Q1 2020 Earnings Call

Company Participants

- Keith McCue, Senior Vice President of Finance and Investor Relations
- Kevin O'Donnell, President and Chief Executive Officer
- Robert Qutub, Executive Vice President and Chief Financial Officer

Other Participants

- Brian Meredith
- Elyse Greenspan
- Meyer Shields
- Philip Stefano
- Ryan Tunis

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the RenaissanceRe First Quarter 2020 Financial Results Conference Call. (Operator Instructions).

I would now like to hand the conference over to your speaker today, Keith McCue, Senior Vice President of Finance and Investor Relations. Please, go ahead.

Keith McCue {BIO 20595590 <GO>}

Thank you. Good morning, thank you for joining our first quarter financial results conference call. Yesterday, after the market closed, we issued our quarterly release. If you didn't receive a copy, please call me at 441-239-4830, and we'll make sure to provide you with one. There will be an audio replay of the call available from about 1:30 P.M. eastern time today, through midnight on June 5. The replay can be accessed by dialing 855-859-2056 US toll free or 1-404-537-3406 internationally. The passcode you will need for both numbers is 427-3902. Today's call is also available through the Investor information section of www.renre.com. And will be archived on RenaissanceRe's website through midnight on June 5, 2020.

Before we begin, I'm obliged to caution that today's discussion may contain forward-looking statements, and actual results may differ materially from those discussed. Additional information regarding the factors shaping these outcomes can be found in RenaissanceRe's SEC filings to which we direct you. With us to discuss today's results are Kevin O'Donnell, President and Chief Executive Officer; and Bob Qutub, Executive Vice President and Chief Financial Officer.

I'd now like to turn the call over to Kevin. Kevin?

Kevin O'Donnell

Thanks, Keith. Before I start, it's nice to be back in the office today after several months from working from home. Good morning, and thank you for joining today's call. I hope everyone is staying safe. And before we start, I want to recognize the tremendous sacrifices being made by medical personnel and other first responders around the world. They are working hard and risking their own lives for all of us for which we are grateful.

Today, we find ourselves at the beginning of a long journey, for which the past is an imperfect guide. Our industry, the financial markets and the whole world are in the midst of an unprecedented situation. COVID-19 will be a challenge for our economy and for our industry. RenRe has been challenged many times in the past, and I assure you that this is a challenge that we will meet.

I'm confident that we understand our present risk and have consequently -- I've shifted my primary focus towards the future opportunities that will arise from COVID-19 in respect to both supply and demand. We are a strong and have many competitive advantages, including our impressive team, dynamic strategy, unique culture and solid capital and liquidity position, which will be the foundation for our success, both in managing the pandemic and in leveraging into future opportunities.

Starting with our team, I'm extremely proud of our people and what they are accomplishing under difficult circumstances. They are what makes us special, and in times like this, we are starkly reminded that RenRe is about who we are and not what we do. Bob will give you more details in a moment, but as a company, our platform is stable and functioning at a very high level. We are working very efficiently from home and we will not rush to return to our offices, rather, we will only return when it is safe to do so.

Moving on to COVID-19's impact on our business. Pandemic is a complicated problem. It is broadly systemic, which makes it extremely challenging to diversify as part of an insurance portfolio. This pandemic has demonstrated once again, that in the tail all correlations converged over the one. It has correlated many business lines and geographies, and is the number one item of focus everywhere in the world.

As long as COVID-19 is still developing, our industry will be challenged to estimate the size of the loss. The determination of loss is made even more challenging if not impossible by the enormous uncertainty regarding what might happen due to the potential scale of economic destruction? Discussing an expected value for COVID-19 ignores the fatness of the tails of the distribution, driven by this extreme uncertainty. While I believe the most severe outcomes are unlikely, such as the government's nullification of valid contract language to require additional payments from insurers. Even a small percentage chance that these could occur creates a very fat-tail that materially increases the size of a mean outcome.

In our parlance, this distribution is strongly negatively skewed, which means, its influenced so significantly by the tail that the mean no longer provides meaningful information making any discussion of the expected loss of limited use. For example, if two people live in an island and one is 99 years old and the other is 1, stating that the average age is 50 is at best meaningless and at worst misleading.

This difficulty in estimating losses is further increased by the relationship between the virus and society's response. In people, it is sometimes not the virus itself that is harmful, rather it's the response of the immune system. In a similar fashion, it is not necessarily COVID-19 itself that will cause most of the losses to our industry, rather, it is the reaction of people, including politicians that could be the most significant source of loss.

There will be many second and third order effects driving loss, such as the length and breadth of the economic downturn related to government policies to suppress the virus. Followed by monetary distortions from central bank policies, to remedy these economic effects. While this starts with the government's unprecedented shutdown of the world economy, it extends to other effects, such as the inevitable attempts of the plaintiff's bar to extract money from the insurance industry. In many ways, the insurance industry's losses are much less associated with biological risk than they are associated with political risk.

Loss estimates are further complicated by the limited usefulness of physical models and estimating the size of an ongoing severe financial loss driven by political and social elements. So while we recorded a $104 million reserve related to COVID-19 for the first quarter. It is not possible yet to estimate the full impact of the pandemic on our financials, because we cannot yet measure the damage to the economy or the speed of the recovery.

Given this uncertainty, we approached our estimates for COVID-19 risk by dividing our exposures into 3 categories, from those that are most quantifiable to those that are most complex. Category 1 includes event like losses, such as event contingency, event-based casualty class and certain types of accident and health. Category 2 includes developing losses, such as traditional casualty lines, financial credit lines, such as mortgage and trade credit and surety. Category 3 includes the known unknowns, which is primarily business interruption.

The $104 million reserve this quarter is mostly from additions to IBNR, reflecting increased expected losses in category 1. To help you understand how we estimated this reserve, let me explain our process for the event cancellation reinsurance book. We took a pragmatic approach and canceled all events in our portfolio until January 2021, effectively booking a full limit loss for 2020. We took a similar approach for casualty clash book where we reserved for the vast majority of our event-based limit. Finally, we reserved full limit losses for all A&H treaties with significant pandemic exposure. These lines may not ultimately result in losses, but at this early stage, we thought that this addition to IBNR was appropriate.

For category 2, we have increased the reserving loss ratio for D&O and med mal for our in-force book of business. While the impact and severity are difficult to estimate, we believe that the likelihood of loss in these lines has risen. We are closely monitoring our mortgage and credit reinsurance books, but feel that we have them adequately reserved at this point in time. However, we may need to add to reserves depending on how the recession and unemployment progresses.

That leaves us with Category 3, the known, unknowns including business Interruption. You've probably heard many insurers state publicly, and in no uncertain terms that business interruption coverage is not triggered by COVID-19. As I've discussed, this is a developing situation. In the meantime, we rely on our cedents when they tell us there is minimal exposure. We do know that in some instances certain insurers have provided a limited number of manuscripted communicable disease coverage extensions. All coverages under the property policy, however, are not necessarily cedeable to our property cat reinsurance treaty.

If business interruption losses start to develop, however, there are several important mitigating factors for us. To begin with, about half our property cat book is residential, which is generally not exposed to business interruption. Further, due to the growth of our ventures business, we now share more than two-thirds of our property cat premium with ventures and retro partners. This means, we retain less than one-third of our gross premium, which reduces our exposure to an amount substantially less than our top line numbers might imply.

In the current environment, capital and liquidity are vitally important. As of the end of the first quarter, after taking into account COVID-19 losses, mark-to-market losses and a considerable amount of return capital through buybacks and other activities, we have about $1 billion in excess capital based on our internal models. Additionally, as of the end of the quarter, we had over $1 billion of excess liquidity measured against our internal tests.

Looking forward, we have modeled the multiple loss scenarios against our risk portfolio, and even under the most stressed scenario, we remain in a strong excess capital position. In those same scenarios, we also maintained substantial liquidity. Our most stressed scenario contemplates loss consistent with severe, unemployment and deep depression. Due to the heightened uncertainty from the pandemic, we will continue to hold excess capital and remain highly liquid. This may have a drag on earnings, but it is the right call at this time. Also, we're hoping to find opportunities in the near future and want to hold some dry powder in anticipation.

Over the years, I have speculated that market dislocations would look and feel different, with decreased amplitude of rate increases, shorter temperable persistence and more narrow geographic distribution. I am pleased to report that I was wrong. We will now find ourselves in a traditional hard market. Even before March, the price of risk was rapidly rising across most if not all P&C lines. We believe that COVID-19 will accelerate these rising rates for at least 3 reasons. First, the market is uncertain about the breadth and depth of losses that could arise from COVID-19. This uncertainty will reduce the market's appetite for risk and constrained supply.

Second, we expect that retro capacity from third-party investors will be constrained. This will be another challenging year for third party capital, as we believe substantial amounts of collateral will be trapped at year's end. Every year since 2017, third-party capital has suffered substantial losses and the drag of trapped capital. Unlike prior years, however, pandemic is more likely to be correlated to their other investments. Additionally, many traditional asset classes are better understood by ILS allocators, and now look more attractive from a relative valuation perspective increasing internal competition for new funds. The likely result is another reduction in third-party capital, which will further constrain supply.

The story for RenRe partner capital business is different. Many of our capital partners have been with us for over a decade. While we do expect to see some redemptions, the capital arrangements that we have with many of our partners are long-term in nature, which reduces our exposure to large and immediate redemptions. We anticipate that current circumstances will accelerate the flight to quality that we have already seen in the third party capital market. We believe that our partner capital platform is an advantaged position relative to other funds, and given our structural advantages and broad access to capital will only become stronger.

The dislocated third-party capital market may also affect the amount of retro that can be purchased. We can manage any reduced availability by simply retaining more risk, which is consistent with our strategy of retaining more when the price of risk is rising, others may need to shrink if their retro reduces, which will further reduce supply. Third, we suspect that the plaintiff's bar will not pass up the opportunity to benefit from the crisis, which will result in increased loss ratios and casualty classes. There has been some speculation that the need for cash flow may moderate the rapacity of the plaintiff's bar and result in smaller quicker settlements. Well, this is possible over the short-term, I've no doubt the plaintiff's bar will quickly revert to old habits.

The Florida market will be the first to be impacted. This is because it is currently renewing, it is the peak property zone and it is volatile. The Florida renewal was going to be difficult before COVID-19. Now reinsurers in the market will demand even more rate to go risk on, and many will prefer to preserve their capital and liquidity for what they expect will be less volatile and more predictable opportunities. The elevated price for risk, however, will also impact the vast majority of P&C lines.

In our casualty segment, significant rate momentum continues across both casualty and professional lines. Over the short-term, a few lines of business may experience less demand due to the shrinking economy. These tend to be lines, which we do not write heavily, such as auto, aviation or workers comp. In general, we are expecting increased demand for reinsurance, likely in the property business over the short to medium-term and across all lines including casualty and specialty over the longer-term.

In sum, in the market, capital is now scarce and risk is now abundant. Given our strong capital and liquidity position, we will be looking for opportunities to deploy more capital in the second half of the year.

I'll provide more details on the Japanese and Florida renewals later in the call, but first, I want to turn the call over to Bob to take a look at our financials. Thanks. Bob?

Robert Qutub {BIO 15269353 <GO>}

Thanks, Kevin, and good morning everyone. Today, we will provide you with an overview of our capital management activities, operational response to COVID-19 and financial results. As a reminder, you can find our full financial results in the press release and financial supplement that were released last night and are available on our website. As Kevin discussed, we strengthened reserves by 104 million in response to COVID-19. The first quarter saw significant volatility in the financial markets.

Given this we remain in a strong capital and liquidity position going into 2020. With an improving insurance rate environment, we anticipate additional opportunities to deploy capital into the business. We undertook a number of capital management actions during the first quarter. To begin with, we used a portion of our available excess capital to repurchase 406,000 of our common shares for $63 million, at an average price per share of $154.36.

As the COVID situation developed during March, our bias shifted towards conserving capital and liquidity and we've halted our share repurchases, we have not repurchased any shares in the second-quarter and given market opportunities, we expect to prioritize capital for deployment into the business. As announced, we retired the $250 million of 5.75% senior notes, that matured on March 15. This will result in annual pre-tax interest savings of $14.4 million. Early in the quarter, we decided to redeem the outstanding Series C, preference shares at par for $125 million plus accrued dividend. This redemption closed on March 26, and will result in annual dividend savings of $7.6 million.

In aggregate, the reduction of high-cost debt and preference shares this quarter will reduce interest and dividend payments by $22 million annually, while improving our debt to capital ratio and operating leverage. We do not have any additional debt maturing until 2025 and our remaining preference shares are perpetual. In addition, we have $500 million of available revolving credit none of which is drawn. Last year, between retained earnings and the Tokio Marine share investment, we added about a billion dollars in capital. And as Kevin pointed out in his comments, we have about a billion dollars in excess capital and over a billion dollars of excess liquidity based on our internal models.

Now moving on to our operational response to COVID-19. In a matter of months, it seems as if the COVID-19 global outbreak has changed everything, about how we live and work. We started preparations in late February, mobilizing our business continuity planning team and ensuring technology and processes were in place to support a remote working environment. As March progressed and the virus spread, we took swift precautions to protect our staff often in advance of government mandate and moved to an entirely work-from-home model.

Technology upgrades, we have adopted over the last several years, such as integrating our IT infrastructure to the cloud and enhancing our video conferencing and collaboration capabilities have eased this transition. Our strong culture of collaboration has been a significant asset during this time. We adapted quickly to a new model, and I'm extremely proud of the team's ability to renew business, pay claims and carryout back office functions on a global scale. We also continued to advance important projects while working remotely.

This month, we are completing the integration of the remaining TMR back office systems, moving our teams to a single platform, which will deliver many operational benefits and efficiencies. I would like to thank our employees for their commitment and effort during an unprecedented and challenging time.

So at this point, I'll move to our consolidated results where our annualized return on average common equity was negative 6.3% driven in part by mark to market losses in the investment portfolio. Our annualized operating return on average common equity was positive 2.6 %, reported a net loss for the quarter of $82 million or $1.89 per diluted common share. Our operating income was $33.4 million or $0.76 per diluted common share. This excludes realized and unrealized losses on investments, transaction, integration and compensation expenses, associated with the TMR integration and net foreign exchange losses.

Gross premiums written for the quarter were $2 billion, up $461 million or 30% from the comparable quarter last year. 41% of this growth came from our property segment and 59% came from casualty. We had an underwriting gain for the quarter of $64 million and reported an overall combined ratio of 93%.

Now turning to our underwriting results and let's start with property segment, which reported an underwriting gain of $147 million and a combined ratio of 65%, with property catastrophe reporting 28% combined ratio and other property reporting 106% combined ratio. The property underwriting expense ratio increased by 2.4 percentage points to 31%, primarily driven by an increase in acquisition costs, due to growth in our other property book. Within property catastrophe, it was a quiet quarter for cats, with a current accident year loss ratio of 10.6%, driven by a variety of small cats.

This quarter's favorable development of 11.5% was spread across the last 3 accident years. The performance this quarter in other property was impacted by adverse development of roughly $40 million or 20 loss ratio points, roughly half of this is related to the legacy TMR portfolio and is protected by the adverse development cover or ADC. The ADC is like a whole account cover which as we have discussed, the accounting is not always intuitive.

This can result in short-term volatility in reported results due to movements in many factors beyond adverse reserve developments, such as unearned premiums earning out profit commissions and FX volatility. The performance of property cat and casualty also influenced how ADC recoveries are booked. Over time, these are all factors, which we expect will true up to be clear this $20 million of TMR reserve development is an amount we either do not expect to pay or eventually be made whole for under the ADC. The other half of the property adverse development includes late reporting of losses by cedents and some attritional losses, which Kevin will address. As at current accident year basis, other property is running at 54% loss ratio, which is within our expectations.

Now, moving on to casualty where we reported an underwriting loss of $83 million on a combined ratio of 117%, driven by $104 million of losses related to COVID-19 or 21 points. Backing out the COVID-19 losses. The loss ratio for the current accident year would have been about 66%, which is in line with our expectations. The casualty underwriting expense ratio improved by three percentage points to 30% driven by improved operating leverage.

I'd now like to provide more clarity on how the non-controlling interest from our joint ventures impact our financial statements. Each quarter, we fully consolidate the results of DaVinciRe Medici and Vermeer. And since we do not own 100% of these entities we removed a portion of their returns that we do not own. For the quarter, we recorded a non-controlling interest of $98 million which reduced our earnings accordingly.

This non-controlling interest was driven by strong underwriting results at DaVinci and Vermeer due to low catastrophes and prior year favorable development. DaVinci also experienced mark to market gains of $19 million for the quarter, 4 million of which we retained and 15 million of which was included in non-controlling interest. As a reminder, page 14 in the supplement provides a breakdown of the components of non-controlling interest adjustments.

Now moving to fee income where total fee income was $45 million for the quarter, with management fees contributing $27 million and performance fees contributing $19 million. Fee income was up 57% from the comparable quarter, which is due to a combination of the growth and performance of our partner capital business.

Now, turning to investments. Our overall investment portfolio is favorably positioned to withstand the volatility of the first quarter. It is almost $18 billion in size and consists of primarily high-quality, liquid fixed-income government and corporate securities with a relatively low allocation to equities our portfolio includes strategic investments in our ventures unit and this is where we experienced most of the equity volatility in the quarter.

We posted total investment results of negative $11 million for the quarter which was driven by realized and unrealized losses of $121 million from our equity investments overall. So far in the second quarter, they have recovered roughly in line with the market. Our fixed maturity and short-term investment income for the quarter was $85 million and overall net investment income for the quarter was $99 million of the $99 million. Of the net investment income, we retained $73 million with the remainder being shared with partner capital.

In the first quarter, our managed investment portfolio reported yield to maturity of 1.5% and duration of 2.8 years on assets of $16.3 billion while retained investment portfolio reported yield to maturity of 1.9%, and duration of 3.5 years on assets of $11.1 billion. Over the last couple of years, we increased the duration of our retained portfolio to 3.5 years, which helped us benefit from the historic drop in interest rates as the market appreciated.

And now with that, I'll turn the call back over to Kevin.

Kevin O'Donnell

Thanks, Bob. The first and second quarters are significant renewal periods for us. And so I'll devote a few minutes discussing our segments and then we'll open up for questions. As we engage in renewals, we've confirmed in requiring exclusionary language on the business lines most exposed to pandemic, which further clarifies that these exposures are excluded as previously contemplated.

Being a leader, means remaining disciplined and doing the right thing, especially when it might be difficult. That said, we do not anticipate, that this requirement in and of itself will have a meaningful impact on the size of our portfolio. Starting with our property segment and beginning with Japan, our Japanese property cat business renewed at April 1st, and the market was expecting rate on the back of two large loss years for the industry.

Our proprietary view of risk gives us a competitive advantage and I spoke in our last call about how we believe that climate change will increase the natural catastrophe risk that Japan faces. We greatly value our long-term relationships in the Japanese market and started preparing for this renewal early. We revised our Japanese cat models to reflect our increased view of risk and our underwriters started communicating our views and expectations for rate increases in late 2019.

At an industry level, we estimate that wind risk rates were up from 30% to 60%. Earthquake only business renewed mostly flat but remains at attractive levels as rates have not declined materially from the post Tohoku increases. Consequently, we renewed a larger very strong portfolio in Japan this year with expected profit under our internal metrics up over 50% consistent with our practice of exposing more capital when we are paid to do so.

Moving to June renewals in Florida. As I've discussed, the Florida market remains challenged with losses from both Hurricane Irma and Michael continuing to increase years later and the benefits of AOB reforms yet to be realized. Florida's continuing structural issues remain deeply concerning. Last year's legislative changes had no impact on the prior catastrophic events, whose adverse development exceeded all expectations nor has it impacted other aspects of Florida's uniquely perilous tort environment.

When I spoke to you last quarter, I noted that we were prepared to reduce our exposure in Florida again, if rates were not sufficient. Since then, the world has changed. We are now in an environment, where capital is scarce and risk is abundant. I am optimistic about our ability to access, that's the best risks in the coming months. Even with rates improving in Florida. We may instead hold capacity as we expect to see better opportunities in the second half of the year. That said, we have long-term relationships with a number of high quality carriers that we expect to maintain for the remainder of the Florida market. We have raised the bar and will remain disciplined in the face of competition.

I would now like to address the performance of our other property book. There are three major categories of risk, this book is exposed to its cat risks, it's large individual risks, and its attritional risk over the last several quarters we have seen losses from each of these categories. We expect cat losses from time-to-time, but we understand this risk and we are paid sufficiently in that book to take it.

Large risk losses can be difficult to manage as they are a shock loss to a single location. These are losses that do not always make the front page but nonetheless are significant. We manage this exposure with line size and rate, we're getting substantially more rate. So feel we have made progress here. The third category is attritional risk. This is managed by good underwriting and rate.

We've canceled several programs that were underperforming and are requiring more rate to write these risks. I have spent substantial amount of time focused on improving the performance of our other property book. For example, we've been increasing the proportion of cat exposed business, as we believe it has a higher margin. Our other property business is improving and I'm confident it will drift deliver attractive long-term results. All that said, we are monitoring its performance closely.

Moving now to casualty and specialty. About 45% of our casualty book renews in the second quarter. Our casual team is working remotely and is actively underwriting and renewing this business. We maintain consistency and discipline across platforms, we have a clear underwriting renewal guideline and our -- for our team and as a result are collaborating as a team with a single unified underwriting strategy that we are executing. Most of casualty clients have reported rate increases in 2019, that exceeded their original projections, and we anticipate that we will continue to see substantial rate increases through 2020.

In our specialty business, we have also seen insurance rate increases and anticipate that COVID-19 will further accelerate these rate increases. We are monitoring our credit exposure in the context of anticipated global recession and the impact that government support programs will have on our risk positions. In closing, the world is changing quickly, we will be nimble and we will be well coordinated and will observe orientate decide and act accordingly. Our core franchise remains strong. We are well capitalized and focused on opportunities ahead. As I've said, capital is scarce and risk is abundant it is times like these when the best underwriters can outperform, and then it's exactly what we plan to do.

With that, I'll open up the call for questions. Thank you.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Our first question comes from Meyer Shields from KBW. Your line is open.

Q - Meyer Shields {BIO 4281064 <GO>}

Great. Thanks so much and good morning. Two quick questions. First, Kevin in your comments on BI, should we understand that your first quarter business interruption reserves depend on individual cedents perception of their risk or is there an overarching consistency besides that?

A - Kevin O'Donnell

So there's two pieces of -- there's two areas of focus when we think about the BI exposure we have within the organization. First is, is COVID-19 a trigger for traditional BI and the second, how much specific communicable disease cover was sold by our cedents. So for the first piece, we rely on our cedent' interpretation of their contracts and the discussions they are having with their insurers about the coverage that they provided. We are not really involved in that dialogue because that's between the insured and the insurer. What we're involved with is how does our treaty protect the cedence and we're relying on their advice that they don't believe they have BI exposure from COVID-19 under the policies they have sold.

Secondly, with regard to the communicable disease, we've asked each of our cedence to give us more transparency on what those endorsements look like. In each piece of feedback is different, but in general, the feedback at kind of a 10,000 foot level is that they're heavily sub-limited and below per risk treaty attachment points and aggregations are below Property cat treaties. So that's kind of the way we're approaching it. Again, that's the front line. We sit behind them. So we have to take their advice to understand the risk.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. No, understood it. Just wanted to get the process. Second, you talked about accelerating rate increases in Casualty and Specialty on among other things higher perceived risk. Is the incremental rate increase bigger than the incremental assumed risk from your perspective?

A - Kevin O'Donnell

So it's a great question. And what we've talked about on the previous calls is that we were seeing rate above trend. What we're seeing now is a acceleration in rate change. So the rate change that we were seeing before is bigger now. It is hard to determine at this juncture in time as to whether that rate change will be above trend related to COVID-19 just because of the uncertainty as to where we are in the development of the recession and the recovery. We've done tremendous stress testing on our portfolio and I feel that where we are and how we're thinking about it is a book that we would definitely look to write more up with the rate that we're seeing against the peril for which we are exposed.

Operator

(Operator Instructions) Thank you. Our next question comes from Elyse Greenspan from Wells Fargo. Your line is open.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi. Thanks. Good morning. My first question Kevin going back to your prepared remarks, when you talk -- when you were talking about capital, you pointed to in your stress scenario that any kind of loss would be absorbed within your current excess capital position. I guess I'm wondering if you can give us a little bit more color when you run different models and trying to come up with this stress outcome. What does that assume for business interruption losses as well as some other lines? Can you just give us a sense in like the most stressed outcome especially on BIs and even some of the other lines that you really haven't set up reserves for yet? How can we -- what do we view as like a worst case outcome, obviously understanding that this is a developing and ongoing loss.

A - Kevin O'Donnell

So let me give an example that's a little bit more transparent. So if you take some of our credit lines, we are looking at stress scenarios with unemployment in the United States of 30%, which we believe is significantly higher than what even the banks are looking at likely scenarios and hopefully an unlikely scenario generally. I think thinking about worst-case scenarios is a point -- is something that one needs to be aware of. But I've been in this business for a long time and uncertainty generally leads to pessimism and experience provides judgment. I'm fortunate that the team that I've had have been through from -- with many of them 9/11, I've been through KRW, I've been through the financial crisis.

So the judgment that we can provide as to what is likely and what is realistic is different than what is worst case. And I think that precision in our judgment as to how to position the book and manage our capital is what is guiding us through this. So when I think about what is possible with BI, we need to prepare and maintain capital and liquidity for that, but we can't act against a worst-case scenario. We have to react against what is realistic and the judgment of our team is unparalleled in the industry to provide us a course forward.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. That's helpful. And then in your pricing commentary when you were discussing the Florida renewals, you said that you might hold back capacity for better opportunities in the second half of the year. I'm assuming that was specific to your catastrophe book. And then so what renewals I guess are you expecting later on in the year that could provide better price than what we might see in Florida?

A - Kevin O'Donnell

Yes. So I think it's -- there's a lot of things going on in your question. For Casualty and Specialty, we have quite a bit of just kind of run rate renewals that we're working through and I expect that we will see opportunities there and I expect that that book at the end of 2020 will be larger than 2019. My comments, you're absolutely right, were much more around the Property cat. I don't think it's renewals that we're looking for after the Florida. We're looking for new purchases potentially from companies wanting to manage volatility due to the COVID uncertainty. And secondarily, if we write a business at 1/1, we're going to -- we want to position ourselves at this 6/1 to make sure that we've got the flexibility to bring more catastrophe risk on at that book rather than at 6/1.

The other thing I'll mention is, our book has inherent growth should we choose to leverage it based on simply purchasing less retro. I think we'll probably have less retro in 2021 and with that we'll probably hold capital back just to prepare for the embedded growth that we already have within our system.

Operator

Your next question comes from Brian Meredith from UBS. Your line is open.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes. Thanks. Hey Kevin, a couple of questions here for you. First, I'm just curious when we look at your catastrophe reinsurance book, you talked about some losses that you don't believe are actually covered under cat reinsurance contracts. So I'm just curious if you could describe that for us, that will be great. And then, also on that topic, how do you deal with the hours clauses in the cat treaty with respect to the COVID-19 losses?

A - Kevin O'Donnell

Yes. I think so I didn't mean to imply that things would not be covered. I'm just saying that there are coverages that are excluded between the governing documents between us and a -- and an insured compared to an insured and an insurer, and the governing documents is -- will be disciplined in making sure that as losses are ceded to us they are compliance with our governing documents.

With regard to the hours clause, as we all know the hours clause is an imperfect way to measure when something like a hurricane starts and stops, so that a primary company can aggregate losses in a consistent way processions to Property cat. To be perfectly honest, it's unclear how a pandemic can fit into an hours clause. And I think thinking about one even just -- when we think about how to approach a claim, we always approach it constructively, but we approach it on a bespoke basis with each cedent, but you have to consider the entire agreement and the hours clause is one complicated element, but there are many complicated pieces to our Property cat treaty for this.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Thanks. And then second question, I wondered if you could talk a little bit more about -- can you describe what your mortgage reinsurance books looks like? Is it as the stop losses, excess losses or quota share? And just kind of trying to frame the exposures around it. I mean you talked about assuming a 30% unemployment rate, I mean I would think that would be a pretty meaningful loss for the mortgage book.

A - Kevin O'Donnell

Yes, it's -- that's a hard question to answer simply. We write both the private mortgage and the GSEs, the book -- so at a level that maybe it's helpful for this call. Our book is more excess of loss. We've pushed it up recently. So we're more risk remote on the more recent transactions. The older transactions which can be a little bit more exposed to loss have the benefit of having a higher equity built in just because of the tenure of the transactions. So when we've stressed the portfolio, the reason we were using 30%

unemployment was to begin to really run some loss into that portfolio because it is reasonably risk remote at this point in time. So there's actually two other things that I want to mention. We do take mortgage risk in our bonds, so like we have a CMBS portfolio, but that's largely a AAA portfolio. So we feel pretty comfortable with that. And then we have an ownership in Essent, which has added some volatility, as Bob mentioned to our investment result. But we think that -- it's a good business, just had a bad quarter from the return perspective.

Operator

Your next question comes from Ryan Tunis from Autonomous Research. Your line is open.

Q - Ryan Tunis {BIO 16502263 <GO>}

Hey, thanks. So Kevin, I appreciate the discussion about thinking about what is likely versus the worst case. And I guess I'd like to maybe get a little bit of a better idea about what is your definition of what is likely? So in an -- and like what you think is likely will RenRe pay material claims on its Property cat treaties associated with business interruption.

A - Kevin O'Donnell

So we're not going to engage in hypotheticals because I guess I said each of these contracts are different. The scenarios that we run on this are different than what we would have typically done. But what we've talked about in the past is we've had a top-down and bottom-up approach where you take the industry event, you run some market shares and you look at each account, and run it back up the other way and see what your results look like. This is too broad geographically and too diverse from the line of business perspective for a single approach to understand the risk. So what we've done on the credit book is very different than what we're doing on the Property cat book and then we also have to take into account if you take things like trade credit where we have a whole account turnover book.

There are countries that have taken the view that in order for them to preserve their export business, they need to provide government backstops, which will substantially limit the exposure that we have. So it's a much more complicated problem than thinking solely of it's this size event and that size loss. And as I mentioned, we don't even know the depth of the recession yet. So for us to begin as to speculate as to how these things can play through our book can only be managed through scenario analysis by platform.

Q - Ryan Tunis {BIO 16502263 <GO>}

Okay. Understood. And then I guess my follow-up is just on the other property book. Just trying to get a better -- a more granular understanding of what are the problems there, in particular, why is that tending to manifest itself I'd say uncharacteristically an inability to set reserves right?

A - Kevin O'Donnell

So as Bob mentioned, about half of the adverse development is from the technical accounting complexity with the ADC. So the problem that is represented on financials and my belief is, it's half timing because of that and the other half of the issues that I try to address. I think it really comes down to as we made some poor underwriting decisions to write some programs in London, which we extracted ourselves from in late '18 and early '19. It just takes a while for those to run off. The rest of the book I think will be solved because of the new under earning guidelines and the rate that we're getting. So I think in any portfolio as large as ours, there are going to be good deals and bad deals.

A good underwriter recognizes when to go large on the good deals and more importantly, when to exit the bad deals and we've done that. So I feel like we're in a good place with the book, but we've had some pain. The cat stuff I don't think is a problem, which again is a component of the issue that you raised. That is a risk that we took and we're paying for. It really is the attritional notes of few deals. There's been some timing issues which are not worth getting into now, but that's the way I look at it and I feel as if the mitigating steps we've made are the right ones and the book is in the right spot particularly for where the market is headed.

Operator

(Operator Instructions) Your next question comes from Phil Stefano from Deutsche Bank. Your line is open.

Q - Philip Stefano {BIO 20346322 <GO>}

Yes. I just wanted to ask a quick follow up on the mortgage rebook. I guess when I think about the primary MI reserving, it's more on a claims made basis and it's correctly that we need to wait for the defaults to come in before we can actually begin to reserve to that business. I assume the mechanics are different on the reinsurance side. Maybe you can just talk to about the reserving process there? To the extent, this is more of a default wave than an actual claim wave that is coming. How you can just be confident in the initial reserves that you set and just kind of weather that up and down on the default?

A - Kevin O'Donnell

Yes, let me turn it over to Bob and I just want to make one comment after Bob.

A - Robert Qutub {BIO 15269353 <GO>}

Yes Phil. Look I mean what we're looking at and what Kevin is talking about is we're looking at exposure. We don't know how those will manifest themselves into reserves and when you go through the reserving process, you really reserve what you think is probable. So we think there's probably going to be losses, but you have to be able to estimate it and we have no idea based on these exposures and how they will manifest themselves into losses, and we're following really kind of what's happening with the recession. So we've done it over at some scenarios and as we learn more, we will take the reserves, but we don't expect these reserves to develop in the near term because you have to go through the whole process of forbearance and losses in development that would occur over time. So that's how we're looking at the reserves from that perspective. And Kevin do you want to add something.

A - Kevin O'Donnell

Yes and I think the point that Bob is making on forbearance is really important because my understanding is that for PMIs we'll have to take capital hits even for losses in forbearance. That actually I think creates for an excess of loss writer creates huge opportunities for us to provide capital protections in the near term for the companies that are going to be capital constrained with uncertainty between what mortgages are truly in or lapsed and whether in forbearance. So I think we're in a really preferred position to be able to offer assistance to our customers who are going to be exposed to the exact thing you're raising.

Q - Philip Stefano {BIO 20346322 <GO>}

Got it. Thank you. Just thinking more broadly about the assumed business versus the ceded business. I guess in my mind there's the potential mismatch in that the assumed business that you are writing is more from an all perils coverage perspective, whereas the resto you're buying might be more specific and in being named peril? Is that concern warranted? And then secondary to that, as we think about renewals over the next year or so, does any potential mismatches in terms of conditions tighten between your assumed and your retro business?

A - Kevin O'Donnell

Yes, it's a good question. I think and you're right. So I just will make some simple assumptions that are -- our assuming book is all perils, but that's not accurate either but. So what you're asking is about -- I think when I look at our ceded, are we surprised that we thought we had coverage and don't and then why did we buy the cover? So the -- I've gone through our ceded portfolio and I've seen no surprises as to where we think we should have coverage and where we do have coverage, but we do have certain deals that are named peril, and those were basically a trade for price to coverage, an example could be that we issued a large cap on which was parallel specific, but provided enormous capital relief.

There's no surprise in that, but it's not going to be recoverable for pandemic. So I think about it when you assess the quality of your hedge is surprising negative outcome and the answer that I have seen from the ceded portfolio that we have is I have seen no surprising negative outcomes for where I anticipate our book to develop.

Operator

There are no further questions at this time. I turn the call back over to the presenters.

A - Kevin O'Donnell

So I thank you for tuning in today. I'm sure many of you are tuning in from home. It's a new world for us and I do find it sometimes difficult to think that discussing opportunities on calls like this are often at times where there is substantial social stress. So I believe we are compassionate for the social stress that is out there and the growth that we see I believe will provide needed protections, which will add further to the reduction of that stress. So I remain extraordinarily optimistic about the future, but also recognize the difficulty that many of us are in today. So my hearts go out to you and thank you for tuning in.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.