FINAL

Bloomberg Transcript

Q2 2015 Earnings Call

Company Participants

- Jeffrey D. Kelly
- Kevin J. O'Donnell
- Peter Hill

Other Participants

- Ian J. Gutterman
- Jay Arman Cohen
- Josh Clayton Stirling
- Josh D. Shanker
- Kai Pan
- Michael Nannizzi
- Ryan Byrnes
- Sarah E. DeWitt
- Seth J. Canetto

MANAGEMENT DISCUSSION SECTION

Operator

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

Thank you. I'll now turn the call over to Peter Hill. Please go ahead, sir.

Peter Hill {BIO 15385944 <GO>}

Good morning and thank you for joining our second quarter 2015 financial results conference call. Yesterday, after the market closed, we issued our quarterly release. If you didn't get a copy, please call me at 212-521-4800 and we'll make sure to provide you with one.

There will be an audio replay of the call available from about noon Eastern Time today through midnight on August 29. The replay can be accessed by dialing 855-859-2056 or 404-537-3406. The pass code you will need for both numbers is 80861673. 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 7, 2015.

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 Jeff Kelly, 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, and good morning, everyone. I'll open the call with an overview of our performance. And then I'll turn it over to Jeff to go over the financial results. And I'll come back on to talk more the business and the state of the market.

Last night, we reported operating income of $100 million and an operating ROE of 9.1% for the second quarter. Our results were adversely impacted by U.S. cat losses and mark-to-market losses on our investment portfolio from rising interest rates. Jeff will walk us through the second quarter results in greater detail shortly.

In general, we executed well in the second quarter, achieving good combined ratios in each of our segments in spite of tough market conditions. Specifically, we're pleased with our strong growth in both Lloyd's and Specialty and with the property cat segment's relatively flat premium for the quarter compared to the 10% down we expected at the June 1 renewal.

I continue to be pleased with the Platinum integration and believe we're continuing to see the benefits of our hard work. The combined entity is proving to be greater than the sum of its parts and has provided us with new and better opportunities throughout the greater organization. We're presenting a larger, better-capitalized, higher-rated and more cohesive face to the market, while at the same time that M&A activity is injecting widespread uncertainty.

This has created opportunities to access business that weren't available previously and, in my mind, confirms the original thesis behind the acquisition. I'm happy to report that S&P raised the financial strength rating on Renaissance Reinsurance U.S., which is the rebranded Platinum Underwriters Reinsurance entity, to A+ from A-.

While we saw increased pricing pressure at the important June 1 Florida renewal, this was accompanied by a significant increase in demand. Once again, we demonstrated leadership by cutting back on business that did not meet our return hurdles, while adding attractive new business by being a first call market leveraging relationships with our four clients.

At this point, let me turn the call over to Jeff to discuss the financial results. Jeff?

Jeffrey D. Kelly {BIO 1390834 <GO>}

Thanks, Kevin, and good morning, everyone. I'll cover our results for the second quarter and year-to-date and then give you an update to our 2015 top line forecast. We had a profitable second quarter with each of our segments generating solid underwriting results. As the Platinum acquisition closed on March 2, this is the first quarter in which Platinum's results are fully reflected in our financials.

Catastrophe losses during the quarter were higher than in recent years relating mostly to wind and hailstorms in Texas. Our results include approximately $8 million of Platinum integration related expenses in the quarter, which we do not expect to recur in 2016. We reported net income of $73 million or $1.59 per diluted share and operating income of $100 million or $2.18 per diluted share for the second quarter. As Kevin mentioned, the annualized operating ROE was 9.1% and our tangible book value per share, including change in accumulated dividends, increased by 1.9%. On a year-to-date basis, the operating ROE was 11% and growth in tangible book value, including change in accumulated dividends, was 1.4%.

Before touching on the segment results, I'll give you a brief update on the Platinum integration. As Kevin mentioned, our market-facing personnel are very much operating as one company. While some important operational systems and processes remain to be fully converted, those activities are proceeding faster than we originally anticipated. On the first quarter call, I indicated that we expected to realize a total of approximately $38 million in one-time compensation related expenses. At this point, that number still seems about right. As for annual run rate synergies, in May, I said that we expected to exceed our original $30 million target slightly. At this point, we believe that annual run rate operating cost synergies will be approximately $37 million. The increase in our expected run rate synergies relates to greater than expected head count savings and to the cumulative effect of a number of relatively small variances. At this point, I would estimate that over 75% of those synergies have been realized. All-in-all, we continue to be very pleased with the acquisition and our integration to this point.

Turning to the segment results, in our Cat segment, managed cat gross premiums were essentially flat compared with the year ago in the second quarter. Recall that the top line includes to some extent the renewal of Platinum's cat book for the quarter. There were no material reinstatement premium adjustments in either period. We had a relatively healthy Florida renewal with new demand and growth on some contracts offsetting declines on others and moderate price reductions.

For the first six months, managed cat gross premiums written declined 7.7%, reflecting softening market conditions. This compares with our full year guidance for a decline of 10%. As a reminder, managed cat includes the business written on our wholly-owned balance sheets, as well as cat premium written by joint ventures DaVinci, Top Layer Re, and Upsilon.

Ceded premiums in our Cat segment were down from a year ago both for the quarter and year, reflecting our decision not to renew the Florida-specific retro program that we had put in place last year. The second quarter combined ratio for the Cat unit was 59.5%.

While catastrophe losses were moderate overall, there was an uptick relative to the extremely low levels they've been trending at in recent years. Net favorable reserve development totaled $12 million for the Cat unit in the quarter, mostly reflecting modest adjustments to a number of small events.

In our Specialty segment, gross premiums written increased by $108 million, primarily reflecting the inclusion of Platinum specialty and casualty business. Year-to-date, Specialty Reinsurance premiums increased 38% from a year ago. This compares with our guidance of a 50% increase for the year.

Our Specialty platforms are well-positioned. We have integrated Platinum's balance sheet into ours and aligned our Bermuda and U.S.-based platforms to best meet our clients' needs in a capital-efficient manner. The Specialty Reinsurance combined ratio for the second quarter came in at a profitable 85.5%. Loss trends were generally benign and favorable reserve development totaled $18 million for the quarter. For the first six months, the segment generated a combined ratio of 82.5%.

In our Lloyd's segment, we generated $117 million of premiums in the second quarter, an increase of 62% compared with the year ago period. For the first six months of the year, gross premiums written grew 59%. As we managed on our – as I mentioned on our last quarterly call – the segment has gained greater traction, mainly benefiting from the investments in infrastructure and talent that we've made in recent years. Our premium guidance for this segment was for growth of 50%.

Ceded premiums in our Lloyd's operation also increased significantly from a year ago as we commenced a ceded quota share transaction for our casualty business late last year. The Lloyd's unit came in at a combined ratio of 90.4% for the second quarter, also benefiting from generally low loss activity. Favorable reserve development totaled $3 million.

Operating expenses were roughly flat compared with a year ago, but commission expenses were higher.

Turning to investments, we reported net investment income of $39 million in the second quarter. Recurring investment income totaled $34 million for the second quarter. The increase relative to recent quarters primarily reflects the higher invested assets acquired in the Platinum transaction as well as the reallocation of Platinum's fixed maturity investments to match ours. Our alternative investment portfolio generated a gain of $6 million in the second quarter, driven by generally healthy returns on our private equity portfolio.

The annualized total return on the overall investment portfolio was 0.5%. The sharp increase in interest rates during the quarter resulted in $27 million of realized and unrealized losses, although we benefited from the relatively short duration of our fixed maturity investments.

Our investment portfolio remains conservatively positioned, primarily on fixed maturity investments, with a high degree of liquidity and modest credit exposure. The duration of our investment portfolio remained relatively short at 2.3 years and has remained roughly flat over the course of the year. The yield to maturity on fixed income and short-term investments remained flat at 1.7%.

Turning to capital, we continue to believe we have capital in excess of our requirements given our current portfolio and our business outlook. We have largely completed the process of realigning the capital of the balance sheets that we acquired, received the requisite approvals to upstream excess amounts to the holding company, and have now replenished capital and liquidity at the holding company to levels we maintained prior to the Platinum acquisition.

The rating agencies have also completed their reviews and, in some instances, rerated certain of our balance sheets. We're pleased with the outcome of this activity and now feel we have substantial flexibility around capital management going forward.

Share repurchases were however modest in the second quarter. We bought back 83,000 shares for $8.4 million. Since the end of the second quarter, we repurchased an additional $7 million worth of shares. As we look forward, any decision relating to share repurchases will continue to depend on our view of business opportunities, the profile of our risk portfolio, and the valuation of our stock.

Finally, let me turn to update our top line forecast for 2015. While our 2015 guidance includes Platinum, it should be gauged against RenaissanceRe's standalone 2014 gross premiums written as we view the operations as combined. For managed cat, there isn't much premium that remains to be renewed in the second half. So, I would say that it would be reasonable to expect this portion of the business to be down about 7% for the full year.

In Specialty Reinsurance, we're maintaining our guidance for premiums to be up approximately 50% with growth to a large extent reflecting the inclusion of Platinum's business. In our Lloyd's unit, we're maintaining our guidance of up 50%. Recall that any premiums renewed by Platinum prior to the close on March 2 do not appear in our gross written premiums for this year. Obviously, that will change in the first quarter of next year.

Finally, I'd remind everyone that premium estimates of this nature are subject to considerable risk and uncertainty. And our goal in providing them to you is to give our estimates at this time.

Kevin, I'll turn the call back over to you.

Kevin J. O'Donnell

Thanks, Jeff. Once again, we faced a competitive market during the Florida renewals. While demand was up appreciably, there continued to be ample capacity to more than meet this demand, leading to price decreases, although to a lesser extent than in prior years.

This increased demand in Florida was driven by several factors. First, the cat fund accessed the private market for the first time in its history purchasing $1 billion in limit. While we typically do not comment on individual deals, our participation on the cat fund program is a matter of public record.

We believe the cat fund purchase was a responsible move by the state of Florida as it not only serves to protect taxpayers from assessment risk. It also protects policyholders by increasing the overall stability of the system. Due to our deep understanding of both Florida market dynamics and hurricane risk borne over two decades of being a leading Florida reinsurer, we were uniquely placed to appreciate the nuances of the cat fund purchase and bring our gross to net strategy to bear.

Second, the private market in Florida continues to take policies from the state-running insurer, Citizens Property Insurance (sic) Corporation. Florida-only insurance companies tend to be proportionally larger purchasers of reinsurance. So, the migration of risk from the public to the private sector positively impacted demand. Even as it shed business, Citizens continued to increase the size of its risk transfer program.

With regard to supply, we continue to see capital that is interested in deploying into the reinsurance market. We believe that most investors recognize the returns are currently low, but are willing to engage with proven asset managers to begin to better understand the space and position themselves, should the market improve. Overall, we were able to construct an efficient property portfolio. And, as I mentioned earlier, rather than being down as expected, we ended the quarter essentially flat.

We went into the renewal fully anticipating that we would shrink our portfolio and, in many cases, did reduce our participation on individual programs that no longer met our return hurdles. By some measures, Florida is no longer as attractive relative to other markets as it once was. We recognized this early in the cycle and built our Atlantic hurricane portfolio accordingly adding more nationwide coverage with Florida exposure prior to the June July renewal, while reducing our exposure to some Florida-only business after renewal.

On balance, we believe by reducing in the Florida-only market and pivoting towards nationwide coverage with Florida exposure, we're able to build a higher returning portfolio than otherwise possible. We saw some positive signals during the Florida renewal that reinsurers were beginning to show discipline. For example, some of the more aggressively-priced programs resulted in shortfalls that were only filled when price decreases were brought in line with the market overall.

Further evidence of increased price discipline is the cat fund prices have corrected around 30% this year. However, even with this correction, we continue to see many deals providing inadequate returns for the risk. I should note that we still expect a challenging renewal at 1/1, as the dynamics at 6/1 do not necessarily translate forward to January 1.

Finally, the ceded retro market had less appetite for Florida risk than in prior years. While this is a good sign overall, we ended up buying less and, a result, our net exposures are a little higher than last year. In fact, as we're now a larger company and having assumed the Platinum re-exposures, both our gross and net exposure in Atlantic hurricane is up year-over-year and on an absolute basis. We're pleased with our portfolio and feel good about the decisions we made in structuring our risk portfolio for this wind season.

Moving onto our casualty and specialty business. The second quarter represents the biggest and largest renewal period of the year for the U.S. casualty and professional lines business. Overall, we were able to retain virtually all of the Platinum casualty business that renewed during the quarter and believe we have set the groundwork for continuing to build this business up over the next several years.

As a combined entity and now with a better rating, we're developing a reputation as a lead in more lines of business and believe we are increasingly a first call market for clients and brokers across the casualty space. Our approach has been to be the best partner for our customers, whether it'd be in terms of consistency, willingness to pay claims or by being good partners providing collaborative solutions.

I'm happy with the progress our Lloyd's operation has made and continuing and even steepening its growth trajectory. Recent growth there has been healthy, which we view as the culmination of years of hard work spent building a market-leading underwriting platform, allowing us to effectively leverage both our local relationships and our core clients. In addition, our Lloyd's syndicate works closely with the legacy Platinum business, allowing it to access many more opportunities than previously available.

Our ventures team continues to perform well. We're happy with our capital managed business as currently constituted. And while only accepting new capital on a very limited and selective basis, we continue to speak with interested new investors in the space. We executed a $150 million debt offering for DaVinci. And we're adding risk to the DaVinci portfolio as we renew the Platinum Underwriters Bermuda cat lines onto our balance sheets. We also continue to evaluate strategic investments but are being selective in allocating capital to these opportunities.

Before turning to questions, I would offer a few closing comments. I continue to be very happy to be in the business of reinsurance. As reinsurers, we stand at the confluence of two very powerful industry currents. The first is the continued growth of risk in the world and the second is the desire of capital seeking this risk. We continue to be market leaders in matching desirable risk with efficient capital, which we believe is the recipe for long-term success.

I believe that we continue to have a great franchise in this market. We have the ability to access both desirable risk and appropriate capital for that risk. We continue to bring value to our customers by being the best underwriter and providing them with strong ratings and access to great underwriters. We also continue to bring value to our investors by providing them with great risk access and, more importantly, greater risk understanding and assessment, while always standing alongside them on any risk they take.

There has been a significant amount of consolidation in our industry, which I believe is healthy. Consolidation improves both operating and capital leverage and should continue to drive M&A activity. Overall, I'm pleased with both our position in the industry and the performance of our business. I'm optimistic about our future and believe we will continue to see an expanding array of opportunities. As we head into hurricane season, we're prepared for any eventuality. And if something does happen, we will be there for our clients just as we have been there in the past.

And, with that, I'd like to open the call up to questions. Thanks.

Q&A

Operator

Your first question comes from the line of Michael Nannizzi with Goldman Sachs. Your line is open.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Sure. Thanks. Just quick numbers question. The expense ratio in the Specialty segment look like it was down a decent amount compared to the first quarter. Was there something in there or how should we be looking at that on a year-to-date basis or can you just give me some context on that, please? Thanks.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Yeah. Sure, Mike. I think the answer to that question is largely the operating leverage in the business and applying more premium to the overhead in that segment.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Sure. But the acquisition expenses were also lower. So, I mean, there's the kind of split between the two, so I am guessing those are more sort of variable? So just to give you some numbers, $21.8 million in the first quarter on acquisition down to $18.2 million, I mean that was running about $24 million last year for the full year. So I'm just trying to understand kind of what happened actually to have an impact on the consolidated numbers? I can come back to that if that's - or if you think you guys can answer it later.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Yeah. Let me have a look at the data.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Yeah. Okay. No problem. And then, I wanted to just ask about the buybacks. I mean is the idea that - because it seemed like the areas where you're growing maybe shouldn't be incrementally capital intensive from a diversification standpoint. Is there an operational reason that you guys have sort of chosen to keep a lid on buybacks here recently or kind of what's the thought process there?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Yeah. Thanks for the question. I anticipate there might be more than one in that regard. I'd say, admittedly, we probably perhaps took a conservative approach as we went through the close of the Platinum acquisition. But, recall, we did deploy about $600 million of cash out of the holding company into the Platinum deal. And we anticipated that it would take us roughly through June to rebalance and restructure the market-facing balance sheets, get the regulatory approvals we needed to get the excess capital up to holdings, issue the debt that we issued in the second quarter. And, as I said, as a result of that, I think we're in a solid position. So, I think we have a lot of flexibility at this point. And I would expect to - other things being equal - I'd expect to see us in the market going forward. But, again, as I think we said the last time, I wouldn't expect us to see in the market during the next several months, but probably to a more significant extent in the fourth quarter than the third quarter.

The only other thing I'd just say is, as we frequently try and convey, is we don't look at share repurchases as having to occur on any specific timetable. We look to repurchase shares at the most attractive levels that we can, and over the last 12 months, we've deployed a lot of capital into the business, including $500 million or so in repurchases last year, and, again, the $600 million in cash. So, I think, we took a conservative but reasoned approach to rebuilding our position over the last three months. And we waited till that's done. And I think now we're in a good position to move forward.

Q - Michael Nannizzi {BIO 15198493 <GO>}

All right. Great. Thanks for the answer. I guess and then just one question on - I mean, you didn't have any reported cats that met your threshold, but sounds like you had some loss activity. Is this like a normal cat quarter, like weather quarter or heavy weather quarter, light weather quarter? Like if you're kind of taking it all in one bucket, how does this quarter stack up for you guys?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

I would characterize that from a cat perspective as a little higher than normal. And there were principally two things that - two buckets of things that kind of pushed that beyond the norm. The first was some windstorms and hailstorms in Texas. There were a number of events in the second quarter, but about three of them contributed to about $24 million in net negative impact for the company. It affected about - total about $40 million in net losses - but the net negative impact at the holding company was about $24 million.

So that was probably a little larger than normal. And then there was a small amount of developments from some of the winter storms in the first quarter. As those storms are - with the frequency of them, I think, that it's kind of hard to determine losses, in which event - and there's some movement there. But that wasn't a big number. But, overall, I'd describe it as just a little bit higher than normal.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay.

A - Kevin J. O'Donnell

Yeah. One thing I'd add to that. I think – in a soft market, I think, it's a good thing to focus on because it's transparent to think about what price reductions are coming through. But it's more difficult to see if terms and conditions are expanding. And what I would say is, the losses that we saw over the course of the quarter are normal losses coming from normal coverage. We have seen some expansion of terms coming through on programs, but we've been disciplined in looking at those and making sure that we understand the extensions of coverage and price for it.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay. I guess, I'm just trying to figure out like 9% ROE this quarter – I mean is that how we should be thinking about now as our first quarter of Platinum in numbers? Just sort of given the opportunities you're seeing, is this kind of like of a normal-ish quarter and this is kind of where you guys would expect to sort of target ROEs that you can hit? I mean – or is this – do you expect that over time that you can generate in a normal environment in excess of ROEs at this level?

A - Kevin J. O'Donnell

So, I think, thinking about what's going on in the reinsurance market, if we start at kind of 40,000-feet, there is a secular shift in the market which we've been talking about for a while. We've seen more capital interested in this space. And we've seen – and we believe that risk will trade differently. It will enter and exit the value chain at different points over time. But kind of dropping down to 10,000 feet, we still think there's cycles and we're in a more competitive phase of that cycle currently. So, if there's only a secular shift in the market, I think, these types of returns will be permanent, but being that we think we're in a soft phase of the cycle, we do believe that there is potential for pricing to improve.

What we've really focused on is – as a company – is thinking about how to position ourselves to make sure we're best combating both of those changes. So we've changed the business mix, where our causality and specialty, it's – on an in-force basis is in excess of $1 billion – which is a milestone for us. But that business does have a lower expected profit, but also lower volatility.

We've seen increased growth across Lloyd's and across the platforms generally both organically and inorganically, which is going to help with operating leverage. As Jeff had mentioned, we do have excess capital, which is a drain currently. And then, finally, it's affecting everybody equally but investment returns is something that – looking back at historic returns, investments was a much larger contributor than it has been in the past.

So all that said, I think, we've got a very flexible platform. We've got access to multiple capital sources and access to great business. And I think that we continue to focus on great execution. We'll continue to provide superior returns. And as the market continues to evolve and things change, I think, we're at the exact right place to take advantage of it.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Great. Thank you so much for the answers, Kevin. I appreciate it.

A - Kevin J. O'Donnell

Sure.

Operator

Your next question comes from the line of Josh Shanker with Deutsche Bank. Your line is open.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Thank you. Buyback question number two. So you seem to be standing in front of us saying, look, you feel that you have more capital than you need for your business. Can you give us any idea? Is it bigger than a bread box? Can we talk about in terms of scale what that might mean for shareholders to think about?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Yeah. Thanks, Josh. Yes, bigger than a bread box. It would be – we don't say – we don't identify specific numbers because that isn't how we think about it, but it's several hundred million dollars, I would say.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Okay. That sounds very reasonable. And you did say that you deployed $600 million in cash by Platinum. Is there any frame of reference that you have for how much cash you got back? I mean, generally, we view Platinum or I view Platinum as an underutilized balance sheet. Is there a net cash deployed idea that we can think about?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Well, I would say we had some cash on the balance sheet, $100 million, $150 million, after the Platinum deal closed. But we are – let's say, we have at least as much cash at the holding company as we did now prior to the Platinum acquisition.

Q - Josh D. Shanker {BIO 5292022 <GO>}

Okay. And then one final question in this same sort of area. In terms of thinking about ASRs versus open market, you guys have been very much wanting to buy your stock as cheaply as possible, which prefers open market. But given what might be your ambitions to do buybacks, are you worried about any constraints on the amount of shares available in the market to manage what you might have in mind, depending on the hurricane season's outcome?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

No. I don't think we've – I mean there are sometimes seasonally when volumes are lower than we like. But I would say, over time, we have not had any significant issue around acquiring the amount of shares we'd like to get in the open market. And, again, I'd just remind that we bought over $500 million worth of stock in 2014.

Q - Josh D. Shanker {BIO 5292022 <GO>}

You've never been shy about it. Thank you and good luck in the back half of the year.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

All right. Thanks, Josh.

Operator

Your next question comes from the line of Josh Stirling with Sanford Bernstein. Your line is open.

Q - Josh Clayton Stirling {BIO 17463087 <GO>}

Hi. Good morning, Kevin and Jeff. Thank you for taking the call. So, Kevin, we've always liked your approach to property cat. It seems smart because you use proprietary models to identify high risk return deals and strategically a lot of capital management via retro and partnerships and then just tactically being very smart about scaling up and down based on the market. And, I think, everybody generally thinks that you had the best mousetrap in the old world.

And so, I wondered if I could ask you sort of big picture. What do you think the best mousetrap is in the new world? And are you – you're obviously growing a lot in casualty, in Lloyd's and the acquisition of Platinum. Is there a way to build a RenRe for the new world? Or should we read the acquisition and all of the consolidation we've seen since as basically more evidence that really it's less about being special and more about size is going to be a dominant driver of scale and return over the next few years?

A - Kevin J. O'Donnell

Yeah. Thinking about the position that we're in, we really like the things that we're doing. So I'll divide my comments between cat and specialty and then talk about the group as a combined entity. Within cat, we, I believe, have the model that is going to be the winning model, where we're managing our own capital and we're managing capital for others. With that, we have a great underwriting capabilities and great capabilities to figure out, which is the right vehicle for us to deposit the risk in which we're taking and to manage that risk.

I think if we translate that over to the specialty, many of the things that we're doing on cat are transferrable to specialty. We understand how to build risk distributions. We understand the importance of structuring the tail appropriately. And, increasingly, we are deploying our gross to net strategies on the casualty business with significant – as we gain significant scale there, we have greater opportunity to optimize portfolios, not just on the gross basis, but on the net basis.

By bringing the two businesses together, we added operating leverage and capital efficiency, which is beneficial in today's market. I think thinking about the company in the future, there's nothing different about RenRe today than what we were like five years ago, 10 years ago or when I joined almost 20 years ago. We think about the world the same way. And we're building portfolios against the market opportunity that's available. Our desire to increase in cat is exactly what it's always been. If there was an opportunity to double the size of our cat book, we would do it tomorrow. If there was an opportunity to double the casualty book, we would do it tomorrow. And I think that sort of forward leaning posture is something that will facilitate our moves to see market changes more quickly than anyone else.

The other thing I would point to is because of the way we structure the company, our ability to collect capital as opportunities emerge is far greater now than it was in the past. So, I feel that there is a secular shift where the market is maturing and becoming more competitive. That's something we all have to deal with. But we've positioned ourselves as best we can to make sure that we optimize on opportunities as they emerge.

Q - Josh Clayton Stirling {BIO 17463087 <GO>}

Well, that's helpful, Kevin. Then the gross to net comment sound very much like the old RenRe. So, we'll look forward to that developing. I am interested though a little tactically, just as a follow-up, on -

A - Kevin J. O'Donnell

Sure.

Q - Josh Clayton Stirling {BIO 17463087 <GO>}

Obviously casualty and specialty pricing and some of the commentary from like Lloyd's and brokers is not that constructive on pricing, more meaningful price declines than we've seen in other parts of the business. I'm curious to see, one, if that's sort of consistent with what you guys are seeing, but the – in your businesses there. But then also, as you think about sort of the tactical overlay of the strategy of, hey, let's try to be smart like we used to be in or like we are in property cat, but in a way that it's a differentiated market in casualty and specialty. How do you overlay that with the sort of the tactical, cyclical, challenge of what seems to be a softening market in some of these other areas?

A - Kevin J. O'Donnell

So, in general, I agree with the comments that the market is becoming more competitive. So, then looking at our response to that is, within Lloyd's, although we've had good growth, it's still off a modest pace. So, we're seeing opportunities that emerge really from three things I'll point to. One is just writing more lines for our core clients; secondly, leveraging relationships that our underwriters have had for a long time; and thirdly, increasing participations on deals we're already on. So, we're not looking to enter the most competitive markets and find the one good deal. We're looking to very targeted opportunities to grow. And we've been fortunate to continue to find those in kind of in the narrow brands that I discussed.

Within casualty and specialty, more broadly, we're not, what I would call, a diversified general casualty player. We still are focused on many specialty lines. And those specialty lines have shifted over the last several years. So, we are moving in and out of opportunities as appropriate. And then, thirdly, the increased sessions have improved our margins within casualty and specialty. So, the trick there is we are still enormously capital efficient to run that business. But, by adding ceded, we're still relieving some of the price pressure that's been resonate in the market and improving net returns to us on a gross - on a standalone basis and a marginal basis within our portfolios.

Q - Josh Clayton Stirling {BIO 17463087 <GO>}

Okay. That sounds great. Thanks, Kevin. Good luck for summer.

A - Kevin J. O'Donnell

Thanks, appreciate it.

Operator

Your next question comes from the line of Seth Canetto with KBW. Please go ahead.

Q - Seth J. Canetto {BIO 20249864 <GO>}

Hey. Good morning. I just had one question about your comments with Florida and how there is - you guys are adding more nationwide coverage with Florida exposure, while reducing sort of the pure play Florida exposure companies. What's your view on the impact of AIR's latest U.S. hurricane model on your PMLs and do you believe the new model will affect industry domain?

A - Kevin J. O'Donnell

So, first, the effect on us is - the way we think about a new model is we want to understand not just what the percent changes is, if they're up X percent across the coast or in Florida, but to understand why they have changed their view of risk. So we will rip the model back down to its primary parts, look at frequency, look at damage functions and look at the industry profile that's embedded beneath it to make sure that we understand which components are changing. Ideally, we will find components of the new model that we like and incorporate it into REMS, which is our independent view of risk.

So, for us, it's going to be a bit of a scientific exercise to see how we can improve our view of risk, but it will not change our PMLs simply because a new model is released with higher PMLs in Gulf regions or in wind exposed regions. With regard to the market overall, less convinced that it will have a material impact on the way people are thinking about structuring their programs or thinking about the risk that they have. But that's something that - it will take some time to figure out whether people adopt it or not.

Q - Seth J. Canetto {BIO 20249864 <GO>}

Okay. Great. That's it. Thanks.

A - Kevin J. O'Donnell

Sure.

Operator

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

Q - Kai Pan {BIO 18669701 <GO>}

Good morning. Thank you. Just adding question number three to buyback. Just basically your decision now to renew the retro coverage in Florida, would that impact your ability or like basically you said in the past you normally like slowing down during the peak of the hurricane season. But, last year, you were able to buy some retro cover that reduced your net – that you actually did large buyback during the hurricane season. So I just wonder if that would like slow your buyback during the hurricane season.

A - Kevin J. O'Donnell

Slow our what back? I'm sorry I missed.

Q - Kai Pan {BIO 18669701 <GO>}

Buybacks.

A - Kevin J. O'Donnell

Oh, slow buybacks. Let me answer the ceded question. And I think that will feed into the buyback. We are not a traditional purchaser of retro or ceded protection. We will build our gross portfolios as efficiently as we can and constantly be in the market looking for ceded opportunities that improve the overall efficiency of the portfolio.

We made the decision to purchase less ceded in Florida, because of all the things we talked about with the changing profile of our book of business. We did see a greater opportunity to deploy capacity on a gross basis in Florida, because prices were down less than we originally anticipated. But at the net – at the – the net result is a portfolio that we liked more, because prices were better than the portfolio that we pro forma at going into the Florida specific renewal.

The other thing I'd say is we did add some specific structures around our Florida book, which were different than last year. So although we did not renew the cover that we talked about on last year's call, we do have some other facilities supporting us in Florida, which, I think, again, improved the overall efficiency of the portfolio.

With regard to how that informs our buyback strategies, our buyback strategy incorporates all the things that are going on within the organization. Our first objective is to deploy capital into the business. To the extent we can't deploy capital into the business we'll look to return it. And our preferred way to return it remains through share buybacks. But we need to be cognizant of external factors at the time of our buybacks. So Jeff talked a lot about the work that we did internally about bringing capital back up to the holding company through the acquisition of Platinum. But we also need to be cognizant that as we go into peak exposure periods, i.e., wind season, we're thoughtful about the risks that we have. Not purchasing that ceded specifically is not something that will change our decisions as to how we behave with buybacks going into this wind season.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

The only thing I would add to Kevin's comments is where ceded purchase does or does not come in is in our assessment of how much excess capital we have. So, excess capital – our assessment of excess capital is the raw material for buybacks. That does incorporate ceded. And as I said earlier, I think we come into this at this point with very healthy level of capital flexibility.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you for the details. Then follow-up on Lloyd's. So, it looks like you have pretty healthy growth over there. And so do you think you're at a level – at a scale that – in terms of an operating expense ratio in the low 20%s – is that where you want to be or there is room for further leverage on that?

A - Kevin J. O'Donnell

That's a great question, because one of the things we talked about in our building Lloyd's over the last several years is the growth is really catching up to the infrastructure. So, we're delighted that we are at a scale where our expense ratio is coming in line with the Lloyd's market. But the infrastructure that we have can continue to add premium without a proportional increase in expense for that premium. So we do have more scope to increase the size of Lloyd's and further improve the expense ratio there.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Lastly, on the Platinum, you had – this quarter you had $33 million reserve releases. How much of that coming from Platinum? More generally, just now you have a quarter after integration of Platinum. Do you see like different reserving philosophy on the owned book versus yours? How do you think that would play out over the course of next few years?

A - Kevin J. O'Donnell

So, we are really looking at the company as a single enterprise going forward. And I think, increasingly, it's going to become difficult to know whether reserve releases or premium or – is coming from one book or is coming from the legacy RenRe book or the legacy Platinum book because – an example might be if we're both on the same deal and we have reserve releases on the same deal, we're not going to track it as a legacy Platinum reserve release and a legacy RenRe reserve release. We're going to look at it as a combined entity going forward, both underwriting side and on the claims and reserve side.

Q - Kai Pan {BIO 18669701 <GO>}

Great. Thank you so much. And good luck with the hurricane season.

A - Kevin J. O'Donnell

Thank you. Appreciate it.

Operator

Your next question comes from the line of Sarah DeWitt with JPMorgan. Your line is open.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Hi. Good morning.

A - Kevin J. O'Donnell

Good morning.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Good morning.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Given some of the secular shifts that you've talked about, do you think your acquisition of Platinum is enough? Or could you look to do some more acquisitions to position the company for this new world?

A - Kevin J. O'Donnell

Well, let me comment on Platinum and then comment on kind of how we think about the world. So we're delighted with Platinum. We are ahead of plans with our integration and we're seeing great coordination across our underwriting platforms which is producing new opportunities on each of our balance sheets. We've been fortunate to get the regulatory approvals to move capital around and have enhanced the ratings on the balance sheet. So, all of those things are moving along at a great pace and according to our original deal thesis.

With regard to the future, we are focused on execution. And we feel that we are achieving good organic growth in the platforms that we have. And we are best positioned in the cat market, which is difficult right now. We will consider additional acquisitions if we see opportunities that further our strategy and financially make sense, but it's not something that we need to do to continue to execute of all the things that we're doing.

One of the components or one of the pieces that has been discussed is that there's a need for size in this business. And I can say that none of our clients have expressed any concern about our size between not only the owned capital that we have, but the managed capital that we can bring there to the risk that they're looking to cede.

So I think there is a minimum size, but it's not something that we're even close to having - needing to have a conversation to determine whether we're above it. We're focused not so much on accumulating capital, but really on bringing good solutions and adding value to our customers. And as long as we continue to do that, I don't anticipate that the size dialogue that's been in the market is really going to include someone like Renaissance.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Great. Thanks. And when you look at your infrastructure or your business mix, what would be on your wish list for what you would look to consider?

A - Kevin J. O'Donnell

There are – certainly, one can wish for higher interest rates. One can wish for a better market. But I don't think that's a practical way to approach the world. I think what we are doing is the right things. And I think the one thing that we need to maintain is a strong focus on executing against the three superiors that we've always talked about. We are working hard to get closer to our customers. We are continuing to invest in our systems and our people. And we are a disciplined capital manager having to – managed over $1 billion of capital between deploying into Platinum and the share buybacks next year and building the flexibility back at the holding company that we had prior to the acquisition. So, actually, I feel pretty good about all the things that we're doing and don't spend a lot of time wishing for the world to be different. I just focus on executing in the world that we have.

Q - Sarah E. DeWitt {BIO 18946247 <GO>}

Great. Thank you.

Operator

Your next question comes from the line of Jay Cohen with Bank of America Merrill Lynch. Please go ahead.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Yeah. Just I guess a request. I'm not sure if it's possible. From a modeling standpoint, it would be helpful to have sort of historical pro formas to put the Platinum premiums into the segments – the RenRe segment – so we can project it more easily. Is that something that you guys could do?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Jay, it's not something that we're planning on doing now.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Okay.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

As Kevin indicated, we're operating as one company. And at this point, we're renewing lines on balance sheet, some of which were Platinum balance sheet. We're renewing some RenRe business on Platinum balance sheets and vice versa. So, we view it as one book today.

Q - Jay Arman Cohen {BIO 1498813 <GO>}

Yeah. I'm just saying taking their little business and just dividing it into your different segments; Specialty, Cat, specifically, but we can talk more about that later. That was really the only question. The other questions are answered. So, thanks for the call.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Thanks, Jay.

A - Kevin J. O'Donnell

Thanks, Jay.

Operator

Your next question comes from the line of Ryan Byrnes with Janney. Your line is open.

Q - Ryan Byrnes {BIO 16902592 <GO>}

I'm all set as well. So, thank you.

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. First, Jeff, I had a question on the balance sheet. I was a little confused by the invested asset movement in the quarter. It looked like it went up about $600 million sequential. I'm assuming since Platinum should have been on the books at March 31, that seemed like a big move. It looked like half of it was maybe $300 million some move in this investment payable, which I was wondering what that was. Even without that, $300 million seem pretty big sequential.

And then the other investment question related - and then I have an underlying question - is the investment income from fixed maturities was only up about $8 million and Platinum on their own, I think, was running at about $17 million. I know, obviously, cash came out in the deal, but when I take the cash that came out in the deal that doesn't explain the delta. So, the other part of it is - so, I guess, this equates to two questions. One, why are the invested assets up so much? And two, why is the investment income lower than what it looked like pro forma should be?

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Let me take the second question first, Ian. I think the answer to the second question is that we continue to reallocate the Platinum portfolio from a structure that we acquired to one that more closely matches our own allocations and allocation strategies. We have picked managers for virtually all of the mandates to which we want to allocate that. But, in some instances, those managers haven't fully funded those mandates. So, we still probably have a few hundred million dollars that is either in cash or has not been allocated to the specific allocations that we anticipate.

I expect that will add some more to investment income, but that's probably measured in low to mid single-digits of millions, not vast quantities. Effectively, we inherited a portfolio though, I think, about 1.5% yield and we anticipated we could push that up maybe 20 basis points. And I think we're still on track to do that to match our own yield on our investment portfolio. So we expect that will be the case.

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

Got it. Okay.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Hang on just a sec. On the invested - on the - well, let me come back to you on the increase in the balance sheet, Ian.

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

Okay. Yeah. Why don't I move on to Kevin then? Kevin, I guess, two quick questions. One, I was a little surprised that the managed cat GPW was flattish. I guess I would've thought that given all the - I mean I'm guessing obviously on how much premium there was on the FHCF. I think knowing your line size and I can get - they are - well, I can get a pretty good guess at it. I would have thought that would have been a big help. Did you sort of view that as replacing other Florida capacity as opposed to a growth opportunity? And it was more you got off something else to write FHCF or was there some other offset that suppressed the managed cats?

A - Kevin J. O'Donnell

The FHCF is a large component of how we structure the Florida book. But it wasn't at the cost of doing anything else. We had ample room to write that as well as our existing lines. We chose not to write some of our existing lines simply because we thought the pricing was inadequate for the risk.

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

Okay. Got it. Okay. I mean it just looks like if I took out my guess on that, you would have had a very healthy double-digit decline in managed cat?

A - Kevin J. O'Donnell

I think it's difficult to extract one deal and then assume nothing else changes.

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

Okay. Well, that's kind of what I was wondering. Okay. Okay. Got it. And then the other one on the quarter is can you just talk a little bit about - it's not just you. We've seen this across a number of companies reporting. I guess I have been surprised that events like the Texas storms and other U.S., what I'll call, small PCS events, meaning maybe they're reaching $1 billion. They're not reaching $3 billion or $4 billion, $5 billion.

In the past, those didn't cause reinsurance losses, at least of any - maybe they caused single-digit million, but nothing that would disrupt - be noticeable to anyone's quarter. Why did these seem to have increases? Just people are writing more regionals or are regionals buying lower than they used to? Is that to do with aggregate covers? Just it feels like if these events happened five years ago, we would assume smaller losses. I don't know if that's fair or not.

A - Kevin J. O'Donnell

I think it is a little bit of a function of where the losses, the land. Some places like Florida with a lot of regional covers, smaller losses are transferred. There are some regional covers in Texas as well. And just, by their nature, there'll be focused concentrations. And a smaller event will attach their programs as compared to the nationwide purchases, which are more broadly protecting many states.

I wouldn't point to anything specific except back to the comment that I made before where there are increased hours clauses, which can aggregate events differently than one would have expected a few years ago, making sure that as an underwriter you're understanding how those terms are changing and how it's likely to affect the claims coming through. One that was particularly difficult this - over the first half of the year was the Northeast winter storms because the snow accumulated over several events, but accumulated on top of the previous storms. And then many of the losses that have come in have come in from ice dams, which makes the allocation back to the original -

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

Okay.

A - Kevin J. O'Donnell

Difficult. That's not a soft market phenomenon. That's something that hard or soft market experience. But other than that, I wouldn't point to anything at least in our book of business that is other than what I would consider normal cat activity.

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

Okay. So you don't feel like you're attaching at least significantly lower to regional storms than you do have historically?

A - Kevin J. O'Donnell

No. We've kind of been different as to whether we attach higher or low. It's really whether we compensate it for that attachment.

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

Okay.

A - Kevin J. O'Donnell

And what I can say is we're not surprised by the losses coming in, because we inadvertently expanded cover without knowing it.

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

No, of course, of course. Okay. Just double checking, again, that's really from the industry level. But – okay. Jeff, do you have an answer on the balance sheet or should we follow-up later.

A - Jeffrey D. Kelly {BIO 1390834 <GO>}

Let's just follow-up later on that one. Okay.

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

Okay. Perfect. Okay. Thanks.

Operator

Your next question comes from the line of Seth Canetto with KBW. Your line is open.

Q - Seth J. Canetto {BIO 20249864 <GO>}

Hi. I just had one follow-up question. You guys mentioned that you still believe the Jan 1 renewal season will be difficult due to the current competitive market conditions. But given the distraction other companies have with all of the M&A occurring in the industry, do you see any meaningful opportunity to pick up additional business that might offset some of those headwinds considering you guys closed the deal with Platinum back in March?

A - Kevin J. O'Donnell

Yes. I think there's the macro environment is to – we think it will still be competition for lines. I think the answer to that is yes. But on a more focused – through a more focused lens, I absolutely think there will be opportunities, where companies are either – and there's an uncertainty around the closing of a transaction or there's uncertainty around what the future looks like for an entity, which will create opportunities for us.

We couldn't be happier to have the Platinum integration as far along as it is and for us to be presenting ourselves as the unified single company. And I think that's going to provide opportunities for us on a focused basis. But, on a macro basis, I do think there'll be continued competition. As what happens at the 6/1 and 7/1 is a very specific renewal. And it is hard to forecast that forward to the more broad 1/1 renewal.

Actually the one thing I think – I'm focused a little bit on cat on that comment. I think the casualty and specialty is already seeing the benefit of not only the steps that we've taken to improve ratings and to provide better platforms for people to trade with. And I think that that will – on the casualty and specialty, in particular, we'll find great opportunities as the market continues to have uncertainty.

Q - Seth J. Canetto {BIO 20249864 <GO>}

Great. Thanks a lot. Good luck going forward.

A - Kevin J. O'Donnell

I appreciate it. Thank you.

Operator

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

A - Kevin J. O'Donnell

Well, thank you, everybody. We appreciate your time and all your questions and look forward to speaking to you all shortly. Bye, bye.

Operator

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