Q4 2013 Earnings Call

Company Participants

- Jeff Kelly, EVP, CFO
- Kevin O'Donnell, President, CEO
- Peter Hill, IR Contact

Other Participants

- Amit Kumar, Analyst
- Brian Meredith, Analyst
- Greg Locraft, Analyst
- Jay Cohen, Analyst
- Josh Shanker, Analyst
- Josh Stirling, Analyst
- Mike Nannizzi, Analyst
- Mike Zaremski, Analyst
- Sarah Dewitt, Analyst
- Vinay Misquith, Analyst

Presentation

Operator

Good morning. My name is Ginger and I will be your conference operator today. At this time, I would like to welcome everyone to the RenaissanceRe Holdings Limited 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. (Operator Instructions) Thank you.

Mr. Peter Hill, you may begin your conference.

Peter Hill {BIO 15385944 <GO>}

Good morning, and thank you for joining our Fourth Quarter 2013 financial results conference call. Yesterday after the market closed, we issued our quarterly release. If you did not receive a copy, please call me at 212-521-4800 and we will make sure to provide you with one.

There will be an audio replay of the call available from about 1 p.m. Eastern time today through midnight on February 19. The replay can be accessed by dialing 855-859-2056 or 404-537-3406. The passcode you will need for both numbers is 31065593. 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 April 16, 2014.

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 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 would now like to turn the call over to Kevin.

Kevin O'Donnell

Thanks, Peter. Good morning, everyone. I'll start the call today on the same format we've used for the last couple of calls with me starting off with some high-level comments. Then I will flip it over to Jeff to discuss the financial results. And finally, I'll come back to provide more detail on our book of business and the market.

2013 was a strong year for us, and we are pleased to report growth in tangible book value per share plus accumulated dividends of 19.7%. We also posted strong results for the Fourth Quarter.

Our performance benefited from excellent underwriting and solid investment returns. Having had another year lacking in significant cat events is a double-edged sword for our industry. On the one hand, results were strong and capital positions were boosted further. This resulted in abundant capacity.

On the other hand, for 2013, demand remained roughly flat in aggregate with reduced purchases by some large savings offset by some increased buying in Florida. That resulted in pressure on pricing heading into January's renewals. We anticipated rate reductions, but the deterioration in pricing at 1-1 was in fact greater than we expected. And I will talk more about that in a few minutes. Consequently, we are revising our guidance, as Jeff will outline in a moment.

In light of the increased competition, we focus more than ever on serving our clients by expanding our footprint and growing our product offerings. We are consistent in the way we approach the market and we are able to allocate the most efficient capital to the best risks, structuring products to provide more options to our clients.

Our Lloyd's unit continued to make good progress in building out its business and had a good year in 2013. We strengthened our underwriting capabilities there and deepened our team to better compete in the market. We expect continued improvements in this business for 2014 as we see greater benefits of scale.

During 2013, our ventures team worked hard to deliver excellent results on an expected basis and on an actual basis whether through DaVinci, Top Layer or various limited light vehicle such as Upsilon. Although we kept DaVinci the same size year-over-year, we brought on new, high quality long-term capital partners. We remain focused on bringing capital to markets when needed by our clients and withdrawing it when it is not, increasing the size of UpsilonRe and nonrenewing Tim Re III.

Compared with 2012, this was a relatively light year for share repurchases. Nonetheless, we bought back over $200 million of our stock, paid down debt, and refinanced half our perpetual preferred stock at very attractive levels. We remain committed to intelligently managing capital, deploying it in the business when appropriate, and returning it when it is efficient to do so.

I'll discuss the market conditions in more detail, but let me turn the call over to Jeff to go over our results.

Jeff Kelly {BIO 20911735 <GO>}

Thanks, Kevin. Good morning, everyone. In my prepared remarks, I will cover our results for the Fourth Quarter and full-year 2013, and also give you an update to our 2014 topline forecast.

We reported solid Fourth Quarter results which capped off a very profitable year for the company. Many of the trends, such as low cat losses and strong investment performance, were ones that we saw play out through most of the year. Results in the quarter also benefited from reserve releases.

For the Fourth Quarter, we reported net income of $269 million or $6.05 per diluted share and operating income of $207 million or $4.64 per diluted share. The annualized operating ROE was 24.3% for the Fourth Quarter.

For the full year 2013, we reported operating income of $631 million at an operating ROE of 19.4%. For the full year 2013, we reported a combined ratio of 43.8% and underwriting income of $627 million.

Our tangible book value per share, including a change in accumulated dividends, increased 8.1% in the Fourth Quarter and was up 19.7% for the full year 2013, benefiting from strong underwriting results and favorable investment results.

Before covering the segment results, please note that we made a slight change to our financial reporting in that we now report Catastrophe Reinsurance and Specialty Reinsurance as separate segments. In prior periods, we had reported them separately and then also aggregated them to constitute the Consolidated Reinsurance segment. The change made here is only in presentation and does not affect any of the figures we have previously reported for catastrophe or Specialty Reinsurance.

Turning to the cat unit results for the full year 2013, managed cat gross premiums written totaled $1.2 billion. Managed cat premiums declined 2.1% compared with a year ago when adjusted for $24 million of net negative reinstatement premiums in 2013 and $18 million of net reinstatement premiums in the prior-year period. This compares with our guidance for the full year 2013 for a decline of 10% in managed cat premiums.

As we referenced earlier this year, full-year premiums included $66 million related to quota share transactions. We also had $27 million of premium related to a three-year transaction for which premiums were booked upfront during the Second Quarter of the year. Adjusted for these two transactions, managed cat gross premiums written declined approximately 9.5% in 2013, which is obviously a bit closer to our original guidance.

The Fourth Quarter combined ratio for the cat segment was negative 12.8%. Reserve releases totaled $59 million in the quarter. Most of the favorable development related to recent large cat events, including Storm Sandy of $45 million, the Tohoku earthquake of $13 million, and the second New Zealand earthquake by $6 million. This was slightly offset by a $9 million increase to our loss estimate for the 2010 New Zealand earthquake.

The Fourth Quarter accident year loss ratio was a negative 3.7%, primarily due to low loss activity and a $14 million reduction to our loss estimate for the Central European flooding which we had booked in the Second Quarter of the 2013 underwriting year. For the full year 2013, the cat segment generated an underwriting profit of $559 million and a 22.8% combined ratio, again reflecting generally benign loss activity and $102 million of favorable reserve development.

Specialty Reinsurance gross premiums written increased 24% for the full-year period 2013 to $260 million when compared with the year-ago period. This was well above our guidance for the full year 2013, which was for slight growth.

As we have cautioned many times before, percentage growth rates for this segment can be uneven on a quarterly basis given the relatively small premium basis.

The Specialty segment generated a $23 million underwriting profit and a 58.3% combined ratio for the Fourth Quarter as loss activity was generally benign. Favorable reserve development totaled $11 million in the quarter. For the full year, Specialty Reinsurance generated an underwriting profit of $74 million and a combined ratio of 65.6%, also reflecting low loss experience and $34 million at favorable reserve development.

In our Lloyd's segment, gross premiums written increased 42% to $227 million for the full year 2013 as we have continued to expand our franchise there in profitable, diversifying classes of business. The Lloyd's segment came in at an underwriting loss of $3 million and a combined ratio of 106.3% for the Fourth Quarter. Loss activity for this segment was also generally light and favorable reserve development totaled $5 million. The expense ratio remained relatively elevated at 50.5% but has been consistently declining sequentially as business volume has increased. For the full year, the segment generated an underwriting loss of $5 million and a combined ratio of 102.9%.

Our investment portfolio was a strong contributor to operating and net income during the quarter. We reported net investment income of $79 million in the Fourth Quarter, which was driven by a few factors.

Recurring investment income from fixed maturity investments remained under pressure due to low yields on our bond portfolio and totaled $25 million in the Fourth Quarter. However, our alternative investment portfolio generated a solid gain of $55 million in the Fourth Quarter, driven by a couple of factors.

The private equity portfolio continued to perform well with a $15 million gain. Alternative investments also included a $38 million gain related to the upward marked-to-market adjustment for our investment in Essent, reflecting the difference between the valuation of the company at the end of the Third Quarter and at the time of its IPO on October 31.

Finally, while not included in net investment income, the appreciation in the value of the Essent stock following the IPO resulted in $36 million of unrealized gains on the portfolio through the end of the year. Recall that we had stated on the Third Quarter conference call that, following the IPO, we would begin to report Essent as a part of our equity trading portfolio. Subsequent changes in the value of the stock are reflected through realized and unrealized gains and losses and as such are excluded from operating income.

The total investment return on the overall portfolio was a healthy 2.1% for the Fourth Quarter and 3.6% for the full year. We are pleased with the performance of our investment portfolio and especially given the low interest rate environment and the increase seen in interest rates during the year. We believe our strategy of maintaining a high quality, liquid and short duration portfolio is the right one in the current environment.

Our ventures team had an active Fourth Quarter and early this year announced the formation of a third iteration of UpsilonRe targeting primarily structured aggregate reinsurance and retro deals on a worldwide basis. Capital for the vehicle was provided by third-party investors and us.

On January 1, we also made the decision to return $300 million of capital to the shareholders of DaVinci in the form of an annual dividend, bringing the capital of that vehicle to roughly the same size as it was a year ago. We will continue to right-size the overall capacity that we bring to the marketplace given the current opportunities. Inclusive of other transactions completed over the course of the year, our ownership in DaVinci stood at 26.5% at January 1.

During the Fourth Quarter, we continued with our share repurchase program, buying back 729,000 shares for a total of $67 million. For the full year 2013, we repurchased 2.5 million shares for an aggregate cost of $208 million. So far this year, through end of day yesterday, we have repurchased roughly 1 million shares for an aggregate cost of $93 million.

Given the strong growth in our capital base in 2013 and the more limited opportunity sets to deploy it in the business, we remain committed to returning capital to our shareholders over the course of the year and anticipate share repurchases will remain our preferred method of doing so. We ended 2013 in a very strong capital liquidity position and continue to have industry-leading financial strength and enterprise risk management ratings.

Finally, let me turn to update our topline forecast for 2014. For managed cat, we currently expect premiums to be down about 15% in 2014, excluding the impact of reinstatement premiums. This compares with our prior guidance for managed cat premiums to decline 10% during the year.

In Specialty Reinsurance, we are maintaining our topline guidance of up 15%. Keep in mind that growth in the segment can be uneven due to the relatively small size of the premium base.

And in our Lloyd's segment, we still expect premiums to be up over 20%. Recall here too this growth is off a relatively small premium base and we remain in the building phase of this platform.

Finally, as always, I would remind everyone that premium estimates of this nature are subject to considerable risk and uncertainty. Our goal in providing them to you is to give you our best estimates at this time.

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

Kevin O'Donnell

Thanks, Jeff. As I mentioned, the renewal at 1-1 was a challenging one with rates down more than we expected and placements completed earlier than in the past.

I think there are a couple of interesting comments to be made here. Although the decline in rates was meaningful, it was largely acceptable, by which we mean that after recognizing each premium dollar has less profit embedded in it, we were able to build an attractive portfolio.

We often discuss cat reinsurance business in terms of three buckets -- attractive, low return and negative return. Because our long-standing relationships, established track record and disciplined underwriting, we continue to find opportunities in the attractive bucket, maintaining our share, even growing in some instances on lines we wanted most. However, to give some context, our exposures are relatively flat year-on-year.

Much of the international market is at levels below our return hurdle. However, a substantial portion of our international book consists of private deals and bespoke transactions, which experienced less pricing pressure than the overall market.

After all the discussions of the last several months, we did not see business shifting materially between rated and non-rated capital at 1-1.

The interesting question is whether or not a pricing floor has been reached. I believe the market stabilized because price reduction tolerances have been reached and not because an absolute pricing floor has been hit. It's my belief that the speed at which rates are changing is probably flattening out, but that does not mean to say that it will stop altogether. Hence, we have increased our downwards guidance.

At the highest level in a soft market, underwriters can do one of two things. They can protect market share or they can protect margin. It would seem that at 1-1, we did see a broad-brush approach by many to protect market share. Ultimately, the market will not stop declining until underwriters and capital seek to protect margin over market share.

While pricing for retro was under pressure like most of the rest of the cat reinsurance market, we did see continued increased demand for our worldwide specialized retro product written through UpsilonRe. In order to provide greater flexibility to investors to invest in the manner that best suits them, we tranched the fund to provide different options on the risk-reward continuum. This had the added benefit of increasing the efficiency of UpsilonRe's capital and attracting more capital than we required.

One may ask why we are raising additional capital at a time when there is already an abundance of capacity? UpsilonRe represents an interesting confluence of events which allowed us to match efficient capital and desirable rates. Our clients were telling us that they wanted to cede risk on an aggregate basis. Determining that it will be more efficient assume this risk in a collateralized balance sheet, we were able to quickly raise the necessary capacity and serve our customers.

As with many of our vehicles, we are not only the manager but also an investor in each fund, reassuring our partner capital that our interests are well aligned. This highlights a point I made earlier. We bring capital to markets when needed by our clients, and we withdraw it when no longer needed, and we eat a substantial portion of our own cooking. We do not raise capital solely because it's available and might result in fees. Our partners appreciate this approach, and as a result, we have good access to additional capital.

In terms of ceding opportunities, we will continue to look for ways to optimize our underwriting portfolio. We consistently see opportunities to share risks with others and have tremendous resources to measure the capital import and efficiency of any product on offer. We will remain innovative and willing to match capital in any form against appropriate risk, evaluating all options, both traditional and nontraditional.

Turning to our specialty business now, we continued to find opportunities at 1-1 while the market as a whole became more competitive. We were able to do this using several different approaches. With the launch of our US platform earlier this year, we now have access to business we weren't able to see before and enter markets we hadn't traditionally participated in. We've benefited from strong relationships and a known brand to gain shares on attractive programs despite abundant capacity from competitors. In short, buyers made room for us and we are seen as a core partner with whom they enjoy trading.

Even in a soft market, there is attractive business to be found. We were able to achieve significant growth in the Fourth Quarter due to some opportunities in mortgage reinsurance where the market has your competitors and favorable fundamental risk characteristics.

Our ventures team continue to work closely with our underwriting team, establishing capital partnerships as a cornerstone of our franchise. I think of our ventures unit as doing two things predominantly, first, managing third-party capital vehicles, and second, managing strategic investments we make. Many of these investments are with our reinsurance customers to help them grow their businesses. Others a little further from our core, as in this quarter is a good example, have provided us with significant gains over the last few months.

Our capital partners and cedents appreciate the industry-leading real-time risk and capital analysis we are able to provide. The integrated system we operate across underwriting capital management allows us to offer innovative vehicles that support our fundamental principle of matching attractive risk to efficient capital.

The past five years, we've launched five limited life vehicles and launched a new cap-on fund. We've raised over $900 million of new capital from a wide variety of institutional investors and at the same time have return in excess of $1 billion of capital.

As I reflect on the market and the increased competition that we are seeing, I am more grateful than ever that I am at RenRe. I firmly believe that our structure of having both highly rated balance sheets and strong access to other forms of capital is the best formula to serve our customers by having efficient capital to match against their risks. We are a core reinsurer to our clients and a trusted steward to all of the capital we bring to the market. And my belief is no matter what Res are doing today, we can still build an attractive portfolio going forward and continue to extend our 20-year track record of outperformance.

And with that, I will turn it over to questions.

Questions And Answers

Operator

(Operator Instructions) Greg Locraft, Morgan Stanley.

Q - Greg Locraft {BIO 4221265 <GO>}

Good morning, guys. Congrats on the quarter and a great year. I wanted to actually isolate on the guidance and specifically the downward trend from down 10% to down 15%. Can you talk a bit about what's changed November versus February?

A - Kevin O'Donnell

Sure, thanks. The fundamental change really was just -- really resulted from competition. There is no new capital, there's no initiatives that I can point to that significantly change the fundamentals of the business. It was just there was much more proactive reaching out by some markets to protect market share. That was sensed by both buyers and brokers, and with that, there was increased pricing pressure. But it's nothing fundamental in the market that's changed.

Q - Greg Locraft {BIO 4221265 <GO>}

But I guess, again, you guys are in the markets. You're sitting in November. You are having conversations. You put out a down 10%, and then now all of a sudden it's a down 15%. In your commentary, you suggested that actually the rate of descent is flattening out, but the movement in your guidance would suggest otherwise. So I'm wondering what will prevent the down 15% from becoming a down 20%, let's say, in July or something like that once we get to the Junes?

A - Kevin O'Donnell

Sure. So we are giving updated guidance today, but obviously early in the renewal process, I think earlier than most, we recognized that rates were sliding further and we readjusted our strategy for the renewal.

I think, for 2014, the June renewals in 2013 had a more significant reduction than the January renewals in 2013. So I think we're going into the mid-year renewals with already some of the reduction built in. I believe there will be further reduction, but I also feel that our process, which is both the ground-up and top-down process by account looking at where we think rates are going, what we think buyers will do from increased purchases and reduced purchases, I feel comfortable that the down 15% at this point in time is our best estimate. Obviously, the future is unknown, so there's things that can dislocate that, but I feel, at this, point with what we know and the work we've done, that it is our best estimate as to where we think the market is going.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. Great. Then second topic is just on capital deployment. I'm trying to -- it sounds like DaVinci gave back everything that was earned on the year, so call it 100% payout ratio for the DaVinci owners. Why didn't the RNR owners, the public equity owners, receive the same kind of payout ratio in 2013? It was significantly lower when you look at dividends and buybacks as a percentage of total earned.

A - Jeff Kelly {BIO 20911735 <GO>}

Yes, so, I think the only difference there is the DaVinci shareholders go in and out at book value. And what we are trying to do in our share repurchase activities is to repatriate capital at levels that we think are very attractive for the shareholders of RenRe who do not get in and out at book value. And so we are just trying to capture the best share repurchase opportunities we can.

A - Kevin O'Donnell

Let me add one other point to that too. We keep financial flexibility at RenRe Holdings as well for opportunities that may emerge, and some of those opportunities could be emerging at DaVinci. So we could increase our share in DaVinci at any given point in time if there was an opportunity for that book to grow. So the more financial flexibility is kept at the holding company then we will keep at DaVinci or any of the operating levels.

A - Jeff Kelly {BIO 20911735 <GO>}

Yes. That is a good point. We do manage DaVinci closer to -- a little closer to our exposures than we did at the holding company just for the reasons Kevin cited.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. Great. Then last topic is actually away from the core property cat business. Kevin, can you talk a bit about how -- what are your ambitions in the Lloyd's and specialty segments? Obviously, the growth there is significant. Can you talk a bit about the historical profitability of those businesses and where you see this thing going as perhaps another leg to the stool emerges?

A - Kevin O'Donnell

Sure. Let me start with Lloyd's. Lloyd's is a business in which we, in entering Lloyd's, we made the decision to build versus buy. The cost of that decision is really an expense ratio that will take time for us to grow into. We've had slower growth in topline in Lloyd's than our original estimate, and that's really a result of market conditions, so we are comfortable with that. That's consistent with how we would manage any of our underwriting businesses. I believe we built the right team there, we built the right infrastructure, so as we look back in 10 years' time, I feel very comfortable about the investment we are making in Lloyd's, that it will provide long-term profitability to the group knowing that the start has been a little slower because of our disciplined underwriting.

I think, for specialty, we have a much longer track record, and if you look back over inception to date for the specialty lines that we've written, we've made in excess of $1 billion of profit by being in that business, so although it's not as large as our cat business, we do see it at as core. We think it as a very efficient use of capital on a marginal basis to bring on to our portfolio. And by expanding our footprint into the US, we have gained access to new lines of business.

A lot of the business that we have written in specialty is really from core clients we have on the cat side, and we have been very fortunate to have a good reception from those buyers, making room for us in some of their best programs. So it's kind of a little different story for each one, but both of them I believe will be long-term contributors.

Q - Greg Locraft {BIO 4221265 <GO>}

Okay. Great. Thanks for the answers, guys, and congrats again on an excellent quarter and another great year even as the macro is getting more difficult.

Operator

Mike Zaremski, Credit Suisse.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thanks. I guess I was -- first on capital. Is there an element -- can you tell us how much money is at the holding company, or is that an element you think that's material?

A - Kevin O'Donnell

I believe, at the end of the year, we had about $600 million, nearly $700 million in cash and securities at the holding company, which is a little higher than normal. And that, I wouldn't say that is a -- that's not a proxy for what we view necessarily as excess capital, but it does represent kind of the raw material with which we can execute capital deployments among the various balance sheets of the company or through share repurchase. Then in addition to that, we have a revolving credit facility of $250 million that we can draw on if need be.

Q - Mike Zaremski {BIO 20606248 <GO>}

Got it. And as a follow-up to one of Greg's questions on capital as well, so the $300 million redemption at DaVinci, is that a use of capital? Is that how we should think about it?

A - Kevin O'Donnell

No. It's actually -- so we get an infusion of that to the holding company from the standpoint that it comes out of DaVinci and goes to the parent. But given that we only own 26.5% of it, the vast majority of that is the dividend to the third-party shareholders.

Q - Mike Zaremski {BIO 20606248 <GO>}

I guess, as a further clarification then, if I'm looking at net income for the year, subtracting out share repurchases or the use of capital, subtracting out the dividend, I shouldn't be subtracting out that $300 million.

A - Kevin O'Donnell

No.

Q - Mike Zaremski {BIO 20606248 <GO>}

Okay. Thank you. I guess, lastly, on the topline guidance for cat, I believe in 2013 you guys increased your quota share transactions. What do you guys think about that for 2014? Could that potentially be a wildcard? Thanks.

A - Kevin O'Donnell

Sure. We did increase some quota share writings. One of the things we looked at is when we write a property quota share it's often Atlantic hurricane exposure that's embedded within the quota share and hence our interest.

I look at the Florida market and I see the Florida market from a primary standpoint in pretty good shape. So there could be additional opportunities for us to write some property quota share. But it's very early in discussions with our Florida cedents to determine whether that's going to be an appropriate product for them, but we certainly have capacity to write it. We have the tools to understand the risks that we are taking. But it's too early to be definitive as to whether there will be opportunities or not.

Q - Mike Zaremski {BIO 20606248 <GO>}

Thank you.

Operator

Amit Kumar, Macquarie Capital.

Q - Amit Kumar {BIO 15025799 <GO>}

Two quick I guess follow-up questions. First of all, on the discussion on pricing, if I sort of ex out the reserve releases and Essent gain, you're sort of looking at a midteens ROE. And I'm sort of wondering. At what point do the returns on the catastrophe business become unattractive versus the cost of capital?

A - Kevin O'Donnell

So I think focusing only on what's going on with the growth rates isn't necessarily the way that we think about it. What we are trying to do is build the most attractive portfolio we can by bringing in the best deals in the market, but we are also constantly looking at how to match the right capital against that. And obviously between the capital and the risk, there is a margin for us. So I don't see that there is a point, a black line or a red line, in which rates cross and you are either in or out of the market. I see it as a migration between weighted balance sheets or permanent third-party capitals or temporary vehicles as to how we would structure traditional retro as well. It's more of a continuum but I don't see a bright line that we are either in or out of the market.

Q - Amit Kumar {BIO 15025799 <GO>}

I guess what I was trying to ask was you mentioned and it was still meeting your hurdle rate, and it was sort of hard to put a range on what sort of earn hurdle return on rate might be.

A - Kevin O'Donnell

Again, I think it's one that will be at the highest level. What we're trying to do is find desirable risk and find efficient capital. I think the rate in which where -- the returns we are looking for is different between fee capital and risk capital, but I wouldn't think that it's something that I would focus in on as being of binary point or a single point of having interest or no interest in a market.

Q - Amit Kumar {BIO 15025799 <GO>}

Okay. Just related to that, as more business moves to your third-party ventures, including Upsilon, etc., how should we think about how much incremental capital it frees up, and thus makes it available for other users, including increased buybacks?

A - Kevin O'Donnell

I think, at a very simple level, when we look at bringing unrated capital to the market, we look at whether it's cannibalistic to our existing business or it's accretive. The Upsilon specifically is something that is accretive to what we are already doing, so I don't think of it as a trade against the risk capital that we've deployed. It's augmenting the footprint that we have in the market by adding a product that we wouldn't otherwise sell.

Q - Amit Kumar {BIO 15025799 <GO>}

Okay. And I guess, finally, did you mention the holding company capital? I think Mike was asking that question? The number you gave, was that the holding company level?

A - Jeff Kelly {BIO 20911735 <GO>}

Mike asked the question of how much cash and how much cash we have available at the holding company. And I said approximately $700 million with an additional $250 million that's accessible via a revolving credit facility. It's not necessarily the same as an excess capital figure.

Q - Amit Kumar {BIO 15025799 <GO>}

Right. And is at $700 million sort of an unencumbered number?

A - Jeff Kelly {BIO 20911735 <GO>}

Yes. That's cash and securities --

Q - Amit Kumar {BIO 15025799 <GO>}

Got it.

A - Jeff Kelly {BIO 20911735 <GO>}

Short-term securities, solid holdings.

Q - Amit Kumar {BIO 15025799 <GO>}

Perfect. Okay. That's all I have. Thanks for the answers.

Operator

Josh Stirling, Bernstein Research.

Q - Josh Stirling {BIO 17463087 <GO>}

Thanks for taking the call and congratulations on a fantastic year. I wanted to ask sort of like a longer-term question. You guys do presumably some long-term planning. I know you are sort of a tactical an opportunistic firm, and the weather deals what it feels. But I wondered if you could give us a little more color and sort of what division for RenRe really is in five years, and sort of maybe put a finer point around it. If you could think in terms of the markets you think are attractive as well as the relative size of your own balance sheet versus third-party and perhaps as we think about the growth initiatives in Lloyd's and specialty and sort of stabilizing and shrinking cat volumes, weather, what your core business will be over that long period of time? Thanks.

A - Kevin O'Donnell

Thank you. When we look forward, there is a spectrum -- let me take the cat market to start with -- there's a spectrum from it being in some people's view of going back to 100% weighted balance sheets to another view where it becomes an asset management business and it's 100% unrated capital deployed into this space.

We believe that unrated capital is going to be in the business permanently. We wouldn't have built the structures that we built if we didn't think that.

We also think having the flexibility of providing risk solutions through weighted balance sheets and unrated capital is going to be the winning formula over time.

So the future is uncertain as to which direction the market continues to move, but in any direction we feel like we have the structure that has the highest probability of being successful.

I believe the cat business will be a good driver of our results. Even though we will continue to emphasize the growth in specialty and Lloyd's, I believe that the Lloyd's platform that we are building is one in which we are very happy with the investment we've made there, and we've built something that's highly integrated and highly culturally aligned. So I have tremendous confidence that that will be a big contributor over time.

And our specialty business is one that has, over time, contributed meaningfully to our results and I believe that the moves that we are making now will continue to allow it to make positive contributions over time.

The final thing which we didn't really touch on on the call is our Singapore office. So I believe our Singapore office will not be a meaningful contributor in the near term, but over the long-term, it's imperative that we are in the region and will continue to find opportunities and build relationships there.

Q - Josh Stirling {BIO 17463087 <GO>}

That's helpful color Kevin. Thank you. I wonder if I could just talk a little bit shorter-term about the coming year. So the renewal at 1-1 was bad. How should we be thinking about how this bodes for renewals as we work our way here through the year? And I guess if you guys have given us guidance, so we should know that the central estimate. But I'm wondering what we should -- you think we should be watching to figure out whether it's going to get better or worse and if there's anything you think that's on the horizon that could reverse this. So definitely no changes in Florida, positioning from the rating agencies or maybe some rational behavior by competitors. Because I think at the end of the day, we are all kind of looking at it just trying to figure out whether there is a nearer-term story or whether we have to first wait for new capital and sort more aggressive players to exhaust themselves. Thank you.

A - Kevin O'Donnell

I think, if you look in the first six months of the year from the property cat perspective, there's really two renewals. One is the April, which is dominated by Japan, and the others the June/July which is dominated by Florida. The far more meaningful of the two is the Florida renewal for us.

As I mentioned earlier, I think the Florida market is in great shape. There has been significant migration of risk from the state facilities to the private market, and every premium dollar that moves from a state facility to a private company has more reinsurance dollars associated with it.

We've also seen in the press that the FHCF is considering purchasing additional limits, which, again, I believe is a positive for the markets. There've been some new startup companies down there. So there's lots of momentum in Florida that gives me some optimism that there will be increased demand.

All that said and done, there's a lot of capital that is prepared to be deployed at the right margin in the business, which will temper the enthusiasm for the new demand. But I think there's some reason to be optimistic about that but, again, our change in guidance reflects that. So I think there's uncertainty as to what it is, but I look forward but leasing a healthy market that we are going into in Florida.

Q - Josh Stirling {BIO 17463087 <GO>}

Okay. Great. Thanks Kevin. Good luck guys.

Operator

Mike Nannizzi, Goldman Sachs.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Hi. Thanks. I guess a question in terms of the specialty Lloyd's business. How should we think about the margins that you're going to target there? And how does a mix change towards those areas potentially away from property cat impact your target ROEs and what you think you can sustain? And should we think overall ROEs, if this mix change continues, will be lower but there will be less volatility, or how should we think about that?

A - Kevin O'Donnell

So let me explain the way we think about it and then we'll talk about how it will represent itself on the financials.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Okay.

A - Kevin O'Donnell

Firstly, I think these businesses, we do write some property cat out of Lloyd's, but absent that component of the book, most of the risk we are taking in is, from a marginal standpoint, requires limited additional capital in our economic models. So with that, we believe, on a standalone basis, there is sufficient profit to warrant the embedded risk within the transaction. And on a marginal basis, the economic returns are substantially higher because it adds a degree of diversification our portfolio.

Looking back to our kind of GAAP representation, I would anticipate that, on a net basis, it will increase ROE. And with the diversification, we hope that it has a different loss profile than our cat book, so there should be some diversification benefit there as well. But that's not the reason we are doing it. We're doing it based on our economic models and we see that economically it has high marginal returns, which allows us to build more attractive portfolios.

Q - Mike Nannizzi {BIO 15198493 <GO>}

So what kind of profitability do you need to see in specialty lines for that to be -- it makes sense, the math makes sense. But is that market allowing you to see kind of increasingly positive opportunities to invest just on a standalone basis, or is it more because of the integration with the current structure of your book that allows you to kind of arbitrage some excess returns?

A - Kevin O'Donnell

So most of the decisions that we make in the cat business are based on a marginal basis against our portfolio, because that the more important measure because it captures diversification. With the diversification being as high as it is on many of the specialty lines that we are writing, most of our decisions are based on the standalone returns of the individual transactions. So the standalone returns can be significantly lower than what we require on our cat book because the marginal capital allocated is significantly lower as well.

My concern is if the market only looks at the marginal return of these transactions, they can quickly become unacceptable from a standalone return basis and we would not write them. So we continue to be very focused on standalone within the marginal -- sorry, within the specialty lines.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Got it. Do you expect others -- I knew you can't speak for others, but we've seen this sort of math of diversification into specialty could make sense for others that are looking to deploy capital away from property cat. Do you expect that some of that competitiveness that you're seeing on the property cat side for diversified writers could manifest in others doing sort of the same thing, or are you seeing some of that now? Thank you.

A - Kevin O'Donnell

Sure. So on most of the specialty stuff we looked at, we kind of saw two trends. One is a reduction in economics offered to reinsurers largely through increasing ceding commissions. Offsetting that was in many of the businesses that we are looking at, anyway, slightly better underwriting fundamentals from a pricing perspective for the original business.

We haven't seen, or certainly the deals that we are on, we haven't seen negative standalone returns. But in other markets, we've certainly seen that with an specialty lines, but I feel like even though ceding commissions are going up, there's a bit of an offset by primary fundamentals. So the business is still good, but we need to watch it closely. If it does move to negative standalone returns, we would come off business in that area.

Q - Mike Nannizzi {BIO 15198493 <GO>}

Great. Thanks for your answers, Kevin. Appreciate it.

Operator

Josh Shanker, Deutsche Bank.

Q - Josh Shanker {BIO 5292022 <GO>}

All of my questions have been answered. Thank you.

Operator

Jay Cohen, Bank of America Merrill Lynch.

Q - Jay Cohen {BIO 1498813 <GO>}

Yes. Thanks. A couple of questions. First is, on the cat guidance, that is obviously a gross number. Given your ceding of business in 2014 or expected sessions of business, is it fair to expect the net premiums written to be down more than 15%?

A - Kevin O'Donnell

I think we don't provide net guidance, but in thinking about how we approach the market, we have multiple ways in which we share risk. We have ownership in our third-party capital vehicles. We have long-standing risk-sharing agreements that tend to be much more stable over time. Then we have more of a trading account for retro.

I would say that the area of uncertainty is the trading account for ceded retro where I believe we have great access to seeing what's available in the market and we have great tools to determine whether it's accretive to the portfolio. We think that's the biggest area of uncertainty within our net writings year-over-year.

Q - Jay Cohen {BIO 1498813 <GO>}

Just tough to say at this point, then.

A - Kevin O'Donnell

Yes.

Q - Jay Cohen {BIO 1498813 <GO>}

Okay. Second question was related to the operational expenses, which were higher than they had been running. I'm assuming that was bonus accruals because you guys made a lot of money this quarter and this year.

A - Jeff Kelly {BIO 20911735 <GO>}

That's part of it, Jay. I think you have to really compare Fourth Quarter over Fourth Quarter, and typically the Fourth Quarter expense number is a bit higher than during the course of the year. The jump from Fourth Quarter of last year to Fourth Quarter of this year is largely reflective of an increase in compensation accruals, and it also reflects a donation we made to a local charity to commemorate the 20th anniversary of the company. Those two things account for almost all the difference.

Q - Jay Cohen {BIO 1498813 <GO>}

Got it. Thank you.

Operator

Vinay Misquith, Evercore.

Q - Vinay Misquith {BIO 6989856 <GO>}

Good morning. The first question is on the specialty rate, I just wanted to dig further. What are the targeted combined ratios in that line? Are they mid-80s%?

A - Kevin O'Donnell

In the specialty -- I think

Q - Vinay Misquith {BIO 6989856 <GO>}

Yes.

A - Kevin O'Donnell

-- that's not something we post explicitly. But let me make a comment that much of what we are writing is quota share, or at least a lot of the new premium is quite a share. So you might want to look to what your estimates are for primary specialty players and think that that is the risk that we are taking and might carry through.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, helpful. Second question is on excess capital. Sort of looking at my math, you bought back just 40% of earnings plus dividends this year. I'm curious as to what held you back, number one. Number two is I think you mentioned $700 million of capital at the holding company. How much cash do you normally keep there? So how much is it running in excess of normal that you could use to buy back stock?

A - Jeff Kelly {BIO 20911735 <GO>}

Yes, so the $700 million number that I discussed is probably a couple hundred million dollars, $100 million to $200 million, higher than normal and is I think reflective of really the strength we've had in earnings in the last several months of the year.

In going to your former -- first part of your question, first of all, as I said in response to an earlier question, I wouldn't necessarily think of the cash as a proxy for excess capital. We don't disclose how much excess capital we have, but we believe -- or we believe we have. But I would say that the principal things that have been holding us back or did hold us back in 2013 from share repurchase was just the price being a bit higher than we would have normally targeted, given our outlook for the business and our ability to deploy it.

Obviously, the Fourth Quarter was a stronger quarter than we anticipated, and that made a very strong capital position even stronger.

So I would say our expectation at this point is that, with the current outlook on our ability to deploy capital in the business, the capital position that we have today and roughly where the price of the stock is, we think it's an attractive level to buy shares. We have been buying shares pretty aggressively, and I would expect that would be -- if all those things continue to hold, that would be our intent going forward.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay, that's helpful. Just one clarification on margins sort of deteriorating next year versus this year. Would it be fair to assume that your purchase of retro would have reduced the negative margin deterioration impact on RenaissanceRe?

A - Kevin O'Donnell

So I think what you're asking is are we getting a positive spread on our ceded to our inwards business?

Q - Vinay Misquith {BIO 6989856 <GO>}

Yes.

A - Kevin O'Donnell

The answer, we are obviously looking at -- the proxy for that is the cost of capital from a retro compared to our own cost of capital. And obviously we have more capacity that we are willing to deploy into the market so that we are purchasing from -- on a trading basis, we are certainly looking to have a cheaper cost of capital brought our balance sheet, and therefore improve the overall attractiveness of our portfolio.

Q - Vinay Misquith {BIO 6989856 <GO>}

Okay. Thank you.

Operator

Brian Meredith, UBS.

Q - Brian Meredith {BIO 3108204 <GO>}

I've got one quick one and then one follow-up here for (inaudible). Tower Hill I noticed had a pretty good income in the Fourth Quarter. They generally lose money or earn a very small profit. Did something unusual happen there?

A - Kevin O'Donnell

No. I think it's -- Tower Hill has been an investment we've had for several years, and it's performed pretty well, so I'm not sure what exactly the number is that we are looking at there.

Q - Brian Meredith {BIO 3108204 <GO>}

Just looking at your equity and earnings of other ventures and specifically Tower Hill. I could follow up on this. It's not that important.

A - Jeff Kelly {BIO 20911735 <GO>}

The only other factor that would increase our earnings there, Brian, is the amortization of goodwill there is going as reasonably rapid in that, so even in a static earnings environment, our earnings in that should go up over time.

Q - Brian Meredith {BIO 3108204 <GO>}

Great. Then my second question, Kevin, just a follow-up to Jay's question, on the ceded side, when do you make your purchasing decisions on that? Is it later and that's why you don't know necessarily whether you've got any attractive retro opportunities at 1-1?

A - Kevin O'Donnell

I think we approach the world a little differently than many, where they put out a retro program, they build it into their capital structure and then go execute against that. We are in the market every day looking for ceded opportunities, and we don't go out with a formal program looking for it to build it into our capital structure. We have other mechanisms to do that, so the type of retro that we are talking about here is something that we opportunistically look for in the market, and add to the portfolio only when it's accretive.

Q - Brian Meredith {BIO 3108204 <GO>}

Great, thank you.

Operator

Sarah Dewitt, Barclays.

Q - Sarah Dewitt {BIO 18946247 <GO>}

Hi. Good morning. You've mentioned that the pace of price decline is slowing, but it hasn't reached a floor yet. How much lower do you see the floor versus current levels?

A - Kevin O'Donnell

So again, I think it's different by market. One of the things we mentioned is the international markets declined as well. I think we are closer to a point of moving from the low return bucket to the negative return bucket. I think that maybe that's the context to have the discussion.

Within the US, we did see an increase in negative return business in the US, although a very small proportion of the overall book is in that bucket, and that's something we look for. That tends to be non-peak risk. But it's not an area that I would say there's going to be a bright line as to when markets should stop participating in a market. I think we have greater flexibility to structure capital, so we have a longer runway to participate in a market. So I'm not particularly concerned that we are going to hit a pricing point again that we're going to need to exit and we don't have a specific forecast as to what that could be for others.

Q - Sarah Dewitt {BIO 18946247 <GO>}

Okay. Great. Thanks. Then just another question on excess capital and potential share buyback. I look back historically, the most you've ever bought back is $500 million a year. Given that you have a significant excess capital position right now and your premiums are going to be down for this year, any reason why we shouldn't expect a similar amount in 2014?

A - Jeff Kelly {BIO 20911735 <GO>}

We don't like to forecast what we might do over the course of an entire year, but by my description of the liquidity position we have at holdings. And I certainly don't see that we are bounded by that number or any other number for that matter. We have already bought back almost $100 million in essentially the first 35 days of the year, so that doesn't seem like an outsized amount. But we aren't going to make a forecast about what we will do for sure.

Q - Sarah Dewitt {BIO 18946247 <GO>}

Okay. Great. Thanks for the answers.

Operator

This is all the time we have for Q&A. Kevin, do you have any closing remarks?

A - Kevin O'Donnell

I just want to say thank you everybody, and look forward to working with you all over the course of 2014.

Operator

Ladies and gentlemen. this does conclude today's conference call. Thank you for participating. At this time, you may now disconnect.