KBW Insurance Conference

Company Participants

- Aditya Dutt, President
- Quentin McMillan, Analyst

Other Participants

- Unidentified Participant, Analyst

Presentation

Quentin McMillan {BIO 19411547 <GO>}

Good morning. Welcome to our second presentation of the day and thanks for joining us. I'm Quentin McMillan of the KBW Insurance team and I have the pleasure today to be introducing RenaissanceRe. With me today I have Aditya Dutt, the President of Renaissance Underwriting Managers. Rohan Pai is also with us, the Head of Corporate Finance for RenaissanceRe. And of course, we're all happy to answer any questions that you might have both during the presentation and afterwards.

With that, I'm going to start the presentation. It is going be a fireside chat. So I'll be asking the Q&A. But do love anything interactive. So any questions from the audience, please feel free to raise your hand to get a mike and we'll get to you very quickly. So Aditya, thank you very much, for being here with us.

Aditya Dutt {BIO 16194294 <GO>}

Thank you. Good morning everyone.

Quentin McMillan {BIO 19411547 <GO>}

To start off, obviously, I'm going to call out a little bit the elephant in the room, third-party capital management. You guys were one of the pioneers in the field of managing third-party capital and now a lot of your peers have followed that same paradigm that you had set up. To what extent do you believe your franchise in this area is differentiated and what are you doing to stay ahead of the peers?

Aditya Dutt {BIO 16194294 <GO>}

So great question. Thank you, Quentin. Good morning everyone, pleasure to be here. So third-party capital, I differentiate it on a couple of parameters. Number one, we've been doing it for about 20 years. So we've managed other people's money through 9/11, through KRW, through 2008, through the financial crisis. So there is a lot of longevity in our asset management efforts. The second is, we put up a track record of returns through those cycles. So our investors have experienced what I would qualify as very good returns. But really, you should talk to them. But compared to the industry, they've experienced very attractive returns.

And I think that's due to how we've set up the operation, Quentin. We've never looked at it necessarily as solely as a fee engine. We've looked at it as a partnership with capital providers so that we can do more on the underwriting side. So it's an enabler of helping our clients. Of course, we do earn fees in exchange for managing that money. But it's always been an enabler for our underwriting team to do more. So if we like business, we do more of it and it's been a capital management tool. And I think, that kind of view is really not espoused in our business. But it is seen as a fee for service, which is fine. But we've looked at it more as a capital management tool, as an underwriting tool, as a customer retention tool.

And I think those are sort of the biggest differentiators we've had in our business and that's allowed us actually to have pretty continuous relationships with our capital providers. So for example, State Farm, these are public names. State Farm is 20 year underwriting relationship, is a 16 year capital relationship. So on average, our pension plan, investors have been with us seven to ten years, which again, in this particular end of the reinsurance business is a very long time. So I'd say those are sort of the biggest differentiators.

Quentin McMillan {BIO 19411547 <GO>}

And that fee-based model that some of this alternative capital has, I've asked you this question in the past. But I think you answered in an interesting way that's always useful for investors to understand is, people have said to me in the past, why not move to more fee-based, less capital intensive, give investors back the capital and the answer you had given, I think, is interesting. So if you can answer that.

Aditya Dutt {BIO 16194294 <GO>}

Sure. Let me go through the catalog of answers, hopefully I'll find the right one. I think -- so we have returned a lot of capital. I think if you go through our public filings over the last four or five years, just in the private side of the operation alone, we've probably given back $1 billion to our private capital providers. So we are not hoarding assets in the last five years. This is all, again, publicly available information. So we have been actively returning capital, most of it is really just earnings. We've been dividending earnings back to our LPs.

So we've managed capital very, very efficiently. Now, the way we look at it is, there is a continuum of managing third-party money and managing your balance sheet, right. And I think that the market and investors tend to look at it as well, if you can transform risk income into fee income, why don't you just do it? Right, all things being equal, why wouldn't you just go 100% fee income? And I think that's exactly right.

But all things can't be equal, right. So we have clients, I think the statistic is over 80% of our clients use more than two balance sheets of RenRe. So if we were just to go to a fee model that was solely dependent on LP capital or outside capital, how would we actually face clients -- the largest clients in the world with multiple balance sheets? So I'll just give an example. Allstate issues a cap bond via its collateralized reinsurance and buys a ton of traditional reinsurance. If you want to be a player on that program, is it better to do all three or is it better to do just one, right?

So what we've constructed in our shop is have an interface to a client that can reach them in all the ways they want to be reached rather than just one. If one of them is collateralized reinsurance we'll create a balance sheet for that, we'll charge a fee to capital that wants to participate in that. But that's not going to be the only way, because when people say, let's turn into a fee model, what they're really saying is run one balance sheet and that's actually not the right thing for the clients. The right thing for the client is running nine balance sheets that they can access in many different ways and that you have a very finely calibrated capital structure underneath each one that maximizes the returns for each of those balance sheets, that's what we're trying to do.

Quentin McMillan {BIO 19411547 <GO>}

So in talking about not just your own capital partners. But as well as other people may be knocking on the door and trying to give capital to RenRe. Can you talk about, A, if there has been more influx and more calls that people are trying to see, feel out whether they can be using RenRe's balance sheet and your underwriting expertise and then, B, some of the people, is there that perception is there is a lot of naive capital out there that maybe doesn't understand what the true risk of losses are, both of those two constituents?

Aditya Dutt {BIO 16194294 <GO>}

So yes, I think -- I know you asked the question to the last analyst. There is -- I think the rate of capital coming into our industry has slowed down. There's no doubt about that. But that being said, the rate of formation of traditional capital. So just retained earnings, the formation of capital on existing balance sheets is enormous, right. If the industry make an 8% ROE, it adds $50 billion globally, right or some figure like that, it's billions of dollars. So if three pension plans decide they are not going to allocate this quarter, it really doesn't move the needle all that much.

That being said, the rate of influx of third party capital has slowed according to us and we don't see all the investors. Our view has been -- for most of our balance sheets we're not accepting this capital, right and if you look at our public filings, we've returned it. So it's very tough for us to turn around and say to our new client, new LPs that sure we'll take your money. But actually we're buying back shares and we're doing dividends on all the existing. So we haven't been in a fundraising mode. But I know there are others in the market that are and that's not a knock on them. It's just some people are growing their operations. So it's just a different situation. So yes, there is capital coming in, it slowed down.

Your question on naive capital, I think it was Buffett that said, you get the shareholders you deserve. So hopefully, we don't have any naive capital. Again, I spent a lot of time seeing investors, I've never come across an investor I would call naive. To this day I've never come across one. Most of the people we meet are pretty sharp, they're savvy, they're professional money managers, they know how to allocate capital. Now, what are their incentives and motivations in allocating capital to this industry? Yes. There are some people who buy the non-correlation argument hook, line. And sinker and don't pay as much attention to the risk profile of what they're accepting. But in general, I wouldn't call it naive. In general, the large majority of capital is extremely savvy.

I think the bigger question here is, have we established the longevity of this capital in our industry? Couple of years ago, there used to be question on that. There is no doubt today that this is long-term capital. There is just no doubt. It's going to stay. There is a corpus of pension plans and professional investors that really know the business well, they will stay. There will be people that leave, for sure. There is always a flight when there is a loss. But it's an established asset class and they will stay. So we all have to just deal with that reality that you're not going to see these giant spikes in the market, where there is a shortage of capital and no one is willing to put money and we will not see that. In our estimation, we are preparing for the day that you will not do that. If we do, that's great. But we're preparing for that's not going to happen.

Quentin McMillan {BIO 19411547 <GO>}

Yes, I think that makes a lot of sense that we all have to -- in the greater fool theory, sometimes you end up being the greater fool if you think everybody else is that these people know what they're doing and that money is here to stay. The other side of that question though, is people try to play the guessing game of what size event would it take to turn the market and I don't want to put you in the spot to say a $100 billion or $50 billion and it's kind of irrelevant anyway, because it would have to be specific.

But if the big event comes that could turn pricing, is there anything even that's big enough, because there are enough people sitting on the sidelines who you are turning away right at the moment, who others are maybe taking capital. But maybe not all of it, is there enough on the sidelines that if we even had a big Southeast hurricane event or something of that nature, it might not matter.

Aditya Dutt {BIO 16194294 <GO>}

I think, yes, there are events, obviously that are big enough. I'd quantify it in two areas. So one is, it's not necessarily the size of the event, it's the surprise element of the event. Was it modeled appropriately? Did the world expect it? Was it peril that was unwittingly put into a reinsurance contract and then it hit you? It's the surprises that are always, that rob the investor of confidence, right. It's not the size. It's the surprise that takes your confidence away.

So for example, Florida and the United States hurricane peril is very well modeled. It's very well understood. In fact, most of the people in this room probably anticipate the losses that would arise from that, right. It's the United States, it's all the models converge. We have a very good understanding of housing stock. We have a very good understanding of the history of these events. I think we're all prepared for that, right. Relatively speaking, are we prepared for, on Coastal China, huge amounts of property being constructed, it's not as well modeled, that is exposed to both typhoon and earthquake, are we understanding that peril well enough? Just relatively speaking. And if we start accepting that risk on our balance sheets, on your behalf, on the investors behalf, how well do we understand it and how much of a shock does that cause in the market the day it happened.

That all being said we do not manage the Company from event to event, right. We're managing the company assuming -- we manage the Company for the tail. Obviously, we try to understand what can happen that severe. But we have to run the Company every single day. And if we have nine years with no events, we still have to run the Company every day. So I don't think we worry too much about when is the day a $100 billion event will come that can move the market. We've got to deal with the forces in the market today.

We've got to deal with capital movement in the market today and anticipate that -- actually the size you mentioned and I won't put a number on it. But that number just keeps going up and up. But I don't think you can say it has no cap anymore. Even in the equity and the bond market where you can argue there is many multiples more capital, you still find opportunities. There is tons of capital going after equity and bond markets. But you still find opportunities. We see the reinsurance market the same way.

Quentin McMillan {BIO 19411547 <GO>}

That fear factor, that surprise element that you're speaking of and the un-modeled risk that makes a lot of sense as to maybe what could scare some people away from the market. They understand how Florida hurricane works and how California earthquake works. But when you talk about something like the Thai floods where people probably didn't fully appreciate exactly what the exposure was going to be to some of those losses that ended up occurring and we were speaking yesterday about the catastrophe that just took place with the plant explosion in Tianjin, China, I think happened August 12, I believe, things like that. Not to ask you what your loss would be from that. But when an event like that occurs, is there a tendency for there to be creepage up in the lost estimates because, you guys might not even know exactly who is going to call and say, we had a loss part from this.

Aditya Dutt {BIO 16194294 <GO>}

Yes absolutely. Again, all you have to do is look at the history of reserving in our industry. If there was no creepage, you'd never have to change reserves. But the fact is, on average, most of our industry puts out an estimate and revises it upwards, right. If you look at Katrina, if you look at 9/11, the standard practice we've seen in the industry is, a number comes out; it generally goes up, right. It's rare for a number to go down. So we overestimate it. So yes, these are extremely complicated events. The losses take a great deal of time to adjust, to understand what the knock on effect is from one policy to another even within the policy.

So yes, there is no doubt in my mind that if there is a bias to movement on the lost number, the bias is upwards not downwards. And even the estimates, I think, that the various brokers have put out have been very large. So I think Guy Carpenter had it up to $3.5 billion or something -- from $1.6 billion to $3.5 billion, it's a 100% delta in the range. So frankly it's hard to tell this early after an event what the potential loss is going to be.

Quentin McMillan {BIO 19411547 <GO>}

Now shifting gears just a little bit. Obviously, from the inception of the Company and after Andrew till -- more recently, almost sole focus, not totally, has been on the reinsurance underwriting on property cat reinsurance underwriting mostly. And you guys have now shifted your strategy a little bit. The recent Platinum acquisition, obviously been the most notable change in what's been going on, could you update us a little bit from what you've said on Q2 on how the acquisition is going? What you guys think -- what capabilities you think they're bringing in-house that you may be able to take away from them?

Aditya Dutt {BIO 16194294 <GO>}

Sure. So I think you made the comment that our strategy has shifted. I think we would argue, our strategy hasn't shifted at all. We've been in the specialty, the non-cat business. We refer to specialty as non-cat. We've been in the non-cat business for a very long time. And actually, our shareholders have benefited from a great deal of profitability in the non-cat lines. We really got into it in a major way after 9/11. But we've been in the business for a long time.

As you might recall, Platinum, we invested in the IPO of the company in, I think was 2002 or 2003, ourselves and Travelers, when Platinum was going public. We had a long-term consulting agreement with Platinum to assist them in risk management systems and cat underwriting. So we are very familiar with the company, we've very familiar with what they were doing. How they ran their underwriting operations. I think when we did our due diligence on Platinum, we were very impressed by their underwriting discipline, their approach to clients, their retention of clients. And how they had managed themselves through a difficult time in the market. We're very impressed by that and we found that to be resonate with us culturally. That's how they ran their operations.

What have we gained that's additive? So we now have an admitted balance sheet in the United States that can write reinsurance business. We have a book of -- largely of casualty. But let's just call it, casualty specialty reinsurance business that Platinum underwrote roughly $300 million to $350 million of premium, that's additive to us, purely additive to us. And we have a great team of professionals that joined us that we think are culturally very compatible with us. So I think we've actually acquired a great deal from Platinum and I think there is a great deal we can add to what Platinum did to make it an even better operations. So in our announcement we said, this is a very capital efficient transaction for us, bringing on non-cat business on to our books that we think is well underwritten.

Actually, because of our cat focus or cat focus at the time, uses up very little incremental capital. So doesn't cost us all that much capital to put that portfolio on our books, which makes it very efficient from a return perspective. And we have more balance in our portfolio as we head into this market, some of the forces we talked about, we now have a Company that's more balanced in terms of its portfolio of business and that balance is acquired through an underwriting culture that we feel is very compatible with ours.

So I would say, those are the biggest additions and the integration is complete. Even when we started doing our diligence, we recognized a lot of what we were looking at because we helped with some of the risk management systems. We were a shareholder for a very long time in Platinum. So a lot of the reflections we saw when we looked at Platinum were things we recognize. So it was a straightforward due diligence process in our view.

Quentin McMillan {BIO 19411547 <GO>}

Now, I know you're not going to give me the secret sauce of why you guys are thought as [ph] the smartest guys in the block. But the black box at RenRe has been often discussed as the property cat model, you had the best algorithm or the best equations for anybody. What skills translate over into insurance? Are you able to take the data set that Platinum brings in and sort of plug it in for your guys and now, have just a more robust offering or how do we think about that as people on the outside not understanding fully?

Aditya Dutt {BIO 16194294 <GO>}

Yes. Well first of all, it's very kind of you to pay us that compliment. I think where our expertise is especially useful for not just Platinum. But any portfolio that we take on to our books, we think we add a lot of value in measuring risk, measuring and aggregating risk, capital allocation, how to allocate -- how to take all the various capital sources we have and plug it into a portfolio to optimize its return. Just very broadly speaking, those are two very import aspects of, as you said quote unquote the black box that we bring to Platinum. We like the way they underwrite. We think they've had excellent relationships that go back to Saint-Paul Rue [ph] and F&G. These are 30-year relationships that they have.

What we do is take that portfolio on our books. Help measure risk and attach the most efficient capital to it. So it's not that the portfolio -- we have no adverse view on the portfolio. We don't need cull it, what we do is optimize it. And those are two things that I think we're seeking to bring to the Platinum portfolio, the legacy platinum portfolio that we think will really help the entire Company. And so it's not that should we take cat management technology and say Platinum, you must use this. It's really bringing that portfolio on to a holistic risk management and capital management and underwriting system that we run and it's not a cat system, it's kind of a way of thinking that we've -- and that will take some time. It's not going to be immediate. But it's we think is going to optimize the returns on that portfolio and make it a higher returning portfolio with us and it was standalone.

Quentin McMillan {BIO 19411547 <GO>}

I know, at the time of the acquisition that you guys had updated the number of onshore US employees for both Platinum and Ren and I'm not positive [ph] if you've given an update. So it's fine if you haven't. But if you have, tell us what the number sort of stands at now and more interestingly going forward or in the past few months, have you made any hires to try to add to that team and looking to build that out further?

Aditya Dutt {BIO 16194294 <GO>}

So I think we have -- so Platinum had a New York office, which we have retained. There was a Maryland domiciled reinsurance company. Obviously, we've kept that license. But the office was in New York City, Lower Manhattan, we've kept that office. We also had a small office in Connecticut, which we had started on our own, which we've also kept, small meaning like five or six individuals. The New York City office has, I think, don't quote me on this. But it's in the neighborhood 70 folks that work at the legacy Platinum operation. We've retained most, if not all of them of the underwriting and infrastructure there and that's something that we really wanted to do.

So we feel like we've accomplished that goal. We are very impressed with the underwriting talent at Platinum. We were very impressed with what they already had. And I'm sorry -- there was an operation in Illinois also Schaumburg, Illinois that we've retained. That's I think about ten professionals there. So no, I think we have not gone into the market and tried to hire more individuals in the United States. We were pretty happy with where Platinum positioned us with respect to non-cat business.

Quentin McMillan {BIO 19411547 <GO>}

Great. And the guidance having been given already, it was pretty clear. But we did obviously see the pricing declines felt by everybody, the managed cat premium was down. But you were able to grow quite significantly even above in the casualty business and in Lloyd's business. As you talked about, just a second ago, thinking of yourself as the best allocators of capital that is a decision to shift capital from one underwriting line to another. Are you, do you anticipate that we should think about those lines continuing to become a more and more meaningful part of RenRe going forward or is this largely related to the declines in pricing that we've seen in managed cat?

Aditya Dutt {BIO 16194294 <GO>}

I think we'd prefer to look at each line on its own rather than and we do manage the portfolio to say, where do we want to allocate capital, given market conditions. But I don't think we'd say, well jeez, if cat is declining, we should just write more in Lloyds because that's more of a growth platform. I think we do look at the returns on each of those lines and saying where are we getting compensated for the risk that we're assuming. Cat will clearly be a very, very important part of our franchise. Lloyds will be a very important part of our franchise.

Now within that -- and obviously, the non-cat lines, within that we've got to balance a little bit and we've got to calibrate the capital. I don't think you should think of us as having any fundamental change in how we're allocating our capital to various lines of business. It's not going to fundamentally change. But yes, I think we've experienced good growth in Lloyds. We've given guidance on that. We've experienced good growth in casualty and specialty, largely due to the Platinum integration. And as you observed, Cat -- I don't need to add my comments to the various comments in the market, it is a difficult environment. But we are very happy with the portfolio we have. We think it is a bit of a differentiated portfolio. But we're pretty happy with what we have. But obviously, it's a challenging market condition. There's no doubt.

Quentin McMillan {BIO 19411547 <GO>}

So with that being said, you constructed a portfolio, is it fair to think about that much of the premium decline has been related to a reduction in exposure and pricing and not necessarily from pulling back from some of your clientele or has there been a little bit of both in -- you're just trying to construct the best portfolio this year versus what it was last year?

Aditya Dutt {BIO 16194294 <GO>}

I think a combination of all three of the factors you mentioned. There is some pulling back just reducing line size. Then there is always the combination of price. So yes, in our view, it's a combination. Now each renewal date is very different. I think, it's very difficult to extend from what happened at 6.1 is going to occur at 1.1. They're different clients.

The structure of the policies in some cases is different. So it's very difficult for us to take what happened two months ago and extend it to 1.1. But in general, I think we'd say all of your factors are correct. But it's a mix. In some instances we did pull back; in some instances, we committed even more. But in general, what we'd point to is the premium decline. The top line is kind of what -- the combination of all that is the premium decline guidance that we've already provided.

Quentin McMillan {BIO 19411547 <GO>}

Great. And obviously, having been an active participant in the M&A merry-go-round. I don't want you to go too far out on a limb speculating about what's going on. But do you feel like the recent news of Amlyn [ph] in the last couple of days, do you feel like we're getting closer to the end of that M&A cycle or were just going to continue to increase.

Aditya Dutt {BIO 16194294 <GO>}

Well again, without being specific to RenRe, which obviously I can't comment on, in our view when you look at what's happened in the last year, it's kind of unprecedented speed of activity in our sector. It's not that it shouldn't have happen, it's just how fast it's happened, I think, has surprised a lot of observers. And when you catalog all the transactions actually -- and you step back and take a look, there has been some consolidation in the reinsurance sector. There has been a lot of consolidation in the insurance sector, right. So it's ACE and Chubb, Houston casualty, Ironshore et cetera.

At Kaplan, you can say it was an insurance consolidation play, not a reinsurance. But effectively what's happened in the last year is both sides of the equation are consolidating and getting somewhat bigger and when you start thinking about what are the motivations for that for reinsurers and insurers economies of scale. If you are going through a tough time, you're going to try and cut cost. You can try and become more efficient or diversification, right. So you're going to build a broader spread of business in your portfolio or getting into new market. Those are kind of the three motivations we've seen in M&A in our sector. And that's not a reinsurance comment. But both insurance and reinsuring.

So do we expect those forces to persist as long as returns are challenged? Yes. We think those forces will persist. They need to rationalize cost, they need to diversify and use your capital more efficiently and build out your capabilities on an underwriting perspective. Yes, I personally don't see that stopping. Now, how companies choose to do that is very different. Each company takes very different view on how to do it. In our shop at least, we take the view, M&A is a tool, just like anything else and sometimes we can leapfrog a multi-year process by buying a company. But the bar is very high.

And it should be high in our industry, because bringing systems, people, culture on to your platform is an extremely disruptive process and it can be very challenging for even the best of companies to try and integrate another company into its operations. So I think we take it very, very seriously. It's got a very high bar. But there is a bit of a feeling in our industry that in order to keep up with where the business is headed, you must act on one of those three vectors and M&A is a tool that's used that can accelerate your movement in one of those three vectors.

Quentin McMillan {BIO 19411547 <GO>}

And on a more RenRe specific or Platinum RenRe specific issue, I don't know which of the buckets you think this might fall into or this might be a fourth bucket. But one of the other reasons for M&A that I think of is getting closer to the end customer and obviously, the build-out and capabilities within the US that Platinum brought to you to build-out and the expertise in the casualty side and some of those relationships were a key part of the decision to buy Platinum. Do you think of that as a fourth part of that or in and along with the same decision of one of those three buckets?

Aditya Dutt {BIO 16194294 <GO>}

Yes, I mean, I think the reason I didn't mention it is we take it as such a given in our Company that -- I don't think we would have started the Company if we didn't feel we could be close to our client, what's the point. So we take that -- yes, I think you're right. There is a trend in the industry, which is a force, which is saying in order to be close to your customer, you must acquire X. I'm not sure we buy that. Now, to give an example, in property cat, well actually being closer to your customer means being in Bermuda. That's the center of cat, combination of Bermuda, London and Continental Europe. That's where property cat business is transacted. So you must be in one of those three centers. That's where the brokers go, clients come and visit us. We think we're pretty close to the client.

Now when we looked at Platinum's books and their business, a lot of their clients are US-focused, being able -- and in casualty and non-cat, being able to go do audits, being able to go see your client you must be based in the US. And so talk was -- well that's obvious.

We don't do M&A, because it gets us closer. It must be a pre-requisite to anything we do, is that we're either very close already to the client, if they are not, we just don't even look at it. So I think, it is a motivation for some companies out there. And we don't try and disintermediate anyone in the process. But it is important to know your client. I think, at RenRe, having that direct relationship with our clients is very important. We don't outsource that to anybody.

Quentin McMillan {BIO 19411547 <GO>}

Thanks very much. With that, let me open it up to see if we have any questions in the audience, anybody?

Questions And Answers

Q - Unidentified Participant

Thanks, I want to go back to a point that you made earlier in the chat which is that Florida cat loss potential is extremely well modeled, Costal China for example is not. Which environment is actually better for RenRe to operate in?

A - Aditya Dutt {BIO 16194294 <GO>}

Which environment? You mean which jurisdiction or --

Q - Unidentified Participant

What conceptually are you -- do you have more advantage when you've got a less well modeled cat region where you can outpace competition or is the actual data more useful?

A - Aditya Dutt {BIO 16194294 <GO>}

I think, we know how to operate in both. In our view, the best markets for someone who has confidence and faith in their ability to understand risk is a market where the delta is larger, right. Where there is more uncertainty in what the price and the risk is. We like markets like that where there isn't consensus and agreement. Where there is consensus and agreement, the spreads are tighter and it's tougher to make money frankly. So I think we always prefer an area where the spread between good and bad is very large and if you have conviction in what you are doing, that's very important.

There are lot of areas in the world where we may not have conviction. I would say, we're just not touching it, because we actually don't understand we're no better than anyone else here. But if you can develop that conviction, we would prefer those markets. And I think for a long time in our history that was very true and those markets exist today and I think in the next 20 years, we're going to find them

Q - Unidentified Participant

And when you mentioned the convergence of the cat models, again, in the more mature markets, is that convergence of the models with themselves or with the internal RenRe model?

A - Aditya Dutt {BIO 16194294 <GO>}

With each other. I mean, it's not -- won't comment on whether they converge with ours or not. But would they agree with each other. They seem to agree with each other. It's not necessarily they agree with -- the answer agrees how they get to it is actually very different. But their answer seem to agree in certain parts of the world.

Q - Unidentified Participant

I should probably know the answer to this question. But you had mentioned recent developments of losses, 100% spread, is there a typical business line that tends to represent a lot of that unknown or spread, for example, business interruption, when you see these events unfold. What are the lines of business that are so tough to predict to get fine-tune over time?

A - Aditya Dutt {BIO 16194294 <GO>}

I think to separate lines of business with terms and conditions. So in terms of lines of business, obviously the liability lines are tougher. Losses take a longer time to emerge. So anything about Asbestos or a MedMal claims, you may not know for years what actually happened and even then you start litigating to determine what the losses et cetera, et cetera. Property cat, if it's a pure property claim, a building got destroyed by a fire or an earthquake, it's pretty obvious.

But it's the business interruption and the contingent business interruption that causes the most uncertainty or can cause a lot of uncertainty in the emergence of loss. So for example, a lot of questions you'll hear in cat are around hours clauses, right. How long do we give for an event to actually occur? Is it 24 hours, is it 72 hours, is it 48 hours? Well depending on how long you keep the window open a lot of new things can get picked up.

And the longer you keep it opened, the longer you've got -- the more complex the claim becomes as oppose to if you said, well actually it's got to occur in a one hour window, just to be extreme about it. That's pretty easy claim to figure out what happened in one hour as oppose to what happened in a week. So those are the types of things that cause -- those are the terms and conditions within cat that can cause loss emergence to become more complicated and frankly take longer. But Katrina is a great example of business interruption that caused the emergence to take a lot longer than one would have expected.

Q - Unidentified Participant

But the hour's clause protects the buyer from anything that happened in that event obviously. So Katrina happened in one day or two days, it's all going to be covered in that event, as an earthquake happens instantaneously or over a very brief period of times. But if the foundation of your house is seemed to be broken six months down the line, that's still from that event?

A - Aditya Dutt {BIO 16194294 <GO>}

It could be. But earthquake is a great example, if you leave an earthquake open for a week, you're actually covering aftershocks, which can be as large as the initial earthquake or larger. So if your house wasn't damaged in the first quake, it can get damaged in the three aftershocks and that what wouldn't have been a loss, now becomes a loss. So that's just an example. It's just the complexity of event cat, I think a lot of people assume is very straightforward, because cat either happen or not. But a lot of the terms and conditions can make loss emergence fairly complex, that's one example.

A - Quentin McMillan {BIO 19411547 <GO>}

With that, I'll just check the audience very quickly to see if there is one final question. But otherwise, Aditya, thank you so much for being here and presenting with us today at the KBW Insurance Conference.

A - Aditya Dutt {BIO 16194294 <GO>}

Thank you.