Sanford C. Bernstein & Co. Strategic Decisions Conference

Company Participants

- Neill Currie, President and CEO

Other Participants

- Josh Stirling, Analyst
- Unidentified Participant, Analyst

Presentation

Josh Stirling {BIO 17463087 <GO>}

Good afternoon. I'd like to welcome you all to the presentation for RenaissanceRe. We're having a good fortune today to be joined by Neill Currie. He's the CEO of Renaissance, has been for a number of years. He's been a frequent guest here at the SDC. We always enjoy this time of year before the hurricanes start to hit talking about property cat reinsurance.

And of course, RenRe is the leading specialist, about a $4 million market cap and a -- sort of real notable presence in Bermuda and in the property cat business. And so, with that, Neill who's really a veteran of that business, I think, is having been there (inaudible) even before the firm's founding and (inaudible) Bermuda's creation. He's got a lot of perspective on the business and always a good presentation.

So Neill, thank you for joining us.

Neill Currie {BIO 6676681 <GO>}

Great, Josh. Thank you very much. It's pleasure to be here. So sure we got the webcast going, too. We're good? Okay, I'm going to wander around here a little bit if I can, maybe get a little closer to the screen.

Yes, Josh was talking about the old days. We started the Company back in 1993. There were two of us in a room about 10 feet by 15 feet. I was the number two guy. So I got the shorter end of a conference room, the table that we cut in half.

Now we have more than two employees and we have more than one office. So things have worked out okay. In that regard, I have one or two bragging the slides here. So you have to be patient when we brag occasionally. I want everybody to read this safe harbor statement intently and then let's move on to the Company overview.

As I say, we were started in 1993, a few years later we went public on the New York Stock Exchange with the symbol RNR, which I've always found amusing, because in military terms RNR stood for rest and relaxation or we occasionally have fun, there's not too much rest and relaxation in RenRe.

We specialize in property catastrophe reinsurance. We're a global provider of reinsurance, insurance coverage and related services. Our market cap now is $4 billion. We've got about $3.2 billion of common equity plus preferreds. We started off with $141,200,000, the $200,000 was mine, which I'm very pleased my wife allowed us to dig in our nest egg and come out with that large sum. I'm glad we did it, too.

Here is a bragging sentence here about our ROE. We've had a good ROE and increased intangible book value per share since inception. And so what's that noise, Josh? Does that sound like -- is that us or does that sound like dishes in the background? Dishes in the background. What I see is kind of like the old days, we used to be close to the kitchen, I guess we remain close to the kitchen. I just don't want people tuning in to (inaudible) racket.

Then our total shareholder return since the IPO has been pretty good. We've done better than the S&P 500 by a long shot and the S&P P&C Insurance index. Okay, the dishes are now not getting quite as clean. We've got very strong financial ratings and that's really important in our business. So to have good counterparty credit.

Okay, we've got lots of words on this page. We could probably spend an hour on this page alone talking about our mission, vision, identity and strategy. But I think what I'll focus on is something that looks like a presumptuous statement. We want to be the best underwriter in the world.

Now, what does that mean? Well it means not just the people on the underwriting desk within Renaissance Reinsurance. But in any endeavor -- any risk taking endeavor that we do, we want to be as good as anybody else out there and we aspire to be the best.

And as I'll talk to you about in some slides coming up, it's not just about underwriting, it's involved the entire organization from the finance department to the marketing department. In every aspect, we strive to be the best in the business.

So one of our young people came out with the term, which I like a lot about the things listed on this slide, he referred to it as the three superiors. That kind of gives us some gravitas, doesn't it? So here are three superiors. We think to be a leader, you have to fire on all cylinders in each one of these areas.

So to begin with you've got to have the business flow. So superior customer relationships. The next one is superior risk selection, once you get the business how do you choose which deals to do and which deals not to do. And superior capital management, how do you match up capital with risk.

Now, I'm not too sure. I see a few familiar faces in the audience and probably tuning in on the webcast. There'll be some folks that know our story. But I want to go back and say that one of the things that -- well, we are known for our modeling expertise and hiring and having very bright folks. We've got a slew of PhDs and folks that wouldn't dream of making anything under 1600 on SAT. So we got lots of smart folks, good modeling, good underwriting. But one of the things, I think, that's under-appreciated about the firm is our superior customer relationships.

Going back to the origins of the Company, we have always focused on solving problems for our clients. We wanted to be the first ones back with a quote. We wanted to be there when the tough times came, pay our claims quickly. We've got a reputation for being the fastest claims payer in the business, give quick quotes. The quotes are always followed in the marketplace.

So after 20 years of being in the business, we've got very strong client relationships and to get the two things, to get the flow of business, unlike what you guys do as investors, if you want to buy RenRe stock or any other stock, you can do it.

It might be little less liquid than you would like, it might take you a while to build your position. But in the reinsurance business you might see a deal out there and you'd love to get on it. You just can't get on it, because it's already filled up or the people don't know you. So by having these good client relationships and having been around for 19 years, we see the flow of business, we have the ability to get on it and oftentimes when we put down an authorization, we get the authorization that we want.

So now we might authorize $100 million on a program and get $100 million, where a newer competitor that doesn't have the relationships might authorize $25 million and get $9 million or get $5 million. So that's a very important strength of the Company.

Superior risk selection, you have to be able to do two things. You have to be able to pick out the individual risk on a stand-alone basis, that's a good risk. But then you want to put together a good portfolio of risk. That's another area of excellence for us, I believe. We already have a strong and have for years had a good primary portfolio of business.

So then what we're doing is we're trading in and out, trying to make that portfolio better. And it's a lot easier for us already having a good portfolio of business and making it more efficient by bringing new business in or buying retrocession behind ourselves to make the portfolio more efficient than starting to create a portfolio you're not quite sure what you're going to get, it's hard to create an efficient portfolio.

Superior capital management, I've got a slide a little further in the presentation that will be helpful in this. But it's more than just being able to raise capital if you need to, raise debt if you need to. But it's buying reinsurance, it's accessing third-party capital, it's doing joint ventures. We have many arrows in our quiver when it comes to capital management.

So if we have the three superiors, then we can get the business, we can select the right business and we can match the right capital to that and that enables us and which has historically enabled us to get strong financial returns. Primarily a property cat reinsurer, I've got a slide that will show you a little bit more about specialty reinsurance.

We got involved in Lloyd's in 2009 and that's a growing area for us. We've got one of our most talented underwriters, Ross Curtis running that operation and we have really good expectations for that over the coming years. We're just building our foundation in Lloyd's now.

Ventures, one of the key things that ventures does, as we say, is selling the RenRe soap. So when we wanted to go out and get third-party capital or attract capital for our joint ventures, ventures is the operations that does that and we're one of the few companies that have specialized in it, just specialized on doing that. If we have strategic investments that would be in that department and also I'll touch on a little bit later, we have REAL or RenRe Energy Advisors where we sell product to energy companies.

So a little bar graph, way down there on the left is 1993. And this shows you our tangible book value per share growth over the years. And if you look at the bar graph, it's had -- it's occasional up and down as you might imagine in our business. In 2005, it went down a little bit, in 2008 it went down a little. And in 2011 it went down a little bit. But on the whole while we have some volatility, it's grown quite nicely.

The line is the share price. As we all know, the market's efficient over the long term and on average. But at any one period in time it's not. But the squiggly line there follows the increase in tangible book value per share pretty nicely over time.

Now, I guess we're really into squiggly lines and bar graphs, here's another one. So the bars on this chart show you our operating return on equity. So for example, in 1996 on the left there, our operating return on equity was just over 30%. The line here is our peer group average return on equity.

So if you just want to march from left to right on this chart, you'll see that most years our operating ROE has been better than the average of our peer group. So until 2000 we did better and look at what happened in 2001. We had a pretty nice ROE and our peer group average actually lost money that year, well the World Trade Center catastrophe 9/11.

Now, you might wonder, gee, what's going on here, how did we do so well? Well there were really two things going on here, good management of our portfolio. We really look at the tail risk, we are concerned. We want to be the last one standing as a property catastrophe reinsurer or we want to be able to pay our claims. We want to take advantage of market conditions after a claim.

One of the reasons that our exposure in the World Trade Center was low due to something I know that keeps you all awake at night if you live in New York City, earthquake exposure. Now, you did have a little earthquake here last year, I believe. But one of the things we capped our exposure, because we didn't want to have too many eggs in the New York City basket, in case there was this very long-term low probability event, such as an earthquake in New York City.

So that gives you an insight in terms of the way we look at risk. The other thing is we had done a good job of protecting ourselves with retrocession, which is reinsurance of a reinsurer. But it was primarily due to the type of business we wrote and limiting our downside.

We did worse than the industry in 2005, when we had Katrina, Rita and Wilma. But our losses came within the range of our expectation. Then after that, this happens in our business sometimes, after loss events we are there for our clients.

Our clients need us most after a loss event. Sometimes people exit a business after loss events know, we say are there learnings from this loss event, we will be there for our clients after a loss event, some of our competitors decided to exit the business after KRW. They were surprised we said, no, we're going to be there and we wrote more volume of business and as you can see, we had a quite handsome return the next year.

And since that time, we've typically beat our competitors except in 2008 and about average in 2011. So as you can see, there's volatility. I don't want any prospective shareholder to think we don't have volatility in our results. But we think you're rewarded for that volatility over time.

Another bar graph, disciplined underwriting has been a key to our success. We do not put any pressure on our underwriter. Some people have goals for underwriting. We don't have that sort of thing. We have -- we try to project a pro forma and we try to put a book of business together. But if you asked any underwriter at RenRe, they would never say that they've been under pressure to underwrite business. We want them to underwrite as much good business as they can and when the market softens and it's not to underwrite the business, then they just -- we take our foot off the accelerator and put it on the brake.

So if you look at the bottom, blue part of the graph, this is our catastrophe reinsurance volume and it kind of goes up and down. And you can see coming back down a little bit in 2007, or up in 2008, 2009, down in 2010 and now we're on the upswing again. The -- gosh, I guess what is that, violet or sort of purple? I guess that my granddaughter would think that's purple, it's her favorite color and probably Aditya Dutt's favorite color too, since we're taking about his area, joint ventures, you can see how that's grown nicely over time and there's a major part of our business now.

The U.S. insurance business, we ramped that up after 9/11 to try to take advantage of the marketplace there. Over time we analyzed that business, we were in the crop hail business in a pretty big way with a multi-peril business. We thought that the long-term future of that would be with people that were very good at running very cost-efficient lean operations.

We're more of an underwriting shop not as focused on process. So we've sold that business couple of years ago and I think it was the right thing to do for us. And also think frankly we've had feedback from many of our investors understanding -- well, understand more to do now, I like the clarity. I can go out and I can buy a crop hail insurance company's stock or primary insurance company's stock.

So people understand more what it is we do and we specialize in writing low frequency, high severity type of business, complex types of insurance business. We don't focus on process-oriented admitted lines. If we do insurance, we do it in our Lloyd's operation where we have rate flexibility writing it on an excess and surplus lines basis.

And you can see here recently how we've got the Lloyd's operation and it's coming along nicely. Lot of our investors and analysts like this slide. We see virtually every property catastrophe deal out there. So we keep up with, in our own view, what is acceptable return business, what's low return business and what's negative return business.

So if you look on the left there in the first group of bars there, the first bar is acceptable return in 2008. And then just marches along through the present time. And you can see it's going up and down a little bit. But roughly 50% of the business has been acceptable return. We'll guess where we like to play.

We see the flow of business and that's where we hang out is on that group on the left. There is low return business and there's negative return business and it looks -- about 35% of the business is in the low return and about 15% of the business on average is negative return. This is from our viewpoint.

The only reason people write the low return business and negative return businesses because they have a different business model that we have and a different view of risk. And so when mom says we can't say something nice about somebody, don't say it. But somebody who's in the negative return side there probably doesn't have a long career path.

Specialty reinsurance, people think of this as a property catastrophe reinsurer and they should. But we also are very skilled at writing specialty reinsurance, which to us is non-property cat. It could be things, for example, after 9/11 it used to be that some of the life reinsurers and other reinsurers would ensure or reinsure workers' compensation very inexpensively.

So workers that might be in an office building in California, they could be subject to an earthquake exposure or like we saw in 9/11 where there were many workers unfortunately that were trapped in the World Trade Center. This business used to written for pennies and after the World Trade Center, people said wow, something could happen to one office building and so the pricing on workers' compensation catastrophe reinsurance went through the roof.

So we went after 9/11 in the years 2002 through about 2005, we wrote about $120 million of that business at the heights of that business. Then it got competitive, some people actually inappropriately thought about writing workers' compensation, they were diversifying away from property catastrophe risk. And that was another reason for pricing to go down. But the pricing went down such that when we got out to about 2009 we only had about 5 million of premium left.

So we tend to be more opportunistic in our specialty reinsurance classes. We tend to be pretty nimble getting in and out of various lines of business. But we've made a whole lot of money in specialty reinsurance, have a great team. And as you can see, we're gradually building up and have a platform there where we could easily write $400 million or $500 million worth of business with the team that we have in place now.

This is the Lloyd's premium, you might say, gee, it's a lot of growth. Well it is. But it's very little growth compared to the amount of premium available in the Lloyd's market, it's a tiny fraction. So we are laying a very good foundation there. We got a terrific team and I think over the next five or 10 years, this will become a meaningful contributor to the bottom line of RenRe

Risk management, it's hard in a presentation like this to give you an idea of the way we really operate within the organization. I think the main point we're trying to make with this slide is that we have a quarter of risk management. It goes throughout the organization. We have our own REMS, Risk Management System where we have our own modeling operation.

You have the analysts, the modelers, the underwriters. Many of our underwriters came up through on the modeling side. If I were to put 30 of our employees in the room here, put them up with Josh and I here and had you interact with them, some of them would be analysts, some of them would be modelers, some of them would be underwriters, you would know the difference. They all speak the same language. They've come up through the culture and review risk very similarly. So we got good modeling. But we also have very experienced underwriters.

And frankly on that note, I would tell you that I would rather have an experienced underwriter. I'd rather have Jon Paradine, one of our top guys, with a pencil and a napkin than an inexperienced underwriter with a very good model.

So I mentioned, I would touch more on capital management in a later slide and this is the slide I was referring to. The left-hand box. So we've got -- at the holding company, we've got about $3.2 billion of capital before preferreds, another $550 million on top of that. But in the operating company, RenaissanceRe, we've got $1.8 billion of capital and we own 100% of that entity.

The next one over DaVinci Reinsurance, it's got capital of 1.4% and as of whatever date we're talking about here looks like March we owned 35% of DaVinci Re. So we've attracted third-party capital, I've got another slide here in a minute (to show how it was) formed. But it was formed about 11 years ago after 9/11. And so we manage it, we own part of it and our share of ownership fluctuates from about 25% up to about 50%. And it fluctuates based on market opportunities and also the opportunity to attract good long-term capital.

So we are always in dialog with folks and if we have somebody out there that wants to come in and invest with us for a long period of time, five or 10 years, we're happy to include them into the fold here in DaVinci Re. So when we underwrite business, we will put down a line in RenaissanceRe and will put also -- put down a line in DaVinci Re, we never put down a line in DaVinci Re unless we put down a line in RenaissanceRe as well.

Top Layer Re is something I really enjoy, it's a joint venture with State Farm. Those guys are great to deal with. We started Top Layer Re in 1999, as you might know State Farm is huge, very great organization here in America. But doesn't write business outside the U.S.

So we set up this joint venture in 1999 for us to write international reinsurance, property catastrophe reinsurance for Top Layer Re. We owned 50% of Top Layer, they owned 50% and then Top Layer or State Farm rather has an aggregate stop loss above the capital of that company, the aggregate stop loss is $3.9 billion, aggregate stop loss.

So we take the business in, we underwrite it, we pay State Farm the amount, the proper amount of premium they should get for the stop loss on a deal-by-deal basis. Then we share the remaining profits. It's been a great deal and I'd like to thank -- in fact, I'm pretty sure State Farm would agree with me from their standpoint. It's been a wonderful partnership.

The box down below that, Catastrophe Portfolio Participations or CPPs as we refer to it, it's like a quota share with insurance companies and this came about because after years of dealing with this, some of our clients said, you know what, we like you as a reinsurer. But we kind of like your business model and we would like to participate, we'd like to be on your side of the transaction.

So these are longstanding clients that come in and reinsure us. Works like a quota share, a proportional sharing. But we call it a CPP because we do it on a notional (bout). We don't do it on a percentage. But we say, okay, we'll give you $50 million worth of limit, whatever percentage that is of what we write that's what you get. That's worked out great for us. But very steady form of reinsurance for us.

Then we have side-cars, these are rifle shot deals where there's a -- there's an instance it comes up where we think, gee, the premium is good, it's well rated. But maybe we just got enough in our portfolio. So to help out our clients and the brokers, we bring in third-party capital usually for a year at a time to just work -- just solve a problem in any one given time period.

So some examples and a little timeline, if you look in the top here, Top Layer Re was formed in 1999. Go below this -- this is something, it's not a household name OP Cat, that was UPS' captive operation in Bermuda. They'd gotten involved in writing some reinsurance. We took over underwriting property catastrophe for them back in the year 2000. Then DaVinci in 2001, the CPP start in 2001. And then these other boxes are examples of the riffle shot or side-car type of approach.

Upsilon was a relatively new one that we formed to write fully collateralized retrocession or reinsurance of reinsurers. The demand went up in that area after all the events that we had last year. So when you add these things together, we'd say that we punch above our weight. So we are about $3.7 million, $3.8 million of capital when you add in the preferreds.

But when you add all these other resources in, DaVinci, Top Layer Re, et cetera, we underwrite on behalf of capital that's worth about $9 billion. So REAL; Weather & Energy Risk Management Solutions, this is an operation that sells derivative products to people in the energy business, typically public utilities or oil distributors that are concerned either about the weather risk or weather and commodity risk.

So we look at -- a utility might say, gee, what if it's too warm this year and we can't sell enough of our product. These guys sell a product to them, the buyers of the product last year did a little bit better than we did selling the product.

I don't know virtually everywhere you live in the country you know how hard it was and we've got a map and it says how many records of heat weather this year and whole map's red. It was really hot in the States this year and also really hot in the UK. So we lost money in the Fourth Quarter and we lost money in the First Quarter of this year. So I guess we've done a good job for our clients there and hopefully it'll turn the other way for us in 2012.

To give you an idea of the risk we take shows you that last column down there about 99% confidence interval just means what's the 1 in 100 probability of the loss and on average it was $29 million in the First Quarter, ranging from $13 million to $49 million for the quarter.

Capital and investments. I've already talked about our capital. So we got common equity $3.245 billion, preferred $550 million. We've got debt and an undrawn revolver and then you've got the non-controlled interest in DV. On the right, this is sort of interesting I think. So case reserves right now, we have $800 million in case reserves outstanding.

We have IBNR and additional case reserves of $1 billion. So what that is, IBNR is out there for something like okay, the losses have happened. We don't have all the information. But we're taking an educated guess that we need to put up an additional reserve of this. Then additional case reserves is the case reserves is when our clients tell us how much they think their loss is.

So we take their information, we say hmm, based upon what we know and what our modeling tells us is that adequate or not and either we put that up, we don't ever put a plus in that and then if we think, well, maybe they're being a little too optimistic, then we put up an additional case reserve. So from the safety standpoint, that gives you an idea of the prudence that we have when we have to do our loss reserve in.

Back to another bar graph, this is talking about buybacks. So the only time we've ever gone out to sell shares was to raise capital after 9/11 when there were good opportunities. In the 19-year history of the Company, we've never had to go out and raise capital because we needed it, we just did it that one time. I am loathe to go out and raise capital. I don't want to dilute the ownership of existing shareholders. We would do it if there were great opportunities.

And you can also see that we're not too shy about buying our shares back when we have excess capital. And we are -- people ask the question, well, what's in the future? Well I would say, look at the past. And see -- look at our buybacks. And when we have excess capital, we look first to buying the shares back and if we think it's well priced based upon the future prospects of the Company, that's typically been our first choice of what to do with excess capital.

We have conservative investment to support our underwriting, we're in a volatile business on the underwriting side, we get acceptable returns. On the underwriting side, we don't have to stretch on the investment side. We have to be highly liquid because of the business that we're in. So we've got managed assets of $6.3 billion, you can see on the left.

This is the way it's invested, mainly short term, high credit. The part that's called other investments, we do have some private equity, senior secured bank loan funds, cat bonds and a little bit hedge fund business there. The cat bond portion of this may grow. I don't anticipate seeing the other portion of this to grow.

So the punch line is all presentations, let me tell you what I told you. Basically, what I told you, I think we're a pretty good company and we've done pretty well in the past and I think we have a pretty good future.

So with that, I will try to be courageous and answer questions from the floor or from Josh.

Questions And Answers

Q - Josh Stirling {BIO 17463087 <GO>}

Great. So Neill, I think we agree to you. We're not going to pass the cards around. So we're literally happy to take questions (inaudible). While you think of the question that you'd like to ask, just raise your hand, (it'll be informal).

I will ask one, which is thinking very big picture and looking broadly across the industry, I think it's relatively apparent that there's more pricing discipline in property cat reinsurance than in most industries, (with most of it's) insurance business. If you look at market (sched) data, for example, you'd say the commercial lines industry is pricing at something modestly above maybe 10% or 15% where it was 10 years ago on a notional basis or a nominal basis before adjusting it for inflation.

A similar metric as best I can tell is something like 50% or 60% higher for property cat. And I'm curious if you could talk through for the audience some of the structural differences when it comes to things like the cat models, rating agency involvement and sort of the -- what seems to be rational competition in relatively an elastic demand?

A - Neill Currie {BIO 6676681 <GO>}

That's a good question.

Q - Josh Stirling {BIO 17463087 <GO>}

Thank you.

A - Neill Currie {BIO 6676681 <GO>}

I like that.

Q - Josh Stirling {BIO 17463087 <GO>}

I have one question to ask.

A - Neill Currie {BIO 6676681 <GO>}

Yes. And I'm glad you asked it because I didn't touch on that earlier. I say this pretty frequently and I think back, thank goodness when we decided to start the Company in 1993 that we wanted to specialize in property cat. Sometimes you want to whisper because you don't want everybody getting into it. But it's a terrific business.

And I'll give you an example. Most of the time the client needs to buy it. Secondly, they need to buy a lot of it. So they need to have a lot of reinsurers agree on the price to sell that product. I don't know what the largest program in the world is. But it's billions and billions of dollars of capacity. And you're typically out trying to buy -- the average deal might be $300 million of purchased up to $2 billion or $3 billion.

So you have to have several people agree on the price to sell it and the client needs to buy it. Juxtapose that with, say, commercial automobile insurance where the amount of reinsurance purchased might be $5 million. Well one reinsurer could corner the market if they want to be particularly aggressive right in that line, thinking it's okay, I'm going to write it all. So from a supply standpoint, with the pricing I think it's much more prone to potential problems from a pricing standpoint.

As Josh mentioned about the modeling, the models are not perfect, in fact this goes back few years. But one of my directors, they'd just seen one of the road traders do something that wasn't appropriate. And so I guess, he was thinking about that. He said, Neill, what would you do if you found one of your underwriters manipulating the models? So that's what we're paying him to do, to manipulate the model. It's not something to worry about. So manipulate sounds like a bad word. But I mean our underwriters use the models, use the tool.

But even if you go back to my statement about inexperienced underwriters, the models -- while there are each different, they give you sort of a floor to bumpy floor in terms of pricing. But it gives people a general idea of how much they should charge. Then you have the rating agencies, on top of that they're looking in that -- if they don't see what they like in terms of the way people underwrite their business, you'll get dinged on your ratings. So when you add all these vectors in, it's really a pretty nice field to play in. And what I'll do is I'll speak to my lovelier here if you want.

Q - Unidentified Participant

(inaudible) low return, what are the numbers that you're using for those returns?

A - Neill Currie {BIO 6676681 <GO>}

Can't tell you. That question was too hard. So let's try another one. But they are -- somebody -- answer the question another way, your returns are going to vary based on lots of different things, you got a low interest rate environment.

So returns can be lower then. But it's a volatile business and usually I would expect that companies would want a double-digit return before they'd want to play. And the problem there is, I think as much as anything expertise, not so much people willing to accept a lower return. But just maybe inexperience or optimism.

Q - Josh Stirling {BIO 17463087 <GO>}

Neill, I'll ask a follow-up question on that slide. When you think about the different buckets in the low return and the -- or even just the average return treaties that are out there, are companies writing these because they -- their models tell them the risk is lower or is this one of the examples that people writing business, it's just has lower returns either for relationship reasons or because they've decided to diversify because perhaps that makes -- in a way they think about the world, that makes more sense.

A - Neill Currie {BIO 6676681 <GO>}

A good follow-on question. I would think the majority of the time, once again, this is the way we look at the world. And I can't imagine anybody writing any one of those buckets that aren't unacceptable knowingly doing that with the one exception that you mentioned.

Sometimes some reinsurers that write lots of different lines of business have relationships where they -- because of all of the other lines they'll write accommodating business, if you will. An example that would be in Japan where the Japanese companies for earthquake would say, well, if you're going to write the earthquake excess of loss and that's primarily what we sell as excess of loss reinsurance.

We want you to underwrite the proportional cover. I use a percentage cover and there's the limit. But the limit on that is a big limit, you could lose a lot of money. So sometimes for relationship purposes people would underwrite proportional and we would say over a long period of time, the returns on the proportional would be unacceptable.

Another thing is when you get into the actual underwriting. So I'll give you an example. Going back. And this goes back as early as 1994, one of the modeling companies thought that if a hurricane came up to this part of the world and it was going to hit Long Island, that all hurricanes were Republicans I suppose, they would go to (Hawaii) once they hit Long Island.

The other modeling company apparently had some Democrats and that modeling companies, no, no, no, no, it could come up and it could take a left, don't take a hard left. But it could sort of take a left or not like a hard right.

So our underwriters will look at that and they'll say, wait a minute, if there is a company that's got a lot of business up in this area and you look at it in the first instance, if you've used only that model, you would think, man, this is great. You need very little premium for that exposure because the hurricane is never going to go into that part of -- the interior of the United States, it's going to go west.

Whereas our guys would look at both of them. And then say, all right, well, this model says -- the point I'm trying to make is understanding what's behind the model instead of just using the model. So our underwriters say this one makes it look like it's a really good a deal. The other one model makes it look like a pretty good deal. And all circumstances, it looks like a good deal we'll write it versus some people would underwrite that and it'll only look good under one deal, we would put that in the unacceptable bucket.

Q - Josh Stirling {BIO 17463087 <GO>}

(Upfront).

Q - Unidentified Participant

Thanks. I was wondering if you could comment on the Everglades cat bond specifically and on competition from catastrophe bonds in general as well.

A - Neill Currie {BIO 6676681 <GO>}

Sure. That's a good question. Trying to remember how much is public knowledge. (inaudible) on the Everglades everything is the -- so if you look at the portion up under other investments, we do write -- have to get used to my lovelier here being off the tie, we will write cat bonds.

And the pricing on that cat bond was very similar to what the pricing would have been on underwriting their traditional reinsurance deal. So they place that pretty handily and that we can accept risk either way, we're agnostic, frankly, whether we do it as traditional reinsurance or as a cat bond. So we can play that both ways.

Then the other part I guess was the capital coming into the market, was that -- and yes, there is additional capital that's been attracted to the market and there's some people frankly that can only play one way. Some people would only do it by underwriting a cat bond versus traditional reinsurance.

It's different now. The way capital is coming into the marketplace was different now. I'm sure there's is been more startups. But there's only one sort of real startup that comes to my mind recently and that's because a good underwriter happened to be available and wanted to do something else. But in the old days, you would have a bunch of new reinsurance companies popping up to try to take advantage of new opportunities.

We didn't think that was going to happen, it didn't happen. But you do have third-party capital coming in either to somebody like us and to DaVinci or one of these side-cars or they would go into -- in with one of our competitors. So there is new capital that's come into the marketplace. But while it has been -- has had an effect, it's been more in the margins, it hasn't really changed the dynamics of the marketplace to any great extent. Yes, sir?

Q - Unidentified Participant

You made the point that your underwriters don't feel any sense of pressure to direct volumes of business being ready. Do you think that's unique amongst the peer group? And I guess I'm trying to put some structure around lack of pressure, how do you compensate your -- or how is their performance judged, is there some sort of operating ROE (inaudible)?

A - Neill Currie {BIO 6676681 <GO>}

Yes. Two good questions. I think we are pretty unique in the market. I will normally and I'll talk about two folks. But I'm a Warren Buffett acolyte and known Warren for 30 years and Ajit and they -- we have a similar ethos to those guys and vice versa. They just do it.

It's a good business or not. But I think typically and I've seen it more typical in larger organizations and perhaps in the primary insurance business as well, you got this huge board up there and you got all of these expenses and you got all these pro formas and projections and that stuff.

So I think there can be an impetus to want to write business and it's also human nature people like to do it. We make -- when we have our earnings call and we tell the analyst what we think we'll do on the premium side, we make all of the underwriters put their fingers in their ears. So they can't hear that. But we always say that there is volatility, just don't put -- we're trying to give you a general idea. But we've never had in the history of the Company any emphasis on that.

Now, I'll say that, if it's a good market, we encourage them to write business. And if it's a bad market we encourage them not to. But we're never encouraging them to keep the volume up just because the pricing is down and we want to achieve some (other goal) effect. Reminds me of the story, there is one company, reinsurance company that's now defunct.

And I hate to tell shareholders that I actually will walk into a bar. But I was in a bar prior to dinner many years ago and I was talking to the CEO of a reinsurance company. And he said, our goal is to grow 15% every year and have a 15% ROE every year.

And I said, how you do that without going bankrupt? Well they didn't go bankrupt, they did go out of business, because it's a volatile business and some people try to make something happen that's really not in the cards by just setting these budgets in their precious way to do that. So some companies do it, we have always not done that. We have a very small component in our annual bonus program that relates premium back to our budget. But it's a small part of it. Most people know it's part of the whole formula.

What they're driven by is doing a good job, increasing tangible book value per share because they know that by doing that the stock price goes up over time and that's where the heavy weighting is for all of our senior management. And we also do more long-term incentive further down in the organization than most other companies. So the motivator for our employees is to have total shareholder return go up handsomely over time and we want to have it go up over time more than anybody else in our peer group.

Q - Unidentified Participant

And just as a quick follow-up, are you encouraging your underwriters to write business now?

A - Neill Currie {BIO 6676681 <GO>}

Yes.

Q - Unidentified Participant

Good.

A - Neill Currie {BIO 6676681 <GO>}

I don't go down and bang on the drum. But it's more -- and we see in a market like this, we see some deals, it's not like all ships arriving, some deals are better than others. But it's not -- it's just on a deal-by-deal basis, if it's a good piece of business we'd like to see you do it.

Q - Unidentified Participant

Could you talk a little bit about Florida and when you look at your long-term return charge you clearly out-earned your peers in low cat years and when a big cat comes, at least, a data point is up there. You under-earn -- and how do you calibrate how much under-earning you'll tolerate in those big cat years and specifically in Florida aside from humanitarian issues, do you route four of hurricane or route against many of your hurricanes?

A - Neill Currie {BIO 6676681 <GO>}

Yes. That's interesting. Routing, well, I'll tell you one thing. I'm not -- I like the way you framed your question. But I don't route for anything to happen. I learned a long time ago wishing and routing got you nowhere. So what we do is we -- part of our culture is to play the hand that were dealt. We don't know what hand we're going to dealt. But how are we -- what position will we be in if this happens, if this happens, if this happens.

So in Florida, if there are no losses, then it will make fair amount of money and if there's average amount of losses, then it will be about average and if there are big losses, well, maybe we'll lose a little bit of money. But we'll be well positioned the next year, we'll look after our clients and we'll be well positioned to try to earn it back over time. So I think the history of the Company looks about right. So we've been in business for 20 years and look at the losses that we had at KRW and then look at the losses that we had in the other years.

And in fact, this last year I thought was pretty good, it was the second largest cat year in history. Some people think the largest cat year in history. We had pretty minimal losses. So I think to invest in RenRe you've got to say, look, once every 10 to 15 years they're probably going to lose a little bit of money. Will it be a manageable amount of money? Yes. Then in the average years they'll make some money and if there's not losses they'll make a fair amount.

So if you're willing to accept the volatility, we have to give you a higher return. And it's not necessarily Florida driven. In the history of the Company, we've had five or six different peak zones, it's been California, it's been Florida, it's been the Northeast, it's been European windstorm, it's varied over the years.

But we managed the Company so that no one event can put us out of business and would be an extraordinary cataclysmic number of events, there'd be -- everybody else would be in really bad shape before we ran into difficulty. Does that answer your question as best I can? Okay. Josh, how are we doing?

Q - Josh Stirling {BIO 17463087 <GO>}

No. I'll ask one follow-up question, sort of related to Florida. But more broad, there's at least two different dimensions to your underwriting, which is I think interesting. It appears you guys have a bias towards lower layers rather than higher and it's sort of a -- maybe (I'm not being) correct. But it's sort of a belief that many have. And I think the same thing is sort of true philosophically around diversification that it's -- I think you guys did coin the phrase, only profit diversifies, which I give you a lot of credit for.

And I'm wondering if you'd walk us through sort of what the thinking -- if those are true, how they relate to the question on Florida and just more generally sort of how you think about over-indexing in certain places or certain layers relative to what I think is a bit more of a -- by definition sort of an indexing approach that is probably taken by some other competitors?

A - Neill Currie {BIO 6676681 <GO>}

Good question, Josh. There is no -- there is a lot of arc to it in terms of how much exposure you want to take in any one area. And also getting back to the lower layer versus the higher layers. We're actually agnostic, whether it's low layers or higher layers, you get to a certain point where if you're wrong in the higher layers, for example, let's say, that something had the probability of loss once every 10,000 years, then you got a 1% rate online for that. Well it would be a pretty got expected loss ratio. But the margin for error is not terribly exciting.

So the further up you get in the layer earnings, the lower the expected loss ratios you have to have. But we will -- it will vary. And one of the reasons we don't give out PMLs, they change a lot. We move up and down structures. So maybe one year that we tend to be harder down low, the next year the pricing might be more attractive to actually move further out programs.

So that does vary. But you're right, historically we've had a tendency to think that the lower layers were more adequately under-priced. Maybe the other thing is there are some companies out there that the way they are set up, they just don't want to be involved in any loss activity. Their whole ethos is I want to be up in the -- something that's only going to happen, not my career kind of area.

So in diversification we get to a certain point where we think the pricing is still good. But we become overbalanced on a net basis. So we get out there and we'll buy some reinsurance that will help reduce the loss, et cetera. We've got the CPPs, then we'll go out to third party capital and say it's good business. But we're just filled up from a diversification, it makes us too unbalanced and then we'll go out and solve the problems in another way.

Q - Josh Stirling {BIO 17463087 <GO>}

Okay. Great. One final question.

Q - Unidentified Participant

I'm curious about this issue of models in the industry between competitors. Does everyone -- that basically the same model, is there real proprietary aspect to it? Then secondly, is it experience over how much you use the model versus you put some experience, the experience of the underwriters, how does that play up?

A - Neill Currie {BIO 6676681 <GO>}

You want to take two or three hours for that one. It's very interesting. I don't know how some companies do it. So some of the larger guys we know they have operations similar to ours where they have very analytical people. They come in and look at the models. But when this RMS put out a model change this past year that many people talked about because they thought it would change the pricing and it has changed the pricing and the exposure somewhat.

We spent thousands of hours, thousands of hours going through that model and saying, where they changed it, why did they change it and do we agree with that part or not? And some part of that RMS 11 we agreed with and some of that we didn't. So we'll run RMS 11 on a deal. We're looking to it, it does and then we'll run hours and see what it does and then we'll say all right now, now it's different why and do we believe that.

So for example, in Japan, when you had the Tohoku earthquake, as a result of that earthquake, the plates shifted. Now we've got guys -- the guy that runs WeatherPredict, we're not very good at naming things, because the guy that runs WeatherPredict is a earthquake specialist, a seismologist, nothing to do with order.

But we go in and we look at the changes and said, all right, the plates have shifted, is risk higher or lower in Japan is -- if it's higher, where is it higher? And I'm not going to tell you where we think it is. But we do think it's higher. I don't know how one of our competitors that doesn't have a team of scientists on their staff figures that out.

So the modelers have a team. But what we do so, okay, we got smarter people there, let's listen to what they've got to say at this modeler. We've got smart people, let's put it all together and come up with our own view. So all the modelers are helpful. But where I think some of our competitors fall down, they just don't have the additional skills, the additional -- I mean somebody might say our modeling team and maybe they got one guy or something.

So modelers are helpful. But the more people, whether it's underwriters or the modelers, or the lightning scientists, we have WeatherPredict, the more minds you get on it to come up with your own view.

That's helpful. Then also, frankly from a marketing standpoint, it's very helpful to us with our clients because we don't say the model says this. We say here's your risk, here's our view and here's why. And somebody is willing to pay up, if you can explain to them why you're charging them what you are instead of saying, oh, the model said this is the price. So I hope that helped a little bit.

Q - Josh Stirling {BIO 17463087 <GO>}

Great. Thank you very much, Neill.

A - Neill Currie {BIO 6676681 <GO>}

Great, thank you, Josh. Thank you, everyone.

Q - Josh Stirling {BIO 17463087 <GO>}

Thank you.