Morgan Stanley Financials Conference

Company Participants

- Aditya K. Dutt
- Jeffrey D. Kelly

Other Participants

- Kai Pan

MANAGEMENT DISCUSSION SECTION

Kai Pan {BIO 18669701 <GO>}

Good morning. Welcome to the day two of Morgan Stanley Financial Services Conference. My name is Kai Pan, I cover property and the casualty insurance here. It's my pleasure to introduce our next speakers, the management from RenaissanceRe.

With us today, we have Jeff Kelly, CFO and COO. Jeff has been with the company since 2009. And we also have Aditya Dutt, President of the Ventures. Aditya uses Morgan Stanley a lot. So welcome back. We also in the audience have Rohan Pai of Investor Relations. The format of today's presentation is fireside chat. I'll kick off with few questions. If you have any questions, feel free to raise your hand, we have microphone around, okay?

Q&A

Q - Kai Pan {BIO 18669701 <GO>}

Let me start with this. Jeff and Aditya, we have seen a recent wave of industry consolidation. This morning, another announcement and the competitors are leapfrogging each others through merger acquisitions. How do you view your market position in such environment?

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

Yeah. So I'll start off and then let Aditya add. Right now, we like our position quite a bit. I think we view our strength as one of helping clients solve complex risk management solutions. And so we tend to focus obviously on reinsurance. But I think we have a number of different platforms now across both the U.S., Bermuda and with Lloyd's. So we are able through those platforms as well as some of our joint ventures enough to bring somewhere north of $10 billion in capacity to the reinsurance market. So we think we're in a great position with a lot of flexibility to take advantage of whatever market opportunities arise.

A - Aditya K. Dutt {BIO 16194294 <GO>}

I'd agree with Jeff. Jeff said it exactly right. I think we tend to focus on two things when it comes to relevance in the market. One is providing underwriting expertise, as Jeff referred to, to our customers; and then two, having enough capital in the forms that are most efficient to service our client base. And we feel very comfortable that we've got both of those. I think some of the M&A you're referring to, size is often confused as a proxy for relevance. And I think we tend to be a little more careful about how we view relevance to clients. It's a range of characteristics, including size, but we feel very comfortable, as Jeff enumerated. Several of the characteristics, we feel that make us comfortable with our size and market position.

Q - Kai Pan {BIO 18669701 <GO>}

Do you feel a broad product offering like, especially, in the casualty line help you to write your property cat business?

A - Aditya K. Dutt {BIO 16194294 <GO>}

Yeah. To an extent, I think larger clients, global clients are moving towards a smaller panel of reinsurers. They're seeking to buy more products from a smaller group of reinsurers. So I think there is a trend towards that. So there's some truth to that, although we're very careful about underwriting products where we have expertise, where we're actually solving a client problem rather than being a source of capacity. So we focus on being specialist rather than being generalist. But we do note that there is a trend towards multiple products with a smaller panel of reinsures. Jeff?

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

Yeah. I'd just add that we first actually started talking about that trend internally, probably three years or four years ago, and really organizing our marketing efforts around that. Because we do see increasingly that some of the larger cedents around the world want a company to deal with that has multiple balance sheets, strong ratings and can offer a broad range of coverages across classes of business. So we see them really as reinforcing one another, and not one in particular supporting the other. They both – we think they're synergistic to have both capabilities.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. On the other side, some reinsurers have argued that they need to get into primary insurance business to get closer to end customers. Do you agree with that? And would RenaissanceRe be interested in acquiring primary insurers?

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

So I think just to start on that, I think, it's possible that you get closer to the clients. But I think you can be – it depends on how you source risk in the primary market. I think if you're sourcing risk through a broker, or as an agent, I think I'm not sure how you're terribly close to the client anyhow. I think that being close to the client is by – you get closer to the client by offering the client value.

And we feel we can do that on the reinsurance side. That's where our skill-set lies. That's not to say that we wouldn't consider a primary insurance company or linking up with a primary insurance company in some way. But there is a whole host of filters that we go through in analyzing any acquisition.

First and foremost, one and one have to add up to at least two. And so it would have to – the strategic rationale would have to be strong enough that we could see how the combination of the company benefits our clients and our shareholders. I think more specifically, as it relates to a primary company, we would have to – it's not our skill set, our core skill set at RenaissanceRe, so we would have to see – either we'd have to come with what we consider to be very good management, or we'd have to be confident that we could assemble that management very quickly.

Q - Kai Pan {BIO 18669701 <GO>}

That's good. Then let's touch on the acquisition you just closed with Platinum. How is the integration going? And are you still on track in terms of integration costs and targeted cost savings?

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

So I think actually today is the 100 days into the integration post-close. I think the integration is going probably a little bit better than we had planned on virtually every aspect of the integration. On the cost saves, those are running a little bit higher than we anticipated. And that's because we are retaining fewer employees than we had anticipated in due diligence at least at the level of diligence that we could do when we did it. The one time costs or at least how we categorize one time costs are higher. Part of that's related to the fact that we're retaining fewer employees. And there are some other decisions that we made along the way that have increased one time costs a little bit higher than we anticipated. But we're very happy with how the integration is proceeding both in financial terms as well as qualitative terms.

Q - Kai Pan {BIO 18669701 <GO>}

My next question probably for Aditya. The alternative market has -including cap-ons really has led the market to go to into a decline for about two years now. And we recently have seen some stabilization in the market from the alternative capital. Do you think you've seen that in your business? As well as would that be a leading indicator into a broader stabilization in the property cat reinsurance market?

A - Aditya K. Dutt {BIO 16194294 <GO>}

I think, Kai, your observation is correct. I think we would be – we would hesitate to call it a leading indicator. I think your observation is fair that the alternative market, cap-on market, for example, yields and prices have – the price of the risk has stayed put year-on-year. That's a fair comment, which would indicate there is some stabilization. The fact that it's a leading indicator, we don't necessarily link the two, primarily because the capital base that finances the alternative capital, as you say, is a very different form of capital than who finances the traditional reinsurance market.

So the traditional reinsurance market, as you know, is rated, has some leverage, operating leverage and financial leverage in the business model; the alternative capital does not. The alternative capital also tends to target peak zones, which is the United States. The traditional market tends to be diversified. So it's hard to draw line from one to the other, given the size – the relative size of the two markets. But I think in certain parts of the reinsurance market in peak zones and in certain bands of risk, I think your observation is fair that both the traditional markets and the alternative markets are showing signs of pricing stability. I think that would be a fair comment.

Q - Kai Pan {BIO 18669701 <GO>}

Just on that topic, how is your June 1 flood (09:29) renewals?

A - Aditya K. Dutt {BIO 16194294 <GO>}

We were very happy with the June 1 renewals. Again, I think there is a theme – the overall theme without getting into specifics is one of – there is some stability returning to the market in terms of pricing. I think overall you could say there is ample capacity in the reinsurance market. There was ample capacity at June 1. But there also was an increase in demand, both from the Florida Hurricane Cat Fund purchasing reinsurance for the first time, but also Florida only companies purchasing more cover from the private market. So we were encouraged by an increase in demand. We think there is ample capacity in the market, but we do believe the market is showing some signs of pricing stability at this particular renewal for this particular class of risk.

Q - Kai Pan {BIO 18669701 <GO>}

On the demand side, do you see a structural change in the Florida market in terms of privatization and potentially large national carrier re-entering into the market?

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

I think the first part of your question, absolutely, we do believe that – in the last five years, when you look at what Citizens, which is state-owned homeowners insurance provider and what the Florida Hurricane Cat Fund have done, in the last five years alone have transferred billions of dollars of homeowners catastrophe risk into the private reinsurance market. We think that is a structural change that's positive for the industry. We think it's positive for the public entities that have held this risk. And we think that will continue.

The privatization has also spawned many new start-ups in Florida that have absorbed that risk. We think that's a positive. Whether that leads to the nationwide companies coming back into the market, I think the jury is probably still out on that. One of the major considerations that led the nationwide companies to exit the market was the magnitude and the concentration of cat risk in the State of Florida that has not changed, and the lack of pricing freedom in the admitted homeowners market that has not changed. That's not a Florida comment; that's a nationwide comment.

And I think if you're a large nationwide carrier and you're looking to control volatility, the state of Florida is not exactly the top of your list. So we wouldn't necessarily make the second correlation, but certainly, your comment on structural change in demand occurring because public entities are transferring risk to the private market, absolutely, we agree with that, and we support it.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. So given the acquisition, the combined company between Renaissance and Platinum, how do you approach the June 1 renewal? Are you going to prune some of the property cat book that they have?

A - Aditya K. Dutt {BIO 16194294 <GO>}

I think their property portfolio was pretty small, to be honest. We've renewed – for the most part, renewed expiring lines. But relative to the size of our portfolio at June 1, it's pretty small. But I think the general comment we make is we've renewed the old Platinum's expiring lines into Renaissance and DaVinci where appropriate. But we have also reduced or declined certain risks that Platinum wrote. But all that being said, I think it's fair to say the portfolio was pretty small relative to ours on the property side at 6/1. Jeff, would you...

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

Yeah, I'd just add that, yeah, and percentages it was roughly 10% of our overall property cat book. So, as Aditya said, it was pretty small. When we did diligence on the portfolio, we liked their property book. So our intention was not to prune any part of it unless through the normal course of re-underwriting the book, this June renewal, we felt we should be off any particular lines, or any type of risk, or any geographical risk.

But we liked the portfolio virtually across the board. And I'd just remind folks that when Platinum at the peak had written like $1.5 billion of premium. They pruned that down themselves down to about $500 million when we bought them. So we thought that they had pruned it down to a very core portfolio of long-term relationships and risk that we like a lot. So we didn't go in with the presumption to prune very much, if any, almost anywhere in the portfolio.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. How about terms and conditions?

A - Aditya K. Dutt {BIO 16194294 <GO>}

Held flat, I'd say. In general – and again, we can speak to our portfolio rather than the market in general. But our belief is that terms and conditions were reasonably flat year-on-year. I'll give you an example. Hours clauses get a lot of attention in the reinsurance market. For a single state, hours clauses don't mean as much as they would for a nationwide cover, for example, because hurricane moving through four states, if you've extended the hours clause in a reinsurance contract means more than if it moves through one state. We can have a four-day hours clause or a one day, the storm will do what it does in one state.

So that being said, we do believe terms and conditions held reasonably flat. The market showed a reasonable amount of discipline at this renewal with respect to both price and terms. Those are our observations for the market. But, again, we can only speak to our portfolio.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Let me take a pause to see that any questions from the audience. Okay. Let's switch to your specialty and Lloyd's business. Now they count for more than half of your overall book and growing fast. RenRe is well known for its data analytics, at least match on property cat. So what are your competitive advantages in specialty and Lloyd's?

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

Well, let me start off and I'll let Aditya chime in. So I think as context, you have to go back several years in our – the strategy of those businesses. So we had actually been a large specialty writer right after 9/11. We've made in the specialty casualty business north of $1 billion since we've been in it. So but in – we view that up until 2008 as kind of an opportunistic business in which we got in when the market was very hard and then we began to exit when the market softened a bit. And I think by our own admission there, to some extent, we probably exited some of those lines after 9/11 a little too soon.

In 2008, we decided that we wanted those businesses, the specialty casualty business to be a core part of our franchise. And so we began to build that balance sheet in Bermuda. And then following on that, bought a Lloyd's syndicate and began building that. I think when we bought our Lloyd's syndicate, there were maybe a dozen of folks there and today we probably have 70 people in London. So it's a significant operation. I think the most recent component of the specialty casualty strategy was starting a U.S. platform. And that was done about a year-and-a-half, actually almost two years ago now. And the Platinum acquisition was really – one of the parts of our deal thesis in the Platinum acquisition was accelerating growth of the U.S. platform.

So I think what we bring are a disciplined set of modeling and analytics to it. I think it's – although we are known, I think, as a property catastrophe specialist, and in analyzing that, I think one of the things that is perhaps underappreciated in the risk selection component of, what we call, the three superiors is the part about building efficient portfolios. And the specialty casualty business meshed with our property catastrophe business allows us to build, we think, very capital efficient portfolios of risk. So I think that's an element of it.

The other thing that I think we are bringing to the specialty casualty business is our ceded strategy that we deploy into the property catastrophe business. And recently, we've begun to do some ceded strategies related to our specialty casualty business to not only manage our own exposure, but just basically to improve the overall efficiency of the portfolio. So it's something that we're working on. We think there is a future in ceding off specialty casualty business and that, I think, plays to our capital management skills in that area.

Q - Kai Pan {BIO 18669701 <GO>}

You mean, retrocession coverage for own reinsurance (18:54).

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

Yes.

Q - Kai Pan {BIO 18669701 <GO>}

For the casualty lines?

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

Yes.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Is there a market for that?

A - Aditya K. Dutt {BIO 16194294 <GO>}

I wouldn't say it's a huge market, but, yeah, we've begun to transact in that market, yes.

Q - Kai Pan {BIO 18669701 <GO>}

The potential sellers are from the alternative capital markets?

A - Aditya K. Dutt {BIO 16194294 <GO>}

Both traditional and alternative. It's not the alternative you would normally – it's not the same alternative as property cat market but, yeah, you find both traditional and non-traditional markets in the retrocession world.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Just on that, Renaissance have been pioneer in the alternative capital market solutions, especially, in the property cat space. Do you think the market as well as yourself expanding the joint ventures into like specialty and the casualty lines?

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

I think we're always open to considering an expansion of our joint ventures. And the principle – there are a couple of principles we try to follow when we do these things. Number one, I think it's probably the overarching principle of our franchise is if we bring alternative capital or joint venture to market, does it add value to our client? Is this capacity they need? Is this underwriting skill they need? Is it a product they need? And often that's where we either dismiss or pursue an idea. The client doesn't need it, we don't pursue it.

That being said, when you look at our capital structure and the balance of our portfolio between property and non-property risk, our balance sheet is in especially good home for non-property risk, because the diversification allows us to leverage our capital base very efficiently. So when you just look at the economics and the mass of brining in new capital alongside us, it's not as obvious as it is in the property business.

Again, that being said, if there was an opportunity down the road for us to bring our capital partners into a joint venture that afforded us new products or entry into new lines of business or bolstering what we offer to our specialty clients today, absolutely. Five years ago, we may not have had the tools and the risk to do that. I think we've gone down the road especially with the Platinum acquisition. But we now we feel at least we have the expertise, the risk and the capital partners. We have all the ingredients to prepare the joint venture we're looking for a market opportunity. So it's not obvious today, but we would certainly consider it down the road.

Q - Kai Pan {BIO 18669701 <GO>}

So why your philosophy has been taking risk alongside with clients? So would you consider being just pure third-party asset manager, earning fee income, managing capital on behalf of third-party?

A - Aditya K. Dutt {BIO 16194294 <GO>}

I don't think so, Kai. And Jeff will certainly have an opinion on this and a view on this. But I don't think so. We believe the hybrid form that we exist in, which is providing rated leveraged form of capital and non-traditional capital that we manage in multiple balance sheets actually gives our customer the very best interface for risk transfer in the market. End of story. And we don't believe moving to one end of the spectrum or another actually serves our clients well. So I don't think so. But let me pause and give Jeff a chance to respond.

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

I think the only thing I'd add to that, Kai, is we've built a reputation in managing third-party capital vehicles based on having a – what I would consider almost a complete alignment of interest with our third-party investors. And I think that reputation, that business model has served us well. We have – Aditya and his team get a lot of enquiry from folks that want to be a part of the market and invest in the market, I think, approach us because of the aligned model that we have.

I think going to a model where we were just a manager – we were just sourcing risk for somebody, I think that's unlikely. And I think it would be kind of confusing for the market frankly. We consider ourselves an underwriting firm, not an asset manager. And we spend a lot of time investing in the capabilities of the company to facilitate, as we say, being the best underwriter of the risk that we underwrite. We think being a good underwriter – being the best underwriter is the key to our success. And I think if you divorce underwriting from the – just becomes sourcing risk for somebody and passing it along to them, that seems more like a brokerage than an origination function. And it's probably not one that we would get into.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Switching to capital management. What's your parent holding company cash position post the acquisition? And how long it would take to basing the property and capital among your subsidiaries and parent holding companies, and to what extent, that would impact your share buyback activities?

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

Well, just as context, I'll get to the answer. But as context, I would remind folks that in the Platinum acquisition, we did a $1.9 billion – almost a $2 billion deal, having issued $700 million in equity. So we deployed a lot of capital and cash into the transaction both from Platinum's balance sheet as well as our own.

Having said that, I think when we announced the deal back in November of last year, we said that post-close, it would take us a few months to get the individual balance sheets that we wanted to have in place as market facing balance sheets, capitalized in the manner that we felt appropriate. And so we're 100 days in, and I think we're largely complete with that. So at this point, we have, without being too specific, somewhere north of $500 million in cash at the holding company. I wouldn't necessarily equate that with how much we'd be willing to buy back at any point in time.

But as I think we said on the first quarter earnings conference call, we did purchase a very small amount of shares right after the first quarter ended after the close. We would be likely be in the market for some amount, I think, in the near future, but we're traditionally not a big buyer of our shares during wind season. And I don't see any reason for that, at least at this point, other things being equal, I don't see any reason why that would be different this year. I would just say that we would expect to be in the market this year although we're probably likely to be much a more significant factor after the wind season is largely passed and then just headed into it.

Q - Kai Pan {BIO 18669701 <GO>}

With your excess capital, how do you prioritize the capital management in terms of growth, acquisition and shareholder returns?

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

Well, first and foremost, we always try and deploy it in the business. And whether that's in the form of an investment through Aditya's area or an acquisition that would further our strategy that would make sense or deploying on the underwriting side. If we can't see a path to that in a reasonable period of time, we look to return to shareholders. And the only thing then governing it is our outlook for the business, the price of the shares and the interplay between those. But we view our stock as an attractive investment certainly at this level. And we'll just have to see how the wind season plays out.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. Any questions from the audience? All right. Then on the investment side, Fed could raise rates for the first time in nine years. And how do you position your investment portfolio in anticipation of rate hike? And given the shorter duration of your portfolio, how quickly do you think you can basically turnaround the overall portfolio yield?

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

Well, I think you just identified the way that we think we respond to that. And that's by having a short duration portfolio. The duration of the portfolio is about two years. It's been there for a long time. We've been, I would confess, perennially – seemingly, perennially wrong and thinking interest rates would rise over the last – at least the last two years or three years. But we don't see any reason at this point to lengthen the duration of the portfolio until things play out.

We still don't think that even though the Fed probably begins raising interest rates that that path upward is rapid or significant. But market yields are clearly adjusting. I think that's good for us generally. We have a short duration. I think – half the book – half the portfolio effectively turns over on average every year. So I think you could sort of track the increase in the market yield of the portfolio based on that duration and turnover.

Q - Kai Pan {BIO 18669701 <GO>}

Okay. So my last question actually on the culture perspective of RenaissanceRe. How have you seen that evolve over time, and especially in light of changing market condition, some underwriters probably have to scale back in terms of their underwriting activities. How that impacts their interest in the work? And do you see heightened turnover in your workforce?

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

Well, I can't answer the culture question in any depth in nine seconds. But I would say that the one thing that, I think, has been unique about our culture and continues to be unique about it is the level and degree of collaboration across all areas of the company. It doesn't matter whether it's underwriting, ventures, finance, treasury, there's just an immense amount of collaboration to affect the right outcomes for our clients. That's an important thing for us to carry forward. And I think it will.

I think as it relates to the new Platinum folks, we're encouraging them to expand their view of their client base and increase our book. So I think we're offering them at pretty much a 180-degree trajectory that they had been on. And I think generally speaking, that they see that as an opportunity to grow and develop as a team. We sense a lot of excitement on the underwriting side to collaborate and act as one team going forward, and effectively, at this point of the integration, our folks are really operating seamlessly across all of the platforms.

Q - Kai Pan {BIO 18669701 <GO>}

That's great. With that, I'm afraid we're running out of time. Well, please join me in thanking the management from RenaissanceRe. Thank you.

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

Thanks, Kai.

A - Aditya K. Dutt {BIO 16194294 <GO>}

Thanks, Kai. Thank you.