

RENAISSANCERE HOLDINGS LTD

Form ARS

April 12, 2012

























































UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

Q ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 001-14428

RENAISSANCERE HOLDINGS LTD.

(Exact Name Of Registrant As Specified In Its Charter)

Bermuda

98-014-1974

(State or Other Jurisdiction of  
Incorporation or Organization)

(I.R.S. Employer  
Identification Number)

Renaissance House, 12 Crow Lane, Pembroke HM 19 Bermuda

(Address of Principal Executive Offices)

(441) 295-4513

(Registrant's telephone number)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common Shares, Par Value \$1.00 per share

New York Stock Exchange, Inc.

Series C 6.08% Preference Shares, Par Value \$1.00 per share

New York Stock Exchange, Inc.

Series D 6.60% Preference Shares, Par Value \$1.00 per share

New York Stock Exchange, Inc.

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Act. Yes Q No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No Q

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes Q No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes Q No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company, as defined in Rule 12b-2 of the Act. Large accelerated filer Q, Accelerated filer o, Non-accelerated filer o, Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No Q

The aggregate market value of Common Shares held by nonaffiliates of the registrant at June 30, 2011 was \$3,347.1 million based on the closing sale price of the Common Shares on the New York Stock Exchange on that date.

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The number of Common Shares outstanding at February 15, 2012 was 51,499,959.

The information required by Part III of this report, to the extent not set forth herein, is incorporated by reference to the registrant's Definitive Proxy Statement to be filed in respect of our 2012 Annual General Meeting of Shareholders.

RENAISSANCERE HOLDINGS LTD.  
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#### NOTE ON FORWARD-LOOKING STATEMENTS

This Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward-looking statements made by, or on behalf of, us.

In particular, statements using words such as “may”, “should”, “estimate”, “expect”, “anticipate”, “intends”, “believe”, “predict”, “potential”, or words of similar import generally involve forward-looking statements. For example, we may include certain forward-looking statements in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” with regard to trends in results, prices, volumes, operations, investment results, margins, combined ratios, reserves, market conditions, risk management and exchange rates. This Form 10-K also contains forward-looking statements with respect to our business and industry, such as those relating to our strategy and management objectives, market standing and product volumes, insured losses from loss events, government initiatives and regulatory matters affecting the reinsurance and insurance industries.

In light of the risks and uncertainties inherent in all future projections, the inclusion of forward-looking statements in this report should not be considered as a representation by us or any other person that our objectives or plans will be achieved. Numerous factors could cause our actual results to differ materially from those addressed by the forward-looking statements, including the following:

- we are exposed to significant losses from catastrophic events and other exposures that we cover, which we expect to cause significant volatility in our financial results from time to time;
- the frequency and severity of catastrophic events or other events which we cover could exceed our estimates and cause losses greater than we expect;
- the risk of the lowering or loss of any of the ratings of RenaissanceRe Holdings Ltd. or of one or more of our subsidiaries or changes in the policies or practices of the rating agencies;
- risks associated with appropriately modeling, pricing for, and contractually addressing new or potential factors in loss emergence, such as the trend toward potentially significant global warming and other aspects of climate change which have the potential to adversely affect our business, which could cause us to underestimate our exposures and potentially adversely impact our financial results;
- risks due to our dependence on a few insurance and reinsurance brokers for the preponderance of our revenue, a risk we believe is increasing as a larger portion of our business is provided by a small number of these brokers;
- the risk that our customers may fail to make premium payments due to us (a risk that we believe has increased in certain of our key markets), as well as the risk of failures of our reinsurers, brokers or other counterparties to honor their obligations to us, including as regards to the large catastrophic events of 2010 and 2011, and also including their obligations to make third party payments for which we might be liable;
- we operate in a highly competitive environment, which we expect to increase over time from new competition from traditional and non-traditional participants, particularly as capital markets products provide alternatives and replacements for our more traditional reinsurance and insurance products, as new entrants or existing competitors attempt to replicate our business model, and as a result of consolidation in the (re)insurance industry;
- the inherent uncertainties in our reserving process, particularly as regards to the large catastrophic events of 2010 and 2011, and also including those related to the 2005 and 2008 catastrophes, which uncertainties could increase as the product classes we offer evolve over time;
- risks relating to adverse legislative developments that could reduce the size of the private markets we serve, or impede their future growth, including proposals to shift U.S. catastrophe risks to federal mechanisms; proposals at the state level in the United States (“U.S.”), including the risk of new legislation in Florida to expand the reinsurance coverages offered by the Florida Hurricane Catastrophe Fund (“FHCF”) and the insurance policies written by state-sponsored

Citizens Property

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Insurance Corporation (“Citizens”), or failing to implement reforms to reduce such coverages; and the risk that new legislation will be enacted in the international markets we serve which might reduce market opportunities in the private sector, weaken our customers or otherwise adversely impact us;

- risks relating to the inability, or delay, in the claims paying ability of Citizens, FHCF or of private market participants in Florida, particularly following a large windstorm or of multiple smaller storms, which we believe would further weaken or destabilize the Florida market and give rise to an unpredictable range of impacts which might be adverse, perhaps materially so;

changes in insurance regulations in the U.S. or other jurisdictions in which we operate, including risks arising out of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the “Dodd-Frank Act”) or its related rule making or implementation;

the risk of potential challenges to the Company's claim of exemption from insurance regulation under certain current laws and the risk of increased global regulation of the insurance and reinsurance industry;

the passage of federal or state legislation subjecting Renaissance Reinsurance Ltd. (“Renaissance Reinsurance”) or our other Bermuda subsidiaries to supervision, regulation or taxation in the U.S. or other jurisdictions in which we operate, or increasing the taxation of business ceded to us;

a contention by the Internal Revenue Service that Renaissance Reinsurance, or any of our other Bermuda subsidiaries, is subject to U.S. taxation;

risks associated with implementing our business strategies and initiatives, including risks related to developing or enhancing the operations, controls and other infrastructure necessary in respect of our more recent, new or proposed initiatives;

the risk that there could be regulatory or legislative changes adversely impacting us, as a Bermuda-based company, relative to our competitors, or actions taken by multinational organizations having such an impact;

risks associated with highly subjective judgments, such as valuing our more illiquid assets, and determining the impairments taken on our investments, which could impact our financial position or operating results;

risks associated with our investment portfolio, including the risk that investment managers may breach our investment guidelines, or the inability of such guidelines to mitigate risks arising out of the ongoing period of relative economic weakness;

risks associated with inflation, which could cause loss costs to increase, and impact the performance of our investment portfolio, thereby adversely impacting our financial position or operating results;

the risk we might be bound to policyholder obligations beyond our underwriting intent, including due to emerging claims and coverage issues;

risks associated with counterparty credit risk, including with respect to reinsurance brokers, customers, agents, retrocessionaires, capital providers, parties associated with our investment portfolio and/or our energy trading business, and premiums and other receivables owed to us, which risks we believe continue to be heightened as a result of the ongoing period of relative economic weakness;

loss of services of any one of our key senior officers, or difficulties associated with the transition of new members of our senior management team;

risks associated with our increased allocation of capital to our weather and energy risk management operations, including the risks that these operations may give rise to unforeseen or unanticipated losses;

the risk that ongoing or future industry regulatory developments will disrupt our business, or that of our business partners, or mandate changes in industry practices in ways that increase our costs, decrease our revenues or require us to alter aspects of the way we do business;

acts of terrorism, war or political unrest;



risks that the advent of the new U.S. Federal Insurance Office ("FIO") or other related developments may adversely impact our business, or significantly increase our operating costs;

operational risks, including system or human failures;

risks in connection with our management of third party capital;

changes in economic conditions, including interest rate, currency, equity and credit conditions which could affect our investment portfolio or declines in our investment returns for other reasons which could reduce our profitability and hinder our ability to pay claims promptly in accordance with our strategy, which risks we believe are currently enhanced in light of the ongoing period of relative economic weakness, both globally, particularly in respect of Eurozone countries and companies, and in the U.S.;

the impact of the perceived inability of the U.S. to continue to pay its debt obligations when due, including the downgrade of U.S. government securities by Standard & Poor's ("S&P"), and the resulting effect on the value of securities in our investment portfolio as well as the uncertainty in the market generally;

risks relating to failure to comply with covenants in our debt agreements;

risks relating to the inability of our operating subsidiaries to declare and pay dividends to RenaissanceRe Holdings Ltd.;

risks that we may require additional capital in the future, particularly after a catastrophic event or to support potential growth opportunities in our business, which may not be available or may be available only on unfavorable terms;

risks that certain of our new or potentially expanding business lines could have a significant negative impact on our financial results or cause significant volatility in our results for any particular period;

- risks arising out of possible changes in the distribution or placement of risks due to increased consolidation of customers or insurance and reinsurance brokers, or from potential changes in their business practices which may be required by future regulatory changes; and
- risks relating to changes in regulatory regimes and/or accounting rules, which could result in significant changes to our financial results, including but not limited to, the European Union ("EU") directive concerning capital adequacy, risk management and regulatory reporting for insurers.

The factors listed above should not be construed as exhaustive. Certain of these risk factors and others are described in more detail in "Item 1A. Risk Factors" below. We undertake no obligation to release publicly the results of any future revisions we may make to forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

## PART I

### ITEM 1. BUSINESS

Unless the context otherwise requires, references in this Form 10-K to “RenaissanceRe” or the “Company” mean RenaissanceRe Holdings Ltd. and its subsidiaries, which principally include, but are not limited to, Renaissance Reinsurance, Glencoe Insurance Ltd. (“Glencoe”), Renaissance Reinsurance of Europe (“ROE”), Renaissance Trading Ltd. (“Renaissance Trading”), RenRe Energy Advisors Ltd. (“REAL”) and the Company’s Lloyd’s syndicate, RenaissanceRe Syndicate 1458 (“Syndicate 1458”).

We also underwrite reinsurance on behalf of joint ventures, principally including Top Layer Reinsurance Ltd. (“Top Layer Re”), recorded under the equity method of accounting, and DaVinci Reinsurance Ltd. (“DaVinci”). The financial results of DaVinci and DaVinci’s parent company, DaVinciRe Holdings Ltd. (“DaVinciRe”), are consolidated in our financial statements. For your convenience, we have included a “Glossary of Selected Insurance and Reinsurance Terms”. All dollar amounts referred to in this Form 10-K are in U.S. dollars unless otherwise indicated. Any discrepancies in the tables included herein between the amounts listed and the totals thereof are due to rounding.

#### GENERAL

RenaissanceRe was established in Bermuda in 1993 to write principally property catastrophe reinsurance and today is a leading global provider of reinsurance and insurance coverages and related services. Our aspiration is to be the world’s best underwriter of high-severity, low frequency risks. Through our operating subsidiaries, we seek to produce superior returns for our shareholders by being a trusted, long-term partner to our customers, for assessing and managing risk, delivering responsive solutions, and keeping our promises. We accomplish this by leveraging our core capabilities of risk assessment and information management, and by investing in our capabilities to serve our customers across the cycles that have historically characterized our markets. Overall, our strategy focuses on superior risk selection, customer relationships and capital management. We provide value to our customers and joint venture partners in the form of financial security, innovative products, and responsive service. We are known as a leader in paying valid reinsurance claims promptly. We principally measure our financial success through long-term growth in tangible book value per common share plus the change in accumulated dividends, which we believe is the most appropriate measure of our Company’s financial performance, and believe we have delivered superior performance in respect of this measure over time.

Our core products include property catastrophe reinsurance, which we primarily write through our principal operating subsidiary Renaissance Reinsurance, our Lloyd’s syndicate, Syndicate 1458, and joint ventures, principally DaVinci and Top Layer Re; specialty reinsurance risks written through Renaissance Reinsurance, Syndicate 1458 and DaVinci; and other insurance products primarily written through Syndicate 1458. We believe that we are one of the world’s leading providers of property catastrophe reinsurance. We also believe we have a strong position in certain specialty reinsurance lines of business. Our reinsurance and insurance products are principally distributed through intermediaries, with whom we seek to cultivate strong relationships.

#### Segments

As described in more detail below under “Business Segments”, our reportable segments include: (1) Reinsurance, which includes catastrophe reinsurance, specialty reinsurance and certain property catastrophe and specialty joint ventures, (2) Lloyd’s, which includes reinsurance and insurance business written through Syndicate 1458, and (3) Insurance, which includes the Bermuda-based insurance operations of our former Insurance segment which were not sold pursuant to the Stock Purchase Agreement with QBE. In addition, our Other category primarily reflects our strategic investments, weather and energy risk management operations, investments unit, corporate expenses, capital servicing costs and noncontrolling interests.

For the year ended December 31, 2011, our Reinsurance, Lloyd’s and Insurance segments accounted for 92.2%, 7.8% and 0.0%, respectively, of our total consolidated gross premiums written. We currently expect contributions from our Lloyd’s segment to increase over time, on both an absolute and relative basis, although we cannot assure you we will succeed in meeting this goal. Financial data relating to our segments is included in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.”



## CORPORATE STRATEGY

Our mission is to produce superior returns for our shareholders by being a trusted, long-term partner to our customers, for assessing and managing risk, delivering responsive solutions, and keeping our promises. Our aspiration is to be the world's best underwriter of high-severity, low frequency risks. Our vision is to be a leader in select financial services through our people and culture, expertise in risk, and passion for exceeding customers' expectations.

Since our inception, we have cultivated and endeavor to preserve certain competitive advantages that position us to fulfill our strategic objectives. We believe these competitive advantages include:

**Superior Risk Selection.** We seek to build a portfolio of risks that produces an attractive return on utilized capital.

We develop a perspective of the risk in each business opportunity using both our underwriters' expertise and sophisticated risk selection techniques including computer models and databases, such as Renaissance Exposure Management System ("REMS®"). We pursue a disciplined approach to underwriting and select only those risks that we believe will produce a portfolio with an attractive return, subject to prudent risk constraints. We manage our portfolio of risks dynamically, both within sub-portfolios and across the Company.

**Superior Customer Relationships.** We believe our modeling and technical expertise, and the risk management advice that we provide our customers, has enabled us to become a provider of first choice in many lines of business to our customers worldwide. We seek to offer stable, predictable, and consistent risk-based pricing and a prompt turnaround on our claims.

**Superior Capital Management.** We seek to write as much attractively priced business as is available to us and then manage our capital accordingly. We generally seek to raise capital when we forecast an increased demand in the market, at times by accessing capital through joint ventures or other structures, and seek to return capital to our shareholders or joint venture investors when the demand for our coverages appears to decline and when we believe a return of capital would be beneficial to our shareholders or joint venture investors. In using joint ventures, we intend to leverage our access to business and our underwriting capabilities on an efficient capital base, develop fee income, generate profit commissions and diversify our portfolio. We routinely evaluate and review potential joint venture opportunities and strategic investments.

We believe we are well positioned to fulfill these objectives by virtue of the experience and skill of our management team, our significant financial strength, and our strong relationships with brokers and customers. In addition, we believe our superior service, our proprietary modeling technology, and our extensive business relationships, which have enabled us to become a leader in the property catastrophe reinsurance market, will be instrumental in allowing us to achieve our strategic objectives. In particular, we believe our strategy, high performance culture, and commitment to our customers and joint venture partners permit us to differentiate ourselves by offering specialized services and products at times and in markets where capacity and alternatives may be limited.

## BUSINESS SEGMENTS

### Reinsurance Segment

Our Reinsurance segment is comprised of two main units: 1) property catastrophe reinsurance, primarily written through Renaissance Reinsurance and DaVinci, and 2) specialty reinsurance, primarily written through Renaissance Reinsurance and DaVinci. Our Reinsurance segment is managed by our Global Chief Underwriting Officer, who leads a team of underwriters, risk modelers and other industry professionals, who have access to our proprietary risk management, underwriting and modeling resources and tools. We believe the expertise of our underwriting and modeling team and our proprietary analytic tools, together with superior customer service, provide us with a significant competitive advantage.

Our portfolio of business has continued to be increasingly characterized by relatively large transactions with ceding companies with whom we do business, although no current relationship exceeds 10% of our gross premiums written. Accordingly, our gross premiums written are subject to significant fluctuations depending on our success in maintaining or expanding our relationships with these large customers. We market our reinsurance products worldwide exclusively through brokers, whose market has become extremely consolidated in recent years. In 2011, three brokerage firms accounted for 90.7% of our Reinsurance

segment gross premiums written. We believe that recent market dynamics, and trends in our industry in respect of potential future consolidation, have increased our exposure to the risks of broker, client and counterparty concentration.

The following table shows our total Reinsurance segment gross premiums written split between catastrophe and specialty reinsurance, respectively:

Year ended December 31, (in thousands)	2011	2010	2009
Renaissance catastrophe premiums	\$742,236	\$630,080	\$706,947
Renaissance specialty premiums	144,192	126,848	111,889
Total Renaissance premiums	886,428	756,928	818,836
DaVinci catastrophe premiums	435,060	364,153	389,502
DaVinci specialty premiums	1,699	2,538	2,457
Total DaVinci premiums	436,759	366,691	391,959
Total catastrophe unit premiums (1)	1,177,296	994,233	1,096,449
Total specialty unit premiums	145,891	129,386	114,346
Total Reinsurance segment premiums	\$1,323,187	\$1,123,619	\$1,210,795

(1) Total catastrophe premiums written includes \$0.0 million, \$9.5 million and \$12.7 million of gross premiums written assumed from our Insurance segment for the years ended December 31, 2011, 2010 and 2009, respectively.

#### Property Catastrophe Reinsurance

We believe we are one of the largest providers of property catastrophe reinsurance in the world, based on our total catastrophe gross premiums written. Our principal property catastrophe reinsurance products include catastrophe excess of loss reinsurance and excess of loss retrocessional reinsurance as described below.

**Catastrophe Excess of Loss Reinsurance.** We principally write catastrophe reinsurance on an excess of loss basis, which means we provide coverage to our insureds when aggregate claims and claim expenses from a single occurrence of a covered peril exceed the attachment point specified in a particular contract. Under these contracts, we indemnify an insurer for a portion of the losses on insurance policies in excess of a specified loss amount, and up to an amount per loss specified in the contract. The coverage provided under excess of loss reinsurance contracts may be on a worldwide basis or limited in scope to selected geographic areas. Coverage can also vary from “all property” perils to limited coverage on selected perils, such as “earthquake only” coverage.

**Excess of Loss Retrocessional Reinsurance.** We also write retrocessional reinsurance contracts that provide property catastrophe coverage to other reinsurers or retrocedants. In providing retrocessional reinsurance, we focus on property catastrophe retrocessional reinsurance, which covers the retrocedant on an excess of loss basis when aggregate claims and claim expenses from a single occurrence of a covered peril and from a multiple number of reinsureds exceed a specified attachment point. The coverage provided under excess of loss retrocessional contracts may be on a worldwide basis or limited in scope to selected geographic areas. Coverage can also vary from “all property” perils to limited coverage on selected perils, such as “earthquake only” coverage. The information available to retrocessional underwriters concerning the original primary risk can be less precise than the information received from primary companies directly. Moreover, exposures from retrocessional business can change within a contract term as the underwriters of a retrocedant alter their book of business after retrocessional coverage has been bound.

Our property catastrophe reinsurance contracts are generally “all risk” in nature. Our most significant exposure is to losses from earthquakes and hurricanes and other windstorms, although we are also exposed to claims arising from other catastrophes, such as tsunamis, freezes, floods, fires, tornadoes, explosions and acts of terrorism in connection with the coverages we provide. Our predominant exposure under such coverage is to property damage. However, other risks, including business interruption and other non-property losses, may also be covered under our property reinsurance contracts when arising from a covered peril. We offer our coverages on a worldwide basis. Because of the wide range of possible



catastrophic events to which we are exposed, including the size of such events and because of the potential for multiple events to occur in the same time period, our catastrophe reinsurance business is volatile and our results of operations reflect this volatility. Further, our financial condition may be impacted by this volatility over time or at any point in time. The effects of claims from one or a number of severe catastrophic events could have a material adverse effect on us. We expect that increases in the values and concentrations of insured property and the effects of inflation will increase the severity of such occurrences in the future.

**Insurance-Linked Securities.** We also invest in insurance-linked securities. Insurance-linked securities are generally privately placed fixed income securities as to which all or a portion of the repayment of the principal is linked to catastrophic events; for example, the occurrence of one or more hurricanes or earthquakes producing industry losses exceeding certain specified thresholds. We underwrite, model, evaluate and monitor these securities using similar tools and techniques used to evaluate our more traditional property catastrophe reinsurance business assumed. In addition, we may enter into derivative transactions, such as total return swaps, that are based on or referenced to underlying insurance-linked securities. Based on an evaluation of the specific features of each insurance-linked security, we account for these securities as reinsurance or at fair value, as applicable, in accordance with U.S. generally accepted accounting principles (“GAAP”). In addition, in future periods we may utilize the growing market for insurance-linked securities to expand our ceded reinsurance buying if we find the pricing and terms of such coverage attractive.

We seek to moderate the volatility of our risk portfolio through superior risk selection, diversification and the purchase of retrocessional coverages and other protections. In furtherance of our strategy, we may increase or decrease our presence in the catastrophe reinsurance business based on market conditions and our assessment of risk-adjusted pricing adequacy. We frequently seek to purchase reinsurance or other protection for our own account to further reduce the financial impact that a large catastrophe or a series of catastrophes could have on our results.

As a result of our position in the market and reputation for superior customer relationships, we believe we have superior access to reinsurance business we view as desirable compared to the market as a whole. As described above, we use our proprietary underwriting tools and guidelines to attempt to construct an attractive portfolio from these opportunities. We dynamically model policy submissions against our current in-force underwriting portfolio, comparing our estimate of the modeled expected returns of the contract against the amount of capital that we allocate to the contract, based on our estimate of its marginal impact on our overall risk portfolio. At times, our approach to portfolio management has resulted and may result in the future in our having a relatively large market share of catastrophe reinsurance exposure in a particular geographic region, such as Florida, or to a particular peril, such as U.S. hurricane risk, where we believe supply and demand characteristics promote our providing significant capacity, or where the risks or class of risks otherwise adds efficiency to our portfolio. Conversely, from time to time we may have a disproportionately low market share in certain regions or perils where we believe our capital would be less effectively deployed.

#### Specialty Reinsurance

We write a number of lines of reinsurance other than property catastrophe, such as catastrophe exposed workers’ compensation, surety, terrorism, energy, aviation, crop, political risk, trade credit, financial, mortgage guarantee, catastrophe-exposed personal lines property, casualty clash, certain other casualty lines and other specialty lines of reinsurance that we collectively refer to as specialty reinsurance. We believe that we are seen as a market leader in certain of these classes of business. As with our catastrophe business, our team of experienced professionals seeks to underwrite these lines using a disciplined underwriting approach and sophisticated analytical tools. We are seeking to expand our specialty reinsurance operations over time, although we cannot assure you that we will do so, particularly in light of current and forecasted market conditions.

We generally target lines of business where we believe we can adequately quantify the risks assumed and where potential losses could be characterized as low frequency and high severity, similar to our catastrophe reinsurance coverages. We also seek to identify market dislocations and write new lines of business whose risk and return characteristics are estimated to exceed our hurdle rates. Furthermore, we also seek to manage the correlations of this business with our overall portfolio, including our aggregate exposure to single and aggregated catastrophe events. We believe that our underwriting and analytical capabilities have positioned us well to manage this business.

We offer our specialty reinsurance products principally on an excess of loss basis, as described above with respect to our catastrophe reinsurance products, and also provide some proportional coverage. In a proportional reinsurance arrangement (also referred to as quota share reinsurance and pro-rata reinsurance), the reinsurer shares a proportional part of the original premiums and losses of the reinsured. The reinsurer pays the cedant a commission which is generally based on the cedant's cost of acquiring the business being reinsured (including commissions, premium taxes, assessments and miscellaneous administrative expenses) and may also include a profit factor. Our products frequently include tailored features such as limits or sub-limits which we believe help us manage our exposures. Any liability exceeding, or otherwise not subject to, such limits reverts to the cedant. As with our catastrophe reinsurance business, our specialty reinsurance frequently provides coverage for relatively large limits or exposures, and thus we are subject to potential significant claims volatility.

We generally seek to write significant lines on our specialty reinsurance treaties. As a result of our financial strength, we have the ability to offer significant capacity and, for select risks, we have made available significant limits. We believe these capabilities, the strength of our specialty reinsurance underwriting team, and our demonstrated ability and willingness to pay valid claims are competitive advantages of our specialty reinsurance business. While we believe that these and other initiatives will support growth in our specialty reinsurance unit, we intend to continue to apply our disciplined underwriting approach which, together with currently prevailing market conditions, is likely to temper such growth in current and near term-term periods.

#### Ventures

We pursue a number of other opportunities through our ventures unit, which has responsibility for managing our joint venture relationships, executing customized reinsurance transactions to assume or cede risk and managing certain investments directed at classes of risk other than catastrophe reinsurance. We also provide customized weather and energy risk management solutions to various customers on a worldwide basis.

**Property Catastrophe Managed Joint Ventures.** We actively manage property catastrophe-oriented joint ventures, which provide us with an additional presence in the market, enhance our client relationships and generate fee income and profit commissions. These joint ventures allow us to leverage our access to business and our underwriting capabilities on a larger capital base. Currently, our joint ventures include Top Layer Re and DaVinci. Renaissance Underwriting Managers, Ltd. ("RUM"), a wholly owned subsidiary of the Company, acts as the exclusive underwriting manager for each of these joint ventures.

DaVinci was established in 2001 and principally writes property catastrophe reinsurance and certain low frequency, high severity specialty reinsurance lines of business on a global basis. In general, we seek to construct for DaVinci a property catastrophe reinsurance portfolio with risk characteristics similar to those of Renaissance Reinsurance's property catastrophe reinsurance portfolio and certain lines of specialty reinsurance such as terrorism and catastrophe exposed workers' compensation. In accordance with DaVinci's underwriting guidelines, it can only participate in business that is underwritten by Renaissance Reinsurance. We maintain majority voting control of DaVinciRe and, accordingly, consolidate the results of DaVinciRe into our consolidated results of operations and financial position. We seek to manage DaVinci's capital efficiently over time in light of the market opportunities and needs we perceive and believe we are able to serve. Our ownership in DaVinciRe was 42.8% and 41.2% at December 31, 2011 and 2010, respectively. Effective January 1, 2012, we sold a portion of our shares of DaVinciRe to a new third party shareholder, and subsequent to the transaction, our ownership interest in DaVinciRe decreased to 34.7%. We expect our ownership in DaVinciRe to fluctuate over time. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Capital Resources" for additional information with respect of DaVinci.





Top Layer Re writes high excess non-U.S. property catastrophe reinsurance. Top Layer Re is owned 50% by State Farm Mutual Automobile Insurance Company ("State Farm") and 50% by Renaissance Reinsurance. State Farm provides \$3.9 billion of stop loss reinsurance coverage to Top Layer Re. We account for our equity ownership in Top Layer Re under the equity method of accounting and our proportionate share of its results is reflected in equity in (losses) earnings of other ventures in our consolidated statements of operations.

Effective January 1, 2012, we formed and launched a new managed joint venture, Upsilon Reinsurance Ltd. ("Upsilon Re"), a Special Purpose Insurer ("SPI"), to provide additional capacity to the worldwide aggregate and per-occurrence retrocessional property catastrophe excess of loss market for the 2012 underwriting year. The original business was written by ROE, a wholly owned subsidiary of the Company, and included \$33.5 million of gross premiums written. This business was in turn ceded to Upsilon Re under a fully collateralized retrocessional reinsurance contract, effective January 1, 2012. In conjunction with the formation and launch of Upsilon Re, \$15.0 million of non-voting Class B shares were sold to external investors, and we invested \$43.7 million in Upsilon Re's non-voting Class B shares, representing a 74.4% ownership interest in Upsilon Re. In addition, another third party investor supplied \$15.0 million of capital through a reinsurance participation with ROE alongside Upsilon Re. Inclusive of the third party quota share agreement, we have a 59.3% participation in the original risks assumed by ROE. Both Upsilon Re and a third party reinsurance participation related to Upsilon Re are managed by RUM in return for an expense override, as well as a potential underwriting profit commission. We maintain majority voting control of Upsilon Re and, accordingly, we expect to consolidate the results of Upsilon Re into our consolidated results of operations and financial position in 2012. We currently have an ownership interest in Upsilon Re which we expect will change over time, perhaps materially so, and we may also elect to underwrite additional risks within Upsilon Re and utilize Upsilon Re to write business in future underwriting years. We cannot assure you that additional opportunities to grow the business we have accessed through Upsilon Re will be realized, however.

Ventures works on a range of other customized reinsurance and financing transactions. For example, we have participated in and continuously analyze other attractive opportunities in the market for insurance-linked securities and derivatives. We believe our products contain a number of customized features designed to fit the needs of our partners, as well as our risk management objectives.

**Weather and Energy Risk Management Operations.** We provide weather and energy related risk management solutions and financial products primarily through Renaissance Trading and REAL and sell certain financial products primarily to address weather risks, and engage in certain weather, energy and commodity derivatives trading activities. Certain of these trading activities require the physical delivery of energy-related commodities, including natural gas. We expect that our participation will increase in the trading markets for securities and derivatives linked to energy, commodities, weather, other natural phenomena, and/or products or indices linked in part to such phenomena. While our activities focus on financial products that allow various energy, utility and other customers to manage their exposures to energy related commodities, we expect our own results in this area to potentially be volatile over time. As this unit grows, we intend to seek to continue to invest in operating and control environment systems and procedures, hire staff and develop and install management information and other systems. Accordingly, costs related to these operational investments have increased and may increase in the future. We continue to allocate an increasing amount of capital to our weather and energy risk management operations, and have offered certain new financial products within this group. We also continually seek new markets and relationships for our weather and energy risk products, including leveraging strategic affiliations and ceding risk where appropriate. Although there can be no assurances, it is possible that our results from these activities will increase on an absolute or relative basis over time.

**Strategic Investments.** Ventures also pursues strategic investments where, rather than assuming exclusive management responsibilities ourselves, we instead partner with other market participants. These investments are directed at classes of risk other than catastrophe, and at times may also be directed at non-insurance risks. We find these investments attractive both for their expected returns, and also because they provide us diversification benefits and information and exposure to other aspects of the market. Examples of these investments include our investments in Tower Hill Insurance Group, LLC. ("THIG"), Tower Hill Holdings, Inc. ("Tower Hill") and Tower Hill Signature

Insurance Holdings, Inc. ("Tower Hill Signature"), (collectively, the "Tower Hill Companies"), Angus Partners, LLC. ("Angus"), Angus Fund L.P. (the "Angus Fund") and Essent Group Ltd. ("Essent"). THIG is a managing general agency specializing in

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insurance coverage for site built and manufactured homes. Subsidiaries of THIG, namely Tower Hill Claims Services, LLC, and Tower Hill Claims Management, LLC provide claim adjustment services through exclusive agreements with THIG. Tower Hill is an insurance holding company. The subsidiaries of Tower Hill, along with Tower Hill Signature, write residential property insurance. We invested in the Tower Hill Companies, which operate primarily in the State of Florida, to expand our core platforms by obtaining ownership in an additional distribution channel for the Florida homeowners market and to enhance our relationships with other stakeholders. Angus and the Angus Fund provide commodity related risk management products to third party customers. Essent provides mortgage insurance and reinsurance coverage for mortgages located in the U.S.

Business activities that appear in our consolidated underwriting results, such as DaVinci and certain reinsurance transactions, are included in our Reinsurance segment results; the results of our investments, such as Top Layer Re and our weather and energy related activities and other ventures are included in the “Other” category of our segment results.

#### Lloyd’s Segment

Our Lloyd’s segment includes insurance and reinsurance business written for our own account through Syndicate 1458. Syndicate 1458 commenced business by writing certain lines of insurance and reinsurance business incepting on or after June 1, 2009. The syndicate was established to enhance our underwriting platform by providing access to Lloyd’s extensive distribution network and worldwide licenses. RenaissanceRe Corporate Capital (UK) Limited (“RenaissanceRe CCL”), an indirect wholly owned subsidiary of the Company, is the sole corporate member of Syndicate 1458. We anticipate that Syndicate 1458’s absolute and relative contributions to our consolidated results of operations may have a meaningful impact over time.

Syndicate 1458 generally targets lines of business where we believe we can adequately quantify the risks assumed and where potential losses could be characterized as low frequency and high severity, similar to our catastrophe and specialty reinsurance coverages. We also seek to identify market dislocations and to write new lines of business whose risk and return characteristics are estimated to exceed our hurdle rates. Furthermore, we seek to manage the correlations of this business with our overall portfolio, including our aggregate exposure to single and aggregated catastrophe events. We believe that our underwriting and analytical capabilities have positioned us well to manage this business.

We offer a range of insurance and reinsurance products including, but not limited to, direct and facultative property, property catastrophe, agriculture, medical malpractice, professional indemnity, political risk and trade credit. As with our catastrophe and specialty reinsurance business, we frequently provide coverage for relatively large limits or exposures, and thus we are subject to potential significant claims volatility.

#### Insurance Segment

Our Insurance segment includes the insurance policies previously written in connection with our Bermuda-based insurance operations which were not sold to QBE. Our Insurance segment is managed by our Global Chief Underwriting Officer. The Bermuda-based insurance business is written by Glencoe, a Bermuda domiciled excess and surplus lines insurance company that is currently eligible to do business on an excess and surplus lines basis in 49 U.S. states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands. We may from time to time evaluate potential opportunities for the Insurance segment, although we cannot assure you we will succeed in doing so, or that any such initiatives would contribute materially to our results.

#### Other

Our Other category primarily includes the results of: (1) our share of strategic investments in certain markets we believe offer attractive risk-adjusted returns or where we believe our investment adds value, such as our investments in the Tower Hill Companies and the Angus Fund, where, rather than assuming exclusive management responsibilities ourselves, we partner with other market participants; (2) our weather and energy risk management operations primarily through Renaissance Trading and REAL; (3) our investment unit which manages and invests the funds generated by our consolidated operations; (4) corporate expenses, capital servicing costs and noncontrolling interests; and (5) the results of our discontinued operations.



## COMPETITION

The markets in which we operate are highly competitive, and we believe that competition is in general increasing and becoming more robust. Our competitors include independent reinsurance and insurance companies, subsidiaries and/or affiliates of globally recognized insurance companies, reinsurance divisions of certain insurance companies and domestic and international underwriting operations. As our business evolves over time we expect our competitors to change as well.

Hedge funds, investment banks, exchanges and other capital market participants continue to show interest in entering the reinsurance market. In addition, we continue to anticipate further, and perhaps accelerating, growth in financial products such as exchange traded catastrophe options, insurance-linked securities, unrated privately held reinsurance companies providing collateralized reinsurance, catastrophe-linked derivative agreements and other financial products, intended to compete with traditional reinsurance. We believe that competition from non-traditional sources such as these will increase in the future. Many of these competitors have greater financial, marketing and management resources than we do. Further, we believe new entrants or existing competitors may attempt to replicate all or part of our business model and provide further competition in the markets in which we participate. In addition, the tax policies of the countries where our customers operate, as well as government sponsored or backed catastrophe funds, affect demand for reinsurance, sometimes significantly. Moreover, explicitly or implicitly government-backed entities increasingly represent competition for the coverages that we provide directly, or for the business of our customers, reducing the potential amount of third party private protection our clients might need or desire. We are unable to predict the extent to which the foregoing new, proposed or potential initiatives may affect the demand for our products or the risks for which we seek to provide coverage.

## RATINGS

Financial strength ratings are an important factor in respect of the competitive position of reinsurance and insurance companies. Rating organizations continually review the financial positions of our reinsurers and insurers. We continue to receive high claims-paying and financial strength ratings from A.M. Best Co. (“A.M. Best”), S&P, Moody’s Investors Service (“Moody’s”) and Fitch Ratings Ltd. (“Fitch”). These ratings represent independent opinions of an insurer’s financial strength, operating performance and ability to meet policyholder obligations, and are not an evaluation directed toward the protection of investors or a recommendation to buy, sell or hold any of our securities.

See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Capital Resources, Ratings” for the ratings of our principal operating subsidiaries and joint ventures by segment, as well as the enterprise risk management (“ERM”) rating of RenaissanceRe and details of recent ratings actions.

## UNDERWRITING AND ENTERPRISE RISK MANAGEMENT

### Underwriting

Our primary underwriting goal is to construct a portfolio of reinsurance and insurance contracts and other financial risks that maximizes our return on shareholders’ equity, subject to prudent risk constraints, and to generate long-term growth in tangible book value per common share plus the change in accumulated dividends. We assess each new (re)insurance contract on the basis of the expected incremental return relative to the incremental contribution to portfolio risk.

We have developed a proprietary, computer-based pricing and exposure management system, REMS©. Since inception, we have continued to invest in and improve REMS©, incorporating our underwriting and modeling experience, adding proprietary software and a significant amount of new industry data. REMS© has analytic and modeling capabilities that help us to assess the risk and return of each incremental (re)insurance contract in relation to our overall portfolio of (re)insurance contracts. We combine the analyses generated by REMS© with other information available to us, including our own knowledge of the client submitting the proposed program, to assess the premium offered against the risk of loss and the cost of utilized capital which the program presents. The REMS© framework encompasses and facilitates risk capture, analysis, correlation, portfolio aggregation and capital allocation within a single system for all of our natural hazards and non-natural hazards (re)insurance contracts.

We utilize a multiple model approach combining both probabilistic and deterministic techniques. The underlying risk models integrated into our underwriting and REMS© framework are a combination of internally constructed and commercially available models. We use commercially available natural hazard catastrophe models to assist with validating and stress testing our base model and REMS© results. We continually strive to improve our analytical techniques for both natural hazard and non-natural hazard models in REMS© and while our experience is most developed for analyzing natural hazard catastrophe risks, we continue to make significant advances in our capabilities for assessing non-natural hazard catastrophe risks. In addition, multiple members of our underwriting and risk management team review the models, and their respective results.

We believe that REMS© is a robust underwriting and risk management system that has been successfully integrated into our business processes and culture. Before we bind a (re)insurance risk, exposure data, historical loss information and other risk data is gathered from customers. Using a combination of proprietary software, underwriting experience, actuarial techniques and engineering expertise where appropriate, the exposure data is reviewed and augmented. We use this data as primary inputs into the REMS© modeling system as a base to create risk distributions to represent the risk being evaluated. We believe that the REMS© modeling system helps us to analyze each policy on a consistent basis, assisting our determination of what we believe to be an appropriate price to charge for each policy based upon the risk to be assumed. REMS© combines computer-generated statistical simulations that estimate loss and event probabilities with exposure and coverage information on each client's (re)insurance contract to produce expected claims for (re)insurance programs submitted to us. Operationally, on a deal-by-deal basis, our models employ simulation techniques that have the ability to generate 40,000 years of loss activity. When deemed necessary, we stress test the 40,000 year simulations with simulations of up to 1,000,000 years. At a consolidated level, we routinely utilize simulations of 500,000 years to incorporate investment risk, expenses, and operational and other risks at a portfolio and risk assuming entity level. For natural hazards, we simulate a large range of potential industry losses in respect of events by region and peril. For some regions and perils, the extreme tails of these simulations include industry losses in excess of \$400 billion. From these simulations, we generate a probability distribution of potential outcomes for each policy in our portfolio and for our total portfolio. In part, through the process described above and the utilization of REMS©, we seek to compare our estimate of the expected returns in respect of a contract with the amount of capital that we notionally allocate to the contract based on our estimate of its marginal impact on our portfolio of risks. A key advantage of our REMS© framework is our ability to include additional perils, risks and geographic areas that may not be captured in commercially available natural hazards risk models.

We periodically review the estimates and assumptions that are reflected in REMS© and our other tools. For example, the recent earthquake events in New Zealand and Japan have provided new insight on certain aspects of hazard and vulnerability to the global earthquake science community. Utilizing internal research capabilities from our team of scientists at Weather Predict Consulting Inc. ("Weather Predict") and new research from the global earthquake science community, we have updated several of our internal regional representations of earthquake risk in advance of the commercially available models.

Our underwriters use this combination of our risk assessment and underwriting process, REMS© and other tools in their pricing decisions, which we believe provides them with several competitive advantages. These include the ability to:

- simulate a range of potential outcomes that adequately represents the risk to an individual contract;
- analyze the incremental impact of an individual reinsurance contract on our overall portfolio;
- better assess the underlying exposures associated with assumed retrocessional business;
- price contracts within a short time frame;
- capture various classes of risk, including catastrophe and other insurance risks;
- assess risk across multiple entities (including our various joint ventures) and across different components of our capital structure; and
- provide consistent pricing information.

As part of our risk management process, we also use REMS© to assist us with the purchase of reinsurance coverage for our own account.





Our underwriting and risk management process, in conjunction with REMS<sup>®</sup>, quantifies and manages our exposure to claims from single events and the exposure to losses from a series of events. As part of our pricing and underwriting process, we also assess a variety of other factors, including:

- the reputation of the proposed cedant and the likelihood of establishing a long-term relationship with the cedant;
- the geographic area in which the cedant does business and its market share;
- historical loss data for the cedant and, where available, for the industry as a whole in the relevant regions and lines of business, in order to compare the cedant's historical catastrophe loss experience to industry averages;
- the cedant's pricing strategies; and
- the perceived financial strength of the cedant and factors such as the cedant's historical record of making premium payments in full and on a timely basis.

In order to estimate the risk profile of each line of non-natural hazard reinsurance (i.e., our specialty and casualty lines of business), we establish probability distributions and assess the correlations with the rest of our portfolio. In lines with catastrophe risk, such as excess workers' compensation and terrorism, we seek to directly leverage our skill in modeling for our property catastrophe reinsurance risks, and seek to appropriately estimate and manage the correlations between these specialty lines and our catastrophe reinsurance portfolio. For other classes of business, in which we believe we have little or no natural catastrophe exposure, and therefore less correlation with our property catastrophe reinsurance coverages, we derive probability distributions from a variety of underlying information sources, including recent historical experience, and the application of judgment as appropriate. The nature of some of these businesses lends itself less to the analysis that we use for our property catastrophe (re)insurance coverages, reflecting both the nature of available exposure information, and the impact of human factors such as tort exposure. We produce probability distributions to represent our estimates of the related underlying risks which our products cover, which we believe helps us to make consistent underwriting decisions and to manage our total risk portfolio.

#### Enterprise Risk Management

We believe that high-quality and effective risk management is best achieved through it being a shared cultural value throughout the organization. We have sought to develop and utilize a series of tools and processes that support a culture of risk management and to create a robust framework of ERM within our organization. We consider ERM to be a key process which is the responsibility of every individual within the Company. ERM is managed by our senior executive team under the oversight of our Board of Directors, and implemented by personnel from across our organization. We believe that ERM helps us to identify potential events that may affect us, to quantify, evaluate and manage the risks to which we are exposed, and to provide reasonable assurance regarding the achievement of our objectives. We believe that effective ERM can provide us with a significant competitive advantage. We also believe that effective ERM assists our efforts to minimize the likelihood of suffering financial outcomes in excess of the ranges which we have estimated in respect of specific investments, underwriting decisions, or other operating or business activities, although we do not believe this risk can be eliminated. We believe that our risk management tools support our strategy of pursuing opportunities and help us to identify opportunities that we believe to be the most attractive. In particular, we utilize our risk management tools to support our efforts to monitor our capital position, on a consolidated basis and for each of our major operating subsidiaries, and to allocate an appropriate amount of capital to support the risks that we have assumed in the aggregate and for each of our major operating subsidiaries. We believe that our risk management efforts are essential to our corporate strategy and our goal of achieving long-term growth in tangible book value per share plus the change in accumulated dividends for our shareholders.

Our ERM framework comprises three primary areas of focus, as set forth below:

**Assumed Risk.** We define assumed risk as activities where we deliberately take risk against the Company's capital base, including underwriting risks and other quantifiable risks such as credit risk and interest rate risk as they relate to investments, ceded reinsurance credit risk and strategic investment risk, each of which can be analyzed in substantial part through quantitative tools and techniques. Of these, we believe underwriting risk to be the most material to us. In order to understand, monitor, quantify and proactively assess underwriting risk, we seek to develop and deploy appropriate tools to, among other things, estimate the comparable expected returns on potential business opportunities, and estimate the impact that such incremental business could have on our overall risk profile. We use the tools and methods described above in "Underwriting" to seek to achieve these objectives.

- (1) Embedded within our consideration of assumed risk is our management of the Company's aggregate risk profile. In part through the utilization of REMS<sup>©</sup> and our other systems and procedures, we seek to analyze our in-force aggregate assumed risk portfolio on a daily basis. We believe this capability helps us to manage our aggregate exposures, as well as to rigorously analyze individual proposed transactions and evaluate them in the context of our in-force portfolio. This aggregation process captures line of business, segment and corporate risk profiles, calculates internal and external capital tests and explicitly models ceded reinsurance. Generally, additional data is added quarterly to our aggregate risk framework to reflect updated or new information or estimates relating to matters such as interest rate risk, credit risk, capital adequacy and liquidity. This information is used in day-to-day decision making for underwriting, investments and operations and is also reviewed quarterly from both a unit level and in respect of our consolidated financial position.

- (2) **Business Environment Risk.** We define this as the risk of changes in the business, political or regulatory environment that could negatively impact our short term or long-term financial results or the markets in which we operate. Accordingly, these risks are predominately extrinsic to the Company and in general, our ability to alter or eliminate these risks is limited. Rather, our efforts focus on monitoring developments, assessing potential impacts of any such changes, and investing in cost effective means to attempt to mitigate the consequences of and ensure compliance with any new requirements applicable to us.

- (3) **Operational Risk.** We believe we are subject to a number of additional risks arising out of operational, regulatory, and other matters. We define operational risk as the risk that we fail to create, manage, control or mitigate the people, processes, structures or functions required to execute our strategic and tactical plans and assemble an optimized portfolio of assumed risk, and to adjust to and comply with the evolving requirements of business environment risk applicable to us. In light of the rapid evolution of our markets, business environment, and business initiatives, we seek to continually invest in the tools, processes and procedures to mitigate our exposure to operational risk on a cost-effective basis.

Identification and monitoring of business environment risk and operational risk is coordinated by senior personnel including our Chief Financial Officer ("CFO"), General Counsel and Chief Compliance Officer ("CCO"), Corporate Controller and Chief Accounting Officer ("CAO"), Chief Administrative Officer, Chief Risk Officer ("CRO"), Chief Information Officer and Internal Audit, utilizing resources throughout the Company.

Although financial reporting is a key area of our focus, other operational risks are addressed through our disaster recovery program, human resource practices such as motivating and retaining top talent, our strict tax protocols and our legal and regulatory policies and procedures.

**Controls and Compliance Committee.** We believe that a key component of our current operational risk management platform is our Controls and Compliance Committee. The Controls and Compliance Committee is comprised of our CFO, CCO, CAO, Chief Administrative Officer, CRO, staff compliance professionals and representatives from our business units. The purpose of the Controls and Compliance Committee is to establish, assess the effectiveness of, and enforce policies, procedures and practices relating to accounting, financial reporting, internal controls, regulatory, legal, compliance and related matters, for ensuring compliance with applicable laws and regulations, the Company's Code of Ethics and Conduct (the "Code of Ethics"), and other relevant standards. In addition, the Controls and Compliance Committee is charged with reviewing certain transactions that potentially raise complex and/or significant tax, legal, accounting, regulatory, financial reporting, reputational or compliance issues.



Ongoing Development and Enhancement. We seek to reflect and categorize risks we monitor in part through quantitative risk distributions, even where we believe that such quantitative analysis is not as robust or well developed as our tools and models for measuring and evaluating other risks, such as catastrophe and market risks. We also seek to improve the methods by which we measure risks. We believe effective risk management is a core attribute of our culture and is a continual process that requires ongoing improvement and development. We seek from time to time to identify new best practices or additional developments both from within our industry and from other sectors. We believe that our ongoing efforts to embed ERM throughout our organization are important to our efforts to produce and maintain a competitive advantage to achieve our corporate goals.

## GEOGRAPHIC BREAKDOWN

Our exposures are generally diversified across geographic zones, but are also a function of market conditions and opportunities. Our largest exposure has historically been to the U.S. and Caribbean property catastrophe market, which represented 61.7% of the Company's gross premiums written for the year ended December 31, 2011. A significant amount of our U.S. and Caribbean premium provides coverage against windstorms, mainly U.S. Atlantic hurricanes, as well as earthquakes and other natural and man-made catastrophes. The following table sets forth the percentage of our gross premiums written allocated to the territory of coverage exposure:

Year ended December 31,	2011 Gross Premiums Written	Percentage of Gross Premiums Written	2010 Gross Premiums Written	Percentage of Gross Premiums Written	2009 Gross Premiums Written	Percentage of Gross Premiums Written
(in thousands, except percentages)						
Catastrophe						
U.S. and Caribbean	\$786,721	54.8	% \$720,250	61.8	% \$828,490	67.4
Worldwide (excluding U.S.) (1)	164,112	11.4	% 113,270	9.7	% 78,222	6.4
Worldwide	124,797	8.7	% 65,500	5.6	% 92,586	7.5
Japan	49,021	3.4	% 26,188	2.2	% 29,436	2.4
Europe	31,888	2.2	% 59,480	5.1	% 60,363	4.9
Australia and New Zealand	16,818	1.2	% 6,269	0.5	% 5,293	0.4
Other	3,939	0.3	% 3,276	0.3	% 2,059	0.2
Total catastrophe	1,177,296	82.0	% 994,233	85.2	% 1,096,449	89.2
Specialty						
Worldwide	91,032	6.3	% 59,636	5.2	% 68,704	5.6
U.S. and Caribbean	49,832	3.5	% 57,461	4.9	% 39,712	3.2
Europe	3,595	0.3	% 2,786	0.2	% 5,037	0.4
Australia and New Zealand	792	0.1	% 8,934	0.8	% 51	—
Other	640	—	% 569	—	% 842	0.1
Total specialty	145,891	10.2	% 129,386	11.1	% 114,346	9.3
Total Reinsurance	1,323,187	92.2	% 1,123,619	96.3	% 1,210,795	98.5
Lloyd's						
U.S. and Caribbean	48,435	3.4	% 43,178	3.7	% —	—
Worldwide	47,605	3.3	% 16,207	1.4	% —	—
Europe	8,044	0.6	% 3,174	0.3	% —	—
Australia and New Zealand	2,060	0.1	% 91	—	% —	—
Worldwide (excluding U.S.) (1)	238	—	% 1,049	0.1	% —	—
Other	5,202	0.4	% 2,510	0.2	% —	—
Total Lloyd's	111,584	7.8	% 66,209	5.7	% —	—
Insurance (2)	282	—	% 2,585	0.3	% 30,736	2.5
Eliminations (3)	(77)	—	% (27,118)	(2.3)	% (12,650)	(1.0)
Total gross premiums written	\$1,434,976	100.0	% \$1,165,295	100.0	% \$1,228,881	100.0

(1) The category "Worldwide (excluding U.S.);" consists of contracts that cover more than one geographic region (other than the U.S.). The exposure in this category for gross premiums written to date is predominantly from Europe and

Japan.

(2) The category Insurance consists of contracts that are primarily exposed to U.S. risks.

Represents \$0.1 million of gross premiums ceded from the Reinsurance segment to the Lloyd's segment, for the year ended December 31, 2011 (2010 - \$9.5 million, \$17.4 million and \$0.2 million of gross premiums ceded from

(3) the Insurance segment to the Reinsurance segment, from the Insurance segment to the Lloyd's segment and from the Reinsurance segment to the Lloyd's segment, respectively, 2009 - \$12.7 million gross premiums ceded from the Insurance segment to the Reinsurance segment).

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## RESERVES FOR CLAIMS AND CLAIM EXPENSES

We believe the most significant accounting judgment made by management is our estimate of claims and claim expense reserves. Claims and claim expense reserves represent estimates, including actuarial and statistical projections at a given point in time, of the ultimate settlement and administration costs for unpaid claims and claim expenses arising from the insurance and reinsurance contracts we sell. We establish our claims and claim expense reserves by taking claims reported to us by insureds and ceding companies, but which have not yet been paid ("case reserves"), adding the costs for additional case reserves ("additional case reserves") which represent our estimates for claims previously reported to us which we believe may not be adequately reserved as of that date, and adding estimates for the anticipated cost of claims incurred but not yet reported to us ("IBNR").

The following table summarizes our claims and claim expense reserves by line of business and split between case reserves, additional case reserves and IBNR at December 31, 2011 and 2010:

At December 31, 2011 (in thousands)	Case Reserves	Additional Case Reserves	IBNR	Total
Catastrophe	\$681,771	\$271,990	\$388,147	\$1,341,908
Specialty	120,189	49,840	301,589	471,618
Total Reinsurance	801,960	321,830	689,736	1,813,526
Lloyd's Insurance	17,909	14,459	55,127	87,495
	32,944	3,515	54,874	91,333
Total	\$852,813	\$339,804	\$799,737	\$1,992,354
At December 31, 2010 (in thousands)				
Catastrophe	\$173,157	\$281,202	\$163,021	\$617,380
Specialty	102,521	60,196	350,573	513,290
Total Reinsurance	275,678	341,398	513,594	1,130,670
Lloyd's Insurance	172	6,874	12,985	20,031
	40,943	3,317	62,882	107,142
Total	\$316,793	\$351,589	\$589,461	\$1,257,843

Our estimates of claims and claim expense reserves are not precise in that, among other matters, they are based on predictions of future developments and estimates of future trends and other variable factors. Some, but not all, of our reserves are further subject to the uncertainty inherent in actuarial methodologies and estimates. Because a reserve estimate is simply an insurer's estimate at a point in time of its ultimate liability, and because there are numerous factors which affect reserves and claims payments that cannot be determined with certainty in advance, our ultimate payments will vary, perhaps materially, from our estimates of reserves. If we determine in a subsequent period that adjustments to our previously established reserves are appropriate, such adjustments are recorded in the period in which they are identified. During the year ended December 31, 2011, changes to prior year estimated claims reserves decreased our net loss by \$132.0 million (2010 - increased our net income by \$302.1 million, 2009 - increased our net income by \$266.2 million), excluding the consideration of changes in reinstatement premium, profit commissions, redeemable noncontrolling interest - DaVinciRe, equity in net claims and claim expenses of Top Layer Re and income tax.

Our reserving methodology for each line of business uses a loss reserving process that calculates a point estimate for the Company's ultimate settlement and administration costs for claims and claim expenses. We do not calculate a range of estimates. We use this point estimate, along with paid claims and case reserves, to record our best estimate of additional case reserves and IBNR in our consolidated financial statements. Under GAAP, we are not permitted to establish estimates for catastrophe claims and claim expense reserves until an event occurs that gives rise to a loss.





Reserving for our reinsurance claims involves other uncertainties, such as the dependence on information from ceding companies, which among other matters, includes the time lag inherent in reporting information from the primary insurer to us or to our ceding companies and differing reserving practices among ceding companies. The information received from ceding companies is typically in the form of bordereaux, broker notifications of loss and/or discussions with ceding companies or their brokers. This information can be received on a monthly, quarterly or transactional basis and normally includes estimates of paid claims and case reserves. We sometimes also receive an estimate or provision for IBNR. This information is often updated and adjusted from time to time during the loss settlement period as new data or facts in respect of initial claims, client accounts, industry or event trends may be reported or emerge in addition to changes in applicable statutory and case laws.

Our estimates of losses from the large events of 2011, 2010 and 2008 are based on factors including currently available information derived from the Company's claims information from certain customers and brokers, industry assessments of losses from the events, proprietary models, and the terms and conditions of our contracts. The uncertainty of our estimates for the 2011 and 2010 events is additionally impacted by the preliminary nature of the information available, the magnitude and relative infrequency of the events, the expected duration of the respective claims development period, inadequacies in the data provided thus far by industry participants and the potential for further reporting lags or insufficiencies (particularly in respect of the Chilean, September 2010 New Zealand, February 2011 New Zealand and Tohoku earthquakes); and in the case of the Australian flooding and the recent Thailand flooding, significant uncertainty as to the form of the claims and legal issues including, but not limited to, the number, nature and fiscal periods of the loss events under the relevant terms of insurance contracts and reinsurance treaties. In addition, a significant portion of the net claims and claim expenses associated with the New Zealand and Tohoku earthquakes are concentrated with a few large clients and therefore the loss estimates for these events may vary significantly based on the claims experience of those clients. Loss reserve estimation in respect of our retrocessional contracts poses further challenges compared to directly assumed reinsurance. A significant portion of our reinsurance recoverable relates to the New Zealand and Tohoku earthquakes. There is inherent uncertainty and complexity in evaluating loss reserve levels and reinsurance recoverable amounts, due to the nature of the losses relating to earthquake events, including that loss development time frames tend to take longer with respect to earthquake events. The contingent nature of business interruption and other exposures will also impact losses in a meaningful way, especially with regard to the Tohoku earthquake and Thailand flooding, which we believe may give rise to significant complexity in respect of claims handling, claims adjustment and other coverage issues, over time. Given the magnitude and relatively recent occurrence of these events, meaningful uncertainty remains regarding total covered losses for the insurance industry and, accordingly, several of the key assumptions underlying our loss estimates. In addition, our actual net losses from these events may increase if our reinsurers or other obligors fail to meet their obligations.

Because of the inherent uncertainties discussed above, we have developed a reserving philosophy which attempts to incorporate prudent assumptions and estimates, and we have generally experienced favorable net development on prior year reserves in the last several years. However, there is no assurance that this will occur in future periods. Our reserving techniques, assumptions and processes differ between our property catastrophe reinsurance, specialty reinsurance and insurance businesses within our Reinsurance, Lloyd's and Insurance segments. Refer to our "Claims and Claim Expense Reserves Critical Accounting Estimates" discussion in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for more information on the risks we insure and reinsure, the reserving techniques, assumptions and processes we follow to estimate our claims and claim expense reserves, and our current estimates versus our initial estimates of our claims reserves, for each of these units.

The following table represents the development of our GAAP balance sheet reserves for December 31, 2001 through December 31, 2011. This table does not present accident or policy year development data. The top line of the table shows the gross reserves for claims and claim expenses at the balance sheet date for each of the indicated years. This represents the estimated amounts of claims and claim expenses arising in the current year and all prior years that are unpaid at the balance sheet date, including additional case reserves and IBNR reserves. The table also shows the re-estimated amount of the previously recorded reserves based on experience as of the end of each succeeding year. The estimate changes as more information becomes known about the frequency and severity of claims for individual years. The “cumulative redundancy on net reserves” represents the aggregate change to date from the indicated estimate of the gross reserve for claims and claim expenses, net of reinsurance recoverable on the second line of the table. The table also shows the cumulative net paid amounts as of successive years with respect to the net reserve liability. At the bottom of the table is a reconciliation of the gross reserve for claims and claim expenses to the net reserve for claims and claim expenses, the gross re-estimated liability to the net re-estimated liability for claims and claim expenses, and the cumulative redundancy on gross reserves.

With respect to the information in the table below, note that each amount includes the effects of all changes in amounts for prior periods, including the effect of foreign exchange rates.

Year ended December 31, (in millions)	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
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