Q3 2015 Earnings Call

Company Participants

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

Other Participants

- Brian R. Meredith
- Ian J. Gutterman
- Jay Arman Cohen
- Josh D. Shanker
- Kai Pan
- Michael Nannizzi
- Sarah E. DeWitt
- Vinay Misquith

MANAGEMENT DISCUSSION SECTION

Operator

Good morning. My name is Jessica and I will be your conference operator today. At this time, I would like to welcome everyone to the RenaissanceRe Third Quarter 2015 Financial Results Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

Thank you. Mr. Peter Hill, you may begin.

Peter Hill {BIO 15385944 <GO>}

Good morning and thank you for joining our third quarter 2015 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 PM Eastern Time today through midnight on December 5. 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 56565254. 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 January 14, 2016.

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

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

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

Kevin J. O'Donnell

Thanks, Peter, and good morning everyone. First, I'll begin with an overview of our performance in the third quarter, then I'll turn the call over to Jeff to go over the financial results, and then I'll come back on to talk about our business and the state of the market.

I'm pleased to report operating income of $117 million and an operating return on equity of 10.7%. We are executing well across our businesses. While the U.S., once again, did not experience a hurricane landfall, we had some loss activity primarily related to the Tianjin Explosion. Negative investment returns also caused mark-to-market losses on our investment portfolio.

In managed cat, we built an industry-leading portfolio and have continued to extend our leadership position in that market. It has been only eight months since we closed the Platinum transaction, and we are one team with one vision, one shared view of risk and one global approach to the business. Not only did we successfully renew the combined books of business, but since the close, we have achieved over $100 million of organic growth in our casualty and specialty lines. Over time, we expect casualty and specialty to play a more prominent role in our portfolio, although our capital and our returns will continue to be driven by our more volatile property cat book.

This is the time of the year that we focus from building and managing our in-force portfolio to planning for the New Year and making decisions about how to structure our risk portfolio. Given our strong capital position, our focus will be less on raising capital and more on selecting the best counterparties in the industry (03:50) just as we have always done throughout our history.

Capital has been and continues to be plentiful, while attractive risk remains elusive and we fully expect both of these trends to persist in 2016. We expect a challenging operating environment in both property cat and casualty and specialty in 2016. Our experience and capabilities working with clients and brokers through challenging markets gives us confidence that we can navigate 2016 successfully and maintain our leadership position.

Additionally, we now have enhanced capabilities to find and underwrite new coverages across all lines ceded by our partners. Actual returns in the property and casualty marketplace have been significantly above expected returns over the last several years. The lack of large catastrophic events and an overall benign claims environment for liability lines have held actual returns in both property as well as casualty classes. It is not rational to expect actual returns to outperform expected returns over the long-term. However, we remain somewhat surprised that the newer capital attracted to this market appears to be focused more on track record than on modeled returns.

Regardless of your focus, we are in a soft rate environment and all returns, expected or actual, will almost certainly degrade next year. This is one reason we are not planning to grow any of our joint venture vehicles.

Testament to the strength of our balance sheets is the record level of share buybacks in the third quarter and the expectation that, for the fourth straight year, we will return capital to our DV shareholders. We head into 2016 with our teams' capital infrastructure in place. So we will pivot our focus to increasing the depth of our relationships with each of our partners. We have had great discussions with them in this regard and know that they understand and appreciate our value proposition. Equally as important, they want to do more with the reinsurer that is not actively competing against them in a market already awash with capital.

And with that, I'll turn the call over to Jeff.

Jeffrey D. Kelly {BIO 1390834 <GO>}

Thanks, Kevin, and good morning everyone. I'll cover our results for the third quarter and year-to-date and then give you our initial topline forecast for 2016. As Kevin mentioned, we had a solid third quarter with strong profitability across our catastrophe and specialty reinsurance platforms. With the exception of the Tianjin Explosions, this again was a relatively quiet quarter in terms of catastrophe losses.

We booked a $26 million net negative impact on our corporate results for the Tianjin event. There is still a significant level of uncertainty around eventual exposures for the industry. A large part of our exposure for this event relates to assumed retro exposure, so our ultimate losses will take longer to emerge. The volatile investment environment also hurt financial results resulting in mark-to-market investment losses. Favorable reserve development across each of our segments was certainly a contributor to the overall results.

During the third quarter, we resumed capital management with over $200 million of share repurchases, restored capital and liquidity at our holding company coincided with what we felt was an opportunity to buy back our shares at attractive prices.

Turning to our overall results, we reported net income of $76 million or $1.66 per diluted share and operating income of $117 million or $2.58 per diluted share for the third quarter. The annualized operating ROE was 10.7% and our tangible book value per share including change in accumulated dividends increased by 1.3%. On a year-to-date basis, the operating ROE was 11% and growth in tangible book value including change in accumulated dividends was 2.7%.

Let me shift to our segment results, beginning with our Cat segment followed by Specialty Reinsurance and then Lloyd's. In our Cat segment, managed cat gross premiums written in the third quarter were up relative to a year ago and totaled $90 million. While the third quarter tends to be a light one in terms of renewals, we did find some select opportunities for growth. For the first nine months, managed cat gross premiums written declined 6% primarily reflecting softening market conditions and repositioning of our book. As a reminder managed cat includes the business written on our wholly-owned balance sheets, as well as cat premium written by joint ventures DaVinci, Top Layer Re and Upsilon.

Net premiums written for the cat segment increased 2.5% for the first nine months of the year, primarily reflecting reduced purchases of retro reinsurance from a year ago. The third quarter combined ratio for the cat unit was 37.5%. While catastrophe losses were moderate overall, there was an uptick in smaller loss activity. Loss results for the cat unit included $22 million of claims for the Tianjin explosions. Net favorable reserve development totaled $14 million for the cat unit in the quarter, mostly reflecting modest adjustments to a number of smaller events.

In our Specialty segment gross premiums written increased by $145 million, primarily reflecting the inclusion of Platinum's specialty and casualty business, as well as select growth in our U.S. and Bermuda platforms. Our top line was also impacted by the restructure and renewal of a single large multi-year reinsurance contract, which increased premiums booked in the quarter by $40 million.

Year-to-date Specialty Reinsurance premiums increased 82% from a year ago. This compares with our guidance of a 50% increase for the year.

Our specialty platforms are well integrated, and our combined underwriting capabilities have been well received by the market. So while market conditions overall remain difficult, we have been able to leverage our strong franchise, ratings and balance sheets to grow selectively with key clients.

The Specialty Reinsurance combined ratio for the third quarter came in at a profitable 74.5%. Loss trends were generally benign, although there were a few large individual events that are worth highlighting.

We booked $9 million of claims for the California wildfires and $8 million for the Tianjin explosions. Favorable reserve development was strong, totaling $56 million in the quarter and related primarily to generally favorable claims experience for prior years. The restructure and renewal of the multi-year reinsurance contract I mentioned earlier resulted in us booking $10 million of reserve releases in this segment. For the nine months this segment generated a combined ratio of 79.6%.

In our Lloyd's segment we generated $74 million of premiums in the third quarter, an increase of 15% compared with the year ago period. For the first nine months of the year gross premiums written grew 46%. Our Lloyd's unit continues to gain traction in the marketplace, benefiting from the investments we've made in people, technology and infrastructure in the past few years. Our premium guidance for this segment was for 50 - growth of 50%.

As we have grown, we have maintained strong control over our underwriting and risk management processes. In fact we use the same gross to net risk management framework for our Specialty and Lloyd's business as we do for Cat Reinsurance. Thus, while gross premiums are up meaningfully, ceded premiums are also up. Net premiums written at our Lloyd's unit are up 23% for the first nine months of the year.

The Lloyd's unit came in at a combined ratio of 112% for the third quarter. We booked losses of $7 million related to a few individual losses. Favorable reserve development totaled $1 million. The expense ratio was higher than a year ago due to lower premiums earned as a result of more ceded premiums and slightly higher commission and operational expenses.

While there is still some important financial system integration underway, the Platinum integration is largely behind us. We incurred a little over $3 million of integration-related costs in the third quarter, included in the corporate expenses line, and that was very much equal to our expectation.

Turning to investments. We reported net investment income of $28 million in the third quarter. Recurring investment income totaled $37 million for the third quarter. The increase relative to recent quarters primarily reflects the higher invested assets acquired in the Platinum transaction, as well as the reallocation of Platinum's fixed maturity investments to match ours. That reallocation is largely complete at this point.

Our alternative investments portfolio generated a loss of $7 million in the third quarter. This was driven by negative marks of approximately $15 million in the value of our private equity investments, due to equity market volatility during the period. The annualized total return on the overall investment portfolio was a negative 0.6% in the quarter. Declining treasury yields were offset by higher spreads from many other riskier investment classes.

Our investment portfolio remains conservatively positioned primarily in fixed maturity investments with a high degree of liquidity and modest credit exposure. The duration of our investment portfolio remained relatively short at 2.3 years and has remained roughly flat over the course of the last 12 months or so. The yield to maturity on the fixed income and short-term investments was slightly higher at 1.9%.

In terms of our capital position as we indicated on our last conference call, we have completed the process of realigning our balance sheets and maximizing our flexibility by moving liquidity to the holding company.

During the third quarter we bought back 1.9 million shares for a total of $203 million. Since the end of the third quarter we repurchased an additional 286,000 shares for $31 million. We were able to repurchase shares at what we believe were particularly attractive valuations during the market selloff in the third quarter. As we look forward, any decision relating to share repurchases will, as always, depend on our view of business opportunities, the profile of our risk portfolio, and the valuation of our stock.

Finally, let me provide you with our initial topline forecast for 2016. For managed cat, we expect a topline decline of 5%. In Specialty Reinsurance, we expect the topline to grow 20%. And in Lloyd's, we expect continued growth of 20%. Finally, I'd remind everyone that the premium estimates of this nature are subject to considerable risk and uncertainty. Our goal in providing them is to give you our best estimate at this point in time.

And with that, I'll turn the call back over to Kevin.

Kevin J. O'Donnell

Thanks, Jeff. For the 10th consecutive year, biggest news to report in the third quarter is what didn't happen, specifically there wasn't a U.S. landfalling major hurricane or any U.S. landfalling hurricane for that matter. The odds of this long of a lucky streak occurring is less than 1%, and, in fact, is statistically more remote than either of the 2004 or the 2005 storm years.

Of course, there have been hurricanes and Hurricane Joaquin, which was the strongest Atlantic hurricane since Igor in 2011 affected the Bahamas this year. It just as easily could have struck anywhere along the East Coast of the U.S. In the Pacific, Hurricane Patricia made landfall and Mexico recently has a major hurricane. So the storms are out there and it's only a matter of time before one strikes the U.S. and actual returns mean revert to expected returns.

To be clear, our market leadership is not predicated on luck, but rather based on underwriting discipline, which means continuing to behave the way we always have, listening to clients to develop bespoke solutions, continuing to enhance our risk analytics, and matching desirable risk with efficient capital.

We continue to work hard to provide capacity to our clients despite a deteriorating price environment. Here, discipline takes the form of not just saying, no, but rather responding no, but. We prefer to talk about the deal we would be willing to do instead of simply rejecting the deal as offered. This often leads to good conversations and outside of the box solutions.

We have done multiple one-of-a-kind deals over the last several years, including in the third quarter that brought unique capital efficient solutions to our customers and desirable risk to our portfolio that would not have occurred had we just said no.

We also exercise underwriting discipline in more traditional ways. As discussed on the last call, in the second quarter we repositioned our portfolio when pricing no longer cleared our hurdles. That said, it is our preference to continue providing capacity to our clients and we will work hard to deliver solutions wherever it continues to make sense.

We have and will maintain leadership in the property cat market, and thanks to the Platinum acquisition and our Lloyd's operation, are growing in some non-cat property lines such as property per risk. These other property markets are also very competitive. But we're findings opportunities for growth by looking to a lot of deals and starting from a small base.

In our casualty and specialty business, we were able to identify new opportunities and achieved solid growth, which was the result of the larger unified team working together to leverage our tools and underwriting skills across the combined book. We now offer casualty and specialty products on five balance sheets across our integrated global platform, and continue to develop our reputation as a lead market in more lines of business.

We believe we're increasingly a first call market across the casualty and specialty space. The only true test of success of the casualty and specialty platform will be the results over time. We have great underwriters with great tools and strong discipline underwriting on very efficient platforms. This is the same winning formula that has been the foundation of our success in property cat, and we expect industry-leading returns in this business as well. As I have said many times in the past, we only add business to our portfolio when it makes sense on a standalone basis.

On a marginal basis, however, we can often write profitable business in the casualty and specialty space without increasing economic capital, adding expected profit, and thereby improving overall results. It also makes us more relevant to our core clients as we can offer a full suite of products.

Our Lloyd's syndicate experienced solid topline growth for the quarter. The combined ratio came in higher than anticipated due to a few specific events and a higher expense ratio due to an increase in our sessions. Going forward, we anticipate more opportunities to grow in our Lloyd's syndicate; and consequently, we are finding new and creative ways to enhance the syndicate returns by using retro and other sources of capital.

On each of our platforms, we expect from time to time to have quarters that are disproportionally impacted by loss; and should additional opportunities be created, we will be ready to exploit them. We believe we have significantly more scope for growth in Lloyd's and remain committed to investing in the ongoing success of this franchise.

The third quarter was relatively quiet for our Ventures Group. We are constantly seeing and evaluating new strategic investing opportunities; however, there is already more capital than required for the risk in this business and we have set a very high hurdle for any deal that brings additional capital to the market. One of our core skills is knowing how much capital we can deploy, while still achieving our target returns. And at this time, we are far more inclined to return capital to investors than to accept new capital.

In the current pricing environment and with relatively flat demand for property cat, managers accepting new capital entering the business are competing on price-alone to deploy each new dollar. In a more competitive environment, this new capital is sure to bring lower expected returns. As a manager, we eat our own cooking and treat our partners' capital as if it's our own, which is why we will continue to be a first-call market for capital providers looking for attractive risk.

The last 10 years have seen great upheavals and unprecedented changes in the reinsurance industry, we have one of the hardest property cat markets, and are currently experiencing one of the softest. We lived through the Great Recession and are still burdened with its low interest rates. Capital continues to flow into our market resulting in increased competition for risk and falling rates. Actual returns continue to outstrip expected due to a historic hurricane drought and benign liability environment. Everyone looks like a good underwriter when there are no losses. This will change. The next 10 years will be different and we have the franchise best-suited to adapt to the changing market.

We believe our strategy and execution to-date have been correct. We have built leading franchises in key markets and now need to focus on consolidating positions with core clients. We will accomplish this by saying yes, when we can; no, but, when we can't, and by continuing to match desirable risk with efficient capital.

Thanks. And at this point, I'd like to turn the call over to questions.

Q&A

Operator

Your first question comes from the line of Vinay Misquith with Sterne Agee.

Q - Vinay Misquith {BIO 6989856 <GO>}

Hi, good morning. The first question is, I mean, you gave some guidance, so you said a 5% decline in property cat, does this already include the Platinum book which was not part of your results, last year's first quarter. And also for the specialty lines, up 20%, does it already include the Platinum from last year?

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

So, yes, the answer, Vinay, is that those are – you should look at those as forecast over the total premium obviously booked in this year. The only quarter that there wasn't a full complement of Platinum premiums on our books was the first quarter. So it's a little bit of a noisy comparison. But, yes, all the forecasts are essentially versus 2015 levels.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. So on the property cat side, it appears that we are close to forming a bottom, curious as to why you have done 5% when you have the first three months of Platinum also in your book. Could you help us understand what's happening in the property cat market? And also on the BCAR side, whether you think there will be higher demand? Thanks.

A - Kevin J. O'Donnell

Okay. Let me start with the BCAR and higher demand. I think with regard to the A.M. Best model, it's a model that we're familiar with and we will work with our customers to figure out the right solutions. To be clear, this is not what happened in the post-Katrina, Rita, William type change, where we expect to see a material shift in purchasing based on the new model being rolled out. But we do think with specific customers, it will change the way that they want to purchase coverage and we'll work with them to figure out the best coverage that they can afford to buy.

With regards to the overall rates in property cat, we think just - very clearly that 2016 will be a more challenging rate environment than 2015; there's too much capital and there's too little risk. We think the rate of reduction is slowing, but there still will be rate reductions.

Specific with our guidance, we do include rate change, but we also include portfolio construction changes. So, for instance, we might be writing a bottom layer on a program and move to a top layer or top layer move to a bottom layer, because we think the marginal return on those changes are beneficial to the overall portfolio. Net, net, net, at the end of the day, we've built a pro forma portfolio that both on a gross and net basis, we like. And we do have a continued strong appetite for cat risk, but that's always tempered with strong underwriting discipline, making sure we're deploying capital when it makes sense.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay. That's helpful. And just on the BCAR once again, my - would it be fair for us to assume that higher demand, if any, would come on the higher layers and therefore the - I mean, the premium dollars might not be as much?

A - Kevin J. O'Donnell

If we take the A.M. Best model, I think it's first important to think that - it doesn't affect everybody. It's a largely - it's a model that's largely adopted within the U.S., but even within the Florida market it doesn't have the penetration that it does outside of Florida.

I think the way in which they're thinking about the world going forward makes a lot of sense to us, and I think the way people will buy will be very much based on the construction of their portfolio, where the one in a hundred product may be replaced by aggregates and other products for top and drops depending on what is most suitable for them to address the BCAR issues that they may have. I don't think it's going to be one - kind of a one solution fits everyone, as the new model rolls out over 2016.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay. Fair enough. And just one last question on the capital management. First of all, I think you guys did a great job by buying significant stock at a very low price, so super. But just sort of looking forward, do you think you can buy back 100% of earnings for this year? And also, as you look into next year, can you add on premiums? Because you've said you're going to do about 20% more premiums in specialty and large. So would it be fair to assume that you don't need any capital for those premiums for next year?

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

Well, Vinay – so let me start with the fourth quarter. I think essentially asking if we're prepared to buyback earnings for the year. I just think it's a little too early in the fourth quarter to make any specific predictions about how many shares we'll buyback.

You're right, the pace of share repurchase in the third quarter was significant, and that was driven by what we thought was a particularly attractive opportunity. And I think that MO was very consistent with our long-term behavior regarding share repurchases, in that we tend to be more aggressive at more attractive prices, and we tend to slow down a bit when they're not.

Overall our process for evaluating the returning excess capital hasn't changed and – but I'd urge everyone to look at it on the long term, not on a quarter-by-quarter basis. But suffice it to say as we enter this period of time, we still think we have a very strong capital position. And as I said the way we think about it is, the first thing we look at is the outlook for the business, the profile of our risk book and then the relative attractiveness of our shares as a consideration set.

Q - Vinay Misquith {BIO 6989856 <GO>}

Sure. And for next year?

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

For next year I think – and just in terms of, as Kevin mentioned, the way we construct our economic capital model, the specialty/casualty business that comes on the book, we look at it as diversifying. So by and large we would assume would have a very minimal capital requirement.

Q - Vinay Misquith {BIO 6989856 <GO>}

Excellent. That's what I thought. Thank you.

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

Yeah.

A - Kevin J. O'Donnell

Thanks.

Operator

Thank you. Your next question comes from the line of Josh Shanker with Deutsche Bank.

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

Yes, thank you. This is going to maybe sound a little difficult to compare, but I feel like one of the great seminal moments in RenaissanceRe's history was following the tragedy of September 11. That you didn't have much exposure, because you really weren't being paid to take that exposure. And others didn't understand that situation.

When I look at a loss like Tianjin, is that a loss that you're being compensated adequately to take? Is this a loss that we should be surprised that RenRe has exposure to?

A - Kevin J. O'Donnell

Thanks, Josh. And I think going back to September 11 is interesting in that our book is constructed very differently. And the reasons we missed September 11 was because of, we weren't writing lines outside of property cat, and we were underweight in the Northeast within property cat.

Looking at the Tianjin loss, we are getting the loss from several different places. But a big component of it is coming from our retro book. So within our retro book – think has largely been a non-U.S. book. And it's a – the construct of it adding – diversifying risk to our U.S. property cat exposure is the same now as it was in 9/11.

So I don't think it's surprising that we're getting the Tianjin loss, but I do think it is important to note that as we have a broader appetite for risk, we are likely to see RenRe participate in losses differently than the way we participated losses in the past.

Your second question is, were we paid adequately for the risk? And the answer to that is yes.

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

And as the business evolved I think – and I'm probably going to mischaracterize it and please correct me, but I think like one of the seminal RenRe ideas is that diversification is not always a benefit. As the business becomes more broad, are we in a part of the cycle where diversification suddenly becomes naturally beneficial, where it necessarily hadn't been in the past when you could achieve 30% ROEs?

A - Kevin J. O'Donnell

Okay. So that is a complicated question. Diversification is beneficial if you are paid appropriately on a standalone basis. So for the kind of idiosyncratic risk that you're taking within a specific session, are you paid enough for that volatility is the first clearing hurdle. If the answer to that is yes, and then you add it to your portfolio, you should have a benefit in – above the standalone return.

The next question is, does that diminish or increase the returns of the overall portfolio? Or does it change the risk profile enough to compensate you for adding it to the portfolio? The calculations that we do today are exactly the same as the calculations we have done in the past. So we are not looking to bring on diversification for the sake of diversification. We are looking to continue to create optimal portfolios.

The other thing I'll say is, we have no negative correlations within the risk that we assume. So I think some people will bring on negatively correlated business to a portfolio, which again will create capital on a marginal basis. We don't do that.

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

I would just add, and perhaps to state the obvious, but to emphasize what Kevin said. We only look at profit as diversifying. So when Kevin said it's got to be standalone profitable, it's adding diversifying premium, we don't view as creating capital. Only expected profit diversifies for us.

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

Okay. That makes sense. And finally on the comment that you don't plan to expand your joint ventures this year, because pricing is inadequate. I assume that's a reputational decision that you don't want your customers to be buying inadequate protection and ruin your reputation as a writer. Am I understanding that correctly?

A - Kevin J. O'Donnell

I would actually turn it a little bit the other way and it's – we – our objective is really to be seen as the best underwriter, particularly the best underwriter of property cat with regard to third-party capital. So to the extent that some – there is a mandate that we don't believe provides adequate return for the risk that's taken regardless of the cost of capital, we don't think it's prudent for us to arbitrate between that risk and that capital. So our view is that we want to be paid for our underwriting expertise. And that underwriting expertise will bring good risk to whichever efficient capital we decide is the best pool to put it to.

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

And would that be a signal that even -that you might want to return capital at this point? Can you return capital at this point or is there a lockup rate?

A - Kevin J. O'Donnell

We have the ability to return capital. And one of the things that I said in my comments, I think we are likely to – more likely to return capital in – at the end of 2015 than retain the capital that we have in some of our vehicles. Maybe it's at our option to return capital at year-end.

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

Okay. Thank you.

A - Kevin J. O'Donnell

Yeah.

Operator

Thank you. Your next question comes from the line of Kai Pan with Morgan Stanley.

Q - Kai Pan {BIO 18669701 <GO>}

Good morning and thank you. First question on the reserve release, it looks like it's a large number for the quarter, tried to understand a bit more about, is that part from the legacy Platinum book or from legacy RenRe book? I know now it's a single entity now. I just wonder have you integrated the reserve practice on the same line now? And also, on that, on the same line of question just wonder if this quarter is one-off true up? Or it is kind of like the normal ongoing practice?

On top of that, another question, reserve is really – are there any seasonality in terms of your reserve study, because the last two fourth quarters, you have a relatively higher level of releases than the first three quarters in the past two years?

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

Yeah. Thanks, Kai. So we – there were no unusual reserving practice changes during the quarter. It was normal course for our analysis of the reserves in each of our segments. I think as relates to the Platinum book, I – we don't have those, I don't have those numbers right in front of me in terms of what it – came from which book, we really try not to look at it that way. But I think what – the way I would say it is that the reserve releases in the Specialty segment in particular, did come – so there was the $10 million that related to the multi-year reinsurance contract rewrite that I referenced in my prepared remarks; another $28 million related to our casualty business lines. I think it'd be fair to assume that some of that was certainly our Platinum – legacy Platinum book. But overall, we saw reserve releases across all areas of the book and that reinforces our view that our assessment of the reserve adequacy at Platinum then and now remain sound.

Q - Kai Pan {BIO 18669701 <GO>}

In term of seasonality?

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

Seasonality. No, there's really no seasonality in the releases per se. We do – we will try and do a deep dive on our – on some of our reserves on a quarterly basis and we'll look to do that particularly in the specialty classes; as you said, that's usually a first quarter event.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. That's great. Second question probably for Kevin. You talked about $100 million organic growth since the combination of the two companies. I just wonder where those – where you find opportunities given the sort of – maybe a stronger casualty and specialty franchise now?

A - Kevin J. O'Donnell

Yeah. I think we're definitely finding growth opportunities, because of the Platinum acquisition. We brought on a team of great underwriters and added it to the already strong team that we had. The growth is really coming from kind of broader participation with existing customers and we're getting established on existing programs, a lot of that is leveraging the relationships that we've had with these customers for a long time from the property cat perspective.

The other area of growth that I'd highlight is really with the Platinum customers, we have a broader risk appetite, quite specifically we can add cat to deals where Platinum was more reluctant to add cat. So we've had good opportunity with the existing Platinum group as well. The lines that I would specifically point to is having - where we've had the most success are really professional lines, some of the mortgage risk that's coming to the market, some credit risk, and then some niche areas like reps and warranties and things like that. So it's a pretty broad spread in certainly leveraging relationships and people that we have.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. So those areas that you already have expertise in rather than like in new areas that you try to grow into?

A - Kevin J. O'Donnell

Yeah. I think when we - in every line that we write, we have expertise. So we wouldn't enter a line without understanding it. And I think the lines that I highlighted are lines that we've been in for a while, but we're certainly looking at new lines as well.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Excellent. My last question on the sort of - just wanted your thoughts on the expense structure. We are in sort of intermittent (42:28) pricing downturn for reinsurance, there are - two schools of thoughts there, one is that the company need to cut expense in order to better compete, and also they can either through organic cutting or go through a merger acquisition and then the cost synergy. And the other one is, school of thought is that we need to keep our best underwriting talents even in a down market, because that's a source of earnings over the cycle. I just wonder, given your current expense structure now, are you comfortable with it? Or if the pricing environment continue to be dragging on for quite a while, are you seeing opportunities to realign your expenses structure? Thanks.

A - Kevin J. O'Donnell

Sure. I think expenses is always an area of focus for any company, but we are comfortable with the expense structure that we have. I think an interesting way to highlight it is just looking at Lloyd's. Lloyd's is a platform that we continue - we think we can continue to grow without a commensurate increase in expenses. But just looking at this quarter alone, we made the trade to allow our expense ratio to tick up, because we saw opportunities to improve the portfolio by adding ceded. So we will always default to constructing an optimal portfolio, knowing that we have an expense structure that is efficient.

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

And the other thing I'd add to that Kai is, we do think our expense structure is certainly leverageable as well in that – by adding Platinum's premium on to our expense structure and then the net expenses we anticipate adding as a result of the Platinum acquisition. Probably the marginal operating expense ratio on that premium was probably high single-digits. So we think that it's probably the most profitable way or the easiest way to manage expenses by leveraging them – leveraging what we've built, but Kevin is right, I mean, we take a look at our expenses and we try and keep them under a tighter control as we can through time.

Q - Kai Pan {BIO 18669701 <GO>}

Great. Well, thank you so much for all the answers.

A - Kevin J. O'Donnell

Thanks, Kai.

Operator

Thank you. Your next question comes from the line of Jay Cohen with Bank of America Merrill Lynch.

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

Yes. Thank you. Just a couple questions on the Lloyd's segment. The acquisition expense ratio has been trending higher. You had mentioned you're ceding more, is there some sort of ceding commission that offsets that? I guess, I was surprised that it's popped up simply because you're ceding more?

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

Yeah, I think, it really tends to do with more of the business mix that's being written, Jay, that tends to have higher commissions associated with it.

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

Okay. And then on the accident year loss ratio for this unit, it – really it jumps all over the place, and obviously there's events that happen or don't happen in a particular quarter. Do you look at this last quarter and say, gee, that's roughly a normalized number or is it inflated or in fact better than you might expected?

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

It's a little bit inflated just by a couple of the events that we noted and – I think it would actually be quite a bit lower where it not for those events. So we do not view it as terribly – I wouldn't say that we – I would say that, as I said, that we view the couple of events that we booked in there, one was the Tianjin loss, there was a loss there related to Tianjin Explosions; and we also took a reserve for the Volkswagen issues that are ongoing.

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

So maybe average for the past couple of years might be a reasonable number to start with?

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

I think it's always good to look at longer – yeah, longer periods of time.

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

Great. Thanks so much.

Operator

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

Q - Brian R. Meredith {BIO 3108204 <GO>}

Yes. Thanks. A couple of couple questions here. First, Jeff, on the guidance on managed cat premium going down 5%. When I think of that since you're – I think it sounds like you're planning on reducing DaVinci here. Should I expect the DaVinci cat premium to be down more than the rent cat premium, so more business focused at rent?

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

No, Brian. I think maybe you misinterpreted the return of DV capital. The return of DV capital is essentially returning the capital that's been earned over the course of 2015, which is our normal practice. We don't have any current plans to reduce the size of it.

Q - Brian R. Meredith {BIO 3108204 <GO>}

Okay, great. And then the second question, I'm just curious, Jeff, on the private equity in the quarter, the loss, I know you are one of the few companies that actually estimated it for the current period. What are the specific areas that you kind of estimated you're going to have the biggest declines within your portfolio?

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

Gosh, Brian, I don't have those right in front of me. You're right though that we do estimate or try and estimate them on a current quarter basis. I just tell – I just say that the decline in the private equity valuation was roughly in line with the decline in the public market, equity market indexes. So our process for doing that is we take estimates from each of our managers as best we can over the quarter. They are estimates, there's always true-ups, those true-ups tend to be small though that are generally made in the following quarter. But I certainly wouldn't want to promise anything, but I would certainly anticipate that our private equity valuations are somewhat mirroring the changes in the public equity markets.

Q - Brian R. Meredith {BIO 3108204 <GO>}

Great. Thanks. And then, one for Kevin. Kevin, the MI business, sounds like it's a – you are saying a good area for potential growth opportunities. I wonder if you could talk a little bit more about that? And are you guys participating in the stacker transactions, those types of transactions. And kind of what is your kind of outlook there longer-term, not necessarily for 2016? And then, also just quickly, how do you account for those if you are participating in those deals?

A - Kevin J. O'Donnell

Okay. We are participating – we're actually – we're focused on participating on the indemnity product. We do have a little bit of the capital markets GSE product as well but that's not our focus, we're straight quarter share aggregate, excess of loss within the mortgage business.

We focus on many elements of it, including trying to manage the tenure of the deals, and recognize mortgage risk tends to improve over time, but we also want to manage the aggregations. So we're looking at it as on a nightly basis and then we're also forecasting three years out to understand what our overall exposure is to the mortgage business.

We think that it's – there is good opportunity there, and it's an opportunity that we believe we have a leadership position going into 2016 and see a lot of opportunity. The other area that we have advantage is that we are an owner of Essent, which is a mortgage insurer, and with that we have great understanding of the primary mortgage business and also exposure coming in through the Ventures Group through our ownership of Essent.

Q - Brian R. Meredith {BIO 3108204 <GO>}

Great. Thank you.

A - Kevin J. O'Donnell

Thanks.

Operator

Thank you. Your next question comes from the line of Ian Gutterman with Balyasny.

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

Hi. Thank you. First on the Platinum business, I guess I never thought to ask this, but as I recall the way they approach casualty was more of a generalist mindset as far as underwriters, right? They were sort of less siloed. And people would write multiple lines, rather than just one expertise? Is that how you've kept it? Or have you gone to a more specialist type view on writing new casualty business?

A - Kevin J. O'Donnell

It's a little of both to be honest, where we have a lot of generalists who can write across many casualty lines. But there are some specific expert – more niche areas like A&H, even mortgage and credit lines, where we have more dedicated resources. We like having the blend, so that we have the deep expertise in a given line. But also if we don't have an underwriting feeling obligated they must write the line that they're in.

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

Right.

A - Kevin J. O'Donnell

When we talk about generalist, I think what we're really thinking of is, we're not looking for an individual good risk in a bad market. We're trying to find the best – we're trying to find good markets. And then go through those good markets and find the best executors in those good markets.

So it's not that we're coming – trying to be an index player. We're very much finding good markets, finding the best players, and not really looking for the one good player in a bad market.

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

Got it. And is Lloyd's similar? Or just because of the structure of Lloyd's it's more necessary to have specific specialists?

A - Kevin J. O'Donnell

That's a great question. Lloyd's is a little bit more specialized from an underwriting perspective. Part of that is the process in which you enter new lines within the Lloyd's franchise. But again we try to train people broadly so that if their – the line that they're in is no longer producing returns, we can move them to other areas.

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

Got it. That's very helpful actually. And then just a couple of numbers things for Jeff. I think a lot of Lloyd's was covered. Maybe just to sum up, is there sort of a view – I know you're hesitant to give specific numbers. But maybe even just directionally sort of what a long-term expense ratio should be for you guys at Lloyd's? I mean should it start with a three? Or is it going to be hard to get that far?

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

Well I think the answer to the question of – yeah, I think it will be hard to get to an expense ratio that starts with a three anytime soon.

The way we view the profitability overall though, Ian, is we're very happy with the way that platform has come together. We anticipated it would take a fair amount of time to build it to a level of consistent profitability. But it is at a level that is at this point contributing to the overall corporation's profitability. And so we continue to be pleased with where we are and certainly look forward to that being a more profitable unit in the future.

As we've said I do think the one – where we are right now with the Lloyd's platform, we do have the capability to write significantly more premium on the current expense base should the opportunity present itself. So I do think that what we're likely to see going forward is premiums rising much faster than expenses. So we should see a continued decline in the expense ratio over a period of time. But in terms of getting to one that starts with a three that'd probably take some time.

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

Got it. Got it. That makes sense. And then just lastly on the Specialty side, can you maybe just go a little bit more detail. I mean I know it's spelled out in the press release, but just that restructuring of that one treaty just – I was just trying to understand better what exactly happened there and sort of why – it seemed things I guess moved in different directions, right, maybe help premium but also help losses. Just I couldn't figure that out?

A - Kevin J. O'Donnell

Yeah. So this was a cancellation and re-write of a specific contract in the quarter. It was done at the request of the cedant and was really driven by some regulatory changes, which allowed the cedant to get more capital relief for their reinsurance purchase.

As the contract was restructured, we also expanded it a bit. And during that process the reserve releases I talked about was really just a true-up with the loss estimates of the cedant, which resulted in the reduction in losses that resulted in the $10 million favorable development as I mentioned.

They do have – there's a lot of moving parts in it with respect to the impact on the various lines. There is a profit commission that we had to reimburse the cedant for as well. So that played into it.

We'd be happy to walk through the specific line items that were affected. But overall during the quarter, as I think I mentioned in my prepared remarks and was probably in the press release, the overall impact of the re-write in the quarter was reasonably small.

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

Got it. Okay. I'll follow-up with Rohan [Pai] just to – so I can do my model a little bit better. Okay, that's all I had. Thank you.

Operator

Thank you. And your last question comes from the line of Michael Nannizzi with Goldman Sachs.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Thanks so much. Appreciate it. Just wanted to pick up maybe a little bit on the Lloyd's question. How should we think about that? I mean it seems like there's a desire to build scale and to kind of leverage that part of the platform. But that seems a little different from how you've approached like the building of your cat book, for example.

And since Lloyd's is pretty competitive, it would seem that there should be some sort of a new business discount if you're going there and you really – and you're growing it double-digit rate. How should we think about that? I mean, is it because of the desire to diversify that maybe your sort of profit bogey is a little bit lower? Or is it because of capital efficiencies between that and the rest of your book that you're comfortable running that business at a level that maybe on a standalone basis you might not otherwise? Thanks.

A - Kevin J. O'Donnell

Sure. Let me just start, a lot of the negative news about Lloyd's and the competitiveness within Lloyd's is really around a couple of insurance lines, specifically, I'd say motor, marine, energy and even life. And we're not focused on any of those lines, the growth that we're getting in Lloyd's is really coming from – I'll highlight two things, which is customers with which we've had long relationships and we're delivering long products; and then, other customers that are underwriters have known for a long time, but maybe new to RenRe, and we're having success bringing those online.

We're not achieving growth by sitting at the box and taking business as presented. I think the thresholds for profitability within Lloyd's are thought of the same as we do across the other causality and specialty classes that we have. The infrastructure there is still ahead of the premium. So as Jeff commented, we can continue to grow through 2016 and enjoy greater premium growth and expense growth, so things should improve.

And then the final thing I'll say is, one of the things highlighted in the quarter or two things I'll highlight in the quarter for Lloyd's is the losses. But, secondly, the expense ratio is up because of a denominator issue where we've ceded more premium to optimize the portfolio. So we've got an uptick in the ceded – sorry, in the expense ratio because of that. So it's really a combination of factors, but there's nothing I would point to saying that we have a different threshold of acceptable returns within the Lloyd's platform than we do elsewhere within the organization.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. Great. That's really helpful. Thank you. And then – and I guess picking up on the point you made upfront Kevin, you were sort of talking about this period being unusually benign and that returns – it's unreasonable to expect that whether normal or actual or model returns to remain at these levels that we've seen. How much of an impact if you were to kind of look at your results so far year to date, it's 11% ROE, how much of a tailwind to that number has been lack of sort of normalized activity?

A - Kevin J. O'Donnell

The – that's a great question. Let's see. If actually we just dissect the quarter?

Q - Michael Nannizzi {BIO 15198493 <GO>}

Sure.

A - Kevin J. O'Donnell

It wasn't a low cat quarter where we had the Tianjin loss, we had the losses that Jeff highlighted within the Lloyd's segment.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Okay.

A - Kevin J. O'Donnell

It was simply a hurricane-free quarter. Back in the quarter, again, we just discussed on the call, there was a private equity hit that we took, which I think on an annualized basis was about 2% ROE...

Q - Michael Nannizzi {BIO 15198493 <GO>}

Right. Yeah, yeah. Fair. Definitely.

A - Kevin J. O'Donnell

Investments generally, but that's affecting everybody, and finally, it is a soft market. So I don't think I would point to the lack of our hurricane as being the driver for this quarter. I think there's a lot of things that affected the quarter. So I would necessarily extrapolate it forward, just recognizing that this quarter looked different than other quarters, but it wasn't a loss-free cat quarter, simply it was a hurricane-free cat quarter.

Q - Michael Nannizzi {BIO 15198493 <GO>}

Got it. Okay, great. Thank you.

A - Kevin J. O'Donnell

Yeah. Appreciate it, Mike.

Operator

Thank you. You have one more question from the line of Sarah DeWitt with JPMorgan.

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

Hi, good morning.

A - Kevin J. O'Donnell

Hi.

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

Just following up on the last question, just to clarify, so does that mean you would characterize this quarter as sort of being in the middle of the bell curve?

A - Kevin J. O'Donnell

No. I wouldn't. I was trying to highlight that there was - each quarter is kind of unique. I think the - when we think about the elements that we can control and the elements that we can't, we try to construct the best portfolio that we can. I think the overall thinking - within the property cat, we were - within that book it was one that I wouldn't highlight whether we - the point I was trying to highlight was that, it wasn't a cat-free quarter, which I think is the way we discussed the quarter and the third quarter last year. It was - this quarter is one that has cats, just not hurricanes. So I wouldn't characterize it as any point on the bell curve. I would just characterize it as there's a lot of unique elements affecting the quarter as we have with most quarters.

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

Okay, great. Thanks. And then can you just talk about your appetite for M&A? Are there any lines of business or geographies where you think it might be more attractive to grow and inorganically similar to what you did with the Platinum acquisition?

A - Kevin J. O'Donnell

I feel really good at where we are and I think we have all the elements resonant within RenaissanceRe to further our strategy, should a great target become available, I think we would certainly look at it. But there's certainly no need for us to look beyond the four walls of RenRe for anything to complete the objectives that we have in 2016.

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

Great. Thank you and congrats on a good quarter.

A - Kevin J. O'Donnell

Thanks, Sarah.

Operator

At this time, there are no further questions. I would like to turn the call back over to Mr. Kevin O'Donnell for closing remarks.

A - Kevin J. O'Donnell

Thank you everyone for participating in the call. I sit here looking at the challenges that 2016 are sure to present and I can't think of a better team that I would rather face those challenges with or I can't think of a better platform to compete from. With that, I'd like to say thank you and look forward to speaking to you next quarter. Bye.

Operator

Ladies and gentlemen, this does conclude today's conference call. You may now disconnect your lines.