Q1 2015 Earnings Call

Company Participants

- Jeffrey D. Kelly
- Kevin J. O'Donnell
- Peter Hill

Other Participants

- Brian R. Meredith
- Ian J. Gutterman
- Jay Arman Cohen
- Josh C. Stirling
- Josh D. Shanker
- Kai Pan
- Mark A. Dwelle
- Ryan Byrnes
- Seth J. Canetto

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Kayla and I will be your conference operator today. At this time, I would like to welcome everyone to the RenaissanceRe First Quarter 2015 Financial Results 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. Thank you.

I would now like to turn the call over to Mr. Peter Hill. Sir, please go ahead.

Peter Hill {BIO 15385944 <GO>}

Good morning and thank you for joining our first quarter 2015 financial results conference call. Yesterday, after the market closed, we issued our quarterly release. If you didn't get a copy, please call me at 212-521-4800 and we'll make sure to provide you with one.

There will be an audio replay of the call available from about noon Eastern Time today through midnight on June 6. The replay can be accessed by dialing 855-859-2056 or +1-404-537-3406. The pass code you will need for both numbers is 25917801.

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 15, 2015.

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 Jeff Kelly, Executive Vice President and Chief Financial Officer.

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

Kevin J. O'Donnell

Thanks, Peter, and good morning, everyone. I'll open the call with an overview of our performance, then Jeff will go over the financial results, and I'll come back on to talk more about the business and the market.

I'm pleased to report that we had a solid first quarter with an operating return on equity of 13%. Our results benefited from strong underwriting, light cat losses, and good investment returns. There are a couple of significant one-time items in the quarter's results, which Jeff will take us through shortly.

We closed the acquisition of Platinum on March 2 of this year. We are pleased with our integration efforts so far and with the reception we're getting in the market. We are working well as a team and everyone is clear about the roles within the group. The close of the transaction was the culmination of months of hard work on the part of employees of both companies. This preparation allowed us from day one to begin facing our clients and brokers as a single entity with enhanced capabilities and offerings in the casualty and Specialty Reinsurance arena.

The addition of Platinum's book of business to RenaissanceRe's furthers our reputation as a highly flexible partner offering a broad suite of products and capital options. The broad themes we discussed on our recent calls still resonate, with the supply of reinsurance capacity significantly outstripping demand.

As we've been highlighting, recent entrants into the Catastrophe Reinsurance marketplace have enjoyed outsized returns for a protracted period of time. This has been driven in no small part by the lack of a major Hurricane in the U.S. since 2005, resulting in an abundance of capacity and an under-appreciation by some of the risk being underwritten. Our team is showing underwriting discipline in this environment and is demonstrating market leadership, not only by the business we write, but by the business we do not write.

We continue to earn a place as a preferred partner with our customers through our strong ratings, longstanding relationships built over more than two decades and our understanding of the market. Our track record of innovation and helping our customers adjust to market changes continues to position us well for the future.

With the Platinum acquisition behind us, RenaissanceRe remains in great financial shape. Our capital management strategy remains consistent and we will continue to look for opportunities to return capital when conditions are right.

Now, let me turn the call over to Jeff.

Jeffrey D. Kelly {BIO 1390834 <GO>}

Thanks, Kevin, and good morning, everyone. I'll cover our results for the first quarter and then give you an update to our 2015 top line forecast, which now incorporate Platinum's business.

We had a profitable first quarter, again benefiting from solid underwriting, relatively low catastrophe losses and strong investment performance. Each of our segments generated profitable results.

Platinum's results for the first time are incorporated in our financials. We elected to maintain our segment reporting structure of property Catastrophe Reinsurance, Specialty Reinsurance and Lloyd's to make historical comparisons easier.

There were also some one-time items included in (5:58) more on as I go through in my remarks. We reported net income of $168 million or $4.14 per diluted share and operating income of $126 million or $3.10 per diluted share for the first quarter.

The annualized operating ROE was 12.9% for the first quarter. Book value per share grew 5.6% during the quarter, although our tangible book value per share, including change in accumulated dividends decreased by 0.5%, due to an increase in goodwill and intangibles related to the Platinum acquisition.

Before I go on to the segment results, let me touch on two unusual items in the quarter, which we would consider more one-time in nature, but are included in our operating income. First, our results in the quarter included $40 million of transaction related expenses for the Platinum acquisition. Of this amount, $28 million was directly tied to compensation related items for Platinum employees and the remainder to banking, legal and other consulting fees incurred by RenaissanceRe.

As we look out to the future, we anticipate we are likely to incur an additional $10 million of compensation related expenses tied to the acquisition. Thus, we anticipate one-time expenses tied to the Platinum cost synergies we hope to attain will total approximately $38 million. This compares with our prior guidance of around $30 million.

As an offset, we would expect annual cost savings also to slightly exceed our prior target of $30 million on a full annual run rate basis. All transaction related expenses have been booked in our corporate expenses line.

The second unusual item in the quarter was an income tax benefit of $48 million, reflecting a reduction in the deferred tax asset valuation allowance that we had against our U.S. operation. Following the Platinum acquisition, we went through a detailed process to evaluate future profitability in the U.S. and determined that it was appropriate to take down the entire valuation allowance that we had in place.

With that, let me shift to the segment results, beginning with Cat and Specialty Reinsurance and followed by our Lloyd's segment. Since the Platinum acquisition closed on March 2, our financials only include Platinum's results for the month of March. As a result, there is very little impact to the top line in the quarter from the acquisition since most of Platinum's business in the quarter was booked at January 1.

In our Cat segment, managed cat gross premiums written declined $73 million or 14.7% compared with a year ago. Since Platinum's business largely renewed at January 1 and was not included in our numbers, there was no material impact from its business on the growth rate of this segment. There were no reinstatement premium adjustments in either period. The top line decline for cat premiums in the quarter was largely driven by sustained pricing competition at January 1 and our decision to pull back from business that did not meet our return hurdle rate. This compares with our full year guidance for a decline of 10% on a standalone basis for RenaissanceRe.

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, Top Layer Re and Upsilon.

The first quarter combined ratio for the cat unit of 24.8% benefited from low catastrophe loss experience. Net favorable reserve development totaled $17 million for the cat unit in the quarter, reflecting small adjustments to a number of events, including $5 million for the 2011 tornadoes in the U.S.

In our Specialty segment, gross premiums written decreased by $30 million or 19.4% in the first quarter compared with a year ago. Specialty premiums include approximately $19 million of gross premiums written from Platinum since the March 2 close date. The premium decline relates primarily to timing differences or restructuring of select large credit related transactions. As we've often stated in the past, percentage growth rates for this segment can be uneven on a quarterly basis, given the size and nature of the transactions.

Going forward, all of Platinum's non-catastrophe Reinsurance business will be booked in the Specialty Reinsurance segment. The Specialty combined ratio for the first quarter came in at 77.5% and favorable reserve development totaled $10 million in the quarter.

In our Lloyd's segment, we generated $130 million of premiums in the first quarter, an increase of 56% compared with the year ago period. This compares with our full year guidance for premiums to be up over 10%.

Ceded premiums in our Lloyd's operation also increased significantly from a year ago, as we commenced a ceded quota share transaction for our casualty business late last year. The Lloyd's unit came in at a combined ratio of 97% for the first quarter, also benefiting from generally low loss activity. The adverse reserve development of $4 million was principally driven by higher than expected claims emergence for the 2014 underwriting year in our crop hail book. Operating expenses were roughly flat compared with a year ago, but commission expenses were higher.

Turning to investments, we reported net investment income of $40 million in the first quarter. Our alternative investment portfolio generated a gain of $14 million in the first quarter, driven by solid results in our private equity portfolio. Recurring investment income from fixed maturity investments remained under pressure due to low yields on our bond portfolio and totaled $26 million in the first quarter.

The total return on the overall investment portfolio was a solid 4.2% on an annualized basis for the quarter. Investment returns benefited from higher realized and unrealized gains on the fixed maturity portfolio, due to a decline in interest rates and credit spreads and strong returns from alternative investments.

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 portfolio remained relatively 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 1.6%.

As we've stated on recent calls, we continue to believe we have capital in excess of our requirements given our current portfolio and our outlook for business growth. While we did not repurchase any shares in the quarter, our philosophy around capital management has not changed. Any decision relating to share repurchases will likely depend on our view of business opportunities, the profile of our risk portfolio and the valuation of our stock.

We were, however, active in other aspects of the capital structure. In March, RenaissanceRe executed a $300 million senior note deal with a 10-year maturity, the proceeds of which were used in the financing of the Platinum acquisition. On the back of that transaction, DaVinci issued $150 million of 10-year senior notes last week at what we believe are attractive terms. The goal of the DaVinci debt transaction was really to optimize its capital structure, while also providing the entity access to the public debt markets. DaVinci is a unique vehicle that continues to differentiate itself in the marketplace.

Finally, let me turn to update our top line forecast for 2015. These forecasts include the financial results of Platinum. However, since the deal closed in early March, as I referenced earlier, business written by Platinum prior to that date is not included in the premium figures or our guidance. Overall, our expectation is for Platinum's book of business to decline approximately 10% from 2014, primarily reflecting a more competitive pricing environment and our decision to cut back on some business.

With the acquisition now completed, we have begun to renew the business from both entities as a single platform with a common brand, so we will not be referring to the books of business separately going forward.

And thinking about guidance, the following should be gauged against RenaissanceRe standalone 2014 gross written premiums. For managed cat, we are maintaining our full year guidance of premiums to be down approximately 10%. We only have about $40 million of Platinum's premiums that are left to be renewed for the rest of this year and so we prefer to maintain our current guidance at this time.

In Specialty Reinsurance, we would now expect premiums to be up approximately 50%. This guidance incorporates expectations for our book as well as the renewal of Platinum's book of business of the remainder of the year. In our Lloyd's unit, we expect premiums to be up 50% for the year.

Finally, I'd remind everyone that premium estimates of this nature are subject to considerable risk and uncertainty and our goal in providing them to you is to give you our best estimates at this point in time.

With that, I'll turn the call back over to Kevin.

Kevin J. O'Donnell

Thanks, Jeff. So, let me share some comments on our business, starting with Catastrophe Reinsurance. Pricing and dynamics overall were as anticipated with abundant capacity and competitive signings. We are continuing to see broader coverage offered in the market. Unlike price reductions, which are easier to capture and evaluate, coverage extensions are often not factored into the market return because they are more difficult to assess. But price reductions and coverage extensions are two sides of the same coin, both serving to lower the return on capacity provided.

The April 1 renewal is typically focused on Japan. As has been the case throughout our business, the Japanese renewal was competitive, where we were able to retain attractive business, thanks to our longstanding and strong relationships and to the large capacity we bring. Despite the price reductions in recent years, pricing for Japanese earthquake risk remains higher than prior to the Tōhoku earthquake in 2011.

As we approach the June 1 renewal, we are optimistic that we will see a rise in demand as Citizens depopulation continues and the FHCF purchases in the private market for the first time in its history. We believe this is the right step for Florida. We also believe the market could provide significantly more capacity in future years, should the FHCF choose to purchase more.

Although we are expecting more demand for Florida capacity, we continue to perceive pricing pressure at this renewal because supply is still eager for this risk. We have tremendous access to risk in the Florida market and believe that we can and will construct a market-leading portfolio at this renewal. However, we will continue to exercise strong discipline in our assessment of the risk and need to be paid adequately for the risk we are assuming.

One last thought on Florida. While we are all thankful that Florida has not experienced a major Hurricane in almost a decade, it is our belief that the risk of an event in Florida has not changed. Recent good fortune should not alter one's analysis of the risk.

Outside of property reinsurance, our franchising capabilities in casualty and specialty lines have been significantly enhanced with the Platinum acquisition. We have rebranded Platinum's U.S. balance sheet as Renaissance Reinsurance U.S. Inc. and expect the platform to be core to our onshore U.S. strategy.

Feedback from brokers and clients has been overwhelmingly positive. Our organic growth initiatives, strong customer relationships and addition of experienced underwriters to the team have continued to generate access to profitable risk. Even though the marketplace remains competitive, we look to grow our business with core clients in areas which we were able to generate the best returns.

While we hope to see stabilization in ceding commissions, clients are still in the process of consolidating reinsurance programs. Consolidated structures can be complicated to underwrite and require additional volatility to be assumed by the reinsurance market. RenRe has great underwriting capabilities to assess this risk and we have efficient capital for those structures due to the significant cat component of our portfolio. We are pleased to accept our customers' volatility as long as we are adequately paid to do so.

Moving to our Lloyd's business now. Our Lloyd's unit had a profitable quarter, achieving significant growth in target classes. As with other platforms, Lloyd's is reaping the benefit of relationships we have had in Bermuda for 20 years.

Lloyd's is able to deploy insurance paper to help our reinsurance partners, and we had a good success in writing some niche insurance lines we have been working on for several quarters. We have the underwriters and platforms in place to scale this opportunity into the future. This operation continues to mature into a great franchise and we expect to see steady progress in this business.

Finally, I'd like to make a couple of last comments on our acquisition of Platinum. As Jeff highlighted, we have made great progress in our financial integration, but we have also made great progress in our business integration as well.

At the outset, we outlined the principal drivers of the acquisition, which were to benefit our clients by expanding our product offering, to accelerate the growth of our U.S. reinsurance platform and to increase efficiencies in the property portfolio.

I am pleased with the progress we are already making in every regard and I am confident that we are realizing the value of Platinum as part of our franchise.

Going forward, we are uniquely positioned to offer capacity to our clients across our rated and unrated balance sheets and to bring value-added solutions. We will look for opportunities to optimize the returns on our book. We will remain innovative and evaluate all options.

And with that, we're ready for questions. Operator?

Q&A

Operator

And your first question comes from the line of Josh Shanker with Deutsche Bank.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Yeah. Good morning. A couple of quick questions. Can you explain a little bit about the non-goodwill intangibles that you picked up on the balance sheet from Platinum?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

We can't, Josh. So I think here'd be my suggestion. I appreciate that there's probably a number of questions about the details of these, both the fair value adjustments and the intangibles. We have a very detailed presentation of those in our 10-Q, which we're going to file later today.

I'd say that for those interested, though, at least qualitatively right now, generally, the income statement or the impact of the fair value adjustments in the intangible amortizations roughly offset one another in the income statement. They're obviously going to flow through different line items. And without reviewing those tables, I think it's going to be hard to probably have a meaningful dialogue.

So, my suggestion is that we probably take those offline for now. And after you've had a chance to review the disclosures, we're happy to review them in any level of detail that you'd like.

Q - Josh D. Shanker {BIO 5292022 <GO>}

I'll trust you on that one. Okay. And you said that your philosophy around capital return is unchanged. I'm wondering if we can talk about that philosophy a little bit and how it relates to ROE.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Well, the philosophy is unchanged in that we have a belief that if we don't have – if we don't believe we can use our capital within the business within a reasonable timeframe, we feel it's important to return to our shareholders. We think that is important because it is – because a critical part of being able to access capital is being a good steward of it and returning it when you can't use it.

So that part has not – that part has really not changed and I don't expect it to change in any meaningful way going forward.

Q - Josh D. Shanker {BIO 5292022 <GO>}

And given that situation, does it matter what your ROE is? Are you more aggrieve on buying back your shares at a higher ROE?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Our ROE doesn't – well, the only impact ROE has, and it does play into the calculus of it in terms of our valuation and our forward-looking valuation, our forward-looking ROEs play into the valuation at which we find the stock more or less attractive as a purchase, yes.

Q - Josh D. Shanker {BIO 5292022 <GO>}

And so how do you think about – I guess I'm sort of setting it up here and you might say, look, that's not exactly how we think about it, but at a higher ROE with nothing to do without capital deployed, you'd be buying back very aggressively. Obviously, the ROE of the business isn't what it was five years ago. Is it still an attractive ROE that at book value you think one of the best things you could do if you can't grow the business is to buy back stock?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Well, there's a lot of factors that come into play and whether or not we buy back stock in any particular period, including our – the stock of excess capital, our forward look for the ability to deploy it in the business. But generally speaking, we have tended to be aggressive repurchasers of our stock, certainly south of 1.2 times book.

A - Kevin J. O'Donnell

One thing I'd add is, if you look at last year, we repurchased over $500 million of stock and we deployed another $600 million in cash into Platinum. We've built our franchise I think in a very constructive way. And the analysis that we'll do to think about repurchases is exactly – we're deploying capital into business as exactly as to what it was before.

I think there's lots of things that we consider in thinking about how to manage capital, including what is the price of the shares, what is the liquidity that we have, what is the excess capital we have, and then also things that are beyond our control is where are we in the exposure cycle. None of that has changed for 2015 compared to 2014.

Q - Josh D. Shanker {BIO 5292022 <GO>}

I appreciate the all the color and good luck in the coming year.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Thanks, Josh.

Operator

And your following question comes from Kai Pan from Morgan Stanley.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you and good morning. First, I have a few question related to the Platinum, like, acquisition. On the managed cat down 10% full year guidance, does that including the $40 million of Platinum in the rest of the year?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Yeah. Kai, thanks for the question. Let me – again, anticipating a few questions on this, maybe it'd be helpful to put the full context of the – maybe a little bit more context around the premium discussion, then I'll let you get to your next question, if you would.

Q - Kai Pan {BIO 18669701 <GO>}

Sure.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

So, as I said in my prepared remarks, as a general statement, we expect the premiums written on Platinum's book in 2014 will largely be renewed this year, although we expect the total premium to be down about 10%, mostly reflecting competitive pressures in the market.

So, at a high-level, we like their book and we expect to renew the vast majority of it. So that's just kind of a qualitative assessment of their book. For the – if you're trying to look at the numbers more granularly – let me lay out how we think about the respective books and the dynamics underlying them.

So, again, just to remind you that any premium booked by Platinum prior to March 2 does not appear in gross written premiums. So the January 1 renewals for Platinum were a reasonably large part of their overall book and approximated $195 million prior to March 2.

Of that amount, about $65 million was cat related premium and the remainder, or $130 million, was specialty casualty. Now, that amount is higher than you would see in Platinum's numbers for last year and that mostly reflects aligning Platinum's accounting policy with ours for the recognition of gross written premium. They just did it a bit differently than we did.

So as I noted earlier, we expect our managed cat premiums to be down about 10% versus RenRe standalone numbers. Obviously, this is going to be different in practice, given the size of the renewal and the relatively early stage of it. But with only $40 million of Platinum premium yet to be renewed, we thought it was a little bit of false precision to guide much differently than the down 10% that we previously had.

Our Lloyd's guidance is obviously up significantly. This, in our view, reflects the investments we've made in the platform over the last six years and it's really great to see this unit gaining traction in the market.

So that leaves the Specialty segment. And as I said earlier, Platinum wrote about $195 million in premiums prior to March 2, so about $130 million in specialty casualty premiums yet to be renewed over the remaining course of the year.

I would note in the guidance that we gave or in our description of the dynamics, that the specialty premiums written on RenRe's balance sheet in the first quarter were down about $69 million owing to a couple of factors. The vast majority of the decline was related to the fact that last year, we wrote $53 million in a couple of credit deals that were multiyear in nature, so, are on the books but don't show up in gross written premium. We anticipated that, but it does impact the numbers over the course of the year.

The remaining $16 million were just deals that were not renewed in that book. For the remainder of the year for Platinum, as I said, there are about $40 million in cat premiums to renew, about $216 million to renew in the specialty casualty book. And as I said, we like the book and we expect to renew the vast majority of it. And that's kind of how we see the dynamics of the business going forward. Hopefully, that helps, Kai.

Q - Kai Pan {BIO 18669701 <GO>}

That's very detailed. Thank you. And just following up on that is that because you show a 14% decline year-over-year in managed cat in the first quarter, and does it mean if you maintain your 10%, which means that you expect this – like the second quarter and the rest of the year will be a little bit better than the full year 10%?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Yes. It does.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. That's good. And then on the integration costs that you said a little bit higher than the original plan, but also you said the cost savings will be higher than your plan of $30 million. Given the timing, like you already booked $28 million in the comp expense, shall we expect the cost saving also will flow in quicker?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

On balance, yes. Maybe a bit of – to expand on that one a little bit too, because I could see there may be some questions about the merger-related expenses as well. In our S-4, we estimated transaction expenses at about $20 million. Those expenses related to executing the deal itself and included investment banking, legal and other consulting fees.

In the fourth quarter of last year, we booked $6.7 million of expense and $11.5 million in the first quarter of this year for a total of about $18 million. These expenses are all complete so ultimately, we came in a little bit below our expectations for transaction related expenses. The one-time integration related expenses that you're referencing, Kai, mostly relate to change in control payments, and as you note, are running a little higher than our original estimate of $30 million.

In the first quarter, we booked total $29 million in one-time expenses; $28 million of which were related to change in control payments to Platinum employees and a little less than $1 million which relate to other integration consulting fees.

I expect over the next 12 months, we will most likely book another $10 million in one-time integration related expenses. So in total, these one-time integration related expenses will be around $39 million. The main source of the delta between our expectation and what we're actually booking is a fewer than, I guess, originally anticipated number of employees retained. So, we have a higher level of change in control payments to make as a result of that.

Also included in the one-time expenses are payments to employees who will be transitioning out of the company over some period of time between three and 12 months post-close. Those transition related expenses are the majority of the $10 million we think we're likely to incur over the next 12 months.

So although we may see some of that in the first few months of 2016, I think far and away, the majority of the $10 million will be expensed in 2015.

As I was alluding to earlier, the other side of retaining fewer employees is that the full run rate expense savings should be a few million dollars higher than the $30 million we originally modeled. Hopefully that...

Q - Kai Pan {BIO 18669701 <GO>}

That's great. So we should expect the full run rate savings slightly above $30 million to be realized in 12 months?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Yes, that's right.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. That's great. Maybe last question probably for Kevin is a probably bigger picture. If you look this quarter, relatively low cats or not meaningful catastrophe losses, in the past, if you look at the first quarter 2013 and the first quarter 2014, though they're similar environments and in term of catastrophe losses, but the ROE had steadily declined for the company first quarter 2013 about 23% to first quarter 2014 about 16%, and now this quarter 13%.

I just wonder what do you see the main driver? I can see two components. One is that your property cat is less profitable because you write less premiums and the pricing is coming down. And the second reason might be is just your business mix shifting more towards the specialty business, which has a higher combined ratio. I just wonder, really the question is really, going forward, as we see the property cat pricing still continue to come in down, that will probably continue to hurt your property cat business. On the other hand, specialty property becoming a more – like a larger component overall. So is that like basically that trend continue or we will see the ROE potential for your business staying at a low double-digit level for even going lower from here?

A - Kevin J. O'Donnell

Actually, you did a good job both asking and answering the question. I think looking back historically, the two drivers are the things you mentioned is, we're receiving less rate, particularly in the property cat, and our investments in building specialty platforms in Lloyd's and purchasing Platinum has certainly diversified the risk profile of the company. I like where we are currently with the risk profile that we have, but our enthusiasm for writing more cat business is exactly what it has always been. We just think the opportunity to write more cat businesses is more limited due to the rate environment.

So, I think looking at the overall construct of the company, I think the franchise we've built in specialty and are continuing to build in specialty is permanent. I think the franchise we have built and are continuing build in Lloyd's is permanent. And our enthusiasm to add more cat is 100% as robust as it always has been. So, it's really going to be an opportunity-based future as to what the business mix is, but I would say that you should always count on having specialty and Lloyd's as a meaning full component of it.

Q - Kai Pan {BIO 18669701 <GO>}

All right. Thank you so much for the answers.

A - Kevin J. O'Donnell

You're welcome.

Operator

And your following question comes from (sic) Josh Stirling with Sanford Bernstein.

Q - Josh C. Stirling {BIO 17463087 <GO>}

Hi, guys. Good morning. Thank you for taking the call. So, Kevin, I wanted to talk a little bit about the Platinum deal or RenRe U.S. I am curious about the underwriting strategy that you guys are going to apply going forward. And as you have had time to get into their business, I'm kind of curious what you found about the deals they used to write. Are there classes or types of deals that you found that you're less inclined to keep after you've had more time with them or, alternatively, are there accounts and relationships that you want more of? And as you're sort of setting aside appetite, I'm just wondering if you can walk us through a little bit more detail, how you're actually combining the companies' underwriting and risk management functions? I mean how do you integrate all of these new risk buckets that Platinum used to write into your REMS system? And then just more generally, how do you supervise and incent and sort focus on instilling the RenRe culture into all these new underwriters?

A - Kevin J. O'Donnell

Thanks for the question, John.

A - Operator

Josh.

A - Kevin J. O'Donnell

Sorry, Josh.

Q - Josh C. Stirling {BIO 17463087 <GO>}

I like John, too.

A - Kevin J. O'Donnell

No, no, it's John. There's really three platforms that we purchased. One is the Bermuda platform, the New York platform and the Chicago platform. The Bermuda platform is the integration is actually quite simple where we – that's where the property cat book was written. We're able to take that and largely just incorporated to the framework that we already have in Bermuda. The Chicago book is a different book and a book that we like quite a bit. It's a small regional book and it's one in which we think with our tools we can bring additional capabilities and hopefully, find opportunities to grow that business.

Our increased cat appetite compared to the Platinum cat appetite will also provide opportunities to that book. And one area that is a bit of a surprise and an unexpected upside is, in talking to the guys in Chicago, they hope that our ventures team can help some of the smaller companies that they're providing reinsurance to bring other forms of capital to them and potentially strengthen those relationships.

With New York, we like that book quite a bit. There is some overlap with the book we've already written, both in Bermuda and in the Connecticut office, but we find that the underwriters and the book merges well to the platforms we have, and retooling the pure balance sheet or the Platinum balance sheet to RenaissanceRe.

I think the way we're thinking about it is we are one team. So, we are a fully integrated company from risk management and underwriting. We're working hard to design the communication protocols and providing clarity to the underwriters and to the market as to which lines of business belong on which balance sheets and which offices are the primary office for that line of business. An example of which could be A&H business, where the Platinum team has significantly more expertise in A&H than what we had within RenaissanceRe. And we're going to continue to use the New York office as the primary point of entry for A&H business to come to the organization. It's a business we like. We're relying on the expertise that we purchased within Platinum, but it's something with our risk management system's appetite for more risk we can continue to grow.

Q - Josh C. Stirling {BIO 17463087 <GO>}

All right. That's really helpful, Kevin. I wonder if I could just ask a big picture question. When you guys think about the business, what might lead to some relief from some of the pricing pressure that's been sort of dogging property cat? You spend time with all the investors. Are rising interest rates potentially a solution? Or do we basically – if you care about sort of the public companies do this business, should we be basically rooting for some sort of storm to teach people the downside of taking cat risk?

A - Kevin J. O'Donnell

I think markets tend to reverse course based on the surprise. I think as rates become and margins become thinner potentially one can see that the surprise required for a reversal is smaller.

I think since I'm not forecasting that one thing or another can change the market, I think the one thing that's often looked at with third-party capital is the fact that it's diversifying and what that can bring from an expected return. I think rising rates and better alternatives to allocation to this class of business is a risk for some of that capital. We wouldn't have built the structures we built here at RenaissanceRe, if we didn't believe there is a good home for all sorts of capital, whether it's third – what people call third-party capital coming from family offices, or pension funds, or it's equity capital. And we believe what's required is a good underwriting interface between that capital and the risk. And that's really the role that we're looking to provide. Knowing when the market's going to change is a difficult task. Building a franchise that can perform in any market and is most flexible to be successful in any market is really the goal that we have.

Q - Josh C. Stirling {BIO 17463087 <GO>}

Okay. Thanks, Kevin. Good luck and good luck on June 1.

A - Kevin J. O'Donnell

Thanks.

Operator

Your following question comes from Jay Cohen with Bank of America.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Yes. Thank you. A couple of questions. First, on the Lloyd's business, the accident year loss ratio in that business was significantly lower than where it's been running. Question is, is that mostly just luck or variability of losses, or was there a business mix change that may have contributed to that?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Jay, I would say it's variability of losses, but generally low catastrophe experience.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Got it. That's helpful. And then, on the Lloyd's business as well, the guidance for top line, that was up now 50% or 15%?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

50%.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

So what changed in the last three months that caused you to pretty significantly alter your expectations there?

A - Kevin J. O'Donnell

That's a great question. We are delighted with the growth that we're seeing in Lloyd's and it's really the culmination of years of work, frankly. It's coming from what I'll say is three things. First is collaboration with ventures and our Lloyd's team where we're finding ways in which we can help customers develop new products and platforms and then provide reinsurance or insurance support from the syndicate. It's continuing to leverage and successfully writing new business, leveraging the relationships that we've had in Bermuda for 20 years.

And then the third component, which is probably more insurance growth than reinsurance growth, is specific accounts that have been targeted by our underwriters, and after working with those and showing the benefits of working with Renaissance at Lloyd's, we've been successful getting on those programs over the last – frankly, in the fourth quarter and the first quarter.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Got it. That's helpful, Kevin. And if I could squeeze just one more in on the investment side, it does look like the cash balance short-term investments went up quite a bit. Obviously, the Platinum deal did that. But are you at a level as of March 31, where that's just way too much cash and could you redeploy that in longer duration securities?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Yeah. Yes, Jay. That is not a level that we expect to maintain going forward. And I think what you're seeing there is kind of the process of reallocating their portfolio to be consistent with our allocation. So it will take a couple of months to fully effect, but we would expect that over the next two maybe three months we will transition their investment portfolio to have a set of allocations that look almost identical to ours. As an example of that, right at the beginning of April, we allocated, I think it was $250 million to our passive equity strategy, which is part of our own strategy at RenRe. So we're beginning to take their portfolio and moving into the allocation structure that we have. And when that's completed, I think you'll see that cash balance much lower.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

That's great, helpful. Thank you.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Okay. Thanks.

A - Kevin J. O'Donnell

Yeah.

Operator

Your following question comes from Brian Meredith from UBS.

Q - Brian R. Meredith {BIO 3108204 <GO>}

Yeah. Thanks. Just a couple of quick ones for you. Kevin, just on the Lloyd's business, can you tell us kind of what areas, what lines of business is the big growth coming from?

A - Kevin J. O'Donnell

Yes. Actually, it's a mix of everything, frankly. I would say it's a bigger component of insurance and reinsurance than what the in-force book has.

Q - Brian R. Meredith {BIO 3108204 <GO>}

Okay.

A - Kevin J. O'Donnell

And we've had more success on different casualty lines over property lines. So it's a pretty broad spectrum.

Q - Brian R. Meredith {BIO 3108204 <GO>}

Okay, broad insurance casualty, great. And then, second question, I'm just curious. On Florida, looking at the renewal coming up, I know you said that increased demand. Is there any possibility here that you see some of the Florida carriers actually decreasing their reliance on quota share?

A - Kevin J. O'Donnell

I think it's – we're kind of in the early throes of that. I think there is the potential of that, primarily – it depends really what happens with XOL rates, with excess of loss rates. And if there's a significant reduction in excess of loss rates and ceding commissions are reasonably flat, I think there'll be a migration towards those structures. It's a little early to tell right now as to kind of what form the risk will be ceded in, but our expectation is it's not going to be a material shift between XOL and quota share. And the growth that we're talking about is much more around risk coming out of Citizens. We said before any risk that comes out of Citizens, it goes to the private insurance market, has more reinsurance dollars associated with it than the FHCF purchases.

Q - Brian R. Meredith {BIO 3108204 <GO>}

Great. Thank you.

A - Kevin J. O'Donnell

Sure.

Operator

Your following question comes from Ryan Byrnes from Janney.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Good morning, guys. Just had a question. Were there any reserve releases from Platinum in the quarter? And then maybe just go over how you guys are trying to harmonize the two books now that they're one company.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Platinum did have in the first quarter about $22 million in favorable reserve development, but that was all incorporated into the closing balance sheet on March 2.

A - Kevin J. O'Donnell

As far as integrating the reserves going forward, I'll divide the comments between property and casualty and specialty. On the property side, I think with our track record and our expertise, we'll rely much more on our reserving methodology for property. The casualty, both companies actually have very robust reserving methodologies. And one of the things that we're having a great internal discussion on is figuring out which components of each are best and trying to map a course forward to make sure that we're retaining the best elements of the process that Platinum had in reserving and the best elements RenaissanceRe had in managing casualty and specialty reserves.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Okay, great. And then quickly, just on the Lloyd's growth, obviously, it's pretty impressive growth going forward. But if I look back in kind of the action year combined ratio of the business the last couple of years, it's running a little north of 100% combined ratio. And it does seem like the rates in Lloyd's aren't getting better. So just trying to figure out, is it possible for you guys to grow that much and also drive down the action in your combined ratio, I guess, below 100%, is that possible?

A - Kevin J. O'Donnell

That's the plan. I think the market in Lloyd's is not the same across all lines. We are looking for lines of business that we are profitable and then finding the best deals within those lines. We're not trying to find the lone profitable deal in a very competitive market. I think the other thing to look at is our start-up costs and coming in with a very high expense ratio. As we continue to build scale on the Lloyd's operation, we hope that the expense ratio will continue to move south.

Q - Ryan Byrnes {BIO 16902592 <GO>}

Got you. And then quickly, I just want to make sure the last one I have is just the retention at Lloyd's as well. Obviously, it sounds like you guys bought more quota share reinsurance. I just wanted to figure – how much of the Lloyd's book is that casualty book? I'm just trying to figure out what kind of retention we should think about going forward.

A - Kevin J. O'Donnell

We are buying more ceded within Lloyd's. Our ceded philosophy across the organization is consistent in that we don't typically have a prescribed program and then write against the program. We look at the opportunity to build the business and then match the ceded against its optimized returns. I think, going forward, it's my expectation the insurance component of the book will continue to increase and the casualty component of the book will continue to increase, but we're still looking to grow the property and the reinsurance. I think it's just unlikely to where we're seeing opportunities based on today's environment.

Operator

Your next question comes from Seth Canetto with KBW.

Q - Seth J. Canetto {BIO 20249864 <GO>}

Good morning. Thanks for taking my questions. Just going back to the corporate expenses, I believe in 4Q 2014, you guys had $7 million related to PTP, and then this quarter, it was a little over $40 million. Was that $10 million specifically for the corporate expenses and is that only going to be realized in 2Q, or should we expect it a little broken out throughout the year?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Yeah. So, you're right. We booked $6.7 million in the fourth quarter and $11.5 million in the first quarter for a total of $18 million. Those are just transaction related expenses, and as I said, related to investment banking, legal and other consulting fees. We do expect to incur about $10 million more in future quarters and I would say most of that $10 million will be incurred within 2015, a bit perhaps in the first quarter of 2016. And that's almost all related to transition related expense and other software systems conversions.

Q - Seth J. Canetto {BIO 20249864 <GO>}

Okay, great. Thanks. And then, this question's on the specialty business. It's sort of piggybacking off of Jay's from his Lloyd's question. But on your top line forecast, specialty went from 10% to 50% for 2015. Is that solely from the integration of Platinum, or is there something else going on there that's leading to the increase?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

It's solely related to Platinum. In fact, I would say more than 100% of it is related to Platinum. As I tried to describe in my comments, the RenRe specialty book is actually down a bit more in the first quarter than we had anticipated. And so, that up 50% includes both an assessment of our own book, a legacy RenRe book, as well as the Platinum book we expect to renew over the course of the year.

Operator

Your next question comes from the line of Ian Gutterman with Balyasny.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Hi. Thank you. I guess a couple of quick numbers questions and then a Florida question. Jeff, on the intangible, I know you said some of this will be in the Q, but just if you can help me reconcile. I believe in the proxy, the intangible estimate was about $150 million and it came in at $84 million. Just what changed and I guess is there a corresponding offset somewhere?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Yeah. I think, the reason it turned out to be lower is we just had lower negative fair value adjustments than we had anticipated earlier.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Okay, great. And then on the managed cat in the quarter, if I take out the upside on last year, it looks like you were up call it mid-single digits. And if I break out DaVinci being down, call it the core Ren balance sheet managed cat was up maybe mid-teens and obviously pricing was down. So could you talk about where the growth was in actual exposure in the first quarter?

A - Kevin J. O'Donnell

We don't really look at it that way. We look at – for the reporting purpose, we look at managed cat numbers. The balance sheet of the structure we put it on is simply looking for the most efficient capital. I think I would not categorize any of our balance sheets as really growing with property cat in the first quarter and I think the vast majority of the reduction was price pressure.

Operator

And your last question comes from Mark Dwelle with RBC Capital Markets.

Q - Mark A. Dwelle {BIO 4211726 <GO>}

Yeah. Thank you. Just one really quick question. With the increase in the U.S. operations, will you actually have some sort of a tax rate going forward from here or is that all taken into account with the losses in the tax asset that you picked up?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Mark, there is I think a pretty good description of that in the 10-K. We do have significant net operating losses in the U.S. subsidiary that we can use to offset income going forward. I believe the total amount of that's about a $65 million figure.

Q - Mark A. Dwelle {BIO 4211726 <GO>}

So sort of until the U.S. operations consume that, the tax rate should continue to be approximately zero overall.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Pretty low. Yes.

Q - Mark A. Dwelle {BIO 4211726 <GO>}

Got it. Okay. Thank you.

Operator

Your last question is from Ian Gutterman.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Hi. Sorry, I got cut off there before I could ask my last question, if you don't mind. You brought up the FHCF buying reinsurance earlier. I was hoping you could talk a little bit about that. I guess what was concerning to me was I don't think of the FHCF as being an overpriced market, right, for what they charge for the mandatory layer. And then the rate online that was reported seemed to be even cheaper than what they charge.

So, it seemed like it was a poorly priced program to the reinsurance market and that didn't seem to stop it from getting done. Is there something unusual about that that I shouldn't view that as a harbinger for the rest of the renewal season, or should I be a bit discouraged by how that program went?

A - Kevin J. O'Donnell

First, I'm actually really encouraged by the fact that they're buying. I think it's a great step for Florida.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Yes.

A - Kevin J. O'Donnell

We've seen a lot of good initiatives coming from the state with the continued depopulation of Citizens as well as moving some of the Florida hurricane cat found risk to the private market. I think your comment about the rate would be true, if it was a quota share placement.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Okay.

A - Kevin J. O'Donnell

It is an XOL placement with a significant retention being held by the Florida hurricane cat fund. So, I think doing a rate-to-rate comparison doesn't necessarily work well.

Q - Ian J. Gutterman {BIO 18249218 <GO>}

Okay. Got it. Okay. I can follow up on that later. Thanks.

A - Kevin J. O'Donnell

Sure.

Operator

There are no further questions at this time.

A - Kevin J. O'Donnell

Thanks very much everybody for your attention on today's call. And we look forward to speaking to you next quarter. Thank you.

Operator

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