J.P. Morgan Insurance Conference

Company Participants

- Kevin J. O'Donnell, President, Chief Executive Officer & Director

Other Participants

- Keith Cornelius, Analyst

MANAGEMENT DISCUSSION SECTION

Keith Cornelius {BIO 18862478 <GO>}

Good morning, everyone, and thank you for attending JPMorgan's Annual Insurance Conference. My name is Keith Cornelius, and I'm standing in for Sarah DeWitt, JPMorgan's senior property and casualty insurance equity analyst, who is actually on a maternity leave. I'm pleased to have here with us Kevin O'Donnell, CEO of RenaissanceRe. RenaissanceRe is a best-in-class Bermuda reinsurer with an impressive track record of growing book value per share, generating strong returns on equity and managing exposure to catastrophe losses.

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

Kevin J. O'Donnell

Thank you, and good morning, everyone. Let me start this morning with the normal Safe Harbor. We'll spend about half the presentation on this and we'll move on. The way I'm going to talk to you about today is I'll give some thoughts as to where the market is, what RenaissanceRe is all about and then the way in which we're looking to engage in the market. Our market is changing. We believe that it is both a secular change and a cyclical change. There's new capital that's interested, which is driving supply.

There is flat demand, which is not helping to deploy the new capacity that's looking to come to the market, and we've got falling prices. We believe we've got the best people, the best technology in the business, and we're optimistic that we can execute in this market as we have in the markets over the last 20 years. A little bit of background on RenRe. We're formed in 1993 in the post-Andrew era. We are a pioneer in the way we think about bringing technology to thinking about risk and capital. We've been a pioneer to bringing new capital to the market, starting our first side car really in the late 1990s.

We've created many platforms over the years. These platforms each have a purpose. I'll talk about some of the main ones as we go through the deck today. But right now, we have 11 balance sheets which we take risk on. We pride ourselves of having good ratings.

Some of those balance sheets are fully deployed with their own capital. Many of those balance sheets are deployed with other people's capital.

We also think of ourselves as being a very strong customer relations firm, and we have very high customer retention rates. 100% of all of our top clients have stayed with us since 2007. We also deploy capital in many different ways to our customers. We don't always look just to bring a reinsurance solution. In many instances, we're investing in our clients that they have a need for capital. In exchange for that investment, we often end up with a preferred position in their risk cessions, so we can continue to become an even larger partner to them over time.

We are proud of our track record. We have a history of strong returns through many different market cycles, and we remain passionate about thinking about how to bring value to the capital that we deploy. And we believe that - even though it's a challenging market, we believe that the strategy and the tactics that we're deploying will continue to afford us the opportunity to produce superior returns in this market or really in any market.

We're doing that by really being very consistent. At our core, we haven't changed. We're doing some different things, the acquisition of Platinum in November. But at our core, we really are all about producing superior returns. We believe, to produce superior returns, we need to be a leader, a leader in the businesses that we're in. We're known as a property cat leader. We're know increasingly as a leader in many specialty classes and working to become seen as more of a leader across more specialty classes and more casualty classes.

We think, by being a leader, we get better access to business and we get better signings. But in order to be a leader, we need to continue to invest in our people and our technology, and we need to be the best underwriter. That is the number one goal that we have. That's our identity to continue to be the best underwriter in the world. By being the best underwriter, we're seen as solving our customers' problems and we're adding value between the capital, whether it's ours or somebody else's that we're looking to deploy, and the desirable risk in which we're selecting to bring on to expose to that capital.

The other thing I'll say is when we think of underwriter, we don't think of the single person who's putting our name on the bottom of the piece of paper and exposing the firm's capital. It's really mobilizing the whole firm. We have a highly collaborative culture. We're a culture where our risk management is embedded in each person. We're a culture where anyone you speak to should be able to give you the same answer, whether you're talking to somebody in London or New York or Chicago or Bermuda, so that we're thinking about risk in the same way.

We may price it differently, because we have different pools of capital we're exposing against it, but the underlying risk distributions for anything that we're looking at is exactly the same. And every person in the company knows the roles they're playing in helping us to deploy the capital that we have and bringing the risk that we desire. Going back 10 years, I think underwriters really thought of themselves as building a gross portfolio. At RenRe, we've always built a strong gross portfolio, but we've built strong net portfolios.

We have more options to build net portfolios now. And in thinking about that, we're asking ourselves different types of questions. It's not just what does a good risk look like. It's what does a good risk look like against this sort of capital. So as long as we're adding value between the risk that we're taking in and the customers' problem that we're trying to solve and the capital that's looking to be deployed, we'll always have a permanent role to play in this business.

We think, just as we had 10 years ago, we do just three things well. We'll continue to be a value intermediary between capital and risk, at superior customer relationships, superior risk selection and superior capital management. And I'll talk more about that not only for RenaissanceRe, but in context of our acquisition of Platinum as well.

Another dynamic that's been affecting the industry is really just what's going on with the weather. So, one should expect to have a major hurricane strike in the U.S. once every two years. Looking at this, we've had about the right number of hurricane storms against the historic record. We've had about the right number - actually a few more major hurricane storms against historic record.

The thing we haven't had since 2006 is anything hit the U.S. So what does that mean? I believe that's affecting both the supply of capital that's coming into this business. It was because - anyone who's come into the business since 2006, if you've added risk to your portfolio, you've made more money. But against what should be expected of building a portfolio against all outcomes, we don't believe that's a winning formula, but it's one that has won for 10 years and it's continued to reward investors for getting risk on.

That's not the way we think about it. We think about every point in the distribution and try to manage our portfolio across the whole distribution, so that no matter what the outcome, we have a return and which we're pleased with. That other thing that this has done is added a lot of capital to insurance company balance sheets. The insurance companies are really thinking about their risk differently. They have less of a need to see it frankly, because they're more financially strong.

The only real exception where we've seen some uptick in demand is Florida, and Florida is just such a unique market that it really doesn't have as much to do with the dynamics of what's going on in the macro environment. It's much more about the fact that they've been able to build up some capital and there's some positive legislative changes as well in Florida. But in short, we've got capital that's looking to come in, that's been rewarded beyond expectations, because of the lack of storms. And we've got demand, which is flat to down frankly, because insurers are becoming smarter about their risk and they have been rewarded with good results over the last 10 years or so.

Let me switch tacks a little bit now and talk about the tactics in which we are deploying to kind of - against that framework for the industry, and the way the rest of the presentations will be aligned around the points that you see here. Even with the acquisition of Platinum, our results continue to be dominated by our peak property cat risk, by property cat generally, but also by the peak property cat risk that we're taking.

And that's really because that's how we have to structure our capital, because it's what's the dominant risk within the risk distributions as we roll up all the risks that we're taking.

We are trying to add more risks to those distributions and we're finding better ways to do it. We're also finding that the tools that we've built in property cat are not exactly transferable, but many of the tools are transferable to new lines of business. So, our portfolio management skills are easily portable to new lines of business. Our thoughts of how to think about building distributions, how to strengthening or thickening the tails of the distributions is easily transportable. And thinking about capital that we can bring against those risks is something that is portable. We're keeping the casualty and specialty risk on our balance sheet for the time being. But the skills that we have to think about what is the best capital are easily portable to new lines of business.

The other thing we're doing is strengthening our team. We have 45 underwriters now. I'll give you a little bit more of a breakdown on that, but that's something that we really started investing in, in 2009.

We've got, I think, a leading framework to think about risks and capital, where even now we've already rolled up the Platinum portfolio into our risk framework. And the first thing one needs to do to think about the risk that you're taking is come up with accurate measurements on the inward side of your risk. Once we have that, we can determine how much capital we need and what's the best place for that risk to reside, what's the best capital to match against that risk.

Increasingly, as an underwriter, you're not asking just what is a good risk, but you're asking what is the good structure to match it against; how much capital is required to support it and what type of capital is best; is it a rated balance sheet or is it a collateralized balance sheet; is it our capital or somebody else's. And then we're talking about building a better and more flexible platform. We have a lot of different balance sheets that we can deploy, a lot of different structures. And increasingly, we are expanding our presence, a Singapore office; now with the acquisition of Platinum, a New York and a Chicago office. We're in London, Dublin, obviously Bermuda.

This is a slide that – what I'm trying to do here is demonstrate what I think the opportunity set is in the market and then how we think about that opportunity set. So, standalone return is really just a proxy, is the deal profitable, are you being paid enough for the risks that you're taking. So, forget about the portfolio effect, is the deal profitable. Property cat and peak property cat is still a profitable line of business when compared to anything else that's available in the reinsurance business. Non-peak, there's still profit in that. Short-tail and long-tail casualty is profitable, but less so than some of the cat. That makes sense for a couple of reasons. One is it is a different risk distribution. The severity of the outcomes is much more narrow and you are earning money in different ways, partially through investment income. The marginal return is really what's the effect on the portfolio. This is where we're a bit unique.

So, if you look at peak property cat, it's a very profitable line, but not necessarily great on all our balance sheets, not because we don't have this capital structured correctly. It's because we're writing it to the point in which we're full. Non-peak is something that it's just harder to find business that meets your standard from a standalone profitability. Once it's a standalone profitable deal, it looks good in our portfolio.

And then with casualty, since we're under-weighed even after the Platinum acquisition in both long-tail and short-tail casualty, we do receive a marginal – on a marginal basis, we receive a benefit from adding it to the portfolio, assuming we like the original standalone distribution. We will not put something into our portfolio simply because it has a diversifying benefit; it must pass the smell test of being a good risk before it qualifies to even be reviewed from a marginal – from a diversification benefit standpoint.

Capital options, I think is one is how much other people's capital can we deploy. So within peak property cat, there's ample capital that we have. Even as prices are falling, more capital continues to come to us to be interested in that risk. Non-peak cat is something that we have fewer options, but still substantial options to share risk. And I'll talk a little bit about some of the vehicles we use for that.

Short-tail and long-tail; short-tail casualty, we have a lot of investors, particularly our DaVinci investors, investors we know well, who trust us and are looking for that type of risk. At this point, we believe the best balance sheet to keep that risk on are our own balance sheets. But if there is an opportunity to deploy more broadly some of the specialty lines into DaVinci, we'll consider it. At this point, the only specialty lines we put in DaVinci are terrorism and workers' comp cat exposure.

Long-tail is really – that's more of a hedge fund model frankly, but there is a lot of hedge fund capital that's interested in long-tail casualty. Something that we've chosen not to add to our platform, but it's a model that we have studied and understand well. And then scalability, is there an opportunity for us to continue to grow. We would grow in peak property cat tomorrow if there is an opportunity, if there is increased demand. But I think there is sometimes a discussion that, since we purchased Platinum, we're no longer committed or emphasizing cat.

We'll emphasize cat exactly as strongly as we have before, but we have more options to deploy capital in different ways, partially because the investment we made prior to Platinum and then by bringing the Platinum team on as well. Actually one point that's also interesting is, after the peak property cat risk, we can add that risk without adding modeled capital in most instances. So, by adding that risk on to our platform, on a modeled basis, it will look good. And if it looks good on a modeled basis, not requiring capital, it will be accretive to ROE as you roll it up on a GAAP basis as well.

There's a lot on this slide. I want to break it down really to talk about it in the context of we're doing some different things and how are we – what strengths can we bring to the new lines of business that we have. So, with regard to relationships, the way in which reinsurance is being purchased is really changing, where in the past, we would have a property cat relationship with a property cat broker and a property cat buyer.

Increasingly, companies have gotten smarter and consolidated the way in which they're thinking about their cessions. They're capturing their own internal diversification before they're coming to the market. What that means for us though is, the people that we know are doing more things. They're not just the property cat buyer. They're the property cat buyer, they might be buying the D&O, they might be buying other specialty products. So, there's fewer people we need to get to know, and we can leverage the existing relationships that we have.

As the market – as the buyers change, the brokers change. So, if the buyers – if there's fewer buyers, there's going to be fewer brokers working on the same account. So, we need to continue to get to know those brokers or leverage the brokers that are winning the accounts with more diversified cessions. From a risk perspective, I touched a little bit on some of the things that we can do by bringing our risk technology over. Our portfolio skills are very transferable.

The way in which we think about building distributions, it's really the same methods. It's just applying it to different risk, bringing some different tools to it. But that's – the underlying thought process of how we're building up standalone risk distributions is really quite portable. The portfolio roll-up, when we bring it together, what we're trying to do or one of the benefits of it is we can find within a – within a class of business, we can pick whether deal A is better than deal B, whether year one is better than year two.

But also as we bring new lines in, we bring it all into the same exact framework of measurement. So, we can determine whether a Florida risk is better than a Japanese risk and is better than a D&O treaty that we're writing. And by being able to bring that all together in a unified view of risk, we can be much more efficient as to how we're allocating, not only our own capital, but our partner's capital as well.

And then the way in which we're managing capital, we believe by being efficient users of capital is going to be one of the tickets for success going forward. The market will become – as I said, I believe it's a bit of a secular change. I think there are cycles. But as new capital is introduced, we need to prepare ourselves that that is going to have an effect on the way the market trades. And if we're not constantly looking to improve the efficiency of our capital, we're not going to be competitive for our customers.

Actually, the other side with Platinum is we've got a lot of – even though their book is – their book is split, $350 million of casualty and specialty business, $150 million of property. The $150 million of property, we have tons of capital options as to what we're going to do with it. The $350 million of casualty actually requires no additional capital to put on our platform. Although we have the potential to bring it to other investors, it is best suited to remain on ours.

So, we do have a lot of know-how as to what to do with it. At this point, we believe keeping that risk on our balance sheets is best. So, I touched on the – their risk coming on. I touched actually on quite a few things down here. But thinking about quite specifically what are some of the synergies. We've got a U.S. platform now. So, we went from having three people in Connecticut to having about 60 people in New York. We're much more established in the U.S.

We've got an office of about 10 people in Chicago, much more established in the Midwestern regional business with the acquisition of Platinum. Both of those things are highly accretive to us. It gives us new clients and new products to offer. From a risk selection basis, we have - we consulted for Platinum for many years when they were first formed. And one of the things we did is that we continued to cat consult for them, looking at their portfolios and helping them design their tools.

It's interesting that a lot of the things that we talked to them about are still embedded in their systems. They're willing to lose frameworks, the way in which they think about risk. As we went into it, we were very pleased to see such a strong underwriting and risk management culture within Platinum. We think by bringing our tools, our culture to them, we can continue to build upon that base.

So, on a capital management standpoint, we have greater diversification that obviously adds benefit, and then we'll bring our capital frameworks and our - even just our ceded strategy to them. Platinum really was not a big user of ceded reinsurance, either to their own balance sheets in Bermuda or the third-parties'. Our cessions should improve the net performance of their portfolio simply by adding that to it.

This is a slide that we show our Board every year - excuse me. We meet with them more than a year - each year, every quarter, and we talked about what's going on in the market. Before I kind of get into this slide, the thing I want to point out is - there is a point around here. It's just down here. Platinum's had good results. So when went in, we had the expectation that they had done a good job. Their book was better than we thought. They have changed the size of their book at their peak from $1.7 billion to $500 million. And we had a concern that that was adverse selection down to $500 million.

It was not. It was an active set of decisions that they've made. And one of the proofs of that is that many of those deals have been with them from when they were at St. Paul. So, on the deals in which we're picking up from them, in many instances, our data - or the data on those deals predates Platinum by a pretty wide margin. So we have very deep actuarial triangle supporting the casualty book that we picked up from Platinum. And they've brought a team with them. And we've kept all but one of the underwriters from the Platinum team, and the average tenure on the team is 11 years.

And the one underwriter that we did not keep actually has joined the Forestry Service, so he didn't move into a competitor; it's a change of life for them. So, going back to the top of the slide, what we think of up here is really the things which drive returns in our business. And instead of talking to just in the context of RenRe, what happens when we introduced Platinum to RenRe. So, the gross loss ratio is about the same. So, we write about $1 billion of property cat. They write about $150 million. It comes in and it moved things around, but our property cat loss ratio is about the same.

On the specialty side, they write about $350 million. We had about $400 million and change. So bringing those books together, they're highly complementary. We didn't have a huge shift in the profitability at the gross level. Ceded, I touched on. We're a much more active user of ceded and we'll have more capital options. Simply taking their property cat book and as we will renew it, we'll move it to DaVinci. That's the simplest thing I can point to. But our ceded programs will be extended to cover Platinum as well. That will improve the overall profitability of the book.

Cost of capital, it's a more diversified book of business. We're enjoying the reduced cost of capital from that. Excess capital, our first choice is to deploy it. I think we did – in looking at Platinum, we did the analysis obviously as to whether return it through a continued share buyback, bought about $500 million of shares back last year. But we thought that the ongoing annuity value of bringing Platinum in was a better use. So, we feel good about the deployment of capital into Platinum.

But as we continue to work through the integration, our philosophy will be exactly the same, deploy it first in the business. If we can't deploy it, return it to shareholders. Our preferred way of returning it has always been through share buybacks.

Operating leverage, we kept the underwriters. We didn't keep much of the rest of the teams. We kept some of the reserving people, a lot of the claims people. But the back-office, there was redundancy; Bermuda, there was redundancy. What that means is we are likely to achieve the cost synergies that we have in our models.

We keep an ongoing model. We update it with the decisions that we're making, and we believe that we probably we run a little hot on one-time costs, but partially because we have terminated more people than we thought. But we'll certainly achieve the objectives we had for long-term cost savings.

And then investment returns, Platinum had a unique investment portfolio. We're going to align it with our investment strategy. It'll take a little bit of time to do that largely because they had a very large portfolio of municipals and – municipalities. And as we align it, we think we'll pick up 10 basis points to 15 basis points, something like that, $10 million to $15 million of extra income.

So where are we with Platinum? We announced the deal on November 24. March 2, we closed. That was, in our timeline, at the front-end of what we expected. So we're pleased with that.

With regard to the integration, all our organizational decisions are made and communicated, and everybody knows their role going forward. We've made all our decisions on the balance sheets and what the capital structures will look like long-term. It'll take some time to get regulatory approvals and other things to get there, but we're well on our way. There's no ambiguity as to the direction we're going. So from an integration standpoint, I feel as if we're ahead of – or we're certainly doing well against any timeline that we put forth to challenge ourselves.

We moved the Platinum staff that we're retaining, both long-term and transitionally, out of their offices and into our offices. That occurred earlier this week. And I mentioned that, from a cost perspective, we're very much in line with what we originally thought when we put forth the deal thesis.

Interesting to me on this slide is I think there's more underwriters at RenRe than – perhaps investors are less familiar, but certainly than what the brokers or our clients would know. And I feel good about that, because there's no sense that RenRe's become slow and sluggish. Whenever we put an underwriter in front of a client, we put a decision-maker in front of the client. And that allows us to continue to be a nimble company. It allows us to be someone who can respond quickly to opportunity.

The other thing I'll point out is, I think, would be surprising to many people is that we have more casualty and specialty underwriters at Renaissance than we do property underwriters. And again, we've been long known for our property cat franchise. We've invested continuously in our casualty and specialty franchises since 2009. But the fact that we have more underwriters there I think would be interesting for a lot of people just to see.

Thirdly, we've opened a lot of – and continued to expand the locations that we have. This complexity with opening new locations, we open them because we think it's what our customers want. We think it's a better way to serve our customers. We spend a lot of time in each of the offices, bringing our culture to them, making sure that each of them has a feel – a look and feel of RenaissanceRe.

In visiting the Platinum office, I was there last on March 2 for the close. They were already commenting that they've seen more RenRe people than they're used to seeing from the Platinum people when they were a combined company. I think that's something that will continue. We're going to move some of our senior staff into the Platinum office to make sure that we're winning hearts and minds and bringing our culture to that office. Our culture is something that we hold very dearly, and we think it's an important part of the integration.

Finally, not just to talk about underwriters is we support our underwriters very heavily with their risk functions. So, we've got almost 100 people committed to risk, actuarial and underwriting analysis, technical roles, things in which we're doing to support the underwriters. So when I talk about the integrated system, it is not only the 45 underwriters. When I talk about being the best underwriter, it's not just the 45 underwriters. It's all the people that are supporting them to make sure that they have the right tools, to make sure they have the right frameworks to think about the risks that they're taking.

Quite a lot of what's on this slide, and the slide actually would read very similarly had we not done Platinum; these are all things that are important to us. But I'm pleased that even only after a couple of weeks, three weeks or so after close, we're already in a strong liquidity position. We are passing in fine with the rating agency tests, and we're already thinking about how to manage excess capital.

So again, as we add the Platinum book to our portfolios, it takes no additional modeled capital. We have capital trapped in different balance sheets. And then we have a plan, but it'll take some time to move the capital back to the holding company. But again, it feels good to be in those positions still shortly after having done the acquisition of Platinum.

Thinking about a flexible platform, we believe it provides options to customers and it allows us to best bring the most efficient to the risk - most efficient capital to the risk that we want to take. The way I think about this slide is, as I go across here, it's how aligned are we with the capital that we're deploying. So, one of the things that much of the capital that comes to us looks for is alignment. So firstly, if you take RenaissanceRe, it's very traditional structure. We've got out our equity, our preferreds, our debt. But that really is the permanent capital. That's where RenRe Limited resides.

DaVinci is a $1.2 billion private balance sheet. It's rated. There's no risk in DaVinci that's not in RenRe Limited. There's many risks in RenRe Limited that are not in DaVinci though. What that does is it provides the DaVinci investors with two sets of alignment. One is we're an investor along side of them in the DaVinci vehicle, and secondly, any risk that's in DaVinci is a risk that RenRe Limited already determined that they like. So, there's high degree of alignment in the risk that they're taking.

Top Layer Re is a joint venture between us and State Farm. What it does is it writes higher layers around the world, layers that diversify State Farm's risk. So, we're bringing to them diversifying risk against their very large pool of capital that's exposed predominantly in the U.S. It's an extremely important joint venture. It's one that is well over 10 years old, and it's been very successful over time.

Medici is really what I'll call more of a research vehicle. At this point, we've got a small cat bond portfolio that we've invested in over the last few years. We have other investors in there. But we're building a track record. If there is ever an opportunity that we think makes sense for investors to invest in Medici, we want to make sure that people saw us as a viable cat bond manager.

Upsilon is one that we've changed dramatically in size over the years. It's a retro vehicle, and as retro opportunities - we cut the vehicle about in half from last year to this year, just because the retro world has become significantly more competitive. It's one that's not very aligned with us. It's risk that doesn't fit on RenRe Limited's paper. Going back to the chart where I showed stand-alone, on a standalone basis, we like the risk. But worldwide retros have very heavy user capital within our own risk models, but also within some of the rating agency risk models.

So, by bringing in a collateralized structure, although it's not particularly aligned, we can explain to investors why that structure makes sense and why we are a good manager of it. And then the final one is really just our trading account. So, we will go in and buy ceded. We will go in and trade with other either collateralized markets reinsurers, other capital providers as we see fit with the goal of making our net portfolios more efficient.

Thinking about that structure really guides us to think about whether we are an asset manager or a reinsurer. A few years ago, I used to get a lot of questions as to, reinsurance is debt, everyone is going to become an asset manager. But we don't believe that. We believe having the ability to deploy capital in both ways, with rated balance sheets and with, I'll call it, collateralized balance sheets or with collateralized vehicles, is the way in which we can best serve our customers.

It provides us with flexibility. It provides us with competitive pricing and efficient capital to bring to our customers. On the capital side, we bring alignment and we bring a track record, and we bring a partnership mentality. So as we look as to how we're going to position ourselves in the changing market, we think having that structure will be the most beneficial structure, not only for customers, but for capital.

We also think it's hard to replicate. We have both rated vehicles and non-rated vehicles. We have them in scale, and we understand how to manage the conflicts that can arise when you're managing other people's capital as well as your own capital. And I think it's something that will continue to serve as well, not only in this market, but in how the markets develop over time.

That's really what I want to cover today, looking at I want to save a few minutes for questions. But RenRe I believe is really a great company. I think we are tremendously well positioned for where the market is and for where the market is going. I think we have great access to customers, we have great access to capital, and the alignment that we maintained with capital is something that is somewhat unique to us and I think will continue to be a valuable part of our success going forward.

Q&A

Q - Keith Cornelius {BIO 18862478 <GO>}

Sure. Kevin, thank you for that. Before we open it up to the audience, I wanted to ask a couple of questions. First, given your stated dedication to remain in reinsurance, what is your outlook for that market? Where do you see pricing at midyear? Could give us a little bit of color on that?

A - Kevin J. O'Donnell

Sure. As I mentioned, I think being rational about where the market is extremely important. And there's – I don't see a lot of catalyst right now for the direction of the market to change. Markets usually change due to surprises, and unless there is a surprise between now and the next real – well, we're in the Japanese renewal now, the next real big renewal is the June-July renewal, which is largely PQS (32:56) risk, largely Florida. I think there will be continued pressure on that market.

I think there is a lot of discussion that there is increasing demand. The Florida Hurricane Cat Fund, which is one of the state provided facilities, might buy reinsurance. A lot of risk has moved out of Citizens, which is the insurer of last resort in Florida. Every risk that's not ceded at Citizens has more ceded reinsurance associated with it. So, I think there's some optimism from the demand side. But I think there is still increased pressure from the supply side, from the capital side. But I think there will be continued pressure on pricing.

Q - Keith Cornelius {BIO 18862478 <GO>}

We'll go ahead and open it up to the audience.

A - Kevin J. O'Donnell

Sure.

Q - Keith Cornelius {BIO 18862478 <GO>}

Hi, Kevin. Thanks. If I heard you correctly, you said that the Platinum casualty and specialty lines portfolio would not require additional capital to support it, and that's not necessarily intuitive. So can you explain why that's the case?

A - Kevin J. O'Donnell

Modeled capital. So I think there is – they have different balance sheets. They have the U.S. regulated balance sheet and they have the Bermuda balance sheet. So, there are separate pools of capital. We'll renew our risk on to the – we'll rename the Platinum balance sheet. But what was the regulated balance sheet will be our predominant U.S. balance sheet. And in Bermuda, the Bermuda Platinum balance sheet will be renewed on to the RenRe Limited balance sheet. So, there is extra capital in the system.

What I'm saying is, if we had perfect flexibility as to how to manage our capital, when we brought that on and we looked at how our capital is structured, we could write the $350 million of casualty and specialty business that Platinum has and the $150 million of property business that they have on our platforms without adding capital. We have other reasons in which we need to have the capital on the system for some period of time. Is that more clear? So, the capital – the marginal increases in capital have been around property cat. The specialty hasn't caught up to how much capital we have exposed to property cat. So, we can add the specialty without adding more economic capital (35:14).

Q - Keith Cornelius {BIO 18862478 <GO>}

And then have you guys disclosed how the $350 million of casualty and specialty and the $150 million of property break down by U.S. and Bermuda at Platinum or should we – does that not even matter anymore?

A - Kevin J. O'Donnell

I don't think we've disclosed that to you. Yeah, we haven't really disclosed that, I think.

Q - Keith Cornelius {BIO 18862478 <GO>}

All right, thanks.

A - Kevin J. O'Donnell

Yeah.

Q - Keith Cornelius {BIO 18862478 <GO>}

So, I have two questions. First question is, what do you think it would take to get pricing to turn at this stage? I know I heard a couple of years ago, people were talking like maybe a $100 billion U.S. event. But do you think that's even enough anymore? And then my second question is are you still interested in doing acquisitions, and if so, what would you look for? What would the criteria be now?

A - Kevin J. O'Donnell

Okay. I think it's difficult to point to something that - I can say $100 billion is going to change the market. I think in general, it's going to be things that either affect supply or demand. One of the things that I think everyone talks about is, will the capital stay. I think some of the capital stays, some of it will not. I think from a demand side, there could be - whether these products - a lot of the products that are coming to the market are untested. So, will cat bonds - if there is a major cat bond default, will people fully recover on cat bonds or are they end up in the subrogation fund or litigation fund trying to fight through a normal process of a bond default. I think it's anything that is surprising and that can add stress to the system, will have an impact. But I don't know whether it's five $25 billion events or one $100 billion event. It's going to be really as to how the market responds to whatever surprise, whatever stress is put upon the system.

With regards to acquisition, I think acquisition thoughts are just - they're a tactic, like we know where we're going, we know what our strategy is. We will not do a financial deal that's not strategic. We will not do a strategic deal that's not financially smart. So, I think we will look at opportunities as they arise. There's certainly no shortage of things going on in the market right now. But we don't feel compelled that we need to add the next thing to our platform. We feel good where our platform is and the position we have in the market.

Q - Keith Cornelius {BIO 18862478 <GO>}

A question for you, not directly to your company, but generally to the sector.

A - Kevin J. O'Donnell

Sure.

Q - Keith Cornelius {BIO 18862478 <GO>}

There's been a fair amount of M&A on the P&C reinsurance world in the past, let's say, 12 months after several years of being relatively quiet.

A - Kevin J. O'Donnell

Yeah.

Q - Keith Cornelius {BIO 18862478 <GO>}

You got XL doing an acquisition, you got yourselves, you got Axis, you got Fairfax doing things at buying Catlin and Lloyd's (37:54).

A - Kevin J. O'Donnell

Yeah.

Q - Keith Cornelius {BIO 18862478 <GO>}

Do some of the answers you gave in the past few minutes about pricing and capacity and so on, has the purchasing of reinsurance, the patterns changed dramatically in the past few years, attachment points going higher, putting pressure on pricing and so on? Is there more M&A that could happen in that industry? There used to be a lot of Bermuda companies out there.

A - Kevin J. O'Donnell

(38:16). I think Bermuda is kind of a qualifying point for the conversations, while there's been a lot in Bermuda. I think Brit is one exception. But yeah, I think it makes sense, frankly. There is a lot of efficiency that can be brought in by consolidation. I think scale is something that's important. Scale is sometimes used as a proxy for relevance, I think. I'm not sure being big alone is going to make some companies relevant. But I think it's something that - yeah, there will probably be continued focus on consolidation for the foreseeable future.

But it's going to be difficult to predict. I think nobody predicted - I don't think Platinum was the catalyst that kind of kicked off all the acquisitions enthusiasm that has occurred since November. But I think no one predicted it to be as fast and furious as it has. It could dry up equally as quickly. I think there's a couple candidates out there that are probably somewhat active in thinking about what they want to do next. But it's something that I anticipate will be a bit of a story for the rest of 2015.

Q - Keith Cornelius {BIO 18862478 <GO>}

You don't publish PMLs ...

A - Kevin J. O'Donnell

No.

Q - Keith Cornelius {BIO 18862478 <GO>}

And I was wondering if you could explain to us how you go about quantifying the amount of risk that you're willing to take or is there is some other measure that we could look at?

A - Kevin J. O'Donnell

So PMLs are something I think - we don't think about the world as being at a point. So if you have a point, you may be higher here, lower here or higher here and lower here, just think of it as a fulcrum on a seesaw. We manage the full distribution and we think about - the question we ask ourselves and the way we think about our risk is, what's the probability of us losing 2%, 5%, 10%, 20% of our surplus. And in thinking about that, we need to think about the shape of the full tail of the distribution. We have tons of measures in which we think about calibrating that risk. And what we've said to people before is, look at our results against the results that we expected from major events around the world and look at the returns. We think focusing on a single point is not the way to think about the risk in which a reinsurer takes.

Q - Keith Cornelius {BIO 18862478 <GO>}

How do we...

I think that's all the time we've got. Could everybody join me in thanking Kevin?