Q3 2021 Earnings Call

Company Participants

- Keith McCue, Senior Vice President, 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, Analyst
- Elyse Greenspan, Analyst
- Jimmy Bhullar, Analyst
- Josh Shanker, Analyst
- Meyer Shields, Analyst
- Ryan Tunis, Analyst

Presentation

Operator

Good morning, my name is Sofia[ph], and I will be the conference operator today. At this time, I would like to welcome everyone to the RenaissanceRe's Third Quarter Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

Thank you. At this time, I would like to turn the conference over to Keith McCue, Senior Vice President, Finance and Investor Relations. Please go ahead, sir.

Keith McCue {BIO 20595590 <GO>}

Thank you. Good morning. Thank you for joining our third-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 1:00 PM Eastern Time today through midnight on November 26.

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 7440669. 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 November 26, 2021.

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

Thank you, Keith. Good morning, everyone and thank you for joining today's call. Regarding our financial results, this was a difficult quarter and a continuation of what we have been experiencing in the P&C industry over the last five years. That said, we believe that the market will continue to experience significant rate increases, which will accrue to the benefit of our shareholders.

Let's start by discussing the third quarter. Given the large catastrophe losses, I will focus my comments primarily on our property business, where climate change, social inflation, and other loss drivers that caused elevated losses. As you would expect, reinsurers have absorbed a significant share of this volatility.

Absorbing volatility is an important component of our value proposition to our customers. Over the past five years, we have delivered on this promise. Ultimately, however, we need to be paid adequately for the risk that we assume. And the returns for our shareholders over the recent five-year period, were not sufficient for capital, they have deployed. Our industry that is experienced more change recently than at any time since our founding in 1993. In response, we set out to build the capabilities and scale needed to generate superior returns in this marketplace. We began this journey by forming our Lloyd's syndicate, continued with the acquisitions of Platinum and TMR, accelerated with the expansion of our capital partners business, and culminated with last year's capital raise, which afforded us the ability to lean into one of the best reinsurance markets we've experienced since a long time.

We are now at an inflection point in our evolution. We have built an organization that will succeed in an industry impacted by low-interest rates, abundant third-party capital, social inflation, and climate change.

It is now time to monetize what we have built. Our fortress balance sheet will help us achieve this goal as it easily absorbs this quarter's losses. Our shares have been trading at attractive levels, which provides us more options to deploy excess capital, than probably at any other time in recent history.

As you saw, we continue to repurchase our shares in the fourth quarter, and thanks to our strong excess capital position, expect to continue to do so in 2022. The attractiveness of our shares versus other opportunities places an increasingly higher hurdle against deploying excess capital into our business.

We have achieved competitive scale, and we'll only pursue future growth to the extent new businesses is expected to clear stringent profitability hurdle rates.

This will allow our underwriters to focus on building efficient portfolios through pricing discipline and strong underwriting. We will continue to engage with our clients, discussing our developing view of risk, and the pricing and structures that are needed to provide fair returns to absorb the volatility.

At times, these discussions may prove difficult or challenging, I'm comfortable reducing on any business that we do not believe will create superior returns for our shareholders.

This results in additional excess capital. We have more tools than ever to manage it effectively. That said, I expect that we will write a larger and more profitable portfolio in 2022. To begin with, the property market has enjoyed material rate increases over the last five years, which will continue to earn through.

Rate increases have been similar, if not steeper in the casualty market over the last three years. Going forward, we believe rates will continue to rise across the industry for several reasons.

First, due to continuing volatility, realized results have lagged expected returns in the industry at large for several years. As a result, substantial proportions of the reinsurance industry, in particular, third-party capital have failed to earn their cost of capital. Investor patience is wearing thin and they are requiring increased return profiles to accept volatility.

We expect retro capacity will shrink due to poor performance and substantial trapped capital. Any retro that is available will likely move up an attachment level, so we'll shift protection from earnings to capital. There is less retro at lower attachment points, reinsurers will be more exposed to income statement volatility.

Since the cost of accepting volatility has risen, the supply reinsurance will decrease and further push rate.

Third, social inflation will continue plaguing the industry, and price inflation will increasingly push up loss costs.

And fourth, persistent losses and the fear of climate change will likely raise primary carriers demand for hedges against their own volatility.

We expect these various dynamics will reduce the supply of, and increase the demand for, the products that we sell. This will result in further rate increases and improved profitability. I should also note that our casualty business is now beginning to reflect the substantial rate improvements of the last three years.

As a result, this quarter, we reduced our initial expected loss ratio by three points. We absorbed the casualty segment share of cat losses and still made an underwriting profit, I will discuss this further in the second half of my comments, but suffice it to say that we anticipate casualty will increasingly contribute to our bottom line in the future.

So when I look forward to 2022, I'm very excited about our prospects. Our fortress balance sheet allows us to maintain our current underwriting portfolio or even grow it, if desirable. Increasing rates across our business will add to the portfolio's profitability. Finally, prudent capital management will leverage our potential to generate bottom-line profitability on a percentage of equity basis.

That concludes my opening comments, I'll provide more detailed update on our segment performance at the end of the call, but first, I'll turn it over to Bob to discuss the financial performance for the quarter.

Robert Qutub {BIO 15269353 <GO>}

Thanks, Kevin and good morning, everyone. As Kevin pointed out, this was an active season for catastrophes, which is reflected in our results for the quarter.

I'll discuss our performance in detail, but there are two main points I want to take away. First, we have maintained a fortress balance sheet that gives us tremendous flexibility to create value for shareholders by actively managing how we deploy our capital.

We will grow if underwriting opportunities are sufficiently profitable, but equally, we can continue to repurchase our shares at attractive multiples.

Second, the business that we have invested in and grown this year, casualty, and other property, continue to trend in a positive direction and we're starting to recognize these results in our financials.

This quarter, we had the confidence to lower our initial expected loss ratio in casualty by 3 percentage points. Additionally, the attritional loss ratio for other property has been steadily improving as a result of the portfolio management activities we discussed with you at the beginning of last year.

With this in mind, I'll start my comments with a discussion of our capital position, how we are thinking about managing this capital going into the January renewals.

I will then move to our consolidated results and three drivers of profit.

So starting with capital management, and this is an active quarter and material share repurchases, our capital position remains strong. Weather-related Large losses were within expectations and we have sufficient capital and liquidity to absorb them.

We generally like to hold an excess capital buffer of up to a billion dollars, which gives us the flexibility to take advantage of future opportunities. As we look ahead to 2022, we're very comfortable with our excess capital position.

As you know, our first preference is to always to deploy capital into profitable business opportunities, and second, to return the excess to shareholders, which we have been doing this year.

As Kevin explained, this framework is still valid, but because our stock valuation is so attractive, our hurdle rates for an attractive underwriting opportunity is higher than it has been in the past. Ultimately, our goal is to grow tangible book value per share. Going into January 1 renewals, our fortress balance sheet provides multiple levers to do just that. We have sufficient capital to support our existing risk and we will continue to grow if price increases in 2022 proves sufficient.

But similarly, we anticipate returning capital to our shareholders at a pace roughly equal to net earnings. Moving now from our capital management framework to the capital management activities, we undertook in the third quarter.

As I mentioned in the last call, we issued $500 million of our Series G Perpetual preference shares in the third quarter. The Series G has a fixed for life dividend 4.20% and we use $275 million of the proceeds to refinance our 5% and 3% Series E preference shares. As a result, we increased our outstanding preference equity by $225 million.

We also purchased $1.5 million common shares for about $224 million in the third quarter. This works out to an average price per share of about $151 and an average price to book value of less than 1.2 times our current book value.

Subsequent to quarter-end, we continue to repurchase shares, and as of October 21, have repurchased an additional 518,000 shares for $75 million at an average price of just over $145 per share. In total, this year we have repurchased 5 million shares for $780 million at an average price of $155 per share, reducing our share count by about 10% of the year-end 2022.

Even after Weather-related Large losses and active share repurchases, our total common and preferred equity position with $6.75 billion at the end of the quarter. This is roughly flat compared to our equity position immediately following last year's equity raise and provides us with scale and flexibility to effectively execute our strategy with improved capital efficiency.

Moving now to our consolidated results, we reported a net loss of $450 million and operating loss of $415 million for the quarter. These results were driven by a net negative impact of $727 million from the Weather-related Large losses, primarily from Hurricane Ida, record flooding in the North-Western Europe, and losses from aggregate contracts.

As a result, we reported annualized return on average common equity of negative 28% and annualized operating return on average common equity of negative 26%.

I will now shift to our three drivers of profit starting with underwriting income, where we grew gross premiums written by $631 million or 55% with the Property segment, growing $346 million in the Casualty segment growing $285 million.

This quarter, we reported $255 million of reinstatement premiums from the Weather-related Large losses, this compares to $54 million of reinstatement premiums related to the Q3 2020 large-loss events.

Excluding these reinstatement premiums, gross premiums written were up 39%. Year-to-date net premiums written were up 44% to $4.8 billion, and we remain on track to comfortably surpass $1 billion in growth for the year, even when excluding reinstatement premiums.

Most of this growth has come from Casualty and Specialty and other property or where we have seen strong rate increases this year. We reported underwriting losses of $679 million in the quarter and a combined ratio of 145%, 74 percentage points of which are from the Weather-related Large losses. Specifically, 43 points are from Hurricane Ida and 19 points are from European floods.

Our Property segment were gross premiums written increased by $346 million or 81%. Reinstatement premiums from large loss events in the third quarter increased by $202 million year-over-year, with the vast majority impacting the property catastrophe class of business. Excluding these, growth in property premiums was $144 million for 38%, with other property of $182 million or 73%, and property catastrophe down $38 million or 30%.

This is not a major renewal period for property catastrophe in the decline excluding reinstatements is partially driven by a few bespoke nonrecurring deals that we wrote in the third quarter of 2020.

We reported a current accident year loss ratio of 180% and a combined ratio of 184% in the Property segment, driven by the Weather-related large losses, which added 141 percentage points to the combined ratio.

As a reminder, our other property book contains both attritional and catastrophe risk. The current accident year loss ratio of 112% included 66 percentage points from the Weather-related large losses. The attritional portion of other property business has been steadily improving since last year and has been consistently below 50% in 2021. There were also 18 points of favorable development in property this quarter, primarily related to the 2017 to 2019 large catastrophe events in the property catastrophe class of business.

Now, moving onto our Casualty results where we reported gross premiums written of $1 billion growing $285 million or 40% versus the comparable quarter.

As we have received more information, we are starting to reflect some of the positive rate trends we have seen in Casualty over the last few years.

As Kevin noted, this quarter we reduced our initial expected loss ratio by 3 percentage points, which should have a favorable effect on the current accident year loss ratio going forward.

This is one factor of many, and we expect the current accident year loss ratio could fluctuate based on loss events, business mix, and other items in the quarter.

The combined ratio for Casualty was 99.6% and current accident year loss ratio was 69%. The Weather Related Large losses added 3.5 percentage points to these ratios. Excluding the impact of weather-related large, catastrophe events and COVID, the current accident year loss ratio for Casualty has improved modestly compared to the last several quarters and full-year 2020. These improved margins both in casualty and other property are an increased earned premium based up 43% and 73% respectively from the third quarter, while our capital base remained flat.

This demonstrates the enhanced premium leverage, we are starting to achieve following our growth initiatives in these segments over the last 12 to 18 months. Now, moving on to our second driver of profit, fee income. Total fee income in the quarter was $28 million, which reflects the impact of the Weather-related large losses in 2021. Starting with management fees, which were down compared to recent quarters, this decline is primarily driven by year-to-date losses in [inaudible]which triggered a deferral of management fees.

We expect to recapture these fees in future quarters at the point that [inaudible] returns to a net profit position. In general, management fees are related to the growth and our joint venture vehicles and they should steadily increase over time.

Now, moving to performance fees, which were up compared to the third quarter of 2020. This difference primarily relates to performance fee reversals. In the third quarter of 2020, we reversed previously booked performance fees, which led to a negative result. This year, however, performance fees have been low year-to-date due to losses from winter storm Uri, removing the need to reverse in this quarter.

Overall, we shared $198 million of underwriting losses with partners in our joint ventures, as reflected in our redeemable non-controlling interest driven by Weather-related large losses.

Turning now to our third driver of profit, investment income. Net investment income was $78 million, which is consistent with the second quarter of 2021. This was partially offset by

$42 million in realized and unrealized losses, resulting in total investment returns of $36 million.

$31 million of these realized and unrealized losses came from our fixed maturity portfolio and were primarily related to increased interest rates on medium and some longer duration treasuries and a modest widening in credit spreads in some sectors.

The yield on our retained fixed maturity portfolio stayed constant at 1.3% and the duration on our retained portfolio decreased slightly to 3.7 years. We remain very comfortable with the composition of our investment portfolio and believe that it provides the liquidity that we need to support our underwriting business.

At this point, I'll turn to our expenses. Starting with the acquisition expense ratio, which remained flat at 22%. The Casualty expense ratio increased by 4 percentage points to 28%, which is consistent with our expectation. As a reminder, the acquisition expense ratio in the third quarter of 2020 was low due to reduced profit commissions associated with losses in our mortgage book.

The property acquisition expense ratio decreased by 3 percentage points to 16% primarily related to the increase in reinstatement premiums. Excluding the impact of reinstatement premiums, the property acquisition expense ratio increased from the comparable quarter.

As a reminder, the other property business typically carries a higher acquisition cost ratio than property catastrophe. So we would expect the acquisition cost ratio to increase, as other properties becomes a more meaningful part of our property portfolio. Our direct expense ratio, which is the sum of our operational and corporate expenses divided by net premiums earned was 5%. This is broadly flat with last year after excluding the impact of loss on sale of the RenRe UK Limited and some other one-time items from the third quarter of 2020.

On an absolute basis, operational expenses were up in the quarter, but the operational expense ratio declined by 1 percentage point to 4%. Now, before I turn it back to Kevin, I'd like to spend a moment on global tax developments.

As I mentioned on the last call we've been closely following recent announcements on setting a global minimum corporate tax, the OECD's work on Pillar 1 and Pillar 2, and President Biden's proposals for US tax changes.

In October, the OECD announced a framework between many countries to institute a 15% global minimum tax. However, most of the practical details about how this would be implemented are not yet clear. We are monitoring this issue closely and believe that our global operating platform will continue to provide us with a competitive advantage.

So in conclusion, while our results for the quarter were impacted by natural catastrophes, we are seeing positive momentum across both segments.

We have taken a very active approach to capital management and going into the important January 1 renewals have built a fortress balance sheet that provides many levers to build value for our shareholders.

And with that, I'll turn it back over to Kevin.

Kevin O'Donnell

Thanks, Bob. As usual, I'll divide my comments between our property and catastrophe segments. Starting with Property, I thought it'd be helpful to spend a few minutes discussing the loss drivers for natural catastrophes, including the evolving impact of climate change and the increasing cost due to inflation.

For almost two decades, we have invested heavily to understand the influence of climate change on weather and its impact on the risks that we take. RennaissanceRe, Risk Sciences is a large part of this investment. It provides us a significant competitive advantage in assessing the impact of climate change, it also aids us in continually updating our models to reflect the latest science, such as the recent IPCC sixth assessment report.

Having this ability is critical. As an example, our many decades of research on the influence on Atlantic hurricanes helps inform our belief that the recent activity box since 1995 appropriately constitutes a new baseline from which to further refine the assumptions that underlie our hurricane wind risk models.

In other words, due to climate change, we believe that the elevated average of the last 25 years depicts a more representative view of hurricane risk for the present and that the long-term historic record, which serves as the baseline for the vendor hurricane models is a poor guide for the future.

Our proprietary models reflect this elevated view of frequency and severity, and our view of Atlantic hurricane wind risk in the context of hazard frequency and severity, as well as expected modeled industry losses is significantly above the vendor long-term view of the risk.

This supports our view that we are successfully incorporating the impact of climate change into our models. It's important to note that while storms are increasing in both frequency and severity, some of those changes are cyclical in nature and not tied to climate change.

So while it's important to understand and price for climate change, it is not the only factor increasing losses in the P&C industry. In all likelihood, the recent clustering of weather events is more attributable to statistical fluctuation in arrival rates, than the influence of climate change. In the same way that the 10-year period prior to Hurricane Irma, with this is statistical outlier due to the absence of US landfalling hurricanes.

The five-year period, since then is a similar outlier for its heightened activity. Online climate change, this is not a systemic issue and should average out over time. And then there is inflation. Even though, Ida is tied for the fifth strongest landfalling hurricane in US history, a storm of hurricane Ida's characteristics simply does not generate enough energy to result in the industry losses that are being projected.

The truth is that as much as storms are getting stronger and more frequent, which we can model for, social inflation and outright fraud are increasing loss costs in ways that are more difficult to quantify. Price inflation also plays a role in the elevated cost of catastrophes, in part due to labor shortages, supply chain disruptions, and rising commodity prices affecting building costs.

So while we actively adjust our view of natural catastrophe frequency and severity for the influence of climate change. We also know that these other factors represent a substantial accelerator of loss costs. Consequently, we are focused on appropriately reading all of these factors in our model, so we can be confident that we are being paid adequately for the risks, we assume.

We believe that we are successfully doing this. One indication is that actual hurricane losses in the United States have averaged about $18.4 billion over the last five years, which is below the average that our models predict. This strongly suggests that we are accurately capturing recent changes.

We had an opportunity to test our models again this year with Hurricane Ida and believe that losses will be within modeled expectations, for example, TCS is currently estimating that Hurricane Ida industry loss is at $29 billion.

Our models indicate that Hurricane Ida industry loss is about a one and five-year event for the US and about a 1 and 30-year event for the goals.

In other words, a large event, but not an extreme outlier. The third quarter also experienced a large European flood from burns[ph] which is further evidence of the expanding influence of climate change.

Bernd[ph] is likely to be about a $12 billion -$15 billion industry event, which in our view is a 50 year return period for the parallel flood in the UK, in Europe taken together.

Moving on from this discussion of loss drivers. This is the time of year we shift our underwriting focus to the January one renewal. We are optimistic that we will find ample opportunities to construct an improved portfolio of risks. Given the substantial losses in the quarter, our underwriters expect to obtain increased rate and better terms and conditions across our property book at the January 1 renewal.

This effort will be particularly focused on the property tax business, which has experienced larger losses and smaller rate increases over the last five years relative to other lines. Shifting to other property, our other property business, which was also impacted by Weather-related large losses of the quarter.

Prior to Q3, this market was already dislocated and experiencing substantial rate increases. Given the active quarter, we expect this favorable trend to continue.

I'm delighted with our ability to construct a high-quality, other-property portfolio. This portfolio has been built from largely, CAT exposed excess and surplus insurance lines that we write on a proportional basis.

This is the most impacted and dislocated segment of the property market, and our underwriters have definitely leveraged into this space, writing more than $1.3 billion in gross premiums so far in 2021.

Tax[ph] aside, the other property portfolio is enjoying low attritional loss emergence, as Bob discussed in his comments. In general, this business is performing at or above our initial expectations, and we continue to realize material rate increases.

Let's now shift to the retro protection that we purchased for ourselves. Given the Weather-related large losses, it is likely that this protection will be less available and more expensive in 2022. Consequently, we may purchase less retro protection and take more risk net.

With the expectation of improved rates, we are comfortable with this potential outcome. Moving now to our Casualty and Specialty segment, heading into the January 1 renewals, we continue to enjoy the benefit of accelerating underlying rate increases across multiple lines of business and geographies.

As previously discussed, this quarter, we reduced our initial expected loss ratios in some casualty classes. If pricing and trends continue as they are, expect that our casualty book will continue to show lower combined ratios over the course of 2022, as should be the case. Our reserving team is moving cautiously to reflect new information until recent year's season, and we see more evidence of favorable loss of merchants. We have discussed our casualty book being rate adequate over a rolling 10-year period, while we continue to see a rate change above loss trend. We believe more rate is required in the Casualty market to produce adequate returns after an extended period of rate reductions up until about 2018.

Finally, putting aside the ongoing organic growth we have planned for 2022. By simply earning through the Casualty portfolio that we have already written, we expect to grow net earned premiums by over $400 million. This demonstrates enhanced premium leverage we are beginning to achieve, which is good news in an improving market. Our Capital Partners business continues to be core, and a growing part of our platform. Over the past five years, we have grown our partner capital by approximately $5.2 billion, which represents a compounded annual growth rate of about 30%.

This allows us to bring more capital into the market and generate fees. Our fee schedules have remained constant and we are turning away more capital than we are accepting. We are not an asset accumulator, but rather see ourselves, as managing these funds to solve customer problems by sourcing and matching the most desirable risk, with the most efficient capital.

This is a business that continues to mature. Investors are demanding more accountability for managers with respect to strong governance structures, robust, internal audit capabilities, and a clear understanding of the importance of building ESG, transparency responsibility, and accountability.

Given our long-term track record robust enterprise risk management framework, we believe we maintain a considerable competitive advantage in this space.

This was a difficult quarter marked by material net and operating losses. That said, we head to the January one renewals with ample liquidity and a fortress balance sheet. Our fundamentals are strong, our prospects are bright, and I believe that we will have the opportunity to underwrite an increasingly profitable portfolio of business such as the January one renewal that will generate superior returns for our shareholders. Thank you.

And with that, I'll turn it over for questions.

Questions And Answers

Operator

(Operator Instructions)

And the first question will come from Elyse Greenspan with Wells Fargo, please go ahead.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, thanks. Good morning. My first question is just on capital. I'm trying to piece together some of the comments throughout the call, just, are you guys willing to put, let us know exactly how much excess capital you have today? I know your equity levels are below where they were after the equity raise, but I think you said they were in line like that was in the middle of the second quarter of last year, but, and you said you'd like to hold up to 1 billion buffer. But where does that actually sit today, just in terms of excess capital?

A - Kevin O'Donnell

Yeah, thanks, Elyse, hope you're doing well. Yes, I did say 6.75. Now, remember we started our journey in building out our capital raise in the second quarter. So we raised in the second quarter and my comments were really based off the referencing to the end of the first quarter. We did print and unrealized gain in the portfolio in the second quarter, I think that's your comparative out there. But as I talked about last quarter, I did the reconciliation in terms of earnings based on share buybacks and what we've returned back to investors.

But your second question on excess capital. I mean, I think it is, we're not capital constrained, I just want to make sure that's clear and as we look to 2022, we're going to the building of our book and it's what Kevin talked about, some pretty desirable growth that's out there that we've seen.

We're looking at probably going in with excess capital on the higher side of that that we can reserve for future opportunities that we may see come at us in 2022. But in the same vein, my comments also said that I think given the earnings that we'll be able to generate off of that portfolio will continue to return capital next year as well based on earnings.

Q - Elyse Greenspan {BIO 17263315 <GO>}

So when you say higher side of that, it's within range of that $1 million buffer?

A - Kevin O'Donnell

Yeah being closer to $1 billion, we'll keep it higher and as we go through the year, we'll see, will continue to manage that.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thanks. And then my follow-up question. You guys highlighted, right, it's been high cat loss year for the industry, over, if you go back over the past few years, we've heard that every year just coming across in different ways. Kevin, you said that you're optimistic for the January 1 renewals, so what's the best outcome, I know we're still a ways away and things change as we get closer, but just based off of what the industry has dealt with this year with losses in the US and in Europe, what do you, what do you think happened to the cat market and what do you guys need to happen for you to incrementally write more property cat business and return less capital to shareholders?

A - Kevin O'Donnell

Yeah, I think it's a great question. And we're in a period where we don't really have a lot of price discovery that we could point to, so what I tried to highlight is what I think will be the drivers that will be resident in the market for us to increase the rate that we get on the property cat that we take.

I think the way that I would think about it is we're going to have, I believe a demand and supply imbalance. We've already seen a few large buyers, say they would like to increase the amount of protection at the purchasing. I think the effect of the reduction in retro, will have a material impact on reinsurers and their ability to continue to service the portfolios that they have and pricing is always done at the margin.

So I feel optimistic that there'll be a strong sense and a willingness to reduce risk should rates not be at a significantly improved level. I mean, I think and I use the term rate, I should probably say economics because I think we'll also see a shift in attachment points, particularly in Europe will go up, and we'll see improved terms and conditions, and will achieve more rates on a rate adjusted basis.

I have significant hope certainly in the double digits as to what sort of rate change I expect.

Q - Elyse Greenspan {BIO 17263315 <GO>}

And the double-digit in both the US and in Europe?

A - Kevin O'Donnell

Europe is less important to us, but it certainly deserves double digits and we're prepared to reduce if we don't get it. I think more important in Europe is probably the attachment point. So if we get the same rate, but on a risk-adjusted basis, to have double-digit improvement in economics will be satisfied.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thanks for the color.

A - Kevin O'Donnell

Sure.

Operator

The next question will come from Meyer Shields with KBW, please go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Great, thank you. I guess the key question is on the Casualty and segment and Specialty segment, I see you've been very sort of descriptive in terms of the loss ratio improvement, have you seen any components of losses there or I'm sorry loss trend that it's getting worse rather than better?

A - Kevin O'Donnell

It's always a bit of a mixed bag on a quarterly basis when you do your actuarial reviews to close the books. I would say in general 19 and forward looks pretty good, 18 and prior is where there is more challenge in the book. The good news for us is our book was growing and we knew at the time we were investing into a market that we expected to improve.

So the biggest portfolios that we have a really 2021 and expect to be 22. So the balance of our portfolio, I think is in significantly better shape than others. What we are seeing in our portfolio will be pretty consistent with what others are seeing because we're writing a proportional book.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's helpful. And I just wanted to get your perspective on development in Florida, I know you've been fairly pessimistic about what's been accomplished so far and I was just hoping for an update?

A - Kevin O'Donnell

Yeah. Florida is Honestly, not on our radar screen just yet, just because it's, as you know, it's a mid-year renewal. What we've done in building our pro forma is to hold our PML and Florida flat for 2022. That's easily adjustable as we begin to learn more at the one-one renewal and transfer that into what's likely to happen at 6.1 and 7.1.

Florida is locating one of the markers, I generally look at to see the health of the market is to see the growth in Citizens, Citizens continues to grow, which often is a sign of stress in the market. So the fact that the market's stressed, there might be an opportunity for there to be real legislative change that is beneficial and reinsurers are probably going to continue to look for rate.

So, we've got great relationships down there, we have pulled back over the last several years, but I don't feel impeded, should we decide to grow.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, perfect. Thank you so much.

A - Kevin O'Donnell

Sure.

Operator

The next question will come from Brian Meredith with UBS, please go ahead.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes. Thanks. Kevin, a couple of questions to your first just curious you gave us to $29 billion PCs loss event, what's your view of what the Ida losses for the industry, and how do you factor in demand surge to that given the inflationary environment?

A - Kevin O'Donnell

So the $29 billion is probably a reasonable estimate, not including and [inaudible]. So I think from that standpoint our loss numbers are always a little bit different than where PCs is. I think the important thing to note is we did include inflation, social inflation, and demand surge in the number that we put up for Ida and for Burn[ph].

So our numbers reflect our best estimate based on the energy of the Ida loss and the environment in which it incurred which is with inflation, social inflation and of course, demand surge.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you. So your number would be probably higher than PCs given than inflation?

A - Kevin O'Donnell

Yeah, I would say that's probably a reasonable estimate. We don't disclose industry number on that, more importantly, wanted to get the number that affected us?.

Q - Brian Meredith {BIO 3108204 <GO>}

Makes sense. And then my second question, I'm just curious, you made the comment that you're likely to kind of repurchase shares or your capital management in line with your net income that you're generating, but you haven't generated in any income over the past 12 months, does that basically imply if fourth quarters zero for some reason the cat, I'm sure you would be buying back any stock?

A - Robert Qutub {BIO 15269353 <GO>}

I think we're going to take in each quarter as it comes, Brian. The question is really presented, like Kevin said we've reached a competitive scale, we feel good about the portfolio that we built. And as we look at 2022, we're going to go in with some excess to buffer that probably at the high side, I said so it does give us capacity to continue to pull all the levers in our capital management portfolio.

A - Kevin O'Donnell

Brian, I think Bob's absolutely right. The most important thing for us is to maintain a fortress balance sheet and liquidity to pay our losses and have capital available, should there be opportunities to grow. We will maintain all of that in 2022 and it's still have room to purchase shares back should we have normal cat activity.

Q - Brian Meredith {BIO 3108204 <GO>}

Makes sense. Thank you.

Operator

The next question will come from Ryan Tunis with Autonomous Research, please go ahead.

Q - Ryan Tunis {BIO 16502263 <GO>}

Hi, thanks. First question, following up on some of the capital questions. I'm just trying to understand, I guess where the excess is coming from, because if we go back to the capital raise last year, you raised a bill. So it didn't seem like you had that much excess, then you said, you deployed all of it earlier this year, and now there's less equity, there's less capital than there was before the capital raise. So, I don't know the right way to ask the question, I mean, what was your view of excess, maybe after the capital raise last year? I'm just trying to understand where the excess is coming from.

A - Robert Qutub {BIO 15269353 <GO>}

No, that's a good question for clarity. Now, we entered COVID with surplus capital, we talked about that. So as we looked at the capital base, we were looking at the context of the uncertainty that we faced with COVID, and we still have that uncertainty out there.

So in the second quarter, we also saw enormous opportunities to continue to grow into the business. At that point in time, at the end of Q1 is when we were starting to think about raising capital. That's my reference point off the $6 billion and $3 quarter-billion, but I'm talking about on a comparable basis. Subsequent to that we generated significant earnings on the portfolio that came through an unrealized gains and losses, in this case, they are mostly gains that came through, that I talked about last quarter. That's straight common equity, it comes into the capital from our capital standpoint perspective.

And as over time, and that crystallizes, we're able to return that and still maintain the adequacy of capital that we needed as we look into 2022. So we feel comfortable about it, we feel comfortable for the reasons that we started about, but that's kind of the reconciliation in terms of earnings, if you're looking back where it came from. What it's also provided us with this, our premiums have gone up by $1 billion in our capital is the same. So it's also reflecting the premium leverage that we have now embedded in our portfolio going forward in areas that we talked about.

Q - Ryan Tunis {BIO 16502263 <GO>}

Got it. And then I guess for Kevin. I just thought it was interesting that you said the vendor models for hurricanes are actually below your internal view for the past five years, which would seem to indicate that perhaps you've been over earning relative to expectations. How do we reconcile that I guess, with the property cat loss ratio has been I think about 80% since 2017, we should see the indicated a lot more rate need and I think you said for Economic needed, a lot more than just double digits for this business to be attractive to right?

A - Kevin O'Donnell

So our view of risk being higher, I think is a demonstration of kind of our commitment to being good stewards of capital and being kind of superior in risk selection.

We effectively, what that would mean is we are holding the same deal at a higher loss ratio and a lower expected return than someone using a different model. That to us is the right way for us to look at the business because it appropriately states our profit rather than overstating our profit.

And more importantly, it allows us to build much more detailed EP curves, to understand the use of capital and our capital management, their benefits from having a view of risk that we feel reflects climate change and that we have confidence in.

So when I think about where the model is, it's we someone should be in thinking about this risk and not have rose-colored glasses about the return that they hope to achieve, but reflect the reserve that they're likely to achieve due to the effects of climate change.

The other thing that I tried to highlight in my comments is, there's also, against the model that we have, statistically we are above the arrival rate for large storms compared to what our model would predict, which we believe is a normal statistical anomaly, just like we saw prior to Irma.

We are still within a confidence range about the 75th percentile unexpected returns for our portfolio against the heightened average, so I still feel good about where we are, but we are in a period of climate change adjustment that's required, but also a statistical increase in arrival rate which should revert back to its norm.

So I feel like we've done a good job on thinking about the models and reflecting it, and we've tried to demonstrate that with the transparency on the call today.

Q - Ryan Tunis {BIO 16502263 <GO>}

Got it. And then just one more, just kind of information question, two parts. First I guess for Bob, on Da Vinci[ph]management fees, sounds like there is a high watermark, do you have an expectation of how much management should be depressed over the next few quarters? How far are you from getting that back to positive P&L?

And then another one I had for Kevin separately is, for something like Ida, what is your level of certainty around what your losses, at this point? It happened a month and a half ago, I'm just curious, how much do you, when you think about your loss estimate, how much of that, is that pin down a month and a half after the event?

Thank you.

A - Robert Qutub {BIO 15269353 <GO>}

The management fees will restart next year. It's a quick turnaround, I mean they get suspended for the year, when they go negative and then they will restart next year and that will reset the market as they go forward.

A - Kevin O'Donnell

Separately, I anticipate that DaVinci. It will be a little bit larger next year, which should benefit where we are, the fees that will generate out of that. With regard to Ida and uncertainty, well, I think we have a really strong process and thinking about, we've talked about before the bottom up and top-down approach to loss estimation.

It is early days, I think COVID and some of the supply chain and inflation uncertainty and labor shortages adds a high degree of uncertainty to any lost estimate in this environment. I believe that, that will be particularly visible in some needing to increase their European flood loss. I think we've done a better job than others in reflecting these variables, but I, perfectly candid, I think there is uncertainty in the general macroeconomic environment that could affect this loss, we've done our best, I think it's the right estimate and I feel confident in it.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thank you.

Operator

The next question. The next question will come from Josh Shanker with Bank of America, please go ahead.

Q - Josh Shanker {BIO 5292022 <GO>}

Yeah, good morning everybody. I'm just a little worried about Lucy and the footfall a little bit, it feels like we've had a year like 2017. Yes, property pricing was up but interest rates were down and the ILS money and the pensions, were really happy to participate. I thought it was coming in 2021 as well. Can you talk about your confidence in some ways that one of the stopgaps is the wide participation of ILS money isn't going to be as enthusiastic about participating this coming year?

A - Kevin O'Donnell

Yeah, I think it's, you raise a good point where there has been more persistence in some of the ILS money than we originally expected. We enjoy great relationships, and we have a different platform than others. I think if you look back, there's been several large ILS managers that are not going, going forward, compared to 2020.

I think that plays a role. I think the role of retro, I think retro funds, if appropriately managed will have 70%-80% dropped or lost, that's another very difficult year to explain to investors. So, I frankly, I believe we will shrink our Epsilon portfolio. The good news for us is we [inaudible] to restructure those deals, so that they more comfortably fit within RenRe Limited and DV, so that we can still manage them on our platform. So I feel as if it's just, it's another body blow to the ILS market with the enhanced volatility that this year and also the fact that a lot of it will shift to the retro market. The burnt[ph] is even higher, I think about 75% of the burn[ph] loss will come to reinsurance and that will way make its way into retros as well.

So, I don't feel impaired or encumbered in our ability to access capital, and I think it's because of our track record in our unique structures. So, what I'm saying is an industry phenomenon, not a RenRe phenomenon, but we could be wrong and capital could come flooding in, but we haven't seen that as of yet.

There are some capital raises is going on in the industry, which gives some transparency and it's our expectation that we'll probably increase our capital managed under the Da Vinci platform at least for sure.

Q - Josh Shanker {BIO 5292022 <GO>}

And okay, thank you for all the clarity. And then just housekeeping item at the beginning, Kevin, you said that the loss ratio improved 300 basis points in the Casualty business, I just trying to, what time frames are you measuring that to me, and what, and when did the, you go through the gate I guess that told you was the right time to take the lower loss pick?

A - Kevin O'Donnell

So, that'll be on an earned basis, and it's the current year accident expected ultimate that I'm talking about.

Q - Josh Shanker {BIO 5292022 <GO>}

For full year 20, for full year 21?

A - Kevin O'Donnell

From this quarter forward.

Q - Josh Shanker {BIO 5292022 <GO>}

This quarter's forward, okay.

A - Kevin O'Donnell

So it's more of a 22 issue earned partially in 22 and 23.

Q - Josh Shanker {BIO 5292022 <GO>}

Okay.

And what was the event that transpired that now is the time in 3Q 21 that we feel we have enough information that we can take that down a little bit?

A - Kevin O'Donnell

It's actually not an event, it was our normal process to go through the curves and it's the fact that we're beginning to have enough maturity in certain years to begin to reflect the trend that we are already observing, but haven't reacted to.

So I've talked in previous calls that there has been a gap in what our underwriters believe the profitability of the portfolio is, and the conservative nature of the actuarial process to reflect positive trend more slowly, that's all it is. It's a normal, it's the normal delay in recognition of casualty, profitability in a improving market.

Q - Josh Shanker {BIO 5292022 <GO>}

Okay. Then, that's perfectly complete. Thank you.

A - Kevin O'Donnell

Yeah.

Operator

The final question is from Jimmy Bhullar with JP Morgan, please go ahead.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Hi, good morning. So first is the question on buybacks and you've been fairly active, then I think you started a little bit after you read equity, but you've been fairly active with buybacks. To what extent is it that you have extra capital and do you have an inability to deploy that the returns that you would want versus maybe the stock price being depressed and trying to take advantage of that?

A - Robert Qutub {BIO 15269353 <GO>}

I think we started buying back in the first quarter slowly, $175 million, I think $172 million actually, and that was after we saw the accumulation of some mark-to-market gains, actually fortified our capital base. And then my comments, I was talking about, and I think Kevin was to, we see the opportunities in 2022 and that's what we're focused on. In the context of 2022 and the growth that we're seeing there, we will have excess capital going into it that we keep for potential deployment into profitable business opportunities that we'll see come over the course of the year.

But we will have excess capital and we will be generating earnings in the fourth quarter and carrying it into the first quarter and that will be the baseline that we were looking at returning if those opportunities potential.

A - Kevin O'Donnell

Bob's absolutely right. And I think you presented it as an either-or, we've actually done both. We've grown our portfolio, increased of efficiency of the portfolios that we're managing, and have continued to buy shares back. So I feel great about that.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay. And then on inflation, to what extent are you assuming sort of continuing continuation of the uptick in inflation we've seen in your pricing versus may be viewing it as somewhat transitory?

A - Kevin O'Donnell

We've always had inflation. I think in other times we call the demand surge that after an event we see that will be increased competition for labor and resources. We have increased, that and the good thing is when an event happens, we can kind of adjust it in the moment.

Our belief going into 2022 is we're going to continue to see demand surge, of course, we are continuing to see the effects of social inflation. One of the tricks is to determine whether 2020 was a pause or a change in behavior, we believe it's probably more of a pause, because of the slowdown in the courts and we believe inflation will play a role, and more importantly the competition for labor.

So we're going in with less than a rosy picture to the economic backdrop to which losses will be settled, and that will be included in our modeling and thinking about how to price transactions in 2022.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay and then just lastly, you mentioned a few of the reasons you're optimistic about pricing in your opening remarks. I think some of those reasons existed last year or this year as well, yet, it seems like, while prices were up, they weren't up as much as people were expecting going into the year, so what's, what gives you more confidence, are there things that are different as you see them in the market now versus maybe a year ago?

A - Kevin O'Donnell

So, it's a good point. I think it's just the persistence, it's another difficult year for ILS capital for retro. I think there is a total change in how primary companies are seeing volatility, how they're thinking about the impacts of the increased price of their housing stock and the Tsi values that they're ensuring.

I just think it's not a single thing, it's just, in some ways, just the straw that broke the camel's back where I think there is finally going to be resolved to rise-- to raise prices. We've seen good rate change in every line, other than property cat and we've talked about it being an insurance lead pricing hardening, I believe that we're coming inm where reinsurers are going to have some price, pricing power and some, and some control of terms and conditions that will be different than what we've seen in the last couple of years.

It's difficult for me to put a confidence level on it, but I feel that through the conversations we have with brokers and clients that there is an expectation that they're going to pay more.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay, thank you.

A - Kevin O'Donnell

Sure.

Operator

And at this time there are no further questions I would like to turn the conference back over to Kevin for any closing comments.

A - Kevin O'Donnell

Thank you, everybody for your time. Our focus, as I mentioned is squarely looking forward. I am enormously optimistic about what our prospects are at January 1 in 2022, overall. I've got confidence in our model confidence in our team, we've got great relationships. And I think that the wind is at our back in our sales are out full and we're looking forward to executing for you in 2022.

Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference call. You may now disconnect.