Q1 2019 Earnings Call

Company Participants

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

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Jay Cohen, Analyst
- Josh Shanker, Analyst
- Meyer Shields, Analyst
- Ryan Tunis, Analyst
- Unidentified Participant

Presentation

Operator

Good morning. My name is Scott, and I will be your conference operator today. At this time, I would like to welcome everyone to the RenaissanceRe First Quarter 2019 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers remarks there will be a question-and-answer session. (Operator Instructions)

Thank you. Keith McCue, Senior Vice President, Finance and Investor Relations, you may begin your call.

Keith Alfred McCue {BIO 20595590 <GO>}

Good morning. Thank you for joining our first quarter 2019 financial results conference call.

Yesterday, after the market closed, we issued our quarterly release. If you didn't get a copy, please call me at 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 p.m. Eastern time today through midnight on June 8. The replay can be accessed by dialing 855-859-2056 U.S. toll-free or 1404-537-3406 internationally. The passcode you will need for both numbers is 9009829.

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 June 8, 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 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 Joseph O'Donnell

Thanks, Keith. Good morning and thanks for joining today's call. I'll open with an overview of our performance. And then Bob will go over financials. And finally, I'll come back on to talk a little bit more about our segments before taking questions. Last night, we released our first quarter earnings, and I'm pleased to report that once again, we had a strong quarter with growth in book value per share of 6.6% and growth in tangible book value per share plus accumulated dividends of 7%. I should clarify that these numbers are not annualized, but rather represent an absolute growth from the previous quarter.

We also reported an annualized return on average common equity of 23.5% and an annualized operating return on common equity of 13.3%. The strong results were driven by high net earned premiums following a successful January 1 renewal, significant gains in our investment portfolio and a low level of catastrophe activity. Overall, I am pleased with both the growth and profitability of our business this quarter. This growth came across our segments and platforms and has resulted in the largest and the most profitable underwriting portfolio in our history on an expected basis.

This success was the culmination of a well-planned and aggressively executed strategy that uniquely positioned us to recognize and benefit from positive rate trends in the market. Part of this strategy was the methodical cultivation of our Casualty business as part of our larger multiline offering to our customers. We thoughtfully and patiently developed our value proposition and strategic positioning with brokers and customers, building positions with them on the most desirable programs.

Once these positions were established, we were preferentially positioned to grow profitably as rates began rising above trend. In our Property business, where we pioneered the hybrid approach to owned and partner capital, we applied our integrated system and gross-to-net strategy to quickly and efficiently match capital to risk as markets improved. As previously announced, we closed the TMR transaction on March 22. Bob will provide you with more details on the purchase price and how the integration is progressing. Because the transaction closed late in the quarter, however, TMR's results are not reflected in our income statement, although our closing balance sheet does include the full scale of the combined organization. From my perspective, TMR is already integrated, and we have moved from planning to execution.

Among other strategic aspects, we expect the addition of the Swiss balance sheet to prove advantageous over time. From an underwriting and risk management perspective, we have modeled and captured TMR's risk and are operating on a single integrated underwriting risk and capital management system. This was critical as we can now construct our portfolios on the basis of a comprehensive view of risk reflecting the full impact of TMR. We have identified customers where we can grow and improve our portfolios and are positioned to begin managing the TMR portfolio and renewing TMR deals across our various platforms, moving business to where it is most efficient.

I have also now had the opportunity to meet many of our new employees who are impressive additions to our already strong team, and I'm excited about the numerous contributions they will make to RenaissanceRe over the coming years. Once again, this year, we experienced strong renewals, both at January 1 and at April 1. I'll discuss our outlook on the June and July renewals in greater depth after Bob updates you on the financials, though, we anticipate that the year's strong momentum on rates will continue, which will benefit our portfolios. While we are seeing recent market dynamics reflected in better pricing, they're also resulting in increased retro costs.

As I've discussed many times, our goal is to build efficient portfolios of risk and buying retro can play an important role in implementing our gross-to-net strategy. We are indifferent to anyone component contributing to the net return of our portfolio, and we'll shift from a buyer to a seller of retro as pricing dictates. So as risk-adjusted prices increase and buying retro becomes less efficient, we will likely be exposing more of our equity, both on an absolute and relative basis compared to the last several years. We will only do this, however, if we believe the risk return characteristics justify the increased exposure to our shareholder and partner capital.

We have always been good stewards of capital, and we'll continue to be so going forward. As we grow, we continue to find success in increasing our underwriting and operating investment leverage. Since the beginning of 2015, we have grown our gross written premiums by 150%, while only increasing shareholders' equity by 44% and operating and corporate expenses by 16%. This makes us increasingly efficient with our capital, which should result in superior returns over the long term.

I'll address the opportunities we're seeing in 2019 later, but first, let me turn the call over to Bob to look at the financials.

Robert Qutub {BIO 15269353 <GO>}

Thanks, Kevin, and good morning, everyone. We had a strong first quarter. And today, I would like to highlight a few of our key financial results. But first, I would like to update you on the TMR transaction and the progress we have been making. And finally, I'll turn it back over to Kevin. We closed the transaction on March 22, paying consideration of $1.56 billion, which was comprised of $814 million in cash and a closing dividend of $500 million and 1.74 million common shares worth $250 million.

We reported nearly $26 million of corporate expenses this quarter related to the TMR acquisition, which breaks down into $13 million of transaction cost; $6 million of integration cost; and $7 million of compensation cost. We also booked $18 million of identifiable intangible assets and $13 million of goodwill. Now that TMR is closed, we have shifted from integration planning to execution.

Thanks to extensive preparation. Day 1 went smoothly, and we are optimistic, the integration will be quick and successful. To date, we have reduced the TMR expense base by approximately 40% and have identified continued synergies, the majority of which, we will action in the first year. The TMR transaction was immediately accretive, and I remain confident that it will make a significant contribution to shareholder value this year. We continue to estimate retaining over $700 million of TMR's gross premiums written and anticipate the TMR will contribute $100 million to net income.

From a financial reporting perspective, as Kevin pointed out, we have not included any of TMR's earnings in our reported Q1 results. However, our balance sheet is now reflective of the combined entities. And consistent with SEC regulations, we have filed a Form 8-K pro forma financials for both companies as of year-end 2018. I would caution you, however, that without re-underwriting a TMR's book, anticipated synergies and onetime items, year-over-year comparability with TMR's 2018 results will be difficult.

Now moving on to a few large financial events during the quarter. In anticipation of TMR transaction, last fall, we upgraded our revolving credit facility from $250 million to $500 million, while extending the tenure to 5 years. During the quarter, we also completed a large liquidity exercise in order to close the purchase of TMR. We tried to complete this process as efficiently as possible, and consequently, we drew down $200 million against the revolver. We had sufficient assets to complete the TMR transaction without drawing down against the revolver, however, doing so allowed us to minimize the impact on our investment results.

Moving on now to consolidated results. Our annualized return on average common equity was 23.5%. Our results this quarter benefited from significant mark-to-market gains in the investment portfolio. We also had a solid quarter on an operating basis, posting annualized operating return on average common equity of 13.3%. Reported net income for the quarter of $274 million or $6.43 per diluted common share.

Our operating income was $154 million or $3.60 per diluted common share, which excludes $153 million of net realized and unrealized gains on investments as well as $26 million of transaction and integration expenses associated with the TMR acquisition. We had underwriting income for the quarter of $154 million and reported an overall combined ratio of 72%. Now before moving on to our segment results, I'd like to briefly update you on our operational efficiency.

Our direct expenses, which are the sum of our operational and corporate expenses, totaled $84 million for the quarter, which is up from $48 million in the same quarter of last year or an increase of $36 million. The $32 million of this increase was in corporate expenses and was primarily driven by the $26 million in expenses associated with the TMR acquisition that I referred to earlier. Adjusting for the impact of TMR this quarter, direct expenses would have been $58 million, an increase of $10 million or 21% from the comparable quarter. This increase was split 50-50 between nonrecurring charges unrelated to TMR and ongoing expenses to support the continuing growth of our business.

As I previously discussed, direct expenses have been increasing as we invest in the business, and we'll continue to do so as we integrate TMR. However, after backing out the impact of the TMR integration, the ratio of direct expense to net premiums earned improved this quarter and should continue to improve over time as we expect to leverage our expense base as we grow our net premiums earned. Now moving to our segments, and starting with the Casualty segment, where our gross premiums written were up $79 million or 18% in the first quarter of 2019 over the comparative quarter.

Reported underwriting income of $1.7 million and a combined ratio of 99.3% for the quarter. The current accident year loss ratio for the Casualty segment was 68%, which is up 1 percentage point from the prior year quarter. This increased loss ratio is not related to any specific event and is in line with our expectations. Now moving to our Property segment, where gross premiums written in the first quarter grew by $325 million or 43% over the comparative quarter to just over $1 billion. This is the first quarter that our Property business exceeded $1 billion in gross premium, a significant milestone.

Of the growth, at about $255 million was from Property cat and about $70 million was from other property. The growth in Property cat gross premiums written was divided between what we retained, which was about $80 million or 30% of the increase, and what we shared with our joint venture vehicles, which was about $175 million or 70% of the increase. Now after adjusting for our participation in these vehicles as well as ceded premium, the Property cat premium we retained only increased by about $108 million. Additionally, we also wrote a large transaction at January 1 that followed on from a deal that was inceptive midyear last year, though some of the apparent growth in the first quarter represented timing.

Overall, however, our growth this quarter demonstrates the flexibility of our integrated system as well as our ability to act quickly and efficiently when we find opportunities. In total, our Property segment reported underwriting income of $152 million and a combined ratio of 48% in the first quarter, with Property catastrophe reporting 19% combined ratio, and other Property reporting a 95% combined ratio. On an accident year basis, other properties loss ratio was 46%, which is down 1.5 percentage points from the comparable quarter.

During the quarter, other Property experienced 18 points of adverse development. This adverse development came predominantly from nonproportional covers in our per-risk book and was the result of a number of large risk losses over the prior 2 years. We're watching claims development closely on these losses and felt it was prudent to bolster IBNR for these events.

Now moving to fee income, where total fee income was $29 million for the quarter. While fee income was up compared to both the prior quarter and the prior year ago, the performance fee component has still experienced the effects of last year's catastrophic events. So this business will probably not be back to it's long-term potential run rate for a few more quarters and depending on loss experienced.

Turning now to investments. For the quarter, the return on our fixed maturity and short-term investments was $73 million, and overall net investment income was $81 million. Net investment income was up $25 million from the comparable quarter due to a combination of higher invested assets and increased yields. We posted total investment results of $252 million for the quarter driven by mark-to-market gains of $171 million, of which, $104 million was on our fixed maturity investments and $53 million on our equity investments. As you will recall, last quarter, we began splitting out our investment results between our managed portfolio and our retained portfolio. In the first quarter, our managed portfolio reported yield to maturities of 2.7% in a duration of 2.5 years on assets of $13.5 billion.

While our retained portfolio reported a yield to maturity of 2.8% in a duration of 3 years on assets of $9.8 billion. As a reminder, the managed and retained portfolios include our fixed maturity and short-term investments, but exclude our equity investments and other investments as well as investments in other ventures. For the quarter, we grew our managed investment portfolio by almost $3 billion from the prior quarter and $4.5 billion from the prior year. About $2.3 billion of this increase was due to TMR, with the remainder being organic growth and the issuance of common and preferred shares last year.

As a reminder, the impact of TMR on our net investment income and total investment results was not included this quarter. Our investment returns this quarter were impacted by the TMR acquisition as we liquidated material portions of our investment portfolio during February in order to generate liquidity in advance of the closing. As we integrate the TMR portfolio into the RenRe portfolio, we will increase the duration of the portfolio and add exposure to equities and credits. We also plan to divest the tax-exempt municipal bonds that we acquired from TMR. And now with the capital management.

We did not repurchase any of our shares during the first quarter. Our priority has always been to deploy capital into the business. We issued an aggregate of $500 million of RenRe shares to State Farm and Tokio Marine over the last 2 quarters. The January and April renewals also provided us with ample opportunities to grow organically. Moving forward, I anticipate additional opportunities to deploy capital into the business, which is consistent with our previously stated preference. That said, we are proud of our strong track record of being good stewards of capital and repurchasing shares when it makes sense.

We'll always keep all options on the table. In April, we raised $400 million in 10-year senior unsecured debt paying a coupon of 3.6%. Since this transaction close after the first quarter, it is not yet reflected in our financials. Now consistent with our track record, we executed quickly when conditions were optimal, pricing at very close to the lowest 10-year rates inflate 2017 at a spread of 138 basis points, the lowest to date on our debt. I should note, this debt was not necessary to complete the TMR acquisition, although we did use $200 million of the proceeds to pay down the outstanding revolver draw for TMR.

Consequently, the net effect on our debt at the end of the second quarter should be a $200 million increase from the first quarter. In March of 2020, a $250 million tranche of our senior notes with a 5.75% coupon will mature. And this recent debt offering was partly in an anticipation of replacing this amount. And combined with our other senior notes, which have coupons of 3.45% and 3.7% on a fixed basis for another 6 to 8 years, we believe we have one of the lowest cost senior debt borrowings in the P&C industry. Excluding the notes, maturing in 2020, our average borrowing cost across all senior debt maturities was 3.6%, with maturities in 2025, '27 and '29.

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

Kevin Joseph O'Donnell

Thanks, Bob. I'll divide my comments between our Casualty segment and our Property segment. As a reminder, my comments do not include the impact of TMR unless otherwise stated. Starting with our Casualty segment. Gross written premiums were up $79 million or about 18% versus the comparable quarter. This growth came predominantly from our financial lines and other specialty major classes of business.

In financial lines, for example, we continued to demonstrate market leadership in the U.S. mortgage space, which has afforded us growth opportunities. While our casualty book has not grown as much as our specialty, our team has shown strong leadership, and we have used our market-leading monitoring tools to stay ahead of trends and began evolving the portfolio to where it is today. Top line growth, however, does not adequately quantify the amount of change in our casualty book this quarter. So while overall gross premiums written were up $79 million, we wrote $158 million of gross premiums that represent either new deals or growth on existing deals.

At the same time, we nonrenewed or reduced $81 million of premiums on deals that, in fact, no longer met our return hurdles. We're always shaping the portfolio to maximize efficiency and return, and top line net changes do not always tell the full story of the underlying portfolio or it's visions. Overall, we remain satisfied with the financial lines results of the Casualty segment in terms of overall profit and the stability of the core business.

After adjusting for the opportunistic Wildfire deals in the fourth quarter of 2018, we have been experiencing a stable trend, with each of the last 6 quarters being profitable with an overall average combined ratio of 96%. For certain Casualty and Specialty lines, we are seeing moderate rate increases and capacity withdrawals, specifically from certain large global carriers in Lloyd's we've had through the market momentum. While the recent trend of increasing rates have been roughly offset by rising loss costs, it now appears that rate might finally be winning out.

In addition to underlying rate increases, we're also seeing improvements to reinsurance terms and conditions, including reductions and ceding commissions on many accounts. At this point, we expect to retain a significant portion of TMR's casualty portfolio and have completed the necessary work to align it with our risk appetite. For example, we will be re-underwriting U.S. nonstandard auto and U.K. motor and expect to exit this business and other business that does not meet our underwriting criteria upon renewal. Overall, we grew gross premiums written in our Property segment 46% over the comparable quarter last year.

Property cat grew by 43%, while other property grew by 60%. As I mentioned earlier, we have not yet included TMR in the statement of operations in our financials, so the growth we are reporting is organic. This growth was the result of a combination of rate increase and new business. As you know, April 1 is the primary renewal date for Japanese business. Due to significant losses from Typhoon Jebi and the other events impacting Japan in 2018, we enjoyed rate increases in the Japanese market in the region of 15% to 25% on loss-affected layers. Nonloss impacted wins covers were up between 2.5% and 10%, and earthquake was relatively flat.

Unfortunately, it appears that the market overall is continuing to experience substantial adverse development through Typhoon Jebi with anticipated losses now more consistent with our original much larger estimate. From our perspective, we continue to remain confident with our reserves for the 2018 large cat events. That said, if Jebi continues to develop adversely, we will increasingly impact the retro market, and we have potential exposure to our retro book as we retain more of this business relative to our reinsurance book. Consequently, we'll be monitoring events like Jebi closely further -- for further development in 2019.

We're in the the busiest period of our Florida renewal, and I'd like to give you some color on the market and our strategy of engagement. As we have frequently discussed in the past, the Florida insurance market has been experiencing significant headwinds for many years. Hurricane losses ironically are not among the biggest problems faced by this market. As a writer of hurricane exposed catastrophe contracts, one should expect losses, even consecutive years of losses from time to time. The macro drivers of the headwinds in Florida come from several other factors.

One, Florida companies have poorly estimated the impact of the cat events and have substantially underestimated their losses in both 2017 and 2018. For example, the largest Florida event in 2018 was the adverse development on 2017 Hurricane Irma. Two, loss adjustment expenses have been unprecedentedly high rates. These elevated levels have been the cause of material adverse development for many reinsurers as reimbursement for loss adjustment expenses recoverable under reinsurance contracts. Three, in Florida, we've come to expect fraud, and the politically correct term for which is social inflation.

But what we've seen has been significantly higher than even we anticipated. Social inflation includes the assignment of benefits of insurance policies, but also includes conventional litigation. The impact of which have not been addressed and remain ongoing. We estimate that social inflation amplified Hurricane Irma's ensured loss by at least 20%. There are also early indicators that Hurricane Michael has experienced an elevated impact from social inflation. And four, for several years, local insurance carriers recognize that they were in a buyers' market and pushed rates down to unsustainable levels.

Capital providers are finally waking up to the many difficulties of the Florida market and are increasingly frustrated by them. We believe that reinsurers want to account for the bad behavior in the market and recognize the need for more rate for the risk being ceded. As a result, we expect that reinsurance supply at tune run will be constrained. There are at least 2 reasons for this: First, we are seeing instances of traditional reinsurers willing to reduce the capital they allocate to the Florida market, who were in firm order terms of below quoted rates. This willingness to walk away shifts the existing balance of power from reinsurance buyers to sellers.

Second, the exuberance of ILS managers previously exhibited has diminished. This is in part attributable to having less capital to deploy as a result of substantial losses. Similar to the traditional market, ILS managers did not estimate these losses very accurately. This has not only resulted in elevated loss development, but unique to the ILS market, it has resulted in trapped capital that could otherwise have been deployed to take more risk. Cap on Markets have been similarly afflicted, and we have seen diminished appetite for Florida risk. Much has been made recently of 2 legislative responses to Florida's problems that are worth noting.

First, the FHCF has increased its percentage of LAE reimbursement. While laudable, this change does not address the problem of elevated loss adjustment expenses, rather, it simply shifts the burden of the additional 5% LAE from private reinsurers to Florida residents without resulting in any noteworthy reduction to the expected loss and cato-excel programs. Second, Florida has finally attempted to address the assignment of benefits fraud. While this reform is welcome, in practise, I do not underestimate the ingenuity of the plaintiff's support to find a workaround to this latest hurdle.

I hope I am wrong, but we believe a wait-and-see approach is warranted before providing any discounts predicated on the potential success of these reforms. So with that as a background, we have increased our view of risk to reflect the elevated level of social inflation in the state. We have met with clients to prepare them for the change in rate. Currently, we're quoting with -- currently, we are quoting consistent with our increased view of risk, our elevated cost of capital and the need to return to more equitable rates. To be clear, we will grow at June 1 if it makes sense.

We're prepared to reduce this wind season if rates do not match our adjusted risk view. Bob noted adverse development in our other Property class of business, which resulted in a 95% combined ratio for the quarter. While the loss ratio was higher than we would like, we remain comfortable that we understood the risk and price appropriately for it. These losses were driven by large commercial risk losses in the property, construction and energy lines such as the Colombian dam loss. The other property business is subject to volatility, and risk that is attractive over the long term will suffer outside losses from time to time.

Unlike catastrophe, which has significant data available soon after it occurs, risk losses are often difficult to fully evaluate until they are reported. I'm confident that our other property business remain sound and will accrue to shareholder value over the long term. That said, we'll continue to watch this business closely for developing trends. In addition to Florida, the Property market more generally has been improving. This is due to a number of factors, including adverse development on Typhoon Jebi, the impact of 2 record years of California Wildfires, remedial actions at Lloyd's and limited capacity in third-party capital and cat bond markets.

We're seeing this improving trend in several places outside of Florida, including the retro in E&S markets. So we're anticipating ample opportunity for profitable growth in many sectors and our Property segment, even before allowing for the impact of the TMR transaction. All things equal, underlying primary rate increases benefit our proportional business. We also have options to directly access this business, both through our Lloyd's direct and fecal data book and by supporting customers in the E&S space, which is showing significant price improvement.

Moving to ventures. This quarter, Premiere Re was off to a strong start writing more than 40 transactions. We are pleased with the timing of Premiere and current limitations on market capacity should allow us to serve our customers, while working toward the goal of deploying the $4 billion available to us. Over the prior 2 years, we've grown our relationships with partner capital materially, and it has become an increasingly important contributor to our results. We believe that we continue to be the preferred provider of cat risk to all forms of capital.

Based on our view of the retro and reinsurance markets, we believe that Upsilon could continue to grow capacity at June 1, given primarily by you retro sessional deals, but also certain new risks such as Wildfire and Florida reinsurance transactions. So in conclusion, first quarter was strong. Thanks to continued growth in premiums, solid investment returns and low cat activity. We closed the TMR transaction and have made significant progress integrating the 2 companies into a cohesive whole. Coming up on the midyear renewals, we're optimistic regarding our opportunities and remain focused on implementing our strategy and maximizing shareholder value.

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

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Josh Shanker with Deutsche Bank. Your line is open.

Q - Josh Shanker {BIO 5292022 <GO>}

Yes. Thank you. Kevin, you said in your prepared remarks that the portfolio you built to date is the most profitable portfolio you think you've ever built on an expected basis. RenRe spent the first 18 years of its existence as a public company, delivering a cumulative compound ROE of around 25%. Is there a reason to say that the expected returns of the portfolio today is higher than the first 2 decades of your existence?

A - Kevin Joseph O'Donnell

So we were a very different company back then, and that type of company, I don't think, would be producing those types of returns in today's market. That's a reason we have structurally shifted to become a more diversified reinsurer and built the third-party capital platform that we had. So my comments are about pure scale, your comments are about return. So the portfolio between the scale that we brought, the diversity that we've bought and the dollar value of the expected profit is greater. The overall returns that we've achieved in our early years, I don't think are achievable in today's market.

Q - Josh Shanker {BIO 5292022 <GO>}

All right. That makes sense. And then I just want you to give a little clarification on your Jebi comments. What do you think the industry loss is today? And how close is that to the -- of a buffer is there before they start digging into your retro sessional coverage more aggressively?

A - Kevin Joseph O'Donnell

So I think, I have to go back and look. I think previously we said that Jebi and Trami were north of $10 billion or north of $11 billion, something like that. I would think that Jebi alone is north of $10 billion. Wouldn't surprise me if it's in the $12 billion range. So we were significantly higher than market, but we probably got it, a little on the lighter side as well. We -- let me just skip some context for our positioning in Japan.

So within Japan, we do write some wind covers, but we're not known to be a particularly large domestic wind writer. So my comments that -- for 2 reasons: One is we have more reinsurance protection on that; and secondly, we're not as big a participant in that market. I think we're better insulated to further development. As far as additional accrete through the retro, that's a little trickier.

We have substantial IBNR book against the retro contracts that we have, but I feel that we are approaching the upper limit as to probably where many reinsurers thought this loss was. So it would be hard for me to put a dollar value on it, but I think we are exposed to some accrete there because of -- because it's been as much bigger loss than we expected, which was already much bigger than where the market was. But I don't have a specific number for you.

Q - Josh Shanker {BIO 5292022 <GO>}

Okay. Then for...

A - Kevin Joseph O'Donnell

This is already a correct -- as we -- the one comment I'd make, I think sometimes it's voluntary to whether it gets into the retros or not. It's already into retros. It's just a matter of whether it's beyond the level of reserve within the retros that we're protecting.

Q - Josh Shanker {BIO 5292022 <GO>}

That makes sense. Thank you.

A - Kevin Joseph O'Donnell

Yes, thanks.

Operator

Your next question comes from the line of Amit Kumar with Buckingham Research. Your line is open.

Q - Amit Kumar {BIO 15025799 <GO>}

Well, thanks and good morning. Got few questions. Maybe, starting with the TMR acquisition. If you look at the TMR addressable portfolio, 50% was -- is in Casualty and Specialty. I'm curious, just based on the pricing comments you made in the opening remarks, why wouldn't there be an upside to the $100 million earnings and the $700 million GPW you mentioned? I would've imagined that probably some upside exist versus when this deal was announced. Is there reiteration of the initial guidance factoring in the better pricing environment today versus when the deal was announced?

A - Robert Qutub {BIO 15269353 <GO>}

Amit, this is Bob. Thanks for the question. We remain comfortable with the $100 million contribution to the run rate and net income. And it comes from the part you mentioned, the addressable premium that we have out there, the $700 million. We have range of $700 million to $1 billion, but we want to be disciplined. And what Kevin is focused on is not getting ahead of the pricing. We're focused on the technical ratios through the synergies and obviously, there's an investment portfolio. There's a number of different variables going to it. Yes, we hope there is upside and that's how we're looking at it.

Q - Amit Kumar {BIO 15025799 <GO>}

Okay, that helps. The second question, again, this is switching to, I guess, the rents portfolio discussion. I think in the opening remarks, you talked about how things have changed, you talked about the changes in the marketplace. I was curious, when you plug in some of the changes, the AOB legislation, et cetera, a better understanding of the risks after 2 active hurricane seasons. Did the expected returns change? What was spit out of the model after you went and tweaked it? How did it vary versus your initial look?

A - Kevin Joseph O'Donnell

So let me rephrase the question, and see, if I answer it the way you asked it is, if we took the adjusted loss curve after our learnings from 2017 and '18 and imply them to the book of business we wrote prior to those learnings, would we have lower returns?

Q - Amit Kumar {BIO 15025799 <GO>}

Yes, sir.

A - Robert Qutub {BIO 15269353 <GO>}

Yes.

A - Kevin Joseph O'Donnell

Yes. The answer to that is yes. And the reason for that is that we -- one is a learning and one is an outcome. The learning is that we've increased the impact of social inflation on the loss curves within Florida. It's not a parallel shift, it's different at the lower end and on the upper end. We've walked through that change with each of our customers. That is a new learning, which, after events, is exactly the process we do.

What did we do well, and what did we learn that we can incorporate into our model. The second element of the pricing is an outcome, which is the -- our cost of capital is higher for deployment in Florida than it was prior to these events and that is on the numerator. It's because we have more loss cost for each dollar of premium, but on the denominator, we anticipate that the gross-to-net strategy that was employed will be more expensive, and we need to recoup some of that expense or not write the business.

So that's kind of an outcome. So when I think about the overall portfolio, I feel good about where we picked those storms against the return periods in our risk framework. And it's part of any normal process that we adjust things up or down based on our observations for the loss. We are doing the same work for Jebi.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. The third and final question, I'll requeue when you answer this. Just going back to the discussion on that -- those risk losses. Could you refresh us, what would be examples of some of those risk losses, which resulted in the adverse movement?

A - Kevin Joseph O'Donnell

Yes, let me think back, I mentioned the Columbia dam. There would be things like there is -- these are large risk losses that may not have made it to the investor community, but are known within the reinsurance community. At not just one -- there was a fire -- a couple of fires in factories in -- of Lennox warehouses over mere fire, things like that, which were the primary drivers for it.

So again, this is kind of a cluster of very large risk losses that, one, have been -- have hit us in 2 ways: One, they were reported in the first quarter of prior year event, so that's my comment about sometimes hard to know that these things have happened; and secondly, the size of some of these as more work has been done by the engineers to estimate the damage has grown.

Q - Amit Kumar {BIO 15025799 <GO>}

Thanks for the answers.

Operator

Your next question comes from the line of Meyer Shields with KBW. Your line is open.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Two quick questions. First, when we look at the other property segment, was there any, what I would call, underlying reserve developments that offset the large individual losses?

A - Kevin Joseph O'Donnell

So let me break your question into 2, and see if that's the right way to answer it. One is, from -- is there attritional and then there was -- was there development from kind of what, I'll call, very large events? The attritional piece seems to be running pretty well. So one of Bob's comments was this was really from the XOL, the excess of loss per risk book. The promotional stuff from the attritional side seems to be doing pretty well. So this is really more of a clustering of very large risk losses, which, again, we intend to protect.

The clustering is unfortunate because it affects us uniquely in 1 quarter. The adverse development is really from the 2 things that I mentioned for prior quarters. It's late reporting of events that happened in the fourth quarter, that were reported in the first quarter; and then secondly, events that were known but as engineers look at arising. So that's the 2 elements of adverse. But the underlying attritional piece seems to be behaving.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, yes, that's perfect. Second question, we've seen, obviously, a few examples of cat RE with significant reserve developments. Do you have any sense in terms of how long it takes until we actually know what the actual industry loss is?

A - Kevin Joseph O'Donnell

Are you speaking about Irma and Michael and Jebi? Or just in general?

Q - Unidentified Participant

I'm Andrew. I'm asking about Jebi, but I'm wondering whether that pricing is shrinking or extending?

A - Kevin Joseph O'Donnell

That's a good question. Florida seems to be extending to be honest, and a part of it is from some of the social inflation reasons, which are difficult to know where they begin and end. I think Jebi is a bit of -- honestly, we have more to learn on Jebi because the damage caused is greater than where we expected. I think we were already well above the industry. And some of the growth does seem to be inconsistent with how previous storms in Japan have performed. So I don't have a good answer for you on Jebi, but I think it's one that we will have a good answer once we get more information, which we are currently working on.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay that's perfect thank you so much.

Operator

Your next question comes from the line of Elyse Greenspan with Wells Fargo. Your line is open.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi. Good morning. My first question on -- Kevin, if I put all of your market remarks together, it seems like you're optimistic yet also understanding relative to what could and could not happen during the upcoming start of renewals. Given all the headwinds that you outlined, and you did mention conversations that you've been having with some of your insurers about pushing for rate, how's the dialogue going? How does it feel this year relative to conversations you were having last year? Or even relative to past seasons in Florida when the market was really pushing for more price?

A - Kevin Joseph O'Donnell

So thank's for the question. The -- looking back last year on, I think, it was probably on this call, we set a more muted expectation for Florida. I think some of the variables that I outlined in my prepared comments point to kind of the opposite side of that. We don't have a lot of price discovery in Florida yet. Most of our quotes will be going out this week, but I will say as we do -- all of those things that I said doesn't change the fact that we look at our Florida customers as partners, and in the conversations, we've been transparent with each of them about sharing how they stack up in the market with regard to the loss adjustment expense and loss development.

And I believe that each of them deserve recognition in the rate that we quote for their performance against the losses. Yes, we have to think that we need to price forward, which is a changing view of risk or cost of capital and working towards a better long-term rate adequacy, but I think that it's going to be a very different story for those that we think performed best to those that performed worst. And I wouldn't think that there's a specific kind of clearing hurdle for Florida.

And our conversations this year have been collaborative, probably a bit tense, and it's a changing market momentum from a seller -- from a buyer's market to a seller's market, but I think we're in a pretty good shape. And again, we've done a great job building our portfolio, and our success in Florida is not as important to the overall portfolio construction as it used to be.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then in terms of the California utilities. Are you guys planning on continuing to write that business this year? And then on the flip side if you do write that business, would your retro coverage there be similar to -- for fire losses this year as you had last year?

A - Kevin Joseph O'Donnell

So I think there's 2 pieces of that question, one is wildfire and one is utility. So let me start with wildfires, then I'll talk about utility. We like wildfire risk. We will continue to write it. Your question about retro, I think, traditional property retro for wildfire, I believe, will be available, but more expensive, and we may choose to retain more of it. I think adding the utility business specifically into property retros is going to be more difficult in 2019 compared to what it was in 2018. From our perspective, we will write the utilities, we will write wildfire, and we are prepared to retain more of that risk if it's priced appropriately. So we've got a lot of flexibility as to how we structure it, but I think from a retro perspective, the opportunity to push utilities into property is diminished.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then lastly on the Casualty, Specialty segment, the margin just a little bit above 99% this quarter. Doesn't sound like you guys really called out any onetime items. Would you expect that segment to run at a profitable level for the full year?

A - Kevin Joseph O'Donnell

Yes, and nothing's changed in our Casualty and Specialty segment. We're going to have for the (technical difficulty) But I think what we try to do is -- in these calls is draw a line between kind of one-off drivers and where we're seeing positive trend. Hopefully, identified in more often than not within that book, we're seeing positive trend. The one amplifying comment I'll make to that is, when we bring on the TMR portfolio as that renews on to our platform, there's a greater weight to Casualty business and Specialty business, and the Casualty business has a higher run rate loss ratio than the Specialty. So you may see some organic rise in our run rate there, but that's simply a mix of business outcome. Overall trends we're seeing are generally positive, and what you're seeing is just quarterly noise.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay that's helpful. Thanks for the color.

A - Kevin Joseph O'Donnell

Sure. Thanks.

Operator

The next question comes from the line of Brian Meredith with UBS. Your line is open.

Q - Brian Meredith {BIO 3108204 <GO>}

Yes. Thanks, a couple questions here for you. One just a quick numbers question. Bob, I noticed there's this new line as miscellaneous investment line. What is that?

A - Robert Qutub {BIO 15269353 <GO>}

In the investment portfolio?

Q - Brian Meredith {BIO 3108204 <GO>}

Yes, $41 million of miscellaneous other investments.

A - Robert Qutub {BIO 15269353 <GO>}

Those are -- this reflects the integration of the TMR portfolio. These are some of the smaller assets that came through that they had out there. So really not much to say about it other than bits and bobs that are out there.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay, great. And then my another -- second one is more of a numbers question also here. If I look at the pro formas that you provided with your debt offering on Tim Re. The accretion is actually quite substantial from last year is actually more than $100 million. The big chunk of that -- the big chunk or part of that was actually purchase accounting. Will the purchase accounting on this transactions be favorable, i.e. they're going to write-off the different acquisition cost versus the amortization above it?

A - Robert Qutub {BIO 15269353 <GO>}

So purchase accounting really kind of cluttered up. There's 2 things in there, the comparability of the pro forma versus what we would have had the impact on purchase accounting. I tried to outline in the comments that there is a few variables that will make the 2018 results, not very comparable to what we intend to do with the book and our re-underwriting. The centered things that we expect to achieve, which will help improve the technical ratios.

Those pieces have may also within that and what -- they did have some rather significant favorable development in 2018. Having said that, we're very comfortable with the reserve levels that we brought across. And the purchase accounting gap, these things rise all over the place. We're very comfortable with these. It will be mildly accretive. And so it may tapper some of the effects that are out there, but that would be within the first year that you would see on the earned premiums roll forward.

Q - Brian Meredith {BIO 3108204 <GO>}

okay, great. Thanks. That's all my questions.

A - Robert Qutub {BIO 15269353 <GO>}

Thanks Brian.

Operator

Your next question comes from line of Ryan Tunis with Autonomous Research. Your line is open.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thanks. I guess, Kevin, I just wanted to come back to the question about the potential for Jebi development in the retro market. Just how do you feel for potential order of magnitude, I mean, if Jebi strengthen in another $2 billion or $3 billion, could that be $100 million of additional losses to RenRe shareholders? Or are we stalking 10s? I'm just trying to understand the sense of urgency and potential size we could be thinking about.

A - Kevin Joseph O'Donnell

Well, that would be substantial loss development there, but I'd -- in my -- it's kind of an unanswerable because the information we have now is represented in the numbers that we have, which means we're adequately reserved. I think if that was to grow by 20% if it's -- we're not anywhere -- we're in the -- at the very lower end of your expectations. It's -- I raised it only in that. There's a high degree of uncertainty with Jebi because it is growing at a fast pace, and a lot of that has been only reported through the renewal. So I think we would not be the leader in development if the loss scenario that you put forward for the gross loss was to occur.

Q - Ryan Tunis {BIO 16502263 <GO>}

Got it, that's helpful. And then thinking about some of the competitive dynamics in Florida, you talked about the 2 legislative actions. Had you seen those legislative actions have an impact on the pricing conversation at all? Or are those just kind of in the background, they took place? Or everything just keeps going on as it had?

A - Kevin Joseph O'Donnell

It's dynamic in Florida right now. One thing we are seeing is an increase in AOB activity ahead of the implementation of the legislative changes. But I think there's pieces that are being advocated on both sides of the pricing discussion. Of course, clients and brokers are saying, this is a material change that needs to be recognized in price. I would say, of course, it's part of the dialogue and it should be. I've been clear on where we are as we're going to take a wait-and-see approach. Others may have a different view. And you know, that's what makes the market. But we hope it makes the difference, but at this point in time, I think we're better off only making the assessment and the judgment for credit when we actually see a change in loss development.

Q - Ryan Tunis {BIO 16502263 <GO>}

Thanks so much.

Operator

(Operator Instructions) Your next question comes from the line of Jay Cohen with BoA Merrill Lynch. Your line is open.

Q - Jay Cohen {BIO 1498813 <GO>}

Yes thanks. Just numbers questions. First, Bob, could you just tell us what the quarterly interest expense is going to look like for the balance of this year given all the changes?

A - Robert Qutub {BIO 15269353 <GO>}

It's effectively -- you are going to see about $11.5 million roughly, give or take on a quarterly basis. You're going to see that uptick basically the 3.6% on the $400 million. You can do the quick math on that. That's what extends out. The revolver will be down. That was low cost, so I'm not really worried about that, that's a small number. So that will carried through this year and then, again, March of next year is when the $250 million retires.

Q - Jay Cohen {BIO 1498813 <GO>}

Exactly. The second question, should we assume that the calling of the TMR premiums down to the north of $700 million occurs in 1 year? Or will the premium base be a little bit bigger this year, I think, to get down to that level next year?

A - Robert Qutub {BIO 15269353 <GO>}

You'll see a carryover. There will be some carryover obviously in the calendar year. We'll capture and make new renewals. We will capture the 1/1 and the 4/1s, so those will come in. So you'll see that over the course of the rolling 12-month, most of it.

Q - Jay Cohen {BIO 1498813 <GO>}

And then the seasonality of that premium, is it similar to RenaissanceRe's?

A - Kevin Joseph O'Donnell

It's similar to RenaissanceRe by book. But their Casualty book is similar to ours and the Property book similar to ours, but features are little bit different. They're probably a little bit more 1/1 Property than we are, but I wouldn't -- it's a high correlation, not perfectly. Not perfect. We're confident.

Q - Jay Cohen {BIO 1498813 <GO>}

That's great. Then one last quick one. On the other property business, you talked about a deal that you wrote this quarter that had incepted midyear last year. What quarter did that occur in? And can you tell us the amount of that?

A - Robert Qutub {BIO 15269353 <GO>}

Yes, we think Q2. The amount -- yes, I don't think we actually said what the amount was. We did say it was a significant transaction and that it reflected our ability to really help clients solve large bespoke challenges and that earned out this year. And so we then had a chance to come back at it through the beginning of the year. So that's what I meant about timing on rates.

Q - Jay Cohen {BIO 1498813 <GO>}

So -- got it. So from a written standpoint, is it a bit of headwind in that line of business in the 2Q?

A - Robert Qutub {BIO 15269353 <GO>}

It was -- I don't know if I call that a headwind. It was opportunistic transaction with the client and the cat book that allowed us to help them solve the challenges they were looking to work through. We didn't disclose it, but it was something that we've demonstrated a long track record of doing.

Q - Jay Cohen {BIO 1498813 <GO>}

Now just from a modeling standpoint, the 2Q of this year, I guess it's a tough comp because you're renewing that same contract. It's already in the first quarter from a written standpoint.

A - Robert Qutub {BIO 15269353 <GO>}

I think what we were trying to say is we put it into the -- we now renewed it into the first quarter.

A - Kevin Joseph O'Donnell

You -- way you're highlighting is absolutely right. There's a timing difference. That timing difference is going to reconciled by the end of the year, but it will all be in the second quarter.

Q - Jay Cohen {BIO 1498813 <GO>}

Got it. Thanks a lot.

A - Kevin Joseph O'Donnell

Thanks Jay.

Operator

The next question comes from the line of Amit Kumar with Buckingham Research. Your line is open.

Q - Amit Kumar {BIO 15025799 <GO>}

Hey, Just a quick follow-up on, I guess, Ryan's question on Jebi. Two of the reasons we've called out the development is March closing for this deep cedence and the 2020 Olympics. I'm still struggling to understand what could change from here going forward for the loss to continue to develop. And I get the sense that your '20 is different in Jebi versus some of the other companies, and I'm just trying to understand, is it the usual cautiousness? Or is there something going on here?

A - Kevin Joseph O'Donnell

It's cautiousness. There's nothing going on, otherwise I've told you what it is. I think the -- my concern is the growth, the -- it appears to be behaving differently than other wind losses, albeit there hasn't been the one this big in quite a long time Japan. The size of the increase is larger than -- we thought it was larger, it's larger than we thought, so we have work to do to understand that. It is in retro contracts.

We have less protection on retro than we do in reinsurance, so just wanted to flag that. And then I think your comment is that there is -- what -- often what happens in Japan is after the fiscal year closes, there's an exchange of Cole Re information, which can lead to further development. I don't know if that is happening or has happened, but just being cautious, we've got great reserves on Jebi. We have IBNR and Jebi, but just kind of highlighting where we potentially could have risk at this thing continues to be a surprise, I think, as it has been.

Q - Amit Kumar {BIO 15025799 <GO>}

Got it. Okay. That's all I had, thanks for the clarification and good luck.

A - Kevin Joseph O'Donnell

Appreciate it. Thanks.

Operator

There are no further questions at this time. I would turn the call back over to Kevin O'Donnell for closing remarks.

A - Kevin Joseph O'Donnell

Thanks for tuning into today's call, and we look forward to speaking to you next quarter. Thanks, again. Bye.

Operator

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