Q3 2019 Earnings Call

Company Participants

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

Other Participants

- Joshua Shanker, Analyst
- Meyer Shields, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the RenaissanceRe Third Quarter 2019 Financial Results Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Keith McCue. You may begin your conference.

Keith McCue {BIO 20595590 <GO>}

Thank you. Good morning. Thank you for joining our third quarter 2019 financial results conference call. Yesterday after the market closed, we issued our quarterly release. If you didn't receive a copy, please call me at 441-239-4830 and we'll make sure to provide you with one. There will be an audio replay of the call available from about 1:00 PM Eastern Time today through midnight on November 30th. The replay can be accessed by dialing 855-859-2056 US toll-free or 1-404-537-3406 internationally. The passcode you will need for both numbers is 6787756. Today's call is also available through the Investor Information section of www.renre.com and will be archived on RenaissanceRe's website through midnight on November 30th, 2019.

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 today to discuss results are Kevin O'Donnell, President and Chief Executive Officer and Bob Qutub, Executive Vice President and Chief Financial Officer.

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

Kevin J. O'Donnell

Thanks Keith. Good morning and thank you for joining today's call. I'll open with a discussion of our third quarter performance. Bob will then highlight some of the quarterly results. Finally, I will address our segments and the loss activity for the quarter before taking your questions.

This was an active period for natural disasters globally. In September, Hurricane Dorian devastated Bahamas which is still in early stages of recovery. In Japan, Typhoons Faxai and Hagibis had caused widespread wind and flood damage throughout the Tokyo region. We extend our sympathies to all those impacted by these catastrophes and are working closely with our customers to quickly pay claims, which we hope will aid in rebuilding and recovery efforts.

We released our earnings last night and we performed well given the large loss events of the third quarter, reporting annualized return on average common equity of 2.8% and annualized operating return on average common equity of 1%. We grew our book value per common share by a little less than 1% and tangible book value per common share plus accumulated dividends by just over the same amount. Year-to-date, we have grown tangible book value per common share, plus change in accumulated dividends by 17.1%.

Although this was an active quarter, I remain pleased with the growth and profitability that we achieved so far this year. Looking forward, I remain optimistic about the market and sustainability of recent rate increases. Bob will discuss the estimated net negative impact of Typhoon Hagibis on our fourth quarter results and obviously I will touch on its impact more extensively during our next call. (inaudible) Hagibis was somewhat weaker than Faxai, but it's wind-field was much more extensive. While Hagibis tracked over much of the same territories as Faxai, it's angle of incidence brought it further inland for a longer period of time. It also dropped an enormous amount of rain on to mountainous territory with some areas receiving over 37 inches in 24 hours. This resulted in extensive flooding, devastating mudslides and multiple dam failures. We think Faxai will approach a $10 billion industry event and Hagibis will be approximately $15 billion. In total, during the past two years, 10 tropical cyclones that made landfall in Japan. So in aggregate, Japan has experienced upwards of $50 billion of insured loss from the recent storms. I raised these Japanese Typhoon losses now, because they highlight several issues our industry continues to struggle with; climate change, deficient modeling, poor underwriting, lost creep and trapped capital.

2017 and 2018 with the largest back to back loss years for insured natural catastrophes in history. In 2019, it's continuing the trend. With Dorian coming within 90 miles of Southern Florida landfall, it could have been much worse. We believe that the frequency and severity of natural catastrophes has increased. Our team of scientists, meteorologists and engineers at our weather predict subsidiary are studying this issue and while it is difficult distinguish between permanent climate change from transient climate variability and over ever expanding body of scientific research suggests that these trends are in fact man-made with each additional record breaking hurricane, typhoon, flood and fire, the evidence continues to amount that we live in a world where climate change is influencing the frequency and severity of catastrophes.

If correct, this trend will not revert to the mean, it will continue to worsen. The insurance industry needs to adapt to this new reality. Climate change will make extreme events more frequent and more severe. We can expect an increase in wind and rain risk from tropical cyclones. A higher proportion of storms will reach extreme category four and five wind levels. Sea level rise, driven by climate change will increased storm surge and as we are currently experiencing the extraordinary trends in California wildfire will persist with an expected increase in annual Northern California burn area.

From my point of view, the market is missing the point on the mounting influence of climate change on catastrophe risk, rather it remains focused on the impacts of social inflation. Social inflation undoubtedly remains a problem, one which I have addressed on multiple occasions and for the last several years that has materially increased on (inaudible). Having had the cat, social inflation makes the loss worse, but it does not make the cat any stronger or any more likely. Until recently the damage functions of most cat models have not sufficiently captured the impact of social inflation and that is one of the reasons for substantial post event loss. I believe the social inflation trend is now more accurately reflected in increased dam functions and cat models.

On the other hand, it is becoming more and more evidence that the relatively inactive 10-year period prior to 2017 was an extreme outlier. The current frequency and severity of catastrophic events are more typical and are being driven by climate change. Unlike social inflation, climate driven frequency and severity changes affect the hazard function of cat models. They make the cat stronger and more likely. I'm not convinced that industry hazard functions reflect this new reality. One of the advantages of having an independent view of risk is that we are quickly able to adapt our proprietary models to reflect this climate paradigm. For example, our internal models reflect storm surge and wildfire at levels well above all vendor models.

Before handing the call over to Bob, I wanted to point out that it has been one year since we announced the TMR acquisition. Bob will speak more about TMR. So when I think about what we set out to do, I couldn't be happier with our progress against our goals in such a short period of time. To-date, the renewal of the TMR book has gone as expected and we are optimistic regarding our prospects for the January 1 renewal.

Moving on, I'll discuss our business segments, recent losses and future opportunities in greater depth. But first I'd like to turn the call over to Bob to update us on our financial performance. Bob?

Robert Qutub {BIO 15269353 <GO>}

Thanks Kevin and good morning everyone. Today we'll discuss our consolidated financial performance for the quarter, review our segment results, the investment portfolio returns and then our capital activities. Starting with our consolidated results where annualized return on average common equity was 2.8%, benefiting from mark-to-market gains in the investment portfolio, on an operating basis, we posted annualized operating return on average common equity of 1%. We reported net income for the quarter of $37 million or $0.83 per diluted common share. Our operating income was $13 million or $0.29 per diluted common share, which excludes $32 million of net realized and unrealized gains on investments attributable to shareholders and $4 million of transaction, integration and compensation expenses associated with the TMR acquisition. We had underwriting loss for the quarter of $3 million and reported an overall combined ratio of 100.4%. Net premiums earned for the quarter were $907 million, up $375 million or 70% from the comparable quarter last year. As with the second quarter, this growth is a combination of organic growth and the impact of the TMR transaction. We recorded in operating income, net foreign exchange losses of $8 million this quarter. While we do experience quarterly volatility in our FX positions, our practices to hedge material exposures and year-to-date, our FX losses in operating income are less than $2 million.

As a reminder, we incurred non-controlling interest adjustments related to our fully consolidated joint ventures, primarily DaVinciRe, Medici and Vermeer. This quarter, we reported $62 million in profits attributable to non-controlling interests compared to $6 million in the comparable quarter last year. Of the $62 million, $31 million relates to DaVinciRe, $15 million to Medici and $16 million to Vermeer. And Vermeer rights risk remote US business, so it was not affected by losses this quarter. Medici is a cap owned fund that enjoyed a strong quarter relative to last year. And finally, DaVinciRe experienced $35 million of prior year favorable development, mostly from wildfire subrogation recoveries.

Reinsurance recoverables were down $427 million versus the second quarter. This largely reflects collections for prior year losses in the quarter. We accrued $4 million in income tax expense this quarter, mostly related to capital gains in our investment portfolio. We now have multiple balance sheets located in taxable jurisdictions and as these businesses generate profit including investment income on their invested assets, they will be subject to income tax.

Now before moving to our segment results, I'd like to briefly update you on our operational efficiency. For our direct expenses, which are the sum of our operational and corporate expenses, totaled $67 million for the quarter, which is down from $84 million in the second quarter or a decrease of $17 million. This downturn expense trend demonstrates our continued progress on synergies related to the TMR acquisition. Adjusting for the impact of the $4 million in the transitional TMR costs incurred during the quarter, direct expenses would have been $63 million.

Moving forward, once you back out transitional TMR costs, our corporate expenses are running about $10 million per quarter. As I previously discussed, direct expenses have been increasing as we invest in the business and integrate TMR. I am pleased to report that the ratio of the direct expense to net premiums earned improved this quarter to 7%, driven by higher levels of net premiums earned relative to our operational expense base.

And finally, there is a brief update on TMR where we remain on track to realize anticipated synergies on TMR expense base. We continue to project an after-tax earnings run rate contribution from TMR of at least $100 million. And by January 1st, we will have renewed more than $700 million of TMR premium.

Now moving to our segments and starting with our Property segment. Property gross premiums written in the first quarter grew by $13 million or 4% over the comparative quarter to $314 million. This growth was driven by an increase of $123 million from other property with a large component of that amount from TMR. Gross premiums written in property cat declined by $110 million due to timing differences and the renewal of the large bespoke deal we booked in the third quarter last year. In total, our Property segment reported an underwriting loss of $8 million on a combined ratio of 101.7% in the third quarter with Property catastrophe reporting a 90% combined ratio, and other Property reporting 116% combined ratio.

We reported $155 million in net negative impact due to the 2019 catastrophe events. This broke down to $103 million from Typhoon Faxai and $52 million from Hurricane Dorian. Cat losses has also impacted both current and prior year development in our other property class of business with 20 points of the current year loss ratio attributable to Hurricane Dorian and the 13 points of prior adverse development coming primarily from catastrophes. We reported a low percentage of ceded written premium for the quarter. This was largely driven by $26 million in negative premium adjustments related to a third-party capital fronting business we acquired from TMR, which serve to decrease both growth and ceded premiums by that amount. After normalizing for this adjustment, we ceded about 32% of net written property premiums for the quarter, which is consistent with the comparable quarter last year. I should also briefly mention Typhoon Hagibis. We currently estimate that it will have a net negative impact of $175 million on our Q4 financial results. We also continue to monitor the California fire as well as the tornadoes in North Texas.

Now moving on to the Casualty segment, where our gross premiums written were up $222 million or 69% in the third quarter of 2019 over the comparative quarter. This reflects a good mix of organic growth and the contribution from TMR. We reported underwriting income of $4.5 million and a combined ratio of 99% for the quarter. The current accident year loss ratio for the Casualty segment was 69%, which was 5.4 percentage points higher than the prior year quarter. As you know, TMR brought us more traditional casualty business with higher average loss ratios and you are seeing this reflected in the numbers. As Kevin will discuss, we are seeing positive rate trend in this business as we renew.

And moving to fee income, where total fee income was $32 million for the quarter. We had $25 million of management fees and $7 million in performance fees. Relative to the second quarter, our fee income was down, which is due to the reduction of performance fee income, driven primarily by the third quarter 2019 catastrophe events in the structured reinsurance product.

Turning now to investments, where for the quarter, we posted total investment results of $146 million, which includes mark-to-market gains of $32 million. The return on our fixed maturity and short-term investments was $98 billion and overall net investment income was $114 million. Net investment income was down $2 million from the second quarter due to lower yields. Of the $114 million of net investment income, roughly one-quarter was attributable to third-party investors. For example, the majority of the $23 million in other investments relates to our Medici cat bond fund, but we fully consolidate the Medici given our minority ownership we only benefit from 14% of its results were $3 million. We distinguish our investment results between our managed investment portfolio and our retained investment portfolio.

Our retained investment portfolio is a subset of our managed investment portfolio and only includes those assets that contribute to our net income. As a reminder, our managed and retained investment portfolios include our fixed maturities and short-term investments, but exclude our equity investments and other investments, as well as investments in other ventures. In the third quarter, our managed investment portfolio reported yield to maturity of 2.2% and duration of 2.8 years on assets of $15.5 billion, while our retained investment portfolio reported yield to maturity of 2.3% and duration of 3.5 years on assets of $11.1 billion.

The significant fall trade renewals in the first half of 2019 continued into the third quarter, which has led to a decrease in the managed portfolio yield. of about 100 basis points year-to-date. Our returns in 2019 have been strongly supported by the fall in treasury yields. Unfortunately, this near-term relatively strong performance may act as a drag on future earnings as the yield on the portfolio has declined. For the quarter, we grew our total investment portfolio by $561 million. This growth was driven mainly by the $427 million of reinsurance collections for prior year losses.

And now ending with capital management. During the quarter, we increased the size of our flagship balance sheet, Renaissance Reinsurance Limited by $250 million to bring total phase capital to $2.25 billion. Increasing the size of this balance sheet following an M&A transaction is consistent with past practices, such as following the Platinum acquisition as in line with recent premium growth. We did not repurchase any of our shares during the third quarter. Our priority has always been to deploy capital into the business. Moving forward, I anticipate additional opportunities to deploy capital into the business, which is consistent with our previously stated preference.

And with that, I'll now turn the call back to Kevin for more details on our segments.

Kevin J. O'Donnell

Thanks, Bob. I'll divide my comments between our Property segment of our Casualty segment, starting with property. We have now passed all the major renewal dates for 2019 and the vast majority of the 2019 underwriting book has already been written. Consequently, this is at the time of year, when we pivot to prepare for the January 1st renewal season. On balance, we face a positive set of opportunities. Our client and broker engagement remains strong due to the platforms and teams we have built. As we've discussed, one of our key strategic advantages is our ability to continue to deliver shareholder value under any market condition.

Bob touched briefly on the financial impact of the recent catastrophic events and I'd like to provide some additional details related to these losses. Starting with Hurricane Dorian.

In August, Dorian stalled-over the Bahamas with sustained winds speeds of 185 miles per hour, making it possibly the strongest land-falling Atlantic hurricane on record. Dorian subsequently tracked up the South East Coast, eventually making landfall in the Outer Banks of North Carolina. It will take many years for the areas of the Bahamas worst hit by the storm to recover and we currently estimate the industry loss will be around $5 billion. Typhoon Faxai made landfall in Southern Tokyo on September 9th with wind speeds in the range of a strong cat two. The wind (inaudible) measured during its passage were some of the strongest recorded in Tokyo in modern times, because 930,000 power outages with some lasting as long as two weeks, over 42,000 residences were damaged. And as I mentioned, we currently estimate the industry loss will be around $10 billion. I should highlight that we are in the early stages of our estimation process for the Japanese events. As I've discussed in the past, we typically take both a top-down and a bottom-up approach to loss estimation. Currently however, we have limited information from our Japanese customers, restricting the bottom-up approach. We also expect that the interaction between typhoons Faxai and Hagibis will exasperate demand surge and complicate claims adjusting. Consequently, our estimates are subject to a higher degree of uncertainty.

We continue to monitor development on prior year event, specifically those related to 2017 and 2018. As anticipated, there has been some movement with 2017 developing favorably and 2018 adversely. But in the end, they were roughly offsetting and in aggregate however, we saw a favorable development in the Property segment this quarter. There has been a lot of speculation in the market about wildfire subrogation and it's expected impact on results. We do not book recoveries in anticipation of possible subrogation payments, but rather wait for such payments to be more definitive. Even if we receive a subrogation recovery however, its impact on our financial results is likely to be minimal. Our retrocessional benefit from subrogation payments just as we do and a large fraction of each dollar recovered will likely belong to our partners.

A number of factors are positively impacting property insurance pricing. The primary property insurance market is experiencing healthy rate increases due to enhanced underwriting discipline, broadly deployed by primary end markets, recognizing the need rate to improve results. Retro program losses combined with prior year adverse development in trapped third-party capital are leading to a decrease in supply. Losses in the second half of this year will only accelerate this trend. This will likely result in a higher price retro market in 2020. The reinsurance market sits between these two spaces. Our view is that reinsurance rates must increase as well. Reinsurance price increases are lagging both primary and retro, ultimately however arbitrage opportunities do not persist in competitive financial markets. Reinsurance will not lag the improving insurance markets for long, because if it does, markets will further shift resources to writing better rated retro in E&S until a new equilibrium is achieved.

Given these market dynamics, we expect that we will grow our invoice [ph] retro book, we will grow access to E&S insurance and other property business. Our core reinsurance business will realize price increases. And if rates start to move up, we will grow. We will likely buy less outwards [ph] retro consistent with our past practices of exposing more of our capital as rates improve. We continue to execute on our gross to net strategy and as we contemplated our ceded placements we recognized we will need to pay more for our coverage. While we maintain strong relationships with existing capacity, we are not in a need to buy a position we will offer renewal with our retrocession areas, but we will do so in a disciplined manner. We also have the option to sell protection and have access to multiple forms of efficient capital to do so, such as our Upsilon joint venture. As I said, if the rate environment develops as we expect, we are likely to shift to be a larger seller of retro.

Our market leadership in third-party capital management is a large part of the reason we can pivot effortlessly from buying to selling retro. We're one of the largest managers of capital and have a long and successful track record. For us, the current environment is an opportunity. We are already seeing a flight to quality with investors deploying [ph] managers to demonstrate superior underwriting and modeling capabilities as well as strong governance practices. I expect this trend will accelerate in 2020.

Moving to other Property. We reported 116% combined ratio in other Property this quarter. Year-to-date however, our other property business remains profitable. As Bob discussed, our performance this quarter was due to catastrophes. Other Property is and always has been exposed to catastrophic events. We distinguish between Property CAT and other Property based primarily on how we take risk. Expected loss ratios in other Property are also generally higher as we are taking both cat risk and attritional exposure as opposed to just cat risk and the catastrophe class of business.

Moving now to Casualty. We grew our Casualty segment gross written premium by 69% year-on-year in the third quarter. Well over half of this growth is due to the TMR acquisition. The portfolio which we acquired from TMR has enabled us to increase our participation on desirable business that is aligned to our risk appetite oftentimes deepening our relationships with existing clients. The impact of social inflation on the Casualty business has been receiving a lot of attention lately and deservingly so. It affects many aspects of casualty. Although commercial auto and excess casualty have been ground zero with med mal and public D&O also experiencing difficulties. For example, the US commercial auto industry experienced adverse development of over $2 billion in 2018, which was the seventh year in a row of aggregate adverse development. Similarly, the excess the casualty market is seeing higher frequency of high severity losses. There has been a trend towards large US jury verdict which have increased to unprecedented levels. Individual jury awards between $100 million and $200 million are becoming increasingly prevalent. Something has definitely changed for the worse and its impact is strongly resonating in the casualty market.

From our perspective, we have largely avoided who have been reducing our exposure to the classes of business that have been most impacted by social inflation. For example, we have limited exposure to commercial auto except for what we acquired from TMR which we have been actively and materially reducing. We have similarly reduced our relative exposure to excess casualty and it constitutes less than 5% of our Casualty segment premium. In 2015, we began shifting our professional liability portfolio away from public D&O and more toward transaction liability. And as a result, we are more insulated from the trends in the D&O market. In addition, approximately one-third of our casualty reserves are from TMR and protected by the adverse development cover, providing us additional layer of protection against both current and prior year adverse development.

We approach casualty risks with the same focus on our three superiors as we have in the Property segment, which has helped us to underwrite the most challenging business. Superior risk selection in constructing our portfolio is particularly important as well as diligence in how we monitor loss trends. Not all the casualty risks are creative equal, it takes extensive underwriting expertise and robust benchmarking models to differentiate among the best risks. Results are often not apparent for three to five years or even longer. Because of this, we have invested in tools to track our performance at both the individual deal as well as the portfolio level. These tools combined with the expertise of our underwriters and actuaries have enabled us to spot trends early and as mentioned, avoid the most troubling areas.

Our integrated system is particularly critical as it takes coordination between underwriting, pricing, claims and reserving to identify these trends early and act on them expeditiously. It takes many years for differentiated results to emerge in a portfolio of long tail risk and we believe our casualty portfolio will outperform over the long term. This portfolio is well diversified but as such it is subject to risks for many types of losses. These losses range from sharp losses from major disasters like Deepwater Horizon or the California wildfires to systemic losses like opioids to changes in inflation, which can be correlated across reserving classes. Our reserving actuaries use sophisticated monitoring tools to determine our best estimate of reserves at any given time. While the ultimate effect of social inflation will not be known for many years, we will continue to monitor loss emergence across the portfolio and we'll make adjustments to IBNRs necessary to maintain the balance of stability and responsiveness that is appropriate for actuarial estimate. All of these proactive measures on our casualty book have resulted in stable diversifying our earnings stream.

Supply and demand dynamics in Casualty look better now than in the previous quarter. Supply is constrained with certain markets cutting back and fewer oversubscribed programs. This is resulting in positive rate movement in the casualty market, double digit in some cases and at least equal to trend if not exceeding it. We believe that we have the scale and resources necessary to improve the profitability of our casualty portfolio going forward and to take advantage of market opportunities that we are optimistic will present themselves.

So I'm pleased with the overall performance this quarter. The bulk of the TMR integration has been completed and the parts that remains continue to progress on target. While we experienced multiple large catastrophe, these were earnings rather than capital events. We are in a strong position going into one-one renewals and are approaching the market as one company with a defined and consistent risk appetite. I'm extremely confident in our talented team and our ability to capitalize on opportunities in the market. We remain committed to executing our strategy as the most effective means to maximizing value. Thank you.

And with that I will turn it over for questions.

Questions And Answers

Operator

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

Q - Meyer Shields {BIO 4281064 <GO>}

Great. Thanks. Kevin, I was hoping we could talk a little bit more about the worsening trend in casualty lines in terms of when they actually started deteriorating and how much exposure in let's say the pre-2015 public D&O book RenaissanceRe has?

A - Kevin J. O'Donnell

Sure. Thanks for the question. It's difficult to put a specific time on when trends are identified. These are first, they can look like just an early start on the curve. I would focus our book with the growth that we were having in the book and the credibility we have because of the size of the portfolios that we started noticing things probably as early as 2015. So I wouldn't say that there is a specific date that targeted and it's different by line of business where if you look back, as I mentioned the classes that are most affected are excess casualty and you know, I would say, excess casualty, was probably a little bit more transparent in '15 but it was a couple of large events. So that was what I would say people are referring to as the beginning of the higher frequency of high severity. Within the auto and the D&O books. it's been a slower trend because the losses aren't as exceptional as what we saw in '15. So I don't have a specific date, but it's not as if it's just in '17 and '18, it's going back further than that.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's very helpful. And I think (inaudible) really quickly. So there was more reserve release in DaVinciRe than on a consolidated basis. Is there a different schedule for when these vehicles reserves are reviewed?

A - Kevin J. O'Donnell

So, no for DaVinciRe. Remember that any risk that DaVinciRe and RenRe so by reviewing it RenRe were the fact that we're reviewing it for DaVinciRe. The big difference in this quarter is the subrogation payments that we received and the reason that those are different is because we are within --those were specifically for California wildfire and we are within a reinsurance protection layer within RenRe Limited, so our partners are benefiting from the subrogation payment where in DaVinciRe our shareholders are benefiting from the subrogation payment.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's perfect. Thank you so much.

A - Kevin J. O'Donnell

Sure.

Operator

(Operator Instructions) There are no further questions at this time. I turn the call back over to the presenters. We do have a question from Josh Shanker from Deutsche Bank. Your line is open.

Q - Joshua Shanker {BIO 5292022 <GO>}

Yeah. Thank you very much. Thank you for taking my question. I was curious if I go back to 2004, 2005 when there was Charley, Ivan, Frances and Jeanne. And then next year, we had Rita, Wilma and Katrina of course, it felt before the 2006 renewals that buyers felt something had changed in the market. And I don't know, maybe it did, maybe it didn't. We went through a decade without any hurricanes for a while, so who knows. Do you feel that in conversations that there is a sensibility both with typhoons and maybe with wildfires that something has changed in the market or at least I guess the fear factor, is there any -- is it I guess in terms of the attitude on buyers?

A - Kevin J. O'Donnell

It's a great question. I think let me talk a little bit about what happened in '04 and '05 and I'll talk a little bit just to give my perspective. '04 and '05 are coming off a quiet period we had obviously lots of storms in '04 and a couple of big ones in '05. With that the modeling firms came out and substantially adjusted their hurricane models and that was reflected through pricing and we all know what happened to the markets after those events.

What we're seeing now is increased frequency in the typhoon landfalls. There is always a lot of typhoons going through the Pacific. I think the big difference is what you've touched on is fear. I think there is an uncertainty as to why things feel different than they are and I don't have a specific reason to point to. I think as time passes, the ability to see climate change around the edges becomes more transparent. So I think that is a component of the fear factor. I also think if you look at the wildfires and you look at what is forecast with climate change and what is occurring in California, particularly the 2017 wildfires are kind of a textbook example of future expectations. So I think there is just a general migration of opinion from it being normal climate variability to this being something more substantial and being man-made climate change. I think it's important for us to mention that it's man-made climate change because if it is just climate variability, one would expect that a reversion to the mean for the curve. What we're seeing is or what we believe we are seeing is that this is a permanent shift in the climate, a paradigm. And with that, there will be no reversion to mean and what we're seeing now is likely to have normal variability, but at an inflated rate.

Q - Joshua Shanker {BIO 5292022 <GO>}

That's your view. Do you find that clients have that view as well? I mean obviously look you have an incentive to want people to be concerned about these things. Do people want to be concerned about these things?

A - Kevin J. O'Donnell

I think everybody is concerned about these things. Whether it's reflected in the models, this is a separate discussion. Two things I mentioned in my comments is that we hold our wildfire curves and our surge curves associated with hurricane higher than any vendor model. So yes, you can say that that is in our interest to do so, but ultimately we have one view. We don't have near-term, medium-term views of risk. We have one view of risk that we need to take into account when we think about exposing our capital and it's our best estimate of where we think the world is and we think the world is at a higher level of risk than what many of the vendor models are representing.

Q - Joshua Shanker {BIO 5292022 <GO>}

Okay. And then one quick thing, you might have mentioned it earlier. I apologize there are lot of calls this morning. Has your Jebi pick held over the past 12 months?

A - Kevin J. O'Donnell

So for the quarter, our Jebi pick, as mentioned there has been some movement. Our Jebi was about flat on a net basis and going through time, our net Jebi numbers, our net negative impact from Jebi has been -- there's always some movement, it's been remarkably stable.

Q - Joshua Shanker {BIO 5292022 <GO>}

Okay. I apologize for re-asking that question. Thank you.

A - Kevin J. O'Donnell

No, that's fine. I appreciate the questions. Thanks, Josh.

Operator

(Operator Instructions). Your next question comes from the line of Meyer Shields from KBW. Your line is open.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. This one is follow-up. And let me know if this is quantifiable. But given or -- is there -- what is the catastrophe loss trend that emerges from your models currently on a global basis or maybe in particularly vulnerable regions?

A - Kevin J. O'Donnell

Let me restate the question and see if that's what you're asking is, is when we look at how our models have changed over-time, can we described that in the form of trend?

Q - Meyer Shields {BIO 4281064 <GO>}

it's slightly different. When you look at what you -- I mean, looking at the current model that I assume are the most updated, I assume that there is a level of assumed insured loss increase because of the environmental factors. And I was hoping you could describe that, you also quantify it.

A - Kevin J. O'Donnell

So it's a good question. It's a complicated question. So what I mentioned in my comments is, if you break the model into the hazard and the damage function, the damage function we think has done reasonably well, reflecting social inflation. So that means if my house is damaged, how much is the cost to fix it and a component of that cost will be in Florida, whether it's assignment of benefits (inaudible) we think that that's in the models. The other side is, how likely is a catastrophe compared to the historic trend and then can you measure the difference and assign it to climate change.

I think the way I would think about that it is it's difficult to parse between, as I mentioned climate variability and climate change. What we do and built building our models is we rather have false positives and false negatives in our model. So we are taking the view that what we're seeing is likely to persist and we're adding non-historic components to the model. So taking out a little bit more in a transparent and workable manner, if you take Atlantic hurricane, we don't think Atlantic hurricane you can simply shift the curve higher or move the curve to the right. What you need to do is think about how the variables affecting storm will change the types of storm one expects to see. So as I mentioned, we expect to see weather storms, we expect the frequency of cat fours and fives higher. That doesn't mean the category one, twos and threes increase at the same rate as the frequency of fours and fives. So it's a much more nuanced way to think about it, but it's one in which I think recognizing if you're simply extrapolating from an historic curve, you're -- we believe there is a miss-factor that doesn't contemplate the way the world is changing with regard to climate change.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's very helpful. Thank you.

A - Kevin J. O'Donnell

Sure. Thanks.

Operator

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

A - Kevin J. O'Donnell

I've done the call for many years and this is the first time we finished so quickly. So hopefully we answered all your questions and provided the transparency you deserve. I'd like to say thank you for joining the call and we look forward to speaking with you next quarter.

Operator

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