Q3 2020 Earnings Call

Company Participants

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

Other Participants

- Brian Meredith, Analyst
- Elyse Greenspan, Analyst
- Jimmy Bhullar, Analyst
- Josh Shanker, Analyst
- Meyer Shields, Analyst
- Phil Stefano, Analyst
- Ryan Tunis, Analyst
- Yaron Kinar, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the RenaissanceRe Third Quarter 2020 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). Please be advised that today's conference is being recorded (Operator Instructions).

I would now like to hand the conference over to your speaker today, Keith McCue, Senior Vice President, Finance and Investor Relations. Please go ahead, Mr. McCue.

Keith McCue {BIO 20595590 <GO>}

Good morning. Thank you for joining our third quarter 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 2:00 PM Eastern Time today through midnight on November 28th. The replay can be accessed by dialing 855-859-2056 US toll-free or 1-404-537-3406 internationally. The passcode you will need for both numbers is 2968847.

Today's call is also available through the Investor Information section of www.renre.com, and will be archived on RenaissanceRe's website through midnight on November 28, 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 everyone, and thank you for joining today's call. Once again, we find ourselves at the end of a very active third quarter, which saw numerous name storms making landfall in the US, record-breaking wildfires across the West Coast and multiple typhoons in Asia. We extend our sympathies to all those impacted by these catastrophes. An important part of our purpose is to support rebuilding and recovery efforts after disasters strike, which we do by providing solutions and protection, sharing our expertise and paying valid claims promptly. So, while our results for the third quarter reflect an elevated level of activity, these are risks that we fully understand and are paid to take, and I am proud of the role we play helping people when they need it most.

The Q3 2020 large loss events were driven in particular by Hurricanes Laura and Sally in the Gulf of Mexico and the wildfires in California, Oregon and Washington. The fourth quarter has also been active so far with Hurricane Delta making landfall as a Category 2 in nearly the same location as Hurricane Laura and continued wildfire activity.

Last year, during our third quarter call, I discussed our belief that climate change contributes to making extreme events more frequent and more severe. This year, it is already clear that we are experiencing an especially active season for both wildfire and wind. On the West Coast, California wildfires have already consumed more than 4 million acres in 2020, which is more than double either 2017 or 2018, and has resulted in over 90 million metric tons of carbon dioxide being released into the atmosphere. For perspective, this is 1.5 times more carbon dioxide than is released in powering the entire state for a year.

We continue to believe that there is strong evidence that climate change is increasing wildfire risk in California for two primary reasons. First, California's climate is hotter and drier now than at any time in the past 120 years. Higher temperatures and longer dry seasons accelerate the dessication and depth of vegetation, creating fuel for larger, more intense wildfires. Second, climate change extends the length of the dry season into the late autumn, causing it to overlap with the Diablo and Santa Ana winds. This combination of high heat and strong winds results in the dramatic spread of damaging fires as we have experienced in 2017 and '18.

Climate change is also influencing hurricane risk. Due to a globally warmed world, we anticipated a future, where a greater proportion of tropical cyclones reach Category 4 or Category 5 status. Climate change also drives sea level rise, which increases the impacts from storm surge. While there have always been natural cycles of variability in sea surface temperatures, we believe recent increases are primarily a product of climate change. Consequently, sea surface temperatures and associated hurricane activity will not revert to lower levels of prior periods, rather the heightened activity levels of the last two decades are likely the new normal for Atlantic hurricane.

Vendor cat models, however, rely on the long-term historical record to estimate risk. Unfortunately, due to climate change, this long-term record of past experience may no longer be a reliable guide for what we can expect in the future. Making the problem worse, human behavior can interact in complex ways with climate change to amplify risk of loss. For example, we have seen a long-term trend to build on coast lines or in the wildland-urban interface, often with building codes [ph] and materials that fail to provide resilience in the face of natural perils.

Recognizing the fact that climate change is increasing the risk of natural disasters is only the first step however. To gain a true competitive advantage, this insight must be accurately reflected in the cat models used to price risk. Our scientists, meteorologists and engineers at RenaissanceRe Risk Sciences have been studying the impact of climate change on natural hazards for decades. They believe that a physical model, informed by historical observations, but calibrated to our best understanding of how the climate has and will continue to change, creates the best basis for categorizing the full distribution of outcomes that should be a new written against. Applying these insights, RenaissanceRe Risk Sciences works closely with our underwriters and risk managers to build proprietary cat models that capture the physics and future impact of climate change.

Our approach sets us apart from many other underwriters or ILS managers, who often rely on a single vendor model that fails to capture the true impact of a changed climate. This can result in an optimistic representation of risk and overestimation of expected profit and dollar returns. This has obvious implications for ILS investors. But building proprietary climate change informed cat models goes beyond investments in cat risk and benefits all of our stakeholders. Our ILS partners rely on us to accurately model the risks inherent to their investment. Our clients appreciate the superior customer service that we can provide through deeper insight into the full distribution of their risk profile, which often leads to increased demand for our products. And our shareholders benefit from the more efficient portfolios of risk we can construct as well as our enhanced sustainability.

Contrary to some perspectives, accurately pricing for climate risk does not put us at a competitive disadvantage to our peers, rather an industry-leading understanding of the influence of climate on risk is a key component of superior risk selection, allowing us to shape our portfolios, but growing on the best business and shrinking on the worst.

Moving on from climate change, I want to take a minute to discuss capital deployment opportunities. As we enter the important January 1 renewal period, I believe we will have one of the best opportunities in many years to profitably deploy material additional capital. Our focus on superior risk selection should prove increasingly valuable as the combination of historically low interest rates, the Q3 2020 large loss events and material trapped capital, put additional upward pressure on reinsurance rates. We have legacy positions on the best programs, first call status to capture opportunistic and off-cycle business, and significant capital to support growth on new and existing profitable opportunities.

I'll provide more detailed update on the renewal in our segments at the end of the call. But first, I'll turn it over to Bob to discuss the financial performance for the quarter.

Bob Qutub {BIO 15269353 <GO>}

Thanks, Kevin, and good morning, everyone. As Kevin discussed and as you saw in our pre release, our third quarter results were impacted by active wind and wildfire season. Despite this elevated activity, we reported positive net income and remain in a very strong capital position going into renewals. Today, I will discuss our consolidated performance and then provide more detail on our three drivers of profit, underwriting income, fee income and investment income.

Starting with our consolidated results, where we reported an annualized return on average common equity of 2.8%, benefiting from mark-to-market gains in our strategic investment portfolio. Annualized operating return on average common equity was negative 7.7%, with the loss primarily driven by the Q3 2020 large loss events. We grew our book value per common share by $0.86 or 0.6%, and our tangible book value per common share plus accumulated dividends by $1.24 or 1%. Year-to-date, we have grown tangible book value per common share plus change in accumulated dividends by 14.6%.

Net income for the quarter was $48 million or $0.94 per diluted common share. We reported an operating loss of $132 million or $2.64 per diluted common share. This excludes net realized and unrealized gains on investments, the sale of RenaissanceRe (UK) Limited, net foreign exchange gains and expenses related to the integration of TMR. Included in this operating loss is $322 million of net negative impact resulting from Q3 2020 large loss events.

Now to clarify, net negative impact is the bottom line impact of events to us, after taking into account, our best estimate of net incurred losses along with related adjustments for earned and ceded reinstatement premiums, lost profit commissions and redeemable non-controlling interest.

I will now discuss our three drivers of profit, starting with underwriting income. On a consolidated basis, we reported underwriting loss of $206 million for the quarter and a combined ratio of 121%. Our results were driven predominantly by natural catastrophe losses with little impact from COVID-19 losses in the quarter. Gross premiums written for the quarter were $1.1 billion, up $282 million or 33% from the comparable quarter of last year. Approximately 60% of this growth came from our casualty segment and 40% came from property. We are pleased with our growth so far this year. As I've mentioned last year, we anticipate that we will have many opportunities to deploy additional capital in 2021 and beyond.

Moving now to our property segment, where gross written premiums increased by $113 million or 36% from the comparable quarter. This was driven by an increase in reinstatement premiums related to the Q3 2020 large loss events, a negative premium adjustment in 2019 and continued expansion of our Lloyd's delegated authority insurance book. The overall combined ratio for the property segment was 140%, with property catastrophe and other property reporting combined ratios of 159% and 113%, respectively. We reported a current accident year loss ratio for the property segment of 122%. And as we've indicated in the past, our other property class of business is exposed to catastrophe risks, with the Q3 2020 large loss events adding 30 percentage points to its loss ratio.

Favorable development for the property segment during the quarter was 8%, with property and catastrophe experiencing favorable development of 11% and other property experiencing favorable development, up 3%. The underwriting expense ratio for property was 26%, which is flat to the comparable quarter. However, within the underwriting expense ratio, the acquisition expense ratio was up approximately 1 percentage point due to the unwinding of previously earned profit commissions given the large cat events of the quarter. This was offset by a 1 percentage point decline in the operating expense ratio due to improved leverage and slightly lower operating expenses.

Now moving on to our casualty segment, where our gross premiums grew $169 million or 31%. This growth was a combination of expansion of existing deal share and premium as well as new business opportunities. Overall, our casualty combined ratio was 99.9%. The current accident loss year ratio was 76%, which is 7 percentage points higher than the comparable quarter. This increase is driven by three factors, each of which contributed about 2 percentage points to the loss ratio. First, $10 million of IBNR related to Hurricane Laura in our marine and energy book; second, increased reserves from our private mortgage insurer book, which did not impact the combined ratio; and third, $15 million in ceded premium for our new Lloyd's adverse development cover.

Now let me walk you through the last two items in more detail. Starting with our private mortgage insurance book, where we increased our reserves to reflect delinquency notifications. The primary mortgage insurers are required to report loans as delinquent at 60 days without payment, even if the loans are in forbearance or payment holiday and otherwise expected to perform long term. We reserve for these delinquencies as they are reported to us. That said, we do not anticipate that all of the notifications will crystallize as paid losses. While these mortgage delinquencies increased our casualty loss ratio by 2 points. Due to the structure of the transaction, these losses were offset by a decrease in profit commissions paid to our cedents. As a result, there's no impact to the combined ratio.

Now moving to the Lloyd's adverse development cover. We closed this transaction in August to reinsure the casualty reserves for our Lloyd's syndicate for the 2009 through

2017 underwriting years. The premium cost of this cover is reflected in the current accident year's loss ratio for our casualty segment, contributing about 2 points. This transaction is an innovative example of our gross-to-net strategy in action. It provides capital relief to our syndicate, over time creating additional capacity to underwrite into an improving market. This protection is a retroactive reinsurance transaction. This means that we are protected economically, but given the accounting treatment, you may continue to see reserve volatility in the short to medium-term from an accounting standpoint. During the third quarter, the casualty segment also experienced favorable development of 3%, driven by a variety of specialty lines.

Now moving to our second driver of profit, fee income, where total fee income for the third quarter was $18 million. Management fees were $30 million, up 23% from the comparable quarter, driven by increases in assets under management at DaVinci, Premier and Upsilon. This was offset by negative $12 million in performance fees due to the impact of catastrophe events on DaVinci and Upsilon. Year-over-year, total fees are up 8%. The net non-controlling interest charge attributable to DaVinci, Medici and Vermeer for the quarter was $19 million. This reflected an overall loss for DaVinci that was more than offset by income in Medici and Vermeer. The $19 million is passed on to our partner capital, reducing our operating earnings accordingly.

Now turning to our third driver of profit, investment income. We reported total investment results for the third quarter of $308 million with realized and unrealized gains of $224 million. These mark-to-market gains were predominantly in our fixed maturity and equity investment portfolio with equity gains driven by our strategic investment portfolio. We take a prudent and reasonably conservative approach to our investment portfolio and have not materially increased our allocation to high yield or equities in attempt to stretch for yield.

As I discussed on our previous call, we increased our allocation to investment-grade corporate credit in the second quarter. In the third quarter, we made more marginal allocations, increasing in higher quality credit sectors such as AAA-rated collateralized loan obligations and commercial mortgage-backed securities. Our fixed maturity and short-term investment income for the quarter was $70 million. And overall net investment income for the quarter was $84 million, of which we retained $65 million and shared the remainder with partner capital. Our managed investment portfolio reported yield-to-maturity of 1% and duration of 2.9 years on assets of $18.6 billion, while our retained investment portfolio reported yield-to-maturity of 1.3% and duration of 3.7 years on assets of $13 billion.

Now before handing over to Kevin, I'd like to provide more information on our expenses and foreign exchange gains for the quarter. Direct expenses, which are the sum of our operational and corporate expenses, totaled $97 million for the quarter, which is an increase of $30 million from the third quarter of 2019. This increase is predominantly driven by the sale of RenRe UK Limited, which I'll discuss momentarily. The ratio of direct expense to net premiums earned was 10% an increase of more than 2 percentage points from the comparable period last year. This increase was driven by corporate expenses, which increased by $34 million or 3 percentage points on the corporate expense ratio.

Included in corporate expenses were $32 million related to the loss on sale of RenaissanceRe (UK) Limited and associated transaction-related expenses and $5 million of one-off items, including expense related to senior management departures. RenaissanceRe (UK) Limited was acquired as part of the TMR transaction and primarily wrote long-tail commercial auto business. It was placed into run-up by Tokio Millennium Re in 2015, and our stated intent has always been to divest this entity. This allows us to focus on our core strategy, simplify our operations and decrease underwriting and foreign exchange volatility.

As a reminder, the loss on sale of RenaissanceRe (UK) Limited and associated transaction costs are excluded from the operating loss in the quarter. Excluding the impact of RenaissanceRe (UK) Limited and the one-off items I just described, the ratio of direct expense to net premium earned was 6%. This is a decrease of 1 percentage point from the comparable period last year, demonstrating the operating leverage embedded in our business model. And the operational expense ratio also declined by 1% point due to the reduction in office travel expense related to COVID-19 restrictions.

Finally, we reported a $17 million foreign exchange gain. Approximately half of this gain is an accounting adjustment for the prior quarter related to the Tokio Millennium Re integration. The majority of the remaining gain relates to Medici and has no impact on our bottom line as it's backed out through non-controlling interest.

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

Kevin O'Donnell

Thanks, Bob. As usual, I will divide my comments between our property and casualty segments. Overall, I am very optimistic regarding opportunities across our business as we head into the January 1 renewal. We anticipate that there will be a supply/demand imbalance in certain areas of our portfolio, particularly for capital-intensive risks driven by continued uncertainty related to COVID-19 and further accelerated by another active year for natural catastrophes. RenRe is positioned to deploy additional capital and grow, given our market leadership and long-term relationships with brokers and customers.

Beginning with property cat. The third quarter was very active for natural catastrophes in the US. So I would categorize as high-frequency and low-to-medium severity. The largest and most impactful events for us were Hurricanes Laura and Sally in the Gulf of Mexico, Hurricane (inaudible) in the Northeast and wildfires on the West Coast. Because the US had already experienced above-average frequency of events prior to the third quarter, aggregate covers also increasingly came into play. These events will add additional pressure to the already hardening rate environment from property cat and should lead to increased demand for property cat reinsurance throughout 2021. At the same time, ILS capital is becoming fatigued as investors contemplate a fourth consecutive year of elevated cat losses and additional draft [ph] collateral caused by COVID-19 BI claim uncertainty. While we are encouraged by the market, we must remember that we are still in a pandemic that is likely to result in losses across the insurance industry.

In the US, so far, we have received generally favorable news regarding the court's interpretations of the availability of business interruption protections from the COVID-19-related shutdown. It's important to recognize, however, that for the most part, these processes remain at an early stage. I remain concerned that the plaintiffs bar will continue to test new theories for recovery in multiple venues in the hopes of obtaining judgments more favorable to insurers. Such challenges will result in continued uncertainty regarding BI coverage that could extend for years. And it's irrational to believe that these processes will not result in material liabilities to the insurance industry. As with any time there is uncertainty with coverage, insurers will submit claims to protect their rights under their insurance policies. Ultimately, some of those claims may be presented to reinsurers. I think we are a long way from understanding the impact of the virus and the shutdowns. But I expect that we will see an increase in submitted claims, particularly as information is shared during the renewal process.

Internationally, business interruption is a more fluid issue as more affirmative coverage was sold outside the US. Additionally, various jurisdictions are approaching the issue of coverage differently, so we are watching this space carefully. In the fourth quarter, we expect that our renewal conversations will provide us with greater clarity regarding potential customer claims for business interruption-related losses, and we will react appropriately as we assess the validity of such claims.

Turning to other property, it was also an active quarter. This was expected. As I explained to you earlier this year, we have increased the other property book's catastrophe exposure as we believe we are being paid sufficiently for it. Consequently, other property experienced losses from the Q3 2020 large loss events, primarily from Hurricanes Laura and Sally and the Midwest to Rachel [ph]. That said, attritional losses were within our expectations, prior year development was favorable this quarter. And overall, I am satisfied with the performance of the other property book. Similar to property cat, we are seeing increased opportunities to profitably deploy material capital in other property. Rates are up, particularly in the US E&S business and the Q3 2020 large loss events will only accelerate the velocity and persistence of these rate increases. Of course, successive [ph] losses and increasing uncertainty is aggravating an already dislocated retro market. We are experienced and comfortable managing the level of uncertainty in this market, both as a buyer and seller of retrocessional coverage. Focusing on selling more in 2021 is yet another opportunity to profitably deploy significant amounts of capital.

Moving now to our casualty and specialty business. As Bob explained, this segment largely performed within our expectations during the third quarter. We experienced great increases across all major risk classes, along with acquisition and profit commission ratio improvements, and executed on several key transactions at economics that exemplify both our strategic position with core clients and a continuing hardening of casualty markets. Our ability to increase lines on targeted deals that were oversubscribed, substantiates our strategy to build options with core trading partners.

We have been closely monitoring economic impact of COVID-19-related shutdowns and the development of forbearance measures on our mortgage book. While the homeowners market has seen significant price appreciation in recent months, it comes on the back of a challenging unemployment picture that could put pressure on homeowners' ability to repay their outstanding mortgages. Despite this challenging economic backdrop, we believe that the portfolio we have constructed will remain resilient. The fundamentals of the US housing market were strong heading into the pandemic, supported by tight underwriting standards and banking regulations, high loan quality and growth of homeowner equity. And although we did not expect it to be pandemic-driven, we have been underwriting and constructing the portfolio in anticipation of an economic downturn and have actively avoided risk from lower credit borrowers for several years.

Forbearance trends are showing improvement as well. With GCE forbearance peaking at around 6.4% in May, and having consistently reduced since that time. Looking forward to the January renewal, we expect ample opportunities to deploy significant additional capital in both of our segments and across our platforms. Many markets are exhibiting supply/demand imbalances. And overall, we are seeing strong rate momentum across all lines with stable or improving terms and conditions. We have focused for many years building strong positions on high-quality programs. As the market hardens, we believe we are preferentially poised to expand our share on existing programs, while being the first call for new opportunities, both at improved economics.

I'm pleased to report the ventures team continues to operate effectively. And overall, our joint venture balance sheets continue to perform well. With the level of catastrophe losses in the quarter, DaVinci also experienced losses, but year-to-date remains profitable. Top Layer Re, Upsilon and Vermeer, all had positive quarters. And Medici, our cat bond fund, had one of its best performances in its history, and we expect it to continue to benefit from the flight to simplicity the cap on market is currently experiencing.

The ILS industry will likely suffer significant amounts of trapped capital yet again in 2020 due to the impact of COVID-19, catastrophe loss events to date and an already-active fourth quarter. The potential for draft collateral highlights an important difference between collateralized coverage and traditional reinsurance. In a collateralized deal, a cedent enjoys protection for as long as collateral is available. Consequently, in a year like 2020, cedents would prefer to maintain protection against the heightened uncertainty of losses, while providers will want to roll their capital into new deals and new premium.

Business interruption-related COVID-19 claims only intensify this inherent tension. The industry remains in the early stages of assessing the myriad of factors affecting potential BI losses of process that will play out over years. Given this, going into 2021, we expect that cedents will increasingly prefer the certainty of rated balance sheets provide over collateralized vehicles. If this occurs, we have the flexibility to transact with our customers through their preferred means of risk transfer. This is likely to result in us deploying more rated paper and shrinking Upsilon.

In conclusion, we find ourselves in a very enviable position heading into the January 1 renewal cycle. Market conditions continued to improve as the natural catastrophe activity of the quarter further restricts supply in an already-unbalanced market. As the industry grapples with the uncertainties from climate change and COVID-19, our independent view of risk provides us with an enduring competitive advantage. I am confident that we can profitably deploy material amounts of capital in this environment and continue creating long-term shareholder value in 2021 and beyond.

Thank you. And with that, I'll turn it over for questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Your first question this morning comes from Elyse Greenspan from Wells Fargo. Please go ahead.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi, thanks, good morning. My first question, Kevin, on -- I was hoping to get a little bit more color on your specific pricing outlook for January 1 in terms of both what you would expect in the US, Europe as well as in the retro markets, recognizing, obviously, we're still a couple of months out. But do you have a sense for based off of dialog you're having with cedents today, how pricing to come in at 1/1?

A - Kevin O'Donnell

So I think your comment about it being early is right. And we are having lots of discussions with our clients about what their coverage needs are. Without giving specific guidance, let me start with actually outside of your question with the casualty markets. We are increasingly seeing that on the accounts that we're reviewing, casualty rates increasing at faster rates than what has been forecast by our cedents. So, we're seeing a lot of positive movement there, which has been extremely gratifying to see and within the expectations that we had as we head into 2021.

With regard to property, I'll start with other property. There's been a lot of discussion that US E&S rates are up double digits. We are observing that, and we are continuing to see opportunities to deploy reinsurance capital supporting US E&S portfolios. And we feel optimistic that, that will continue into 2021. Property cat for traditional reinsurance, there's not that much price discovery yet in the market because we're early in the renewal process. But all the variables that we look to support, there being momentum for better pricing support that we're going to see better pricing in 2021 in the US and probably in Europe, but to a lesser degree.

Part of the reason for that is the retro market is extremely dislocated, which has a levered effect on how much reinsurance capacity reinsurers like to sell. So, as the retro market contracts further, we expect that to add more momentum to the price gains that we anticipate in the property cat market.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. And then my second question. I appreciate the disclosure on the losses that you guys saw in the third quarter. But as we think about the fourth quarter with the ongoing wildfires and multiple hurricanes, how should we think about the aggregate limits that you guys have exposed? And how much more aggregate losses you could potentially see in the fourth quarter?

A - Kevin O'Donnell

Yeah. So I think that's a good question. And when you move into kind of the later part of the year, particularly in active year, the aggregate contracts are going to play a more significant role. That said, when we're looking at the wildfires, they're ongoing, it's difficult to assess that. Those tend to often concentrate with a few insureds. So I anticipate that we will have aggregate exposure if the fires continue at the rate that we're seeing now. And then from Hurricane Delta, which is also fourth quarter, that we expect to be at -- from what we're seeing at this point to be smaller than Laura, but we're still counting and talking to customers about what the impact is.

But I would expect that there will be increased aggregate participation in these losses simply because there's been more events earlier in the year.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thanks. I appreciate the color.

A - Kevin O'Donnell

Some of the ags are actually exhausted as well. So I think there is aggregate exposure out there, but not all of it is exposed on a continued basis. It's important to point out.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. Thanks, Kevin.

Operator

Your next question comes from Josh Shanker from Bank of America. Please go ahead.

Q - Josh Shanker {BIO 5292022 <GO>}

Yeah, thank you for taking my question. You talked about casualty pricing being ahead of expectations at this point right now. Can you talk about RenRe's role a little bit in terms of how you capture that with what you write? If you write quota share business and there's a collar around it and there's a ceding commission around it, how does RenRe take advantage of that better pricing on those lines of business? And to what extent does the cedent have the ability to dictate your profitability?

A - Kevin O'Donnell

Yeah. So I think there, what we're seeing is, from a reinsurance perspective, from a terms and conditions perspective, we're seeing on the best accounts, relatively stable terms, which means the benefit of the underlying insurance rate enhancement is enduring to our benefit. And on accounts that are more challenged, we're seeing improved reinsurance terms through either more restrictive cover or more beneficial ceding commission to the reinsurer.

So I think in a market, yeah, the reinsurers always exposed to the negotiation with the cedent. We have strong relationships with the cedents that we have our most important relationships with. And I believe that most of our growth in the early part of 2021 will come from our existing core relationships and likely in existing lines at equal to better terms than what we had in 2020. And then amplifying that is the benefit of the underlying rate increase.

Q - Josh Shanker {BIO 5292022 <GO>}

And when you look at various cedents in the casualty markets who might be interested in sending you business, what is your sense of the -- their reserve adequacy. Or to what extent is the reinsurance markets, I guess, more aware of problems, I guess, in the quality of primary reserves to the extent that it might be reflected right now in the market in general?

A - Kevin O'Donnell

So we have our own reserving philosophy, and we do kind of a ground-up underwriting to make sure that we can assess what we think the expected profitability of an account is. The question you're asking, I think, is one -- there's a legacy piece on business we may not be on and have less interest in understanding. And then there's the current underwriting year where we're participating, where we have a very deep understanding. There is often a difference between our reserving loss ratio and our clients' reserving loss ratio. But I think that's not a problem for the way we think about the business. And over time, they'll probably reconcile into a much more closely aligned representation of the risk. So, I think from a current underwriting year basis, we do look at it for older reserves and legacy portfolios, we're less interested because we're not in that business.

Q - Josh Shanker {BIO 5292022 <GO>}

Well, I mean, you are through TMR, although you obviously have the adverse cover, so you're not as concerned about it, I suppose.

A - Kevin O'Donnell

Yeah. And on those, we're developing them on our best estimate of the portfolios. And as they age, they're becoming much more stable. But you're absolutely right, all of that legacy business is protected.

Q - Josh Shanker {BIO 5292022 <GO>}

Thank you.

A - Kevin O'Donnell

Yeah.

Operator

Your next question comes from Meyer Shields from KBW. Please go ahead.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks, good morning.

A - Kevin O'Donnell

Good morning.

Q - Meyer Shields {BIO 4281064 <GO>}

Kevin. you talked about more accurate pricing models, I may be phrasing that poorly. Is the gap between proprietary models and vendor models in terms of assessing catastrophes? Do you see that gap as increasing or shrinking?

A - Kevin O'Donnell

I think it's important that we think about it depending on the peril and the location when I think -- it's also the -- the gap is also is how is the underwriter employing it and what is the representation of risk. So, we rely very heavily on being highly integrated in our risk. Our scientists are speaking to our underwriters to make sure that we understand where there are differences in the model so that we can understand how the market might be pricing a risk different than the way we're looking at it. So, it's not a simple answer. I would say, a place I would point to where I think there is a large difference is with California wildfire.

And then if you break it down, I think for years, people have recognized that warmer oceans will lead to more severe hurricanes. But in thinking about what that really means is understanding what is the rainfall contract or how deeply the attenuation functions go in at the point of entry of a hurricane. There's a lot of more subtle analysis that really gives the clarity and the deeper understanding. So, it's a more complicated conversation. I think it can be quite large, depending on the peril, but then even within the layers that we're writing, I believe it to be meaningful.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. That's very helpful. Second question, this is particularly early because I'm thinking about January 1, 2022. But should we think of the current dislocation in the ILS or the retro market? Does that mean that pricing will be excessive because you've got this temporary dislocation that will be resolved with supply and demand over time? Or are you thinking about this as maybe the new normal equilibrium point?

A - Kevin O'Donnell

So firstly, we're a believer in ILS. We wouldn't have built all the frameworks and the resilience in our platform of the different forms of capital that we have if we didn't. I think it is challenged right now. It'd be difficult for me to know what 2022 looks like because there could be a new crop of investors who become interested that don't have the legacy issues that the existing crop of investors has.

When I think about 2021, though, I do think that we have persistence in the rate enhancements that I mentioned. I don't think this is a 1/1 rate change and then markets begin to return to a softening phase. I think we're going to see strong rates through 2021. And when we think about the deployment of capital that I'm mentioning, I'm thinking about it much more long term of 2021 to deploy, 2022 to harvest some of the deployment that we've had. So I'm optimistic long term about the market. Whether the retro market grows or shrinks for a company like us, simply means we're a buyer or a seller. And we're going to use it solely to enhance returns and to solve our customers' problems.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay. And then one final question, if I can squeeze this in. When you look at 2020, and let's exclude COVID because hopefully, these pandemics are more rare. Is this an average loss year or an above-average loss year for the industry?

A - Kevin O'Donnell

It's a good question. I think probably better to answer that at the end of the year with the storms still hitting, and the wildfires. I will point out that if you look at the ACE Index and think about the frequency of moderate storms that we've experienced this way, and then you compare it to 2004. The ACE Index would indicate that there was a lot more energy created from the storms of 2004. So, I think of that as being an important -- more important year to understand climate change and then potentially the high frequency to medium severity that we had this year. So, I think we can look at it from an insured loss from a formation. Formation is certainly high, but from an energy creation, from all the storm activity, it's probably more normal.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, perfect. Thank you very much.

A - Kevin O'Donnell

Sure.

Operator

Your next question comes from Yaron Kinar from Goldman Sachs. Please go ahead.

Q - Yaron Kinar {BIO 17146197 <GO>}

Hi, good morning. Thanks for taking my questions. My first question is related to top line growth. I think year-to-date, you're growing at about, what, 30-ish percent gross premiums written. I think that earlier in the year, you had talked about really seeing more of an opportunity into next year. So, I guess my question is, have you just seen more opportunities this year than you initially expected? Or are your comments from earlier in the year is still true in the sense that you expect further acceleration going forward?

A - Kevin O'Donnell

We are seeing more opportunities, I think. I'm not sure exactly how to answer that question other than you were [ph] a first call market. We are growing in lines of business that we have previously targeted, and we are benefiting -- an awful lot of that growth is benefiting from rate change. So I think we can continue that growth in 2021. I haven't actually put a judgment as to whether I think this year's growth is greater than expected. But I'm pleased to see it because I see the quality of the portfolio coming in, and I think it's long-term accretive.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. And then my second question, the California wildfire exposures. You talked about the impact of climate change, and I think it's a question that came up a couple of years ago as well with the wildfires we saw back in '17 and '18. Is that still a risk that is as it's currently priced attractive? Or is that a risk that you'd look to shrink here?

A - Kevin O'Donnell

So we did a lot of work. And we have published a paper after the 2017 events discussing how we thought that the risk could be better represented through the models and changed our models represent that updated view of risk, which is pretty common for the way we think about amending our models over time. I believe it's insurable. I believe it's a risk that exists and needs to be owned by someone.

And I think insurance has a role to play in helping to mitigate the impacts on -- particularly on homeowners with regard to the fires. So, I believe insurance has a role to play. I believe there are appropriate retentions for insurers to participate in that risk. And from a reinsurance perspective, we want to provide capacity to allow that for that protection to be available.

Q - Yaron Kinar {BIO 17146197 <GO>}

Okay. I appreciate the answers.

A - Kevin O'Donnell

Sure.

Operator

Your next question comes from Ryan Tunis from Autonomous Research. Please go ahead.

Q - Ryan Tunis {BIO 16502263 <GO>}

Hey, thanks, good morning. So I had an observation, Kevin and then just a question, I guess kind of more from a stock analyst standpoint, but when I think about Ren, there might not be a more volatile company out there from an earnings standpoint, the way that you report and everything. And for the stock -- clearly, you feel a lot better about the prospects for 1/1 than you did at the beginning of the year. And as an observation, consensus estimates are actually lower for 2021 today than they were back in January.

And I think some of that probably has to do with just the difficulty of modeling this Company. But the point I would make is there's kind of two ways that you -- I think the stock can get value, it's you can either grow book value per share, which is, like I said, it's extremely volatile. You have an elevated cat year next year, that could be tough. Or we could have a better understanding of actually what is really -- how is the core earnings power on a normal basis of this Company moving forward. So I mean that's just the observation.

I guess my question, Kevin, is with your financial supplement and the materials that you give us, if we sat down for half an hour, what would be the main metrics that you would point me to that are actually showing, in your mind, in your view that, yeah, look like our earnings power here is really increasing. Like as we get into 2021, what would be the things that you would point me to?

A - Kevin O'Donnell

I think what historically we've pointed to. So, I appreciate your observations, thank you. What we've historically pointed to is growth in tangible book value per share as being what we think is the most appropriate measure for growth -- for creating value. What you're asking for is what do we provide that provides a forecast, and we don't provide earnings guidance. So I would say that when I think about how we construct the portfolios, we're thinking about all the things that you're raising, which is what is the volatility. What's the return? Are we providing adequate return for the volatility that we're assuming. And then we try to provide transparency on a very complicated set of decisions that we make to build our portfolios, but we don't provide the guidance that you're asking with regard to the financial supplement. But I would say the tangible book value or book value per share is the primary metric that we look at for success.

Q - Ryan Tunis {BIO 16502263 <GO>}

I understood. I mean I hear you. I'm just saying in that context, in some ways, this is clearly one of the best stories in P&C, but it's in a lot of ways, just dependent on whether or not we have an elevated or not elevated cat year in 2021, but thank you.

A - Kevin O'Donnell

Yeah.

Operator

Your next question comes from Brian Meredith from UBS. Please go ahead.

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah. Thanks Kevin. Just kind of an add-on to a little bit to that question. So if I take a look at -- and I know you've talked about this in the past, maybe some updates. If I take a look at what your return on, call it, tangible equity has been over the last five years, and granted were even a lower interest rate environment right now. It's kind of been single digits or mid-single digits. I'm just curious, given your business profile, given your business, what do you think an appropriate kind of return on equity for your business should be? And do you think the current market is -- you can achieve that?

A - Kevin O'Donnell

Yeah I think when you think about the types of risks that we take and how we think about our portfolios, we need to think about much longer-term periods for us to begin to assess as to what the return of our portfolio is really providing. And the last several years has had elevated cat activity, which has certainly had an impact on us.

With regard to -- the way we think about it is we're constantly measuring on a portfolio-by-portfolio basis, how much capital we're using, what form of capital we're using? And are we getting a return on that capital on an expected basis above the cost of that capital? So I feel comfortable that we've achieved that, although the results have been challenging. And I feel increasingly comfortable that, that is achievable with where I'm observing trend on the casualty compared to re, and for what we're seeing from an increased profitability within the property cat book that we're underwriting.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay thanks. And then curious, one other quick question. What are your thoughts kind of as we head into 2021 on reinsurance demand from a buyer's perspective? I mean, thinking that, one, we've had a lot of frequency of events, do you think that one increases demand? Or on the other hand, if buyers on the primary side are achieving some pretty good price increases themselves, is that going to cause them to maybe scale back a little bit and retain more business themselves?

A - Kevin O'Donnell

Yeah, I think our -- it can be different by line of business. But I think within the property cat area, I think that we are anticipating a small increase in demand. We also believe that we're the preferred provider of supply. So we feel like we're in an advantaged position against that increase in demand. Casualty is more of a mixed bag as to how much increase we're going to see by line of business. But we should experience -- because of the relationships and the position that we have an ability for us to grow even at relatively flat demand in some casualty classes. And as I mentioned earlier in the call, I believe that a lot of the benefit of the insurance rate enhancement will -- in order to our benefit because terms are relatively flat to improving.

Q - Brian Meredith {BIO 3108204 <GO>}

That makes sense. Thank you.

A - Kevin O'Donnell

Yeah, thanks.

Operator

Your next question comes from Phil Stefano from Deutsche Bank. Please go ahead.

Q - Phil Stefano {BIO 18965951 <GO>}

Yeah, thanks. Just wanted to dig in on the mortgage rebook a little bit more. I guess -- and Kevin, you had talked about the improving default environment, home price appreciation. To me, these are metrics that would have augured for an improvement in the loss ratio, not a deterioration. So, I was hoping you could just give us a little color on what you saw in that book and whether this is a reaction to maybe a second wave of unemployment coming? Or how you thought about taking losses up there?

A - Bob Qutub {BIO 15269353 <GO>}

Well -- this is Bob. I'll take the question here. What I tried to outline in the prepared comments is we have seen an increase in reported delinquencies that have come through from the cedents. And that has gone up. But they've been -- they come in just because they're delayed by 60 days, and that could be on friendly terms, forbearance or other reasons. But we really believe that not all of these will be crystallized. But having said that, the way the contract works with us, we have the profit commissions that offset it. It neutralizes it. But we're not seeing dramatically an increase in it. We're seeing the reported coming in, which is what did elevate our current accident year loss ratio on the casualty side.

Q - Phil Stefano {BIO 18965951 <GO>}

Okay, got it. That's it from me. Thanks.

A - Kevin O'Donnell

Yeah.

Operator

Your next question comes from at Elyse Greenspan from Wells Fargo. Please go ahead.

Q - Elyse Greenspan {BIO 17263315 <GO>}

All right, thanks for fitting me back in. I just had two follow ups. The first kind of, Kevin, if we combine all your comments together, obviously, a little bit in response to my question earlier on this, the 1/1 pricing environment. But where you sit today right about almost five months after you guys raised that equity capital in June? I would assume that you just feel putting it all together, incrementally more positive about your ability to put that capital to use that a pretty strong return in 2021. Is -- do you think there's anything incorrect with that statement?

A - Kevin O'Donnell

No. I think if you go back to the capital raise in June, we kind of gave two primary areas in which we knew we had ability to deploy. The first is just across our platform, we can restructure our risks. So, that is frankly unchanged because it's something that we already control. Everything else with regard to our assessment of where the market is, in each point of our portfolio assessment, we're seeing affirming to better news. So, although we demonstrated good confidence in our ability to deploy the money in June, we have even stronger confidence in our ability to deploy as we go into -- as 2021 becomes closer.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay. Great. And then my second question. You guys sound pretty positive on the retro market. I think you also made the point right that you might see less of the ILS capacity and could potentially write less for Upsilon and more on your own rated balance sheet. Can you give us a sense of like how much retro was on your books this year weighted versus for Upsilon? Or just a way that we could think about, I guess, the retro that you wrote in 2020 and that incremental opportunity that you could see in 2021.

A - Kevin O'Donnell

Let me make sure I understood your question. Are you saying within Upsilon, how much of the retro can we renew or -- across our platform?

Q - Elyse Greenspan {BIO 17263315 <GO>}

Yeah, well, I was trying to get a sense of how much you wrote for Upsilon as well as some that I assume some you kept on Ren's [ph] on balance sheet away from Upsilon in 2020 in terms of refills. So I was trying to get a sense, I guess, of what's in the growth right for both Upsilon and RenRe? And then how we could think about like the growth opportunity there in 2021?

A - Kevin O'Donnell

Yeah, I when I think about Upsilon -- Upsilon wrote a broader portfolio than simply retro. It wrote some structure deals, some aggregates and some retro. The retro that we put into Upsilon was retro that on a rated balance sheet is capital consumptive because of the structure. So, it fits well within a collateralized structure. I anticipate that much of that retro is going to be restructured. I think sometimes people focus on price in the retro market. And there's a certain tolerance for price for retro, and then it begins to be restructured.

My hope is that much of the Upsilon portfolio can be renewed in Upsilon with the capital that we bring in for 2021. But the stuff that will not fit into Upsilon will likely be restructured in a way that is more suitable for rated balance sheet. And we have the flexibility across our platforms to provide solutions for every deal within Upsilon. It just depends on which balance sheet we choose to put it in or which vehicle we choose to put it in.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, that's helpful. Thanks, Kevin.

A - Kevin O'Donnell

Yeah. Thank you.

Operator

Your next question comes from Jimmy Bhullar from JPMorgan. Please go ahead.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Hi, good morning. So I just had a question along the lines of some of the earlier questions and your response that the returns have been poor because of -- in recent years, just because of elevated cats. Given your optimism on pricing, how do you think about your return potential the next few years if sort of the cat levels over the last few years are more of a trend as opposed to an aberration. Do you feel that pricing is adequate? Or do you still expect to generate lower returns even at the current levels if cats are close to where they've been the last few years?

A - Kevin O'Donnell

So let me divide your comments first, between property and casualty, and then I'll talk more generally.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Sure.

A - Kevin O'Donnell

So within property, what we work hard to do is to make sure that we find the right risk and put it to the right capital. The net result is that we built portfolios that are better than the market. So, we think that the portfolios that we built on the property side certainly met our return objectives on an expected basis. Within casualty, what we had talked about before as we think about cash, I'll see over a much longer time frame. So on a rolling 10-year basis, are we making the needed return on the casualty business that we're writing?

We didn't believe that we were at that level of margin over a rolling 10-year period. But our observations are that we are seeing rate above trends. So overall, we are moving to a much more adequate in-force portfolio. And my belief is that we still have a little bit more ways to go, which adds to my confidence that casualty rates will continue. But I feel very, very positive that the way we're thinking about it over 10-year period, we'll produce the right level of return for the portfolio. So, when we bring them both together, obviously, we would achieve a capital efficiency. So, the combined portfolio then enhances the adequacy of both portfolios.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay. And then just on COVID. Obviously, it's going to take a while to determine ultimate losses. But what's your sort of level of confidence in your reserves based on the information you have thus far? Like are your reserves sort of contemplating whatever you've gotten from the -- from your clients? Or is there a little bit of a cushion for sort of adverse court outcomes or otherwise?

A - Kevin O'Donnell

I think we, as always, put our best estimate on our reserves. COVID is a dynamic situation. It's an ongoing event. It's an ongoing pandemic event, and it's something that we're going to continue to need to monitor. But we feel as if we've got our best estimate on the reserves we're currently holding.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Thanks.

A - Kevin O'Donnell

Thank you.

Operator

This concludes the Q&A portion of our call. And I would now like to turn it back to Kevin O'Donnell for final comments.

A - Kevin O'Donnell

Thank you everybody for participating on today's call, and we look forward to talking to you after the 1/1 renewals. Thanks, again. Bye.

Operator

Ladies and gentlemen, this does conclude today's conference call. Thank you once again for participating. You may now disconnect.