02-Nov-2022

RenaissanceRe Holdings Ltd. (RNR)

Q3 2022 Earnings Call

CORPORATE PARTICIPANTS

Keith McCue
Senior Vice President-Finance & Investor Relations, RenaissanceRe Holdings Ltd.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

Robert Qutub
Chief Financial Officer & Executive Vice President, RenaissanceRe Holdings Ltd.

OTHER PARTICIPANTS

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Joshua Shanker
Analyst, BofA Securities, Inc.

Yaron Kinar
Analyst, Jefferies LLC

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Brian Meredith
Analyst, UBS Securities LLC

Ryan Tunis
Analyst, Autonomous Research US LP

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Michael W. Phillips
Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Chastity, and I will be your conference operator today. At this time, I would like to welcome everyone to the RenaissanceRe Third Quarter 2022 Earnings Conference Call and Webcast. After the prepared remarks, we will open the call for your questions. Instructions will be given at that time. [Operator Instructions] Thank you.

I will now turn the call over to Keith McCue, Senior Vice President of Finance and Investor Relations. Please go ahead.

Keith McCue
Senior Vice President-Finance & Investor Relations, RenaissanceRe Holdings Ltd.

Thank you. Good morning. Thank you for joining our third quarter financial results conference call. Yesterday, after the market closed, we issued our quarterly release. If you didn't receive a copy, please call me at 441-239-4830 and we'll make sure to provide you with one. There will be an audio replay of the call available from about 1:00 PM Eastern Time today through midnight on November 9. The replay can be accessed by dialing 800-938-1598 US toll free or 1-402-220-1545 internationally. Today's call is also available through the investor information section of www.renre.com.

Before we begin, I'm obliged to caution that today's discussion may contain forward-looking statements and actual results may differ materially from those discussed. Additional information regarding the factors shaping these outcomes can be found in RenaissanceRe's SEC filings, to which we direct you. With us to discuss today's results are Kevin O'Donnell, President and Chief Executive Officer; and Bob Qutub, Executive Vice President and Chief Financial Officer.

I'd now like to turn the call over to Kevin. Kevin?

....

Kevin J. O'Donnell

President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

Thanks, Keith. Good morning, everyone, and thank you for joining today's call. The third quarter was once again particularly active. The most significant event was Hurricane Ian, which was one of the costliest natural disasters to impact the United States, likely only second to Hurricane Katrina in 2005. The other significant driver of third quarter results was the historic increase in interest rates, resulting in a retained investment loss of $340 million, driven by mark-to-market losses on our fixed income and equity portfolios. Bob will discuss our investment return in greater detail in his comments.

Despite the quarter's volatility, we continue to enjoy a strong capital position through a combination of holdings company capital and committed partner capital. Our rated balance sheets will bring the same level of risk in base capital to our customers next year as they did prior to Hurricane Ian this year. Our customers need this capacity. Reinsurance is a critical link in the insurance value chain, and absorbing volatility is an important component of our value proposition. But in order to ensure the long-term availability of reinsurance capacity, we must realign the interests of our customers and investors. Investors need to be appropriately incentivized to continue providing their capital. This is especially true now as investors have numerous attractive deployment opportunities in other asset classes.

Consequently, property cat needs to be the most profitable business line in the P&C market commensurate with the level of volatility it absorbs. To achieve this, there must be a step change in the pricing and structuring of reinsurance coverage to ensure an additional margin of safety for our investors. Overall, we believe that our models have accurately and consistently captured the risk that we have assumed. But to ensure an increased margin of safety, we will be recalibrating our underwriting approach to property cat in the following ways: by requiring substantial rate increases, whether or not the business is loss-impacted, this will not be a glide path, but rather a step change; by increasing retentions on property programs; by tightening terms and conditions and narrowing coverage in most instances to named peril only; by offering non-concurrent capacity and private placement of many deals; and by requiring broad participation at improved economics across [indiscernible] (00:04:44) reinsurance programs not only in property but also in casualty and specialty; and finally, by reducing our participation meaningfully on any program where these conditions are not met.

I am confident that this reasonable approach will restore RenaissanceRe to its long-term track record of rewarding investors while ensuring long-term capacity our customers need. We expect the next several years will provide significant opportunities for reinsurers. We have multiple competitive advantage that make us our customers preferred trading partner and which will allow us to optimize our underwriting portfolio.

First, our capital position is strong. As I discussed, we have the capital necessary to lean into the upcoming renewal. We also have strong liquidity. Bob will discuss capital and liquidity in greater detail in a few minutes. Second, we remain focused on profitability. In 2023, we will be paid more for every dollar of risk that we take. This increased profit will buffer our investors against potential loss. In addition, we will evaluate opportunities to grow where higher rates and significantly improve terms and conditions warrant. At January 1, these opportunities are more likely to manifest themselves in property cat as well as certain lines in casualty and specialty.

Third, we will lead from property cat. Every reinsurance program is anchored around property cat coverage. We are one of the largest writers of property cat risk in the world, and our ability to provide material capacity in this line will provide us opportunities across reinsurance programs. And fourth, we will lead from the top down. Increased demand for property cat will be at the upper end of programs. Our Top Layer Re and Vermeer Re joint ventures have ample capacity to grow on these lines which will provide us opportunities throughout placements. Once again, our strategy of having the most efficient capital will give us access to the most desirable risk. All of these advantages will position us for a great year ahead. We are entering one of the hardest markets we have observed in decades, and we expect this to be evidenced at the January 1 renewals.

RenaissanceRe has been a leader in property cat for almost 30 years and we know how to underwrite in a hard market. Our senior underwriting team will be heavily involved in client negotiations on a deal-by-deal basis to ensure that we are protecting the interest of our shareholders. We will take a win-win approach in line with our goal of better aligning the interests of our customers and investors. At the end of the day however, the only way to ensure that our customers will get the capacity they need is to make sure that our investors get the returns they require. While the market seems particularly focused on the opportunities in property and rightfully so, we are also seeing dislocated markets and continuing momentum in casualty. Casualty once again performed well and despite an active quarter reported a mid-90s combined ratio. I am very pleased with the growth and performance of this business and increasingly expect casualty to contribute to our bottom line in the future.

That concludes my opening comments. I'll provide more detail on our segment performance at the end of the call. But first, let me turn over Bob to discuss our financial performance for the quarter. Bob?

Robert Qutub

Chief Financial Officer & Executive Vice President, RenaissanceRe Holdings Ltd.

Thanks, Kevin, and good morning, everyone. As Kevin said, in many ways Hurricane Ian feels like a turning point for the industry. We are looking forward to 2023 and I want to talk about how we have positioned ourselves for outperformance and what we expect to be one of the best markets in years. There are several things I'd like you to take away from my comments today. First, our casualty and specialty book is performing in line with our expectations. It continues to report a mid-90s combined ratio on a growing premium base. Second, our Capital Partners business has the capital to take advantage of underwriting opportunities in 2023. And we are confident that management fees, which are a component of overall fees, will be around $25 million to $30 million per quarter going forward. And finally, our net investment income continues to grow and will be a significant income generator for us going forward. Importantly, our balance sheet is strong and we are uniquely positioned to take advantage of the attractive opportunities we anticipate in the 2023 property cat market and across our other lines of business.

Now, let me turn to our three drivers of profit, starting with the casualty and specialty business. Once again, this quarter we reported strong results with a combined ratio of 95.7%, which included 1 percentage point of impact from weather-related large losses. Year to date, our casualty specialty combined ratio was 95.9%, which includes the loss impact of the Ukrainian war. Remain on track to consistently deliver a mid-90s combined ratio which could contribute approximately $200 million to our underwriting income in 2023.

Importantly, this profitability is on a growing premium base. Gross premiums written were up 42% and net premiums written were up 40%, with financial lines driving to be increased. Financial lines gross premiums increased by $237 million, doubling as compared to the third quarter of 2021. The majority of this growth was in our mortgage book, and this included $100 million of premium on seasoned mortgages written between 2016 and 2020. As a reminder, our mortgage business has a longer tail, so gross written premium can take up to seven years to be fully earned. But the majority of the mortgage growth in the period will earn in over the next three to five years.

Net premiums earned for the casualty and specialty segment came in above our expectations at $927 million. This is due to higher estimated premium adjustments, reflecting growth in the underlying rate and assumed risk on a quarter share basis. For the fourth quarter, we're also revising our estimates up and expect net earned premiums to be about $950 million. We've been proactively monitoring our casualty and specialty book of business to make sure we have incorporated the impact of inflation. Based on this, we believe rate continues to exceed loss trends.

Now, turning to our property segment and the CAT events of the quarter, weather-related large losses, including Hurricane Ian, the French hail and typhoons in Asia resulted in a net negative impact to our overall result of $650 million, most of which was entirely in our property segment. This led to a significant property underwriting loss of $723 million and a combined ratio of 186%. Hurricane Ian had an impact on both the property CAT and other property books as we have been increasingly taking US Southeast cat-exposed E&S business throughout the other property book. Specifically the other property combined ratio was 197%, with weather-related large losses having a 104-percentage-point impact. The property cat combined ratio was 179%, with weather-related large losses having a 152-percentage-point impact.

While Ian had a large impact on our results this quarter on a year-to-date basis, the [ph] current exiting year (00:12:19) loss ratio for property was 90% compared to 107% for the first three quarters of 2021. Both years had significant cat activity, but the relatively better performance this year is a result of the increased rate and tightening terms and conditions that we have been getting in our property book. In the third quarter premiums were relatively stable year-over-year with a $56 million gross premium increase in property cat, partially offset by a $29 million decline in other property, which is primarily related to the non-renewal of one large other property deal.

Net premiums earned for the other property were $333 million for the quarter. In the fourth quarter, we are expecting net premiums earned of around $350 million for other properties. On page 12 of the financial supplement, you can see that there were $231 million of gross reinstatement premiums this quarter, which is roughly the same compared to the third quarter of 2021.

Now, moving to fee income and our capital partner business where overall fees were $26 million, with management fees continuing to provide a steady source of $25 million in the quarter. Year-over-year management fees have increased, reflecting more capital managed at Da Vinci, Premier, Medici and Fontana, partially offset by a reduction in structured reinsurance products and Upsilon. As I mentioned, going forward, we expect management fees to be around $25 million to $30 million per quarter.

And finally as in the case with large weather-related large losses, there were minimal performance in third quarter. We expect these fees to start recovering by the second quarter of 2023. Our overall net loss was reduced by $372 million and our operating loss was reduced by $278 million as reflected in our redeemable non-controlling interest. You can see this on page 19 of the financial supplement. This quarter, there were $127 million of mark-to-market losses related to catastrophe bonds which you can see on page 22 of the financial supplement. This predominantly related to Medici, and we only retain $17 million of the marks as the rest is backed out through non-controlling interests.

Our Capital Partners team is benefiting from a flight to quality in a very challenging environment for raising third party capital. In the quarter, we raised $122 million with a $100 million in Vermeer and $22 million in Medici. The rated balance sheets we manage through Capital Partners, namely Da Vinci, Vermeer and Top Layer bring over $7.5 billion in total market-facing capital, providing an excellent platform to take advantage of opportunities in the property cat market.

Moving now to investments where the current interest rate environment has created a very volatile bond market, rapidity and magnitude of losses in the treasury market and the increase in interest rates has been historic. This is both a headwind and a tailwind driving mark-to-market losses while meaningfully increasing our current and future net investment income. Continued increases in US interest rates drove $453 million and retain mark-to-market losses in the quarter and $1.6 billion year-to-date, principally in our fixed maturity portfolios. Importantly, these are highly rated securities and we anticipate earning these mark-to-market losses back in time in two ways.

First, by accretion to par for the securities that we choose to hold, this will be accrued through mark-to-market gains for securities trading below par. Second, by proactively choosing to sell securities prior to maturity and reinvesting the proceeds at materially higher coupons, this will be recognized through increases in our net investment income. The combination of these two processes has contributed to the growth in a retained current yield to maturity portfolio, which has increased from 1.8% to 5.3% in the last three quarters. This is the best measure to understand the potential return generated by our investment portfolio.

On page 24 of our financial supplement, you will see that the retained portion of our unrealized losses in our fixed maturity portfolio are currently $768 million or $17.58 per common share. This represents potential accretion to par, if we decide to hold these securities to maturity. Putting this all together, our retained net investment income was $110 million in the third quarter. We expect retained net investment income will be about $125 million in the fourth quarter and anticipate further growth in 2023.

Now, finishing with capital, as I said many times, the first – our first preference in our capital management framework is to deploy excess capital into profitable business opportunities. This year a Cat 4 hurricane hit Florida and 10 year US Treasuries were down 18% year-to-date, which is the worst performance in a century. Our investors rightly want to understand if we have the capital to take advantage of profitable opportunities in 2023. The answer is yes. Our group and rated balance sheets are strong and give us a wide range of flexibility to access attractive risk. There are three things I would like to highlight. First, as Kevin pointed out, through a combination of holdings company capital and committed partner capital, our rated balance sheets will bring the same level of capital to our customers next year as they did prior to Ian this year. Second, our reserves are strong and reflect our current view of the impact of inflation. And finally, we are in a very strong liquidity position across all our balance sheets.

In this very attractive market, we believe that deploying capital into underwriting is the best way to maximize long-term value creation for our shareholders and are not planning repurchases in the fourth quarter.

In conclusion, I'd like to point out our future earnings power is as strong as it has been in a decade. Even with Hurricane Ian, which is projected to be the second costliest catastrophe ever, we are essentially breaking even on an operating basis year-to-date.

We are seeing significant, positive momentum across our three drivers of profit and in 2023 expect underwriting income from casualty and specialty to be around $200 million, the property segment to benefit from increased rate and tightening terms and conditions, management fee income to be around $100 million with potential upside in performance fees starting midyear and finally, our investment results will benefit from increased net investment income in addition to accretion to par and fixed maturity investments that we choose to hold.

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

Kevin J. O'Donnell

President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

Thanks, Bob. As usual, I'll divide my comments between our property and casualty segments. Starting with property; it was an active third quarter with several large events, a few of which I would like to highlight. Beginning with Hurricane Ian, which made initial landfall on the west coast of Florida on September 28, with near category 5 wind speeds, torrential rain and substantial storm surge.

Additionally, France was impacted by severe hail and thunderstorms at the end of the second quarter, causing significant damage to residents and cars. Industry loss estimates recently increased to about $8 billion. And finally, southeast Japan was struck on September 18 by the strong Category 2 Typhoon Nanmadol. They tracked along the southern half of Japan with more than 24 inches of rain reported in several locations and widespread power outages. Industry loss estimates for this event are in the low- to mid-single-digits billions.

Shifting now to our other property business, which was also impacted by weather-related large losses this quarter. As I've discussed in the past, this business has material exposure to catastrophes, including Florida. However, unlike our property cat business, only a small portion of other properties results are shared with our Capital Partners. As a consequence, more of the net negative impact this quarter was from other property. Going forward, we are obtaining high-double-digit rate increases in the other property business. Likely, we will initially keep premiums here relatively flat, which will effectively serve to reduce risk in this business.

This will help facilitate a potential shift in our focus towards property cat, where we expect greater opportunities at January 1. That said, as the year progresses, we will reevaluate the opportunity set in other property and if rate increases and terms and conditions warrant, we may choose to grow here also.

Let's move to the retro protection that we purchased for ourselves. Hurricane Ian and other events of the quarter have had an outsized impact on the retro market, which was already fairly dislocated. A combination of losses and trapped capital have resulted in material reduction of capital in this market. Unlike in prior years this also includes cat bonds. As a result, retro protection will be less available and more expensive in 2023. Consequently, we plan to purchase less retro protection and take more risk net. Adjusting our retro purchases has always been one of the core components of our gross to net strategy to help shape our risk portfolios.

Retro purchases are only one tool in this toolbox however. In 2023, increased rate and better terms and conditions will be far better tools to control and shape our portfolio. Moving now to casualty and specialty, as we approach the January 1 renewal, we also believe that the cost of capital has increased materially for casualty and specialty. This dynamic should further cause an impetus for improved rates across this business, particularly in specialty where we expect a very hard market.

I'd like to address where we're seeing opportunities in each of these classes. In traditional casualty, we believe that most classes of business are at the top end of their rating cycle with a balanced supply and demand dynamic. Rates are moderating in some lines such as D&O whereas others such as E&S casualty continue to trend positively. As we have done in the past, we will step back when market conditions in a specific subclass do not meet our expectations. Overall, we are confident that the portfolio we will construct will be well-priced.

In specialty, we believe Hurricane Ian will cause significant dislocation to the industry and we are anticipating a hard market across most specialty classes. We find cyber, marine and energy, terror and aviation particularly attractive and are open to growth at the right price. In credit, Bob has already explained that the material growth in this business was due to writing several large legacy mortgage deals.

Overall in credit, our appetite remains selective as we write into what is likely to be a recessionary environment. We continue to believe our portfolio is positioned to withstand current macroeconomic headwinds.

Within the mortgage portfolio, we continue to execute now on our targeted strategy as recent Fed rate hikes have increased required hurdle rates for credit risk transfer. This phenomenon has enabled improving pricing dynamics for reinsurance placements, which we selectively took advantage of while moving up the capital stack to more risk remote layers. Overall, I am very pleased with our credit business and expect it to be a strong contributor to our profitability.

Across our casualty and specialty segment, we have recently seen ceding commissions stabilize after several years of increases. At the January 1 renewal, we will be seeking reductions from many customers. We expect to achieve these reductions due at least in part to our ability to offer property tax capacity.

Shifting now briefly to inflation and its impact on the casualty and specialty portfolio. Economics and inflation persisting worldwide and is at a 40-year high. This is a trend we continue to proactively monitor with the newly enhanced inflation framework. Over the years, we have consciously constructed a portfolio that underweights lines of business that are most acutely impacted by inflation, nuclear verdicts such as auto, trucking and medical malpractice. Going forward, we will continue to focus our renewal efforts on lines of business, less vulnerable to inflation and customers that have demonstrated better track records on prior-year loss emergence.

Moving now to our fee business. In preparation for the January 1 renewals and the many opportunities we expect, the Capital Partners team has been focused on investor outreach. We're anticipating writing more business in Top Layer, Vermeer and DaVinci at the January 1 renewal.

As a consequence, we plan to raise capital in Vermeer and DaVinci, Top Layer Re continues to have ample capacity for deployment in 2023. We are one of the few successfully bringing third-party capital to the market. Our ability to raise capital in such a challenging market is representative of our industry-leading position and investors' continued flight to quality.

This was a difficult quarter marked by material net and operating losses. That said, we remain in a strong capital and liquidity position heading into a robust investment environment and what could prove to be one of the best underwriting markets we have ever experienced. Each of our three drivers of profit is poised to contribute materially to superior shareholder return in 2023 and beyond. Thank you. And with that, we'll open it up for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will now take our first question from Elyse Greenspan with Wells Fargo. Please go ahead.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Hi. Thanks. Good morning. My first question is on the capital side. Kevin and Bob, you guys both mentioned that you have the same capacity as before Ian, right. If we look at your common equity, that's obviously gone down due to the losses and the movement in interest rates on the bond portfolio. So is the capital comment a reflection of the committed capital from your partners offsetting lower capital that you have on your own retained balance sheet? Or is there something else that I'm missing there?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Thanks, Elyse. I think the number one message we're trying to say is we are in a strong capital position across the platform. So let me give some specifics on that. With regard to third party capital, it is a very difficult environment for many ILS managers to raise capital. We want to highlight the uniqueness of the hybrid model that we have deployed and the alignment that we have maintained with our ILS partners and the preferred position that puts us in to recapitalize the rated balance sheets that we have. With regard to our own balance sheets. I think it's important that we are from self-funding, taking excess capital that we hold at the holding company and moving it down to the rating agencies to make sure that their footprint in the market remains consistent.

We have additional capital. I think it's important going into a market that we think has persistence with hard – with strong rates, that we keep there to be a degree of scarcity, to stick to capital. And as opportunity continues to grow, the capital we deploy in the market will continue to grow.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Okay. And then I guess my second question, you also said, right, Kevin, in your introductory comments that you are requiring substantial rate whether the business is loss impacted or not, what does substantial mean to you? And then, we've heard about some pretty high numbers for rate increases at January 1. Where do you see things today and what's like the bar for when we – to write the business next year?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

So I think it's important to look at the full spectrum of things we intend to change. So narrowing terms and conditions is extraordinarily important with some of the losses and some of the experience that's been in the market, raising retention is extremely important. I feel that by putting a number out on rate change, you're almost setting a cap where those that are higher than the number feel they didn't get a good deal and those that are lower than the number feel as if they've cheated the system.

The numbers that I've seen are at the lower end of our expectations for where we see rate change right now. We'll talk more about that after we've achieved the rate change on the February call. But right now, our expectations are at the high end of what I've seen others talk about.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

And then one more quick like when you say tightening income terms and conditions like, what do you specifically mean by that comment?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Even simple things. I – again, it's early in the renewal season, but I recently saw some [ph] quotes we put out. They were named perils only, geographic (00:30:47), confined territory, again, being much more determined to make sure that there is no gratuitous exposure coming into the programs and then also picking attachment points that you either feel comfortable you're above some of the secondary barrels or you've narrowed scopes so the second territory barrels are either coming in when they're extraordinarily dislocating and you're charging for them or they're not coming in at all. So it's a wide spectrum of things, cyber exclusions, everything you might expect.

Elyse Greenspan
Analyst, Wells Fargo Securities LLC

Q

Great. Thanks for the color, Kevin.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Sure. Thank you.

Operator: We will take our next question from Josh Shanker with Bank of America. Please go ahead.

Joshua Shanker
Analyst, BofA Securities, Inc.

Q

Obviously, this is a market you have been waiting for for a couple of years when you raised capital a couple years back, sometimes things don't happen [ph] timing exactly when we see it (00:31:45). But when you look at your portfolio construction the last couple of years, were you as defensive as RenRe's long term business model would require for these last couple of years? And now you can turn on it, should we assume that the last – these results are what RenRe looks like in the turtle position? And as we go into 2023, the orientation of the book looks very, very different from what it might have been in 2021 or 2022?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

So thanks for the question. We never wait for markets. What we do is we build a platform that can execute in any environment that we believe we can get the right risk price for the risk that we're taking. When we raised the capital, we saw opportunities. After the capital raise, we also had some favorable interest rate moves that created additional capital on top of that. We deployed it into 2021 to feel good about that decision. Your defensive comments, I think, are difficult to reconcile against this opportunity.

We are always defensive whenever you're thinking about taking risk. You're seeking the reward for the risk, not the enjoyment of taking the risk. Going into this market, we are pushing to make sure that investors are getting excess reward for the risk that we're taking. So when I think about the portfolio construction that we're about to make, the net number will be closer to the gross number for the comments – for the reasons I mentioned with regard to ceded. For many, that's a problem because they're using retro to build capacity. We use retro to shape portfolios and we're just substituting terms and conditions and price for retro.

So when I think about a defense a defensive posture or a change. I think in any market when you're risk-taking, you want to think about managing the tail. And if that is the definition of defense, I think we've been good at that. I think in a market like this, it's a matter of harvesting the excess margin that's available. We have a long record – track record of being able to do that, and we will leverage into this market with a degree of patience because I think it's going to persist and making sure that we are building a portfolio that's resilient, not just at 1/1/23, but for years to come.

Joshua Shanker
Analyst, BofA Securities, Inc.

Q

Thank you. And on the July 1 renewals, the premium growth in catastrophe lines was very strong. Other property, not so much; is what you experienced at July 1 a preview of what you expect to see it January 1? Has the price already begun to move and you took advantage of it?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Yeah. Yeah. What we saw last year and I think what we talked about is that we did see prices move, then we had a conflicted view of the market because we still remained cautious on the overall business environment in Florida. I think rate changes in Florida are not at anywhere near the level that we expect to see rate changes in 2023. So I think the ability to find the opportunity and to take the entire platform and find ways to deploy it, not only in property cat, but using property cat as the wedge to provide an increased opportunity for relationships more broadly across reinsurance programs. So I think narrowly one can say thinking about opportunities in Florida, and how to behave there? But I think this is a different animal coming into 2023 with broad changes, both across loss programs and programs without loss, and then opportunities to take the precious cat capacity we can bring to the market to increase our opportunity to enhance returns within the capital, the casualty and specialty portfolio. That didn't happen at 6/1 and 7/1. It will happen in 2023.

Joshua Shanker
Analyst, BofA Securities, Inc.

Q

Thank you for painting the picture. Good luck.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Sure. Yeah. Thanks, Josh.

Operator: We will take our next question from Yaron Kinar from Jefferies. Please go ahead.

Yaron Kinar
Analyst, Jefferies LLC

Q

Thank you. Good morning. I guess first question. Can you maybe talk a little bit about your internal capital model and how you're treating the marks and the AOCI changes that that we've seen year-to-date. And more specifically, do you think that you can grow exposure in PML based on the current capital base? I guess, both on internal capital model and maybe where the rating agencies are?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Yeah. Thanks. It's a good question. I think one needs to differentiate those timing losses and actual losses. So Hurricane Ian is a loss of capital. We think of the marks as more of a timing. We don't have credit issues within the portfolio. We're just simply responding to the shift in the yield curve. I think what we do is we build pro forma portfolios. We've talked about this in other calls. Right now, our October 2023 portfolio is constructed; within that there is benefit for enhanced earnings in the first half of the year, including a pull to par. That said, we will never be overexposed because we have the opportunity to throttle our peak exposure materially as we earn that premium. So I think it's important to consider the actual capital that's available during peak season, but you need to make sure that you don't overwrite your hedge or your capital and maintain the flexibility to respond to unforeseen issues that can emerge in any portfolio. So it's a little bit of both, but you can't write into that without the flexibility to throttle should things develop differently than your expected case.

Yaron Kinar
Analyst, Jefferies LLC

Q

Okay. And I apologize for going back to this again. And I think we have several questions on the call on this subject specifically. But in terms of the net exposure change in 2023, do you see that being – do you see that the net exposure growing?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

It depends on where we look on the distribution. I think at the low end, because of the changes we're making, there'll be less exposure. We will have lots of room in Vermeer and lots of room in Top Layer Re. We'll bring more DaVinci capital, more RenRe capital. So there could be more exposure towards the more remote end of the distribution. Importantly, I think it's to think of the whole company, though, and what our job is to do is to make sure that across the distribution of outcomes, we are providing the best opportunity for investors to play into this market and achieve the returns they desire. We've got substantially stronger investment income coming in. We have very solid casualty expectations for earnings, and the property market is moving at a pace that I haven't seen in decades. That produces expected profit. Expected profit is the number 1 thing that buffers investors against loss and that's going to be substantially higher in 2023 across the platform. So regardless of where the PML is, investors are going to enjoy a much higher probability of much higher returns.

Yaron Kinar
Analyst, Jefferies LLC

Q

Thank you.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Thank you.

Operator: And we will take our next question from Meyer Shields with KBW. Please go ahead.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. Kevin, you mentioned a couple times that you expect the current situation to persist. I was hoping you could flesh that out and maybe talk about what could challenge that expectations?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Yeah. Thank you for the question. We talked about before is there's been a U-shaped pricing where insurance has been leading reinsurance. What has shifted is reinsurance will now lead the pricing cycle for insurance. Behind that is capital leading reinsurance. I don't see capital having expectations of a relaxed atmosphere or I don't see them relaxing their appetite for cat in the foreseeable future. With that, they will only deploy when they perceive excess margin for the risk that they're taking. They've had six tough years and they are looking for additional buffers of safety to continue to deploy. The market has to provide it, and I don't see that abating through 2023 and beyond.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Is that a function of alternative investment opportunities or the risk in cat?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

That's a good question. I think it's the persistence of realized losses within cat. I think on an annual basis, each individual year in isolation looks okay. And I think investors have been willing to tolerate that until now. I think it's the persistence is the issue. I also think that, yeah, there's – there is a strong understanding across the capital markets and opportunities to deploy at higher rates across different areas within the capital markets is rising. So the competition for capital is elevated, which also plays a role.

I think the third party capital is facing numerous challenges and they're looking for ways if they are committed to stay in the business, to only partner with those that are aligned with them. With our hybrid model, we're uniquely positioned to be able to service that capital. So I think it's a full spectrum of capital constraints that that are feeding into this. And capital – one of those constraints certainly is the opportunities they have to deploy elsewhere in areas that are well understood to them.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. That's helpful.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Sure.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

I apologize for the second question because it sounds dumb even to me, but when you talk about these temporary impediments to capital like the marks-to-market, do you have to wait for the capital to actually recover to access that? Or is the prospect of the reversal of the marks enough to allow you to use the capital on your own balance sheet?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

That's actually a great question. And that's kind of what I was alluding to. I think I think we will we're preparing our portfolios for increased capital with strong earnings in the first half of the year for all the reasons we talked about. That said, things can happen, particularly when you're writing a property cat portfolio that are unknowable today and you need to be prepared to respond to that. So it's a little bit of both. We will be in a position that will – our portfolios will be designed to be written against an increased capital base. But we're going to maintain the flexibility to amend that should something unforeseen happen in the first half of the year. And what I mean by that is, is southeast wind is likely – it will be our binding constraint on the tail of distribution. So our capital will be largely built around supporting that in the tail. And we have an ability just prior to wind season, it's 6/1 and 7/1 to change that risk profile materially. That is really important in how we're thinking about using the capital that's going to be earned and the pull to par in the first half of the year.

Meyer Shields
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Thank you. That's helpful.

Operator: We will take our next question from Brian Meredith with UBS. Please go ahead.

Brian Meredith
Analyst, UBS Securities LLC

Q

Yes. Thanks. A couple of them here for you, Kevin. Kevin, I just wanted to understand and all – a lot of great commentary, but I guess just implicitly speaking, would the gross limits that you're going to be [ph] hashed out (00:44:15) in the market on property cat be higher or lower as we look into 2023. So you're going to have the ability to go out there and really take advantage of what could be a shortfall in property cat cover in many programs and what would the knock-on effect maybe be on some of your casualty business?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

That's a good question. And I think I'm going to redirect you actually to our net because net is actually what sticks to us. I think from a third party capital perspective, our gross limits will be up. The important thing from our portfolio is the reduction in ceded is basically replacing gross for net. And so when I think about that, I'm not sure what will be the winning piece of the equation. I think our net will be up. And I'm less focused on where gross ultimately ends up if it's a combination of writing more, reducing Upsilon, buying les. All of that kind of feeds into the final equation which is how much money are we going to make from property cat which solely focuses on the net for our retained portfolios. So gross will be up on our third party rated balance sheets. I don't have an answer for you on our retained because I think the net is the key and I think our net will be up in.

Brian Meredith
Analyst, UBS Securities LLC

Q

Got you. So therefore, do you anticipate that your – you'll have that ability to go, get more casualty reinsurance business, right, because that's a big debate going on right now. Some companies are pulling back on property, they may lose some of their good casualty business and vice versa.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Yeah, so sorry I missed the second.

Brian Meredith
Analyst, UBS Securities LLC

Q

Yeah.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

I didn't answer the second part. So your second part is between – so think there is a lot of new purchasing going in and there is a very large disequilibrium between the supply of cat and the demand, hence the price change. But when people are looking at – when buyers are looking at the program, the new purchasing comes at the top. We are very strongly in a position to write the tops of programs between Vermeer and Top Layer Re with very substantial amounts of capacity available.

So as they think about the new layers, when I mentioned in my comments, we're going to come from the top down, we're going to bring that capacity and bring the rest of the program along with it with RenRe and DaVinci. Included in that is what we require for the entire package to be accepted from the casualty and specialty programs as well. So when I think about it, the reason we built out the casualty and specialty over the last several years and the reason we have so many forms of capital is for exactly this type of market. They want to trade more deeply with those that have stable capacity and increased appetites. We're there for them in spades in this renewal.

Brian Meredith
Analyst, UBS Securities LLC

Q

Makes sense. And then second question, how do you think Europe is going to unfold here in 2023 on cat?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Early signs are positive. The European market tends to be dominated by the professional reinsurers within Europe; seeing strong discipline come out there. It's an important part of our portfolio, but it's not the most critical part of our portfolio. But I remain optimistic that we're going to see very strong rate change there. If not, we'll shrink. I'm not that worried about it.

Brian Meredith
Analyst, UBS Securities LLC

Q

Great. Thank you.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Thank you.

Operator: Our next question comes from Ryan Tunis with Autonomous Research. Please go ahead.

Ryan Tunis
Analyst, Autonomous Research US LP

Q

Hey, thanks. Good afternoon. First question, Kevin, I was wanting to get your perspective on something. It's kind of on the primary side, but like, if we look back maybe six years ago, none of the primaries had – it was all just really high attaching occurrence-based reinsurance. And over the past five years you'll be getting reinsurance recoveries and small events, like you said, non-named perils outside of wind season. When we look forward to next year and 01/01, [indiscernible] (00:48:39) supply-demand imbalances is the most logical way this gets solved, that the market just starts to gravitate more toward the much, much higher [ph] attaching to (00:48:50) current stuff that was kind of more prevalent in 2010 to 2015. Are we still going to see a lot of those lower attachment programs?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

I think the way you categorized the market is right. The market is going – reinsurance budgets can only expand by so much. The first thing they're going to do is take out expensive bottom layers. And the thing that reinsurers least want are to write highly exposed, low [ph] lever (00:49:20) cat and aggregate cat. So I think the product's going to simplify and it's going to shift up to be more remote from loss.

Ryan Tunis
Analyst, Autonomous Research US LP

Q

Got it.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

But I think your assessment's correct.

Ryan Tunis
Analyst, Autonomous Research US LP

Q

Okay. And then, I guess a couple just on the retro, first of all, you mentioned shrinking your retro trading book. Could you give us just some idea of what the recoveries look like on your non-JV retro book from Ian? And also, you seem pretty confident [indiscernible] (00:49:51) having plenty of capital within the JVs. Just – maybe you could give us a little context on where you're getting that level of visibility? I'm not exactly sure what the range of outcomes are, like how much of that is, in your control, multiyear. I'm just trying to – how confident are we that the JV book will look similar in size, if not bigger than it is today?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

I'm 100% confident in that so from the JV perspective. I – we have strong interest in DaVinci in particular and between our interest in DaVinci, new investor interest and existing, I feel highly confident about that. So again, once again, separating us from the pack within the ILS market, Top Layer is a different structure, that's amply capitalized for 2023. All we have to do is find opportunities to deploy the capacity that's already resonant within the vehicle and same for Vermeer. So Vermeer will grow, but we also have capacity to deploy in there. So that's not an area that's giving me pause. [ph] Is the question on is this ceded (00:51:14) in the supplemental with regard to [indiscernible] (00:51:17) question.

Ryan Tunis
Analyst, Autonomous Research US LP

Q

Yeah. That's I think [indiscernible] (00:51:23) trading retro. So, I was just curious...

Kevin J. O'Donnell A
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

Yeah. That's not something we disclose.

Ryan Tunis Q
Analyst, Autonomous Research US LP

We assume that there are material recoveries, so.

Kevin J. O'Donnell A
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

Yes. I think with this – with the loss, within the current loss of the size of Ian one should expect retro from a market perspective to be materially impaired and we tend to be good buyers of retro.

Ryan Tunis Q
Analyst, Autonomous Research US LP

Okay. And then just lastly, the rates are up another 20 basis points since the end of the quarter. You feel okay about your capital position? I think rates have gone up 80 basis points [indiscernible] (00:52:08) last three which is kind of annoying. But would your posture change if we had another quarter where I mean if interest rates went up another 50 basis points or so on the 1/1, adding your unrealized loss position?

Robert Qutub A
Chief Financial Officer & Executive Vice President, RenaissanceRe Holdings Ltd.

That's a good question. Thanks. We feel pretty good about our investment portfolio. It's highly liquid, highly rated. So the pull to par to shorter duration you've already seen we've realized some of the losses and reinvested into higher coupon. We're feeling pretty good about our portfolio. Yes, it can have some volatility, but given the shorter duration of it, the opportunity in pull to par comes back pretty quick.

Ryan Tunis Q
Analyst, Autonomous Research US LP

Thanks a lot.

Kevin J. O'Donnell A
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

Thanks.

Operator: We will take our next question from Jimmy Bhullar with JP Morgan. Please go ahead.

Jimmy S. Bhullar Q
Analyst, JPMorgan Securities LLC

Hey, good morning. So first question just on the same topic that's come up a lot, just on capital. Have you gotten or what have your conversations been like with the rating agencies on the decline in book value? And I realize sort of the recovery to par, but there is a possibility that there is a further decline in 4Q as well. But just with what rates have done and we've heard conflicting comments from your peers and some of them have said that there is some pressure, and that's limiting their ability to write business. Others have said it's not much of an impact, but what can you add to that?

Robert Qutub

Chief Financial Officer & Executive Vice President, RenaissanceRe Holdings Ltd.

A

That's a good question. Thanks Jimmy. This is Bob. We've had active conversations all the time with our rating agencies. They're all looking at it basically the same way. It's not a point in time conversation. It's a period of time. It's a dynamic process, and a lot of things that we talked about on this call, there's absolute losses and there's temporary ones, which is timing, which Kevin talked about, that was talked about in the portfolio. So you sit down, we'll go through it once we get the in-force book and we'll look at, two to three years' outlook on how we feel about the earnings stream and how comfortable we are. And some of that, in fact, a lot of that we'll have conversations on what I talked about on the call today.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

Okay. And if you think about the property book, obviously lots of dislocation in the market, prices are going to harden terms or terms are going to tighten. How much of your business do you think you'll end up repricing over the next year as it comes up for renewal at different periods versus is there some part of your business that maybe has multiyear guarantees where you'll still be tied to where pricing was prior to Ian, at least for the next year or so?

Kevin J. O'Donnell

President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Yeah. It's a good question. It depends. I assume you're talking about property cat, so I'll answer that...

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

Yeah, yeah, yeah.

Kevin J. O'Donnell

President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Okay. The vast majority of our book is placed on an annual basis. So over the course of the year, we'll have the opportunity to renew it. Those deals that are multi-year, they tend to be staggered. So anywhere between a third and a half comes up each year for renewal. So it is a portion of our book that as well – will enjoy price and stability in this market because it's been placed multiyear, but it's not a big piece of the overall portfolio.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

And then just lastly on the Ian losses, it seems like the primary companies, the losses haven't been that high, especially if you go pre all the preannouncements and stuff. The reinsurance company's losses have been obviously very high. And do you think that reflects just the sort of structures and how they've changed over the last few years with attachment points coming lower and coverage getting more extensive? Or is it may be added conservatism on the part of the – or on the part of the reinsurers because they are not seeing the claims come in like the primaries are, where they might have a little bit – the primaries might have a little bit more information on what the actual claims are going to be like?

Kevin J. O'Donnell

President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Yeah, it's a good question as well. I think the primary companies, I think in general are seeing lower claims emergence than certainly than [indiscernible] (00:56:14) potentially even than they expected. I think reinsurers are heavily influenced by what happened with Irma and the uncertainty, particularly to the access for what the Florida environment – what can emerge from that. So I know we took a view, Irma influenced our view. We're watching it closely. But I think probably after Irma, this conversation would have been exactly the same, and then the emergence rose and things came in later. So, again, always cautiously optimistic, but feel good about the estimate that we have.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Q

Okay. Thank you. And if I could just ask one last one, on Ian, how do you think about it in the context of sort of storms overall? Is this, I don't know if you want to categorize it – one in how many years or just in terms of quartile, decile just how – what – is this reflective of a normal storm you'd expect to see every few years? Or was this truly unusual because of whatever, whichever way it sort of – whatever the path was and everything else in the market?

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Yeah. I think, over my career, I would expect to see another Ian. I wouldn't expect to see any Ian every year for sure. I think, if you take Ian in isolation, actually, and even looking at the vendor models, I think it's at a reasonable return period for that size storm for the Southeast. So I won't give a return period on it. But I would say that it's certainly not something that you should expect to see with great frequency. But this is not something that's out at the tail of the distribution. And I think that the market's responding not specifically to Ian, but it's to the seriality of hurricane losses over the last six years.

Jimmy S. Bhullar
Analyst, JPMorgan Securities LLC

Q

Thank you.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Yes. Thank you.

Operator: We will take our final question from Michael Phillips with Morgan Stanley. Please go ahead.

Michael W. Phillips
Analyst, Morgan Stanley & Co. LLC

Q

Thanks and good morning. Actually, this would be – that last comment, Kevin, would be good for my question. Just one question. Well, there's lots of exuberance...

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Sure.

Michael W. Phillips
Analyst, Morgan Stanley & Co. LLC

Q

...around next year, obviously, with where rates are headed and supply demand imbalances and property cat. But if we take a step back a bit and look further out, where interest rates are today obviously probably means that the ROE threshold expectation for investors has probably also moved up a bit in tandem. So question kind of comes down to your ability to kind of get the no longer 10% that might have been okay before, but maybe the mid-teens ROE going forward, not just next year but over the next couple of years? Because it seems like every time we get something like this, it's inevitable there's going to be capital that comes back in that sort of dampens that ability. So it maybe not be in the near term, but maybe over the next couple of years. So just kind of thoughts on kind of the [indiscernible] (00:59:14) prospects past 2023.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

So, I think investors have an expectation that in order for them to be incentivized to stay in the market, they want returns that are above what they would consider to be adequate. They want excess return. Everything we have done is built a portfolio to give excess return in 2023 and beyond, and that has to be substantially higher than what our economic portfolios were showing from the portfolios we're building. And beyond it out – it's far, far in excess of GAAP returns for sure. Reinsurance as I mentioned in my comments, property cat has to be the highest returning line of business where capacity will lead and that is the sole objective we have for putting property cat out at this renewal.

Michael W. Phillips
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Thank you.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

A

Yes. Thank you.

Operator: At this time, I will turn the call back over to Kevin O'Donnell for any additional and closing remarks. Please go ahead.

Kevin J. O'Donnell
President, Chief Executive Officer & Director, RenaissanceRe Holdings Ltd.

Thanks everybody for participating on today's call. It's an enormously exciting time for a company like us with the hybrid model, the positioning we have, the liquidity, the capital, the opportunity. And I am sitting on the edge of my seat as we go into 2023. Couldn't be more excited about the opportunity and look forward to speaking to you in February. Thank you.

Operator: This concludes the RenaissanceRe's third quarter 2022 earnings call and webcast. Please disconnect your line at this time and have a wonderful day.