

August 14, 2009

**Research Update:**

# RenRe Insurance Holdings Ltd.'s Operating Subsidiaries Assigned 'A+' Ratings; Outlook Is Stable

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## Overview

- Glencoe Insurance Ltd., Stonington Insurance Co., Lantana Insurance Ltd., and Stonington Lloyd's Insurance Co. are strategically important subsidiaries of RenaissanceRe Holdings Ltd.
- We are assigning our 'A+' counterparty credit and financial strength ratings to these subsidiaries. The ratings are supported by a strong implicit parental commitment.
- The outlook is stable.

## Rating Action

On Aug. 14, 2009, Standard & Poor's Ratings Services assigned its 'A+' counterparty credit and financial strength ratings to Glencoe Insurance Ltd., Stonington Insurance Co., Lantana Insurance Ltd., and Stonington Lloyd's Insurance Co. (collectively referred to as RenRe Insurance). The outlook is stable.

## Rationale

The ratings on RenRe Insurance are based on the companies' strategic importance to RenaissanceRe Holdings Ltd. (NYSE:RNR; A/Stable/--). The ratings, therefore, receive an uplift. According to Standard & Poor's criteria, the ratings are capped at one notch below the ratings assigned to core group members.

RenRe Insurance's stand-alone characteristics include a good, but limited competitive position, relative to its sister company, Renaissance Reinsurance Ltd. (AA-/Stable/--), because of its reliance on program business, as well as its strong risk-adjusted capitalization. Partially offsetting these strengths are RenRe Insurance's volatile earnings resulting from its property and agriculture writings, as well as potential correlation risk with Renaissance Reinsurance Ltd. that is primarily attributable to its property exposures, although reduced from historical levels.

Standard & Poor's views RenRe Insurance as strategically important to its parent, essentially because of its diversifying role and significance to RNR. At year-end 2008, it constituted about 25% of the parent's shareholders' equity and about 34% of the group's gross premiums written. More importantly, RenRe Insurance generated 20% of RNR's EBITDA. In addition, RenRe Insurance benefits from implicit support through cash contributions that totaled \$383 million over the past five years and strong intergroup reinsurance protection.

RNR has improved the competitive position of RenRe Insurance through the 2008 acquisitions of Agro National LLC, a managing general agent (MGA) of crop insurance, and Claims Management Services, a provider of claims administration and adjustment services. The two acquisitions have given RenRe Insurance greater oversight over its premium distribution while improving its claims handling capabilities. Recognizing that about half of its business model depends on MGAs, one of the company's 2009 initiatives is to strengthen internally by hiring talented and experienced underwriters to further develop its primary insurance platform. We view the evolution from a majority rented model to a partially owned model as favorable to the company's strategy, but it will remain dependent on program business in the medium term (two to three years).

RenRe Insurance's risk-adjusted capitalization is strong, including a (re)insurance catastrophe charge. The capital base has strengthened over the years because of the company's good operating results in 2006 and 2007 as well as capital infusions from RNR to support RenRe Insurance's growth and capital requirements. Shareholders' equity declined 6% to \$765 million at year-end 2008 (\$766 million as of June 30, 2009) from \$811 million at year-end 2007 as RenRe Insurance returned \$123 million of capital to RNR. Nevertheless, risk-adjusted capitalization remains strong and redundant at the 'A' rating level.

RenRe Insurance's operating performance is weaker than that of its sister company, Renaissance Reinsurance Ltd. The company reported a five-year average (2004-2008) combined ratio of 104.6% and a return on revenue (ROR) of 3.7%, as results were affected by catastrophe losses in 2004 and 2005. Its operating performance is somewhat volatile because of its property catastrophe and agriculture exposures, as shown by a combined ratio ranging from 89.0% in 2006 to 125.8% in 2004. In 2008, underwriting performance was affected by \$40 million of losses from Hurricanes Gustav (\$10 million) and Ike (\$30 million) and a higher level of attritional losses within the multiperil crop insurance. Still, RenRe Insurance reported a good combined ratio of 98.1% and an ROR of 11.6%.

Operating performance weakened in the first half of 2009 as RenRe Insurance was hurt by prior-year loss reserve development in its agriculture business and incurred several large losses in its commercial property business. The company incurred \$27 million of adverse reserve development stemming from crop insurance, resulting in a combined ratio of 112.4% and an ROR of negative 2.4%, compared with 90.3% and 20.0%, respectively, during the same period in the previous year.

RenRe Insurance's property exposures, as well as certain agriculture exposures (particularly business written in Texas), could correlate with RNR's reinsurance segment, which potentially increases earnings volatility. As a mitigating factor, property exposure decreased to 38% of RenRe Insurance's portfolio in 2008 from 94% of the portfolio in 2002.

## Outlook

The outlook is stable. RenRe Insurance's competitive position will remain supported by RNR's strong brand name and underwriting expertise. However,

gross premiums written likely will decline by 5%-10% in 2009 because of market conditions. The company likely will continue to follow an opportunistic approach for its MGA model, adding programs when rates are adequate and exiting when its underwriting thresholds are not met. We expect capitalization to remain strong and redundant at the 'A' level, strengthened by cash infusions from RNR as needed to maintain adequacy.

In 2009, RenRe Insurance likely will produce an underwriting profit despite the agriculture adverse reserve development and the large commercial property losses experienced in the first half of the year. We expect the company to report a combined ratio of about 98%. The earnings volatility likely will persist because of the property catastrophe and agriculture exposures, albeit below historical level as the company continues to diversify its primary insurance platform.

We expect RenRe Insurance to remain strategically important to RNR. Therefore, the ratings and outlook should move in tandem with those on RNR. We might lower the ratings or revise the outlook to negative on RenRe Insurance if the implicit support from RNR were to diminish, which we believe is unlikely.

## Related Research

"Group Methodology," April 22, 2009, RatingsDirect.

## Ratings List

New Rating; Outlook Action

Glencoe Insurance Ltd.

Stonington Lloyds Insurance Company

Stonington Insurance Co.

Lantana Insurance Ltd.

Counterparty Credit Rating

Local Currency

A+/Stable/--

Financial Strength Rating

Local Currency

A+/Stable/--

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