Q2 2017 Earnings Call

Company Participants

- Kevin J. O'Donnell, President, Chief Executive Officer & Director
- Peter Hill, Investor Relations Officer
- Robert Qutub, Chief Financial Officer & Executive Vice President

Other Participants

- Brian Meredith, Analyst
- Elyse B. Greenspan, Analyst
- Ian J. Gutterman, Analyst
- Jay A. Cohen, Analyst
- Kai Pan, Analyst
- Meyer Shields, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Julie, and I will be your conference operator today. At this time, I would like to welcome everyone to the RenaissanceRe Second Quarter 2017 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. .

I would now like to turn the call over to Peter Hill, you may begin your conference.

Peter Hill {BIO 15385944 <GO>}

Good morning, and thank you for joining the second quarter 2017 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 212-521-4800, and we'll be sure to provide you with one.

There will be an audio replay of the call available from about 1:00 PM Eastern Time today through midnight on August 26. The replay can be accessed by dialing 855-859-2056, or +1-404-537-3406. The passcode you will need for both numbers is 18690168. 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 October 4.

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 J. O'Donnell

Thanks, Peter. Good morning, and thank you for joining today's call. I'll open the call with an overview of our performance for the quarter, and highlight what I think the big themes were. Bob

will then discuss our financial results. Finally, I will give you a little more detail about what happened in each of our segments before taking your questions.

Last night, we released our second quarter earnings. We had a good quarter reporting growth in book value of 3.4% and growth in tangible book value per share plus accumulated dividends of 3.9%. We also reported an annualized ROE of 15.2% and an annualized operating ROE of 10%. These returns were the result of our overall strong performance, most notably in our Property catastrophe portfolio, as well as above-average investment results, driven by tightening spreads and price appreciation in our public equities.

I have spoken before of our competitive advantages, or what we refer to as the three superiors. These are superior customer relationships, superior risk selection and superior capital management, and they have underpinned our success from the beginning. In order to maximize long-term shareholder value, we believe we need to execute in all three of these critical areas all at a time. This quarter is a good example of us doing just that.

To begin with superior customer relationships, the specific example of this is the recently held America's Cup sailing competition in Bermuda. We were a proud supporter, and it was a good opportunity to showcase the island, which looked spectacular on a world stage. From our perspective, it was a great opportunity to spend time with our customers at a premier sporting event. During the America's Cup, we hosted about 250 clients, brokers and guests, representing roughly one-third of our portfolio and 11 of our top 15 global clients. We were always looking for ways to broaden and deepen our customer relationships, and we were glad to participate in a win-win for both Bermuda and RenaissanceRe.

The second of the three superiors is superior risk selection. This quarter, we executed well in a tough operating environment. Not least among these was the Florida Cat marketplace. I will provide some color later in the call on what happened, but risk selection never dies. And I'm confident that we selected the best risk and constructed an industry-leading portfolio that will generate shareholder value over the long-term.

The third of the three superiors is superior capital management. Bob will discuss our capital management in greater detail, but it was once again a bright spot for the quarter and helped us maximize shareholder value. Superior capital management gives us broad and deep access to the most efficient capital, providing us with great flexibility to offer our clients the efficient coverage they need in the form that they desire.

During the quarter, we repurchased approximately 70 million of our shares; notably, we raised $760 million to purchase Platinum in 2015. And since that time, we've returned $850 million to our shareholders through buybacks and dividends.

Another success for the quarter was their timing of their recent debt issuance of $300 million of ten-year senior notes at a coupon of 3.45%, our lowest coupon ever. At around the same time, we repaid $250 million of senior notes with a coupon of 7.5%.

Effectively, replacing the maturing debt at half the cost and lowering interest expense. The latest deal increases our capital efficiency and is a great example of superior capital management. It was also a strong vote of confidence by the capital markets and our strategy and future prospects. Predictions of rising interest rates have been a major theme since the U.S. election. Market expectations are that rising interest rates will bring some relief to the onslaught of cheap capital flooding our business and suppressing returns.

Unfortunately, while higher interest rates would be welcome, I do not believe they will be the panacea some need them to be. For better or for worse, reinsurance has been discovered by the capital markets, and I believe it is here to stay even in higher interest rates environments. We recognized changes in the market from both clients and capital early and acted appropriately.

We have grown and transformed RenaissanceRe from what was predominately a property cat reinsurer to what is now a larger, highly diversified property casualty company. We expanded into new regions and new lines of business, starting a Lloyd's syndicate in 2009 and acquiring Platinum in 2015. This development of our platforms and capabilities has allowed us to support our clients more broadly and responsibly grow our premium volume 50% over the last few years.

This growth came without a corresponding rise in capital and expenses, significantly increasing our capital leverage and operational efficiency. We also continued to evolve our investment strategy to reflect a diversified Property and Casualty company that we have become in the long new tail nature of our liabilities.

We have completed the hard work necessary to grow and transform RenaissanceRe into a strong and flexible underwriter that can succeed under all market conditions. We're fortunate to be ahead of the trend, because given the market behavior we experienced during the recent renewals, I believe our greatest growth is likely behind us for the foreseeable future. Going forward, we will continue to exercise the discipline necessary to ensure RenaissanceRe continues to write profitable business and maximize shareholder value. We're in the enviable position of being a market leader which we will protect by always striving to be the best underwriter. The best underwriter does not write unprofitable business.

I'll discuss recent renewals and future opportunities in greater depth later in the call, but first, I'll turn the call over to Bob to look at our financials. Bob?

Robert Qutub {BIO 15269353 <GO>}

Thanks, Kevin, and good morning, everyone. I'd like to first give you a few overall themes for the quarter, and provide some detail on our consolidated and segment financial results and conclude with investments and capital activities.

As Kevin noted in his opening remarks, we were pleased with our results for the quarter, as we experienced a relatively low level of catastrophe losses. This combined with solid investment results and our continued focus on capital and expense management resulted in annualized ROE of 15.2% and an annualized operating ROE of 10%. Overall, we built an attractive portfolio of risk, given prevailing market conditions. We stay true to our strategic objectives during the quarter, allowing us to grow our consolidated top line.

Our Casualty and Specialty segment saw a 24% increase in gross premiums written during the quarter, with the majority of the increase coming from certain casualty classes of business where our team successfully executed new deals with select core clients. In our Property segment, we saw some unique and attractive opportunities for new business as well as opportunities for greater placements on existing business.

As a result, gross premiums written in our other property main class of business increased 42%, albeit from a relatively small base. This more than offset the continued soft pricing environment we experienced in catastrophe. Overall, gross premiums written in our Property segment were relatively flat during the second quarter of 2017 compared to the second quarter of 2016, as we maintained our underwriting discipline and executed our gross-to-net strategy.

Now, moving on to our consolidated financial results. For the quarter ended June 30, 2017, we reported $263 million or $4.24 per diluted common share and operating income of a $113 million or $2.79 per diluted common share. We generated an annualized ROE for the quarter of 15.2% and an annualized operating ROE of 10%. Our book value per share increased 3.9% and our tangible book value per share including accumulated dividends increased by 5.2%. Underwriting income was $110 million and we reported an combined ratio of 71%.

Let me now shift to our segment results, beginning with the Property segment followed by Casualty and Specialty. As noted earlier, our Property segment gross premiums written were up 1% for the second quarter, compared to the second quarter of 2016 and was comprised of our catastrophe class of business down 5% and our other property class of business being up 42%.

It is worth mentioning that excluding a $11 million of reinstatement premiums written in the second quarter of 2016, which is associated with the 2016 Texas event and the Fort McMurray Wildfire, gross premiums written in our catastrophe class of business would have only decreased 2%. And although gross premiums written were up slightly, net premiums written were down 4%, reflecting increased purchases of retrocessional insurance - reinsurance as part of the management of our risk portfolio and execution of our gross-to-net strategy.

For the second quarter, the Property segment generated underwriting income of $107 million and a combined ratio of 45%, compared to underwriting income of $55 million and a combined ratio of 71% in the comparative quarter. As noted, we grew the top-line in this segment, driven by the other property main class of business. This business tends to be more proportional and delegated authority in nature and carries with it a higher expected combined ratio than our catastrophe excess of loss business.

As Kevin noted in his remarks, the second quarter was relatively quiet on the catastrophe front resulting in a current accident year claims ratio for our Property segment of 30% compared to 49% in the comparative quarter. And I recall in the second quarter of 2016, included the impact of Fort McMurray Wildfire and a number of other weather related events in Texas which added approximately 30 points to the Property segment combined ratio then.

In addition to lower accident year claims, we also experienced favorable development in our Property segment of $24 million or a 12 point reduction to the Property segment combined ratio compared to $13 million or 7 points in the comparative quarter. Favorable development on prior accident years was driven by ongoing reviews, which in this quarter resulted in reductions to our estimated ultimate losses associated with a number of PCS event driven losses, primarily from the 2015 and 2016 accident years.

Now moving on to our Casualty and Specialty segment, where in the second quarter of 2016, gross premiums written were up 24% relative to the second quarter of 2016, principally due to selective growth from existing business and private placement within certain of our casualty lines of business while exercising our underwriting discipline. Although growth premiums were up in the quarter and year-to-date, we don't expect the pace of growth to continue for the rest of the year, as the marketing conditions were rather challenging in the second quarter through the July 01, renewals and notwithstanding a couple of meaningful private deals, our growth would have been somewhat tampered. Kevin will expand more on the current market conditions later on the call.

With the growth we've experienced to-date in the top line, we continue to execute on our growth to net strategy, having ceded out 33% of our Casualty and Specialty premiums, given current marketing conditions.

The Casualty and Specialty segment generated underwriting income of $3 million, and a combined ratio of 98.5% in the second quarter of 2017, compared to underwriting income of $9 million and a combined ratio of 94.5% in the comparative quarter. The increase in the combined ratio on our Casualty and Specialty segment was driven by a modest three-point increase in the net claims ratio to 58% in the second quarter of 2017 compared to the second quarter of 2016.

The slight uptick in the net claims ratio is largely tied to a shifting business mix, specifically the aforementioned increase in our casualty lines of business, which will be getting to constitute a larger percentage of our growth that will carry a higher claims ratio with other specialty and financial lines combined with a number of claims stemming from certain small events. As with each quarter, we evaluate our reserves for developing trends and remain comfortable with our process and our reserve adequacy.

Across the organization, and specifically in the Casualty and Specialty, we have maintained our focus on leveraging our existing cost base, as we seek to expand our franchise across our global underwriting platform. This work has become increasingly important, as we continue to see acquisition expenses creeping up, driven by our growing proportional book, which tends to have a relatively higher acquisition ratio to the non-proportional business. We're able to keep the overall underwriting expense ratio on our Casualty and Specialty segment relatively flat in the second quarter of 2017 versus the comparative quarter.

Now, turning to investments in the second quarter, where we reported net investment income of $54 million, comprised mainly from our fixed maturity securities and alternative investments portfolio. Net realized and unrealized gains on investments was $58 million, for a total investment result of $112 million, generating an annualized total return on our overall investment portfolio of 4.8%.

Our equity portfolio continued to perform well as market delivered positive returns during the quarter. In addition, interest income from our fixed maturity investment portfolio benefited from higher average invested assets and the portfolio continued to generate positive returns, interest rates and credit spread rally.

Our investment portfolio remains conservative with respect to interest rate, credit, and duration risk, with 89% allocated to fixed maturity and short-term investments with a high degree of liquidity and modest credit exposure. The duration of our investment portfolio remained relatively short at 2.6 years consistent with recent quarters. The yield to maturity on fixed income and short-term investments was 2.3% at June 30, which is flat compared to the end of last quarter. Our strategic investment portfolio managed by our ventures unit, again produced positive returns for us and we continue to be satisfied with the long-term fundamentals of the companies we own.

Now, turning to our capital management activities during the quarter. As Kevin pointed out, we repurchased $70 million of our common shares during the second quarter and subsequent to June 30 and through last Friday, we repurchased an additional $2 million of our common shares. This brings our year-to-date repurchases to $152 million.

And as discussed with you before, share buybacks continue to be our preferred method to return capital to our shareholders. As we look forward, any decision relating to share repurchases will as always depend on our view of the business opportunity, the profile of our risk portfolio and a number of other financial metrics, none of which should be taken in isolation.

In other capital management activities, we repaid the full $250 million of our 7.5% senior notes that came due on June 01, with existing cash on hand. And in late June, we raised $300 million, a 3.45% senior notes due 2027 as market conditions proved, provided us with an unique opportunity to raise additional funds in the debt market at the lowest rate ever for Renaissance group. This has allowed us to lower our overall cost of capital, and I'm proud of our team as they quickly identified the opportunity and efficiently brought the transaction to market, securing a very attractive coupon for ten-year notes.

Our balance sheet remains highly liquid, and our capital position remains very strong. We have efficient access to capital through multiple sources, as evidenced by our recent debt issuance, take advantage of underwriting and business opportunities, strategic investments in capital management activities as they may arrive.

Our ventures team continues to actively build relationships with high quality, long-term investors, as well as looking for new transactions that can enhance our underwriting franchise. The capital management actions reflect a quickly evolving market, and we believe we have developed a unique agility to deploy capital where it is needed most through our own underwriting platforms or through our managed balance sheet and remove it from areas where it is not earning a suitable return.

And with that, I would like to turn the call back over to Kevin.

Kevin J. O'Donnell

Thanks, Bob. I'll start with my comments in the Property segment, and I'll move over to the Casualty segment. Our Property segment performed very well in a number of ways during the quarter. Certainly with regard to the results, which Bob has already described, but also with regard to our underwriting at a major renewal date.

We maintained and strengthened key customer relationships in a market that presented limited new opportunities. It was not a surprise to us that the competitive nature of the property market continued at the mid-year renewals, and we have positioned our portfolio accordingly in response. At the June 1, Property cat renewal, we did a good job of managing growth and net Property cat premium, and we grew our books of property quota share, property per risk and property behind your business or what we refer to as other property during the quarter in line with expectations. These portfolios are written mostly in our U.S. and London offices, and I'll touch on them in more detail later.

As we've mentioned previously, we retain about half of our premium in the Property segment reflecting our desire to bring efficient capital to DaVinci, Upsilon, Fibonacci and all the other vehicles, and to improve the capital efficiency and returns of our net portfolios through the use of ceded reinsurance.

Looking more specifically at Property cat. Demand in the second quarter was essentially flat, which added to some of the competition. One factor behind this lack of increased demand for traditional reinsurance was the pricing witnessed within the cat bond market. There was $6 billion of cat bonds issued in the second quarter and have been over $9 billion of cat bonds issued for the first half of the year. To put this in perspective, there was less than $6 billion of issuance for the whole of 2016. I am not sure how much this added to the pressure at this renewal, but it did not help.

Pricing in our overall Property cat portfolio at the mid-year renewals, which would reflect both the U.S. and non-U.S. renewals was down by roughly 5%, broadly in line with expectations. Underlying the relatively small decrease in our property cat gross premiums were significant changes in individual programs, as we reduced on the worst and increased on the best.

This along with our gross-to-net strategy allowed us to keep our net exposure to the wind season relatively flat, trading a little less risk down low for a little more risk at higher return periods, but great results in a tough market.

To focus on the U.S. and Florida. This market also saw essentially flat demand and pricing down by about 5% overall, whereas in previous years, there've been some programs repriced that have experience shortfalls. With abundant capacity this year, all programs were placed relatively easily. As per terms and conditions, these were stable, with the main change of note being the coverage for named storms moving from traditional hours clause to event coverage.

We worked with our customers and brokers well ahead of time to develop new contract language, giving customers the coverage they need without taking gratuitous exposure ourselves. It is also worth talking of losses witnessed this year-to-date. While losses were relatively benign in the second quarter, with the PCS index coming in about average, we estimate that the first half of 2017 experienced approximately $17 billion of property loss in the U.S. due to severe weather. This is more than double the first half average over the last 10 years.

These losses were more about frequency than severity however, with no single event exceeding $2 billion. Consequently, most of these events were too small to trigger excess of loss reinsurance coverage, since losses were mostly retained by insurance companies, once again reinsurers had outperformed on an actual as opposed to an expected basis.

Moving from property cat to our other property portfolio. There was fairly substantial growth in our other property portfolios this quarter relative to last year, albeit coming from a smaller base. This business is primarily written on our U.S. and London platforms, and as we have mentioned on previous calls, we made the decision to grow another property, as we have strong relationships with large writers of property portfolios and have improved our tools to assess and manage this business.

It is a natural extension to the products we are providing to support our customers and an effective means of adding attractive risk to our portfolio. We increasingly want to be able to service our customers by providing them with the coverage that they seek in the form that they chose to cede it. As a reminder, while we do not think of these risks as entirely diversifying to our cat portfolios, since there is catastrophe risk included, we are also assuming more attritional losses as reflected in our combined ratios. We have the tools to determine, where we are best paid for property risk and are confident that this other property business will be accretive to shareholder value over the long-term.

In the Casualty segment, we executed well during what was a tough renewal for certain lines of business. Our Casualty segment gross written premium was up almost 25% year-on-year in the second quarter and roughly 7% year-to-date. This growth reflects both our underwriting actions in the second quarter as well as the business we put on the books over the prior year. And it's testament to be underwriting team leveraging, our established platforms in U.S., Bermuda and London to write attractive diversifying business.

The second quarter was a busy one within the Casualty portfolio and to be clear, this market continued to be highly competitive. There was ample capacity for most deals, as reflected in the ceding commissions that clients were able to achieve, and we saw some deterioration in terms and conditions of certain lines of business such as professional lines and D&O.

Unfortunately, the overcapacity chasing diversifying business has resulted in erosion of profit margins. We expect that this trend will continue and have seen an increasing flight to quality of underlying insurance portfolios. We've been monitoring the underlying business to ensure we are constructing a profitable portfolio, looking forward our tactics will depend on the market environment.

With this backdrop, we reduced or came off a number of accounts in the second quarter either due to market conditions and competitive pricing or underperformance. We were partly able to offset these reductions with some specific opportunities in our Casualty portfolio in both the U.S. and Lloyd's platforms. These opportunities were the result of our leadership position in Casualty and our ability to support clients with private deals are certainly ones, which were not widely syndicated.

Our preferential access to this business is in part due to our team's ability to differentiate RenaissanceRe to a role of strategic advisors and reflects the clients and brokers come to us for more than just capacity. They value our perspective on the market and their business, as well as our ability to offer alternative solutions when innovation is the most appropriate answer. This is further evidence of us putting our three superiors into action.

Over the next year, we anticipate fewer opportunities within the Casualty portfolio and will continue to monitor the underlying business to ensure we are constructing a profitable portfolio. As we've said a few times in the past, we expect that the Casualty portfolio will reflect some lumpiness both in terms of premium writings and also losses.

This quarter, we experienced favorable development, but I would not read too much into any one quarter being positive or negative. It is trends that are important in long tail lines and we are not seeing anything worrying within our overall reserves. I expect to have ups and downs, but remain confident that our book is profitable and will be accretive over the long-term.

I'd now like to touch on our gross-to-net strategy, which is often the key differentiator for many of our competitors. Our ceded position remained consistent this quarter, as we once again ceded a meaningful portion of our gross premiums. We purchased significant protection, ceding over one-third of our Casualty premium and after adjusting for retro purchase and the use of joint venture vehicles, retained roughly half of our gross written premium in our Property segment.

Our goal is to construct the most efficient portfolio risks and our gross-to-net strategy is a key driver of that efficiency. When we cede risk, we're putting other people's capital up against our customers risks, and typically getting paid to do so. In essence, we are trading some short-term income for significant long-term outperformance. Over long periods of time, we believe this strategy will prove correct, and that has certainly been our history.

In conclusion, we had a solid quarter and executed well on our three superiors in a difficult environment. We successfully managed operating expenses, kept our catastrophe exposures relatively flat and managed our capital well in the quarter. Going forward, we face an increasingly competitive market, but I believe our flexible platform and expanded underwriting capabilities will allow us to maintain underwriting discipline and continue to deliver shareholder value.

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

Q&A

Operator

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

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Hi. Good morning. First question on – Kevin, great disclosure on the catastrophe market. I'm just trying to tie a couple of things together. In your opening commentary, you pointed to growth being lower for the foreseeable future. Now are you pointing to – I mean, there was some growth to start the year. I'm just trying to get kind of what numbers you're pointing to within that book.

And then as we think about cat, the majority of renewals have already taken place for this year. I mean, is there anything that you can think, too, that would cause you to think that the catastrophe market conditions would change when we start thinking about January 01, of next year? Obviously with the caveat being we - don't know how the hurricane season will turn out?

A - Kevin J. O'Donnell

Thanks, Elyse. With regard to the cat market, I think if you go back in the first quarter call, we talked that we thought we would shrink a little on Property cat and we would grow other property. We ended up holding a little bit more Property cat premium than we expected, not because rates were wildly different than where we anticipated, just because of the relationships we have and the opportunities we saw. You're absolutely right, there's not a lot that renews in the cat market between now and year-end.

And absent a catalyst, I think it's difficult to think that the trends we're seeing in the business will change. So I would go with an expectation that, absent some reason to reconsider the market, that our view of the market will likely be unchanged if there's no catalyst for change.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. And then in terms of the Specialty Casualty business, your underlying loss ratio in that was about a 69% this quarter, which was in-line with the first quarter. And I know you called out some events, that 5 points impacting that number. There was - Bob, you pointed to some smaller events this quarter. If you can kind of put a number on that. I'm just trying to think, like, with the business mix that you've been shifting to there, is the 69% the right kind of underlying loss ratio, ex-reserve development, to think about in that business going forward?

A - Kevin J. O'Donnell

Yeah. We did try to give some additional disclosure on that. And I think what we - one of the components of that disclosure was that the last year's number was - there was a movement in it, so the spread between last year and this year was a little bit larger than what we would have expected. But I think in thinking about the current year loss ratios in the high 60s is about right going forward.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. And then in terms of capital management views, in some periods, you guys have taken the stance of maybe being a little bit less active during hurricane season. What are your thought processes - thought process surrounding repurchasing stock this year during the wind season?

A - Robert Qutub {BIO 15269353 <GO>}

Sure, Elyse. I think going back to my comments and the text of my speech here, we really look at a number of different factors. It's difficult for us to predict what our capital allocation will be for share buybacks in the third quarter. Yes, but wind season is out there, but that doesn't mean we haven't bought shares in the third quarter before. We bought $2 million this quarter already. But aside from that, I mean, just a number of different factors, Elyse.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Okay. I appreciate the color. Thank you very much.

A - Kevin J. O'Donnell

Thank you.

Operator

Your next question comes from the line of Kai Pan with Morgan Stanley. Your line is open.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you, and good morning. First question on the Florida, your gross-to-net strategy. Are you buying more protection for lower layers? How's that tied to your forecast for this hurricane season? Some forecasts say, this year, probably more active hurricane season?

A - Kevin J. O'Donnell

Yeah. So, let me start with just the ceded construct of our portfolio. I think largely, the vast majority of our ceded construct this year versus last year is consistent. I think two things I'll highlight is we didn't renew our cat bond, which is the Mona Lisa cat bond on which was protecting the more remote end of the distribution, but we did buy a little bit more traditional ceded coverage which is more in the meat of the distribution. So that's why – one of the reasons we have a little bit more risk at the more remote return periods and a little bit risk at the more frequent return periods.

With regard to the sea surface temperatures and the forecast for above-average activity, it's obviously something that we look at. It's a risk that we believe we must manage, it's not a risk that we look to pass on to those ceding risk to us. So it's something – obviously, we have a lot of resources put to understanding it. And it does affect the way we shape our portfolio, but much more on a net basis than on a gross basis.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. That's great. And then second question on the Casualty Specialty line of business. Been growing pretty fast the last few years, and if you look at underlying, combined ratio for this book is running above 100%. So I just wondering, I just want to sort of reconcile the rapid top line growth versus the profitability of the business. When can this line becoming a meaningful driver in term of underwriting income?

A - Kevin J. O'Donnell

Sure. I think I would shift the focus from a quarterly growth and just look at the year-to-date growth for the overall segment, which I think is about 7%. So yes, we are growing in that line of business, but that growth is tempered compared to what we've seen over the last few years. This is a long-tail line of business, as you know, and it will take some period for the book to mature. So I think it will take a few years for the real earnings power of this book to emerge. But I feel very comfortable about where our curves are and how they are – or our legacy book is developing against those curves.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. So do you have any expectation, was eventually, that the current book will run out just in the high 90s combined ratio if you're taking consideration of future reserve releases?

A - Kevin J. O'Donnell

So I think – the way I think about it is our reserving loss ratios are setting our current year reserving targets. And a lot of that – and I think about it is really what's the premium adequacy for the book, and then our prior year is really a measure as to how we're developing along the path to those loss ratios. So I actually don't separate the loss ratios as much and just kind of look at the combined performance of the book. I think, thinking about it from quarter-to-quarter is a little too short. We'll have some ups and downs, but ultimately, I believe that this book will be accretive on an underwriting basis and overall, including investment income.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. That's great. And my last question is, you probably saw this morning, Markel acquired State National and they also own CATCo as well. I just wonder, do you see any change in the sort of competitive marketplace in term of alternate capital managements? And how do you view RenaissanceRe's market position?

A - Kevin J. O'Donnell

So I did see that Markel brought State National, and I obviously know that they own CATCo. I'm not sure if that's a strategic tie there where they're looking bring CATCo more to the primary market through the fronting of State National. From our standpoint, I feel great about our access to capital and our access to risk. I think we can structure – anything that we've seen structured in the market, we have the capability to structure, what we do put forth is really more customer-driven and not seeking to bring funds under management. When we think there's a customer need, and we can bring efficient capital to that customer need, we'll either bring that from the capacity that we have or structure a vehicle to meet the need of the customer.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you so much.

A - Kevin J. O'Donnell

Thanks.

A - Robert Qutub {BIO 15269353 <GO>}

Thanks, Kai.

Operator

Your next question comes from the line of Jay Cohen with Bank of America. Your line is open.

Q - Jay A. Cohen {BIO 1498813 <GO>}

Yes. Thanks. I just wanted to focus on the G&A expense, kind of that absolute number. You've done a really good job of bringing that down. The 2Q clearly came down even from the first quarter, I think, in every segment. I'm wondering, should we be looking at that number in the 2Q as really the run rate? Or should we look at maybe the first half or the last four quarters? Give us a sense of kind of where you are in that regard.

A - Robert Qutub {BIO 15269353 <GO>}

Sure, Jay, this is Bob. We've been focusing on the platform costs ever since the acquisition. Had a lot of volatility, there's been a lot of, "I guess other items". And when you look at the first two quarters this year, it's been fairly clean. And we continue to focus on that, allowing us to leverage growth on the platform, as Kevin talked about elsewhere.

Q - Jay A. Cohen {BIO 1498813 <GO>}

So that 2Q number is a pretty good number to consider going forward.

A - Kevin J. O'Donnell

It was pretty clean this quarter. There was a few small things, but no, it's a low quarter. There wasn't anything significant like severance or other one-time items. But look at it in the context of the first half of the year, relatively I would say, that's a good course that we're setting.

Q - Jay A. Cohen {BIO 1498813 <GO>}

That's really helpful. Thanks.

Operator

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

Q - Meyer Shields {BIO 4281064 <GO>}

Great. Thanks. I guess this is a question for Kevin. When you – what's the positive opportunity for RenaissanceRe when the third-party catastrophe models update their modeling expectations?

A - Kevin J. O'Donnell

I guess the most recent one that's out is really RMS 17. I think our process, frankly, is that when a model is released, it's a little bit like Christmas around RenaissanceRe with all of our scientists waiting eagerly to open up the present and see what they can pull out of the model. So we'll pull it apart, look for what has changed and figure out if there's elements of that, that we can incorporate into our independent view of risk. We've spent 25 years honing that, and a lot of that honing has come from the work that either RMS or AR or others have done to challenge the way in which we look at risk.

So from – the most constructive way to think about it is, I would say that one of the things that we do is we bring that learning to our customers. So as RMS 17 has made changes, we bring that understanding to our customers and give them a clean view of risk through that new lens so that they can understand whether they want to accept the changes that are made and how it can impact either the way that they can construct the portfolio or think about ceding their risk.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, thanks. That's very helpful. And then broadly, you talked a little bit about the evolution of the investment portfolio. Theoretically, if premiums level off but longer-tail lines reserves accumulate, does that imply continued sort of changing in the portfolio?

A - Robert Qutub {BIO 15269353 <GO>}

Hey, Meyer, this is Bob. Let me take that one. We talked about the portfolio being a very short duration, 2.6 years. It's a reflection of how that portfolio has been constructed in the past. As Kevin mentioned in his comment, the longer-tail business will develop over time. That will give us some opportunities to look at the profile of the balance sheet. And as we see future quarters, there may be things we can look at expanding the risk profile to some degree. But everything will be sort of evolutionary and gradual as we look at those opportunities as they come at us.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. Thank you very much.

A - Robert Qutub {BIO 15269353 <GO>}

Nice.

Operator

Your 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 quick questions here for you. First one, just curious, we're seeing a decline a little bit here in the financial lines. Is that related to just the mortgage guarantee business starting to come down a little bit? Is that market getting a little more competitive?

A - Kevin J. O'Donnell

Yes, I think, one thing is last year, we saw some opportunities to pick up some legacy books. So we knew that we're going to leg into those a little bit more than what we knew was going to be sustainable. So it's a little bit of coming off a high base. I think looking at financial lines now, they're, I believe the market is still profitable and there's still good opportunities there. It has become more competitive, so I think the reduction you're seeing is a little bit reflective of our continued discipline in underwriting that, but also the fact that we had a bigger book last year because of those legacy portfolios than we otherwise would have.

Q - Brian Meredith {BIO 3108204 <GO>}

Got you. And then just curious, Kevin, what's your kind of thoughts right now as far as the competitive dynamics of the Lloyd's market? Are you seeing any change, getting worse, better, which way?

A - Kevin J. O'Donnell

Lloyd's market is very competitive right now. I think I'm pleased with, looking at our Syndicate last year, I think we had a 52% loss ratio, which again, just recognizes good results. What's tough is the expense load within that Lloyd's framework. I know Lloyd's is - as an entity, is looking at ways in which they can begin to tackle that, both thinking about what the acquisition costs are to enter Lloyd's and also what are the administration costs for participating in the Lloyd's market. So I think there are some challenges within Lloyd's. I think they're probably going to be with us for some period of time, but I feel as if we're navigating it better than most, but have to fully recognize it's a tough market there.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. And then last because I'm just curious, going back to the Casualty and Specialty business, and you're definitely ceding away a fair amount of that premium. My question, I guess, is are you benefiting at all in your underlying combined ratios from the cessions? Or is that actually hurting for the time being? Clearly looking at your acquisition expense ratios, which are on the higher side.

A - Kevin J. O'Donnell

Yeah. So let me answer this the way an underwriter would look at it and then the way we're representing it. The underwriter's view of it is it's helping our net economic portfolios. So we are ceding at terms and conditions that are accretive to the overall book of business from - within the underwriters view on an in-force basis. The GAAP representations, we buy a fair amount of excess of loss reinsurance, that's definitely hurting us from the GAAP representation because we're spending premium and not getting the recoveries because, as I mentioned, a lot of these stuff, particularly in the first half of this year, was high-frequency, low-severity stuff. So I think it's a bit of a mixed bag. We think it's the right thing to do and it's the way we've always looked about constructing our portfolios, but it does hurt us from a GAAP representation.

Q - Brian Meredith {BIO 3108204 <GO>}

Got it. Thank you.

A - Kevin J. O'Donnell

Sure.

Operator

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

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

Hi. Thank you. Kevin, I guess the first thing I wanted to touch on is, as I was looking through the numbers, one thing that stood out to me was your acquisition costs, back when you were mostly a cat company, that was close to 10%. After the deal, it was sort of maybe mid- to high-teens. In the past few quarters, it's more like a 22%, 23%. And I understand why. Obviously, the mix is changing. But are we sort of at a stable point, where like 22%, 23% is the way to think about acquisition expense? Does it continue to go up as you continue growing faster in the non-cat areas? Was there anything abnormal in the first half that I would expect it to be lower? Just can you give us a sense of how to think about that?

A - Kevin J. O'Donnell

Sure. So in Property – the other property stuff will continue to push up the overall Property segment, one. But I think you're probably more focused on Casualty. Is that right?

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

I was asking company-wide. So wonder (0:45:24) give me those numbers.

A - Kevin J. O'Donnell

Okay. So the other property component is, it's more a proportional business, so we'll be paying heavier cedes. So we should expect to see our overall acquisition cost within the Property segment rise as other property becomes a bigger component of that portfolio. But the cat side is reasonably stable. So from – I think if it was just a cat company, I don't think you'd see any material change in our acquisition costs.

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

Right.

A - Kevin J. O'Donnell

Moving over to Casualty. Ceding commissions elevated over the last several years but are pretty stable. Any changes you – yes, so any changes you would see within our acquisition cost within Casualty will be about portfolio shift among lines of business. But within each of the businesses that we're in, the overall acquisition costs are reasonably stable.

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

Got it, makes sense. Okay. Then on the investment income, you have been sort of – on the fixed side, sort of a high 30s run rate for a while. In the past two quarters, it's been more like a 44%. Anything unusual in there? Or it this just you've redeployed some with higher rates and this is a better base?

A - Robert Qutub {BIO 15269353 <GO>}

I mean, regarding the investment portfolio, Ian, I think as I said, we haven't really made much of a change. Duration has gone out a little bit from low 2s to mid, 2.6 years. The yields have been kind of reflective of the market in what that position would be. We're at 2.3%. We've seen it bounce around. We have modestly increased a little bit of our credit risk over the last year, but the reality is we're about the same. But going back to your earlier question, we're looking at the changes in our portfolio of risk on the liability side for opportunities that we can possibly extend that out. Now having said that, our equity portfolio again continues, on the total return basis, perform adequately. Very well, actually. And if you look at the mark-to-market, you'd see that half of it was driven by equity, and the other half was driven by the fixed income portfolio.

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

Got it, okay. And then just the last one I had was looking just at the other property segment disclosure, it looks like the past few quarters, it's, on an accident your basis, call it a low to mid-90s combined. And there hasn't really been much cat activity, if any, in there. So if I can guess in your cat load just from other companies who have that sort of business, what it seems to suggest that it's over 100. And maybe that's just being conservative on the picks. But can you give me a sense of what normal is? I mean, I guess I would have thought that should be a mid-80s. Maybe in today's market, a high-80s type of book. What am I missing? Is it just that the expense ratio needs to come down as you grow? Or is there something else?

A - Kevin J. O'Donnell

What I think one of the drivers on that which is hard to give transparency on is the construct of the ceded portfolio supporting that book of business.

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

Okay.

A - Kevin J. O'Donnell

So we have a lot of excess protections on the other property book. Most of those have not been triggered with the attritional stuff coming in. So I think absent that, I think a lower loss ratio is absolutely achievable. But again, we're doing what we think is the right thing for constructing the portfolio, and part of that is an unfavorable GAAP representation.

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

That make sense. Is there an aggregate element to that as these attritionals continue? Or is it really more traditional XOL.

A - Kevin J. O'Donnell

It's more traditional XOL. And I think it's - and from what we're seeing on the attritional side, there's - I wouldn't point to particular problems in the book either. It's just the way it's being represented on the GAAP basis.

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

Got it, okay. Thank you. I appreciate it.

A - Kevin J. O'Donnell

Thanks.

Operator

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

A - Kevin J. O'Donnell

Well, we appreciate you all joining us for this quarter's call. Thank you for your attention and your questions. And we look forward to speaking to you next quarter.

Operator

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