Q1 2017 Earnings Call

Company Participants

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

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Elyse B. Greenspan, Analyst
- Ian J. Gutterman, Analyst
- Jay A. Cohen, Analyst
- Joshua D. Shanker, Analyst
- Kai Pan, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Matthew, and I'll be your conference operator today. At this time, I'd like to welcome everyone to the RenaissanceRe First Quarter 2017 Financial Results. 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.

Peter Hill from Kekst, you may begin your conference.

Peter Hill {BIO 15385944 <GO>}

Thanks, Matthew, and good morning. Thank you for joining our first quarter 2017 financial results conference call. Yesterday, after the market close, we issued our quarterly release. If you didn't receive 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 1:00 PM Eastern Time today through midnight on June 2. The replay can be accessed by dialing 855-859-2056, or +1-404-537-3406. The pass code you will need for both numbers is 5634274. 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 July 12.

Before we begin, I'm obliged to caution that today's discussion may contain forward-looking statements and actual results may differ materially from those discussed. Additional information regarding the factors shaping these outcomes can be found in RenaissanceRe's SEC filings, to which we direct you.

With us to discuss today's results are Kevin O'Donnell, President and Chief Executive Officer; and Bob Qutub, Executive Vice President and Chief Financial Officer.

I'd now like to turn the call over to Kevin. Kevin?

Kevin J. O'Donnell

Thanks, Peter. Good morning and thanks for joining today's call. I'll open with an overview of our performance for the quarter, and we'll give some color on what happened and how we think about it. Bob will then go over the financial results and I'll come back on to speak a little bit more about each of our segments.

Last night we released our first quarter earnings. For the quarter, we reported growth in book value of 0.8% and growth in tangible book value per share plus accumulated dividends of 1.2%. We also reported an annualized ROE of 8.3% and an annualized operating ROE of 4.4%, against the backdrop of a market that continues to be challenging, as well as some specific developments that impacted our performance this quarter.

Negative impacts included the Ogden rate change and weaker than anticipated results in our Casualty and Specialty book. On the positive side, we had strong investment results, proactive capital management, and growth in targeted lines of business, all of which Bob will discuss in greater detail. I am pleased that we maintained our leadership position in the property cap market. We had solid renewals at both January 1 and April 1, and are heading into the June and July renewals with a clear strategy. I'm confident that we've constructed and will maintain an industry-leading portfolio that can generate shareholder value over the long-term.

The standout driver of results for the quarter was the Ogden rate change, which drove our prior year development for the quarter. Usually, we would not preannounce a loss of this size, but given the unique circumstances of Ogden, we thought it would be appropriate. Later in the call, Bob will discuss the impact of the Ogden rate change on our numbers in greater detail.

I'd like to take a minute to describe how I think about our underwriting results for the first quarter, which had a $63 million variance to the comparative quarter. Roughly half of this variance was due to the Ogden rate change. The remaining half was more or less evenly split between Property and Casualty and Specialty.

In Property, the first quarter was an active one for natural catastrophes and resulted in some losses. The remainder of the variance was in Casualty and Specialty, and was divided fairly evenly between large Specialty events and attritional losses. So a number of uncorrelated events aligned this quarter and affected our underwriting results. But stepping back and taking a broader view, we remain comfortable with our underwriting portfolio and how it's performing.

Our current accident year Casualty and Specialty results had a 13 point negative variance to the comparative quarter last year. While the Ogden rate change was primarily a prior accident year issue, the remaining negative variance in our Casualty and Specialty segment was from an increase in reported claims in the current accident year.

With Casualty, we learned more about the performance of the book as it ages, so this early reporting does not provide much insight into the health of the book. While we do not anticipate that the Casualty and Specialty segment will have the same level of volatility as our property cat business, it will still have good quarters and bad quarters. In Casualty and Specialty, it is important to separate the short-term noise from the long-term signal.

Our conclusion for this quarter is that we are seeing more timing than trend, and we remain comfortable with the development of our Casualty and Specialty segment. That said, we will continue to watch individual business lines in this segment closely to ensure we are ahead of any developing negative trends. I believe that if you wait for definitive confirmation of a trend, in either direction, it is probably too late to benefit from the insight. We've made a lot of money reacting early to trends and we are watching this market carefully.

Our investments portfolio and capital management were both bright spots for the quarter. Bob will discuss these in greater detail, but our investment returns were strong, given both the interest rate environment and short duration of our portfolio. We also purchased approximately $103 million of shares since January 1.

I'll provide more details on the opportunities we're seeing later in the call, but first let me turn it over to Bob to talk about our financials.

Robert Qutub {BIO 15269353 <GO>}

Thanks, Kevin, and good morning, everyone. Today I'd like to first give you a few overall themes for the quarter, then provide some detail on our consolidated segment financial results, and conclude with investments and capital activities. As Kevin pointed out in his opening remarks, the impact of the decrease in the Ogden rate was a standout driver of our results for the quarter, driving all of the prior year development in our Casualty and Specialty segment.

We also experienced an uptick in current accident year losses in our Casualty and Specialty segments. Having said that, we reported a strong performance from our investment portfolio and our ventures unit continues to provide meaningful contributions to our bottom-line and overall strategy. I continue to be confident in our strategy and proud of the work our team did during the January 1 and April 1 renewals.

The first quarter sees a significant portion of our book renew, most notably in our Property segment, where almost half of our annual premiums incept during the quarter. We saw pockets of attractive business and we're able to grow the top-line in our Property segment, while continuing to maintain our underwriting discipline and execute our gross-to-net strategy.

Impacting our consolidated and Casualty and Specialty segment underwriting the results during the quarter was the announcement that the discount rate used to calculate lump sum awards in UK bodily injury cases, known as the Ogden rate, changed from 2.5% to negative 0.75%, a decrease of 325 basis points. This is an industry-wide issue and not unique to us. We were primarily exposed to the Ogden rate change through a limited number of UK med mal contracts, with an impact on our first quarter consolidated combined ratio of about 9 points. This was all contained within prior accident years in our Casualty and Specialty segment, increasing that segment's combined ratio to nearly 19 points. Our Casualty and Specialty segment also experienced an increase in the current accident year claims, which I'll discuss a little later on.

Now moving on to our consolidated financial results. For the first quarter of March 31, 2017, we reported net income of $92 million, or $2.25 per diluted common share, and operating income of $49 million, or $1.18 per diluted common share. We generated an annualized ROE for the quarter of 8.3% and annualized operating ROE of 4.4%. Our book value per share increased 0.8% and our tangible book value per share, including accumulated dividends, increased by 1.2%. Underwriting income was $42 million and we reported a combined ratio of 88%.

Let me now shift to our segment results, beginning with the Property segment, followed by Casualty and Specialty. During the first quarter, our Property segment gross premiums written were up 17% relative to the first quarter of 2016, with our other property class of business up 48% and our catastrophe class of business up 11%.

For the first quarter, the Property segment generated underwriting income of $91 million and a combined ratio of 51% compared to underwriting income of $105 million and a combined ratio of 40% in the comparative quarter. As noted, we grew the top-line in this segment, most notably in the other property class of business. This business tends to be more proportional and delegated authority in nature, and carries with it a higher expected combined ratio than our traditional excess of loss catastrophe business.

As Kevin noted in his remarks, the first quarter was an active one for catastrophe events, although no single event was noteworthy from our perspective. We did have a number of current accident year claims from smaller events in our catastrophe class of business. In other property, our current accident year ratio was down over 5 points. However, we did experience some adverse development on prior accident years due to attritional claims coming in slightly higher than expected.

As a result of the increase in proportional business in our Property segment, we saw our acquisition expense ratio tick up during the quarter, partially offset by a modest decrease in the operational expense ratio, as we continue to focus on leveraging our expense base across our underwriting platforms.

Moving on to our Causality and Specialty segment, where in the first quarter of 2017 gross premiums written were down 4% relative to the first quarter of 2016. Recall that during the first quarter of 2016, we wrote a large multi-year mortgage reinsurance contract, resulting in a one-off impact to our top-line.

With the exception of this contract, our financial lines gross premium written were also up modestly in the first quarter of 2017 compared to the first quarter of 2016. In addition, we experienced growth in certain of our casualty lines of business during the quarter. Gross premiums written in the mortgage business and certain other specialty lines can be quite lumpy, and often times characterized by a few relatively large transactions. As we have mentioned in past calls, we did expect the rate of growth in mortgage to begin to moderate.

The Casualty and Specialty segment incurred an underwriting loss of $49 million and a combined ratio of 128% in the first quarter. Driving the underwriting result was the impact of the decrease in the Ogden rate, which added nearly 19 points to the Casualty and Specialty segment's combined ratio and prior accident year claim ratio. Absent the impact of Ogden, our Casualty and Specialty segment would have experienced modest favorable development on prior accident years.

Our Casualty and Specialty segment experienced an increase in the current accident year claims ratio of 13 points in the first quarter of 2017 compared to the first quarter of 2016. There were a few specific specialty events during the first quarter of 2017 that accounted for about $10 million or over 5 points on the claims ratio, and additionally, we experienced around $13 million, or 8 points, of higher attritional losses spread across a number of casualty lines of business. As with each quarter, we evaluate our reserves for developing trends and remain comfortable with our process and reserve adequacy.

The Casualty and Specialty segment's underwriting expense ratio was relatively flat in the first quarter 2017 compared to the first quarter of 2016. Underlying this, we experienced an increase in the acquisition expense ratio driven by our growing proportional book, which tends to have a relatively higher acquisition ratio than non-proportional business. And our operational expense ratio decreased as we continue to focus on expense management and leveraging our existing expense base across our global underwriting platforms.

Now turning to investments. In the first quarter, we reported net investment income of $54 million, comprised mainly of $43 million of interest income from fixed maturity securities and $11 million of net investment income from our alternative investments portfolio. Net realized and unrealized gains on investments was $43 million, for a total investment result of $98 million, resulting in an annualized total return on our overall investment portfolio of 4.1%.

Our equity portfolio continued to perform well and interest income from our fixed maturity investment portfolio benefited from higher average invested assets. Partially offsetting this was lower overall returns from fixed maturities due to yield increases at the frontend of the curve.

Our investment portfolio remains conservative with respect to interest rate, credit, and duration risk, with 89% allocated to fixed maturity and short-term investments with a high degree of liquidity and modest credit exposure. The duration of our investment portfolio remained relatively short at 2.6 years, which is slightly higher than in recent quarters. The yield to maturity on fixed income and short-term investments was 2.3% at March 31, compared to 2.1% at December 31. Our strategic investment portfolio, managed by our ventures unit, recorded gains and we continue to be satisfied with the long-term fundamentals of the companies we own.

During the quarter, we repurchased $80 million of our common shares. Subsequent to March 31 and through last Friday, we repurchased an additional $23 million of our common shares. Share buybacks continue to be our preferred method of returning capital to our shareholders. As we look forward, any decision relating to share repurchases will, as always, depend on our view of the business opportunities, the profile of our risk portfolio, and a number of other financial metrics, none of which should be taken in isolation.

In other capital management activities, we anticipate repaying the full $250 million of our 7.5% senior notes that come due on June 1 with existing cash on hand and do not plan on refinancing the notes. Our balance sheet remains highly liquid. Our capital position remains very strong. We had efficient access to capital through multiple sources to take advantage of underwriting and business opportunities, strategic investments, and capital management activities as they may arise. Our ventures team continues to actively build relationships with high quality, long-term investors, as well as looking for new strategic transactions that can enhance our underwriting franchise.

Our capital management actions reflect a quickly evolving market, and we believe we have developed a unique agility to deploy capital where it is needed most through our own underwriting platforms or through our managed balance sheets, and remove it from areas where it is not earning a suitable return.

And with that, I'd like to turn the call back to Kevin.

Kevin J. O'Donnell

Thanks, Bob. I will start my comments with Property, and then I'll move on to Casualty and Specialty. As Bob mentioned, we grew the Property segment by 17% over the comparable quarter last year. In property cat, we saw some good opportunities to increase on a few large property cat programs and had strong top-line growth in other property.

The growth in the Property segment was higher than expected and we do not anticipate that premium growth will continue at this pace in either property cat or other property. The combined ratio for the Property segment was up over the comparable quarter last year, primarily due to a mix of current year and prior year losses. To put this in perspective, however, consider that the first quarter is well above average for U.S. property losses.

As we discussed on the last call, the challenges of 2016 have continued into 2017. The pricing in our market continues to be pressured by capital supply increasing at a faster rate than demand for reinsurance. Rates in Property continued to decline, although at a slower pace relative to prior renewals. Generally, terms and conditions remained stable. The market continued to look for the bottom, as rate reductions were broadly in line with underwriter expectations at April 1. This is consistent with the trends we saw at the January 1 renewal.

The April 1 renewal proceeded in an orderly fashion, with rates flat to slightly down. This renewal is dominated by Japanese risk and accounts for approximately one-third of our assumed international property cat portfolio. We mostly maintained our lines and were essentially flat from a premium perspective.

Looking forward to the June renewal in Florida, we continue to expect pricing pressure due to abundant supply of capital relative to market demand. Demand in the market is likely to be roughly flat and we don't anticipate significant premium growth in our Florida book. The Florida market remains challenged by issues, such as assignment of benefits. Because of this, the underlying results of many Florida homeowner writers continues to deteriorate. The majority of our Florida exposure, however, remains on an excess of loss basis, which has limited the direct impact to us from these issues, although it has the potential to increase losses from a large event.

Although we still believe opportunities to construct a market-leading portfolio in Florida exist, our Property portfolio is less reliant on Florida-only business. This is due to our strategic growth and diversification in the U.S. and other property, which continues to create opportunities.

Our Casualty and Specialty segment was down slightly at 01/01, but in line with overall expectations. We continue to expect moderate premium growth from this segment over the course of the year. Our team executed well through a difficult market. We've built an industry-leading Casualty and Specialty business, both organically and with the acquisition of Platinum.

Casualty and Specialty is core to our business and we continue to demonstrate leadership in several lines. As we discussed earlier, the market condition in our Casualty and Specialty segment is difficult, but reasonably stable from last year. I feel that we are managing our book effectively and skillfully navigating the market. With that market commentary as a backdrop, our quarter has several items affecting our results.

The important drivers are; first, the Ogden rates change, which we previously discussed; two, several event specific losses in Specialty, that I view more as timing differences against our curve; and third, as I mentioned earlier, some increases in reported claims in the current accident year, which does not provide much information as the book is too green.

The results for this quarter do not alter our positive perception of this business with a correctness of our overall strategy. The 04/01 Casualty and Specialty renewal is much smaller than the 01/01 renewal, and it was largely in line with expectations with relatively flat pricing and stable terms on most deals. Overall, even with relatively flat renewal, the market remains competitive and we are carefully monitoring the underlying books that we are assuming for rate computation.

We continue to be a first call for new opportunities with key clients. While it is often difficult to pick up additional participations on existing programs, we have seen more opportunities when panels are consolidated or when multiple treaties are combined. We continue to execute our gross-to-net strategy, ceding over 40% of our gross premiums. Breaking this down by segment, we see it over one-third of our Casualty and Specialty and, after adjusting for retro purchase and the use of joint venture vehicles, retain roughly half of our gross written premium in the Property segment. There are multiple benefits to our gross-to-net strategy.

First, we're able to continue to write large lines for our best clients using the most efficient capital available. Second, it enables us to manage our net retained risk and transform risk income into fee income, both important outcomes in a soft market. And third, by applying the gross-to-net skills we originally developed in property cat, our Casualty and Specialty portfolio has a better risk adjusted return profile than it otherwise would on a gross basis.

Our ceded program is a key differentiator from our competitors, both in terms of size, but also in terms of sophistication. The benefits of ceding a large portion of our gross premiums may not always be apparent, but on an expected basis, we believe it makes sense. It makes us a much more efficient company, as well as a much more resilient company. Our goal is to create the most efficient portfolio of risks we can and our gross-to-net strategy is a key driver to that efficiency.

I want to spend a few minutes on our ventures unit, which continues to produce excellent results and advance our underwriting franchise. In our joint venture business, we continue to work with capital partners to provide cedents with effective, unique, and one-stop risk solution. In addition to DaVinci, Top Layer, Upsilon, and Medici, we added Fibonacci this year, all of which afford us a unique access to a diverse array of capital providers. We also continue to look for opportunities to add to our portfolio of strategic investments, which have produced excellent economic returns and enhanced our client connectivity and created new business opportunities. We always look forward to working on new opportunities that bring together our investment and underwriting capabilities in a unique way.

I am confident as ever in our future and our ability to build a market-leading portfolio of desirable risk. I continue to be pleased with the strong execution of our strategy and remain confident that we have the right tools, people, and platforms in place to drive success over the longer-term. Our flexible platform and expanded underwriting capabilities will continue to enable us to respond quickly and effectively through emerging market challenges and new client demands. As always, we will focus relentlessly on our three superiors, superior capital management, superior customer relationships, and superior risk selection.

Thanks. And with that, I'll turn it over to questions.

Peter Hill {BIO 15385944 <GO>}

Operator, will you please give the instructions?

Q&A

Operator

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

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

Hi. Good morning. So if we look at the ROE, you guys reported in the quarter a little bit over 4%. And so if I just make some adjustments for the Ogden charge, and then some of the higher specialty losses, I think you called out a combined $23 million in the quarter, I would adjust to about an ROE just over 9%. I know you also said there were some cat losses that aren't included in that number. I'm just trying to see what do you view kind of as the run rate ROE. I mean, I know we – the overall low cat quarter, and I think there some expectations might have been that you return would have been higher.

A - Kevin J. O'Donnell

Thanks, Elyse. It certainly is a lot going on this quarter, so I appreciate you taking the time to kind of bring things back to a normalized level. I think at the highest level, looking at 2017, we see some of the trends continuing, but it's really not much different in 2017 than what we saw in 2016. So with that, it's a good framing for how to think about what the macro environment is in which we're operating.

Breaking that down is really three things to talk about with regard to our performance in our ROE. So results are driven by investments, underwriting, and capital management. So within investments, I think there is some green shoots, where we're seeing some opportunity for an improved investment environment in 2017 compared to 2016.

In underwriting, from a reinsurance perspective, within Casualty and Specialty, we're seeing reasonably stable reinsurance terms. The issues that we're monitoring are really two-fold. One is, what is going on with the underlying rates, which in most classes are behaving pretty well, and then where are we seeing some increased frequency on inflationary trends and which we continue to monitor. All in all, that book is behaving reasonably consistently with last year. In Property, little bit of an uptick in the first quarter, but our Property book at 01/01, as we discussed, had low single digit rate changes, so again that book looks reasonably similar.

From a capital management perspective, we had good capital management activity last year and in the first quarter. We do have excess capital, which has an effect on ROE, but it's something that we know how to manage it, and we'll remain diligent and consistent in our efforts to continue to deploy it or return it.

Looking at our strategy over the last several years, we really focused on two things to help combat the headwinds that we see in the market. One is to increase our capital leverage, which I think we've done reasonably well. The easiest manifestation of that to investors is seeing the diversification we've achieved on our balance sheet. That diversification has added a lot of efficiency to the capital that's deployed. And then from an operating leverage, we held our fixed expenses roughly flat over the last couple of years and increased our top-line premium by about 50%, so we feel like we're making good strides there.

So in sum, I would say that rates are down a little bit compared to last year. Casualty and Specialty renewals have been reasonably flat. There are some trends to watch on the underlying, but my expectations for return in 2017 are not materially different than what they were in 2016.

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

Okay. That's great. And then in terms of the reserve releases, we saw a slowdown in the Q1. I think in the commentary you guys did point to some prior year adverse development in the other property book. But historically if I go back the past couple of years, Q1 has actually been when you've seen the lowest level of favorable reserve development. Can you just remind us, is there seasonality to the review of your reserves and why has Q1 historically, I guess, been lower and how we can think about favorable reserve development for the balance of 2017?

A - Kevin J. O'Donnell

I think that's a good observation to look at. We don't think of our reserves on a quarterly basis. We look at our reserves as being our best estimate over the longer term. With that, we do report on a quarterly basis and those quarterly reports often reflect when we receive information from our customers. Typically, the fourth quarter is a lot of information conveyed, both because our customers are closing their books of business in many cases and, secondly, we're renewing a lot of business. So to the extent there is any seasonality, it could be in response to just the normal financial calendar that our seasons have and the fact that we do often receive more details and additional information as we're renewing.

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

Okay. And then in terms of the Ogden loss that you guys disclose, so you guys had pointed to this coming from your med mal exposure, so two questions there. It seems like from some of the discourse on the Lloyd's book that this stemmed from, I think, both Lloyd's and Platinum business. Is that correct? And then also, most of the players in the space that have disclosed Ogden losses have pointed to that coming from UK motor business. Can you just provide just a little bit more commentary on where rent (30:05) exposures come? Because I really can't – I can't recall other companies highlighting exposure related to med mal with this loss?

A - Kevin J. O'Donnell

Absolutely. I think you're absolutely right that most of the other announcements regarding Ogden are around auto. As you know, or as we've disclosed, we're not a very large auto writer. The Ogden rate actually affects any bodily injury claim in the UK. So looking through our book of business, we saw that it was largely concentrated within a single account that was written in both our syndicate and in the legacy book, and which we purchased from Platinum.

It is something that – there are exposures that can come through in other lines of business for bodily injury. But for us, it was really focused on the med mal. It's something that – from a going-forward basis, it's not something we anticipate for it to continue to develop for us, because, as I said, it's a single account and we are in negotiations with full information on Ogden as to how to think about (31:19).

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

Okay, great. Thank you.

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>}

Thank you and good morning. So just want to be clear on the sort of Elyse's question on Ogden rates. So, this impact is only impact the past reserve, not your ongoing business going forward?

Right. It's only in the prior years, Kai.

Okay. That's clear. And then on the mortgage re gross and seems like it moderated a little bit. We have heard a lot of competitors are actually ramping up on the mortgage (32:01) sort of premiums. I just wonder, what do you see the market dynamics there? Are you losing the competition or you feel the return is less attractive than it was before?

A - Kevin J. O'Donnell

So, as Bob disclosed, we had a large transaction in the mortgage market last year, which was a one-off transaction. Obviously, we earn it over many years. But with that, we are still seeing mortgage opportunities in 2017. I don't think there's any mortgage business that we're not seeing. So it's a result of us seeing some unique opportunities in 2016. Those unique opportunities were mostly in the PMI books of business, and it was with regard to older vintages that we thought were particularly attractive.

What we expect to see this year is more current vintages. We believe that there'll be a full spectrum of what's attractive and what is less attractive. Overall, 2017 will be less attractive than 2016 for mortgage business, but we believe that the mortgage business will still be attractive. We anticipate that we will grow, but we probably will grow at a lesser rate than we grew from 2016 to 2015.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. So the return of the mortgage re you think is still probably better than the other lines business you're having right now?

A - Kevin J. O'Donnell

I think there's two answers to that. One is on a standalone basis, and one is on a marginal basis for our portfolio. So on a standalone basis, we still see good margins in much of the mortgage business. And I think from a marginal basis, so the effect on our portfolio, it's still pretty efficient to us to add it, particularly on a reinsurance basis.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Lastly, just follow up your commentary on the - you're monitoring inflation trend. Some of your peers talking more about this - see some signs writing inflation in commercial auto, as well as in the professional lines. Could you talk little bit more about where do you see potential inflation trends in your lines of business?

A - Kevin J. O'Donnell

Okay. Auto certainly has been a big topic around the industry, but again, we're not a big auto writer, so I don't see that as particularly concerning to us. I think within professional liability, there has been a lot of discussion about an increased frequency really of class action suits. I would say a lot of that is around kind of merger objection claims.

Our observation of that is we are still seeing reasonably high dismissal rates, and a lot of the claims inflation that we're seeing there is really the loss adjustment expense associated with defending those and a lot of that is contained within the primary. We are more of an excess player within the D&O market, so it's something that we absolutely are watching carefully. At this point in time it's not driving our results, but to the extent these sorts of claims begin to get traction, it could begin to move up into more awards that affect the excess layers, and then we would be more impacted.

Q - Kai Pan {BIO 18669701 <GO>}

Thanks so much for all the answers.

A - Kevin J. O'Donnell

Sure.

A - Robert Qutub {BIO 15269353 <GO>}

Thanks, Kai.

Operator

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

Q - Amit Kumar {BIO 16979665 <GO>}

Thanks and good morning and thanks for the questions.

A - Kevin J. O'Donnell

Good morning.

Q - Amit Kumar {BIO 16979665 <GO>}

Firstly, just going back to the Casualty and Specialty discussion, when you talked about timing versus trend, we've seen some noise sort of lingering in this segment quarter-to-quarter. I'm curious why shouldn't we think about this as maybe some sort of a problem with the business that is being sourced, or maybe just talk about any changes you've made in how this business is being sourced now versus the past, so that it sort of reassures us that you're on top of this issue.

A - Kevin J. O'Donnell

Okay. If you go back to first quarter last year, we talked about some event losses that came in. That occurred again this quarter within our Specialty lines. So the way I think about those is, when something in one of our Specialty lines happens, it tends to be a large event, we have a bias to think of it as an event. We post the reserve and then over time the curve should catch up to the reserve that we post in the quarter. I think within the Specialty lines, one of the things to look at is, we're not changing our ultimate expected losses. So I just think of this as perhaps the curve is, we need to think about the timing of the curve or we just have to accept that our losses will come in a little bit more lumpy than what a traditional curve would do.

Within Casualty, I think we have a little bit more of a traditional thought process around reserving, and what we're seeing in the current accident year is really where I focus, because all the prior year development is Ogden. So on the current accident year, it's just we've seen a few more - a bit of an uptick in reported claims coming in. It's not within any one line of business. It's not thematically tied together, so we're looking at it. We decided to add it to our discussion points for the quarter, but again, it's something that, if we're correct, our ultimates will remain consistent and this will pan out over time as our curves mature.

Q - Amit Kumar {BIO 16979665 <GO>}

Got it. The other question I have is, you spent some time talking about the reinsurance strategy and you've talked about the retro strategy in detail over the past several quarters. I'm curious how has that evolved, let's say, over the past – I don't know – eight quarters or so. And has that shifted in terms of how it protects the tail versus the middle piece? Maybe just add some color on that front, so that we have some confidence in terms of the volatility of the numbers. Thanks.

A - Kevin J. O'Donnell

Okay. Just to clarify. You're asking about our ceded strategy, is that right?

Q - Amit Kumar {BIO 16979665 <GO>}

Yes. Yes. Exactly.

A - Kevin J. O'Donnell

Okay. I'll start with Property, which I think we – it's probably a little bit more understood and we've been doing it for longer, and then I'll move over to Casualty. So within Property, we have what I talk about is the fact that we keep about 50% of our gross premiums. So included in that is our use of third party capital through all the vehicles that I listed in my comments. Additionally, we have a series of quota share like protections, so those will participate in a proportional basis on the losses throughout our property book, including other property. The rest of it is more of a excess of loss, which will protect different components of the book at different return periods, traditionally more remote written periods, certainly more remote written periods than what we've experienced over the last several years.

Moving to Casualty and Specialty, we have a similar philosophy in thinking about how to protect the book, where we are looking at substantial quota share protections for several of our lines of business. When we think about purchasing those quota shares, the fundamental, the most basic analysis we're doing is what percent of the expected profit are we keeping for full session of loss. That is the driver for us to think about constructing the portfolio on a net basis.

Additionally, we're increasingly finding opportunities to buy either per occurrence or per risk protections within our Casualty book, which will serve us to protect us from either a single shock loss or from adverse aggregate performance across the portfolios. In observing those, what I am talking about is the economic framework with a capital model in which we're making our decisions. The observed GAAP impact is less than the observed economic impact, meaning that we've seen within property cat loss is smaller than would recognize the full benefit of the ceded portfolio that we've purchased. And within Specialty, we see the effect of the quota share, which will emerge over time, but more specifically, the specific excess covers have not been utilized to the degree that they are appearing in our GAAP statements.

So very consistent across both segments. We believe, it's the right thing to do to position us for long-term success. And to the extent we're correct on the expected modeling of our portfolios, these will be accretive over time.

Q - Amit Kumar {BIO 16979665 <GO>}

And then just final just sort of related to that, when you say long term, can you define long term?

A - Kevin J. O'Donnell

Well, within property cat, it's when – the long term could be tomorrow, just whatever an event happens. What I mean by that is just something that's a little bit further out in the tail than what we've experienced. For Casualty, this is as the books mature, I think you'll continue to see the increased sessions in the more recent books soaking up some of the losses as they come through.

Q - Amit Kumar {BIO 16979665 <GO>}

Got it. And I'll stop here and let others ask. Thanks.

A - Kevin J. O'Donnell

You're welcome. Did you ask another question? Sorry, I missed you.

Operator

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

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

Yes, thank you. A couple of questions. In the other property segment, the acquisition expense ratio was higher. Obviously, a shift towards quota share business would do that. Is that a number that we should think about going forward over the next couple of quarters or for some reason was that inflated in this particular quarter?

A - Robert Qutub {BIO 15269353 <GO>}

No. Jay, I think you're right. It's related to our growth in proportional and delegated authority. You saw that we had a lot of growth and you can see that the growth in the acquisition really parallel what we saw in the net earned premium. So as that business continues to grow, you'll see that growth what you would normally see with the proportional business.

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

And does that business have a lower loss ratio than your other business?

A - Kevin J. O'Donnell

I would divide it into two pieces. Other property is not necessarily cat-focused business, but there is a cat component in it. The volatility and the attritional stuff is lower than the cat piece, so it has a higher loss ratio. So we look to write the property, the cat component of that at a similar loss ratios of property cat. The attritional will have a higher loss ratio, which is normal in any proportional book. It's more of an insurance property set of economics than of reinsurance.

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

Got it. That's helpful.

A - Kevin J. O'Donnell

Yeah.

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

And then secondly, in the Specialty business, these kind of losses that you talked about in the quarter, can you talk about what lines – I mean, what kind of losses we're talking about?

A - Kevin J. O'Donnell

Sure. There are some losses – actually I'm going to give a specific example. One of them is, we decided to book – there was some press recently about the Mozambique bond. We decided to go out ahead of the Mozambique transaction and to book that, so that's kind of a clear example. We see that as an event and added. Ultimately the curve will catch up. Rest of the market may treat it differently. We had a surety event, which was similar, couple of things like that, but there is not – it's not one line of business. It's things of large size that we are treating more as an event and bringing it through our reserves that way. Ultimately the curve I think will catch up.

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

Got it. That's helpful. Thank you.

A - Kevin J. O'Donnell

Sure.

Operator

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

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

Yeah, good morning, everyone.

A - Kevin J. O'Donnell

Hey, Josh.

A - Robert Qutub {BIO 15269353 <GO>}

Good morning, Josh.

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

I want to know how to think about excess capital as you write proportional business versus excess loss business. And where you sort of look in terms of the extent to which you're maximizing what you think is sort of the right amount of capital at this point in the market versus giving that back to shareholders?

A - Kevin J. O'Donnell

Okay. I'm going to – I think I hear two questions there. The first is how do we think about allocating capital in lines of business, including other property, and then secondly excess capital. So firstly, all of our risk is managed in REMS, and within that we have two sets of analysis which we talked to you about before, one is the standalone, the other is the marginal.

The marginal is the way in which we allocate capital to risk on an economic basis and it (45:46) informs how much GAAP capital is required. So thinking about other property specifically, the cat component will add required capital to our portfolio. The attritional loss, which tends to be more individual law stuff, is less capital consumptive and won't add nearly as much capital. So thinking about the premium change within other property, it's a much lower additional requirement than it would be within property cat, because property cat still drives the tail of our distributions.

With regard to how to think about that between deploying capital and share repurchases or returning capital. So our first objective is always to look for accretive ways to deploy capital into our business. And if we can't, then we'll look for ways to return it. Once we have the information as to what the return is on required capital with any line of business, it makes the return decision as to whether – makes the decision as to whether return on capital is pretty easy, you just compare one to the other.

So for us, internally it's reasonably transparent, lots of sophisticated kind of analysis behind it, but it's what we do everyday regardless of whether it's other property, surety, or another property cat line.

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

What about making investments in non-core related businesses? I think at some points in your history you guys have been a total return company and there has been – and, obviously, you do have some investments out there. Instead of returning the capital, instead of deploying the capital, how actively are you looking to maybe buy something?

A - Kevin J. O'Donnell

Sure. So a lot of the – I think what you're talking about is some of the venture capital investments that we make...

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

Could be. I mean, ChannelRe, Japan yen, I mean, all sorts of.

A - Kevin J. O'Donnell

Yeah.

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

Over the years some have worked out, some haven't.

A - Kevin J. O'Donnell

Yeah. So, the way we look at that is, we will – we do a normal private equity analysis. There is two – let me divide the venture portfolio from an investment perspective into two things. One is, underwriter supported investment, so we own – component of owning Tower Hill is the information that we learn about what's going on in the Florida primary market, as well as our access to their risk as a preferred reinsurer. So that's one set of investments that we make.

The other set of investments is, things that we think will enhance our franchise and further our strategy, but maybe one step further removed. Trupanion is probably a little bit closer to that, where Trupanion we think is an excellent company. We see it as an area where potentially we can learn how to think about small premium processing and in a growing market. So we'll make an investment potentially there looking to expand the franchise a little bit more than something like Tower Hill. All of them are made independently to make sure that we are seeing an IRR that we believe to be accretive to the firm over time.

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

And as you weigh that against, I guess, is returning capital viewed as an accretive – I mean, the balance between those two things, to return the capital, I guess, is accretive through a buyback at a certain price versus a dividend which is probably not accretive. I guess, how does that fit into – when you're presenting to the board, well, should we really be buying back stock? Should we really be giving a dividend? What about – how aggressively, I guess, should we be looking for third-party type investments?

A - Kevin J. O'Donnell

Sure. So one of the high bars we place for ourselves is, we should not be doing for investors what they can do for themselves. Things I like about several of our ventures' investments is that they provide long-term income opportunities where share buybacks, we're looking to be accretive over a much shorter period of time.

I think with regard to special dividends, dividends, share buybacks, we look at each of those each quarter and make a determination as to what we think is most beneficial to shareholders. Historically, as you know, share buybacks has been the winning strategy for us to return capital. But again, if we can find an opportunity that we think will provide long-term benefits to shareholders through investment, we'll absolutely make it.

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

Okay. Well, thank you for the answers and good luck in this tough year.

A - Kevin J. O'Donnell

Okay. Appreciate it, Josh. Thanks.

Operator

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

Q - Brian Meredith {BIO 3108204 <GO>}

Thanks. Kevin, just two quick ones, and I think it kind of follows on Josh question. The Tower Hill loss in the quarter, is that kind of an unusual situation? What was that all about?

A - Robert Qutub {BIO 15269353 <GO>}

Tower Hill did take – we take an equity method on that, Brian, and it was down in the quarter. But if you look at our investment in Tower Hill over time, it's had quite attractive returns.

Q - Brian Meredith {BIO 3108204 <GO>}

Okay. And then I'm just curious. Could you just remind us on the reinsurance contracts, you book those kind of as fair value. How should we think about that line item as far as earnings? It is down, it is down pretty significantly year-over-year.

A - Kevin J. O'Donnell

I'm not sure.

Q - Brian Meredith {BIO 3108204 <GO>}

Yeah.

A - Robert Qutub {BIO 15269353 <GO>}

I'm not following your question.

Q - Brian Meredith {BIO 3108204 <GO>}

I'm sorry. Your other – under other income, you've got that one line that's a fair value, I assume it's ceded reinsurance. I guess it's your cap lines (51:14).

A - Kevin J. O'Donnell

Give us a second. I want to pull that line up, just to make sure.

Q - Brian Meredith {BIO 3108204 <GO>}

It seems that ceded reinsurance cost accounted for at fair value or as deposits?

A - Robert Qutub {BIO 15269353 <GO>}

Okay. Brian, let's keep going here. Let's take a look at. Do you have other questions, while we take a look (51:35).

Q - Brian Meredith {BIO 3108204 <GO>}

That's all I have. You guys had been really clear this call. Thank you.

A - Kevin J. O'Donnell

Sure.

A - Robert Qutub {BIO 15269353 <GO>}

We'll circle back up with you, Brian, okay?

Q - Brian Meredith {BIO 3108204 <GO>}

Okay. Great.

A - Kevin J. O'Donnell

Any other questions?

A - Peter Hill {BIO 15385944 <GO>}

Operator, can we get the last question please?

Operator

And your last question comes from the line of Ian Gutterman with Balyasny. Your line is open.

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

Thank you. First of all, FYI, Brian was referring to page 15, because I was going to ask the same thing, but I'll get to that in a minute.

A - Kevin J. O'Donnell

Okay.

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

My sort of big picture question might be that (52:25), one observation I had looking at the results was, your underwriting income for the quarter pretty much all came from DaVinci. I think there was about $1 million if I backed out the DaVinci that came from the Ren balance sheet. Just how should – that just kind of caught me off guard. I mean, how should

I think about that? Is there anything to read into that, that DaVinci generated the most profit this quarter?

A - Kevin J. O'Donnell

Actually it's an interesting way to think about it. I hadn't focused on kind of dividing it between RenRe and DaVinci. DaVinci is really a quota share of our property cat book, at the simplest level. So I think of it as mimicking – what you see in DaVinci is an unadulterated performance of what you're seeing at RenRe Limited. I think, if I were to break it out, it's some of the other components that we were talking about. The uptick in Specialty, Casualty losses, and then the Ogden rate change, which didn't affect DaVinci. So all the other components that we're seeing within Casualty and Specialty are not resident within DaVinci and what you're seeing is just the pure property cat performance coming out of DaVinci.

A - Robert Qutub {BIO 15269353 <GO>}

Right. (53:35)

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

Got it. Okay.

A - Kevin J. O'Donnell

Yeah.

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

Makes sense. Makes sense. Okay. And then, I just wanted to follow-up Amit's earlier question about the Casualty book, maybe just ask a little bit differently.

A - Kevin J. O'Donnell

Sure.

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

The thing I notice is the last three quarters on an accident year basis it's been running at about a 110 (53:52). And I know there's been sort of issues that have come up each quarter that I wouldn't want to call that a run rate. But then again three quarters in a row, you start to scratch your head and say, well, maybe is my run rate higher than I used to think it was, right?

So, I mean, can you help us try to think of how often we should have quarters that look like a 110 (54:12)? I mean, is it once every three years and you just happen to have three in a row or is it normal now probably over 100, and is just – is it a combination of it's not as good as we used to have and bad luck? Like, how should we think about normal?

A - Kevin J. O'Donnell

So, I think there's two components that are driving the loss ratio within that. One is prior year development and the other is the current accident year. So, I think, as the book grows, I have - actuaries tend to be the glass half full, so they'll be more interested in recognizing increased frequency or severity than something that is looking more like favorable - favorable frequency or severity. So as a book grows, you're going to have a bias to have a little bit more of a negative skew into your loss ratio. I think the prior year development, we do the best we can to estimate it. We look at it each quarter and there's going to be some natural volatility there.

From a run rate perspective, I don't have a return period to think about what a 105 is or a 95 (55:31), but I would expect that - we believe the book could be profitable. It may be a little bit of a lumpy ride to get there, but as the book matures we should see more stability in the results.

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

Do you think it would be profitable - on an accident year basis, profitable this year?

A - Kevin J. O'Donnell

Looking at the expected value of the portfolio, the answer is yes.

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

Okay, good. Okay. And then the other sort of subcomponent of that I've been trying to figure out is can you give us a ballpark sense of how much of the earned premium at this point is from mortgage? And again in rough view, where that books? I would have thought that would have been well below 100, and that what would have been helping the mix/

A - Robert Qutub {BIO 15269353 <GO>}

We don't - I mean, in terms of looking at the combined ratio for mortgage, we don't really show that, but what we do show is the amount of gross written premium in our financial line sector...

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

Right.

A - Robert Qutub {BIO 15269353 <GO>}

That's about 60% of the total, the gross written premium in the first quarter. Now that's down significantly from the prior year on the comparative basis, which have the larger deals. So when you factor that out, there was some growth, but it runs about 60% of what the total financial lines was for the first quarter this year.

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

But it earns much slower, right? So if I looked at that $179 million of earned, I would guess mortgages - I don't know - 20%, 30% - I mean, it's not certainly as much as the gross would imply.

A - Robert Qutub {BIO 15269353 <GO>}

The earn-out will be over a period of 7 to 10 years, and that earn-out period is going to be reflective of the risk and the degree of risk over the life of that contract. So it's not a linear earn-out. It's more reflective of the risk over the 7 to 10 years, probably little bit more in the frontend and longer tail to backend.

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

Okay, got it. And then just one last one for me is on the investment income, the fixed income has been sort of a run rate in the high 30s for a while and it bumped up to 43 this quarter. I think you mentioned higher invested assets. But was there anything unusual this quarter? Is this a new run rate up in the 40s?

A - Robert Qutub {BIO 15269353 <GO>}

No, we had some higher invested assets that came in. We had a slight uptick in the rates this quarter, overall 2.1 to 2.3, and we did a little bit of rebalancing with little bit more closure on the credit side, but nothing significant, just modest changes to it, but we were able to benefit from those changes in our structure, as well as in the market.

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

Great. Thanks so much.

A - Kevin J. O'Donnell

Thank you. Brian, let me go back to your question. It really relates to a few deals that we carry at fair value, given the way GAAP makes us count for them. And so we have to account for them on a fair value basis, so you get some volatility, but it's a very small number and you'll see some up and down on it, but there is no trends there.

Thanks. Any other questions for today.

Operator

And there are no further questions at this time. I'll turn the call back over to Mr. O'Donnell for a brief closing.

A - Kevin J. O'Donnell

Appreciate everybody dialing today. Thank you for the opportunity to speak to you and to explain the quarter. I know there is a lot of moving parts. So, hopefully, we've provided you with some good insights. Feel great about where we are, recognize it's a difficult market, but I think we are in the ideal spot to continue to execute and to perform well in this market. So thanks again and I look forward to speak into you next quarter.

Operator

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