Letter to Shareholders

By Kevin O'Donnell
President and Chief Executive Officer

The common thread across changing markets has been our focus on leadership through innovation.

Dear Shareholders,

When I look back on 2016, I am proud of our accomplishments and the shareholder value we delivered. We achieved strong financial performance; deepened and broadened our relationships with customers and brokers; continued to build an attractive casualty and specialty business; effectively executed on our gross-to-net strategy; and strengthened our team. Our most significant accomplishment in 2016, however, is not what changed, but what stayed the same. At the core of our culture and deep in our DNA, we remain the same company we were at our founding 24 years ago – we are still very much RenaissanceRe.

Financial Performance

In 2016, our focus on shareholder value was reflected across a number of financial metrics. We generated net income available to RenaissanceRe common shareholders of $480.6 million and operating income available to RenaissanceRe common shareholders of $339.3 million, resulting in a return on average common equity of 11.0% and an operating return on average common equity of 7.8%. We increased book value per common share by 9.4% and tangible book value per common share plus change in accumulated dividends by 11.4%. Our combined ratio, the sum of our loss ratio and underwriting expense ratio, was 72.5%, which was higher than in prior low-loss years. We expect our underwriting expense ratio to grow as we expand our casualty business, which tends to generate higher loss ratios, but lower volatility. At the end of 2016, we had $4.9 billion of total shareholders' equity, not counting the capital we manage on behalf of private investors. Our total shareholder return in 2016 was 21.6%.

During 2016, we returned $361.0 million to our shareholders through common share buybacks and dividends. We take a long-term view of capital management, with the goal of maximizing shareholder value. Our capital management philosophy remains unchanged, and we primarily seek to deploy capital in our existing businesses. This ensures that we have adequate capital and liquidity to meet our customers' needs. We endeavor to be good stewards of your capital, and have returned more than $1.2 billion to you over the past three years.

Deepening Superior Customer Relationships

A year ago, I set the goal of strengthening and deepening our customer relationships. With risk being scarce and capital abundant, we increased our focus on listening to what customers wanted, and responded with new products and platforms to meet those needs. Now we have a larger, more diversified portfolio supporting our customers across more lines of business than at any other time in our history. We also made significant progress deepening our relationships, with 40% of our accounts now served by our core underwriting platforms in Bermuda, the U.S. and Europe. In 2017, we look forward to growing this number further.

In 2016, we increased our strategic ties to customers by helping them grow their businesses. We worked with them on their toughest risk problems and supported them with new and innovative products.

Our continued recognition that there are two stakeholders in every transaction – the customer and the broker – has been critical to building customer relationships. We value our broker relationships and have worked to strengthen them through open dialogue and collaboration during periods of market stress. As the role of the broker changes, we remain committed to working with them, and believe we will be integral to their success as they evolve.

Growing Casualty and Specialty

Over the last several years, we have built an industry leading casualty and specialty business. This required us to refine tools, construct platforms and hire and train people to serve our customers' and brokers' evolving needs. We leveraged our world class risk management, proprietary technology, and differentiated culture in these new lines and achieved scale and profitability. Casualty and specialty is core to our business, and we continue to demonstrate leadership in many lines, including professional liability, general liability, mortgage and other financial lines, accident and health, regional multi-line and composite specialty.

In 2016, our casualty and specialty platform, including the business we write through RenaissanceRe Syndicate 1458 at Lloyd's, continued to grow. We increased signings on existing programs, where customers looked to consolidate their panels, and we wrote more lines of business with existing customers. Notably, we now derive more than half of our gross premiums written from casualty and specialty business, a big change from the past.

Customers and brokers have long recognized our core strengths are building risk distributions, assessing correlations and determining tail risk. We have translated these strengths to our casualty and specialty business, and they are fundamental elements of our underwriting process in each new line of business that we add to our portfolio.

Executing on Gross-to-Net

As a leader in matching desirable risk with efficient capital, our gross-to-net strategy enables us to build portfolios that seek to optimize returns across a spectrum of potential outcomes. Underwriting desirable risk is the first step to constructing a superior portfolio, but by diversifying the capital supporting these portfolios, we improve our expected returns.

Our gross-to-net strategy is primarily focused on three areas: (i) changing our cessions to respond to market conditions; (ii) maintaining a healthy level of capital to support future growth; and (iii) protecting our capital against large losses. In 2016, we purchased additional retrocessional coverage across our business lines, ceding more than 35% of our gross written premiums, and retaining less than half the premiums in our property catastrophe line of business. In short, we reduced risk because we were paid less to take it. This looks expensive in a low-cat environment, but as I have said many times in the past, there is a cost associated with doing the right thing in difficult markets. We believe our gross-to-net strategy is the right one for building shareholder value over the long term.

An additional benefit of our gross-to-net strategy is that it helps us to maintain a consistent gross position with our customers. This means we can remain consistent partners to our customers while maintaining underwriting discipline, regardless of pricing cycles. By being a consistent partner, we preserve our access to potentially desirable risk. Additionally, by using a wide variety of capital sources to reduce our net position, we lower our balance sheet risk at a time when prices are declining.

We have translated this same gross-to-net strategy to our casualty and specialty portfolios in order to manage our net retained risk and transform risk income into fee income. By applying the gross-to-net skills we originally developed in property catastrophe, our casualty and specialty portfolio has a better risk-adjusted return profile than it otherwise would on a gross basis.

Enduring Value Proposition

Even in today's challenging market, our property catastrophe risk appetite remains unchanged, but our discipline requires us to write less than we want. Given a better market, we could grow dramatically on both our own capital and the capital we manage on behalf of others.

In a market characterized by pricing pressures, both cyclical and secular, we are proud to have a value proposition that extends beyond price. Our customers and brokers recognize the importance of our problem-solving capabilities and our ability to match desirable risk with efficient capital. They value the integrated solutions we offer through our underwriting platforms and our joint ventures to help their businesses grow, and the expertise provided by our scientists at Weather Predict Consulting Inc.

We have a demonstrated track record of recognizing market trends and continue to act decisively to maintain our leadership position. In 1992, we created a new business model for property catastrophe following Hurricane Andrew; in 1999 we recognized the benefits of third-party capital and formed Top Layer Re; and, following the credit crisis, we began the process of building a global, diversified operating platform. More recently, we foresaw the consolidation of reinsurance panels across several business lines and moved early and efficiently to acquire Platinum ahead of a wave of consolidation. The common thread across changing markets has been our focus on leadership through innovation. The result of that leadership is a powerful, flexible and nimble platform powering a differentiated ability to match desirable risk with efficient capital across several platforms, supporting our customers' evolving needs and delivering shareholder value.

Strengthening the Team

Our executive management and key underwriting team is strong, stable and experienced. They have led RenaissanceRe through a range of market cycles and are prepared to continue our track record of creating shareholder value through customer-focused innovation. They will lead our company and the broader market through the challenges ahead.

In 2016, Robert Qutub came aboard as our Chief Financial Officer; David Marra was appointed head of our U.S. platform; and we announced that Aditya Dutt would expand his role to include that of Treasurer in 2017. We also welcomed Carol Sanders to our Board of Directors.

The bench strength of our team was also reflected in a number of senior leadership roles we were able to fill with internal talent. In addition, we expanded the technical expertise on our casualty and specialty teams at RenaissanceRe Syndicate 1458 as well as in our ventures unit, maintaining operational efficiency while strengthening our ability to meet the changing needs of our customers.

Four Vectors of Influence

As proud as we are of all we accomplished in 2016, we expect many of the challenges facing the industry will continue to intensify in 2017. Ours has been an insular business that was only recently discovered by financial services, putting us on the road to maturity. To succeed, we must continue to focus on our customers, constantly innovate, and improve our efficiency. We believe our products will move from being managed as another risk product to being managed as another capital product, and increasingly CEOs and CFOs will be making the buying decisions.

Under this new paradigm, successful companies will need to find ways to navigate several emerging trends, which I refer to as the "four vectors of influence." Each of these vectors has the potential to radically change the supply chain of risk and the way the industry delivers value to shareholders.

The first vector of influence: redundant links in the risk chain are disappearing. By removing redundant links, successful companies will create a win-win scenario where they capture more of the economics for themselves while reducing costs for ultimate customers.

The second vector of influence: making the remaining links in the chain more efficient. In addition to removing redundant links, successful companies will focus on reducing underwriting and other expenses, enhancing their own returns and reducing costs for customers. They will look to provide services currently offered by other participants in the chain and try to take on additional links, i.e., capture more of the services that others are providing. For us, this is an area of opportunity, as we have the capabilities to partner with firms in different ways and can provide our product with increasing flexibility.

The third vector of influence: continuing capital-side innovation. Third-party capital, which has traditionally been focused on reinsurance, will attempt to diversify vertically and move closer to the customer. It remains to be seen how successful capital will be in this endeavor, but we anticipate increased efforts here. This capital has been much more nimble than most understand. In 2006, after the market dislocation caused by Hurricanes Katrina, Rita and Wilma, the majority of our investors were hedge funds. They moved quickly when they saw there was a great opportunity. Additionally, conventional wisdom expected third-party capital would move horizontally across our business and write other short-tail lines. Instead, we have seen third-party capital being much more committed to property and moving vertically, trying to get closer to the customer. We have managed third-party capital in some form for over 20 years and are the preferred manager in many classes. We believe that third-party capital will remain an important part of our business and it will continue to evolve, looking for new ways to take risk.

The fourth vector of influence: greater impact from technology or "FinTech." Successful companies, including new entrants from outside the traditional insurance sector, will employ new approaches to underwriting risks and interacting with customers. The use of algorithms and breakthrough technologies has the potential to significantly disrupt our industry and radically change how insurance is bought, sold and reinsured.

I expect each of these vectors will become increasingly influential over time. They will also help to distinguish the successful companies from the ones left behind.

Ready for the Future

RenaissanceRe has continued to grow stronger across our business and enhance shareholder value. We have more resources, a broader set of underwriting capabilities, better access to multiple forms of capital, and a bigger global footprint than ever before. We have globally coordinated underwriting capabilities in Bermuda, New York, Chicago, London and Singapore. We can trade with customers of any size, in any time zone, and across any reinsurance product.

As a result, we are stronger today than ever before and better able to handle a broader set of future market states. By maintaining a focus on capital strength, flexibility, shareholder value and, most importantly, serving our clients, we believe we have embraced and adapted to the many challenges facing our industry. We have a well-integrated enterprise risk management framework that allows us to stay coordinated and nimble as we navigate these pressures and we are confident that our core strengths – superior customer relationships, superior capital management and superior risk selection – will continue to drive our leadership going forward.

Sincerely,

Kevin J. O'Donnell
President and Chief Executive Officer