Q1 2021 Earnings Call

Company Participants

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

Other Participants

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

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to the RenaissanceRe's First Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. (Operator Instructions)

I would now like to hand the conference over to Mr. Keith McCue, Senior Vice President, Finance and Investor Relations.

Thank you.

Please go ahead sir.

Keith McCue {BIO 20595590 <GO>}

Good morning. Thank you for joining our first quarter financial results conference call. Yesterday, after the market closed, we issued our quarterly release. If didn't receive a copy, please call me at (441) 239-4830 and we'll make sure to provide you with one. There will be an audio replay of the call available from about 2:00 PM Eastern Time today through midnight on May 29. The replay can be accessed by dialing 855-859-2056, US toll free or 1404-537-3406 internationally. The passcode, you will need for both numbers is 6544178. 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 May 29, 2021. Before we begin, I'm obliged to caution that today's discussion may contain forward-looking statements and actual results may differ materially from those discussed.

Additional information regarding the factors shaping these outcomes can be found in RenaissanceRe's SEC filings to which we direct you. With us to discuss today's results are Kevin O'Donnell, President and Chief Executive Officer; and Bob Qutub, Executive Vice President and Chief Financial Officer. I'd now like to turn the call over to Kevin. Kevin?

Kevin O'Donnell

Thanks Keith. Good morning everyone and thank you for joining today's call. As you saw in our earnings release last night, our financial results were impacted by Winter Storm Uri losses in the United States as well as mark-to-market losses in our investment portfolio. As a result, we reported annualized return on average common equity of negative 17% and annualized operating return on average common equity of positive 3% -- 0.3%. Despite the challenges of the quarter I am pleased with our performance and excited regarding our future business prospects. I believe that we continue to execute our long-term strategy and the measures we took this quarter will provide a strong foundation for growth and profitability of our business over the next several years.

Specifically, I'd like to highlight three of these measures. First, we grew premiums materially in both property and casualty specialty in an improving market, our growth was greatest in the lines where we saw the highest rate increases and expect the most sustainable long-term profitability and third we thoughtfully managed our excess capital by repurchasing shares at attractive prices. To begin with, opportunities to grow, do not come frequently and you need the skill to recognize these opportunities as well as the determination to act decisively when they do.

January 1, was one such opportunity; by employing our flexible platform we grew our gross written premiums in the quarter by 26% or $537 million and net premiums by 37% or $475 million, both after adjusting for reinstatement premiums. As we discussed last quarter, we expect to grow net written premiums by at least $1 billion in 2021 with a little over half of this growth in our Casualty and Specialty book and the balance mostly coming from other properties. This quarter, we also increased the contribution from property catastrophe to our business through a combination of increased ownership in DaVinci and proportionately less ceded spend. This combination of growing top line while retaining more of the bottom line resulted in us fully deploying the $1.1 billion we raised last June.

We did so while keeping tail risk, consistent with prior years on a percentage of equity basis. This strong top line growth we delivered is the direct result of the diligent execution of our long-term strategy, which is to match desirable risk with efficient capital through the application of our three superiors; superior customer relationships, superior risk selection and superior capital management. While we are a leader in property cat, we find Casualty and Specialty and other property particularly attractive at this point in the cycle and continue extending our leadership into these businesses.

There are three main reasons why the other property and casualty and specialty businesses are appealing to us. First, they are experiencing significant above trend rate increases, which should provide attractive long-term underwriting returns. Second, we believe we have a competitive advantage in selecting the best risks in these businesses and monitoring their performance, and third we have preferential access due to the trusted relationships and strong value proposition that we've developed with our customers over many years.

Starting with rate trends on previous calls I've said that we believe we are in a hard market and this hard market differs from many in the past however as it is not driven by a lack of reinsurance capital. Rather, it is in insurance underwriting hard market. Climate change, modeling malpractice and social inflation have increased loss costs while historically low interest rates have decreased investment income. As a consequence, strong underwriting results are necessary to generate sufficient returns on equity.

Due to this necessity, we have seen rate increases exceeding trend across the insurance industry for several years now. These rate increases are approaching adequacy and because they are necessary for profitability they should persist. Both our Property and Casualty and Specialty bring us closer to this insurance risk where we can benefit directly from improvements in underlying insurance rates as well as more stringent underwriting from improved terms and conditions on risks such as communicable disease and cyber.

So while reinsurance markets have been stable with sufficient capital to build programs, it is still possible to realize substantial rate increases by getting closer to the business. Second, we believe we have a competitive advantage in selecting the best risks and monitoring their performance. An important aspect of our strategy is maintaining the capability to selectively choose among risks, we have sufficient scale to access business, while still retaining the flexibility to increase on the best deals and decrease on the worst.

Ultimately, we believe this affords us better margins. Over the last several years, we've methodically built the necessary infrastructure to access both other property and casualty business, leveraging our industry leading risk and capital management technology and underwriting expertise. There are some different strategic considerations however between other property and casualty, for example, we are increasingly positioning the other property book to serve as an alternative means to assume catastrophe risk. Currently, our increase in exposure to catastrophe perils is largely emerging from the other property business where we have tripled premiums over the last few years.

Other property differs from property cat excess of loss business in that and employees quota shares, or risk treaties delegated authorities and other pro rata approaches by taking property risk in the form our customers increasingly choose to cede it, we move closer to the risk while helping cedents better manage their net risk. In addition to catastrophe risks however, these pro rata approaches are also exposed to attritional loss. This involves a different underwriting skill set requiring substantial monitoring of our partners' performance over the life of the relationship.

Building the system and infrastructure necessary to evaluate catastrophe risk as well as monitor attritional risk has taken many years and much effort. Since we are capable of underwriting both, this enhances our value proposition and puts us in a preferential position to work with customers and access the best risk. It is similar with our casualty business, we have invested in our casualty tools and methodically grown both organically and through strategic acquisition as rate and profit margins have improved, we have expanded our positions and our customers have rewarded us with larger portions of existing programs or access to new lines.

Casualty is exposed to different risks than property and typically has a complementary risk curve, lower volatility and a narrower dispersion between good and bad years which increases our capital efficiency. Over time, we expect capital usage to increase, but as long as our peak exposure remains property catastrophe, casualty should remain extremely efficient. At the January 1 renewal, for example, only a small amount of capital we deployed was needed to support casualty because of this, and provided the right profitable business, the return on required capital for casualty should be attractive. In addition to the underwriting income that we earn on casualty it brings substantial float, which is the premium paid to us that we invest as we monitor loss trends.

This asset leverage contributes meaningfully to our earnings through investment income, while also reducing operating earnings volatility. Since 2018 our casualty reserves have more than doubled to $6 billion and currently the duration of casualty liabilities is longer than property liability so, it allows us to extend the average duration of our invested assets and consequently, improve returns.

This combination of underwriting income and investment return not only drives profit, but also buffers volatility, while we have grown casualty topline materially, you have yet to see this reflected in increased profitability. The higher rates from the business we wrote over the last several years will be gradually recognized going forward as the business seasons and confidence grows that rate exceeds trend.

This should result in decreasing loss ratio as reflected in our financials over time. The third distinguishing factor in the other property and casualty business is that cedents want to work with well-known, reliable reinsurers that demonstrate robust, enterprise risk management high ratings and proven experience. They want long-term partners with strong value proposition who respect relationships and do not behave transactionally. They also want reinsurers with access to multiple forms of capital that can bring innovative, large scale solutions to solve their biggest problems. We believe this set of traits characterizes the reinsurer of the future, the way reinsurers increasingly need to be structured in order to be optimized for a changed market. We have worked hard to embody this ideal and as a consequence are able to trade even more broadly with our best partners accessing the most desirable risk, on the best terms.

Our third big success for the quarter was the proactive steps we took to reallocate our excess capital, primarily through share repurchases. In my letter to shareholders from 2015 I explained, our strong preference for share repurchase -- to share repurchases to manage excess capital. Even after deploying over $1 billion of capital at the January 1 renewal we continue to hold more than ample dry powder to capture additional underwriting opportunities this year.

At the same time, we believe that our share price did not reflect the significant improvements in rates, we have been experiencing, nor the strength of the earnings engine we have built. Bob will discuss these repurchases in greater detail, so we viewed it as an attractive opportunity to reallocate a portion of our excess capital in a way that we expect to be accretive to shareholders over the long term.

Before I hand it over to Bob, I'd like to briefly comment on our plans to return to working from our offices. We have always had a strong collaborative culture and I believe we work best when we work together. We will be diligent in planning our return to our offices, following best practices and always putting the safety of our employees and other stakeholders first.

That said, I look forward to when we can return to our pre-pandemic operating model. That concludes my opening comments, I will provide more detail on the segment performance at the end of the call, but first, Bob will discuss our financial performance for the quarter.

Bob Qutub {BIO 15269353 <GO>}

Thanks Kevin and good morning everyone. As Kevin discussed, we reported a net loss of $291 million and positive operating income of $4 million for the quarter. These results were primarily driven by Winter Storm Uri along with mark-to-market losses in our investment portfolio. Now, before I discuss our results in more detail, I want to call to your attention to the enhancements that we made to our earnings release. Our goal was to provide investors with additional disclosure on important themes in the quarter, draw attention to key metrics and simplify the overall format. With these enhancements, my comments today will focus on our accomplishments during the quarter and items that drove our consolidated results including our three drivers of profit, share repurchases and continuing expense leverage.

Starting with our consolidated results where we reported an annualized return on average common equity of negative 17% primarily related to mark-to-market losses and our strategic investment and fixed-income portfolios. Our annualized operating return on average common equity was 0.3% primarily driven by Winter Storm Uri which I will refer to as Uri.

We closed the first quarter with a book value of approximately $7 billion, which decreased by $482 million or 6% from December 2020, this decline was primarily from two factors. First is the $291 million net loss for the quarter that I previously mentioned and second, we repurchased $1.1 million shares for $172 million at an average price of approximately $160 per share, which reflects an average price to book of 1.15. We continued to repurchase shares after the quarter end, and as of April 23, we have repurchased an additional 330,000 shares for $55 million at an average price of $168 per share.

In total, this year, we have repurchased 1.4 million shares for $227 million at an average price of $161 per share. We have a long track record of being good stewards of our investors capital and believe that these repurchases have been an attractive opportunity to reallocate a portion of our excess capital to shareholders. I'll now shift to our three drivers of profit, starting with underwriting income. We grew our top line significantly in the quarter with gross premiums written of $627 million or 31% with the Property segment growing $396 million and the Casualty segment growing $230 million.

We reported underwriting losses of $36 million in the quarter and a combined ratio of 103%, 27 points of which related to Uri. Uri had a $180 million net negative impact on our overall results with $137 million related to property catastrophe, $40 million related to other property and $3 million related to Casualty. For our Property segment, specifically the gross premiums written growth of nearly $400 million was split roughly equally between property catastrophe and other property. Excluding the impact of $90 million in reinstatement premiums however, growth in property premiums was about 25% with two-thirds of that growth in other property.

Other property gross premiums written grew by $200 million, a 71% increase from the prior period, this reflects our growing expansion in primary property E&S plus additional underwriting opportunities, we are seeing in our other property class of business. Property catastrophe grew by 21% or 11% excluding reinstatement premiums, but that's on a much larger premium base of $1 billion. We reported a combined ratio of 107% in our Property segment driven by 54 endpoint impact from Uri in the quarter. Most of these losses were on our property catastrophe business.

As a reminder however, other property is also exposed to catastrophe risk and Uri had a 15 impact on both the combined and current accident year loss ratio for this class of business. Excluding the impact of Uri on our other property book, attritional losses are running about 50%, which is within our expectations for this business. Now, moving onto our Casualty Specialty segment and results; as we discussed on the last call, we had a very successful January renewal and I'm pleased to report that this is the first quarter our Casualty segment gross premiums written have surpassed $1 billion, growing by 29%.

Except for financial lines, premium growth was at or above 30% in all disclosed cash flow lines. Other than the small impact of Uri, there were no individually significant events in the quarter, there was a small amount of favorable prior year development and the combined ratio for casualty was 98.9%. Now, finishing up the underwriting section, I want to briefly address COVID-19; this time last year we reported our first COVID-19 losses which were primarily in the Casualty book. This quarter, there was no significant changes to our COVID-19 losses. That said, this is a developing situation and we will receive more information over time, we'll continue to monitor COVID-19 development across all segments and lines and our current reserves represent our best estimate of potential losses.

Now, moving on to our second driver of profit fee income, which totaled $24 million and is down from $45 million in the first quarter last year. This decline is driven by a $23 million reduction in performance fees, primarily in DaVinci and Upsilon related to Uri. As a reminder when a significant event occurs in the quarter, we typically unwind previously booked profit commissions, this can result in negative performance fees like you see this quarter.

Management fees, continue to grow and we expect that they will increase over time as we continue to grow our joint ventures. Overall, the net non-controlling interest attributable to these vehicles was $47 million. This was driven by reported losses in DaVinci and Medici which were partially offset by income in Vermeer. As I said last quarter, we raised $730 million in capital through Upsilon, DaVinci and Medici, effective January 1, which included $131 million of our own capital. As a reminder, as part of this capital raise, we increased our stake in DaVinci to 28.7% effective January 1. Subsequent to January 1 capital raise, we raised an additional $132 million in Medici with $28 million in the first quarter and $104 million effective April 1, as a result of this new capital, our ownership percentage in Medici declined slightly on April 1 to 13.7%.

Turning now to our third driver of profit, investment income; our investment results declined in the quarter due to rising interest rates and volatility in our equity portfolio. Net investment income was $80 million offset by $346 million and mark-to-market losses. This resulted in total investment results of negative $266 million, the $262 million in mark-to-market losses from our fixed maturity portfolio related to the sharp upward movement in treasury rates during the quarter, particularly at longer-dated maturities. This increase in interest rates, has improved the yield on our retained fixed maturity portfolio to 1.5%. The duration on our retained portfolio has increased slightly to 3.7 years.

The $68 million mark-to-market loss in our equity portfolio was primarily related to our strategic investments portfolio, more specifically $91 million related to our long-term investment in Trupanion offset by gains in the remainder of our equity portfolio. Trupanion has been a tremendously successful investment for our shareholders over the last 14 years, generating an annualized internal rate of return of 35% on a $6 million investment. Given the rapid appreciation of our investment in Trupanion last year, we took steps early in the quarter to rationalize our exposure, we sold down about $1.3 million of our $2.8 million shares generating proceeds of about $130 million. Subsequent to the end of the quarter and as of April 27, we sold an additional 411,000 shares of Trupanion generating another additional proceeds of $33 million.

Now, before I move on to expenses I want to tell you about an investment we made that ties directly with the first prong of our ESG strategy promoting climate resilience. We were a seed investor and BlackRock's new US Carbon Transition Readiness Fund, which is aimed at identifying the winners of the transition to a low carbon world. This investment provides another opportunity for us to proactively manage climate risk on the underwriting, capital partners and investing sides of our business. We were excited to participate with a $100 million investment and ETF launch of April 8, with a total of $1.25 billion in assets, making it the largest exchange traded fund launch, ever.

Now, I'll provide additional information on our expenses and foreign exchange gains, starting with the acquisition expense ratio, which remained flat overall at 23%. There were some noise between segments and the casualty acquisition ratio increased by 3 percentage points to 28%. This primarily relates to the impact of purchase accounting adjustments on last year's expenses. Meanwhile, the property acquisition expense ratio declined, driven by an increase in reinstatement premiums.

As a reminder, the current expected run rate of our casualty expense acquisition ratio is in the upper 20s, so this quarter was within our expectations. Our direct expense ratio, which is the sum of our operational and corporate expenses divided by net premiums earned declined by 3 percentage points from the prior period to 6% for the quarter. This was driven by a decline in expenses as we continued to leverage our platform, both operational and corporate expenses declined in the quarter on an absolute basis. The decrease in operational expense is related to reduced travel and entertainment expenses in the first quarter of 2021 due to the COVID-19 pandemic. The decrease in corporate expenses is related to higher one-off expenses in the first quarter of 2020 related to our acquisition of TMR. Going forward, as we grow our top line, we will also continue to invest in the business to support our growth.

However, we plan to do so at a proportionately slower rate and expect our direct expense ratio run rate to be generally consistent with this quarter. We reported a $23 million foreign exchange loss in the quarter -- approximately two-thirds of this loss relates to Medici and has no impact on our bottom line, as it's backed out through non-controlling interest. The remainder relates to our underwriting activities. So, in summary, we were very pleased with our strong underwriting growth this quarter and an improving market. We believe this growth along with the increased earnings potential of our fee business, anticipated rising yields in our investment portfolio and ongoing leverage of our expense base will continue to contribute to shareholder value.

Now, with that, I'll turn it back to Kevin.

Kevin O'Donnell

Thanks Bob. As usual, I'll divide my comments between our Property and Casualty segments, starting with property. After January 1 the first quarter of the year tends to be quiet for our property portfolio marked by preparation for 401 and midyear renewals. This quarter however Winter Storm Uri brought ice, snow and freezing temperatures, to a large portion of the US resulting in physical damage and power outages, most notably in Texas.

As Bob explained, we are estimating a net negative impact of $180 million from this event, predominantly in our property catastrophe class of business. In general Texas insurers tend to have lower attachments on their reinsurance programs which we believe will result in a greater proportion of the industry loss, being shared with reinsurers than in a similar-sized loss in a different region.

Additionally, we expect shortage of materials and labor as well as COVID-19 restrictions will amplify loss costs. While not an unusual events statistically, the last time a comparable Winter Storm struck Texas was 1899 and I expect many in the industry were surprised by the size of this loss. Undoubtedly, there will be discussions across our industry, if this is yet another example of the growing impact of climate change on our business.

We always capture freeze for any US cat risk, we underwrite, including in Gulf [ph], that said systemic losses caused by widespread power interruptions can to be challenging to model given the heavy tail distribution. Our other property business was not as impacted by Uri as we did not write much residential quota share in Texas and we reported a decent profit in the quarter. Our conversations with clients in Japan as of April 1, renewal were productive and the renewal proceeded smoothly. As expected, we grew predominantly with our existing clients driven by increases in limit and rate. Win rates in Japan were up about 5% to 10% while earthquake rates were up low-single digits.

We are deep and preparations for the Florida renewal, and while we anticipate continued upward rate momentum it is too early to predict what the outcome will be. We have sufficient excess capital to grow, if rates are adequate with structural issues in Florida continue to be a concern. Overall, Florida domestics have not performed well for many years with several Florida insurers having experienced ratings downgrades due to poor operating results. This trend is likely to continue into the first quarter as many Florida insurers have diversified into Texas, making credit risk an increasing important consideration when underwriting these companies.

Even more troubling some cedents continue to report adverse development on Hurricane Irma almost four years after landfall, well past the three year period for filing a claim. Irma did not impact our results in the quarter but nonetheless brings into question the supposedly short tail nature of these liabilities as well as the efficacy of prior legislative reforms in Florida. We welcome recent efforts by Florida's governor and Senate to limit social inflation, but anticipate that few of the proposed reforms will be enacted and any actual benefit to the market, will be minimal.

So, when we anticipate opportunities to grow during the remainder of the year, we are not necessarily, referring to the Florida domestic market. I have spoken critically about this market for many years and it represents an increasingly smaller portion of our property book. Several Florida companies have been good partners of ours for decades and we will continue to support them on reasonable terms. As for the remainder of the Florida market, we believe additional material rate increases are necessary to offset credit risk, operational deficiencies and social inflation. Absent these increases, we are unlikely to provide additional support and may even consider reducing for the second year in a row.

Moving now to our Casualty and Specialty segment where we continue to enjoy the benefit of accelerating, underlying rate increases across multiple lines of business and geographies. We believe that the expected profit on this book, coming out of January 1 renewal is strong, although it will take time for this to be recognized in our financial results.

April through July is active for Casualty and Specialty renewals and conversations are progressing as expected. Many of these deals did not benefit from COVID related rate increases last year, so, we believe that rates will continue to improve. While we are monitoring supply and demand dynamics we are entering the renewals in a leadership position and currently anticipate mostly stable terms and conditions with growth driven by underlying rate increases. There were a number of potentially high profile casualty events during the quarter, including Winter Storm Uri, the Greensill insolvency and the ever given blockage of the Suez Canal. Winter Storm Uri had a minimal impact on our casualty business and we anticipate losses will be relatively muted as Texas energy companies tend to buy less liability limit.

Regarding the Greensill Insolvency, Greensill's model involved complex and opaque financial engineering, and as a result, we have consistently declined to participate on their reinsurance panels. While we may have some indirect exposure, we do not currently anticipate material losses from this event. With respect to the ever given Suez Canal blockage this could impact specialty lines, such as hull, cargo and marine liability, and we expect that there will be multiple complex claims from various parties attempting to recover from insurers. While the losses to these primary insurance markets could be significant, we do not anticipate that we will be materially impacted.

However, if material liability claims arise, our exposure could increase. Closing now with the Capital Partners business, this quarter we rebranded our Ventures business as RenaissanceRe Capital Partners. This change reflects our partnership approach, strong alignment with third-party investors and growing leadership in the Partner Capital management space. Chris Parry assumed leadership of the Capital Partners team and will continue reporting into me. Also as part of the rebranding, the strategic investments pillar of our business has been renamed RenaissanceRe Strategic Investments; Strategic Investments is responsible for seeking and managing our own public and private investments that generate attractive risk-adjusted returns while advancing RenaissanceRe's risk business objectives.

This team will be led by JJ Anderson reporting into Bob and the finance team. In conclusion, our fortress balance sheet served us well this quarter, despite significant catastrophic losses and volatile equity and fixed income markets, we were able to return capital to shareholders at attractive multiples while remaining strongly capitalized and highly liquid. I look forward to executing our strategy in a strong market through the remainder of the year, with each of our three drivers of profit position to benefit from improving conditions, improving margins on a larger book of reinsurance, growth in our Capital Partners business and increased net investment income from rising interest rates.

This combination of strong execution in the business, coupled with the return of capital should continue contributing to shareholder value, throughout the year. Thank you.

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

Questions And Answers

Operator

(Operator Instructions) Your first question is from Yaron Kinar of Goldman Sachs.

Q - Yaron Kinar {BIO 17146197 <GO>}

Thank you very much. Good morning everybody. So a couple of questions, first one, when looking at the proxy I think there is a 7% hurdle for average growth in book value per common share, plus change in accumulated dividends in order to achieve 100% compensation, so is the read-through from that, that the company believes that a high single-digit ROE, is a good target?

A - Bob Qutub {BIO 15269353 <GO>}

Thanks for the question Yaron. Look, that's the proxy and that's how we look at the growth in book value per share and that's a function of earnings, the return on earnings. It's a function of capital management, and also included in there is an expense measure to make sure we're efficiently managing the platform. What we're really focused on is return on equity and our three drivers of profit that we talked about in our comments. I think when Kevin talked about how excited he was on the underwriting book, we'd point to $1 billion that we raised into what we feel is a rate exceeding trend in a very profitable business that will inure to us over time.

The second thing that we both talked about was the fee income that's a huge driver of our profit, we added yet more capital to the RenaissanceRe Risk Partners under Chris Parry, and I think we see exciting opportunities in the management fees and that will continue to grow as we add more assets there.

Third driver of profit is just the investment portfolio of $13 billion on a retained basis it's not generating a lot of yield to be perfectly honest, it's 1.5% but what we're not doing with that is in search of yield, we're being good stewards of the capital and consistently managing it, optimizing it to reflect the shape of our business to be in position for raising rights, those are the three factors that we're really focused on with the Board and what we're trying to drive out and that's how our comments wrap around that.

Q - Yaron Kinar {BIO 17146197 <GO>}

Got it. That's helpful. So essentially, focus on the ROE sounds like, if I take the three building blocks, can be in the double digits and that's what we should really be looking at?

A - Kevin O'Donnell

You got it Yaron. You got a second question?

Q - Yaron Kinar {BIO 17146197 <GO>}

Yeah, I do. So looking at this last quarter, you had $180 million negative impact from -- net negative impact from Uri, you had some lower fees as well. If I adjust those out, you kind of get what $200-ish million quarter in a benign cat environment, is that a fair way of thinking about this or are there other one-time items that I should be thinking about that could maybe get the earnings a bit higher?

A - Kevin O'Donnell

Yeah. Let me start. When I think about our portfolio I'm less concerned as to -- looking at on a quarterly basis and I'm thinking about what is the long-term value that we can bring to our shareholders by the book -- the underwriting book that we have. So, I often refer into underwriter's view of our risk, which is really our in-force portfolio and that has the underwriter's view of profitability on a fully developed basis. When I look at the portfolio that we've created and that is in force, it is enormously efficient from a capital perspective and producing very, very healthy returns, largely because of the rate increase that we've been able to achieve over the last several years. So, when I think about just taking what is observable in the first quarter I don't think we're capturing the embedded profitability in the underwriting portfolio, which will take a while to earn through and be developed over time from an actuarial perspective, but everything that I'm seeing from the portfolio is producing extraordinary returns and very, very efficient from a capital perspective. So, we have a lot of flexibility going forward.

Q - Yaron Kinar {BIO 17146197 <GO>}

Thanks for the answers.

A - Kevin O'Donnell

Sure.

Operator

Your next question is from Elyse Greenspan of Wells Fargo.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Hi thanks, good morning. My first question throughout the call, you guys have mentioned that you will kind of see on this incremental margin earn in over time I think you said Kevin, as the book seasons and confidence grows that rate is in fact ceding trend. So, if we're looking at your specialty casualty book that's just around the 68% underlying loss ratio backing out the favorable development in the quarter. So, can you give us a sense of time frame on when we might see improvement within that ratio, is that later 2021 event, in the out years. Just a sense of when we'll see that incremental margin that you've referenced into your numbers.

A - Kevin O'Donnell

Yeah everything you're saying is true. We are seeing rate above trend. It's difficult to put a specific point in time as to when the reserving ratios will begin to change if we are in fact -- continue to observe better performance, What I've mentioned on the last call, is if you -- looking at the numbers as an underwriter would see them, we have an increasing gap between what our pricing actuaries are seeing to where our reserving actuaries, which is typical at this point in a market and reserving actuaries tend to recognize good news a lot slower than bad news.

So, if our underwriters are right, I would expect that we should see a migration of our reserving ratios towards our pricing ratios, so when I reflect back on my earlier comment with regard to our in-force portfolio that's what I'm looking at and that's where we're seeing significant profit through the portfolio, so I won't put a specific time on it, but I would say that each quarter we are increasing our confidence that our pricing representation of the risk is right and over time, that will be reflected by the reserving actuaries.

Q - Elyse Greenspan {BIO 17263315 <GO>}

That's helpful. And then my second question is going back to the capital discussion, you guys bought back a good amount of stock so far this year so just more color if possible how to reconcile the fact that you're buying back a good amount of your stock, following raising that capital flat or is it just that there is more excess today than there was in June and then a second part to that, can you just give us a sense of how we should think about buybacks trending from here?

A - Bob Qutub {BIO 15269353 <GO>}

Thanks Elyse, good question. Thanks, I appreciate the offer to come back and talk more about that. We did raise $1 billion back in June, we fully deployed that, that we've talked about. Yes, if we had excess capital -- Kevin did talk about, we do have dry powder. We've been returning some of that -- you saw $200 million -- nearly $250 million I think through April 23, but what we also -- we didn't expect what we got was capital through earnings. The mark to market in the portfolio post the capital raise generated about $750 million of mark-to-mark. Now having said that, we gave some of it back this quarter but that provides pure capital from which we can underwrite on.

But going forward, we were going to be good stewards of the capital and we have been and think this quarter here, we pulled all levers demonstrating that we can return capital, we can identify excess capital that we'd like to continue to deploy into the business and we did, and we have, and we will continue to manage the capital. So, nothing is going to really change, you just saw all come together, this past quarter.

Q - Elyse Greenspan {BIO 17263315 <GO>}

Okay, thanks for the color.

Operator

Your next question is from Josh Shanker of Bank of America.

Q - Josh Shanker {BIO 5292022 <GO>}

Yeah. Thank you. I just want to clarify first on a Elyse's question about the ceding in the book; the profitability benefit in casualty is going to come through a combination of reserve releases on current accident -- on the current accident year if your assumptions prove conservative as well as taking that knowledge and applying it to the accident year loss picks in future years, is that how we're supposed to understand it?

A - Kevin O'Donnell

Yes, it will be a combination of those things. I think from -- probably more prior year just ultimately how this will earn through. I think the other thing we can see is we could -- depending on how long the rate change persist, we could see that our initial loss ratio picks would drop, and that would come into the current year as well.

Q - Josh Shanker {BIO 5292022 <GO>}

Okay. And then on a different track, you said in the prepared remarks that you believe one of your advantages is being better at risk selection compared to your peers. If I go back through RenRe history when you were more of a cat business, I would argue that people came to you first, you always had a price for them under any circumstances, whether it was the price they want or not and you've got a lot of first looks. To what extent -- I think the first look maybe when you say that we are-- have a better ability to select risks in non-cat property and specialty and casualty -- I think you were an exceptional provider in cat how many competitors do you think have the capabilities you have in the non-cat markets?

A - Kevin O'Donnell

When I think about our presence in the market. I think about it as everything that we do and we demonstrate leadership in property cat for sure. Our other property portfolio is kind of unique in that the E&S business that we're targeting in there has a very high cat component to it. So, a lot of people will look to for other property type business and try to limit the cat -- we're coming in seeking cat risk in that. So, we're bringing our expertise to that business in kind of a unique way and it puts us at an advantage because we're targeting both the attritional loss and the cat component in a way that a lot of other companies simply want more of the attritional and want to take less cat there.

I mean, we think we're getting excess margin in structuring our portfolio that way. On the casualty side, most of our casualty clients are clients across multiple things that we do, including property cat and we are increasingly in early conversation with them about how they're structuring their programs, and with that we are able to pick into those programs with I think greater scale and with greater access than others, and so when I think about it, it's the deployment of the entire company with large insurers around the world that gives us that advantage and a lot of that is built on our heritage of the strong understanding of their cat risk.

Q - Josh Shanker {BIO 5292022 <GO>}

And if I could just add another half a question. Historically, obviously there is some cat risk that you've written that was exclusive to you because of your relationships in the terms and the size, but there was also a lot of cat that were syndicated where some of your lesser skilled competitors would say, if RenRe is on that deal I think probably the pricing of it's fairly good and I will be on too. In the Casualty business, to what extent are syndicated deals part of what you're writing that others can get the terms that you get or to what extent are they exclusive deals that are only showing up on your book?

A - Kevin O'Donnell

A lot of the Casualty and Specialty business is proportional and that's one of the things, right now we like about it is, because we're enjoying the underlying rate change there. With that, it is more of a syndicated market than an excess of loss structure where you're disassociated from the primary rate, we're proportionately participating in their rate change. So, I think for casualty, we think about the world as, how much is addressable. So, what business do we like, and then how do we leverage into the best insurance underwriters, so that we have the largest participations on the most attractive programs.

So, I think a lot of it is about how we're using our line size and then bringing that onto our platform with enormously efficient capital, so I would say in the property cat historically because of the way that market is structured, we did have more private layer business which was uniquely priced by us and solely with us in the casualty business, it is more of a syndicated market and we are participating but along with others, but our portfolio looks different because we're using line size pretty aggressively to make sure we're largest on the best deals.

Q - Josh Shanker {BIO 5292022 <GO>}

All right, well good luck, and thank you for the transparency.

A - Kevin O'Donnell

Thank you.

Operator

Your next question is from Meyer Shields with KBW.

Q - Meyer Shields {BIO 4281064 <GO>}

Thanks. Kevin, you were very thorough explaining and Bob was also explaining sort of the patient approach you're taking on the casualty and specialty side to recognizing the margins. I guess my one question is but if we take out last year's COVID losses, it still seems like the attritional -- accident [ph] loss ratio went up on a year-over-year basis and I'm wondering does that imply that you see more risk now to lock-in or is there some other factor driving that year-over-year change?

A - Kevin O'Donnell

You're referring to the current accident year for casualty, especially last year versus this year?

Q - Meyer Shields {BIO 4281064 <GO>}

Yes, taking out last year's COVID.

A - Bob Qutub {BIO 15269353 <GO>}

Yes. If you take out COVID, we had a couple of things noise in the current accident year that I talked about this year whether it was the casualty impact of the winter storm, there was a few minor movements that were unique to the quarter, but on balance we're hinting around where we thought we would in the mid to upper 60s in this business. Now, the rate increases that we've talked about just started last year. If you think about it, 2020, that was 15 months ago and now we're seeing another round of the rate increases. So, we're still really on -- as Kevin described a look-back basis by the actuaries on the reserving, you'll see it bump up and down a little bit here but as we look forward, we start to see that changing as different classes of business develop differently, they don't develop over the same period of time. So, looking forward, we do expect to see the margin benefit in order to us in different classes of business some sooner, some later.

A - Kevin O'Donnell

One thing I'd add to Bob's comment as well is the business mix is different between those two years and we have more casualty in the current book, which is at a slightly higher loss ratio. So, that's a component of what you're seeing as well.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, that's helpful. Second question, I know it's early with regards Florida discussions, but is there any way of distinguishing between the relative attractiveness of frequency or severity layers in the Florida market?

A - Kevin O'Donnell

I think if you go back to the way we would historically have referred to that as being hot down low or not with the Florida market. I think the way the Florida market is structured, it's kind of below the FHCF which I would say is more the frequency exposed layers and alongside and above would be more of the true cat players in that market. I don't have a strong view as to which one is more attractive currently. We were well equipped to look at all of those and any structure with regard to the placement of those programs at this point, I don't have enough information to say, I prefer the frequency and the severity lines [ph].

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, fair enough, and one final question, if I can squeeze it in, we're getting I guess a sense over this earnings season maybe decelerating rate increases in a number of excess and surplus lines, does the annual renewal schedule for reinsurance imply that the deceleration would be lagged when it comes to the rates that when we will be writing over let's say the second quarter?

A - Kevin O'Donnell

I think your question is, as we incept a new deal, what is the -- how quickly do we recognize in upward ticking underlying rates or downward ticking underlying rates and I'd say there is -- it generally is delayed, I think often these programs are written on a risks attaching basis. So, even the rate increases that were coming through last year are lagged throughout the calendar year of our treaty. So, it takes, basically -- I think of it as about 18 months to kind of get a good view of it, similar to if we're incepting now, it would be 12 months to 18 months out before we see the full impact of the rating on an earned basis.

Q - Meyer Shields {BIO 4281064 <GO>}

Okay, perfect. Thank you so much.

Operator

Your next question is from Ryan Tunis of Autonomous Research.

Q - Ryan Tunis {BIO 16502263 <GO>}

Good afternoon, guys, so on other property profitability so I'm not trying to scores I think Bob made the comment, low 50s attritional loss ratio is kind of your targeted and Kevin, you mentioned the difference between you and other underwriters or reinsurers have kind of -- you take more cat. So, I'm trying to I guess kind of understand why that 50 is your target and why you wouldn't target something better because you had 30% expense ratio and you're at an 80% pre-cat combined -- it's obviously cat. So, are low 50s really where the attritional loss ratios need to be in that business?

A - Kevin O'Donnell

Yeah. I think when I look at that -- the attritional isn't always as clean is what it sounds. It includes some cat loss that will be in there from non-critical cat perils. So, when I look at the combined ratio for that portfolio I do think of it as -- we can break it into the component pieces but including the cat, these are we getting the margin that we're targeting? And the answer to that is yes. And when I compare the fully developed combined ratio for that business against a straight property cat XoL. I prefer the E&S business currently and I think the rate change that's coming through on the E&S business will also lag into our results over time. So, I feel on a combined basis, I feel really good about it and I think about -- the attritional is not a pure attritional because it will have some non-critical cat in it.

Q - Ryan Tunis {BIO 16502263 <GO>}

How much -- maybe half of that 50 you think of is kind of attritional cats Kevin or less than that?

A - Kevin O'Donnell

I think it's hard to put a number on that. Like we could have an E&S book focused on the Panhandle in Florida that's going to look very different than an E&S portfolio that's in San Francisco. So, it's hard to kind of pinpoint it on that.

Q - Ryan Tunis {BIO 16502263 <GO>}

The definition -- you guys just use that insurance. But I'll leave that be. And my other question is just on for Bob, the fee income -- underwriting income and I think is helpful. But I want to make sure I'm understanding this right, is the fee income, not already in the underwriting income number is that actually separate and distinct I thought that ran as a negative acquisition cost.

A - Bob Qutub {BIO 15269353 <GO>}

There's some element -- is in the underwriting in the form of profit commissions and overrides you'll see it there in the property book but also a large part of it, past, give or take, comes out of the non-controlling redeemable interest, and it's the way the contracts are structured as a benefit in that inures to us and that's how we recognize that as fee income.

Q - Ryan Tunis {BIO 16502263 <GO>}

And that's in NII then, so that would show up?

A - Bob Qutub {BIO 15269353 <GO>}

No. It's unwinding. When we take out the non-controlling interest, part of that is really back to us for the benefit and the management fees that we have out there.

Q - Ryan Tunis {BIO 16502263 <GO>}

Got it. Cool. All right, thanks. I'll leave it there guys.

A - Bob Qutub {BIO 15269353 <GO>}

Thanks Ryan.

Operator

Thanks. Your next question is from Phil Stefano of Deutsche Bank.

Q - Phil Stefano {BIO 18965951 <GO>}

Yeah, thanks. I was hoping you could talk about the impact of the tax rate on the potential changes to the (inaudible)

A - Kevin O'Donnell

That's a good question timely, especially if you listen to the President last night, there's a lot going on in various jurisdictions. I mean, you're looking at the US, looking at rate increases, OECD is looking at some either through Pillar 1 or Pillar II even the UK is looking at it. So it's going on in a number of places that could or could impact us or not. I mean we've been in Bermuda 25 years and we feel pretty good about our position here. We've got the infrastructure here, we know it and we like it, relative to everyone else is much better.

Now, we'll have to wait and see. We don't know what's going to happen. We're not going to, plan, anticipate, we're not going to do anything in anticipation of it, but we'll keep an eye on it. We've got a global platform and we've demonstrated in the past that we have the agility to be able to adjust and still retain the relative value that we have and to offer to our shareholders.

Q - Phil Stefano {BIO 18965951 <GO>}

Okay, thanks, that's it

A - Kevin O'Donnell

Thanks.

Operator

Your final question is from Jimmy Bhullar of JPMorgan.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Hi, I had a couple of questions, first, just on specialty lines, your commentary is obviously pretty positive, but so is it seems like everybody else is pretty bulled-up about specialty as well. So, what do you think about sort of this -- I understand the deal earned the price increases over time, but what do you think about actual rates in that market and how they're going to fare over the next year, given more interest from companies on that market?

A - Kevin O'Donnell

Everything we're seeing -- we're still seeing positive rate move in most of the portfolios within the specialty classes so, I feel pretty good about it. I think there is a strong incentive on the -- from the primary companies to recognize that. The rate was required in some of those books, so, there is still an incentive for them to continue to push more rate on the specialty lines so, I feel pretty good about it. I think the rate change will start to diminish though. So, I think it will be positive but it will be at a decelerating rate.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay. And then on just overall broadly on reinsurance, there has been optimism about price and everybody's sort of talking about rate increasing trend and exceeding loss costs, how do you think about sort of the adequacy of prices, because like there has been a decent amount of optimism about pricing, yet returns for reinsurance companies including you and your peers haven't really been that good.

So, and it's not just one or two events, they haven't been good for a while. So, how do you think about the adequacy of pricing in the market, like because obviously they are going up but are they going up from an adequate level or do they still need to catch up to where loss trends have done over the past decade or so?

A - Kevin O'Donnell

Yeah. So, I think what we've talked about on previous calls as we think of the casualty and specialty kind of rolling 10-year blocks, and do I think the rate that we're getting in most of that book today is adequate? I'd say the answer is yes, in most classes. The issue is if you take 10-year block, you're not at a rate that allows that block to achieve adequate returns. So, I think there is more rate that should come into those portfolios because it's been a long -- rates have been going up a couple of years, but it was a long period of rate reductions and that on a 10-year rolling basis, had a pretty heavy impact on insurers and reinsurers and right now I see particularly with the growth that we're able to achieve we are very quickly approaching rate adequacy for the full 10-year block and a lot of that is because we've been able to so effectively grow into the improving market.

Q - Jimmy Bhullar {BIO 4278955 <GO>}

Okay, thanks.

Operator

There are no other questions in queue, I'd like to turn it back to Kevin O'Donnell for any closing remarks.

A - Kevin O'Donnell

Thank you for joining today's call. We enjoyed speaking to you and look forward to speaking to you next quarter as well. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, you may now disconnect.