FINAL

Bloomberg Transcript

Q4 2020 Earnings Call

Company Participants

- Bob Qutub, Executive Vice President and Chief Financial Officer
- Keith McCue, SVP, Finance & Investor Relations
- Kevin O'Donnell, President and Chief Executive Officer

Other Participants

- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Joshua Shanker, Analyst
- Meyer Shields, Analyst
- Michael Phillips, Analyst
- Phil Stefano, Analyst
- Ryan Tunis, Analyst
- Yaron Kinar, Analyst

Presentation

Operator

Thank you for standing by. And welcome to RenaissanceRe's Q4 and Year-End Earnings Call.

I'd now like to hand the conference over to Keith McCue, Senior Vice President, Investor Relations. Mr. McCue, please go ahead.

Keith McCue {BIO 20595590 <GO>}

Good morning. Thank you for joining our fourth quarter and year-end financial results conference call. Yesterday after the market close, 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 2:00 PM Eastern Time today through midnight on February 27. 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 4277895. 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 February 27, 2021.

Before we begin, I'm obliged to caution that today's discussion may contain forward-looking statements and actual results may differ materially from those discussed.

Additional information regarding the factors shaping these outcomes can be found in RenaissanceRe's SEC filings, to which we direct you. With us to discuss today's results are Kevin O'Donnell, President and Chief Executive Officer; and Bob Qutub, Executive Vice President and Chief Financial Officer.

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

Kevin O'Donnell

Thanks, Keith. Good morning, everyone and thank you for joining today's call. I wanted to begin today by giving you a quick summary of what we accomplished at January 1 and how 2021 is shaping up. First, I would like to thank everyone who supported last year's capital raise. I made several promises then, which I can now definitively say were capped. This January 1, was one of the most important renewals in our history and I'm very pleased with the performance and the outcome we achieved.

At January 1, we saw opportunities for profitable growth in both of our segments and across our platforms, resulting in the full deployment into our underwriting portfolio of the $1.1 billion raised last June. We also raised and deployed additional capital in our joint venture business. As a result, in 2021, we expect to grow our net premiums written by approximately $1 billion and believe that we have materially increased the profitability of our underwriting book. Importantly, we expect to achieve these outcomes while keeping our tail risk consistent with last year's on a percentage of equity basis and due to the efficiency and diversity of our portfolio continuing to have ample dry powder to deploy into new opportunities.

Looking back at 2020, at the beginning of the year, I told you that with the TMR integration behind us, we were a more resilient company and a broader deeper partner to our customers. In our business you learn to expect the unexpected, but I don't think any of us envisioned the year would unfold in quite the way it did or just how critical our resilience would proved to be. As the year progressed, we encountered a variety of challenges. I am proud of how our employees responded rapidly and effectively to each of these, enabling us to grow our business substantially and profitably.

At the end of each year, I'd like to review our performance by responding to two questions. The first is how did we do financially and the second is have we executed our strategy effectively. Starting with the first question, how did we do financially. In the year impacted by the global COVID-19 pandemic and multiple weather-related catastrophic losses, we grew book value per share by 15% and tangible book value per share plus change in accumulated dividends by 18%. For the year, our return on equity was 11.7% and our operating return on equity was 0.2%. Bob, will walk you through our financial results in greater detail, but I believe we have done the hard work to recognize our losses early, build a fortress balance sheet and enter 2021 financially and operationally stronger as a company than we have ever been.

Moving to the second question, have we executed our strategy effectively. While our strategy continues to evolve, it remains focused on serving our customers. At its core, this strategy is to employ our integrated system to match desirable risk with efficient capital. While this may appear simple or even common sense, the difficulty lies in its long-term consistent application in all market cycles. You have witnessed this consistency in our execution over the years. As we have grown, we have broadened our access to risk writing more lines of business on more platforms. We have also diversified our sources of capital through various owned and joint venture balance sheets as well as equity, debt and ILS markets. This has afforded us significant flexibility to react when the world changes, which it did quite drastically in March.

As COVID- 19 started developing, our confidence in understanding our potential exposure across all aspects of our business enables us to pivot our focus on the needs of our customers and brokers. We were one of the first to raise capital with a highly successful common equity offering. To be clear, this capital raise was exclusively offensive and as I mentioned, has now been fully deployed into our underwriting portfolio. Consistent with our message during the capital raise, we have deployed the capital through a combination of two main activities; growing into an improving market and retaining more risk.

Starting with organic growth, we began planning for the January renewal early in the year with focused and coordinated approach across the company. This allowed us to expand our value proposition to our customers and brokers and in an evolving market providing a clear message around appetite and tolerance. Our fortress balance sheet permitted us to engage our customers early in the renewal cycle, understand their needs and have productive conversations about how we could help solve their biggest problems.

Heading into the renewal, we expected retro and US property cat markets to provide us with the greatest opportunities. While this was the case up until mid-December, ultimately the market dynamics in retro and property cat reinsurance were not as strong as the market initially expected. In part, I think this was because investment portfolios were disconnected from the financial reality of COVID- 19 and the economic recession. The resulting boost to book value is decreased relative reinsurance demand by giving many companies the confidence to retain more risk. Supply was also elevated as new capital entered the retro and property cat markets and increasing amounts of collateral were released and available for underwriting.

Throughout the renewal however, both, casualty and specialty lines as well as property E&S continue to experience extremely favorable pricing dynamics. In general, both outperformed our expectations with increased rates as well as improved terms and conditions. Because of our broad access to risk we will able to emphasis -- emphasize growth into these areas. Several years ago we began initiating small positions on desirable programs, which we used to build strong customer relationships over time. This year as rates improved, we were positioned to grow on these programs, add more profitable expected returns.

So, while the January 1 renewal may have been disappointing to those who approached it in a transactional manner, our focus on superior customer relationships and building efficient portfolios through risk allocation and sharing meant that we were once again able to select the best business at the strongest returns. The second opportunity for deploying capital was by retaining more risk. At January 1, we reduced the ceded protection that we purchased as a percentage of our gross premium by several percentage points. In line with retaining more risk, we increased our ownership in DaVinci and Medici and now have $1 billion co-invested in various joint ventures, consistent with our strategy of strong alignment with our partners.

As I mentioned already, the result of this diligent planning and strong execution is that we now believe that we will grow net written premiums in 2021 by about $1 billion with an increase in expected profit. I should caution you however, that these estimates were derived from model predictions of future outcomes based on reasonable assumptions and actual premiums may differ materially from those discussed. So, when I look back on 2020, I think we had a number of accomplishments, each of these would have been impressive under normal conditions. They are even more so in the context of working from home. In conclusion, I'm very pleased with the steps that we took to advance our strategy during the year.

Finally, before I turn the call over to Bob, I would like to welcome Shannon Bender, as our new General Counsel. Shannon joined us in Bermuda at the beginning of January and is a strong addition to our leadership team. I'll provide more detailed update on the renewals and our segments at the end of the call, but first, Bob, will discuss our financial performance for the quarter.

Bob Qutub {BIO 15269353 <GO>}

Thanks, Kevin and good morning, everyone. As Kevin discussed, both our fourth quarter and year-end results were impacted by large weather events and COVID- 19. Despite this above normal activity, we reported positive net income for the quarter and positive net and operating income for the year. Today, I will divide my remarks between our fourth quarter and year-end 2020 results. I'll first cover our consolidated performance and then provide more detail on our three drivers of profit; underwriting income, fee income, investment income.

Starting with our consolidated results and beginning with the fourth quarter where we reported an annualized return on average common equity of 10.9%, benefiting from mark-to-market gains in our strategic investment and fixed income portfolios. Annualized operating return on average common equity was negative 4.4%, primarily driven by weather-related losses and the COVID-19 pandemic. We grew our book value per common share by $3.33 or 2.5% and tangible book value per common share plus change in accumulated dividends by $3.84 or 3%. Net income from the quarter was $190 million or $3.74 per diluted common share.

We reported an operating loss of $77 million or $1.59 per diluted common share. This excludes $268 million of net realized and unrealized gains on investments and $23 million of net foreign exchange gains. This includes an operating result with a net negative impact of $166 million from weather-related losses and $173 million from the COVID-19 pandemic. As a reminder, net negative impact is the impact on net income available to common shareholders after taking into account our best estimate of net incurred losses along with related adjustments for assumed and ceded reinstatement premiums, profit commissions and redeemable non-controlling interests.

Now moving on to the full-year 2020 where we grew our book value per share by 14.9% and tangible book value per share plus change in accumulated dividends by 17.9%. We reported a return on average common equity of 11.7% and an operating return on average common equity of 0.2%. Net income for the year was $732 million or $15.31 per diluted common share and operating income was $15 million or $0.12 per diluted common share. Included in this operating income was a net negative impact of $494 million from weather-related losses and $287 million from the COVID-19 pandemic.

I'm now going to shift to our three drivers of profit, starting with underwriting income and will focus my comments on key points impacting our results. While we reported underwriting losses of $152 million in the quarter, driven predominantly by weather-related losses and COVID-19. I would like to spend some time walking you through both of these estimates. As I mentioned, weather-related losses had $166 million of negative impact on our results for the quarter. Of this, $100 million relates to events in the quarter as well as aggregate contracts. The remaining $66 million was from continuing development on the Q3 2020 were the related catastrophe events.

The costliest storms for us in the fourth quarter were Hurricane Zeta and Delta, both of which made landfall in Louisiana as Category Two -- as Category Two hurricanes and Hurricane Eta, which made landfall in Florida as a tropical storm. The increase in our third quarter estimates was primarily from Hurricane Laura. Not surprisingly, COVID-19 restrictions coupled with damaged infrastructure made it more difficult for insurers to access impacted areas to adjust losses. Additionally, hurricanes Delta and Zeta, chartered a similar path to Hurricane Laura with Delta making landfall within about 10 miles. This combination of temporal and geographic proximity complicated the loss adjustment process.

Now moving on to the $173 million net negative impact from COVID- 19. As you know, because of the uncertainty related to the pandemic, we have approached our COVID exposures in three categories. While we have not received a significant number of formal claim advisories to date, the information that we obtained during the renewal process provided us with a reasonable basis to update our estimate of potential losses in Category Three, which we refer to as the known unknowns and includes business interruptions.

The majority of the COVID losses in the quarter related to Category Three. We took a rigorous process involving either a top-down or a bottom-up review depending on client and geography. The recent UK Supreme Court decision on the FCA case did not have a material impact on our estimate. The net negative impact of COVID-19 for the year stands at $287 million and represents our best estimate based on information available of the aggregate impact of the pandemic on our business as a whole.

Moving now to our Property segment where we grew gross written premiums by 26% in the fourth quarter and 23% in the year. As a reminder, we do not typically write much property cat premium in the fourth quarter. About half of the property cat growth in the quarter stemmed from an increase in reinstatement premiums from our weather-related losses. The continued growth in our other property book, both in the quarter and the year comes predominantly from our successful efforts to expand our access to primary Property E&S business.

We reported a property combined ratio of 126% for the quarter and 99% for the year with COVID-19 and weather-related losses being significant drivers of our results. Specifically, weather-related losses add 47 points to the property combined ratio for the quarter and 35 points for the year. COVID-19 added 46 points to the combined ratio for the quarter and 12 points for the year. These losses occurred across both property catastrophe and other property. Our losses in the Property segment during the quarter were partially offset by 25 points of favorable development.

Now moving on to our Casualty results where the fourth quarter gross premiums written decreased by 5% in the quarter and grew by 18% in the year. This decrease in the quarter is primarily related to selected non-renewals of business acquired from TMR, premium adjustments and the relatively minor premium impact from COVID- 19 on a few lines of business. We continue to meaningfully grow our casualty business and our full-year growth rate of 18% is more indicative of our plans for this business going forward. The combined ratio for casualty was 104% for both the quarter and the year. These results were driven in part by the impact of COVID-19, which increased the combined ratio by 1.7 points in the quarter, primarily in accident and health and 6 points for the year. During the quarter, we also experienced 1.4 points of weather-related losses related primarily in the specialty lines. For the year, weather-related losses had 8.8 points impact on the casualty combined ratio.

Now moving on to our second driver of profit, fee income. Total fee income was $36 million for the quarter and $145 million for the year. This reflects an increase of both management and performance fees that represents growth in our third-party capital and improved performance. As we grow our joint ventures, management fees should be steadily increasing over time. Performance fees will fluctuate year-over-year based on the results of our joint ventures. We are pleased with our results in 2020, especially given the elevated level of catastrophe activity. For the year, the net redeemable non-controlling interest attributable to DaVinci, Medici and Vermeer was $231 million. This represents a portion of our underwriting and investment income that we share with our joint venture partners, which is up 14% from 2019.

Now turning to our third driver of profit, investment income. We reported strong investment results in the quarter and finished the year with total investment results of $1.2 billion. This is comprised of $354 million in net investment income and mark-to-market gains of $821 million. Mark-to-market gains were predominantly in our fixed maturity and equity investment portfolios with equity gains driven by our strategic investment portfolio. After adding materially to investment grade credit in the second quarter, we reduced this exposure by about 13% in the fourth quarter with an emphasis on shorter dated maturities as credit spreads approach relatively tight levels. The average duration of our managed portfolio was unchanged at 2.9 years, while the duration of the retained portfolio moved modestly lower in the fourth quarter to 3.6 years.

At this point, I will provide additional information on our expenses and foreign exchange gains. And starting with the acquisition expense ratio was 23% for both the quarter and the year. This is within our current expectations. However, you will notice that there were some noise across the segments in the quarter where the acquisition expense ratio declined 5 points in the Property segment against the comparable quarter. This is from an increase in the profit commissions we earn in our third-party capital business and came primarily related to favorable development.

For Casualty, the acquisition expense ratio increased by 8 points against the comparable quarter. This was driven primarily by two items; about a third was associated with a purchase accounting adjustment in last year's result and another third comes from changes in estimated profit commissions in our mortgage book. And to be clear, this is unrelated to the impact of forbearance we discussed last quarter. The current expected run rate of our casualty acquisition expense ratio is in the upper-20s.

Our direct expense ratio, which is the sum of our operational and corporate expenses divided by net premiums earned, has continued to decline and was 6% for the quarter and 8% for the year. The decline in the direct expense ratio primarily relates to reduced operational expenses and continued leverage of our platform. In the fourth quarter, reduced performance-based compensation expense specifically contributed to the decline in operational expenses. While we anticipate continuing to leverage our platform in 2021, on an absolute basis, operational expenses will likely tick up during the year as we continue to invest in our business and hopefully, return to a more normal working environment.

At 2%, the corporate expense ratio was largely flat relative to the comparable quarter and year. Corporate expenses did increase $3 million in the quarter. However, this increase was driven by $7 million charge from the impairment of certain US insurance licenses related to the restructuring of the TMR operating subsidiaries, as well as non-recurring severance-related expense. These expenses were partially offset by a reduction in transition expenses related to the acquisition and integration of TMR that occurred in 2019. We also reported a $23 million foreign exchange gain in the quarter. Approximately one-third of this gain relates to Medici and has no impact on our bottom line, as it is backed out through noncontrolling interests. The remainder relates to our underwriting activities and operations denominated non-US dollar currencies.

Finally, let me conclude with some comments on our capital management activities. As Kevin mentioned, we have had a very successful joint venture capital raise in preparation for the January renewal, raising over $700 million across DaVinci, Upsilon and Medici for 2021, and this includes $131 million of our own capital. This is an addition to the $1 billion in capital that we raised across our various joint ventures in 2020, which also included $138 million of our own capital. On top of these investments, we also purchased $117 million of DaVinci shares from third-party investors. In aggregate, we have increased our stake in both DaVinci and Medici to 28.7% and 15.4%, respectively.

Having the ventures capital in place early along with our capital -- equity capital, put our underwriting team in a strong position to negotiate with clients at the renewal and as Kevin noted, we deploy significant capital at January 1. Even after adjusting for the substantial capital we deployed at January 1 and allowances for additional deployment opportunities during the course of 2021, we remain in a strong capital position. Our fortress balance sheet has served us well and we typically hold excess capital. That said, our preference is always to deploy capital into the business and we envision many opportunities in 2021 to do so profitably.

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

Kevin O'Donnell

Thanks, Bob. As usual, I will divide my comments between our Property and Casualty segments. Before I get into our segment specific information, I would like to provide my perspective on the ongoing impact of COVID-19 on our industry. As Bob explained, we undertook a very rigorous process in estimating our potential COVID-19 losses this quarter. In the first quarter of 2020, I first defined our three category approach to evaluating our COVID-19 exposure. As you recall, we initially recorded $104 million reserve, primarily for Category One. We also adjusted loss picks for Category Two exposures to reflect the likelihood of increased claim activity due to the pandemic and the resulting economic slowdowns.

We have now received enough information to update our COVID-19 estimate and this resulted in $173 million net negative impact for the quarter, primarily related to property exposure in Category Three. Even as COVID-19 continues to spread, there has been some speculation that it will not prove as impactful to the insurance industry as originally foreseen. I do not believe this to be the case. In many instances, our industry is yet to recognize the losses that will inevitably arise from the pandemic, particularly with respect to business interruption. Likely this lack of recognition occurred because it made renewal smoother at January 1.

I believe that we still have a long way to go before the true scale of COVID-19 industry losses are fully apparent. In the US, the risk of a widespread court leakage where courts imply coverage when it is not expressly provided currently appears low, but is something we continue to monitor. While individual court rulings have been relatively favorable to the insurance industry, cases will take years to work through the system and some recent decisions have been adverse. In the UK, Europe and Australia, we have seen a trend of more affirmative contractual cover and in situations of uncertainty, court's ruling in favor of the policyholder.

Now moving to our Property segments and starting with property. Following an active third quarter, natural catastrophe persisted into the fourth. As Bob mentioned, the most impactful event for us in the quarter were hurricanes Zeta, Delta and Eta. 2020 was an extraordinary year in many ways. We experienced a record 30 named storms, 12 of these made landfall in the US, six as hurricanes, including one major. The previous record was in 1916 with nine landfalling storms. We also saw record wildfires. In terms of acreage burned, five of the six largest fires in California's history occurred in 2020. It is safe to say that 2020 was anything but a normal year. As I discussed on the call last quarter, we expect that the warming climate will make extreme events more frequent and more severe.

However, this does not mean that we expect every year going forward to be like 2020. Of course, the world will continue to experience variability in weather events. What has increased however is the likelihood of extreme events relative to the long-term record. The insurance industry has always used the past to predict the future but now the future no longer resembles the past. Our ability to understand this shift in future risk provides us a competitive advantage, allowing us to position ourselves favorably for a change in climate. About 50% of our property business renews at January 1 and as I discussed, we had a very successful renewal.

By almost any measure, our property portfolio has gotten better and is indicative of materially improving market. A significant amount of this growth was in our other property business. As I discussed on the call this time last year, we have been growing our other property portfolio and targeting risks that are more cat exposed, particularly in the US E&S market. We have been building our reputation in this market for many years and have attained first call status on several accounts. In part, this is because we have the platforms, capabilities and relationships to move quickly and at scale into much -- a much improved market for E&S. With rates up 20% to 25%, we found many attractive opportunities to grow both, existing and new customers at January 1 renewal and believe that the market will continue to harden through 2021.

Our growth in traditional property cat was relatively muted. Demand was flat with rate increases across the book averaging about 10%, with loss impacted US business enjoying larger increases and non-loss impacted European business up single-digits. We saw better opportunities in other areas and are pleased with the increase we achieved in our property portfolio overall, as we believe constructed very attractive portfolios for us and our partners. Shifting now to the retro market. Heading into the renewal, our goals were to push for further rate increases, improved contractual terms and grow if possible. While rates in the retro market were up 5% to 15%, as I discussed earlier, additional supply began suppressing rate increases as the renewal progressed. We demonstrated discipline by choosing to write a slightly smaller retro book. That said, the retro market has experienced four consecutive years of rate enhancement, resulting in cumulative average rate increases approaching 15% [ph]. So, while a little smaller, our retro book is attractive.

Moving now to our Casualty Specialty business. The casualty and specialty renewal proceeded particularly well, exceeding our already high expectations. A significant portion of our casualty and specialty business renews at January 1. We saw opportunities in various classes across this segment with several experiencing dislocation that should provide further opportunities in 2021. As a result, we will grow our gross written premiums in casualty and specialty for the year by approximately $500 million with lines like general liability and D&O being particularly attractive. At this renewal, we continue to leverage years of relationship building with key customers into preferred access to desirable business.

Our conviction and consistent an independent view of risk was an advantage in this changing market and we were able to provide customers and brokers with early and material solutions, which resulted in our successful growth. We were also a market leader and largely successful in implementing communicable disease exclusions when necessary and demonstrated our resolve by non-renewing several deals that did not incorporate a necessary exclusion. In our casualty book, about half of the growth came from existing programs with the other half coming from new programs with existing customers. We continue to be the first call on several private deals, which typically garner better than market terms.

In addition to premium growth, we realized significant improvement in expected underwriting margins, which are principally driven by strong underlying insurance rate increases. The specialty and credit book renewals were also successful and we found that our stability underwriting expertise and strong relationships were an advantage in securing additional business this year. Reinsurance terms and conditions adjusted where appropriate to account for increasing view of risk in areas such as mortgage and surety and strong underlying insurance rates added to growth and increased underwriting margin in classes such as marine and energy.

This quarter we once again demonstrated the strength of our ventures group. As Bob mentioned, including our own participation, we raised over $700 million across our joint venture vehicles. While each of our vehicles enjoyed strong renewals, we particularly demonstrated both, discipline and superior capital management in our Upsilon joint venture. We were able to materially improve its portfolio, but consistent with our track record chose to return unused capital to investors rather than deploy it at on attractive rates of return. As we predicted when we raised equity capital last June, Upsilon wrote a slightly smaller portfolio but with higher expected profit. We are leaders in ILS management and believe we acted accordingly upholding the highest underwriting standards while putting the interests of our partners first.

Finally, another milestone for the year was our public announcement of an environmental, social and governance strategy. Our strategy focuses on promoting climate resilience, closing the protection gap and inducing positive societal change. We chose these three priorities because we believe they lie at the intersection of our risk acumen and ability to make a meaningful impact on society. As part of this strategy, we will be tracking and offsetting our operational carbon footprint. More information about our broader ESG strategy is available on our newly launched webpage found on renre.com under ESG/ sustainability.

So, in conclusion, for most perspectives, 2020 was a difficult year. Across our industry COVID-19 strained normal business practices and stressed employees. Climate change fueled record breaking hurricanes and wildfires. Decreasing interest rates impacted future returns on investment portfolios. There were others receive only problems, the best underwriter recognized outsized opportunities. We raised material amounts of expensive capital in anticipation of these opportunities and executed strongly in one of the best January 1 renewals in many years, growing expected profit across our business lines and geographies. As we head into 2021, I believe we will continue to find outsized opportunities to create shareholder value. Thanks.

And with that, I'll open it up for questions.

Questions And Answers

Operator

(Operator Instructions) Elyse Greenspan with Wells Fargo, your line is open.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Thanks, good morning. I was hoping to spend a little bit more time on the book you guys put together at 1/1. Kevin, I think you alluded to $500 million of gross premium growth within casualty and specialty that you expect this year. I don't believe you gave top line growth targets for cat or property although, you did give the premiums written target. I'm just trying to get a sense of the $1 billion of capital, we could obviously make assumptions on, capital to do to support that $500 million of growth, but in casualty specialty, can you give us a sense of how much of that went to the different businesses? It sounds like from that $500 million a good portion given the opportunity you saw within allocated to casualty specialty.

A - Kevin O'Donnell

Yeah. So, yeah, this was a I think a very successful renewal for us on both -- in both segments. When we look at the growth that we've achieved, within casualty we grew on an expected basis because much of this will come in over the course of the year because it's on a proportional basis of just under $700 million. And then within the Property segment, the vast majority of our growth, so we estimate that will grow that book at about $500 million and about $450-ish million and again, a lot of that is proportional, so will come in over the course of the year, is coming from our other property portfolio. And just to remember, the other property portfolio is consuming more capital by design and in particular with regard to the $1.1 billion raised because we were targeting US more significantly exposed cat business where rate enhancement has been best.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then a couple times throughout your remarks you mentioned higher expected profits. Obviously, if you look at more recent years new pockets rates have been offset by pretty high level of cat losses, right and obviously also COVID losses. So, when you say higher expected profit, can you give us like a barometer to compare that to, so we can get a sense of the profitability you are expecting in 2021?

A - Kevin O'Donnell

Yeah. As you know, we don't give guidance, but what -- and as Bob's comments I think were designed to highlight. Themes we talked about when we raised the capital was that we expected to see more margin in our underwriting portfolio. We expected the increase in pricing to be broadly across lines and we anticipated that it would last more than a single renewal cycle. We saw the increased margin, we did observe that it was broadly across both Property and Casualty segments and our conviction that the market will continue to change through 2021 persists. So, when I reflect on 2020, my comments suggest that that was a higher than average cat year. So, looking at the drivers of our profitability and hoping for a more average cat year than what we experienced in 2020, one should anticipate significantly enhanced margins, but again, it's not something that we provide guidance on.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. Thanks, Kevin.

A - Kevin O'Donnell

Sure. One final comment I'll make too is that just to highlight that we also held our risk relatively flat from a percent of equity perspective. So, one way to enhance returns is to go risk on. We were relatively risk-neutral, but on a much larger portfolio in 2021 compared to 2020. Thanks.

Operator

Michael Phillips with Morgan Stanley, your line is open.

Q - Michael Phillips {BIO 21023048 <GO>}

Thank you. Good morning. Kevin, appreciate your comments that you made on COVID in industry potential there. I guess I was hoping to dive a little bit deeper there. You said there were many companies that have yet to recognize losses mainly for business interruption, yet US courts I think you said leakage there appears pretty low, which I hope you're right there and I agree. I guess, does that mean your concern is mainly for outside US for business interruption or just can you comment more on where the major concerns you see if it is just BR, what else -- what else you're concerned about?

A - Kevin O'Donnell

So, as I mentioned COVID, we all know COVID is ongoing. It's a very, very complex problem. And I think there is going to be significant uncertainty. So, what we're trying to provide is the best transparency on that uncertainty that we can. We think the way to frame it is through the Category One, Two and Three. Much of the reserve that we added this in the fourth quarter related to Category Three and within Category Three, we talked about originally when we defined the book that we have, we believe we're less exposed relative to others in Category Three for business interruption, specifically pointing to about half of our property cat book protects personal lines where we believe exposure is lower.

Internationally, we have seen more affirmative cover sold for business interruption related to communicable disease and much of the reserve that we put up in the quarter, although, it's in IBNR would be in contemplation of things that we learned related to some of the international book that was renewing. The US still remains uncertain. I think we'll have a lot of ups and downs with court decisions as we go through this, but we still remain relatively optimistic about the courts being rationale about their interpretation there.

Q - Michael Phillips {BIO 21023048 <GO>}

Okay, thanks. I guess sticking with that for a second, what extent do you think if this does become pretty significant as time develops here? To what extent would COVID then continue the duration of the hard commercial lines market and the hardening, trimming [ph] reinsurance market. How does COVID affect the duration of that?

A - Kevin O'Donnell

We believe it's playing a significant role. The -- as I mentioned, I think demand might have been suppressed at 1/1 just because of the strong financial performance of companies and their willingness to retain more risk. As the economic hardships related to the shutdowns persist, we're hopeful that companies will choose to retain less volatility and reinsurance demand will grow. So, we remain optimistic. We've kept dry powder to continue to provide solutions to our customers, hoping that 2021 continues to see increased concern with some of our customers and hopefully, we can provide solutions (Technical Difficulty).

Q - Michael Phillips {BIO 21023048 <GO>}

Okay. Thank you, Kevin. Appreciate it.

A - Kevin O'Donnell

Sure. Thanks.

Operator

Meyer Shields with KBW, your line is open.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. I wanted to take a step back and get your updated thoughts if I can on how the Florida marketplace ultimately plays itself out. And I'm thinking here the combination of maybe more capital being available than originally expected, but it really seems like that marketplace is struggling on a primary reinsurance volume basis.

A - Kevin O'Donnell

So first, I agree that the market is struggling and I think it's struggling on an insurance basis. Reinsurance is playing a role due to the rate change, but there is probably pretty fundamental issues that need to be addressed in that market. I think we will engage with our Florida customers as we always do through the first half of the year. We have very strong relationships in Florida. So, I anticipate that we will have very strong opportunities in the Florida market. I'm not too concerned about the new capital coming in at this point, just due to -- for us, due to the strength of the relationships that we have there and the increased need that they have for more reinsurance.

So, early to tell, and a lot can change between now and a June renewal in Florida. We've seen -- we're always cautious on this call to think about what could happen then. But right now, we're having -- we're having discussions with some Florida accounts and I agree with you that the market is struggling that usually creates opportunities for reinsurers.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, fantastic. That's all I had. Thank you so much.

A - Kevin O'Donnell

Thank you.

Operator

Yaron Kinar with Goldman Sachs, your line is open.

Q - Yaron Kinar {BIO 17146197 <GO>}

Good morning. My first question goes to the market opportunity. I think when you raised the capital last year, you were talking about the potential of a multi-year opportunity. Do you think that's still the case and if so, I guess, why would we see the $4 billion of capital raise deployed so early in this opportunities?

A - Kevin O'Donnell

One, we, as I mentioned, we still have dry powder to deploy further through the course of 2021. So, by no means having been successful in deploying the capital that we raised, are we in a position where we don't have capital to put to further opportunities. Secondly, the way we've written the portfolio in casualty and specialty, I'll start with is mostly proportional. So, we will have the run rate of the rate increase coming through the portfolio over the 18 -- next 18 months or so and then much of the other property portfolio is proportional in nature. So, we should be participating on the increased primary rates that are being seen broadly in the market, which we believe have legs and should persist. So, I look forward into the market. We've got plenty of dry powder to take on the next opportunity and we are pretty tightly coupled with the primary companies enjoying a lot of the rate enhancement that they're getting on their books of business.

Q - Yaron Kinar {BIO 17146197 <GO>}

Got it. And then my second question just goes back to the kind of, that Category Three of known unknowns in COVID. So, if I understood correctly, really what's happening is kind of, you are looking closer under the hood and seeing if there is more affirmative coverage in some of the underlying risk. Is that -- is that the correct interpretation, and if so, I guess, why is this coming out now? Is this just a function of consider the renewal process into 1/1? Why would you have not known about it a quarter ago or three quarters ago when kind of, COVID first emerged as a pandemic issue?

A - Kevin O'Donnell

So, one, we're not surprised that this exposure existed. What became more apparent through the discussions we had at 1/1 is became -- is that we believe it became more estimatable. So, when we looked at the portfolio and have the discussions at the renewal, we were able to better understand how much exposure these companies thought they had. With that, we have very few specific claim notifications, most of this is based on our own work, as Bob mentioned, for clients from the bottom up and other clients from the top down but it is in IBNR. And we'll have to allocate it as the specific reserves from companies becomes more clear. But we think it's a fulsome and comprehensive approach to think about what the exposure could be.

Q - Yaron Kinar {BIO 17146197 <GO>}

Understood. Thank you.

A - Kevin O'Donnell

Thanks.

Operator

Brian Meredith with UBS, your line is open.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes, thanks. A couple ones here for Kevin. First one, I am just curious on the profitability and improved profitability, I was thinking maybe another way question that is, is what is the return on kind of allocated capital or equity look like on this year's portfolio versus last year's portfolio? Is it 100 basis points better roughly, 200 basis points?

A - Bob Qutub {BIO 15269353 <GO>}

Let me take that one. I'll start. I mean I can't really provide any good guidance on the ROE or the returns, but let me tell you, kind of how I think about it and the way we look at this. Obviously, the principal driver is going to be the returns from our underwriting book business and as we pointed out, we're very pleased with the capital we deployed in January and expectations that we look forward to is that develops on the profitability that we've been talking about. And you will see the economics over time as it realized and we also benefit from the risk sharing that we have with our partner capital as well that we've been fairly successful at.

The other driver of our returns will come from our investment portfolio. The investment leverage is about nearly 2 times and we're pretty well positioned in this environment. And the other thing we talk about and I put in my comments is the underlying all of this is our platform. We've consistently demonstrated strong operating leverage out there over time. So, kind of, in short, we've got a strong track record of deploying the capital, great client relationships and that's going to help us leverage the integrated systems for what's ahead.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, thanks. And then my second question relates to third party capital. Kevin, just curious, what is the kind of demand right now from investors for third-party capital? I was a little surprised to see that you actually took more DaVinci exposure on to your balance sheet through a secondary transaction given that I thought pricing was actually pretty good.

A - Kevin O'Donnell

Yeah, actually, we, the number we put out is actually the net number we deployed. We actually raised more than that. As I said, we returned a little bit of capital, which is -- which is a common practice for us for Upsilon. We had more than enough interest from third-party capital to support the DaVinci raise. We actually targeted an increase. Over the last several years, we reduced our participation in DaVinci, partially because we had such high-quality investors looking for some participated in the vehicle that we allow them to purchase some of our share. We had the opportunity to increase a little bit at 1/1. It was a strategic target for us to increase our participation there. So, nothing to do with subdued demand for our vehicles. It was really more about us wanting to have a little bit more flexibility with our share going forward.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you. And then just lastly, just curious, the net premium written increase that you're kind of expecting for the year, the $1 billion, how much of that is related to your third-party capital vehicles? Because it still looked a little different.

A - Bob Qutub {BIO 15269353 <GO>}

It will follow -- it will show up too. You'll see it through the non-redeemable, but we don't really carve out. I'd say on the property cat side probably, not a lot. When you think about it from DaVinci, probably some from Vermeer, it will come through the property side of the business and where Kevin said property was up by about just under $0.5 billion, with most of it through the other property of E&S, so you won't see a lot of that coming through the third-party.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay. Makes sense. Thank you so much.

A - Kevin O'Donnell

Okay. Thank you.

Operator

Josh Shanker with Bank of America, your line is open.

Q - Joshua Shanker {BIO 5292022 <GO>}

Yeah, thank you for taking my question. Can you talk about all the process during the renewals of talking to your customers about COVID? In assessing what the right rate to charge your customers, you kind have to know what their expectation with their COVID losses are. But if everything is still in the unknowns, how can you extend coverage to be comfortable with your clients if they don't have a good sense of their own exposures?

A - Kevin O'Donnell

Yeah, it's a delicate balance to think about how to have those conversations and it depends on kind of what they know as well. The real issue is the renewals that we had, we excluded COVID and addressed communicable disease specifically. So, in some ways the exposure is the exposure and it will be sorted out over time. But going forward, the grant of coverage if any was ever provided is specifically and more precisely excluded in the contracts that we renewed. Does that answer your question, I'm not sure --.

Q - Joshua Shanker {BIO 5292022 <GO>}

I guess I think on the charge -- the charge you took, you somewhat knew about the exposures that they were going to report and that helped give you information I would think, or maybe they did -- maybe they don't know and everything is still in guesswork, I don't know. Could you have a --.

A - Kevin O'Donnell

It is a little of both. Again, as I said, there is not a lot of formal claim notifications that we had, but what we were trying to do is parameterize what is the extent of the exposure that they believe that they have to the policies that they sold. And with that we went through a couple of different analysis, independent of each other to try to assess a way for us to estimate the exposure that we -- that potentially could come to us through what we learned over the renewal. So, we had more of an actuarial approach, we had an underwriting approach and then we worked with our external advisors to reality check it. So, I think we had a strong and robust process to come up with the estimate, but the estimate is not as clean as what you would traditionally have from an observable physical damage loss related to a hurricane or even in earthquake, I would say.

Q - Joshua Shanker {BIO 5292022 <GO>}

Thank you. And one quickie, or maybe it is not quickie. How do you balance the responsibility to get best performance for your shareholders versus best performance for your venture partners? As you raise more capital into the New Year, does that come -- does everyone make money together or do some of the capital raise come at the expense of different constituents?

A - Kevin O'Donnell

That's a great question and I think it's one of the hardest things to manage for a company like us where we have owned balance sheet and partner capital. So, each vehicle is slightly different where something like premier and top layer. There isn't a significant appetite overlap with our owned balance sheets. We think of DaVinci more as a quota share and we do think of DaVinci having a degree of incumbency on the deals that they had. So, as we were talking to DaVinci shareholders through the capital raise that we did publicly, we were saying that is our expectation we will have opportunities to grow DaVinci in parallel with RenRe.

I see long-term our shareholders benefiting from the ability for us to manage both sets of capital effectively and fairly. So, I don't think of it as a trade-off as giving risk to one or the other. I see it as the pursuit of providing the best solutions to our clients with the most efficient capital and that should recognize the best return for each of our stakeholders, most importantly, our shareholders.

Q - Joshua Shanker {BIO 5292022 <GO>}

Thank you very much for the clarity.

A - Kevin O'Donnell

Sure.

Operator

Ryan Tunis with Autonomous Research, your line is open.

Q - Ryan Tunis {BIO 16502263 <GO>}

Hey, thanks. A couple, the first is, understand the growth in casualty specialty. The one thing I guess I'd point out is that historically has been a line you booked really conservatively like around 100% underlying combined and I know you don't want to give guidance but I mean like directionally, should we think that we're at least in a point now where you think that that is earning an accident year underwriting margin as we approach 2021 what you're deploying?

A - Kevin O'Donnell

Yeah. Let me make a couple comments there. What we've talked about before is thinking about casualty and specialty over a longer term period, so say 10 years and making sure that over that period of time we get -- we achieve the return that we need for that business. Clearly, with what's going on in that market, we're moving that block of rolling 10-year average to a much better return. Historic -- well, traditional actuarial methodologies the recognition of that will lag. And what I can say is we -- which would be a normal actuarial view is to recognize bad news faster than good news. There is usually a gap between what your pricing actuaries are seeing in an improving market to what your reserving actuaries will recognize. That gap is extended a bit right now and we're hopeful that over time, our pricing actuaries will be more accurate than our reserving actuaries. But it will take a little bit of time for those to reconcile.

Q - Ryan Tunis {BIO 16502263 <GO>}

Got it. And I just, Kevin, just taking a step back, I mean, it feels like a little bit of a, I don't know if it's a strategic pivot or not, but what's six, seven years ago, it's just property cat, now, these other businesses seem to be the most important. I'm just curious, how you are thinking about your organic capabilities? Is there anywhere -- are you still thinking you purely want to be a reinsurer? Are there acquisitions or anything like that do you think could bolster the platform now based on sort of the direction you are headed?

A - Kevin O'Donnell

So, your comment, strategically, we have made an effort to change the profile of the company. As Bob talked about, we've increased operating leverage, we've increased capital leverage and we've diversified the sources of income that we have. I have in my mind not de-emphasized anything that we do, but simply added emphasis to doing more things well and doing more things at the same level that our cat reputation holds. So, when I look at the portfolio that we have and I look at the quality of the underwriters and the books that we built, I couldn't be happier with the portfolio. And for sure, it's been a strategic change to who we are and what we're doing. It's been driven by what our customers want.

Going back five, six, seven years ago, our customers were saying they really enjoyed trading with us from a property cat perspective, but they want to do more with quality companies. So, we worked hard to build the capabilities and the platforms to be able to best meet their risk needs. I hope more of its to come in the future. You mentioned acquisitions, from that perspective, again, we feel great about who we are and what we're doing and nothing has changed. We've historically said and still believe that we see something that furthers our strategy and is economically viable, we'll take a look at it, but again, we feel great about who we are and what we're doing.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thank you.

A - Kevin O'Donnell

Yeah. Thank you.

Operator

Phil Stefano with Deutsche Bank, your line is open.

Q - Phil Stefano {BIO 18965951 <GO>}

Yeah, thanks. And congrats on the quarter. Most have been asked and answered, just I think you had mentioned that there was an improvement in terms of conditions, which I feel like is a little different than I've heard others start to talk about. Just given the proportional nature of the businesses being added this year, can you talk about the terms and conditions that approved? In my mind the terms and conditions are generally stickier than price increases. Maybe you can help us just kind of formulate the additional returns that are coming through from this improvement.

A - Kevin O'Donnell

Yeah, I'd say the two -- the two most common discussions that we had with renewal, particularly in the property cat is adding a cyber exclusion and communicable disease exclusions. In some instances, it was understanding the portfolio that they have is a personal lines portfolio in others, but I would say that that's where the improvement, most specifically came from.

Q - Phil Stefano {BIO 18965951 <GO>}

Okay. Thanks.

A - Kevin O'Donnell

Yeah.

Operator

Elyse Greenspan with Wells Fargo, your line is open.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Thanks. Sorry, I have a few quick follow-ups. The first, Kevin, when you responded to my question earlier and you said $700 million of growth in casualty and $450 million in other property premium. Is that a gross or net figure?

A - Kevin O'Donnell

That's net.

Q - Elyse Greenspan {BIO 17263315 <GO>}

That's net, okay. And then my second question is, so, when you said (inaudible) retained, I think a few percentage points more right at 1/1. I'm assuming that that's a comment pertaining to all three businesses, casualty, property -- property cat and other property?

A - Kevin O'Donnell

I'm sorry, Elyse, I didn't hear. Bob, did you hear the question?

A - Bob Qutub {BIO 15269353 <GO>}

I think Elyse, you're asking referring to Kevin's comment about ceding a little bit less, so opening up the exposure. Generally speaking, that's more on the property side that we have.

Q - Elyse Greenspan {BIO 17263315 <GO>}

But including cat and other property.

A - Bob Qutub {BIO 15269353 <GO>}

Yeah. Property cat.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. And then my last question. So, the Q4 decline in casualty write specialty because some TMR non-renewals. Are we mostly done with the non-renewals of that book? I'm assuming that's all embedded within the 2021 outlook for casualty?

A - Bob Qutub {BIO 15269353 <GO>}

That's pretty much it, Elyse. I mean there was a few multi-years but they are insignificant. So, that's the bulk of it, and again that goes back to relative Q4 '19 versus Q4 '20, so that's pretty much behind us.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. Thanks for taking the follow-up.

A - Kevin O'Donnell

Yeah. Our pleasure. Thanks.

Operator

There are no further questions at this time. I will now turn the call back over to Kevin, for closing comments.

A - Kevin O'Donnell

Thanks everybody for your participation on the call. As I stated, I think this was one of the most important renewals for Renaissance. I am delighted with the outcome that we achieved and I look forward to opportunities in 2021. Thank you for joining today's call and we'll speak to you soon.

Operator

This concludes today's call. We thank you for your participation. You may now disconnect.