Q1 2013 Earnings Call

Company Participants

- Jeff Kelly, CFO
- Kevin O'Donnell, EVP, Global Chief Underwriting Officer
- Neill Currie, CEO
- Peter Hill, IR

Other Participants

- Amit Kumar, Analyst
- Greg Locraft, Analyst
- Jay Cohen, Analyst
- Michael Nannizzi, Analyst
- Michael Zaremski, Analyst
- Ron Bobman, Analyst
- Ryan Byrnes, Analyst
- Sarah DeWitt, Analyst
- Vinay Misquith, Analyst

Presentation

Operator

Good morning. My name is Brent, and I will be your conference operator today. At this time, I would like to welcome everyone to the RenaissanceRE First Quarter 2013 financial results conference call. All lines have been placed on mute to prevent any background noise. After the remarks there will be question and answer session. (Operator Instructions) Thank you. I would like to turn the call over to Peter Hill. Please go ahead sir.

Peter Hill {BIO 15385944 <GO>}

Good morning, and thank you for joining our First Quarter 2013 financial results conference call. Yesterday after the market closed we issued our quarterly release. If you did not receive a copy, please call me at 212-521-4800, and we will make sure to provide you with one. There will be an audio replay of the call available from approximately Noon Eastern Time today through Midnight on May 23rd. The replay can be accessed by dialing 855-859-2056 or 404-537-3406. The passcode you will need for both numbers is 29548992. 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 July 11, 2013.

Before we begin, I am obliged to caution that today's caution 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 me to discuss today's results are Neill Currie, Chief Executive Officer, Jeff Kelly, Executive Vice President and Chief Financial Officer, and Kevin O'Donnell, President and Global Chief Underwriting Officer.

I would now like to turn the call over to Neill. Neill.

Neill Currie {BIO 6676681 <GO>}

Thank you. Good morning, everyone. RenaissanceRE reported a good First Quarter, achieving an operating ROE of 22.5%, and growth in tangible book value per share plus accumulated dividends of 4.8%. Our results reflected the quality of the book of business we were able to build at 1/1, along with the low catastrophe loss activity, and strong investment income.

On our last call we mentioned we had expected ample capacity and a lack of overall growth in demand for property catastrophe reinsurance in the US to continue through 2013. As a result of these factors, we have seen an increasingly competitive landscape so far this year, and Kevin will provide more detail on that shortly. In many ways we have seen similar drivers of pressure on the market before. There is good business to be written, and it is in this kind of environment that our underwriting discipline, experience and long term market presence over the last 20 years really come into play.

With the increase of third-party capital comes opportunity for a Company like RenRe. For well over a decade, we have been uniquely positioned to sell across the spectrum of products that our clients want to buy, and we can improve the efficiency of our portfolio by purchasing coverage ourselves as well. Matching the right risk with the right capital is not an easy thing to do, but it is an art that we know how to execute. Our clients and partners, a large number of whom have been with us for many years, recognize this. Our established presence in the marketplace positions us to access the most attractive business and to construct high quality portfolios year-in and year-out.

Our underwriters are currently working on the midyear renewals, an important period for us as a key participant in the Florida market. We are seeing increased capacity, including from the capital markets, who are looking for a larger share of this market. While we fully expect a competitive renewal season in Florida, once again we believe that our long-term presence in this market, and the strong relationships we have there, will continue to result in our being a first-call partner, enabling us to maintain an attractive book of business.

I will let Kevin provide more details around our other businesses later, but I will highlight a couple of units. Our Specialty unit has taken measures to grow its business to broaden its product offering. We have incorporated a new Bermuda based balance sheet that will expand the reach of our franchise, enabling us to provide a broader range of specialty reinsurance lines, including quota share reinsurance to our US-based clients. I will also mention our Lloyd's unit, which has been making good progress in gaining scale and establishing itself in the London market. The unit had a profitable quarter, and I am pleased with the team we have built there.

In summary then, I like our current position. We have a great team that is constantly looking for ways to optimize our portfolio of risk. Our ventures group continues to do a good job sourcing the most efficient capital for the right type of risk, and providing capital for our clients in the form that they require it. We have the core capabilities, the capital strength and experience to serve our clients and shareholders well going forward.

With that I will turn the call over to Kevin. Kevin.

Kevin O'Donnell

Thanks Neill. Good morning. Today I would like to focus on our businesses and the upcoming US renewal. As Neill said, we had a strong First Quarter, due primarily to the low level of cat activity, but also in no small part to the quality of the book of business we were able to build at 1/1. This along with our strong position in the market should serve us well in a year in which the business environment has become more challenging.

Starting with US property cat, our belief is that there will be flat demand for reinsurance, and an increase in the supply of capacity looking for reinsurance risk. As far as demand, we are seeing a reduction of limit nationally with large US insurance companies retaining more risk, and in some cases accessing coverage through the ILS market.

In Florida, there has been some incremental demand coming from Citizens, and we anticipate a small amount of additional purchasing from both new and existing players in the market. In sum, we expect that US property cat limit purchased overall will be relatively flat year-over-year.

With regard to supply, there has been an increasing appetite for cat risk from both traditional reinsurers and their sidecars, and also directly from non-traditional capital providers. This combination has resulted in increased pressure on pricing year-over-year. Even though we anticipated these trends, the impact on price is greater than our initial expectations.

As Jeff will discuss in greater detail, we currently expect that our managed cap premiums will be down a little more than originally forecast. As always, we remain disciplined and have reduced or eliminated programs that no longer made sense in our portfolio. The good news, however, is that we believe the insurance markets both in Florida and the US generally are likely to grow stronger over time. Our market is constantly changing, and with stronger fundamentals on the insurance side, I expect that reinsurers will see growth over the longer term.

The reinsurance industry has developed multiple vehicles to accept third-party capital in many forms, which allows funds to quickly move in and out of the business. We have focused on matching appropriate risk with efficient capital for many years, and have developed a broad range of platforms to meet the needs of both capital and customers.

We all should keep in mind, however, just because a company can form a vehicle or grow third-party capital, that does not necessarily mean that they should. Seeking additional capital should be driven by other considerations, such as better serving our customers by providing coverage in the form and at the price they seek. This holds equally true with our investors, who trust us to build portfolios that provide adequate returns for their capital.

Our years of experience in managing third-party capital have taught us the value of discipline and patience. And it is this approach that informed our decision not to create a Florida-focused sidecar this year. Having said that, we believe there are still ample opportunities to write good business, and we are well-poised to succeed in this environment. If we divide the market into three buckets, adequate return, low return, and negative return, we are seeing risk move from the adequate bucket to the low bucket, and still relatively limited growth in the negative return bucket.

There remains sufficient risk in the acceptable bucket of US property cat business, and through careful risk selection and portfolio management, we continue to find enough good business to construct an attractive portfolio. One of the benefits of being around for 20 years is that we have seen similar market dynamics before, we have experience operating in a changing market, and have more tools than ever to manage our book. We feel confident about our ability to build an attractive portfolio.

Moving on to the international cat and retro markets. The International market continues to experience pressure from ample capacity, although there remain pockets of opportunity in places such as Japan. We expect many of the other markets to be challenging. That said, we continue to access business that we find attractive.

The bulk of retro renewals are typically at 1/1, and the retro market has not changed significantly since then. These markets are, however, facing the same dynamics as other markets, and those programs that were marketed last quarter were oversubscribed. Despite market conditions, we continue to find good opportunities for Upsilon Re, our sidecar providing structured retro.

The flip side of the retro point is our ceded program. It probably goes without saying that we find this market to be attractive. We have continued to build our tool kit to access this business, issuing our first insurance-linked security in a private transaction. This is consistent with our approach of providing risk to the capital markets in the form in which they wish to take it. We anticipate that we will continue to use retro and other capital to optimize our in-force portfolio.

Our Specialty business had a strong quarter and continues to access new business. The team is working hard to expand the franchise, and we saw new opportunities in both new and existing lines of business. For instance, the US drought created opportunities in the crop space, and we were able to grow this book of business.

Our Lloyd's syndicate continues to grow in line with expectations. When we made the decision to start Lloyd's, it was in the belief that it would allow us greater access to specialty and casualty business. I have been pleased with the syndicate's growth in this regard. Going forward, the Lloyd's team is working hard to increase casualty lines, in order to take advantage of a gradually hardening market.

Turning to our Ventures group now, we continue to see investor interest in this sector, and we believe we will enjoy privileged access to efficient capital, which we can match against appropriately priced risk. We will only deploy this capital when it is helpful to our customers, and provides appropriate returns for the risks we take. All forms of capital have a role in the reinsurance business, but it takes discipline, patience and a comprehensive understanding of the entire system to deploy it appropriately for the long term.

To wrap up my comments, we had a great quarter. Despite some of the market trends I discussed, I am happy with our portfolio and optimistic about our future, and our ability to grow our access to both desirable risk and efficient capital.

With that, thank you. And I will turn the call back over to Jeff.

Jeff Kelly {BIO 20911735 <GO>}

Thanks Kevin. Good morning, everyone. I will cover our results for the First Quarter, and then give you an update to our 2013 top line forecast. First quarter profitability was strong, benefiting from solid underwriting, low catastrophe losses, and healthy income from our portfolio of other investments. Our top line decline in the First Quarter mostly reflected the more limited growth opportunities we experienced at the January renewals. There were no major catastrophe losses during the quarter, and we did not make any material adjustments to our estimates for net losses from the events in 2011, or from Storm Sandy in the Fourth Quarter of 2012.

We reported net income of $190 million, or $4.23 per diluted share, and operating income of $177 million, or $3.92 per diluted share, in the First Quarter. The combined ratio was 36.2% in the quarter, and underwriting income totaled $173 million. The annualized operating ROE was 22.5% for the First Quarter, and our tangible book value per share, including change in accumulated dividends, increased by 4.8%. Book value growth was driven by the strong earnings in the quarter, although an increase in treasury yields and share repurchases executed at a premium to book value were slight offsets.

Let me shift to the segment results, beginning with our reinsurance segment, which includes cat and specialty, followed by our Lloyd's segment. Managed cat and gross premiums written declined $29 million, or 5.2% compared with a year ago. There were no reinstatement premium adjustments in either period. This includes $54 million of gross premiums written by our sidecar venture, Upsilon RE II, in the current year period, compared with $37 million written by its predecessor, Upsilon RE, in the First Quarter of 2012. Both Upsilon RE vehicles are targeting opportunities primarily in the structured retro marketplace.

The top line decline was largely driven by signs of increased competition at January 1, and as a result of more than adequate capacity in the cat marketplace. As a reminder, managed cat includes the business written on our wholly-owned balance sheets, as well as cat premium written by joint ventures DaVinci and Top Layer Re, and our sidecars Upsilon Re and Tim Re III.

The First Quarter combined ratio for the cat unit of 20.6% benefited from a low catastrophe loss experience. Net favorable reserve development totaled $18 million for the cat unit in the quarter. This was driven primarily by favorable development on a range of smaller prior year events, with no material adjustments made to loss estimates for the larger, more recent events from 2011 and 2012.

Specialty gross premiums written declined 18% in the First Quarter, primarily driven by timing issues related to the inception of a few multi-year transactions in the First Quarter of last year. Percentage growth rates for this segment can be uneven on a quarterly basis, given the relatively small premium base. The specialty combined ratio for the First Quarter came in at 57%, as loss activity was generally benign. Favorable reserve development totaled $15 million in the quarter, $10 million of which related to our annual review of our initial expected loss ratios and loss development factors.

In our Lloyd's segment, we generated $74 million of premiums in the First Quarter, an increase of 36% compared with the year ago period. The Lloyd's unit came in at a combined ratio of 89% for the First Quarter, also benefiting from generally low loss activity. The expense ratio remained high at 50.5%, but we expect this to continue to decline sequentially as business volume increases.

Turning to investments, we reported net investment income of $44 million in the First Quarter. Our alternative investment portfolio generated a gain of $22 million in the First Quarter, driven by continued solid results in our private equity and bank loan portfolios. Recurring investment income from fixed maturity investments remained under pressure due to low yields on our bond portfolio, and totaled $24 million in the quarter. The total return on the overall investment portfolio was 0.8% for the First Quarter, benefiting from strong returns on the alternative investments, and some realized and unrealized gains in the values of non-government fixed income securities from a decline in spreads. Rising yields on treasury securities during the quarter resulted in a slight offset to that.

Our investment portfolio remains conservatively positioned, primarily in fixed maturity investments, with a high degree of liquidity and modest credit exposure. The duration of our investment portfolio remains short at 2.3 years, and has remained roughly flat over the course of the year. The yield to maturity on fixed income and short-term investments remained flat at 1.4%.

Subsequent to quarter end, we instituted a hedge using Treasury bond futures to lower the overall duration of our fixed income portfolio by a quarter of a year. As a result of that action, the current duration of the portfolio is right around 1.9 years.

As we have stated on recent calls, we believe we have capital in excess of our requirements given our current portfolio and our outlook for business growth. Recall also that we took steps earlier this year to return $150 million of capital in DaVinci to third-party investors. Also during the First Quarter we repurchased 1.4 million shares for an aggregate cost of $111 million. All of the share buybacks were completed in January. Additionally, we repaid a $100 million senior note issue that matured in the middle of February. Inclusive of those actions, our balance sheet remains strong with a strong capital position, and from a liquidity standpoint over $500 million in cash and securities at our holding company.

Finally, let me turn to update our top line forecast for 2013. For managed cat, with some visibility into the trends for the midyear renewals, we are changing our guidance from down 5% to down 10% in 2013, excluding the impact of reinstatement premiums. In specialty reinsurance, we are changing our top line guidance of down 5% to an expectation that we will see some growth in premiums for 2013. In our Lloyd's unit, we continue to expect premiums to be up over 30% for the year. Finally, I'd remind everyone that these premium estimates, especially this early in the year, are subject to considerable uncertainty. We don't use them as targets or goals; our purpose in providing them to you is to give you our best estimates at this point in time.

And with that, I will turn the call back over to Neill.

Neill Currie {BIO 6676681 <GO>}

Good, thanks, Jeff. Operator, we are happy to take questions.

Questions And Answers

Operator

(Operator Instructions) Michael Nannizzi, Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks. I had a couple of questions on the capital management. $150 million came out of DaVinci. It sounds like that was financed by the holding company. Then you bought back some debt and then the share buybacks. I am just trying to get an understanding. Should we interpret that as being consistent with your view on managed cap premiums being down, and you're just sort of taking capital that you don't think you will need this year out of the business? Then just one follow-up, thanks.

A - Jeff Kelly {BIO 20911735 <GO>}

Okay, so on the senior debt issue, that was actually an issue that matured. We didn't buy it back. But in terms of the $150 million we returned, that actually left DaVinci pretty much flat in the quarter. So we were just returning additional -- we took in some additional capital. We returned some that had been earned, and the net result was DaVinci was about flat in the quarter. But it does reflect -- whether it is at DaVinci or RenaissanceRE, it does reflect our view of our ability to deploy the new business opportunities going forward.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Great. Thanks. And just one question. I am just curious, and maybe this just reflects my lack of understanding of how this market works. Obviously there is a lot of interest in third-party capital, as you guys mentioned up front. Now I am just curious, what was the driver behind the redemptions? I would think at this point in time there would be, frankly, more interest in a structure like DaVinci. Is it that investors -- you can help us understand -- investors in DaVinci wanted more flexibility? Is it maybe that structures like Upsilon or other things that you are doing allowed you to meet those clients' needs in a different way? Or any color would be helpful. Thanks.

A - Neill Currie {BIO 6676681 <GO>}

Sure, this is Neill, Michael. A couple of things. First of all, we are always looking for good long-term players to add to DaVinci. In my opening comments, I talked about matching the right capital with the right risk. In DaVinci, it is very important to get long-term investors into DaVinci. For those long-term investors, one of the attractions to DaVinci is that we accordion the capital up and down, based upon the opportunities we have out there. So it is a nice way to play in our business without having to take market risk, just the risk of our underwriting. You get in and you get out at book value. So Kevin, would you like to add anything to that?

A - Kevin O'Donnell

I think that -- that is exactly right. The one area that we have seen ample interest from third-party capital, and we did grow the Upsilon vehicle, but it really is about managing all the different types of capital that we have, and trying to match it against the best risk that we can find to meet those return profiles.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Great, thank you.

Operator

Michael Zaremski, Credit Suisse.

Q - Michael Zaremski {BIO 20606248 <GO>}

Great. Thanks. I noticed the catastrophe segment ceding levels ran at 36%, which is up from last year. Was that driven by Upsilon II, or were there other dynamics I should think about when modeling that out for the rest of the year?

A - Jeff Kelly {BIO 20911735 <GO>}

I think what you are seeing there mostly is Upsilon II. One difference that we have to allow to the other reinsurers is that we don't go out with a traditional reinsurance program. We will buy at different points in the year, depending on how our portfolio is shaped. But the change specifically you are referencing is really Upsilon.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay, got it.

A - Jeff Kelly {BIO 20911735 <GO>}

Dominated by Upsilon.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay. Another numbers question; the operating expense ratio ran a couple points higher than previous First Quarters. So if you can elaborate on the drivers.

A - Kevin O'Donnell

So operating expenses were up in the First Quarter a bit, and I think the principle driver of that, especially if you looked at it compared with the First Quarter of last year, was that last year we had a larger -- we had a -- I think it was about a $5 million reversal in a compensation accrual. This year's First Quarter, that reversal was much smaller, so the delta between the First Quarter of last year and the First Quarter of this year was -- a vast majority of that was related to that change in the accrual reversal, essentially for incentive compensation.

Q - Michael Zaremski {BIO 20606248 <GO>}

Okay. Got it. Thank you, guys.

Operator

Amit Kumar, Macquarie.

Q - Amit Kumar {BIO 15025799 <GO>}

Good morning. I guess one follow-up and one other question. Going back to the discussion on capital, what do you think about capital management during the hurricane season? And since this is freeing up more capital, what are your updated thoughts on a possible special dividend down the road?

A - Jeff Kelly {BIO 20911735 <GO>}

So last year, I think we said as we went into wind season that we thought there was some possibility we would repurchase shares throughout wind season. That was, I think, the first time in our history that we had done that. That was a reflection I think of both the confidence we had in the strength of our capital position, and also the kind of relative valuation of the shares at that point.

I think we still believe we have a very strong capital position and have excess capital. I think at this point, it is probably a little early for us to decide whether or not we buy shares during wind season, but we are not opposed to that if circumstances are such that that looks attractive.

As it relates to special dividend, we always look at, I think, all avenues open to us for returning capital to our shareholders in a way that makes the most sense, with our ultimate goal being to increase the growth rate and tangible book value per share going forward. So I think we had a little bit of discussion on this point last call. I think the valuation of the shares would probably have to be pretty high to warrant a special dividend. Our preferred way of increasing the growth rate and tangible book value per share is to do it via share repurchases at attractive levels.

So that is not to say that we wouldn't consider it. But I would say that if we were going to consider special dividends, it would be very close to the end of the year, certainly not before wind season (multiple speakers).

A - Neill Currie {BIO 6676681 <GO>}

This is Neill. I would put an exclamation point on the earlier comments that Jeff said, in terms of a preference for share repurchase and the valuations. It would be at a higher price point than we have got now.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it, that is helpful. The only other question I have is going back onto the discussion on third-party capital and its impact. One other company earlier today sort of opined that probably they expected XOL to be down 5% to 10%. And they sort of drew the distinction between XOL and RPP, and they said RPP might be down 10% to 15%. I was just wondering if you had any thoughts on that, or would it be possible -- maybe it is too early -- would it be possible to put some sort of range around those numbers, what you might be seeing? Thanks.

A - Kevin O'Donnell

I think what we are talking about is there is a lot of capital -- a lot of reinsurance capital and non-traditional capital looking for risk. And our expectation is on a nationwide basis, there won't be growth in demand for reinsurance cat limit purchase. So I think that dynamic would indicate there is going be some pricing pressure.

I think the distinction that you are drawing between an RPP and the traditional market really extends -- the difference is really single-shot limit to reinstatable limit, single-shot limit being more appealing to third-party capital, because it lends itself easier to collateralization. I think that there are many ways in which an RPP can be managed within a program, either one free, pre-paid, whatever. I think there could be more competition potentially for RPPs, because it is more appealing to a second set of capital, but at this point, it is a little too early to call exactly what those rate changes will look like.

Q - Amit Kumar {BIO 15025799 <GO>}

Okay. That is all I have for now. Thanks for the answers.

Operator

Gregory Locraft, Morgan Stanley.

Q - Greg Locraft {BIO 4221265 <GO>}

Good morning. I just wanted to delve a little deeper into the Florida market. What I am really trying to do is parse units and price. I know you guys talk in terms of premium dollars. But just looking at the glide path from last November to today, is it fair to say that units are better than you thought back then, and price is worse? Or can you give us any thoughts with regard to Citizens, depop, and how that is going to play out at June 1?

A - Kevin O'Donnell

To help me answer the question, when you say units, what are you referring to?

Q - Greg Locraft {BIO 4221265 <GO>}

I guess for me, it is demand. You know, it's just unit demand or the amount of reinsurance that needs to be purchased, versus the price per unit or price per exposure.

A - Kevin O'Donnell

So starting at the macro level, what we are saying is we think the nationwide demand will be reasonably flat. Then we talked a little bit about we think US national limit purchase is down a little bit, which implies there is some growth in Florida. I think looking at that, we are seeing that the start-ups and the additional limit purchased is probably the area of disconnect with us and the rest of the market, where we see that a smaller contributor to growth than I think what some others are thinking.

With regard to Citizens, I think Citizens, we have a belief that much of the risk that was taken out of Citizens after last wind season will end up migrating back towards Citizens by this wind season.

It is a pattern we have seen before, and I think we have pretty good tools to help us understand how those flows will work, which could be another area in which we are seeing the market a little bit differently. I think at the nationwide level, we are probably pretty much in line with what others are seeing.

As far as the price per unit of risk, I think that is something that we are working on right now. We don't have a significant portion of our book bound yet. But our tools are designed that we can move pretty fluidly throughout any structure to accept risk and any structure to cede risk, to optimize the spread between the two. So whatever happens on the front end prices changes per unit of risk, I would hope that we can manage more efficiently because of the tools that we have been able to build, and the experience we have in doing this.

A - Neill Currie {BIO 6676681 <GO>}

Greg, it is Neill. I might add one comment to Kevin's comments. We tend to look at things at a point in time. We have the renewals now, so everybody is focused on that. But when you talk about this flow of business in premium between Citizens and the other market, we do think there will be some increased demand over the coming year, as things evolve there. So right now, we are not seeing as much demand, but there may be some more demand coming through the pipe over the next 12 months.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. So there is a longer tail to that effect. I guess what I am really trying to get at is, back in November, you thought the year would be flat. In February, you thought the year would be down 5, and now it is down 10. And so something is slipping considerably relative to the view internally five, five-plus months ago. I guess it seems to me that the Citizens situation is a break to the positive, so therefore what has to be slipping to the negative then is just -- it is all pricing. Is that a fair assessment?

A - Neill Currie {BIO 6676681 <GO>}

Greg, you are always on the ball. A couple of comments here. There are a few things. When you see these changes, there are all sorts of movements. There are deals coming into the portfolios. There are deals coming out of the portfolio. Is it low layer, is it high layer, is it price, et cetera. One of the things that changed is there were a couple of large accounts that we had pretty sizable participations on that renewed in the Second Quarter, and those clients bought less from the traditional reinsurance market, so that started us off on a negative flow. And yes, there is some pressure on pricing. Kevin, would you like to add to that?

A - Kevin O'Donnell

Yes. Pricing is always done at the margin. The amount of capacity coming in, particularly focused on third-party capital, I don't think is sufficiently large for it to, in and of itself, be moving the market. It is really the momentum and the speed in which the market, particularly on the cat fund side, has changed that is informing how people are behaving. I think there has been a bigger change specifically in that market, and the speed in which that change occurred is not something that we saw. I wouldn't necessarily sit here today and draw a regression out that what we have seen in that market from last year to this year is something that I would continue from this year to next year.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay, that is great color. Then last, just a small one for Jeff, is you mentioned in your commentary that you took out a hedge to lower portfolio duration. Can you talk a bit about the thinking and logic behind that?

A - Jeff Kelly {BIO 20911735 <GO>}

Sure, Greg, we are actually making -- and I don't mean to overdramatize it. It is only a quarter of a year. We are making actually two relatively small tactical changes in positioning the portfolio.

The first is that we are making this reduction in the duration of the portfolio. The second is that we are actually making a small increase in our allocation to equities via a passive allocation to the broader equity market. Those two are both borne of the same view of I would say the macroeconomic factors that are affecting the capital markets today, and we continue to believe we will affect them going forward.

The duration one is principally a view that sometime in the next 12 months or so, the Fed is going to begin to remove its stimulus via the significant asset purchases in the very long end of the market. And our belief is that when that occurs -- or probably better said, when the market concludes it is about to occur -- we expect there is a reasonably good chance of a material increase in long-term interest rates. So we want to begin to position the portfolio to be less impacted by that. So that is really the duration hedge.

The equity, the increase in the equity allocation is really just a point of view that the economy is gaining a little bit of self-sustaining footing, and consistent with the view at that some point the Fed takes out its stimulus, and equities are probably marginally -- not marginally -- a somewhat better place to put money. I don't want to overemphasize that; I think we emphasize -- or we anticipate a total commitment in the near term to the equity market of about $100 million. So it is not huge, but it is bigger than we have been there before.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. Great. Then I guess just it has been a long time since I have done the sensitivity, but if interest rates go up, what is the sensitivity into your earnings, and your ROE? And that is my last one. Thanks again.

A - Jeff Kelly {BIO 20911735 <GO>}

Well it is probably worth a longer discussion. The answer is it depends. It depends how much, and where on the yield curve. Most of our investment securities are actually very short term, and inside of five years. So we think that the increase that is likely to take place is actually at the very long end of the curve, at least initially. That is why we set our hedge in 30-year Treasury bond futures.

But I think the shortness of our duration inside now of two years really makes for a very limited impact on the earnings and equity of the Company from a rise in interest rates.

A - Neill Currie {BIO 6676681 <GO>}

Yes, Greg, it is Neill. Maybe just for the benefit of some other folks on the call, or that will read the transcript, that are not as up to speed on our Company as you are, is on a comparative basis, compared to some other folks, there is less risk there for us than some of our competitors, because we don't have as much leverage on the balance sheet in terms of assets to equity, and of course, we have a pretty short duration, high quality. Back over to Jeff.

A - Jeff Kelly {BIO 20911735 <GO>}

Not to kill the question with answers, Greg, but as of the end of the year, we do have a table in our Annual Report, which showed that the sensitivity of the portfolio -- at the end of the year, the sensitivity to just the shift in the level of rates was about $146 million per 100 basis point immediate increase in rates. So we would anticipate it would be somewhat less than that today.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. Great. Thank you, so much.

Operator

Vinay Misquith, Evercore Partners.

Q - Vinay Misquith {BIO 6989856 <GO>}

Good morning. The decline in prices certainly are a little bit disappointing. Though what ROE do you think that you are writing the business right now, both from a property cat perspective as well as from a Company-wide perspective?

A - Kevin O'Donnell

Can you repeat the last part of the question? Sorry. I didn't hear it.

Q - Vinay Misquith {BIO 6989856 <GO>}

Oh, yes. What ROE do you think that you are getting on the business that you are writing, both for the property cat business as well as for the Company as a whole?

A - Kevin O'Donnell

Yes, I think we look at the business in multiple different ways. And to talk specifically about one measure against it isn't the way we are most comfortable thinking about it.

We are constantly comparing the portfolio that we have against the portfolio that we intend to write, so we are creating performance as to where we think the market is going. In each of the performances we create, then we try to optimize what we can do with the pricing environment that we are being presented.

Where I believe we are going to end up is in a portfolio that is significantly better than the market, similar to what we had last year. So whatever we are going to see in the market, I would expect that our portfolio will continue to outperform by a wide portion. But as far as giving a specific number on that, I don't think that is the best way for us to talk about our book of business.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, the second question is on the Florida market. My sense is there is more demand. Now, did I understand you correctly, that your view is that will take a longer time to play out, and that is why softer guidance in the past?

A - Kevin O'Donnell

I think there are two pieces to that. One is we believe there will be some increase in demand in Florida for this year, but that is being offset, so at the US limit purchased level, it is about flat. I think Neill's comments, which were reflecting more of the long-term growth prospects in Florida and elsewhere, are really in tune to the fact that the insurance market in Florida is actually looking pretty good and pretty healthy. I think as markets become healthy, particularly in Florida, they will cede more risk to the reinsurance business.

I think there are multiple ways in which we can seek growth in Florida. One is just by traditional sums insured, but other by risk being transferred from the state to the private market. It is our belief that the private market, every dollar of insurance premium associated with the private market has more reinsurance dollars associated with it, which will enhance the growth prospects for the reinsurance business there.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, that is helpful. On the capital, you bought back $100 million of debt this quarter, more than $100 million of stock. Should we expect you guys to buy back more than 100% of earnings, given that the opportunities are less versus the past?

A - Jeff Kelly {BIO 20911735 <GO>}

Well I wouldn't focus on specific amounts like that, Vinay. I think the way I would characterize it is we have always been and are committed to return capital to shareholders that we don't feel we can deploy effectively, and it would be our intention over some period of time to do that. But the precise method with which that is done, and the exact timing, I wouldn't bucket into any calendar quarter or calendar month.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. But it is fair to assume there is today more capital than you need right now, correct?

A - Jeff Kelly {BIO 20911735 <GO>}

It is indeed.

Q - Vinay Misquith {BIO 6989856 <GO>}

Great. Just a numbers question, if I may. The fixed maturity income decline, about $4.6 million this quarter versus the prior quarter. Were there some (indebted) losses in that?

A - Jeff Kelly {BIO 20911735 <GO>}

Vinay, there were actually three things that account for that decline. The first is that the average invested assets were down about $400 million in the fixed maturity portfolio. That accounted for about $1.5 million of the decline. And also had a change in derivative income in that line of -- a reduction of $1.1 million, so that is about $2.6 million of it.

I would say the remainder of it was the conversion of higher yielding assets being sold at gains. So you saw that in the realized gains line in investment income, that was somewhat elevated from previous quarters. So we converted a lot of assets that were on the books at high yields, realized some significant gains in that, and invested them at current market yields. The overall market yield of the investment portfolio though is about the same.

Q - Vinay Misquith {BIO 6989856 <GO>}

That is great. All right. Thank you.

Operator

Jay Cohen, Bank of America Merrill Lynch.

Q - Jay Cohen {BIO 1498813 <GO>}

Thank you, yes, I guess the one area where there seemed to be some growth that you had mentioned was the crop business. I am wondering if you could talk about what you are doing there, and what you are seeing in that market?

A - Kevin O'Donnell

Yes, our crop business is really focused on excess of loss more than quota share. So although our premium number for that isn't particularly large, we wanted to mention it simply because it is a change in the risk profile. If you look back, I think that we had about $4 million of premium there. We are going to be probably between $15 million and $20 million right now on an XOL basis. So it is a significant position we are building there and it is one we feel comfortable with. It's also split between our Lloyd's operation and Bermuda; it's one of the lines that we write in both venues.

Q - Jay Cohen {BIO 1498813 <GO>}

Great, thank you.

Operator

Your next question comes from the line of Ron Bobman, a private investor.

Q - Ron Bobman

Hi, I had a question for -- I think for Neill. Unlike your competitors, who undergo sort of a never-ending, revolving set of chairs, as far as people moving from company A to company B to company C, et cetera, you have had tremendous employee retention, which is obviously a testament to everything you have built and cultivated, et cetera.

But I am wondering now with the cat market, particularly the property market, under so much growing pressure from convergence in capital market players, if the key employee retention is a greater challenge now than it has been in the past, given you are an industry leader, and obviously have prized staff that any start-up or competitor would probably love to attract.

A - Neill Currie {BIO 6676681 <GO>}

Ron, that sounds like a great question from an investor. Sometimes there is a little bit of a difference between the questions the analysts ask and the investors. That's a good long-range question.

First of all, thank you for not asking the question during salary review time. I have got -- all of the guys around the table here grinning like Cheshire cats. It is interesting. Yes. The phone rings off the hook around here.

First of all, we try to have an environment here where people enjoy working with each other. We actually -- I have instituted -- we have done it for years, and I have actually named it. We have a No Jerk rule, where we try to hire people that get along with the team, and we don't hire people just because they are smart. They have to get along with each other, the clients. So we have got a team here that really works together well.

Also, if people were to leave and go somewhere else, there is a risk of failure there. They don't have the same support system, the same tools, the same flow of business, so it is pretty risky for them to put their reputation on the line to go somewhere else.

And last but not least, we pay them well. So people can do quite well staying here. But it is holistic; you add it all together, we have been very fortunate. And frankly, I think -- my guess is we will continue to be fortunate in that area. We may lose one or two over the years, but we have been fortunate and want to keep it that way.

Q - Ron Bobman

Thanks. Best of luck.

A - Neill Currie {BIO 6676681 <GO>}

Thank you.

Operator

Amit Kumar, Macquarie.

Q - Amit Kumar {BIO 15025799 <GO>}

Just one follow-up. I wanted to go back to the discussion on Citizens, the clearinghouse concept, and SB 1770, which has been meaningfully diluted. It doesn't seem to be a game changer from what I am hearing. Even if the clearinghouse proposal gets done, when do you think is the earliest it can impact demand? Are we already talking about 2014 renewals, just based on the time it will take for the clearinghouse to be sort of set up?

A - Kevin O'Donnell

So I think the clearinghouse, if it does what I think it is going to do, which is allows risks -- or allows Citizens to continue to shrink, so it will hopefully provide a structure in which private companies can pull policies before they go into Citizens, I think that is a good thing, and something we should look to be helpful in figuring out all the details that are required to allow that to happen.

I think as far as the implementation of it practically, it will have really a meaningful -- the first meaningful impact it could potentially have will be 2014.

I think with regard to deep ops, there might be more flexibility as to how deep ops are happening as well; so again, that is probably a post-2013 issue. But I think specifically for the clearinghouse, it is more likely to be 2014 -- we should see any help from it in 2014 than 2013.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. And do you have any view on -- obviously the legislation, which has taken out that surely sound discussion altogether -- does that limit the upside, what we would have previously thought?

A - Kevin O'Donnell

I think there is -- for years now, having watched the Florida legislative process, there are lots of things that we get excited about seeing in there, and we are hopeful that they go through to completion. I think the actuarial rates would have been a good thing, but it is one that we will continue to work down there.

I think the trend in Florida is one that we see as very positive. They are taking a lot of proactive steps to look at options to how to reduce the state involvement in the insurance market and allow the private market to grow. If we can be helpful with that, we will continue to do so. Actuarial rates we thought was a good way to do it, but it is one that -- this will live another day, and see if it can go through in 2014.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Thanks for the answers.

Operator

Sarah DeWitt, Barclays.

Q - Sarah DeWitt {BIO 18946247 <GO>}

Hi. Good morning. I just wanted to follow up on your comments that you still believe you can construct an attractive book of business at mid-year. I know you won't quantify the modeled ROE that you expect to achieve. But could you help us understand at least directionally how the return you are achieving compares to either historical levels or historical cycles?

A - Kevin O'Donnell

Yes, I think what we have said before is coming off, 2006 we thought was -- certainly was the best market I have ever seen. I think we have traded back and forth since 2006. Looking at our book and the way I anticipate constructing it from a historic perspective, I think it is going to be a very strong book based on our 20-year history.

One of the components of that is the flexibility we currently have, not only with our ability to access business, but our ability to manage our net position through ceded and through the partners that we have in DaVinci, and in the other vehicles that we have supporting us. So when we talk about our book in this context, we are really talking about the net position that we are able to build, and that is coming in from all the components being in which business and shared business and ceded business.

Q - Sarah DeWitt {BIO 18946247 <GO>}

Okay. Great. Then just on the specialty reinsurance premiums they were down a lot in the quarter, but you are expecting some growth for the full year. What drove the decline, and why do you expect that to rebound for the rest of the year?

Jeff Kelly Well the decline mostly, Sarah, related to the fact that in the First Quarter of last year we had booked some multi-year deals in the First Quarter, and all of the multi-year premium came in the written premium. I think that kind of overstates somewhat the decline in premium we expect over the course of the year. We do expect good growth over the course of the year that leads us to the conclusion or the expectation we will see some net positive growth.

A - Kevin O'Donnell

One of the things I think Neill touched on, and specifically also for Lloyd's, is we see some hardening in certain casualty and specialty lines, so we are going to continue to look for opportunities on either an XOL basis or a quota share basis to continue to expand into those.

Q - Sarah DeWitt {BIO 18946247 <GO>}

Okay. Great. Thanks for the answers.

Operator

Ryan Byrnes, Langen McAlenney.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Hi. Good morning, everybody. Just had one question. I realize that the TRIA renewal is still a ways away, but it seems like the early consensus is that is kind of -- there will be more risk put back in the private market. And I just wanted to see what kind of opportunities that will create for you. And I guess how you go about that.

A - Kevin O'Donnell

I believe the TRIA renewal is at the end of the year, so we got quite a bit of time before we have any certainty as to when that is going to happen, or what is going to happen there.

I think as far as terror, I believe there is a lot of appetite, at least for us, and I think with other reinsurers, to take conventional terror, and I believe there is a lot of capacity for it. I think the area of greater concern is really (NBC), and figuring out what that can look like. So if you were to ask me what -- forget what I think might happen, but what I would hope happens, is there is more transfer of conventional terror to the private market; and if there is a federal backstop, it really will focus on where it is most needed, which is NBC.

A - Neill Currie {BIO 6676681 <GO>}

One, Kevin was very articulate as usual there, but he might have been -- misinterpretationally said -- it renews at the end of 2014, not 2013. Other than that, eloquent as usual.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Thank you.

A - Neill Currie {BIO 6676681 <GO>}

Any other questions, operator?

Operator

No sir, we have no further questions in queue.

A - Neill Currie {BIO 6676681 <GO>}

Terrific. We enjoyed today. Tune in in a quarter to see how we did in the mid-year renewals. Thank you very much.

Operator

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