Letter to Shareholders

By Kevin O'Donnell
President and Chief Executive Officer

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Dear Shareholders,

2019 was a defining year for RenaissanceRe. We organically grew our business in a favorable but complex market. At the same time, we completed the acquisition of Tokio Millennium Re ("TMR"), increasing our global reach, capital efficiency and depth of human capital. Our growth occurred across our segments and platforms and has resulted in the largest underwriting portfolio in our history, and, if our assumptions prove correct, the most profitable. Our success was the culmination of a well-planned and aggressively executed strategy where our expanded footprint, preferential access to partner capital and strong customer relationships uniquely positioned us to recognize and benefit from positive market trends.

It was also the third year in a row characterized by multiple large, catastrophic events. Since our inception, we have been in the forefront of protecting communities from some of the most difficult challenges they face, whether environmental, social or geopolitical in nature. This year yet again underscored the connection between the reinsurance industry and social and environmental change, as the world grappled with the increasing impact of climate change and the related growing insurance protection gap.

These challenges will continue to influence the next decade of risk transfer. The impact of climate change brings responsibilities as well as opportunities, requiring the industry to adopt a more disciplined and rigorous approach to modeling and forward-looking partnerships with customers, brokers and the public sector. At the same time, reinsurers who have the tools to understand these evolving risk dynamics will find profitable opportunities to grow and ultimately create better outcomes for both society and shareholders.

I. Our Performance in 2019

Financial Performance

I am proud of our strong financial performance in 2019, where we reported net income available to RenaissanceRe common shareholders of $712 million and operating income available to RenaissanceRe common shareholders of $403 million. Our book value per common share increased by 15.7% and our tangible book value per common share plus change in accumulated dividends increased by 17.9%. For the full year, our return on average common equity was 14.1% and our operating return on average common equity was 8.0%. Additionally, we paid $2.3 billion in gross claims, helping to rebuild communities and lives.

With an improving rate environment and an extended global reach, we found many attractive opportunities to deploy capital in 2019, and as such did not repurchase any common shares. In 2020, we joined a small and distinguished group of companies by raising our quarterly dividend for the 25th consecutive year.

Loss Creep and 2019 Losses

Our industry experienced several large catastrophes during the year, most notably Typhoon Hagibis in Japan. Loss creep on prior year events, particularly in Florida and Japan, also continued to beset the industry. I am proud of the way our team has helped our customers manage both current and prior year losses. RenaissanceRe's value proposition lies in quantifying risk, providing efficient risk transfer and absorbing large losses when they occur. This allows us to contribute to the resilience of communities when they need us most and reinforces our value as a trusted partner to our customers.

In addition to loss creep, the Florida domestic market also faces deep structural challenges. Fraud combined with climate change and sea level rise have increased the risk of loss. At the same time, Florida is the peak zone for property catastrophe risk in the world, resulting in it being very capital intensive to protect. Over the past decade, rate decreases have taken out much of the margin in Florida business, making it relatively less attractive. As a result, we have increasingly diversified away from Florida and into more attractive business, including other forms of Southeast hurricane risk. Our Florida partners are very important to us and we hope we can continue to support them. That said, Florida is a market that needs to improve on multiple fronts, just one of which is rate.

Tokio Millennium Re

It has been over a year since we acquired TMR. We quickly presented a unified front to the market and have been speaking with one voice, executing a consistent strategy and operating one underwriting system with a single view of risk.

In my view, we have far exceeded the goals we set out for ourselves at the onset of the transaction, both financially and strategically. Financially, by the end of Q1 2020, we will exceed our most important goal of achieving an after-tax earnings run-rate contribution greater than $100 million. The addition of TMR also improved our capital and operational leverage. In the last three years, we more than doubled our gross premiums written while growing shareholders' equity by 22%. Likewise, direct expenses, which are the sum of corporate and operational expenses, only increased by 13% over the same period after adjusting for $50 million in transaction and integration expenses associated with the acquisition of TMR.

Strategically, our goal was to gain increased penetration into the reinsurance market at a time when desirable risk was scarce. Our customers wanted to expand their relationships with us on more comprehensive, global solutions, and we wanted to build on our growing leadership in the Casualty & Specialty markets. Post-acquisition, we have retained the business we find attractive and strengthened our existing customer relationships. The Casualty market has improved and, in many cases, we enhanced terms at renewal more than originally anticipated, further increasing the profitability of the TMR portfolio. Lastly, and crucially, we have bolstered our human capital through the addition of many new, talented employees who bring a diverse set of skills and experience to our already strong team.

Due to our successful integration of TMR, we were able to enter 2020 in a strong position to capture opportunities in an improving market. I remain confident that the TMR acquisition will continue to make a significant contribution to shareholder value in the years to come.

II. Aspiring to be the Best Underwriter

Agility in Gross-to-Net Strategy

In my 2017 Letter to Shareholders, I explained that our value proposition extends beyond price. While market conditions have changed significantly since 2017, this sentiment remains as true as ever. One of our key strategic advantages is the ability to deliver value to our stakeholders under all market conditions. Our growth in scale and diversity has only heightened this ability.

Our goal is to construct the most efficient portfolio of risk possible, and we have multiple levers for achieving this. An improving rate environment is advantageous, but is only one lever among many. Another important lever is ceded retrocessional coverage, which has contributed to the efficiency of our portfolio over the last several years. Continuing large losses in the retrocessional space have reduced capacity in this previously oversubscribed market and resulted in material rate increases. As a result, we exposed more of our underwriting capital, buying less retrocessional coverage and selling more retrocessional protection.

Our capital flexibility and increased scale facilitated this efficient outcome. In 2019 and through early 2020, we raised an additional $1.8 billion of capital through our managed joint ventures and third-party capital vehicles. In addition, we raised $400 million of catastrophe bond capacity in our latest Mona Lisa offering. Finally, our increased scale and diversification serves as an additional buffer to potential large losses, which is evident from our strong performance in 2019 despite a net negative impact on net income available to RenaissanceRe common shareholders of $348 million related to large loss events.

Managing Casualty Risk

We have consistently constructed our Casualty & Specialty portfolio to have an attractive return on risk and, as we continue to achieve scale in this segment, should increasingly benefit from its profitable and diversifying earnings stream. The profit we achieved in our Casualty & Specialty segment in 2019 was a result of disciplined underwriting and astute portfolio construction.

In the second half of 2019, markets began to recognize the growing impact of loss inflation on many Casualty lines, with excess casualty and commercial auto among the most affected. Individual jury awards between $100 million and $200 million are becoming increasingly prevalent. As a result, the industry has struggled to manage growing adverse development on prior years. We recognized these trends early, reducing our excess casualty business materially and avoiding commercial auto. In addition, we have the benefit of an adverse development cover protecting the business we acquired from TMR.

Not all Casualty risks are created equal and it takes many years for a differentiated result to emerge in a portfolio of long-tail risk. Our underwriters have navigated this market by being rigorous about selecting the best risks, overweighting our portfolio with more attractive classes while avoiding the most challenging ones. We were able to do this in part due to our investment during the early stages of our Casualty business in tools to track our performance at both the individual deal and portfolio level, as robust benchmarking models are required to differentiate among the best risks. In addition, our Integrated System plays a particularly critical role as it takes coordination between underwriting, pricing, claims and reserving teams to identify trends early and act on them expeditiously.

Looking forward, pricing is not yet adequate for the Casualty business overall, but I remain confident the market will continue to require rate increases over the next several renewals and will move toward rate adequacy.

Pursuing Superior Returns

Our Integrated System and Gross-to-Net Strategy enable us to bring the most efficient capital to the most desirable risk in order to produce superior returns. For us, being the Best Underwriter and producing superior returns are synonymous.

We believe that reinsurance markets are less efficient than capital markets. Consequently, our efforts are directed towards accessing capital markets and redeploying its very efficient capital into attractive reinsurance risk.

This strategy is predicated on the validity of two baseline assumptions. First, that reinsurance markets are in fact less efficient. Second, that we demonstrate sufficient skill to optimize our own portfolio in the context of broader market inefficiency.

Why do we believe the reinsurance market is generally less efficient? There are two primary reasons.

First, unlike capital markets, considerable information asymmetries exist in the reinsurance marketplace. Reducing these asymmetries requires markets to make a significant investment in people and tools to capture and quantify all the sources of exposure to a particular risk.

Second, catastrophic risk is difficult for the market to efficiently manage, in part because it is characterized by a small number of very large losses, the occurrence of which are infrequent and unpredictable. These events drive the tail of frequency distributions, and as such are heavily capital consumptive. It takes great underwriting skill and sufficient market scale to effectively diversify this risk.

Our ability to benefit from this inefficiency derives from a number of practices that are core to our strategy:

1. Only write profitable business. Find the best business in profitable markets and not the one good deal in a bad market.

2. Match desirable risk with efficient capital. Match profitable risk with the most efficient capital available to maximize return. Efficient capital can make good business better, but it cannot make bad business good.

3. Understand the risk. Seek to understand the full distribution of outcomes by developing a more granular understanding of a particular risk and incorporating that understanding into our models.

4. Reserve discipline. A rigorous approach to setting reserves is an important element of being the Best Underwriter. Beyond the obvious provision of sufficient resources to pay claims, reserves offer a lens on pricing adequacy. Development trends in Casualty loss triangles influence the pricing of new business. Consequently, optimism in past year reserves propagates poor pricing decisions into the future.

5. Pay claims promptly. Relationships with customers are built on a foundation of trust that is based on the willingness and ability to pay claims promptly.

6. Alignment with capital. Strong alignment with capital providers helps prevent adverse selection. This alignment is achieved through clear underwriting guidelines for apportioning risk between owned and managed entities, strong internal controls and “skin in the game”. Alignment with capital means experiencing a loss when our partners pay a loss, not simply making less when they suffer material losses.

Drivers of Profit

As we move into 2020, interest rates continue to test historic lows, and in some cases are even negative, placing substantial drag on future investment performance across our industry. While low interest rates impact the whole market, investment income is only one of the three primary drivers of our profit — the other two being underwriting income and fee income.

First and foremost, our vision is to be the Best Underwriter, and profitable underwriting has always been our focus. Our ability to generate an underwriting profit will become increasingly valuable in a continuing low yield environment. At the same time, low interest rates should put additional upward pressure on reinsurance rates, the benefit of which should disproportionately accrue to the best underwriters.

Our second driver of profit is fee income. Fees will become an increasingly important component of our earnings stream as our Ventures business continues to grow. This growth is attributable to the hybrid model of owned and managed capital that we pioneered. Investors recognize the value of alignment, strong governance and superior underwriting. From our perspective, partner capital helps us solve more of our customers' biggest problems.

The third driver of profit is investment income. Over the last decade, as we have increased scale and diversified business mix, our invested assets have grown materially, more than offsetting the impact of declining interest rates. We have always aimed to be prudent with our investments and will not stretch for yield in a continuing low interest rate and credit spread environment.

Due to our three drivers of profit, I expect that we will outperform in a continuing low interest rate environment.

III. Our Corporate Purpose

Our Role in Ameliorating Climate Change Risk

For over 25 years, we have been a leader in understanding and modeling climate change risk, proactively engaging with our stakeholders to promote mitigation and disaster preparedness in order to increase the resiliency and sustainability of communities throughout the world.

We believe that the frequency and severity of natural catastrophes have increased due to human-driven climate change. Already in California, the wildfire season has shifted and now overlaps more with the wind season, making extreme conflagrations increasingly prevalent. Our scientists predict that extreme weather events will be more frequent and more severe. There will be increasing wind and rain risk from tropical cyclones. A higher proportion of hurricanes will reach extreme category 4 and 5 levels. Sea level rise will exacerbate storm surge.

Anthropogenic climate change is amplifying extreme weather events. We have incorporated this reality into our catastrophe models, increasing hazard functions above where commercially available models are set. One of the advantages of having an independent view of risk is that we can easily adapt our proprietary models to reflect the evolving climate paradigm.

As rising greenhouse gas levels amplify the risk of climate change, we are uniquely positioned to anticipate and absorb the increased economic losses that will result. I believe RenaissanceRe can best advance positive environmental and social change by ameliorating climate change risk in two important ways.

First — we can help protect those most vulnerable to climate change. The availability of insurance and other forms of risk financing is critical to protecting communities around the world from the economic impacts of increasingly severe weather. One of the most efficient forms of capital to provide this protection is reinsurance.

Second — anthropogenic climate change means polluters are getting a “free lunch”, damaging the environment without paying the economic cost. This “free lunch” makes the world increasingly more expensive to protect, and prevents society from achieving a Pareto optimal outcome — the best possible outcome for the largest number of people. If the economic cost of this pollution can be accurately reflected, it will act as an incentive to reduce greenhouse gas emissions.

Reinsurance acts as a mechanism to reflect the costs of climate change. This outcome is only possible if reinsurers explicitly factor the impacts of climate change into their models and charge an appropriate price for the increase in risk. Ultimately, this should incentivize reduced greenhouse gas emissions and result in an increasingly optimal benefit to society.

Benefitting All Stakeholders

Attention to environmental, social and governance (ESG) issues has always been a central part of our corporate strategy. We embraced a commitment to benefit all of our stakeholders decades ago, and it remains firmly embedded in our values today. For example, our core principle of *Respect* requires “treating all of our stakeholders with a genuine sense of worth for their person.” Similarly, our principle of *Integrity* requires “maintaining an approach to all dealings that is upright, honest and morally sound.” Our commitment to being a trusted partner is also evident through our steady focus on building superior customer relationships and generous charitable giving program.

We have consistently asserted that our employees are our most valuable asset. As a result, we are rigorous in our hiring practices and invest heavily in professional development. In addition to existing programs, in 2019 we launched two customized employee development initiatives to further build their capabilities and skills. We are pleased with the diversity of backgrounds and experiences that our new employees bring us and are proud of our ability to retain talent, with about 25% of our employees having a tenure of over 10 years.

Beyond direct stakeholders, I believe our beneficial impact is much broader. In my 2017 letter, I wrote extensively on the social value proposition of reinsurance, and our role in closing the protection gap and improving the overall well-being of society.

That said, our mission is to produce superior returns, by which we mean maximizing long-term shareholder value. We do this by being a trusted, long-term partner to our customers for assessing and managing risk, delivering responsive solutions, and keeping our promises.

Serving stakeholders and maximizing shareholder value are complementary values. I believe it is not possible to achieve the latter without first focusing on the former. We have always been good stewards of the capital that our shareholders and other partners have entrusted to us and will continue to deploy that capital consistent with our mission and our principles.

In Closing

Last year, I closed my letter by recognizing the challenge that we would face in 2019 growing our business while simultaneously integrating TMR. I am very proud of the RenaissanceRe team, who worked hard to accomplish these strategic goals and more than exceeded our expectations. We begin 2020 looking different than we did one year ago, with a larger and much more diversified business that I believe will make us more resilient and help us to be a broader and better partner to our stakeholders.

Sincerely,

Kevin J. O’Donnell
President and Chief Executive Officer