taken the Casualty book down to a few core clients, who we know well, and we believe in their ability to manage through the current marketplace successfully.

Our Insurance book is mostly casualty, but roughly half of the book is either workers comp or D&O [directors and officers] and E&O [errors and omissions] For financial institutions. In both of these areas, we are currently getting rate increases. We will need to remain disciplined in parts of the casualty insurance market that continue to be challenging. Ralph will provide more details on 2009 and 2010 underwriting activities in a moment.

In 2009, we were also pleased to have grown book value per share by 27% and finished the year with $6.1 billion of surplus. In addition, we paid $117 million in dividends for the year. The company repurchased roughly $100 million of its shares in the fourth quarter and $190 million for the year.

The company has more than sufficient capital for its current business plans and expects to continue to buy back stock in the first quarter. Under the current repurchase authorization, 3.5 million shares remain. Dom will provide more details on the financials momentarily.

In summary, 2009 was a very good year top line and bottom line. Given the successful 1/1 renewal, we expect growth in our International Reinsurance book, which is mostly property reinsurance and growth in our U.S. Property Reinsurance book, all without increasing our PML [probable maximum loss] in our biggest zone. These two areas have been our most profitable and most well rated.

We will take a disciplined underwriting approach to our Casualty business, both insurance and reinsurance. And without a market correction, these sectors will likely to cruise. I expect our overall worldwide composite portfolio to remain high quality, so I have every reason to expect 2010 to be a good year. Ralph?

Ralph E. Jones
Former Chief Executive Officer

Thank you, Joe. The International Reinsurance business was very strong driver for both growth and underwriting profits in 2009. We wrote $1.08 billion last year, up 20% in U.S. dollars and 23% when adjusted for local currencies. The combined ratio was 86%. The Brazil operation was essentially new this year, adding $68 million in 2009. Canada at $163 million and Asia at $222 million both grew at 17%.

Some of the growth came from increased rates for catastrophe-exposed business in the 5% to 7% range during the year. About 60% of our International book renews in the first quarter, predominantly January 1. We had a strong renewal season in January, with premiums up 14%, driven equally by increased rates, some new business and increased signings. Primary property rates were up in South Africa and Australia.

The U.S. Reinsurance business finished at $1.17 billion, up 22% over 2008. The growth here was principally driven by the addition of our Crop Reinsurance business, which added $85 million during the year. The combined ratio was 76.8% for the year, driven virtually by no cat loss activity.

The largest segment within U.S. Reinsurance is our Treaty Property book, which was a strong driver of the growth in underwriting profit. About half of our U.S. Reinsurance book renews on January 1, and we were happy with the stability of the market at 1/1. Cat rates for the bulk of our book held up pretty well at renewal, with an overall impact in the range of minus 5%.

We were able to fill out the Treaty Property book with several new, single-state programs that have good pricing margins but do not add to our peak zone aggregate cat exposure.

The Casualty Reinsurance book was down at year end, except for one long-time client that moved from an excess of loss program to quota share. This was done principally for reasons of surplus relief for them. The year-end renewal negotiations for Treaty Casualty, again half the book renews at 1/ 1, were more challenging across the board, which lead me to expect this book to be down for 2010.

The Bermuda operations, which include the U.K. and Continental Europe, wrote nearly $800 million in 2009, about the same volume as last year in U.S. dollars and up 6% in local currencies. The combined ratio for the year was 89%, which includes $20 million in cat losses, mostly due to the earthquake in Italy.

Nearly 80% of our Bermuda and European Reinsurance book renews during the first quarter. We saw more competition in Continental Europe at year end, as well as with the property retro market. We only renewed

70% of our aggregate exposures for the Bermuda property retro account due to increased capacity available to the brokers, principally from new participants.

For those accounts we renewed, the average rate drop was about 5%. Many retro clients had clearly demonstrated increased exposures in their underlying book that we thought was not adequately reflected by some of the new players in this segment. The U.S. retro account was more stable as contrasted with Bermuda. I expect Continental Europe to be down in 2010 and London to be about flat, with the total Bermuda operations to be down modestly for 2010.

The Specialty segment was $235 million, down 10% for the year and 23% for the quarter. The combined ratio in 2009 was 104%, driven mainly by the Marine book. Several large quota share Marine contracts reported late claims during the renewal process. 2/3 of the Marine book renews during the first quarter. And based upon the difficult negotiations at 1/1, we expect the book to be substantially down for 2010. I am not excited about the profit potential in the marine market. Accident and Health and Surety, which makes up the balance of our Specialty lines, were both profitable and growing.

That sums up a very good year for the Reinsurance business. $3.3 billion, up 13% at 85 combined. Year end renewals were very strong, pretty strong. In 2010, I expect International to be up, Treaty Property will be up, Casualty will be down and Marine will be down.

Now let me turn to our Primary Insurance business, Everest National. The insurance segment ended the year at $843 million, up 9.2% over 2008. The growth came principally from our direct insurance operations in E&S [Excess and Surplus] Property and D&O and E&O for financial institutions. The direct business now makes up 20% of our Insurance business and will become an increasingly large share over time. The combined ratio for the year was 109.9%, which included a $45 million charge in the fourth quarter due to a comprehensive reserve study at year end.

The underlying casualty market in the U.S. is very competitive, probably the most challenging environment in which we operate. The eight core program managers that we support, which makes up the other 80% of our Insurance book, all faced declining renewal retentions as we execute our rate plans. Combined ratio for the 2009 accident year, at 101%, shows we still have work to do on our program book.

For the fourth quarter, rates were up 5% overall, with the bulk of those increases coming from California workers comp, whose prospects are improving. I expect our core eight Program Managers to be down next year, as we continue to derive rate improvement. We will also need to continue the belt-tightening on expenses and commissions to meet our objectives. Our strategy here is pretty simple: maintain the core eight Program Managers, increase rates by at least 5% on average and improve the expense ratio at the same time.

Anything new will come from an acquisition of a specialty company or MGA [managing general agent] that can demonstrate a competitive advantage from the requisite margin that follows. With programs declining, I expect the Direct Specialty business to become a bigger and bigger proportion of our Insurance business over time. Let me now turn it over to Dom Addesso.

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

Thanks, Ralph, and good afternoon. As noted, earnings for the quarter continue the favorable trend experienced throughout the year. The comparisons of net income to the prior-year results for both the quarter and year-to-date are quite dramatic, due in large part to the after-tax realized capital losses of $196 million in last year's fourth quarter and $581 million for the entire year of 2008. These losses were a result of the financial market crisis, as securities were adjusted to fair value or sold.

Operating income for the year, excluding realized capital losses on the other hand, increased to $12.51 per share compared to $9.10 per share in 2008. This year-over-year comparison was largely influenced by $364 million of cat losses in 2008 versus $67 million in 2009. On a quarterly basis, operating earnings per share increased 9% to $3.19 compared to $2.92 in 2008.

You just heard from Ralph the details on premiums by segment. But overall, the increase in gross written was 14.8% for the quarter and 12.3% for the year. The impact of foreign currency on premiums was not significant for the quarter. But for the year, premiums increased approximately 14%, after adjusting for foreign currency, due to the weakening dollar.

Premiums earned for the year of $3.9 billion produced an underwriting gain of $407 million compared to $162 million in 2008. On a quarterly basis, the underwriting gain of $85 million in 2009, compared to a gain of $150 million in the prior year's quarter. These underwriting results were driven by several factors. In both the quarter-over-quarter and year-over-year comparisons, it was an improvement in the commission and brokerage ratio of 2.8 points and 1.4 points, respectively. This is primarily due to improved ceding commission terms on reinsurance contracts and reductions in profit share on certain insurance contracts. Other underwriting expenses rose slightly, as staff was added to build out our Financial Institutions business.

Another factor in the analysis of underwriting results was the development of prior-year losses. During the quarter, we added $92 million to our reserves for prior-year attritional losses, which amounted to 8.9 points on our loss ratio for the quarter. Year-to-date, we added $125 million or 3.2 loss ratio points.

The development activity in the fourth quarter was the result of our annual detailed loss reserve analysis, which indicated a need to add approximately $49 million to reserves in the Insurance segment. This, along with actions earlier in the year, added approximately nine points to the combined ratio in that segment for the year.

The balance of the reserve addition of $43 million in the quarter is in our Reinsurance book in both the Domestic and International Property lines, where we experienced a higher-than-expected level of late-reported losses from a small number of contracts, but offset by some favorable development in the Casualty book overall.

Also affecting the year-over-year comparison of underwriting results were cat losses. Cat losses in 2008 represented almost 10 points or $364 million of loss in 2008, whereas in 2009, the cat losses were $67 million for the year or 1.7 loss ratio points.

Excluding cat losses and prior-period development, the accident year loss ratio has increased to 56% in 2009 from 55.5% in 2008. The increase is largely evident in the Insurance portfolio, where the accident year loss ratio has risen to 71.5 from 68.2. This is a reflection in general of a softening market, particularly in the Casualty lines.

In the Reinsurance segment, the current accident year loss ratio was up but only slightly, since this portfolio is dominated by Property business, where rates in certain markets and products have been firmed. The Reinsurance segments overall had a strong year, exhibiting an accident year combined ratio, excluding cats, of 80.7%.

The overall combined ratio on an accident-year basis, excluding cats for the year, was 84.2%. And these results produced very favorable cash flow from operations of $785 million for the year and $186 million for the quarter.

Turning to the investment results. You will note that core investment results are down slightly year-over-year but up dramatically on a quarterly comparison. First, the year, which is down $18 million to $548 million. This is mainly attributed to lower yield available for new money, as well as what we had invested on our short-term accounts, where yields had been at historically-low levels. As a result, funds in short-term instruments have been reduced over the prior year end.

Overall, the yield on our fixed income portfolio has decreased 27 basis points. Offsetting this was a reduction in the loss from limited partnerships or a $23 million improvement. And while we did have less income in 2009 from equity securities due to sales in 2008, these proceeds were moved into fixed income securities and had minimal impact on the year-to-year comparison.

The quarter-over-quarter comparison is much different, although driven by the same factors. Net investment income for the fourth quarter rose to $146 million from $75 million in the prior year. And the largest factor was a swing in limited partnership income to a gain of $10 million in 2009 from a loss of $73 million in 2008.

In terms of our shareholders' equity account, the book value has grown to $6.1 billion or $102.87 per share, up from $80.77 per share at the prior year end and $100.75 at the end of the third quarter.

The increase in our book value from earnings was of course impacted by the normal shareholder dividends but also other comprehensive income. In the fourth quarter, there was approximately $46 million of unrealized loss after tax from a bond portfolio flowing through other comprehensive income. On the other hand, for the year, there was an increase of $530 million after-tax coming from the bond portfolio. As a result, the overall value of our fixed income portfolio is approximately $400 million above amortized cost.

The majority of the remaining change in other comprehensive income is derived from translation adjustments, which were a decrease of $20 million for the quarter, but an increase of $84 million for the year, as the dollar weakened for most of the year but rebounded slightly in the fourth quarter. And the final factor affecting the equity account was our share repurchases during the year, which in 2009 amounted to $190.6 million at an average price of $80.65 per share. This was of course accretive to our $13.22 per share earnings and our $102.87 book value per share and added positively to our 15% return on equity. With that, I will turn it back to Beth for the Q&A.

Elizabeth B. Farrell
Vice President of Investor Relations
Caitlin, we are ready for questions.

Question and Answer

Operator

[Operator Instructions] And we'll take our first question from the line of Brian Meredith from UBS.

Brian Robert Meredith
UBS Investment Bank, Research Division

A couple of question here, the first one, I think, on the Primary business, when we look at the reserve increase there. I guess the question is what is now the loss trend assumption that you're assuming in that, I guess, as the contractor's book of business?

Ralph E. Jones
Former Chief Executive Officer

Help me out here, Brian. Why did you say that?

Brian Robert Meredith
UBS Investment Bank, Research Division

It's just like loss cost in place. Because obviously, when you took the reserve charge, obviously...

Ralph E. Jones
Former Chief Executive Officer

Yes, but let me explain the reserves. We do our reserve review of course every quarter, but we do a more comprehensive one at year end. And we decided to strengthen the reserves for the insurance company quite substantially at year end as you could see. This came principally from two run-off programs that ended back in 2007. So I'm kind of happy to get those behind us and strengthen our reserve positions. So as we head into a softer market, we'll be fully reserved, so to speak. The accident year run rate for the Insurance group, we moved up three points, as you could notice for 2009 from Dom's commentary.

Joseph V. Taranto
Chairman

I think it's 68 to 71 on the loss ratio.

Ralph E. Jones
Former Chief Executive Officer

On the loss, yes. So that moves up the combined right over 100. So that's where we kind of see the book is today. So what we need to do is to continue that rate increase and belt-tightening that will improve the overall combined for the Insurance group, which I'm confident we can do.

Brian Robert Meredith
UBS Investment Bank, Research Division

And how the Professional Liability business do this quarter?

Ralph E. Jones
Former Chief Executive Officer

Extremely well, so the Direct Business, which is the biggest component is our D&O, E&O business and also the Property business in Florida, was combined under 90.

Brian Robert Meredith
UBS Investment Bank, Research Division

And then on the Florida business, Joe, you talked about rate increases and how that should possibly affect that business. What about wind credits? How could that factor into your Quota Share business?

Ralph E. Jones
Former Chief Executive Officer

Yes, the wind mitigation credits at the Florida companies had to endure over the last couple of years are kind of in the results or in the book. What's really changed there is the kind of overall attitude or orientation of the Insurance Department. Because a year ago, they were kind of forcing these entities more and more competitive. And now, with the concerns about solvency of some of the Florida companies, they're kind of taking an opposite tack in their granting 15% rate increases pretty much to anybody who asked for one. So in our largest client, they were grant today 15% rate increase in October. And that really should not only take care of some of the credit issues, but also as you go into 2010, it'll look pretty good.

Joseph V. Taranto
Chairman

Yes, for our bigger clients, as Ralph noted, we got the 15% rate increase which kind of works to our benefit. The wind litigation credit is something that the department is still tackling. I think there's a lot of agreement that there's been abuse in that system. And I think there will be changes going forward that will also help the companies in terms of generating a better result into the future. A little unclear just how much that will be at this stage of the game. But the rate increase 15%, that's just clear and being applied to all policies.

Operator

And we'll take our next question from the line of Jay Gelb from Barclays Capital.

Jay H. Gelb
Barclays PLC, Research Division

Specialty Re [reinsurance] seems to be another challenging segment. Can you tell us a little about what was going on in the fourth quarter there?

Ralph E. Jones
Former Chief Executive Officer

Sure. Jay, this is Ralph. It's principally the Marine business. So we had a couple of large contracts, quota shares, that did not perform well. Came up for renewal at 1/1, and we were not able to come to an agreement on the negotiations for each of those. So that was the center of my conversation in the report, which was the Marine results and what that's going to mean for a drop in revenue in that area for the next year.

Joseph V. Taranto
Chairman

The other components of the Specialty, the Accident and Health and Surety, did perform in fact quite well.

Jay H. Gelb
Barclays PLC, Research Division

So the loss issues, especially on an accident year basis were driven by the Marine book?

Joseph V. Taranto
Chairman

Correct.

Ralph E. Jones
Former Chief Executive Officer

Correct.

Jay H. Gelb
Barclays PLC, Research Division

Ralph, when you put all your comments together in terms of the moving pieces within the franchise, did it still lead you to an outlook for roughly flattish premium growth in 2010 overall?

Ralph E. Jones
Former Chief Executive Officer

For the entire organization?

Jay H. Gelb
Barclays PLC, Research Division

Yes.

Ralph E. Jones
Former Chief Executive Officer

I would say it will probably be up in the single digit range.

Joseph V. Taranto
Chairman

Yes, it's hard for us to guess exactly, and 1/1 certainly isn't the entire year. Maybe up a bit, but flattish is I think probably the best takeaway. Some parts will be up, mostly Property. Some parts will be down, mostly Casualty.

Jay H. Gelb
Barclays PLC, Research Division

And then for Dom, the linked-quarter core investment income, around $146 million in the quarter, was down almost $20 million from the third quarter. What was driving that?

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

Well, a big part of that was the decline in the limited partnership income, primarily public equities, limited partnerships that are invested in public equities.

Ralph E. Jones
Former Chief Executive Officer

They had a lag effect.

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

Well, probably lag effect, and then also, since the third quarter, we've sold out some of our public equity exposure in a limited partnerships base.

Jay H. Gelb
Barclays PLC, Research Division

And then on share buybacks, with the stock trading slightly below 80% of book, I'm just wondering, do you have any updated thoughts in terms of how fast you'll do the buy back here?

Joseph V. Taranto
Chairman

Well, again, we're not going to provide forecasts. But clearly, we're going to be in the market, and we're keen to get into the market, soon as the window opens. And we're going to be buying back in the first quarter a reasonable amount.

Operator

And we'll take our next question from the line of Matthew Heimermann from JPMorgan.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

I guess a couple of question, first, just on the reserve increases. Can you talk about just how the process of reviewing the reserve is the same or different relative prior years, given obviously some of the people on the phone have changed over the last couple of years?

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

Well, let me explain the process. I'm not sure I could describe completely how this is done, how different from prior years, other than maybe a little bit of timing. I obviously came onto the organization in May. And there had been previously, I guess in prior years some detailed reserve reviews done, during part of the detail reserve reviews done at interim quarters. We elected to have a full reserve review done in the fourth quarter, which is what gave rise to the adjustment that we just talked about before. But in the intervening quarters, we did do a fair bit of work as well. We monitor how our losses are performing relative to our expected. So we're constantly monitoring actual losses up against expected losses in many of our segments and what we call reserving groups, if you will. So that is a continual process throughout the year, but the annual detail or the detail reserve study, which was in prior year's split into two different quarters, we conducted all in the fourth quarter this year.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

Is the by-product of kind of the change in the quarterly monitoring, is it fair to think that, that in future years probably means that the 4Q review will probably be less impactful in terms of the total change to the reserving amount?

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

I'm not sure why it would be less impactful, but we are actually looking or I'm looking at how we might conduct these reserve studies going forward into future periods. In fact, moving the dates upon which we examine losses closer to the valuation date, which should give us a better answer and a more timely answer. So there's a number of things that I'm looking at that in fact may have the reserve study moved to throughout the year, back to a moving calendar. But let me be clear, I think that whether we do the reserve study, the detailed reserve study, if we split it up into two quarters or do it all in one quarter, does not lessen my conviction about where I think reserves are or the process here. I think that the process here, the adjustment that we made in the fourth quarter, on an overall basis relative to $8 billion of reserves, is well within the bounds of reason. And I still feel very strongly about our overall reserve position and its reasonableness, and certainly, how conservative stance that we're taking here at the end of the fourth quarter.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

I guess, and this might be unfair, but I mean from an external perspective, clearly, reserve additions has been kind of a struggle over the last maybe four years in total, and it stands in a bit of contrast to the trends that other companies are reporting. I guess, what are you seeing internally that you maybe could communicate externally that makes you feel like you're on top of the issues that have been driving these increases?

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

Well, let me first say that that's something that I fully expect and working hard to put behind us. And I think what we've done here in the fourth quarter is we'll do just that. So let me be clear on that point. And I think there's another element to it. There's also current accident year. And so while you're examining, paying a lot of attention to prior-period reserves and as we should, and as we did it at the end of the fourth quarter, we also need to be sure that we've got a good and adequate and a conservative loss pick for the current accident year so that doesn't become a prior-period adjustment into the future. So that's the other element of this, which I feel quite strongly that we've taken good steps in that regard.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

I guess moving on, and maybe this is for Ralph, just on the Program Manager business, I guess given that you're saying professional lines and that the D&O, E&O professional lines operations are running at an under-rated profit, I guess the question I have is, is this 5% rate enough in that book to actually drive improvement? Or is the improvement more going to come in that segment just from the fact that the work comp property or property D&O is just going to become a bigger portion of it, and kind of a mix is what's going to get you there rather than a certainly big improvement on the stuff that's problematic today?

Ralph E. Jones
Former Chief Executive Officer

Well, the mix comes automatically really by the process, right? Think of it that way. Most of the rate increases that we're really getting traction on have been in the California comp during the last six months. So we're seeing good traction there, happy with the prices. That book will maybe grow modestly. On the general liability programs, we have two big ones. We're having harder time getting traction because the Program Managers are losing renewals when we push for the requisite rate increase. So naturally, that will kind of be a smaller portion of the book over time. So it's kind of a natural selection process really. On the other direct business, which again is not through Program Managers, we kind of control our own destiny to a greater degree, and we're happy with that. And we can get the army to march more clearly in those areas, and that's happening and towards really good pockets of business where we see opportunity. So that will just naturally become a larger component of the Insurance segment over time. I'm happy with the Program Managers that we have. They are doing the job. It is starting to take shape. It hasn't performed to the degree that we would've liked in the past, and we're going to fix that.

Joseph V. Taranto
Chairman

Let me add to that, that Ralph noted a minimum of 5%. So clearly, we're hoping and certainly are going to push for more than 5%. Now we're not sure what we can actually achieve given the marketplace. If it doesn't change all that much, it's going to be difficult to achieve a big number. But we will push and get what we can get. And the other form of attack was the expense ratio. We're going to look to take that down a bit as well.

Matthew G. Heimermann
JP Morgan Chase & Co, Research Division

When you talk about premiums for next year and the renewals at 1/1, was that adjusting for FX or is that before contemplating the impact of FX?

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

That was without contemplating anything for FX.

Operator

[Operator Instructions] And it looks like we have no more questions at this time.

Elizabeth B. Farrell
Vice President of Investor Relations

Thank you. If certainly anybody has questions offline, please feel free to call me. I do appreciate it, for your big participation this afternoon. Thank you.

Operator

This concludes today's conference. You may disconnect at this time and have a great day.