Q4 2019 Earnings Call

Company Participants

- Keith McCute, Senior Vice President Finance And Investor Relations Officer
- Kevin O'Donnell, President And Chief Executive Officer
- Robert Qutub, Executive Vice President And Chief Financial Officer

Other Participants

- Jimmy Bhullar
- Ryan James Tunis

Presentation

Operator

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

I'd now like to hand the conference over to your speaker today Keith McCue, Senior Vice President, Finance and Investor Relations. Thank you, please go ahead.

Keith McCute

Good morning. Thank you for joining our fourth quarter and year end 2019 financial results conference call. Yesterday after the market closed, we issued our quarterly release. If you didn't receive a copy, please call me at (441) 239-4830, and we'll make sure to provide you with one.

There will be an audio replay of the call available from about 1:15 p.m. Eastern Time today through midnight on March 5. The replay can be accessed by dialing (855) 859-2056 U.S. toll-free or 1 (404) 537-3406 internationally. The passcode you will need for both numbers is 6725957. 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 March 5, 2020.

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 and thank you for joining today's call. We going -- we began 2020 looking and feeling very different as a company from where we started one year ago. This journey charted a very intentional path designed to make RenRe not only more resilient, but also a broader, deeper and better partner to our customers. It has been a long and deliberate trek, one that is not yet complete, but successfully underway. It has taken us to where we now have a diversified book evenly divided between Property, and Casualty and Specialty business. This change is at the behest of our customers, who asked us to deepen and broaden our relationship with them, but also, because we saw a path to greater efficiency. I'm pleased with where we currently are, and excited about our future course.

Last year I started the call in January by asking 2 questions. One year on, I think we should ask ourselves the same 2 questions. The first is, how is -- how is our financial performance? And the second is, have we achieved the year's goal and effectively executed our strategy?

Starting with question 1, how is our financial performance?

We grew book value per share by 15.7% and tangible book value per share plus accumulated dividends by 17.9%. For the year, our return on equity was 14.1% and our operating return on equity was 8%. In our Casualty segment, we generated a consistent diversifying underwriting profit. Bob will discuss our financial results in more detail later. But I believe, we performed well, especially against a difficult background.

In 2019 our industry experienced approximately $75 billion of insured catastrophe losses, including Typhoons Faxai and Hagibis in Japan, and Hurricane Dorian in the Caribbean. In addition, loss creed on prior year events continue to plague the industry.

In Casualty line, the market is recognizing rate as required as losses are being impacted by social inflation from exponentially increasing jury verdicts, and adverse development on recent prior accident years.

For the industry, third-party capital was constrained in 2019 due to poor returns, mounting loss creep and concerns over climate change. Against this backdrop, we deployed more capital both respect to our own capital as well as the capital we manage on behalf of our partners. Our partner capital increased by $1.3 billion in 2019 with an additional $525 million raised for the January 1, 2020 renewal.

This highlights our ability to procure the most efficient capital from multiple sources, and provides us considerable underwriting capital and financial flexibility, and heading into what we expect to be the best market opportunities we've seen in years. So an answer to the first question, I'm satisfied with our financial performance, and the returns we have generated in 2019.

Moving on to question 2, how -- have we achieved the years goals and effectively executed our strategy?

We began the year with several goals. First, was quickly and effectively integrating TMR's people, systems and risk into RenRe. Second, was organically growing our business in a strengthening market. And third, was increasing the operational efficiency of organization by growing operating and corporate expenses lower than premiums.

I'm proud to report, we outperformed on these goals. Bob, will update you on the TMR integration, but it is essentially complete. An important element of the integration was to continue executing our strategy and organically growing the business. As the markets improved, we focused on expanding and deploying more capital.

Finally, our operational and capital leverage continued to improve. And over the previous 3 years, we have more than doubled our gross premiums written while only growing shareholders equity by 22% and increasing run-rate expenses by only 13%. Just as critical as accomplishing these goals effectively, was doing so expediently.

In 2019, we moved quickly and efficiently to position ourselves to execute into an improving market. Most of the heavy lifting is now behind us and we have the increased scale, better tools, superior access to risk and financial resources necessary to outperform in 2020. So in conclusion, 2019 was an exceptional year when viewed against these strategic objectives.

I'll provide more details on the January 1 renewal and opportunities we are expecting in 2020 later on the call. But, first let me turn over to Bob to talk about our financials. Bob?

Robert Qutub {BIO 15269353 <GO>}

Thanks, Kevin and good morning everyone. I'd like to start off with saying we had a good year. We executed strongly, both financially and operationally during the quarter and the year. Today I will divide my remarks between our fourth quarter and year end 2019 results. I'll first discuss our consolidated financial performance before moving on to our segment results, investment portfolio returns, and finally capital activities.

Starting with our consolidated results and beginning with the fourth quarter, where our annualized return on average common equity was 2.5%, and our annualized operating return on average common equity was 1.7%.

Gross premiums written for the quarter were $905 million, up $358 million or 65% from the comparable quarter last year. About two-thirds of this was organic growth. We reported net income for the quarter of $34 million or $0.77 per diluted common share. Our operating income was $23 million or $0.52 per diluted common share. Operating income exclude $18 million of net realized and unrealized gains on investment and $5.7 million of transaction, integration and compensation expenses associated with the TMR integration. We had an underwriting loss for the quarter of $65 million and reported an overall combined ratio of 106.7 %.

Now before moving on to our full-year results, I'd like to provide more clarity on how the non-controlling interest from our joint ventures impact our financial statements. Each quarter, we fully consolidate the results of DaVinci, Medici and Vermeer. And since we do not own 100% of these entities, we remove the portion of their returns that we do not own.

For example, a 100% of DaVinci's results are included in our underwriting and investment income. However, because we only own 22% of DaVinci, we remove 78% of DaVinci's returns from our net income. This elimination is reflected in the income statement as the net loss or income attributable to non-controlling interest. Therefore, when these ventures produce positive returns, the elimination of the income attributable to third-party investors is reflected as a reduction to our net income. Likewise, when these ventures have negative results, the elimination is reflected as an increase to our net income.

We've have added a new page to the financial supplement that provides a breakdown of the components of the non-controlling interest adjustment. This is always been reflected in our 10-K and 10-Q, but given the increasing significance, we thought it would be helpful, if we included it in the financial supplement.

As you will see in the new disclosure, for the quarter, we reflected a positive non-controlling interest of $2.6 million, where both premier and Medici produced positive returns for the quarter. These were more than offset by negative returns in DaVinci resulting in a net overall loss for these vehicles, which is reflected as a positive non-controlling interest adjustment.

Now moving on to the full year 2019, where we grew our book value per share by 15.7%, and tangible book value per share plus accumulated dividends by 17.9%. We realized a return on average common equity of 14.1%, and an operating return on average common equity of 8%. We reported net income of $712 million for the year or $16.29 per diluted common share, and our operating income was $403 million or $9.13 per diluted common share.

In 2019, our overall combined ratio was 92.3%. Net premiums earned for 2019 were $3.3 billion, up $1.4 billion or 69% year-over-year.

Now, before moving to our segment results, I'd like to update you on our operational efficiency. Our direct expenses, which are the sum of our operational and corporate expenses, totaled $82 million for the quarter, which is an increase of $11 million from the fourth quarter of 2018. However, the ratio of direct expense to net premiums earned was 8.5%, a decrease of almost 4 percentage points for the same period last year.

Likewise, for the year, direct expenses were up by $105 million to $317 million, while the ratio of direct expense to net premiums earned decreased by 1.2 percentage points in 2019 to 9.5%. Adjusting for the impact of $50 million in TMR integration costs incurred in 2019, direct expenses would have been $267 million for the year or 8% of net premiums earned.

Now moving on to our segments, and starting with our Property segment. Property gross premiums written grew by $45 million or 23% over the comparative quarter to $245 million. This growth was driven by an increase in other Property of $109 million. The growth in other Property was partially offset by $64 million decline in Property cat gross premiums written. We do not typically write much Property cat in the fourth quarter outside of reinstatement premiums, which were down this year reflective of loss activity and business mix.

Other Property is becoming a larger percentage of our overall Property book, and for the year it makes up 34% of Property gross premiums written compared to 23% in 2018. As a reminder, we access proportional business through our other Property book, and due to the nature of this business, it carries a higher acquisition expense ratio. As this business becomes a greater part of the Property segment, acquisition expenses may increase.

Our Property segment reported an underwriting loss of $87 million, and a combined ratio of 118.6% in the fourth quarter, with Property catastrophe reporting a 141% combined ratio and other Property reporting an 88.6% combined ratio.

Current quarter losses in Property cat were primarily driven by Typhoon Hagibis. On our last call, we announced an estimated net negative impact for the fourth quarter related to Typhoon Hagibis of approximately $175 million. We remain comfortable with this estimate.

As you saw in our financials, we have allocated $128 million of net negative impact specifically to Hagibis with the remainder being incurred under our aggregate covers. So to be clear, our estimate has not changed. We have also reallocated $22 million in net negative impact from the third quarter events to 2019 aggregate losses. While this reallocation primarily relates to Typhoon Faxai, our estimates for both Faxai and Dorian remain the same at $103 million and $52 million, respectively.

For the year, gross premiums written in our Property segment grew by $670 million or 38%. This broke down to growth of $246 million or 18% in our Property catastrophe class of business and $424 million or 103% in our other Property class of business. For the full year, our Property segment reported underwriting income of $209 million, and a combined ratio of 87%.

Now moving on to the Casualty segment, where our gross premiums written were up $313 million or 90% in the fourth quarter of 2019 over the comparative quarter. Approximately two-thirds of this quarterly growth was organic. We reported underwriting income of $21 million and a combined ratio of 95.9% for the quarter. The current accident year loss ratio for the Casualty segments was 68%. For the year, gross premiums written were up $827 million or 53%. About half of this growth was organic. The segment reported underwriting income of $46 million and a combined ratio of 97% for the year.

Now moving to fee income, where total fee income was $13 million for the quarter with management fees contributing $24 million dollars and performance fees being negative $11 million. The negative performance fees were driven by the cat activity in the quarter, primarily Hagibis, which triggered the reversal of previously accrued performance fees. Overall, our quarterly fee income was up by $5 million relative to the comparable quarter. For the year, total fee income was $114 million, up $24 million from 2018.

Now turning to investments. We posted total investment results of $131 million for the fourth quarter, which include mark-to-market gains of $18 million. For the year, total investment results were $838 million, with $415 million in mark-to-market gains.

Our fixed maturity in short-term investment return for the quarter was $97 million, and overall net investment income for the quarter was $113 million, almost flat compared to the third quarter. This quarter, we have enhanced our disclosures in the financial supplement to include retained total investment result. This delineates the net investment income and mark-to-market results that apply to our retained investment portfolio. In short, this is the quarterly investment return that contributes to our net income and the remainder is what belongs to our partner capital.

Of the $113 million of a net investment income, we retained $91 million, a retention of about 80%, which is consistent with the full year 2019 and 2018. In the fourth quarter, our managed investment portfolio reported yield to maturity of 2.1% and duration of 2.9 years on assets $15.7 billion, while our retained investment portfolio reported yield to maturity of 2.2% and duration of 3.6 years on assets of $11.2 billion.

Now moving on to capital management. The fourth quarter was once again active from a capital management perspective. As Kevin mentioned, we had a successful capital raise in preparation for 01/01 renewals, raising over $525 million in Upsilon and Medici effective January 2020. This is in addition to the $1.3 billion in partner capital that we raised across our various joint ventures in 2019.

Looking forward to 2020, on March 15, the $250 million tranche of 5.75% senior notes will mature. As a reminder, last year we issued $400 million of 3.6% senior notes due in 2029. Consequently, we remain in a strong capital and liquidity position going into 2020, and with an improving interest rate environment, anticipate additional opportunities to deploy capital into the business. As such, we did not repurchase any of our shares during the fourth quarter.

Before I turn it back over to Kevin, I want to update you on a change that we will be making to our operating income calculation starting with the first quarter of 2020. As you know, operating income excludes net realized and unrealized gains on investments attributable to shareholders, transaction, integration and compensation expenses associated with the TMR acquisition, and income tax impact associated with these exclusions.

With the addition of TMR and their non-dollar balance sheet, we will be refining our methodology to also exclude foreign exchange gains and losses. When we hedge our economic FX exposure, we sometimes experience accounting driven volatility that over time should be relatively neutral in terms of bottom-line impact.

And finally, I'd like to update you on our TMR acquisition. With the 01/01 renewal behind us, we have re-underwritten effectively all of the TMR book, renewing the deals which met our strategic and financial thresholds. We exceeded the 2 primary metrics that we set out at the time of the acquisition, as we retained greater than $700 million of TMR premium, and we'll achieve an after-tax earnings run rate contribution greater than $100 million by the end of Q1, 2020.

When I think about the integration, it's the operational successes behind the financial ones that are even more important. We have a single view of risk, our key systems are integrated, we have deepened our bench strength, and our people are working extremely well together. Going into 2020, we will benefit from the increased scale and operational efficiency the TMR has brought us. Because of the significant time and effort we spent on integration activities in 2019, we are free from distraction and well positioned to capture opportunities in this improving market.

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

Kevin O'Donnell

Thanks, Bob. I'll divide my comments between our Property segment and our Casualty and Specialty segment starting with the discussion of 2019 results, and then moving to January 1 renewal and opportunities for 2020. After that, we'll take your questions.

For the full year in 2019, we grew gross written premiums in our Property segment by $670 million or 38% to $2.4 billion. And the substantial of fortune was organic, particularly the 103% growth in other Property reflects the opportunity that we've seen in E&S property markets. We experienced a number of large natural catastrophes in the quarter.

Last quarter, we preannounced and continue to hold a $175 million net negative impact from Typhoon Hagibis, which was based on a $15 billion industry loss. We are monitoring the reports on Hagibis, and expect to learn more as we approach the 04/01 renewal, and if the facts change, so will our estimate.

Last year, I discussed the impact of Hurricane Irma's loss creep, and noted it would be by itself, one of the largest events in 2018. Fast forward one year, and we continue to experience billions of dollars of lost creep in Florida. And not only from Hurricane Irma, which made landfall 2.5 years ago, but now also from Hurricane Michael which struck almost 1.5 ago. Suffice it to say, we have not yet realized the benefits of last year's AOB reforms. This is deeply disappointing.

Several Florida domestics are now close to exhausting their 2017 private market reinsurance. This is yet another indicator of the deep structural problems afflicting Florida. In addition, as I discussed last quarter, Florida is increasingly exposed to the effects of climate change, such as, rising sea levels, increased rainfall and flooding, and intensifying Hurricanes.

Although, it is easy to talk about the June renewal, I can say these 2 factors are materially impacting our view of Florida, and will result in the need for substantial rate increases. Florida has always been and will always be an important market for RenRe. We have been leaders in this business for decades. That said, we've reduced our exposure to Florida domestic companies last year, and I'm prepared to do so again if rate increases do not meet our return hurdles. At the same time, we are exploring additional means for accessing wind risk in this market.

2019 was an active year for Japan with Typhoons Faxai and Hagibis causing widespread damage. Loss creep from Typhoon Jebi also continues to be an issue. Our team of scientists, meteorologists and engineers believe that climate change will further increase the natural catastrophe risk Japan faces. Sea level rise will intensify storm surge, rainfalls will increase, and average typhoon intensity will be stronger and there'll be more typhoons of Category 4 intensity or greater.

Typhoons Hagibis and Faxai are likely portents of impact the climate change will have on Japan. We have underwritten the Japanese market for 25 years and greatly value the long-term relationships we have developed with our clients.

Taken as a whole however, the unprecedented scale of storms in Japan over the last 2 years has caused us to increase our view of typhoon risk. Unfortunately, the price increases the Japanese market experienced last year have been more than offset by the post renewal lost creep from Typhoon Jebi. Substantial rate increases are needed at 04/01 to accurately reflect Japan's elevated level of risk.

As I discussed on our Q3 conference call, the Property market experienced a V-shaped renewal at January 1. Both primary insurance and retro rates were up materially, but reinsurance rates on loss-free business we're only up slightly.

Loss affected business such as treaties exposed to California wildfires, experienced material rate increases at renewal and complex commercial risks were more stressed. A key element of our strategy is to build options to access the full spectrum of risk, which allows us to adjust our portfolio mix between different classes of business, increasing on the best and decreasing on the worst. So while our top line premium increased marginally, the underlying business mix shifted materially to focus on the most profitable lines. We wrote less primary reinsurance risk. We sold more retro as its rates were more attractive, but it was most efficient against our partner capital and we will recognize its benefits through increased fees.

Finally, we grew our other Property book materially, as this is how we access primary property. As a reminder, we take cat risk in our other Property portfolio and in 2020 we have additional exposure to cat activity from this portfolio. The net impact over all of these changes is a more profitable Property book that consumes less capital in the tail.

We continue to share risk through traditional retro and other structures. While retro has become more expensive relative to recent years, we strategically focused our purchase to continue to support our clients while maximizing the efficiency of our retained underwriting portfolio. Our latest Mona Lisa cat bond transaction was a key component of our gross to net strategy providing $400 million of protection at relatively attractive pricing.

The retro capacity we raised through Mona Lisa is very efficient capital, leaving us in a strong position heading into 2020. It has been several years since we last access the cat bond market, and our ability to do so successfully is yet another indicator of our agility and sourcing the most efficient capital as market conditions change.

Our partner capital business augmented our gross to net strategy at the January 1 renewal. DaVinci, Upsilon, and Vermeer provided us with additional flexibility to match desirable risk with efficient capital at a time that retro markets have diminished capacity.

Looking forward, the pricing we cannot continue indefinitely. In 2020, we anticipate property rates will continue to increase, especially in the U.S. and Japan. We also expect retro and E&S to remain attractive. I'm optimistic about both the opportunities that will present themselves in our superior positioning to benefit from them.

For the year, we grew gross return premiums in our Casualty and Specialty segments by 53%. This is across all subclasses, reflecting a mix of organic growth as well as the impact of TMR and resulting in a better balanced and more diverse portfolio. We construct our Casualty portfolio to have an attractive return on risk and continue to achieve scale in this segment.

As a result, we're generating a stable diversifying earning stream producing $46 million of net underwriting income and a combined ratio of 97 for the year. Casualty and Specialty markets were broadly up at the January 1st renewal. Rate increases achieved by our customers have been above planned, and expected to continue in 2020.

We believe this rate change is greater than the increase in lost trend. We also saw significant improvements in terms and conditions, including broad-based reductions in ceding commissions that were also larger than anticipated. The improved trading conditions should be sustainable for the foreseeable future as insurance companies that recognize the need for rate, and have been disciplined in decreasing supply to the market.

As we move into 2020, these improved trading conditions should allow us to continue to profitably scale our Casualty business, resulting improved operational leverage and consistent underwriting profit. Social inflation continues to impact the Casualty industry. Our Casualty underwriters have navigated effectively this market by being rigorous about selecting the best risks and overweighting our portfolio in the more attractive classes, while avoiding the most challenging.

We benefit from close coordination between our underwriters, claims, reserving and pricing functions, and are aided by tools that allow us to quickly recognize loss trends. More importantly, we have a strong underwriting culture that focuses on the bottom line.

So the fourth quarter was a solid close to our strong year, which we rapidly and effectively integrated TMR, materially grow our top line while increasing our operational efficiency, all while delivering strong underwriting and investment results.

As always, we remain resolutely focused on executing our strategy, maximizing shareholder value and are excited about the opportunities ahead of us in 2020 to deploy material capital at increasingly attractive returns.

Thank you. And with that, I'll hand it over to questions.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions). Your first question comes from Ryan Tunis with Autonomous. Your line is open.

Q - Ryan James Tunis {BIO 16502263 <GO>}

Hey, thanks. I had a couple. The first one is just thinking about, I guess, the cat loss activity in 2019. It seems like Ren's market share of that on a net basis was a little bit higher than it was in '17 and '18. If we think about maybe like $60 billion industry cat year. I'm wondering how much of that growth, do you think was attributable to the actual growth in the size of your book or the nature or the type of loss events we experienced?

A - Kevin O'Donnell

So I think -- that's a good question and I think sometimes thinking about what's an average cat year from an industry perspective, it is difficult to relate it to what happens with a reinsurance portfolio. What happened last year is we had several large events. We had Hagibis, Faxai, Dorian. All of which as the loss events become larger, there's going to be a disproportionate effect on reinsurance.

I think the things affecting us in 2019 are we had a different retro protections in 2019 than we had in 2018 and where the storms hit were places where we had a little bit less retro. So, we tend to protect southeast wind pretty aggressively and we had the losses in Japan which is a little bit more of a net book. The size of the book which is the second part of your question, played a role, but that was not the biggest component of it. It was much more around the size of the retro we have protecting the portfolio.

Q - Ryan James Tunis {BIO 16502263 <GO>}

Understood. And then on the Specialty, Casualty side. I guess obviously you talked about how you've been vigilant about the port trends and all that. I'm just curious, as any of that had an impact on your loss picks here in 2019 or is it one of those things where you're kind of monitoring it and maybe not releasing reserves quite as fast. I'm just curious, if the actual port environment has put any upward pressure on your loss ratio and Casualty, Specialty?

A - Kevin O'Donnell

Let me start with pricing and then I'll move to reserving. From a pricing perspective, what I mentioned is I think the rate change that we're seeing is above the loss trend that we're observing. So our pricing curves or pricing picks are actually dropping. We are not moving that to our reserving ratios though. So, our reserving ratios are consistent with what they've been historically, but we are observing trend, we are making adjustments and pushing the ultimate expected up. So we are reflecting the change in trend in our -- in our legacy book, but we are not recognizing the improved pricing terms in the -- in the current renewals.

Q - Ryan James Tunis {BIO 16502263 <GO>}

Thank you.

Operator

(Operator Instructions) Your next question comes from Jimmy Bhullar with J.P. Morgan. Your line is open.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Hi, good morning. I just had a question on the Casualty business. How come, like, as you reserve, are you -- have you been overly conservative in your reserves given these social inflation issues that you've observed? Or are you basically assuming that the trends will be consistent with how they've been, but not get worse?

A - Kevin O'Donnell

Reserving is always an area of focus for any risk taking company in this business and it's something that we put a lot of attention to. We believe that our picks are appropriate and we take in all factors that we think will affect the ultimate dates. So we are looking at loss trend, we are looking at rate environments, we have historic rate monitoring tools. All of that is resident within the picks that we have. But we feel like they are appropriate and we stand by them is our best estimate.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

You know, I think the reason I was asking is in response to the previous question you sort of implied that you've been adjusting your pricing for it, but you're not building in an extra cushion in your reserves if trends continue to deteriorate.

A - Kevin O'Donnell

Yeah. So, there's always -- looking at our book, there historically is a difference between reserving and what reserving actuaries we'll reserve and what pricing actuaries we'll expect. We do as a general rule, we wait for development of about 30% of the curve before we take any measure that would be considered to be a positive trend in pricing. So even if there -- even if our pricing actuaries are accurate in their assessment of today's risk, it will take a couple of years before that would be reflected by our actuaries. It's just the nature of the reserving process.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay. And then on your cat business in terms of premiums, fourth quarter is obviously not a good -- big quarter, your premiums were down, but it's usually not a big quarter anyway seasonally. What are you seeing in terms of primary company behavior in terms of purchase of cat insurance just -- are companies buying more or less given how much prices have gone up?

A - Kevin O'Donnell

It's -- if I have to put a blanket statement out, I would say it's the demand for reinsurance is relatively flat. There are some new purchases from some larger players that have come into the market. I think we have great relationships and great access. So we tend to have opportunities where there is even limited growth, but if you ask for a blanket statement, I would say relatively flat.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay. And then just lastly if I could ask one more, you seem fairly positive on pricing and it seems like you're confident that 04/01 and midyear renewals, you'll continue to see upward moves in pricing. What gives you that comfort given that some of the issues that have caused the soft pricing over the past few years like excess capital in the industry. Those are still out there. So, just if you could share some insights on why you're optimistic about pricing.

A - Kevin O'Donnell

Yeah. The comments that you're referring to are -- have to do with the Property cat renewals 04/01.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Yeah, yeah.

A - Kevin O'Donnell

So I'll comment on that. At 04/01, we have -- had ongoing discussions with our partners in Japan. They recognize that the change that was put through the market for Jebi was inadequate based on the development that we've seen since 04/01 on Jebi. In addition, the size of Hagibis and the size of Faxai, I think will become more clear as we approach the 04/01 renewal. And historically, the Japanese market has responded as good partners when there is losses to recognize, there is some need for additional rate.

Within Florida, I think there is substantial structural issue in Florida. We've seen loss creep, we've seen ineffective legislation change with regard to AOB. And as we look at that market, our view is, it goes up or we reduce. So I'm not going to forecast what the change will be, but I will say unless we see changes that meet our return expectations, we will reduce in 2020 like we did in 2019.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay. Thanks.

A - Kevin O'Donnell

Yes. Thank you.

Operator

(Operator Instructions) There are no further questions at this time.

A - Kevin O'Donnell

Well, we appreciate you joining today's call. Thank you for tuning in and we look forward to speaking to you next quarter. Thank you.

Operator

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