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RE - Q3 2015 Everest Re Group Ltd Earnings Call

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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 would like to turn the conference over to Ms. Beth Farrell, Vice President of Investor Relations. Please go ahead, Ma'am.

Beth Farrell - Everest Re Group Ltd - VP of IR

Thank you, Tony. Good morning and welcome to Everest Re Group's third quarter 2015 earnings conference call. On the call with me today, are Dom Adesso, 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 projections, estimates, expectations and the like are subject to various risks. As you know, actual results could differ materially from current projections or expectations. Our SEC filings have a full listing of the risks that investors should consider in connection with such statements. Now, let me turn the call over to Dom.

Dom Adesso - Everest Re Group Ltd - President & CEO

Thanks, Beth and good morning. We are pleased to report another favorable quarter despite industry losses in China and Chile. For us, these two 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 team 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 the reinsurance segments drive the underwriting profit, the insurance operation has improved its attritional combined ratio year-over-year by almost 5 points for the nine months. This is a result of a number of quarters of improving rates as well as profitable growth of almost 30% during the nine months. Reinsurance, including Mount Logan, on the other hand, had a 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 Mount 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 would dramatically change our plans as 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 talents and broadening our broker relationships will be key to our continued success there. In addition, broadening our insurance platform by developing our Lloyd 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; from 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 return on our capital compared to the overall market. Thank you, and now I will turn it to Craig for the financial report.

Craig Howie - Everest Re Group Ltd - CFO

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-to-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 after tax realized capital losses compared to \$47 million of capital gains last year for 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 nine months of 2015 compared to 83.7% in 2014.

The higher 2015 ratio includes the 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 our investments, pre-tax 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 one year ago.

This decrease was primarily driven by the low interest rate environment and by the decline in limited [partnership income.

Limited Partnership income is down \$12 million year-over-year, primarily due to energy - related investments. The pre-tax yield on the overall portfolio was 2.8%, and duration remained at 3 years.

Other Income and Expense included \$62 million of foreign exchange gains on a year-to-date basis, compared to \$1 million of foreign exchange gains for the same period last year.

The 2015 foreign exchange gains resulted from the relative strengthening of the U. S. dollar against other world currencies, including the Canadian dollar this quarter.] (corrected by company after the call)

Operator

Please stand by. We are experiencing technical difficulties.

(Operator Instructions)

We have been rejoined by Management. Please go ahead.

Craig Howie - Everest Re Group Ltd - CFO

This is Craig Howie. I know we were cut off. I am sorry if I am repeating anything that I've previously mentioned, but I'm going to start again with taxes. 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 \$988 million for the first nine 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 returned through \$325 million of share buybacks and \$126 million of dividends paid in the first nine 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. Now, John Doucette will provide the operations review.

John Doucette - Everest Re Group Ltd - Chief Underwriting Officer

Thank you, Craig. Good morning. As Dom highlighted, we had a very solid underwriting result 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 detail 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 non-renewing 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 Mount 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, were essentially flat from last quarter at about \$830 million as we do not typically take in money between July 1, and January 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 reinsurance and retrocessional protections, we successfully enhance our capital efficiency while delivering meaningful capacity to support our underwriting strategies.

Turning to the insurance operations, 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 nine 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're 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're 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 have received approval in principal from Lloyd's to launch our syndicate number 2786. We expect to obtain final approval to start business on January 1, 2016. Our Lloyd's 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're seeing in each insurance market. For California workers 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 initiatives gain traction and enhance diversification.

In the short tail business, including property, DIC, non-standard 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 80's 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're 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 strength 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.

Beth Farrell - Everest Re Group Ltd - VP of IR

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 connection issue, please stay on the line and we will call back in. Thank you. Tony?

QUESTIONS AND ANSWERS

Operator

(Operator instructions)

Amit Kumar, Macquarie Research.

Amit Kumar - Macquarie Research Equities - Analyst

Thanks and good morning, and congrats on the quarter. Maybe two quick questions. Number one is, the discussion on the underlying AYLR 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?

Dom Adesso - Everest Re Group Ltd - President & CEO

Give us one second.

Craig Howie - Everest Re Group Ltd - CFO

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

Amit Kumar - Macquarie Research Equities - Analyst

Got it. Okay. That's helpful. Thanks. The other question I had was the discussion obviously on growth versus capital versus not talking about the Lloyd's which has a stamp capacity of \$151 million. Now the buyback this quarter was a bit higher than what we were expecting, and I'm trying to 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 a new normal? How should we think about the repurchase this quarter? Thanks.



Dom Adesso - *Everest Re Group Ltd - President & CEO*

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. As we're going through quarter, it seemed as if it was going to be a light cat quarter.

Amit Kumar - *Macquarie Research Equities - Analyst*

Got it. Can you just touch-up on the Lloyd's? When does that fully ramp up, the \$151 million stamp capacity?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

We expect to go live with Lloyd's on the first of the year.

Amit Kumar - *Macquarie Research Equities - Analyst*

Got it.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Subject to final approval of the Franchise Board, our business plan, et cetera, but we are on track to do that effective January 1.

Amit Kumar - *Macquarie Research Equities - Analyst*

Got it. That's all I have. Thanks for the answers.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Thank you.

Operator

Joshua Shanker, Deutsche Bank.

Joshua Shanker - *Deutsche Bank - Analyst*

Good morning, thanks for taking my question. 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 when the largest recorded hurricane in history is bearing down on Puerto Vallarta, how should we think about the pricing in the Mexican market? How should we think of aggregate risks that Everest is taking? Why or why not are investors conspicuously concerned about Everest to their benefit or to their detriment?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

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 US, 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 event did not hit some of the more occupied regions and the resort areas. Interestingly enough, in more recent times, we actually downsized in more 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 cannot meet our hurdle rates, we will terminate or look to change our participation in some ways that matches our, the risk-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 Mount Logan, effectively right-sizes 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've just described, where we actually got off of some deals and actually our exposure was will turn out to be less. In Chile, we write much less proportional business than we did previously and of course that event again, hitting offshore the insured loss was not as great as maybe it 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. Because I don't know that at all I hope that answered your question. If it didn't --

Joshua Shanker - *Deutsche Bank - Analyst*

To some extent. It's an open-ended question. The other question I had is you had mentioned in the previous questioner, that the stock price got a little bit away from you in Q2. The stock prices are like between \$180 and \$185 in the second quarter, are you trying where possible to buy stock at book value and not above? Is \$180 to \$185, when you have \$175 in book value a significant premium to where you want to buy?

Operator

Pardon the interruption, Mr. Shanker. It looks like we did unfortunately lose our speakers once again.

(Operator Instructions)

We have been rejoined by our speakers. Joshua, if you wanted to ask your last question again?

Joshua Shanker - *Deutsche Bank - Analyst*

It must be we have industry low expense ratio coming here guys. I don't know.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

(Laughter) I think we were going to make the same comment.

Joshua Shanker - *Deutsche Bank - Analyst*

Hat trick my associate pointed that out by the way. So the other question was you mentioned that on 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?



Dom Adesso - *Everest Re Group Ltd - President & CEO*

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 just 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.

Joshua Shanker - *Deutsche Bank - Analyst*

Excellent. Thank you very much for the answers.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Thank you, Josh.

Operator

Vinay Misquith, Sterne Agee.

Vinay Misquith - *Sterne, Agee & Leach - Analyst*

Hi, good morning. Just wanted to follow up on the capital question. You have several new initiatives this year. You also have Lloyd's next year. Curious about whether you want to build up capital next year or do you think you could return all the earnings that you generate to shareholders next year?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Vinay, I will give the question the standard response to the question that we get every quarter in that regard, you folks find unique ways to ask it each time, and it's we don't put out any forecast for any of our repurchase plans. We look at it quarter to quarter based on what we think are 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 Misquith - *Sterne, Agee & Leach - Analyst*

Sure than let me put it another way.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

You can try. (Laughter).

Vinay Misquith - *Sterne, Agee & Leach - Analyst*

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?



Dom Adesso - *Everest Re Group Ltd - President & CEO*

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

Vinay Misquith - *Sterne, Agee & Leach - Analyst*

Fair enough. And then on the growth on the primary insurance side. It appears that some of the growth came from short-tail lines, I think it was up 40% this quarter and also the accident and health, and also, you are planning to go into Lloyd's. 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.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

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 Misquith - *Sterne, Agee & Leach - Analyst*

Dom, more in the sense of -- people in the industry are saying by things weak in the lines and we're seeing that -- youth and growth right now from Everest, so just curious the way you're finding market --

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Let me just add to that. Because pricing is, I would say it's weaker, does not mean necessarily that it's not adequate. So for example, as John just highlighted in his comments, we talked about casualty being flat year-over-year. So that's a reflection of what's going on in the market and perhaps what we feel are adequate returns relative to what we are seeing. In the property space, we're still seeing many opportunities. A&H is a specialty segment which experienced nice growth in as well as some 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 have done some things in Canada which have given us some growth. California DIC, while things have flattened out there, it's still from a risk-adjusted return perspective, it's still a very good business. So all of these pockets, we do monitor each and every month and quarter in all of our classes of business on the insurance side.

John Doucette - *Everest Re Group Ltd - Chief Underwriting Officer*

Vinay, it is John. I just want to add a couple of more things. You mentioned properties specifically. We've talked about this before but I think it's worth repeating, we have one global 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 for an 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.

Operator

It appears that we are still experiencing some technical difficulties.

(Operator Instructions)

Dom Adesso - *Everest Re Group Ltd - President & CEO*

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

Vinay Misquith - *Sterne, Agee & Leach - Analyst*

Yes.

John Doucette - *Everest Re Group Ltd - Chief Underwriting Officer*

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 real-time accumulations, real-time pricing, whether it's insurance, fac, 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 are 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 Misquith - *Sterne, Agee & Leach - Analyst*

And are you seeing pricing on the primary side better than on the reinsurance for property?

John Doucette - *Everest Re Group Ltd - Chief Underwriting Officer*

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

Vinay Misquith - *Sterne, Agee & Leach - Analyst*

Okay, thank you.

Operator

Kai Pan, Morgan Stanley.

Kai Pan - *Morgan Stanley - Analyst*

Thank you and I would add that we probably should all buy interruption insurance for all conference calls. (Laughter). So to start with, on your take on the upcoming BCAR changes, what potential impact for the reinsurance demand?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

I can't comment specifically because I am not sure that we know all the details of those changes at this point other than to know that we do expect that we will have some impact for certain clients and that is, I did mention in my comments, that we would expect some increase in demand and



frankly, that would be one of the reasons that we would expect some increase in demand. But I really can't give you any specifics on what that might be for the industry as a whole.

Kai Pan - *Morgan Stanley - Analyst*

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

Dom Adesso - *Everest Re Group Ltd - President & CEO*

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 two major industry events, there are certainly mixed thoughts on that subject. 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 - Analyst*

Okay that's great. Then just quick number question, do you have a breakdown of the \$60 million Tianjin losses by segments? And also on Volkswagen, what's your view on industry exposure as well as Everest Re's exposure on that event?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

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

Kai Pan - *Morgan Stanley - Analyst*

Yes, reported segments.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

I'll ask Craig to --

Craig Howie - *Everest Re Group Ltd - CFO*

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

Kai Pan - *Morgan Stanley - Analyst*

Okay.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

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



Kai Pan - *Morgan Stanley - Analyst*

On the Volkswagen potential industry exposure there.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

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

Kai Pan - *Morgan Stanley - Analyst*

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

Dom Adesso - *Everest Re Group Ltd - President & CEO*

There's a lot to that question. First of all, yes, that's certainly our plan to continue to have the insurance combined ratio to continue to trend down, and we have every expectation that would happen over time. Relative to the early to the early 2000s, while 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 usually 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 base that emanated from the time period that you are referencing was a lot of program business, and as we cited, we're 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. It doesn't mean that we won't continue to do business with great partners in that space, it just means that we are a lot more selective and we have other ways 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.

Kai Pan - *Morgan Stanley - Analyst*

That's great. Thank you so much for all the answers.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Thank you, Kai.

Operator

Sarah DeWitt, JPMorgan.

Sarah DeWitt - *JPMorgan - Analyst*

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

Dom Adesso - *Everest Re Group Ltd - President & CEO*

As I mentioned in my comments, I certainly expect in the short-term given what we expect out of the reinsurance base, that is 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. We don't have any, put out any 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 it's a very hard market in the reinsurance space, then you are likely to see a strong growth spurt there. It doesn't mean that it would necessarily change our appetite in the insurance side, it just a matter of which segment is growing faster than the next due to pricing adequacy.

Sarah DeWitt - *JPMorgan - Analyst*

Okay, thanks. 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 would probably be better than the industry as well.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Is you're asking including cat losses or ex cat losses?

Sarah DeWitt - *JPMorgan - Analyst*

Including some level of normalized catastrophe losses.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

I do think that's potentially achievable. I don't know given where pricing is today on the reinsurance side, ex cats, 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 our targets low-teens, absolutely.

Sarah DeWitt - *JPMorgan - Analyst*

Okay, great. Thanks for the answer.

Operator

Meyer Shields, KBW.

Meyer Shields - *Keefe, Bruyette & Woods, Inc. - Analyst*

Great, thanks so much. So two big picture questions. One, is there any reason to expect the historical cycle in California workers comp to not play out with this year, next year looking really good and then things getting worse?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

I don't know that 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 the business.

Meyer Shields - *Keefe, Bruyette & Woods, Inc. - Analyst*

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 Lloyd's platform from companies that you're not competing with more directly?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

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 of business.

Meyer Shields - *Keefe, Bruyette & Woods, Inc. - Analyst*

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

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Well, we've already -- our numbers already this year-to-date, we have expended 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 am not sure that it would make really much of a difference.

Meyer Shields - *Keefe, Bruyette & Woods, Inc. - Analyst*

That makes sense. Great. Thanks so much.

Operator

Ian Gutterman, Balyasny.

Ian Gutterman - *Balyasny - Analyst*

Great, thanks. I guess on the insurance business, 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 two quarters, but this year was much higher. Is there something seasonal about that or is that just the increased growth and think of this as just more of a normalized?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Well, the insurance side remember is influenced by crop which does have seasonality to it.

Ian Gutterman - *Balyasny - Analyst*

Right.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

To the extent that there is some seasonality that would come from our property E&S book to the extent that we have some of that in southeastern US, we haven't had any major events so there hasn't been losses coming from that. And again, property E&S to the extent that it's growing and it has been growing in the Northeast could have some impact from winter storms. So yes, there will be pockets of seasonality across the portfolio.

Ian Gutterman - *Balyasny - Analyst*

Okay, got it.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

John wanted to add something.

John Doucette - *Everest Re Group Ltd - Chief Underwriting Officer*

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 have 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. That we are seeing the fruits of the plan and the resources and the labor that we have committed to growing the insurance book. So it's that, combined with the seasonality that Dom alluded to.

Ian Gutterman - *Balyasny - Analyst*

Got it. I clearly realize it's both. I just didn't know if I should discount a little bit of the magnitude of the increase this quarters was all I was trying to get at. Okay. Moving on. I guess just to follow up on the Lloyd's question, can you talk more about specific business plan? I don't know if what stamp capacity you've been approved for, what sort of lines of business you are targeting initially, is it going to be property types or might you try to do cover holders or even some casualty? What's the focus going to be?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

It's a 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 it -- our China and perhaps our Australian business because of expense advantages of running it through that platform relative to keeping it on the reinsurance company paper. Because it 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 Doucette - *Everest Re Group Ltd - Chief Underwriting Officer*

And the stamp capacity is \$150 million roughly.



Ian Gutterman - *Balyasny - Analyst*

Got it. Great, thank you. And then on Tianjin, this feels to me, 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 deep water or a costa where it's just so hard to -- it seems the primaries themselves don't really have any great insight into what the loss is and it seems when we get those types of events, they tend to creep over time. Does this feel like one of those where you are worried about creep and if so, as you are looking at how much you put up this quarter, how did you account for that?

Dom Adesso - *Everest Re Group Ltd - President & CEO*

I am 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 would be less of an issue as contrasting with costa. I guess the other question will be maybe the more uncertainty 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 in an answer to a different, another question, our participation in the region actually reduced. So we are not, we're feeling comfortable with our pick, but I am not sure that any movement around that pick is necessarily all that material for this.

Ian Gutterman - *Balyasny - Analyst*

Perfect. Just lastly, just to follow up on the BCAR question from earlier, what about, as far as your underwriting appetite, does anything potentially change there? I think one of the more heated topics on that is the changes in the tail factor on cat. Does that have to change how you would look at tail beyond 250 or maybe how you look at aggregated covers versus occurrence covers, things like that? As far as your appetite to write them?

John Doucette - *Everest Re Group Ltd - Chief Underwriting Officer*

So, we have always looked at, in terms of pricing and accumulation, all points on the curve to the one in 10,000 and beyond, we look at AO, we look at annual occurrence, we look at aggregate, we look at multiple events, we look at things that happen 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, increased demand and therefore increased limit that's going to be purchased potentially by our customers and therefore upward pressure on pricing, that's a good thing. And we have the capital to support that, 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.

Ian Gutterman - *Balyasny - Analyst*

Thanks so much. Good luck, guys.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

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



Operator

(Operator instructions).

It appears we have no further questions at this time.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

That's fine. Just wanted to offer that up.

Beth Farrell - *Everest Re Group Ltd - VP of IR*

Thank you and as always, we will see you next quarter.

Dom Adesso - *Everest Re Group Ltd - President & CEO*

Thank you very much. And again, apologies for the connection issues we have had. We appreciate the interest. Again, we think we have had an excellent quarter. We have had some events, but I think what you've seen and the way Everest has performed with the scale and diversification of our book, despite those industry losses, we're still able to produce very, very good returns and 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 at any time and have a great day.

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