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Everest Re Group, Ltd. NYSE:RE

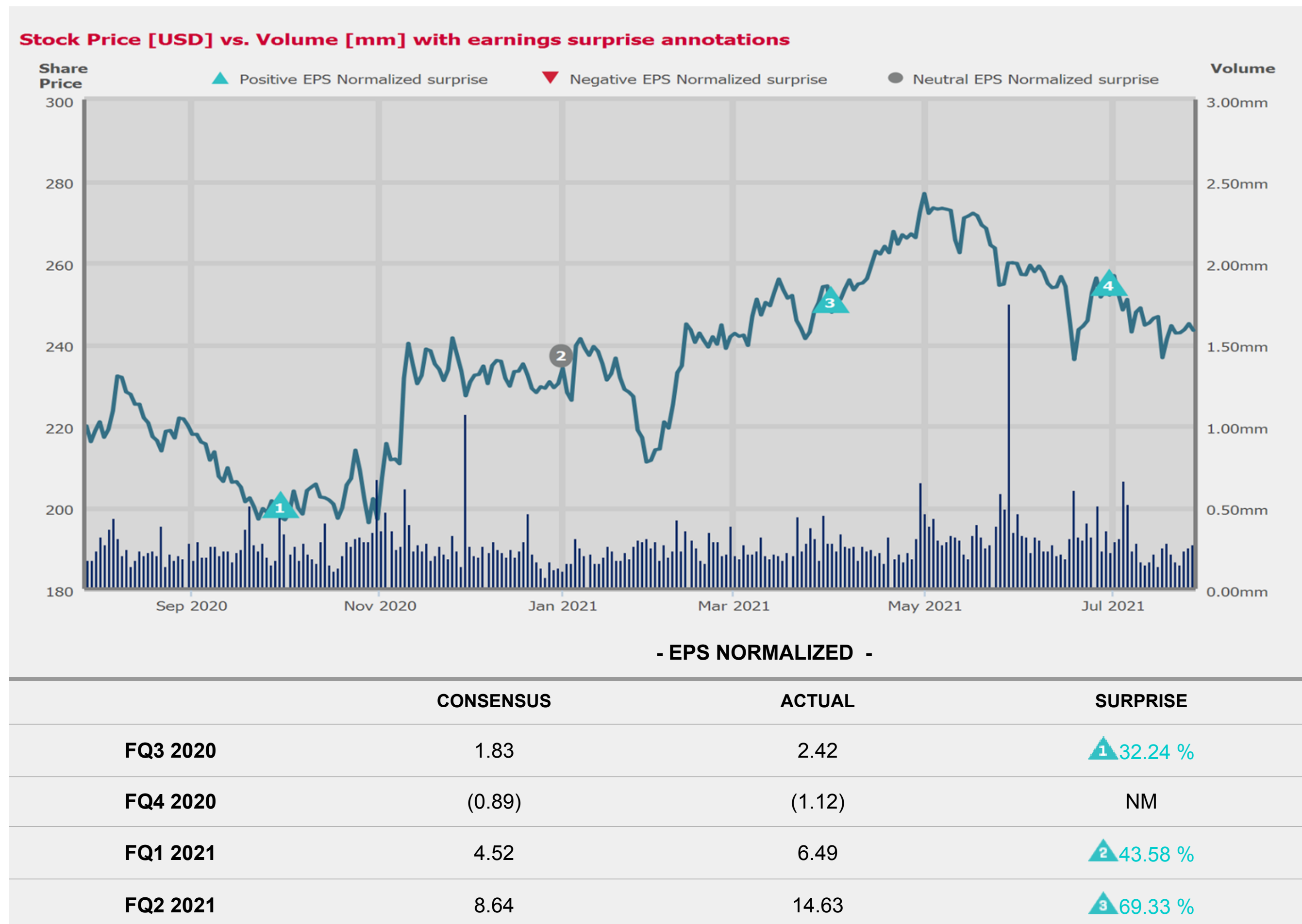
FQ2 2021 Earnings Call Transcripts

Thursday, July 29, 2021 12:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2021-			-FQ3 2021-	-FY 2021-	-FY 2022-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	8.64	14.63	▲69.33	4.55	27.85	NA
Revenue (mm)	2374.50	2558.37	▲7.74	2656.82	9816.60	NA

Currency: USD
Consensus as of Jul-29-2021 4:29 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2020	1.83	2.42	▲32.24 %
FQ4 2020	(0.89)	(1.12)	NM
FQ1 2021	4.52	6.49	▲43.58 %
FQ2 2021	8.64	14.63	▲69.33 %

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Juan Carlos Andrade
President, CEO & Director

Mark Kociancic
Executive VP & Group CFO

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

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Presentation

Operator

Welcome to the Everest Re Group Earnings Conference Call. [Operator Instructions] I would now like to turn the call over to Jon Levenson, Head of Investor Relations.

Jon Levenson
Head of Investor Relations

Good morning, and welcome to the Everest Re Group 2021 Second Quarter Earnings Conference Call. The Everest executives leading today's call are Juan Andrade, President and Chief Executive Officer; Mark Kociancic, Executive Vice President and Chief Financial Officer. We are also joined by other members of the Everest management team.

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

With that, I turn the call over to Juan Andrade.

Juan Carlos Andrade
President, CEO & Director

Thank you, Jon. Good morning, everyone, and thank you for joining the call. Everest delivered an outstanding second quarter with strong growth and excellent underwriting and investment performance. We set multiple records for our company on both the top and bottom lines. These results serve as the foundation for our exceptional net income result of over $1 billion through the first half of 2021, and another important step to achieving our 3-year strategic plan objectives and the delivery of superior results to our shareholders.

Everest achieved an annualized total shareholder return of 22.5% through the first half of 2021, while exceeding our 3-year strategic planned target of 13%. We capitalized on market opportunities to expand our franchises in both reinsurance and insurance, driven by relentless execution and the strength of our value proposition to our clients and brokers. Disciplined underwriting drove strong profitability in both reinsurance and insurance, and our investment return was a quarterly record for the company. The standout performance this quarter demonstrate the progress we have made in executing our strategy and the quality of Everest's diversified earnings.

As I discussed at our Investor Day in June, our strategy has 3 building blocks. First is building our underwriting franchises. We are growing our specialty P&C insurance platform while expanding its margins. We are solidifying our leadership position in global P&C reinsurance, while we are growing and diversifying this business. Our investment portfolio is a core tool to generate solid returns, and we're optimizing the portfolio while sharpening our strategy.

Second, we continuously pursue operational excellence. This starts with underwriting discipline, supported by a system of management oversight and checks and balances. Beyond underwriting, we are transforming the operating model of the company to achieve greater scalability over time. We are also optimizing capital within our underwriting and investment portfolios. Capital is valued and respected. We are using the most efficient sources of underwriting capital from the capital markets, including ILS investors.

In our industry, those who execute best, win. We're leveraging our flat, agile organization to deliver best-in-class service and risk solutions to our brokers and customers. They routinely site our responsiveness and capabilities as a key reason why they choose to do more business with Everest.

Finally, ESG principles are core to Everest. This includes focusing on the culture our company. Culture is one of our key differentiators, and it is one of the reasons we can attract and keep top talent. Our culture fuels our success by helping our team be the best it can possibly be. We're investing in the talent of the organization as well as the diversity of our team.

At Everest, we have 3 drivers of earnings. The first driver is about building a high-quality specialty commercial P&C insurer, the underwriting excellence and a compelling value proposition. We are embedding data and analytics across the organization, enabling more effective pricing and decision-making. This means we make better underwriting decisions at

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improved loss ratios. We are improving our claims outcomes while delivering excellent service to our clients, and we're focusing our distribution efforts to be more sales and results oriented.

Our second driver of earnings is Everest leading global P&C reinsurance platform. We enjoy the leading market position of a fully scaled platform, and we are focused on continuing to grow and optimize our reinsurance business. We're executing an underwriting transformation by improving operational oversight, governance and controls. Our reinsurance division is entrepreneurial and nimble. We will maintain it within a framework of pricing, reserving and process discipline. We're further diversifying into higher-margin opportunities. And finally, we're expanding our risk financing by further partnering with capital markets and ILS investors.

The third core driver of earnings is the investment portfolio. We have a high-quality portfolio, and we're focused on the efficient use of capital. The successful execution of our strategies in all 3 drivers of earnings is clearly evident in our results.

I will now discuss our group reinsurance and insurance first quarter 2021 results. Starting with the group results. We grew gross written premiums by 35% and net written premiums by 39%. Our growth was broad and diversified, stemming from: one, increased exposures and new business opportunities as the U.S. economy recovers; two, continued double-digit rate increases; three, expanded shares on attractive renewals; and four, strong renewal retention. The combined ratio was 89.3%, an 8-point improvement year-over-year. The attritional combined ratio was 87.6%, almost a 4 point better than prior year, with both segments expanding margins. We generated $274 million in underwriting profit compared to $51 million in the second quarter last year. Underwriting profitability remains at the core of everything we do.

Net investment income was simply outstanding at $407 million, compared to $38 million in the prior year second quarter. These strong operating results led to a net income for the quarter of $680 million, resulting in an annualized return on equity of over 28%. Gross written premiums in reinsurance were up 40% over the second quarter of 2020. We are pleased with the ongoing execution of our 2021 plan. This growth was broad-based in the areas we discussed during Investor Day as attractive. We achieved this growth while also coming off or reducing shares on less attractive business. We drove continued targeted growth in property cap, which we achieved while lowering our PMLs in peak zones, thus reducing expected volatility and improving risk-adjusted economics.

Much of our growth came from our core trading partners that are looking to grow with Everest because of our strong ratings and balance sheet, significant capacity and the ability to ride across all lines. The attritional combined ratio, ex COVID-19 pandemic impact was 86.1% for the quarter, a 60 basis point improvement year-over-year, resulting from our continued focus on loss and expense management. We see risk-adjusted returns expanding in almost all treaties and classes of business globally. We're also benefiting from investments in data and analytics.

As you can see in our results, our focused actions improved the quality and profitability of the book. We are writing a more balanced portfolio with improved economics at an appropriate level of risk. We have achieved improved portfolio economics across all of our 2021 property renewal dates. We improved in every dimension. We increased top line, increased margin and achieved higher ROEs. In casualty and professional lines, primary rate increases continued to outpace expected loss trends. Jim Williamson is available to provide additional details during the Q&A.

Our insurance division continued its strong performance with excellent growth in underwriting results. We continue to expand margins as we execute our strategy. We wrote over $1 billion in gross written premiums for the first time in a quarter. This represents 25% growth year-over-year or 30% growth, excluding workers' compensation. This growth is driven by disciplined cycle management, new business opportunities, continued double-digit rate increases and strong renewal retention on existing business. We're also starting to see a steady improvement in overall economic activity. The growth was well diversified in target classes of business, where market conditions are prime for profitable growth, including specialty casualty, professional liability, property, transactional liability and trade credit and political risk. We are pleased with this diversification as it is a core tenet of our strategy.

We also delivered strong underwriting results with a 93.5% combined ratio, a 10-point improvement over the same period last year, which was impacted by COVID. The underlying performance was also excellent with a 92.1% attritional combined ratio, a 1.6% improvement over last year and almost 4 points better than the second quarter of 2019.

Renewal rate increases continued to exceed our expectations for loss trend, up 14% in the quarter, excluding workers' compensation, and up 11%, including workers' compensation. Rate increases were led by excess casualty, up 22%; property, up 16%; financial lines, up 14% and general liability, up 9%. We are building a diversified portfolio, steering our

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mix towards product lines with better rate adequacy and higher long-term margins. We also continued to manage average limits deployed to mitigate volatility.

We are pleased with the progress we have made. And this strategic direction and granular portfolio management should continue to possibly impact our results going forward. We continue to thoughtfully manage the workers' compensation line, which now represents 10% of our second quarter premiums, down from 14% year-over-year. While this line remains profitable, we have pared back monoline guaranteed cost writings and shifted to more loss sensitive loss ratable business, where we share more risk with our customers with more focus on risk mitigation. Workers' compensation is an area of expertise at Everest, and we're monitoring market conditions closely for potential opportunities, but these efforts illustrate our disciplined cycle management.

Lastly, our strong position in both the E&S and retail channels continues to give us access to a wide set of opportunities. Mike Karmilowicz is available to provide additional details during the Q&A.

In summary, Everest had an outstanding second quarter with strong growth and exceptional underwriting and investment performance. We have vibrant and well-diversified reinsurance and insurance businesses with experienced leadership and underwriting teams providing industry-leading solutions to our customers. We have significant momentum as we continue to execute our strategic plan. The company has excellent financial strength, top talent and a prudent capital management philosophy. We are focused on sustained profitable growth, a more diversified, targeted and deliberate mix of business and superior risk-adjusted returns. We believe the relentless and disciplined execution of our strategy will result in maximizing shareholder returns. I am confident in Everest's future and our ability to deliver on our commitments to customers and shareholders.

Now let me turn the call over to Mark Kociancic for additional details on the financials. Mark?

Mark Kociancic
Executive VP & Group CFO

Thank you, Juan, and good morning, everyone. Everest reported excellent results for the second quarter of 2021, with robust premium growth, excellent underwriting results and truly outstanding investment returns. I'll provide more detail on these points over the next few minutes.

For the second quarter of 2021, Everest reported gross written premium of $3.2 billion, representing 35% growth over the same quarter a year ago. By segment, reinsurance grew 40% to $2.1 billion and insurance reported its first-ever $1 billion top line quarter, representing 25% growth year-over-year.

Turning to net income. For the second quarter, Everest reported net income of $680 million, resulting in an annualized return on equity of 28%. We also reported net operating income of $587 million, equal to operating earnings of $14.63 per share and an annualized operating return on equity of 24.5%. All 3 of our earnings engines provided meaningful contributions with significant underwriting income from both our reinsurance and insurance franchises, capped off by net investment income of $407 million, a record quarterly net investment income result.

The underwriting income during the quarter of $274 million reflects Everest's disciplined execution of our strategy to grow and expand margins. The combined ratio was 89.3% for the quarter, compared to 97.5% last year. Catastrophe losses during the quarter of $45 million are pretax and net of reinsurance and reinstatement premiums, with $35 million in the reinsurance segment and $10 million in the insurance segment, representing additional IBNR provisions for Winter Storm Uri. Reinsurance segment cat loss includes a provision for minor events and preliminary IBNR for the European convective storms of late June.

Finally, I note we have not added to our COVID-19 incurred loss provision, which remains at $511 million, with the vast majority remaining as IBNR. Second quarter results continue to reflect the impact of our underwriting and portfolio management initiatives. Our underlying attritional profitability remained strong during the second quarter. Excluding the catastrophe losses, reinstatement premiums, prior year development and COVID-19 pandemic impact, the attritional loss ratio for the group was 60.3% in the second quarter of 2021, compared to 60% in the second quarter of 2020. The year-to-date attritional loss ratio for the group was 60.5% compared with 60.7% a year ago. The attritional combined ratio for the group was 87.6% for the second quarter compared to 88.5% for the second quarter of 2020, representing a 0.9 point improvement.

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Year-to-date, attritional combined ratio for the group was 87.4% compared with 89.1% a year ago, representing a 1.7 point improvement. For insurance, the attritional loss ratio improved to 64.2% in the second quarter of 2021 compared with 65.1% year-over-year. The attritional combined ratio for insurance improved to 92.1% as compared to 93.7% over the same period of time.

Our U.S. insurance business, which makes up the majority of our insurance business overall continues to run very well with an attritional combined ratio in the high 80s. For reinsurance, the second quarter 2021 attritional loss ratio was 59.1% compared with 58.2% a year ago. The increase was due to a mix of business shift and more prudent initial loss picks. The attritional combined ratio was 86.1% for the second quarter, down from 86.7% for the second quarter of 2020. The group commission ratio of 21.8% for the second quarter of 2021 was down 100 basis points from 22.8% reported in Q2 2020, largely due to changes in the composition of our business mix. The expense ratio remained low at 5.5% for the quarter as compared with 5.8% reported a year ago, and the expense ratio continues to benefit with our continued focus on expense management and the increased scale and efficiency of our operating model.

For the second quarter, investment income had an exceptional result of $407 million as compared to $38 million for Q2 2020. Alternative investments accounted for $266 million of income during the second quarter, largely due to increases in the reported net asset values of our diversified limited partnership investments. And as a reminder, we report our LP income 1 quarter in arrears. And in 2020, the market and the world were starting to experience the impact of COVID-19, while so far, in 2021, results continue to benefit from economic and financial markets recovery.

Invested assets at the end of the second quarter totaled $27.1 billion compared to $21.6 billion at the end of Q2 2020 and $25.5 billion at year-end 2020. Approximately 80% of our invested assets are comprised of a well-diversified high credit quality bond portfolio with a duration of 3.6 years. The remaining investments are allocated to equities and other investment assets, which include private equity investments, cash and short-term investments.

Our effective tax rate on operating income for the second quarter of 2021 was 9.3% and 10.6% on net income. This was a favorable variance versus our estimated tax rate of approximately 11% based on the geographic distribution of income. For the first 6 months of 2021, Everest generated a record $1.6 billion of operating cash flow, compared to $1.1 billion for the first half of 2020, reflecting the strength of our premium growth year-over-year.

Our balance sheet remains very strong with a capital structure that allows for the efficient deployment of capital and ample capacity to continue to execute on market opportunities. Shareholders' equity was $10.4 billion at the end of the second quarter 2021, compared with $9.7 billion at year-end 2020. We repurchased $16.8 million of shares in the quarter. Our debt leverage ratio is 13.3% or approximately 15.5% inclusive of our $310 million short-term loans from the Federal Home Loan Bank. Book value per share was $260.32 at the end of the second quarter compared with $241.57 at the end of Q1 2021, reflecting dividend adjusted growth of 8.4%.

And I'll close with 1 final number. The total shareholder return or TSR target that we detailed in our Investor Day a few weeks ago, recall that TSR is defined as the annual growth in book value per share, excluding unrealized gains and losses on fixed maturity investments plus dividends per share. And for the year-to-date, the TSR number is 22.5% annualized.

And with that, I'll now turn it back to Jon.

Jon Levenson
Head of Investor Relations
Thanks, Mark. Operator, we are now ready to open the line for questions. [Operator Instructions]

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Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Elyse Greenspan from Wells Fargo.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

My first question was on reinsurance underlying loss ratio. So you guys mentioned that the increase in the quarter reflects business mix and more prudent initial loss picks. I was hoping to get some more color there. And then how should we think about the loss ratio kind of trending forward from here?

Juan Carlos Andrade
President, CEO & Director

Yes. Thanks, Elyse. This is Juan. So let me start out with that, and then I'll ask Jim Williamson to add some additional color specific to your question on the loss ratio. I would start out by saying that reinsurance reported, I think, a very strong 86.1% attritional combined ratio in the quarter and 85.8% year-to-date. And we achieved that through underwriting discipline, strong market conditions and a prudent loss pick selection. You've heard us talk about our strategy and the disciplines we're implementing and are squarely focused on continuing to drive world-class margins. But with that, let me ask Jim to give you some additional color on what drove the loss ratio.

James A. Williamson
Executive VP, Group COO & Head of Reinsurance Division

Yes, sure. And thanks for the question, Elyse. I mean the first thing I would say, and this is very consistent with the way we've described our value proposition and our strength in the market, and that's that we're very nimble in this market. We have portfolios and markets around the world across many lines of business, and we look to trade into those various areas to maximize our total economic returns. And that was certainly the case in the second quarter, and you see it in terms of some of our line of business growth, where areas like pro rata casualty were up 64%, just incredible results. We saw a lot of great opportunities to expand participation with some of our core partners, and we took advantage of that.

Conversely, property cat XOL, which is a line of business where we have a big appetite for, it's a very attractive line, grew at 17%. So an excellent result, but obviously lower growth, and that's aligned with a very low attritional loss ratio. And so mix is absolutely going to play a factor there, and it's going to bounce around from quarter-to-quarter depending on where we see opportunities emerging in the market. So those trades very successful outcome for our company.

And then the next piece around loss picks. And again, a lot of consistency from us on this topic is we set very prudent loss picks. And in particular, if you think about the environment we're trading in with inflation, social inflation, the reopening from COVID, there's a lot of uncertainty in the market and particularly in some of the longer tail lines like casualty pro rata where we're growing, our view is we really need to see the results of rate change and the results of underwriting actions by our cedents to play through and mature in our book. And so you will expect, as we see those results come through, we'll certainly be sharing those results, but it will take time given the nature of our business for that to prove itself.

Juan Carlos Andrade
President, CEO & Director

Elyse, and maybe if I could jump back in. This is Juan, and just add a couple of quick things. One, I think we also recognize that by growing casualty pro rata, we're also seeing lower volatility than from the growth in property cat XOL. But also keep in mind what's going on in the environment because I think this goes directly to your question on expected margin. And we are confident based on all our metrics that we're looking at, that we are building future expected margin, not only in reinsurance, but also in insurance. We're still seeing rate exceeding expected loss costs. From my prepared remarks, you heard about the improvement in economics that we have seen across the board in our renewals last year and this year, particularly in reinsurance. We're basically increasing our margins while lowering our exposure. And again, I point you to the fact that an 85% combined ratio for the year on an attritional basis for reinsurance is excellent.

Elyse Beth Greenspan
Wells Fargo Securities, LLC, Research Division

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That's helpful. And then my second question is on capital. At your Investor Day in June, you pointed to looking to increase your leverage as you work on your 3-year financial plan. So as we think about the leverage going up, I just want to get a better sense of timing as you think about adding to your leverage. And as part of the answer to that question, would you guys consider adding to leverage to support capital return via potential share repurchases? Or would it just be coinciding with when you thought you needed more capital to support the strong premium growth?

Mark Kociancic
Executive VP & Group CFO

Elyse, it's Mark. Just a couple of points on that. So I think the primary focus of the capital structure is really to support the organic growth of the business. And so we'd look at it in context of supporting the growth and also from an opportunistic point of view of taking advantage of good market conditions to issue that type of debt. So I do foresee that happening over the course of this 3-year plan. I think it makes a lot of sense. Having said that, we are still committed to active capital management. So that includes share buybacks, but that would be what I would call a secondary consideration. It doesn't mean we can't do it simultaneously, but the first part is really all about franchise expansion through organic growth.

Operator

Your next question comes from the line of Michael Phillips from Morgan Stanley.

Michael Wayne Phillips
Morgan Stanley, Research Division

Wanted to start with comp one. I heard your comments in the opening on how you're making some changes in comp and more loss-sensitive accounts. But I guess there's been a lot of talk of maybe we're starting to see a change in pricing there. I'm not so sure if that's materializing for you guys. I hope maybe you can give some color on -- specifically on California. If you back out the COVID impact to California, it looks like the current accident years are still trending pretty well, pretty good margin there. So would like to hear what you're seeing there? And if that's the case, should we expect to see a turn in the market, especially for your accounts that others are talking about.

Juan Carlos Andrade
President, CEO & Director

Yes, Mike, thanks for the question, and I'll give you some additional color and ask Mike Karmilowicz to also jump in. I start by agreeing with you. I mean, our comp business is still very profitable. And I stated that also in our prepared remarks. But we are mindful of how we deploy capital. And we do see that pricing has flattened in workers' compensation at this point. Actually in June, we saw it go positive for the first time. So we're looking at that closely and see that's a harbinger of things to come. And as I mentioned in my prepared remarks, we like the comp business. But we're also smart about how we deploy capital. And we're seeing, frankly, better return opportunities right now in other lines of business, which I quoted in my remarks, where we're seeing significant rate across the board. But we are starting to see not only the flattening, but again, I would point to the fact that in June, we also started to see positive rate across the board. But let me ask Mike Karmilowicz to give you some additional color.

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

Sure. Thanks, Juan. And thanks for the question. Yes. As Juan mentioned, this is a perfect example for us of cycle management and the industry really fully focusing on where we see opportunity. And we are starting to see stabilize across the country. Particularly in California, for the first time, we think we're starting to see some pockets and green shoots, and with exposure both coming on, we're encouraged by what's going. And ultimately, we think that we'll be prepared to take advantage of that. You also see are slowing down ultimately in our comp as far as the first quarter or second quarter.

We're starting to see some changes there. So we feel that there's going to be some change in the marketplace, particularly in California. Keep in mind too, with California, some of the reports that just came out from some of the organizations around some of the underlying costs, we've noticed too that some of the overall costs that are associated with such as the reforms on pharmaceutical and other different things, California's performed actually better from a loss cost perspective of some of these things. So we think that by end of the year and onto next year, Mike, we'll see some of this start to benefit us, and you'll see us go after the business if that opportunity presents itself.

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Michael Wayne Phillips
Morgan Stanley, Research Division

Okay. Great. Second question, should we expect to see any uptick on the insurance side on the amount of business you want -- so just net to gross premium. Should we expect to see that to tick up over the next year?

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

Sorry, Mike, you cut out. Can you repeat the question?

Michael Wayne Phillips
Morgan Stanley, Research Division

Sorry. Is this better? Can you hear me okay?

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

Yes.

Michael Wayne Phillips
Morgan Stanley, Research Division

Yes. Okay, good. Insurance, net to gross premiums, should we expect to see that to tick up over the next year or so?

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

Look, we have -- and you know, we started a lot of segments over the years, and we've been building this out organically. So we particularly try to hedge ourselves with some of the reinsurance in some of these lines we do. I think as you continue to see us gain scale, we will definitely see the net tick up with -- to our gross over time. And as we continue to kind of pick the lines in the market to use increase, you'll see that happen.

Juan Carlos Andrade
President, CEO & Director

Yes, Mike, I would add that we're feeling very confident about the underlying book in the insurance division and particularly in this environment with better pricing, better terms I think you can expect to see some of that going forward.

Operator

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

Joshua David Shanker
BofA Securities, Research Division

Yes. Two questions on reinsurance. And without naming names, when you're growing as fast as you're growing, you need to be taking share from somebody else. Who are the market participants, again, without naming names, but giving us a sense of what the market looks like, who are by choice ceding share to growers like yourself right now? What does the marketplace looks like that's allowing you to take so much share?

Juan Carlos Andrade
President, CEO & Director

Yes. Sure, Josh, I appreciate the question. So what I would say is, and we've been very consistent about this. We trade with a fairly select number of core partners, and that's what's really driving our growth, whether it's in property casualty in markets in the U.S. or around the world. And we are absolutely a preferred market for our clients. We're preferred because we're nimble, because we're creative, because we distribute authority to our teams, they make decisions, they move quickly.

And we're benefiting from all of those things. And in this environment, I think, for cedents who are sophisticated about their buying, they are absolutely looking to trade up in terms of the quality of their partners, and we benefit from that. And

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so what we're seeing on programs around the world is we are getting increased signings with our core partners. Because of our broad capabilities, we're also able to trade into deals with core partners that we may not have been on before. And then obviously, as they introduce new programs into the market, we're able to participate there as well. And so we find this to be a very favorable competitive environment that way.

Joshua David Shanker
BofA Securities, Research Division

And the second question, if you talk to a number of competitors in the marketplace, they tend to say that the litigation environment is still gummed up from the pandemic, the frequency of reported loss is lower than it should be, but everyone's reserving for it with an eye to that will accelerate as things sort of return to normal. As a reinsurer, obviously, you're 1 step away from that and you're relying on the reporting of your cedents to help you frame your own losses. How does the gummed up litigation environment inform how you are picking your loss picks at this point and preparing for that future?

Juan Carlos Andrade
President, CEO & Director

Yes. Look, that's a very key point to make, and it's an important trend. And I think folks who expected some of the downturn and frequency of some of these losses during the period of COVID, who thought that, that would continue. I think that's a significant mistake. And our view has never been that we should react to that temporary environment. And so we've held our loss pick steady, which is sort of where we started the Q&A today. And so that prudence really puts us in a strong position as things start to unwind, and you do see a little bit more activity in terms of litigation and things of that nature, we don't have to react the other way either. So that prudence, that consistency benefits us when you see these very short-term changes in loss trend. We have to really be picking our losses for the long-term trends that we're experiencing and those trends have not ceased just because of the temporary slowdown due to COVID.

Joshua David Shanker
BofA Securities, Research Division

Have you seen any data that suggests this temporary slowdown is reversing?

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

No. Look, I mean, in terms of the reinsurance business to the point that you made in your question, the lag of reporting, in terms of hard data, it's certainly too early to tell. But obviously, we're in constant communications with our cedents. And I would say folks are starting to see some of the results of the reopening. We're certainly seeing it in areas like auto, for example. But that's in the realm of anecdote at this point, Josh.

Juan Carlos Andrade
President, CEO & Director

And Josh, I would -- this is Juan. I would give you some color on the primary side where you are starting to see frequency come back to more normalized lever, particularly around commercial auto, general liability, et cetera, et cetera. So this goes back to the theory that we had [indiscernible] since last year, which is the shutdowns and the lockdowns and the COVID pandemic did lead to a temporary change in frequency patterns, maybe even severity patterns, but that's not going to be a steady state. I think you will see normalized -- frequency normalized severity come back.

Operator

Your next question comes from the line of Meyer Shields from KBW.

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

I'm asking this question, not so much on the reserving side, but from the underwriting side, the property pro rata book is growing. And what we've seen recently is obviously enormous volatility in loss trends for property lines. Can you give us a sense in terms of how rapidly your cedents can respond to higher property losses with their pricing and underwriting?

Juan Carlos Andrade

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President, CEO & Director

Yes. Thanks for the question, Meyer. What I would say is you really have to break it down into its components. And I think there are some areas, particularly in the commercial lines, which is really where our book is focused. They can respond pretty quickly. And it's a combination of, obviously, rate, which we're seeing very strongly in the market. It's a combination of terms, conditions, attachment points, limits, our cedents and because we do partner with very high-quality primary underwriters, they are absolutely aggressively addressing changing conditions in the underlying property market. And so I think it actually happens reasonably quickly. But again, and I hate to sound like a broken record on this, this is why we do maintain prudency in our loss picks because some of these things take time to unfold, and we want to make sure that they get proven out.

The other piece that's important when we think about our own profitability in property pro rata is, obviously, loss pick is critical, but we also look at things like ceding commission. And so we've seen improvements in terms there. And that allows us to get to a place where the overall economics are very attractive and which is why we're willing to grow the line.

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

Okay. That's helpful. And my next question was on the ceding commissions. Are you seeing the same success in casualty as you are in property with regard to, I guess, declining ceding commission?

Juan Carlos Andrade
President, CEO & Director

Well, it's obviously a very different market. And you hear a lot of the market commentary, and you heard it from us regarding the rate changes that are happening in a lot of the casualty lines here in the U.S. and around the world. And so to the extent that cedents believe they're creating margin, they're obviously going to be seeking increased ceding commissions. We've seen a little bit of that activity. It's very modest at this point. And I think for cedents who think about their reinsurers as long-term partners, which really describes our core partners, the ones that we've grown with over the last couple of years, I think they're very balanced about that. And so while there is some upward pressure, and you definitely see people seeking improved ceding commissions in the marketplace, it hasn't had a tremendous impact on our casualty business. We still see great opportunities to write new business and to expand lines in that market, and we expect that to continue.

Operator

[Operator Instructions] Your next question comes from the line of Phil Stefano from Deutsche Bank.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Focused more so on the insurance side of the house. I was hoping you could help give us an impression of what inning we're in, in the business mix change benefit to the attritional loss ratio. I guess part of the question is that there's been a reticence to recognize the benefit of rate over trends and terms and conditions and et cetera. And I'm wondering if the attritional improvement slowed down at some point. Once the business mix change is played out, but the recognition of the rate versus trend and other industry trends has not come through yet.

Juan Carlos Andrade
President, CEO & Director

Yes. Phil, this is Juan. Let me start out. Please recall in -- I think it was last quarter's earnings call, where we talked about all the levers that we're using to improve the profitability and the margins in our insurance division, but also within reinsurance, right? So it's not just really about mix. It's also about the granular detail of managing the portfolio of making tough decisions on what accounts you stay on, where do you want to grow and being very purposeful about shaping the portfolio and being able to grow it. If I look back at what we have been able to do in the insurance division over the last 18 months, the numbers are pretty clear. We have been able to lower the attritional combined ratio by about 6 points over that period of time since really the end of 2019.

And a lot of it has been these very presumptive actions on the lines of business that we choose to operate in, not operate in, et cetera. The example, workers' compensation that we talked about earlier to Mike's question, I think, is a perfect

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example of that, right? So that gives you a sense that while, yes, we have been prudent in our loss picks because we view the environment, as I said earlier, a temporary environment because of COVID with the frequency changes that we saw in that time. The reality is there's a lot of work beyond that and beyond mix, that helps us to shape the portfolio going forward. But let me ask Mike Karm to give you a little bit of additional detail.

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

Sure. Thanks, Juan. Yes, so I think the short answer is that we still think we're in early innings. We started a lot of these businesses. We've seen obviously some of that improvement come through. And again, this is dependent on what's happening in the marketplace. So as you continue to see opportunity and we see the opportunity to get scale and continue to expand our footprint, I think you'll see some of this continue to play through over time. But again, we feel we're making great progress, but we're still in early innings.

Juan Carlos Andrade
President, CEO & Director

Phil, and the last comment I would make to that is, as I said in my prepared remarks, we are seeing rate very comfortably ahead of trend, particularly in insurance. So when you think about the expected margin that's being built, in addition to the actions that I described on the underwriting side, I think that gives you a sense of where this could be going.

Michael Karmilowicz
Executive VP and President & CEO of the Insurance Division

Yes. And I think Juan hits it well. So the last thing I'd say is we continue to hold the line on the loss picks for a good reason because we recognize that over time. So I think you're seeing us do the prudent thing and do this in a long-term view.

Philip Michael Stefano
Deutsche Bank AG, Research Division

Understood. No, I appreciate it. And a second question, looking more on the capital management side of the house. And I feel like the commentary or at least some of the commentary has been around the fact that look, we can grow organically very quickly, but that doesn't mean we can't repurchase shares concurrently with that growth. We've seen some other Bermuda players, they're a bit more active in the repurchase momentum just given where valuations are. Maybe you can help us think through usage of capital given where valuations are? And maybe to put it more bluntly, wise now, not a good time to really step on the gas with repurchases just given where the stock's trading?

Mark Kociancic
Executive VP & Group CFO

Phil, I mean, it's a constant question for us because, look, step 1 is always supporting the franchise expansion. We're in the best market in almost a generation here. So we're privileging that growth. You're seeing very strong top line growth on both segments, reinsurance and insurance. Having said that, capital management, we've been active. We can certainly be more active. I don't see any hesitation on our side to do that. I think you will see that in the future. And we can complete both sides of that equation grow strongly without any constraints and manage our capital even more efficiently.

Operator

There are no further questions at this time. I will hand the call over to the management.

Juan Carlos Andrade
President, CEO & Director

Great. Thank you. Everest is a growing and leading global reinsurance and insurance company with a seasoned leadership team, broadly diversified earnings streams and a clear strategy to drive growth and expand margins while reducing volatility. Our goal is simple: drive superior shareholder returns. We have the platform, the financial strength, the talent, the focus and the commitment to succeed. Thank you for your time with us this quarter and for your support of our company.

Operator

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This concludes today's conference call. Thank you for participating. You may now disconnect.

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