RenaissanceRe Holdings Ltd.

Reinsurance and Risk Capital

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Casualty Actuarial Society Seminar on Reinsurance

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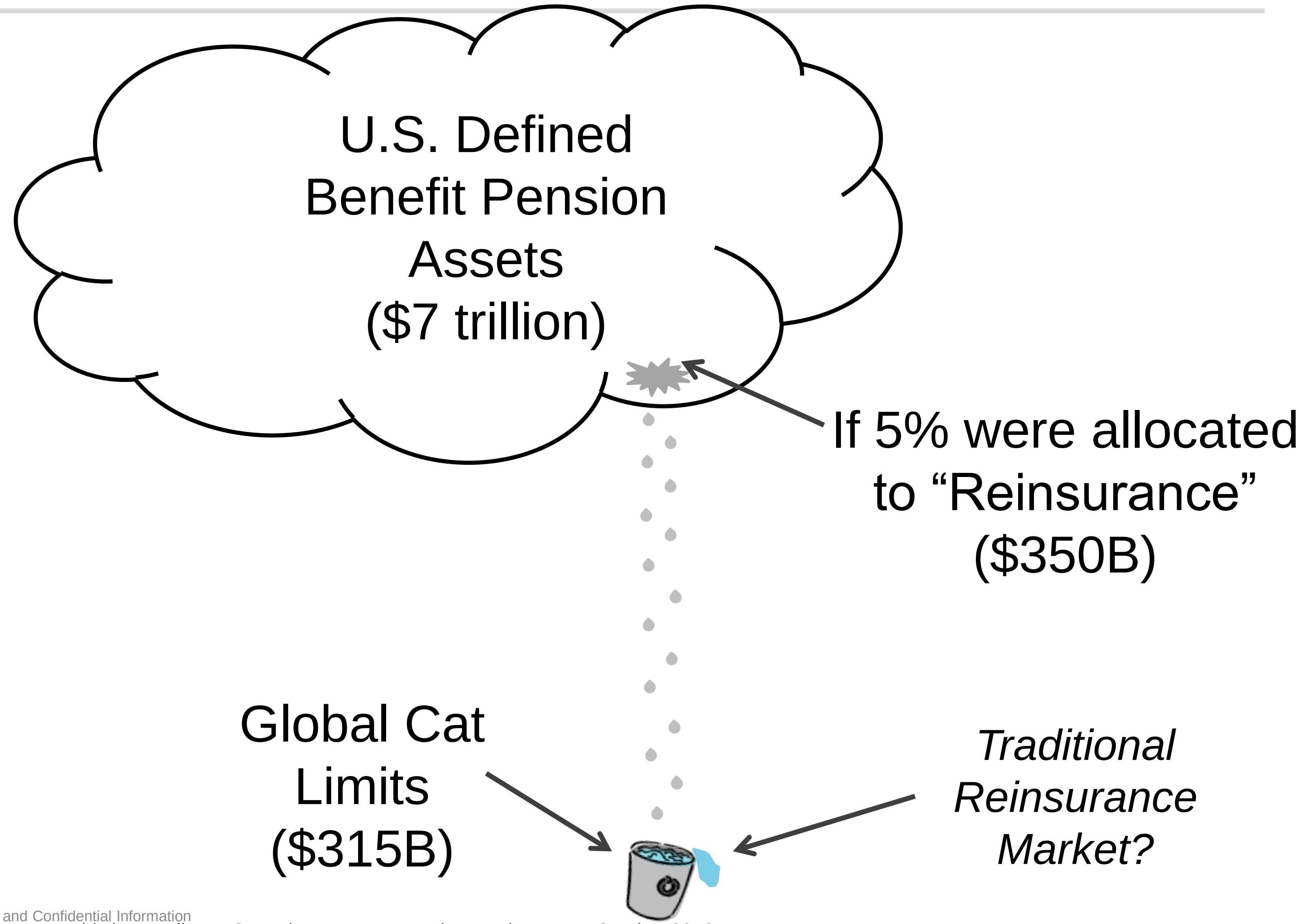
New Sources of Capital



Source: Adapted from a graphic by Dowling & Co at the RenRe Natural Hazards Forum, October 2012

Capital: Main Product Behind An Insurance Contract

Produced from…
- Metal
- Rubber
- Plastic
- Paint

Produced from…
- **Capital**
  - Cash
  - Investments
  - Reinsurance

Capital = Assets – Liabilities

Where Do Insurers (Our Clients) Get Capital?

Sell their company's stock

Get loans, issue bonds

Buy reinsurance

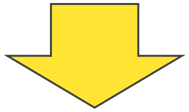
If an insurer has greater losses than capital, their policyholders' claims will not be paid in full

All Forms Of Capital Have A Cost

Shareholders: Expected "rate of return"

Debtholders: Interest rate

Reinsurance: Premium



How much reinsurance should a client buy from reinsurers vs. putting their shareholders and debtholders at risk?

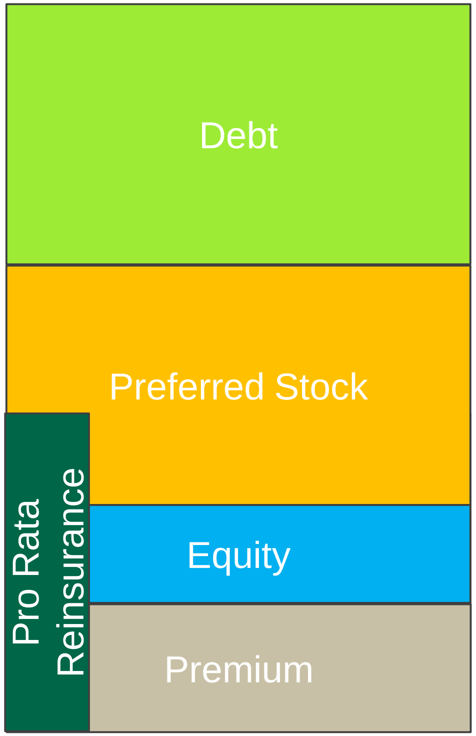
Think Of It This Way…

- Reinsurance is a form of Capital

- Capital is a form of Reinsurance

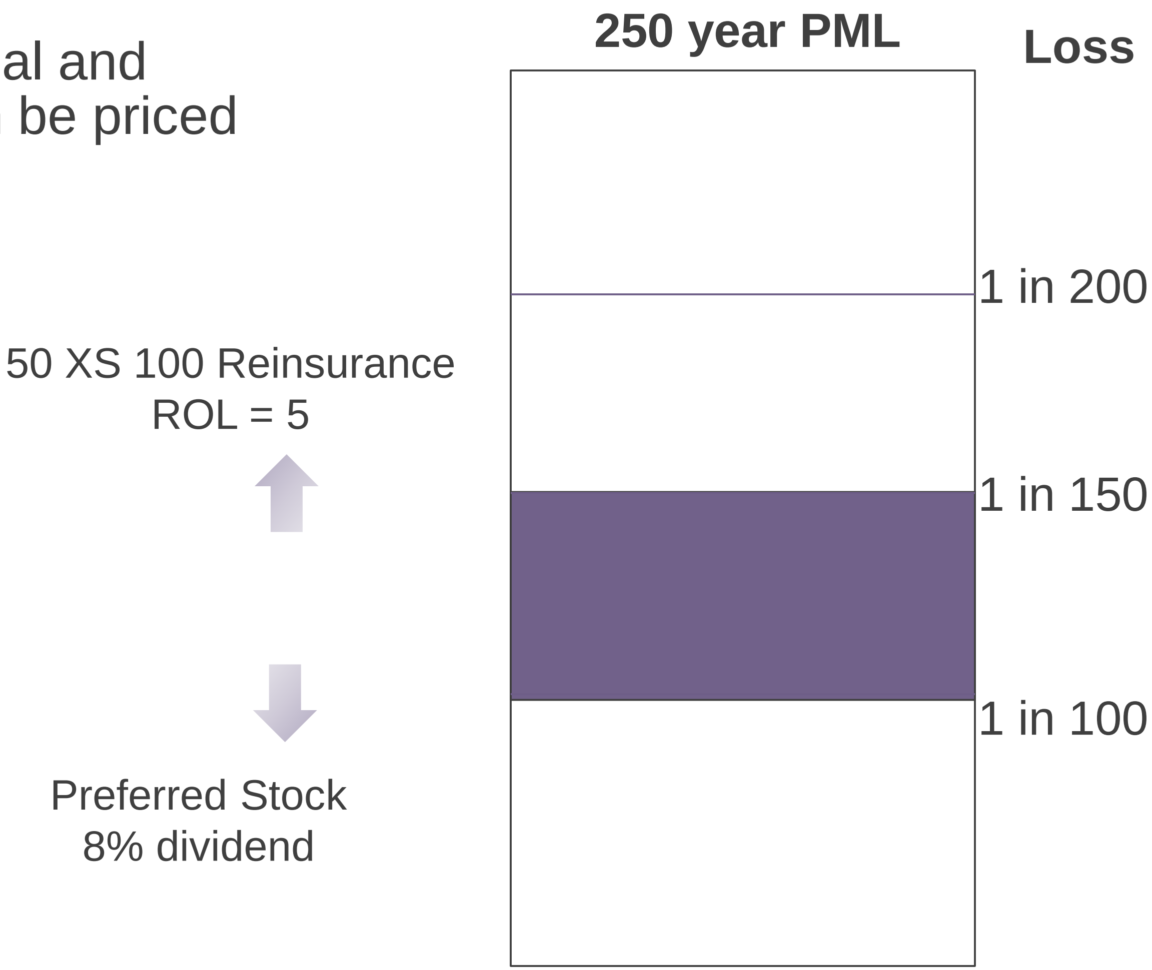
Capital Structure in an XOL Framework

- Consider Internal and External capital as XOL structure
  - Cost relativity can be understood
- Shifts risk of unexpected loss from shareholders to reinsurance company



Pricing Risk Capital

- Individual loss layers can be isolated
- Different forms of internal and external risk capital can be priced and compared



Relative Cost of Reinsurance

- Some believe reinsurance is relatively expensive compared to other forms of capital
- While it may seem more expensive, due to the efficiencies inherent in the provision of reinsurance, it may actually be cheaper
  - Reinsurers typically have greater debt capacity than primary carriers due to greater diversification – can make more efficient use of leverage in providing risk capital
  - Reinsurance can give the insurance company access to the reinsurer’s lower cost of capital
- Reinsurance rates are transparent and must be paid in cash

Pros and Cons of Different Forms of Reinsurance

Retro	Insurance Linked Securities
Typically 1 year deals	3-5 year duration
Easy to renew	Need to issue new bond
Limited to traditional and collateralized market	Access vast capital market
Very little structuring	Complex structuring
Can be placed quickly	Time consuming
Low admin cost	Significant admin cost
Size of limit flexible	Typically requires large limit (>$100m)
May have credit risk	No credit risk
Relationship driven (flexible)	No relationship

Private Reinsurance Attracts Broad Sources of Capital

Reinsurers

Cat bonds
Retrocession
Common equity
Preferred equity
Private equity
Hedge fund partnerships
Joint ventures / sidecars
Bank loans
Investment-grade bonds
High-yield debt

What Does This Mean For Underwriters?

- It’s not only about risk selection– it’s also about understanding capital allocation
- It’s about bringing the most suitable capital to risk, no matter what form
- Not only are we risk underwriters – we are capital allocators

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