Bank of America Merrill Lynch Insurance Conference

Company Participants

- Neill Currie, CEO

Other Participants

- Unidentified Participant, Analyst

Presentation

Unidentified Participant

Very pleased to have with us today Neill Currie, head of RenaissanceRe. Neill was one of the original leaders of this company; left for a while, came back. But something that I think Neill has done remarkably well. And I don't think it is very easy, is to maintain a very consistent culture at this company.

Culture is a tough thing to talk about. It is tough to write about. We can't model it. But one thing I have learned over 20 years of watching this industry is that it is really important. And I think it is key to the success of RenaissanceRe.

There is other stuff going on, too. I will let Neill tell you about that.

Neill Currie {BIO 6676681 <GO>}

Gentleman, have we got the mic going here? I like to wander around. Let me see if I have got the clicker here. Let me try this out; green means go.

I want everybody to memorize this please. There will be a test later.

This is a pretty good spot, coming up after Dinos. They have got a marvelous company, very good market value to share price and we kind of vie for that leading spot with those guys. They are a very well-managed company. We think we are pretty well managed.

The intro to RenRe; we are a leading global provider of reinsurance and insurance. We do property cat, we do specialty reinsurance. And we have a Lloyd's syndicate.

So I was -- I didn't know whether I wanted to mention this or not. But why not? It is Valentine's Day, step out. One magazine had a survey; you know people do these things about who is the best at this, who is the best at that. Well we have been lucky enough to win the best property catastrophe reinsurer several times, maybe best Bermuda reinsurer. But this last year we won best global reinsurer. How about that? And we were up against the big boys.

10 years ago we never would have won an award like that, deserved or otherwise, because we were viewed as a property cat company. But now it just shows the recognition of the value we are bringing to the table with our specialty reinsurance and our Lloyd's operation. So with that immodest statement it reminded me of Ben Franklin.

You know Ben wanted to be come as perfect as he could be and he would keep up with certain traits and he would focus on one at a time. He was pretty good at most of them. Somebody told him, said, Ben, you need to work on your modesty; you are a little bit conceited.

And so he focused on that and became very good at it. Then he started bragging about how good he had become at modesty. So I always remember that story and get a kick out of it.

The rest of the stuff is pretty straightforward. We were started in 1993. This is our 20th anniversary. We were founded with two guys. And I was one of them, back June 14, 1993. So we are going to have a big celebration in Bermuda in June to celebrate our 20th.

Our ticker symbol on the New York Stock Exchange is RNR, which is completely ridiculous because back in the war RNR stood for rest and relaxation. Ain't too much of that going on at Renaissance.

Market capital of around $3.9 billion. Pretty good numbers on an ROE basis. And the thing that we really focus on is tangible book value per share growth; we have been very fortunate there. And the rating agencies like us and we want to keep it that way.

Jay, are you going to give me a fighting chance with the clock back there? Otherwise I will talk for an hour. Okay, good. You will pull the hook out when it is time? Okay.

Everybody has a mission, a vision statement and you guys are well educated, you can read that; but we do strive to produce superior returns. And frankly, one of the best ways we do this is we look after our customers, both internal and external. And try to always exceed our promises. We tried to excel in every way that we possibly can.

Our vision, we want to be a leader in financial services in the lines of business that we are involved in. And I think we are.

This is a pretty -- speaking of immodesty, how about this one? Our identity. We are committed to be the world's best underwriter of high severity, low-frequency risk. We want to be the best that we can be and we strive constantly to get better.

As Jay mentioned earlier, our culture; we are fortunate we have got a good group of folks. They are smart, they are hard working, they get along. And that is not a very easy thing.

We are a pretty reasonable sized company financially. We are not very big from a people standpoint. I think we have 311 employees. But really very talented ones. And guess what, they work together well.

So the last part here on the strategy is to employ an integrated system and it matches up most desirable risk with the most efficient capital. I have seen over the years that people they get silos. We are the best actuaries, we are the best underwriters. And over here we are the best finance guys. And over here we are the best venture guys.

But what makes Renaissance hum is all these folks work together well in an integrated way. Fancy word, integrated; call it teamwork. But you will see in our annual report that is going to come out, we are going to talk quite a bit about the integrated system.

The other thing I find pretty humorous is back when we started the Company I was vehement that we wouldn't have any pictures in the annual report and we didn't. Now I came back as CEO in 2005 and, guess what, my mug is in the annual report. First thing you see is a picture of me. So crazy world we live in. I wouldn't focus on the pictures; I would focus on the writing.

Our competitive advantages. We say this all of the time. We refer to them as the three superiors -- superior customer relationships, superior risk selection, superior capital management.

So to have superior customer relations that I think is one of the things that is underappreciated in our business. By having very good customer relationships we have very good flow. We get to see virtually any deal out there and people want to do business with us.

People think we are smart and we got a black box and we are good at modeling. And we are all that stuff. But the client relationships -- we help our clients, we provide coverage for them when they need the coverage. We have always done that.

Historically, we are there after loss to pay quickly. There is no faster payer of claims out there than we are. And when a customer comes into our office we want them to walk out of the office feeling like they have learned more about their business. And that happens quite a bit of the time.

So by having these three superiors it enables us to have access to the most desirable risk and we match that up with the most efficient capital through our superior capital management. That gives us a superior portfolio.

Now, since we have been in business for about 20 years, it is really helpful -- we have a portfolio of business that produces very good return. So every year we just have to modify that a little bit. We lose a piece of business here or there. We gain a piece of business here or there.

We buy retro -- we never buy retro because we have to. We buy it to make our book of business more efficient. So if you have got a relatively stable book of business, then when you put a pro forma out -- so when you look at a piece of business coming in does it make your portfolio better or worse.

It is a lot easier to do that if you have got a pretty good idea of what that portfolio is and is going to be versus being a new start up trying to put together that portfolio. Because you might find a piece of business you want. But it may be very difficult for you to get on that piece of business.

I guess this goes back to a Ben Franklin slide. This is rather immodest. But it is factual. We have done a pretty good job of growing tangible book value per share plus accumulated dividends, those are the bars that you see. And then you see the share price is typically a good bit higher than that.

Historically in the Company we have had one of the higher multiples of book value to -- I'm sorry, market value per share to book value and I kind of view it you get what you pay for. We do have a very good business and a very good number of folks that work for us.

The only thing I might say, my GC would -- I have to be careful. Don't tout the stock; well, I love the stock, I love the Company. But I think a lot of people in our space are undervalued. I think it is pretty silly that some of our competitors who are good guys are trading at a discount to book value. So I think the whole industry is rather undervalued.

If you look back at our market multiple now, it's somewhere between, what, 1.2 and 1.25. Historically, it has been a whole lot higher than that. So I think we have a real franchise and that deserves a market value substantially higher than the book value.

I guess this is bragging again. But it is factual again. So you see the bars, this shows you RNR's operating ROE going back to 1996. So in that year, man, we did pretty good, about a 30% ROE.

So the squiggly line -- so the bars are us. The squiggly lines are the peer group as picked by us. You got to pick a peer group. It is pretty hard to pick a peer group and this is the best we could come up with.

And so how have we performed on an ROE basis since 1996? Might have been better if we went back to the beginning. But it is hard to find other guys to compare it to I guess. So just look at 1996 as an example. We had a 30% ROE. It looks like our peer group was about half of that.

So the heading here says ROE of 18% since 1996 versus 10% for peers. We don't outstrip the peers every year. We did a pretty good job in the World Trade Center. Look at that, we had a very nice return that year and the peer group lost money which is very understandable.

One of the reasons we did so well -- there were several reasons. I think we'd bought a pretty good retro program. This was back at the time when I was retired so I can't take credit for this. But we manage our portfolio for tail events. We want to be the last guy standing.

One of the reasons we did so well that year is we were concerned about the earthquake exposure in New York City. We didn't want to have too much aggregation of exposure in New York, which helped us out in the World Trade Center. There is no way we would have predicted an event like that. But we look at tail events and are very cognizant of that.

Then, as you might imagine, in 2004 we underperformed the peer group and the reason for that -- that was kind of the perfect storms. Once again that was right before I came back. But the guys had bought some retro in Florida and all these events happened and weren't very big. So we had paid out for retro but didn't get any recovery. So it sort of added insult to injury. So 2004 was not a banner year for us.

Right on the heels -- welcome back, Neill. Come back the day after Independence Day in 2005 and become a dependent again and then we stepped into KRW. And we didn't do as well as the peer group then either. But the next year, 2006, not too bad.

So you will see sometimes that we do worse than the peer group and sometimes we do better. Most of the time we do better. So the RenRe story is we are going to have a little bit of volatility. If you are willing to accept a little bit of volatility, we will give you a better than average return.

Disciplined underwriting. Well that is what we do. So we are showing you some of the different cycles here and that our premium volume goes up and down.

We got out of the US insurance business a couple years ago. We had started to write a fair amount of admitted insurance in the US. And that is not really our forte. We are underwriters' underwriters and to do that you have to run a very efficient and lean, low expense ratio type business.

We are better at underwriting. So the insurance business that we do now is actually written in Lloyd's. And that is on an excess and surplus lines basis so you have more rate freedom and you have a better chance to earn a higher margin. But we are still widely much -- the predominance of our business is reinsurance.

But you can see the squiggles in the cat business and the other lines. We tend to put the -- well, we do put the foot down on the accelerator in good times and we put our foot down on the brake in less good times. Some companies are good at doing one or the other; we are pretty good at doing both.

Strong franchises. So here are the three main things that we do. We have got reinsurance, the Lloyd's syndicate. And we have got ventures.

Some other folks were kind of following our lead in ventures. Ventures is the special unit dedicated to managing our catastrophe joint ventures if we make strategic investments. Then our energy advisory firm, REAL. As I touched on the first slide, we now do stuff other than just property cat reinsurance and do it well.

Some of the analysts out there and shareholders like looking at this graph. This is our view of the world, it is nobody else's view. But we get to see virtually every cat deal out there. We look at it and say how much of the business provides an acceptable return, which you see in the grouping on the left, how much is a low return. And what is a negative return. Negative return meaning if you actually wrote that business we think you would lose money over time.

And so nothing particularly interesting going on in these charts changing year on year, other than I think it is interesting to note that usually about half the business is acceptable return and about 35%-ish is low return. And 10% to 15% is negative return. So what we do, we strive to have all of our business over on the left and none of our business on the right. Business written on the right is not a good career path at RenRe.

Then we mentioned the superiors again on the right and by having those superiors it enables us to get more of the business on the left.

Return on risk capital. If you look at the purple line that is us and if you look at the aqua, sort of greenish line that is the US total cat market. So you can see, for example, that the expected return went up substantially after KRW. And so there is typically a margin between returns that we think we provide versus the returns of the average in the market. And we want to keep it that way.

Risk management is core to our culture. I guess one of the things -- some people think RenRe has good numbers; they are lucky. They've been pretty lucky for 20 years. If the big one happens in Florida, they are toast. I mean people kind of look and say, well, it must be luck.

I am sure there is some luck in there. But one of the things that I look at, if you want to see how we run our business, is look at the history and see what our losses have been compared to what one might think those losses would be.

So this is on a % of equity. If you look on the top the more recent events going down on the left. In Sandy our peer average lost around 4% to 4.5% of equity and we lost a little bit less than that.

Then you look at the Thai flooding. Our peers lost a higher percentage of equity than we did. You look at the Japanese earthquake in 2011, the same thing. New Zealand earthquake we lost a little bit more than our peers, Chilean earthquake did better than our peers. And in the US hurricanes, Ike and Gustav, we did a little bit better.

Now another chart we could have shown you. But it was harder to get the information together and to actually have a fairer comparison would be we were one of the biggest property cat writers in the world. So if you did this on a percentage of cat premium we would look far better. But other people have taken risk in Sandy in the form of facultative insurance so that might not be fair. But just think about it; this is not a bad track record for guys that specialize in writing property cat and write a bunch of it.

Another bragging point, as I look at the bullets over here, we are one of the few companies that still has an excellent enterprise risk management rating from S&P.

Specialty, a disciplined approach. We have had some evolution on the specialty business and maybe I will use this slide to kind of plug the people and the culture here a little bit again. I'll come back to that in a second.

So you see how much specialty business we wrote going back after 9/11. It got up over $400 million at its apogee. Before 9/11 you could buy reinsurance for workers' compensation and catastrophe for pennies. People just didn't think it would happen; you have a lot of employees together in one place and as a result of an event you would have a lot of losses.

Well after 9/11 that changed and a lot of people ran away from it. Then we said, well, that is probably a pretty good time to write this. And we wrote, I think, I know over $100 billion worth of the business. But I think may be up closer to $110 million, $120 million of that business. And I don't think we ever paid any losses.

But then as time went on people said let's diversify from property cat; let's write some workers' comp business. It is catastrophe exposed; the cause would be from a catastrophe. But rates went down and now I think we have probably about $3 million of workers' comp cat. So we are very disciplined in our approach.

The other thing that we changed is the team. We had one very strong underwriter in the specialty area going back to this period. Now we have a lot of very strong underwriters. When you talk about rocket scientists, guys that graduated with honors at MIT, etc.. And then get their actuarial degree for fun; we have got some really smart people.

I think I am probably the stupidest person in the Company and I would like to keep it that way. You have everybody else smarter than you are you don't have to work as hard. But we have got some very bright people underwriting this business. And as I talked about earlier, the recognition of us being a true global reinsurer that expertise is being recognized by the marketplace.

So this has been a real, surprisingly large source of profits for us over in the years. And may it long continue.

Lloyd's, long-term growth opportunity. When we started at Lloyd's we said we didn't really want to go out and buy a syndicate. People bought syndicates and the cost was substantial. So we bought a managing agency and then we started our own.

We are very proud of our culture and we wanted to have our folks over there. So a fellow named Ross Curtis, who is one of our top underwriters -- and by the way, if you look at the pedigree of our underwriters, Ross' claim to fame was a philosophy degree from Edinburgh.

And John Paradine, who is one of our top underwriters who is now down in Singapore, used to be a rock performer in Dubai. But we felt like if he was good at music he could certainly handle reinsurance. One common thread is they are all bright. But not everybody came through the actuarial ranks.

But at Lloyd's we said, look, we are just going to start off, do it our way, go slow and steady. Slow and steady; you can see pretty rapid growth there. But that is a huge fishing pond over there.

And the question comes up, when do we think we are going to make some money? Well we are getting pretty close to that, right at breakeven-ish. And over the coming decades this will be a significant source of income for the Company. And I am very pleased with the team that we have over there.

Another thing that we like doing, we like having offices in different parts of the world because not everybody that is smart is in Bermuda or North Carolina or even New York. There are actually some smart people in London or Dublin. And we are going to find out there is some smart people in Singapore. So it gives us an opportunity to throw a wider net to attract talent and I am real pleased with the team that we have got there.

Ventures, expanding the franchise. Well (inaudible) carries four cell phones with him now. He doesn't. But he probably should.

Everybody is talking about third-party capital and we have been at third-party capital going back to 1999. So the main thing that ventures does is it sells the RenRe soap. He has got good soap to sell. So I think he has got a pretty easy job.

And I say that, it is hard to match up capital with risk. So for example, the State Farm relationship at TL Re that has been a marvelous relationship. They are terrific partners and that is a long-term marriage.

We write international reinsurance on behalf of Top Layer Re. We own the company 50/50 with State Farm and then they provide an aggregate stop-loss for about $3.9 billion above that. But that capital -- we match that capital with large buyers of reinsurance that need top layers where they can be certain of recovery.

And that is a great way that we match up good long-term capital with very meaningful long-term needs of the clients. We typically can get above market terms on that because somewhat our reputation and also the reputation of State Farm and the certainty of collection of claims.

We also, if we have strategic investments, we would do that through ventures. An example of that would be down in Florida we own 25% of the Tower Hill Group for example, if we decide we want to make an investment. Occasionally we will invest to help a start-up company get started, hoping that they will develop and be a meaningful client for us in the future and that we will make a couple bucks.

Then we have RenRe Advisors that we have the help solve complex problems for people primarily in the energy and public utility sector. These guys are highly regarded and they win a bunch of awards, too.

Manage risk capital, right risk, right capital, right time. So staying on that theme a little bit, a fair amount of people have started these sidecars. So what we will do, you have like DaVinci Re and Top Layer Re that are very long-term players. Then there might be a specific need in, say, Florida typically where -- Florida just chews up capital.

It is a high-risk area and so we have matched up several times now with Starbound and Tim Re III where we have matched up more short-term capital a year at a time. The client knows that capital is only going to be there for one year and may or may not be there next year. We may dissolve it. Then the capital that is providing them the capital knows it's short term.

But you don't ever want to get short-term capital matched up with a long-term need and you need to make sure that everybody understands what the other party is interested in doing here. So for example, RenRe you have got public investors that invest in us. You take DaVinci Re; that could be pension funds, endowments, financial investors. It could be clients that invest in DaVinci Re.

And you might have noticed that our ownership with DaVinci Re has gone down a little bit over the last 18 months. The reason for that is we have just had some terrific investors come along. People that have come to us, also people that we have sourced that we think are very good long-term players.

Then we have Top Layer Re on the right where there are only two parties. So we call that a bilateral agreement. Then the sidecars are typically the two types of capital in the middle.

Then we also have something called CPPs, which are clients of ours that have enjoyed doing business with us but think we have a pretty good business. And they say, gee, I wouldn't mind being on your side of the deal. Those are people that provide the CPPs.

They are kind of like a quota share. They are notional quota shares where people say this is how much I am willing to place a bet. And that is very helpful for us and has become a pretty significant source of capital.

History of our joint ventures. So you can see with Top Layer Re we started that back in 1999. We also did some work with OPCat, which was a sub of UPS back in the year 2000. But you can just see these march along. Recently we have had Upsilson Re I and II that have worked out quite nicely for us that specialize in writing property cat retrocession.

Capital and investments. So on the left this is our capital structure. And when we say capital structure what capital are we bringing to bear to solve problems for our clients. So the part of DaVinci that we don't own is the redeemable part. Then you come down we have an undrawn revolver, we have debt, we have preferred equity, we have common of a little over $3 billion. So we have total capitalization of about $5 billion.

But as I mentioned to you before, with the backing of State Farm and Top Layer Re that is roughly another $4 billion. And this doesn't take into account the value of our property cat retro or the CPPs. So we play ball as if we have got about $10 billion of capital when in fact we only have $3 billion of common equity.

We have historically done a good job on reserving and I was very pleased. We were put in an awkward position after Sandy because we had an earnings call pretty soon after that. And so we put out a notice; we told folks that we would have a significant loss, wanted to put them on notice. But we didn't say material and there is this finance lingo about what these different things mean. So it was how big was your loss?

So we got the troops together and looked at it and said do you think it will be contained in the Fourth Quarter? Everybody crossed their heart and hoped to die; yes, we think we can and we had a little bit of margin in there. So we stuck our neck out and said it will be contained in the Fourth Quarter.

So we found out later that some people got telephone calls like how can they know that so quick. They are going to blow through it. Well somebody very kindly said, well, this is RenRe and if they say that you can take it to the bank.

I remember my friend here, Mr. Jay Cohen, on the call I said I think it will be contained in the Fourth Quarter. And Jay said, well, Neill, to be clear will this loss be contained in the Fourth Quarter. And I said, yes, Jay, it will be contained in the Fourth Quarter.

And I said, boy, I sure hope it is contained in the Fourth Quarter. So far. So good. It has been and I think we have done a good job reserving on that as we have done on others.

So now if you look at these two blocks we have got case reserves, which is basically the reserves we have up that is based upon what our clients tell us those losses will be. And then on top of that we have additional case reserves where we think maybe our clients are being a little bit too optimistic. And also IBNR. It really doesn't matter too much how you break those out.

But we don't have just big bulk IBNR. We go down and we look at the individual deals. We model them. So we go back to the individual case and figure it up. So we think we are adequately reserved and, fortunately, historically we have been.

Active capital management over time. So you can see -- see when I was on vacation the guys went out and diluted shareholders by raising capital. But when I was here we bought shares back. I like buying shares back. Since I have been back in 2005 look at all the bars down here.

I think we had somewhere around 75 million shares when I got back and now we (under) 42 million, 43 million, something like that. So now all of our shareholders own more of RenRe and we have bought those shares back, I think, at an attractive price.

Now you can issue shares. I mean the guys did a good job. They had so many opportunities to issue shares. But I am very loath to do that. I don't like giving away part of our company. This has been part of our strategy since we started the Company way back when in 1993 and this will continue over time I would imagine.

Investment portfolio, pretty boring stuff for the most part. We do have other investments that include some private equity and some cat bonds, etc.. But for the most part we need to be liquid and short term and highly rated because you never know when we are going to have to pony up some money. So nothing terribly exciting about that slide, fortunately.

So this looks like we are coming to the conclusion. You can read those. I don't know if we have to say that again, that again, that again, that again, that again. I think that is all I need to say.

I think we have got a great company. We are in a great position, terrific employees. And with that I will open it up for questions.

Questions And Answers

Q - Unidentified Participant

Question about if you look out over the next five or 10 years, I think right now your fee income is roughly $140 million, $150 million a year. If you were to stay in a most likely scenario five or 10 years from now do you think that number will be meaningfully higher? And if so, do you think it will come from the permanent sidecars, temporary sidecars?

A - Neill Currie {BIO 6676681 <GO>}

That is the best question I have heard in a long time. That is a good one; you have done your homework.

I can't legitimize your number there. It doesn't sound wildly off and I guess a few years ago we made that number public. We don't make a habit of doing that. But it is meaningful to the returns of the Company. I would guess that it would be higher over the next five or 10 years.

As to the mix between the near and the short term, I mean the long-term versus the one-year sidecars sort of thing, my hope that it would be more along the lines of permanent type arrangements, like a Top Layer Re and DaVinci Re. I think that is more valuable to our clients.

It is harder. The ramp up time for those relationships take a while. But if I had to guess I would guess that it would be more meaningful and it would be more of the permanent-type partnerships.

Q - Unidentified Participant

Neill, I did have a question. You talked about this trend of alternative capital coming in. It feels as if there could be a big opportunity for you guys to use some of this capital that might have a lower cost of capital than you would freeing up capital for you to do other things, like buy back stock.

Have you increased your use of third-party capital as far as ceding risk through those parties?

A - Neill Currie {BIO 6676681 <GO>}

Yes. It sounds like the Martians are landing here. So I guess I will have to answer that question. Yes. It is according to what time period you look at.

So first of all, another good question, Jay. You always have good questions. I would say a quick digression is one of the things that sets us apart is we get questions like what do you wish; don't you wish this or wish that? We don't wish anything.

What I wish is that no matter what comes along we can handle it. So we play the hand that we are dealt. So we could sit here and say, oh my gosh, third-party capital is coming here. They are going to take our business away, woe is me. Which is not going to happen.

Or you can say here is third-party capital. It is interested; how can we be involved? Well we can be involved by having them come in and be investors in our various relationships, or we can buy reinsurance from these folks.

Another area that we think I think we will be doing more of is being a transformer. People like doing business with RenRe. They know we pay the claims.

If there is new capital that comes along, it looks like good capital but how do we know? They are new. They maybe might drag their heels in terms of paying their claims or pull out some technicality. Then a lot of the third-party capital, because underwriting is very difficult -- to underwrite indemnity protection is hard and the clients like it because there is no basis risk.

So you have got the seller or the new capital that says I would like to provide industry loss warranties because I can get my head around that. Like I can guess how often I think a $20 billion Florida event is going to happen. But I can't guess how often that deal is going to get hit. We can and we can be a transformer for that.

So you have got third-party capital comes in and they might offer $100 million of capital on an ILW basis. The client wants to buy indemnity. We will sell indemnity and out the backdoor use this as our collateral because -- and we will get margin for our expertise and taking the additional risk.

So we will see more of this and we will see -- we will utilize more of this third-party capital. And our retrocession buying is not finished for the year. I mean we have done some. My guess is there will be some opportunities that will come up to help us make our book more efficient over the coming months.

And yes, I still think Sandy is going to be contained in the Fourth Quarter.

Q - Unidentified Participant

Great. We got about a 10-, 15-minute break. Grab some lunch. We got MetLife coming up in about 15 minutes. Thanks.

A - Neill Currie {BIO 6676681 <GO>}

Thank you.