Q3 2021 Sales and Revenue Call

Company Participants

- Alex Maloney, Chief Executive Officer
- Jelena Bjelanovic, Investor Relations
- Natalie Kershaw, Chief Financial Officer
- Paul Gregory, Chief Underwriting Officer

Other Participants

- Abid Hussain, Analyst
- Andrew Ritchie, Analyst
- Ben Cohen, Analyst
- Daryl Goh, Analyst
- Faizan Lakhani, Analyst
- Freya Kong, Analyst
- Tim Hayes, Analyst
- Unidentified Participant
- Will Hardcastle, Analyst

Presentation

Operator

Hello and welcome to the Lancashire Holdings Limited Third Quarter 2021 Results. Throughout the call all participants will be in listen-only mode and afterwards, there'll be a question-and-answer session. Please note this call is being recorded.

Today, I'm pleased to present Alex Maloney, Group CEO; Paul Gregory, Group CUO; Natalie Kershaw, Group CFO. I will now hand over to Alex. Please begin your meeting.

Alex Maloney {BIO 16314494 <GO>}

Okay, thank you for heads up. Good afternoon, everyone. As usual, we'd like to start with a series of slides, which we believe demonstrate the continued deployment of our long-term strategy throughout the third quarter, after that, we will go to questions.

We go to slide 3, during the third quarter we witnessed a number of large losses consistent with what we've already disclosed. We have set claims reserves for these losses utilizing a detailed account-by-account proceeds, which we believe helps to insulate us from potential reserve increase. Although it would be unwise to guarantee any release at such an early stage, I would point you to our track record of prudent reserving. In the past, this has seen future releases, when we have a much better idea of the final claims quantum. An example would be 2017 cat claims of Harvey, Irma and Maria, where we have reduced our estimates over time as you saw in the first quarter of this year. Other large claims from this year, such as Uri and COVID from last year remain stable at this point.

Our year-to-date premiums continues to grow as we continue to see positive rate change across the majority of our underwriting portfolio. This will support our profitability as premiums earned through most classes of business we underwrite and now in the fourth year positive rate change, which we believe continues into 2022. Therefore, we expect to grow our premiums further during the 2022 underwriting year. The continuous investment in our business since 2018, where we've invested in many new product lines will continue to build during 2022, where we have a pipeline of premiums coming on stream.

The positive rate environment, coupled with these investments in talent will aid our long-term plan to better utilize our capital, improve our return to shareholders, reduce our expense ratio and future-proof our business. When we look at our expectations for the 2022 underwriting opportunity, we ask ourselves what does that mean for capital. As you know, that forms part of our DNA. Do we have too much or do we have too little capital for the underwriting opportunity, a simple view of opportunity. Following two years of positive capital actions and based on our view of the 2022 underwriting opportunity, we are very comfortable with our available capital levels to fund our future plans. We have a strong capital position which Natalie will further outline for you.

We believe that following the active cat year of 2021 and expected reduction in supply of products, such as retro, pricing for 2022 will be attractive. I know some of our peers have talked about retrenching based on our current view of the attractiveness of the 2022 cat opportunity, we expect to maintain our cat footprint for the year. Equally, we would always be driven by the underwriting opportunity as we are across the whole underwriting portfolio. We accept 2021 has been another challenging year, but we continue to deploy our long-term strategy at this stage of the underwriting cycle. As demonstrated in Q3, we cannot control the timing of claims or the weather, but we can navigate the Lancashire Group for the long term. The investment in our business and people will continue, and to give you a bit more detail on our business, I'll go to Paul.

Paul Gregory {BIO 16314515 <GO>}

As Alex has mentioned, we continue to execute our underwriting strategy throughout the third quarter. Before I talk you through our premiums and future business opportunities, I wanted to address the underwriting performance and loss environment in Q3. While it is never pleasant to provide you with sizable loss estimates, it's important to say that it's down to the natural volatility of the products that we sell. Most importantly, these events are within our expectations and risk tolerances.

I want to remind you that the profitability of our specialty book of business where we've been growing both organically and through the addition of new teams since 2018, continues to provide balance to our catastrophe business. For our industry as a whole, increased volatility within the catastrophe exposed products has been evident over the past five years. This has resulted in underwriting returns not being sufficient to generate acceptable returns for both us and the broader industry.

This increased volatility means that the industry will continue to charge more for these products and we are positive on the rating environment for 2022. Two points support our view, on the supply side of the equation capacity appears to be shrinking as a number of market participants flagged a reduce participation for 2022 already. And on the demand side, loss events tend to highlight the value of our products leading to more cover being purchased. Now turning to our gross premiums written, as shown on slide 4, these increased by 47% year-to- date, which is a combination of rate, new business, continued build-out of the new product lines, as well as inwards reinstatement premiums in Q3 following the catastrophe losses.

The rating environment across all the segments as remain positive and we expect it to remain positive the remainder of the year and through 2022. As already flagged earlier this year, there are some segments where the acceleration of rate has slowed as can be seen from the chart the trajectory remains positive and the cumulative effect of multi-year rate improvement is significant. The P&C reinsurance segment is where we've seen the majority of premium growth. This comes from both right and new business within the property reinsurance sub classes, as well as the development of the three new classes of business, casualty reinsurance, specialty reinsurance and accident and health.

At the start of the year, we take note that these three new classes of business which contribute between $40 million and $60 million of gross premium written. At the end of Q3 these product lines are already marginally ahead of the top end of that range. Q4 is not hugely significant in premium terms for any of these lines of business, but we will end the year ahead of plan.

We're very happy with our start in these new lines with both market conditions and growth in client support invested and planned. These lines will continue to build out over the coming years and to reiterate all of these are capital-light. Other than marine, all segments continue to grow in line with our strategy.

Writing conditions continue to improve in P&C, insurance, energy, aviation and marine. As mentioned last quarter, the marine segment has not grown due to a number of non-annual contracts not yet due for renewal, plus our decision to non-renew a small number of high premium value accounts where renewal terms were not sufficient.

The fourth quarter is especially significant for the aviation segment. And whilst there is certainly more competition than in previous years, the overall writing environment continues to be positive. Our aviation portfolio has remained incredibly robust in the face of the challenges of the aviation industry and the demand headwinds associated with that.

Whilst this challenge has not disappeared and our clients continue to navigate the various impacts of the pandemic, we are confident that our portfolio is very well positioned and is performing well. To sum up looking forward to 2022, our expectation is for rate improvement for yet another year of heightened loss activity.

We anticipate growing premiums again, further building out the Lancashire franchise. The growth will come from three key areas. Firstly, rate increases on our existing portfolio and it's worth reiterating that growth from pure REIT does not require any additional capital.

Secondly, those new underwriting teams that will join us ahead of 2022 will further support growth. All of these product lines have very limited natural catastrophe exposure and therefore require limited additional capital. Lastly, new business growth within existing lines of business both catastrophe and non-catastrophe, is only exposure growth within catastrophe exposed products that will require capital and as we have repeatedly stated our balance sheet and capital will remain robust. We are more than adequately positioned to fund our growth ambitions in these products. As always growth will be dependent upon market conditions, which will be influence both the headline growth rate, but also the ultimate business mix.

Changes in business mix will impact various underlying metrics such as attritional ratio, acquisition costs, et cetera, but as always our focus is on accretion to book value. I'll now pass over to Natalie.

Natalie Kershaw {BIO 21394441 <GO>}

Thanks, Paul. Today, I'm going to talk through some slides on the loss environment, our strong capital position and our investment plan. Starting with slide 5, during the third quarter of 2021 we incurred catastrophe losses in the range of $165 million to $185 million from hurricane Ida and European storms. This level of catastrophe loss is well within our expectations, the types of events occurred, especially given the growth in our catastrophe exposed lines -- lines of business in the year. You will see from the slide that we have historically reserved conservatively to catastrophe events.

For example, our initial loss estimates for 2017 catastrophe events have run off favorably, whereas the initial PCF estimate strengthened as shown on the graph. We have maintained the same catastrophe reserving process for the current year event. The estimated losses built ground up on a contract-by-contract basis and is then challenged in effect by representatives from across the business and across departments.

For this year's events, we have been especially mindful of potential supply chain issues and demand surge. Because of the process we follow, we don't give you an assumed industry loss number. However, I think it's safe to say that it will correlate to the higher end of industry loss estimates that have been mentioned in the market. We also incurred losses in our terror book from a political unrest in South Africa. Again, this loss is within our expectations for this type of events and magnitude of industry loss. Our terror book has historically been one of the most profitable classes of business for Lancashire. It is core to what we do and the book has not seen material losses to date. For completeness, our COVID and Uri loss estimates remain stable. Now turning to reserve releases, these now total $69.6 million for the year to date. Ahead of what we guide for, on an annual basis.

The favorable prior year development has been positively impacted by the release of two large risk claims from (inaudible) in our favor as well as releases across the 2017 cat losses. As we've noted before, and given the lines of business that we write, we are exposed to large risk claims that can take a number of years to settle. Therefore we are susceptible to relatively large loss statement from prior years that can be for or against us. Importantly, first of all, we have not had a single calendar year where we had seen this strengthening. Our underlying attritional ratio is running at the lower end of the 35% to 40% range previously given. Looking forward, we expect rate rises to feed into low attritional ratios on our mature lines of business. But we expect continued growth in the new more attritional lines of business to offset this somewhat. We have always reserve conservatively in the initial years of writing new lines.

These newer lines of business do not expose us to catastrophe losses and are not capital intensive. They help to diversify our book they gave us stable income stream to help offset volatility from the catastrophe and large risk-exposed business and as we said before they are accreted to ROE.

This year's premium growth will continue to earn through in 2022 and our net premiums earned will further benefit from the expected 2022 new business that Paul has spoken about. This higher premium level will benefit our overall combined ratio. We expect a reduced G&A ratio in the region of 18% for next year notwithstanding higher dollar operating expenses as a result of the growth in our headcount.

We currently anticipate that the acquisition cost ratio will remain broadly the same as this year. Moving on to slide 6, we retain a stronger rate both capital position. As a reminder, we started 2020 in a stronger than usual capital position as we retained earnings to fund growth.

We then raised $340 million in equity capital in 2020 and an additional $123 million of debt capital earlier this year. Although we have used a substantial proportion of this additional capital to fund our growth in the last couple of years, we retain sufficient capital to fund our current planned 2022 growth.

We have right-sized the (inaudible) book, rates of increase and are happy with our current level of catastrophe exposure. Put simply, growth in this area that is generated by rate rises is not expected to increase our capital requirements. As far specialty book, growth in 2022 incurs a much lower capital charge and is in some cases diversifying. The waterfall chart shows that we still maintain a strong regulatory capital position, following the current quarter's losses and we expect BMA solvency ratio to be comfortably above 200% going forward.

Finally to investments, slide 7 illustrates our relatively conservative portfolio structure with an overall credit rating of A plus. So far in 2021 our investment performance is marginally positive at 0.4% the overall return was driven by the sustained low yield environment on the slight widening of credit spreads, particularly at the short-hand of the yield curve. The fixed maturity portfolio had slightly negative returns on a year-to-date basis with a majority of the risk assets continuing positive returns, particularly the bank loan, hedge funds and private debt funds. We do not anticipate major changes to our investment portfolio in 2022. With that, I'll now hand back to Alex to conclude.

Alex Maloney {BIO 16314494 <GO>}

Right, to summarize on slide 8, everything we do is for the long term, and we are happy with the strategic progress we have made year-to-date. We believe we have the capital, talents and opportunity to deliver our future plans at this stage of the underwriting cycle. Therefore, we will maintain our DNA, maintain our focus on our franchise and stay focused on the fundamentals. Our business is better balanced as we grow, our specialty non-cat business continues to grow, which will add more diversification in active cat years, which provides a steady underwriting results to balance out the natural volatility of our catastrophe book.

I want to reiterate though that we are totally focused that each product line must make underwriting sense over the long term. Diversification over profit is not something that we are interested in. The 2022 underwriting opportunity will improve again as we expect to continue to see positive rate movements. Therefore, we expect meaningful growth next year, but not as profound as 2021. All the time pricing improves, we expect to grow; all the time we can find new profitable opportunities, we expect to invest. Our 100% focus is to deploy our long-term strategy to maintain our DNA. Growth at this point of the cycle as rates continue to rise will future-proof our business and help us navigate the more difficult part of the underwriting cycle. I'll now hand back to the operator for questions.

Questions And Answers

Operator

Thank you, (Operator Instructions) our first question is from Faizan Lakhani of HSBC. Please go ahead, your line is open.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Afternoon, congratulations on a good set of results, my first question is, I understand Darren has left Kinesis, could we potentially see a strategy change there in terms of how you deal with third-party capital and just briefly how the AUM developing. The second question is, would it be possible provide a breakdown on how much of the growth in Q3 came from RIPS. And the final question is, so on a written basis, the business written has shifted heavy towards short-tail lines this year. I appreciate, it is a crude simplification, but how much of that attritional loss ratio improvement that you've seen so far, can be attributed to the shift in business mix? Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

Okay. Hi, Faizan, and I'll take the LCM question. Yes, you're right Darren will be leaving the business in 2022. Our strategy for LCM remains the same. LCM is a fundamental part of the Group and the Group's strategy on stepping in on an interim basis as CEO of LCM, I'll be supported by the existing LCM team in the broader Lancashire reinsurance team, which has always supported LCM. The focus at the moment, obviously, is we're in the middle of fundraising for January 1 renewals. That's the focus at the moment and then we would see where we are there. We're coming into the new year and then obviously the medium-term plan will be to hire in to replace Darren on a permanent basis.

Q - Faizan Lakhani {BIO 20034558 <GO>}

I'm sorry, how much the AM that you currently have over Kinesis.

A - Alex Maloney {BIO 16314494 <GO>}

We don't disclose AUM in LCM and never have, I'm afraid.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Okay.

A - Natalie Kershaw {BIO 21394441 <GO>}

And then the second question was on the reinstatement premium. I think the most important thing to realize the reinstatement premium is that we did have some inwards from the catastrophe losses in Q3, but these were offset almost completely by the outwards reinstatement premium on our reinsurance line. So there is no net impact from reinstatement premiums so far on the year-to-date. On the attritional ratio, the two things, really going on the attritional ratio, on the mature Lancashire book of business, we've seen attritional ratios decreasing since 2017 as rates have been rising.

As you know, we've also entered into a number of new lines since 2018 and these new lines are more attritional in nature and as I said in the script, we also tend to reserve conservatively for new lines in the first few years. So these lines have had impact on dampening the overall attritional ratio. The most important thing to note is it require minimal capital and improve our overall ROE. So, hopefully that answers your question on the attritional.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Yeah. That's fine. Thank you.

Operator

Thank you. Our next question is from Freya Kong of Bank of America. Please go ahead, your line is open.

Q - Freya Kong {BIO 20097488 <GO>}

Hi, good afternoon, three questions if I can. Firstly, just to clarify on your talking about maintaining your footprint in property cat. Does that mean just potentially grow with rates next year. Second question, could you give us a steer of the potential additional premiums you'll get from the new underwriting teams joining for the year-end. And third question just on the attritional loss ratio again moving into next year, could you give us a sense of the relative moving parts from that 36 or that lower end attritional loss ratio starting point, is pricing going to have a net positive effect dampened by business mix changes? Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

Okay. (inaudible) Paul might add some views, I think what we're saying is that we are happy with our cat position as a business and as opposed and mindset is always to follow the underwriting opportunity and I think we're being very clear about -- we believe that 2022 is going to be another year particularly for cat business where you're going to see the rate change. So I think it would be counter to our DNA to cut back when we see the underwriting opportunity getting better, but what we would always say on any product line, we're just driven by the opportunity, so it's following any kind of active cat year, it's very hard to call the market into 2022, it's going to be a light renewal, we know that.

A - Paul Gregory {BIO 16314515 <GO>}

I definitely believe cat rates are going up to '22 but how far they go. I don't think anyone really knows at this point, but I think what we're trying to say is that we would be cutting back at this point, that's illogical to us, but will always be driven by the opportunity. On the second question about those new lines that will start underwriting from the beginning of 2022, just to recap on what they are, we have a new construction team joining, in fact they joined this week in readiness for 2022. We are expanding our property insurance offering with some hires in Australia. We're expanding two lines of business that we're already in a relatively minor way which are marine liabilities and energy liabilities. Our marine liability underwriting has actually been with us for a few months. In terms of guidance for premium for next year, it's actually the same range that I gave on the new lines, we started this year, which is approximately $40 million to $60 million albeit, as always, it will be driven by the market opportunity, we won't be driven by meeting that range if we don't feel the opportunity is there and by the same token, if the opportunity is better, a bit like we've seen in the new lines we entered this year, we're probably prepared to write more but that would give you a range.

A - Natalie Kershaw {BIO 21394441 <GO>}

Hi, Freya, on your last question on attritional ratio, as Paul and Alex had just been saying really going to look for next year the opportunity we see in front of us and I thought will have a significant impact on the business mix. It's very difficult to say at the moment exactly where the attritional ratio may end up. I think what is really important though is the net premiums earned will definitely increase. So as I mentioned in the script, this will have a positive impact on the overall combined ratio and we do expect to see our expense ratio coming down to around 18% G&A.

Q - Freya Kong {BIO 20097488 <GO>}

Okay, great, thanks.

Operator

Thank you. Our next question is from Andrew Ritchie of Autonomous. Please go ahead, your line is open.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. Couple of questions. Alex, you alluded to the debate going on right now in the industry on cat, with some people withdrawing. I understand the pricing is going up and therefore you can see it's not logical to withdraw, but it's hard for me to convey to investors and I wonder if you could, why it's the right price, which I think is a debate and really what kind of returns do you think can be made or why do you view, because there were some long established cat writers who are as you say, to be giving up, why are they wrong and why are you right? I guess if you could sort of allude to what kind of returns you think you can make in the cat business?

The second question is the political risk markers or it is within your terror book, you are a market leader, you obviously there was a quite a big loss on the (inaudible) account this quarter. Do we expect pricing to respond in that market and I guess I ask because this loss is unusual because we can see what the client pays because they have to disclose it not to you specifically, but to the market. And it looked like a very low right online for the payment they've ended up getting. So do we think there is some proper correction in pricing going to occur in that market -- in the political risk market?

And my third question was, can you give us some reassurance on your outwards retro program for '22, given retro is dislocated, I'm not interested in your inwards, just your outwards and confidence in placing that.

And I guess the final question, you talked consistently about the focus on growing book value per share and that's been a hallmark of Lancashire. Some of your industry peers have acknowledged that the ROI on their own shares maybe a better opportunity for deployment of capital than continuing growth, can you just assure us that's how you think as well? I mean given the shares have come down, it would strike me the hurdle rate for deploying capital into growth must have gone up? Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

Okay. We're going to do in reverse order. So I think on point three -- sorry on point four, I think when we think about capital all those things, it all starts with what's the best return for our business. So is that underwriting is that as cat business, is it non-cat business is it share buybacks, is it raising more capital. So yes, of course, all those -- all those decisions I think that we think about all the time. And we think about capital. So it's not lost on us, our current price to book but equally. It's not lost on us, what we see as a 2022 opportunity. So those things are always things that we consider. I think kind of linked to the capital view and why are we happy with our cat book and why we signed the comments we're making, which are contrary to some others, I suppose the first thing I would say is it seems illogical to me to decline an opportunity before you even see it. We sit here today, nothing has really been priced for 22, the pricing environment can be stronger than we think. It could be worse than we think. So I think we're trying to say is that we don't believe our cat footprint is wrong currently. When we look at the losses we've had, they don't surprise us full the type of events we've had. So, I suppose there is no surprise from our end. It's clearly disappointing not to make money to shareholders but that there is no one more focused on that than us at this end, they equally cat business does bring on uncertainty but when premium is coming up, obviously, you're probably -- the losing money comes down. So, I think it's in our DNA to look at cat as we do any other product line and when premiums are going up, we see that as an opportunity but equally, we're not going to grow our cat book, if we don't think we're getting paid for it or the right stands[ph] up sufficiently in the same way that in a very soft market. If we had a winter season claim and that was a really good return to shareholders, but the rights went down, we didn't grow because it made money the year before. So I think you've got to take a longer-term view of product lines and Paul will give a lot more details on the (inaudible) loss but is kind of linked to the terror book and the history of Lancashire has been highly profitable for our business. And because the client has a claim, good clients still have claims that does not make them back clients and you have to take a longer-term view.

And everything we're trying to do is to take a longer-term view. Again, we equally accept the last five years hasn't been easy for the industry and investors are asking a lot of questions and that's absolutely fine as well, but we do believe in our convictions which is why we are saying based on our view of the 2022 opportunity, we are going to hold our position, but we will be driven by the underwriting opportunity.

A - Paul Gregory {BIO 16314515 <GO>}

So touching on the political violence loss that we had, Andrew, and your question was around that is not going to have any impact on the market environment. My view on that -- our view on that is markets in our world are only ever driven by demand and supply shifts, my honest opinion is, I do not see any dramatic reduction in supply in that market in 2022. So I do not anticipate significant price increases. I'd also say that, as Alex has alluded to, that part of the portfolio for us, but also for the whole market has been incredibly profitable for a long period of time and as a result that's why I do not see people stepping away from that product line unless, of course, we have significantly more losses and frequency and severity increases.

Obviously there'll be exceptions within the portfolio but as a broad comment, I do not expect to say we're going to terrorism book material pricing change, at the same time I don't expect to see any material reductions. On our outwards retro answering that, sure as I can -- I've got complete confidence that we'll be able to renew all of our reinsurance protections at January 1, most of our reinsurance protections renew at January 1, obviously we're not immune from the broader market dynamics and I'm showing retro for example, there will be discussions around pricing and level of attachment and shape of product for example. For our core protections, we've consistently bought them from core partners over an incredibly long-term periods, initial discussions those thus far are all positive. Will some of them get right increases, I'm sure there will. But I think from most -- with most of our core reinsurance partners we see in a pretty good spot and I'm encouraged by conversations thus far and I don't have any concerns around placing what we need to place at January 1.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, thank you.

Operator

Thank you. Our next question is from Will Hardcastle of UBS, please go ahead, your line is open.

Q - Will Hardcastle {BIO 22230376 <GO>}

Hey afternoon all. I guess just following on the last question on the outward-reinsurance retro protection. First of all, then so you're confident you'll be able to get the business placed and priced, will be -- with maybe a price increase, but I guess, thanks to the bigger question, are you comfortable with where (Technical Difficulty) right now or the type of protection. Do you still think about the volatility of your earnings stream. When we take a step back on a four five year view, is that hindsight one that all of us say, but is there anything that you think you might change in that structure, whether it be frequency type protections or anything like that, if available. And then secondly, sorry -- it's another one on the attritional. I think you've given some color on it, but I just want to check, we moved to the lower rank of the range for this current year. Should we be rolling off from that level when we are thinking about '22 or is it more bespoke to the current year, perhaps Q3 was so benign, that's moved it to the lower rank, but at the starting point should be more to the midpoint for next year? Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

Okay. Will, I think the first one on outwards reinsurance. I think that you -- whenever you look what you've purchased and you have events within a year you can wait to look back with hindsight, obviously like the way you got to book your reinsurance better and that's something we look at on a continual basis and always have done obviously what the difficult part is predicting exactly how the losses fall in the next calendar year. Is it going to be one big one or three smallish ones, you just don't know, but obviously we have an idea of what we have in this portfolio we wanted to look like next year and the process will go through and we're going through at the moment is designing a reinsurance program that sits around that, it's been about, is that products available as we want to and we'll only find out, we're going to stay over the coming weeks -- as we speak to our core reinsurance partners.

But we look every year about in our reinsurance strategy as the company changes and evolves. So that's absolutely something -- we won't just look at the past and decide to truncate that because obviously as I said, there can be very different events in the future.

A - Paul Gregory {BIO 16314515 <GO>}

Yeah, I don't -- I think that as Paul said which also hindsight, but I don't think. What I can say is, you always have to be really careful these reinsurance program for what happened in that year because as Paul said, you can kind of at your lifetime different thing will happen next year. I think what I would say though is looking at what has happened this year and looking at various different products that we could have bought. I don't think I would have made a massively material difference to the outcome anyway, so it's not always hitting the same that would have been a different outcome.

And clearly when you have three sizable cat losses in a year, for everyone in the industry that's going to be hard to absorb. So I don't think there's anything where you sit here and say there is a product that we should have bought and it might have matured this year.

Q - Will Hardcastle {BIO 22230376 <GO>}

Okay, helpful.

A - Natalie Kershaw {BIO 21394441 <GO>}

Hi. Will, (Inaudible) attritional ratio -- the underlying attritional ratio for this quarter was good, but given the lumpy nature of the business we write, it doesn't really make sense to look at the ratio on a quarterly basis. Having said that, the improvement in the quarter was due to both underwriting earnings coming through as well as it being a relatively quiet period underlying losses if you exclude the cat losses that we saw. And secondly, I think we are planning to do some more detailed discussion on how to think about attritional ratios at the analyst call next week. So we can go over in some more detail on that as well.

Q - Will Hardcastle {BIO 22230376 <GO>}

Okay. But the year-to-date one, the low end is a decent starting point for us to roll into next year, or you still say use the 35 to 40 for the starting point?

A - Alex Maloney {BIO 16314494 <GO>}

Will, we will give you as much time as you want on Monday (Multiple Speakers)

Q - Will Hardcastle {BIO 22230376 <GO>}

Thank you.

Operator

Thank you. Our next question is from Andrea (inaudible). Please go ahead, your line is open.

Q - Unidentified Participant

Yes, hello, good afternoon. I just wanted to ask on your insurance book. So we will put the reinsurance book to one side. I just wanted to see where are you seeing rate increases running well above loss cost trend, then are you satisfied with where adequacy and in which parts of that book are you still dissatisfied and you need for the rate increases, I'm talking more about the mature core book rather than the new business? Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

Okay. Hi, Andreas. I'll take that. I'll start with, there's probably one obvious line of business that we feel that the right rises that we've been getting over the past few years whilst are good and the right rises are not necessarily getting us to a point where we really want to broaden our shoulders and that would be the upstream energy book. The market probably gave off 40 to 50 points in write in the soft cycle since the turn of 18, we have been getting rate rises, but they have been in the low to mid single digit range and a lot of -- we shrunk to our core book there, we've held on to that core book and we've taken the right, but we haven't materially grown outside of that, because we just feel that there is more work to be done on writing there.

Outside of that, you've seen our growth in aviation over the past few years, and you've also seen rate environment, if you look at our RPIs in that line of business over the last few years, I clearly would indicate a lot more business has been right adequacy. For us, as I did mentioned in my script, Aviation is one that you probably won't see the same pace of increase going forward given the cumulative rate increase we've seen, but we still expect to see positivity in the fourth quarter but it all comes back to right adequacy.

And then there are other parts of the energy book, the sign of good rate momentum in prior years and continue to see positive rate momentum (inaudible) things like downstream energy and our power book and again we've grown these in line with the opportunity. The marine portfolio has seen good rate growth over the past few years and again that continues. The movement in premium there, as I mentioned is more about some timing issues and also we still underwrite, it was coming in and then we had to (inaudible) prepared to walk away from that despite the company being in growth mode. Does that give you some color?

Q - Unidentified Participant

Yeah, so just generally, would you say excluding the energy upstream book, would you expect significant rate increases in your insurance book to continue next year if you're already sort of coming close to being or above rate adequacy already. What was going to drive rate increases further across your mature book outside of the upstream energy, of course, which is linked to just the demand side?

A - Alex Maloney {BIO 16314494 <GO>}

Yeah, sure. I'm not sure I necessarily used the word significant but we definitely expect in rates to continue to improve in a number of lines, I mentioned there may be a slowing of increase, but as I spoke about, it's about the cumulative effect and also writing adequacy.

Q - Unidentified Participant

All right. Understood. Thank you very much.

Operator

Thank you. Our next question is from Tim Hayes of Credit Suisse. Please go ahead, your line is open.

Q - Tim Hayes {BIO 16191873 <GO>}

Hi, thanks for taking my questions. I have one on cat budgets. Obviously, there's quite a lot of moving parts in this in terms of rate, retro business mix changes. Just a sort of high level the proportion of premiums. How do you think cat budget should be trending to your book, but. My second question was on retro as well, last year when you...

Operator

I'm so sorry, we can hardly hear you. We call it really hear your questions properly. Is there any chance you can come closer to the microphone, we really can't hear you.

Q - Tim Hayes {BIO 16191873 <GO>}

Sure. Is that any better?

Operator

Yes, much better. Thank you.

Q - Tim Hayes {BIO 16191873 <GO>}

Sure, no problem. Sorry, I'll try again. The first one was on cat budgets. We're looking at sort of the moving parts of this with rate increases, business mix changes, obviously, the changing retro program and a sort of high level. How do you think cat budget should be trending as a proportion of premiums for your book.

The second question was on retro, last year you sort of indicated that you were able to purchase more retro than you sort of initially expected heading into the renewal. Is the plan to sort of all expectation that you're going to revert just to that core program for the full year. And then my third question was just on the capital position, in terms of the capital position you disclosed at the end of Q3. I guess there's no or seen there is no incorporation of future growth strain into the capital requirements yet?

A - Alex Maloney {BIO 16314494 <GO>}

As a general theme, let's just pitch this side, as a general theme what we've been doing since 2018 is growing a lot of non-cat lines, and yes, we have grown our cat book when we've done our equity[ph] raise and also debt raise, but I think as a business, we are bringing more specialty business in overall which should help balance out the volatility that anyone's (inaudible) this is natural volatility in capital probably outside. So I think overall, our business is more diversified, I would always say we're only doing this to make more money. We're only doing this to improve the return on capital diversification for diversification sake, is just a complete a complete waste of time, and we've never done that.

But we are becoming a more balanced business, which I think -- definitely leads me to the, -- it would be illogical for us to cut back now. So I think, our business is better, I think you are seeing more diversification, which allows us to, cat years on a better basis which for me, I think it's just, we're just a more balanced company. I think you're also right about there are a lot of moving parts and always following an active cat year. There is a lot of moving parts and there's going to be how much retro to buy, how much risk do we to be ride, how much capital do we raise in LCM. So, yes, it's going to be a lot of moving parts. And again, there's a lot of assumptions at the moment, but I think that's more manageable and that's just part of the process when you have a year like you have. So there is nothing that troubles us.

And then lastly, before Paul add some views, obviously as we get into -- one months obviously, indicate and there's a lot of European business, and obviously that's been full year. There is a lot of things that we will -- during the next sort of six to eight weeks, and then obviously different our portfolio come through '22. so we can give you a much better viewpoint of this -- post one months.

A - Paul Gregory {BIO 16314515 <GO>}

Yeah, I think, the way to think about it on, you know, when we buy reinsurance, whether that be retro or reinsurance on the specialty lines, now we don't like going into one month we've a plan a bit like how we under our inwards book, you sometimes actually adjust that dependent on market conditions.

So we will have I-plan for the January 1, and we have a view on what we want our reinsurance structure to look like for next year, but obviously you need to be flexible and if the market isn't quite as we anticipate then we'll make adjustments accordingly. Sometimes that means we can end up with a better protections than we anticipated and sometimes it means that you have to adjust slightly because the market is a bit tricky than you expected.

So I think as I said, in answer to a previous question, we've tried to give long time reinsurance partners for a long period of time. The reason we do that is because when you get into more difficult market, you can have sensible conversations about renewing your core protections, which obviously fundamental to us as a business.

A - Natalie Kershaw {BIO 21394441 <GO>}

Hi. On the top models, they tend to be on an ASAP basis, so they don't look forward into the following year. So there won't be any 2022 future growth on the on the capital requirements that's been disclosed. I think just to reiterate what we said earlier that on rate rises on cat business, there is no capital charge on that. And then on the specialty business, significantly lower capital charges on the specialty business.

Operator

Thank you. Our next question is from Daryl Goh of Citigroup. Please go ahead, your line is open.

Q - Daryl Goh {BIO 4258857 <GO>}

Hi, afternoon all. Three questions please. So the first one is just on the cat footprint, I hear point about maintaining it as it is today, but if the underwriting opportunity and cat line turns out to be better than you expect, which you come to market to product growth ambitions, or would you just grow in line with rates?

And my second one is from cat exposure. I think in your opening remarks, you mentioned about some rightsizing. So could you maybe elaborate a bit more what you've done there, what do you put up layers or cut aggregate and are there any more, rightsizing that you'd like to do?

And my third question is just on the global tax reform, maybe some thoughts about any potential impact to think about. Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

Hi. So on the first point, I think the point we should make which hopefully we have made. But we'll reiterate our capital position. We're really comfortable with it. And should there be an opportunity in the catastrophe market and we would be able to take advantage of that.

Obviously, you can have events that create severe dislocation and then that's a different story, but as we look at it now, if we wanted to -- if we thought the opportunity was there and the right environment is there, we're comfortable with our capital position. Sorry, can I ask you to repeat the second question because you broke up a bit.

Q - Daryl Goh {BIO 4258857 <GO>}

Yeah, sure,. It's just about rightsizing the cat exposure. I think that the remarks made at the start about -- you've done some rightsizing as well. Maybe if you could elaborate a bit more on what specifically you've done there whether you've moved up layers or you've cut out some aggregate.

A - Alex Maloney {BIO 16314494 <GO>}

No. So I think that comment was in line with our -- what Natalie said was that we've obviously -- when we raise capital back in '20 that was to increase our cat portfolio. So that wasn't rightsized in that we've changed in that regard. It was grown in the cat portfolio at the same time is growing the overall business and the specialty book as well. So that's where that comment came from.

A - Natalie Kershaw {BIO 21394441 <GO>}

Hi Daryl, on your last question on the global tax reform. We think it's too early at the moment to know clearly what the implications for us are and we are currently waiting for more detailed rules to be published and then we will have a better idea on the potential impacts.

Q - Daryl Goh {BIO 4258857 <GO>}

Got it. Thank you.

Operator

Thank you. Our next question is from [ph]Tiffany Barrett of Berenberg. Please go ahead, your line is open.

Q - Unidentified Participant

Hi, good afternoon. One question for me, taking sort of helicopter view, can you give us a rough estimate of what proportion of your total book made up from attritional lines for the year-end? And how should we expect it to develop in 2022. I'm just trying to get a sense of how the mix develop given a very good team and how much the new lines will offset the sort of the explosive growth you had in, you sort of cat exposed lines this year? Thank you.

A - Jelena Bjelanovic {BIO 16398596 <GO>}

Tiffany, it's high. It's Jelena. As Natalie mentioned earlier, we're going to take all of this of the pool. So we can talk you through exactly what we mean because I think that there is a little bit of misunderstanding. We're driven by ROE business at the end of the day. So what we'll do as a Monday, we can go through all of these questions, go through the detail and hopefully answer your questions.

Q - Unidentified Participant

Got it. Thank you. Thank you.

Operator

Thank you. Our next question is from Abid Hussain from Shore Capital. Please go ahead, your line is open.

Q - Abid Hussain {BIO 22270436 <GO>}

Hi there, thanks for taking my questions. I think I've got two, possibly three. The first question is on the risk models and your view of risk. So if you're telling us that you're -- essentially you are one in 20, and one in 30 risks among capturing. The appropriate level of frequency -- very see of the prevails that we're seeing. But, so, I want to look across the industry, there seems to be increasing evidence suggesting that these funnels are of cat event be effect of climate change. So I'd just like to get your thoughts on that, please. And a request associated with that as well. If you could start disclosing your one in 30 PMLs going forward. That would be helpful as well, please.

And the second question is on the capital. So you've got a lower capital position, I think around 225% you're disclosing today, it doesn't seem to really impacting the growth and business mix plans for next year, if you could just sort of clarify that?

And linked to that, how low are you willing for the solvency ratio to drop down to in the pursuit of growth given there seems to be plenty of opportunity around? Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

Okay. All take the first one, I think let's just -- there's been a lot of commentary following these losses and obviously the last sort of five years on how good the modeling is for cat classes. I think the first thing that we would always say is that when you underwrite any risk or a portfolio of risk, the model is part of the tools that you use to assess the opportunity. But I think we would always say -- I think we've always said that you just can't take a model view of risk on any cost of business.

We have other models for other classes of business and we don't just underwrite by models. I think that would be a mistake. And clearly people have to understand that every single cat event is unique and the model can only take you so far. So I think for us, when we think about any risk on a portfolio of risk, yes, we're going to look at some third parties, vendor models. We're going to add around loads. We can look at -- we pre-model these type of risks. We can add various load. We can do things on an individual basis.

But the point -- the bigger plan I'm trying to make is that the models can only take you so far. And the industry can't. If you an underwriting company, you can't just underwrite by models, and we don't just underwrite by model.

So I think it would be naive to think that the model is just going to give you the answer. And I think you need a blend off the best underwriters with the best technology. And if you can end up somewhere in the middle and learn from events and equally really understand what's not captured in the models, I think that's why you need to get to.

So I think -- I think it doesn't matter how good the models are, you can not underwrite just by models but equally, remember that the cat events -- every cat event is unique. So is it fair to say that you're incorporating your learning for climate change

Q - Abid Hussain {BIO 22270436 <GO>}

Is it fair to say that you are incorporating, you're loading to climate change so there is an increase in frequency and severity in your loadings?

A - Alex Maloney {BIO 16314494 <GO>}

Yeah. What I'm saying to you is we just don't take vendor models and look at the outcome and go back to the answer. We have our own view of risk whether that's on a portfolio basis or an individual risk basis and that's our job to do that and every -- that's what every underwriting company does do in fairness to various different degrees based on our view of risk, we have our own view of risks.

Q - Abid Hussain {BIO 22270436 <GO>}

And just one last thing is, obviously we're fortunate in that most of our business is written on a 12 month basis. So if events do happen, you can learn from those events. You can take -- you can constantly look that you'll be at risk and on an annual basis, you can adjust accordingly wherever that be more risk, less risk, different pricing et cetera.

A - Jelena Bjelanovic {BIO 16398596 <GO>}

And just conscious of the time, we probably only have three minutes left on the call, Abid, I think Natalie has already answered the capital question. So, perhaps...

A - Natalie Kershaw {BIO 21394441 <GO>}

Actually, I'd just say one thing, we don't consider internally the capital -- the regulatory capital ratio of 225% is low, which I think you want to ask with your initial comment.

Q - Abid Hussain {BIO 22270436 <GO>}

No, I would say how low would you -- I didn't just as low, I think it is fine, but how long are you willing to go was the question?

A - Jelena Bjelanovic {BIO 16398596 <GO>}

As Natalie mentioned earlier, we are likely to remain above 200%. So I think we've covered that already, perhaps we can move to the next question.

Operator

Thank you. Our next question is from Ben Cohen of Investec. Please go ahead, your line is open.

Q - Ben Cohen {BIO 1541726 <GO>}

Hi, there. Thanks very much. If you can hear me. I'm not to sort of labor the point on the catastrophe side of things, but I just wonder if you could sort of put into context how you would sort of see this year because obviously it's great you're getting good pricing on cat. But if we have high frequency of severe cat, you clearly not going to hit any kind of targets versus -- the sort of some benchmarks that you set when you raise the capital. So, I just wanted to give us a bit of your sense in terms of -- in terms of the confidence that actually the assumptions you're making are the right ones and really to sort of to average your target return on equity?. Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

I think (inaudible) I think clearly, you can't just look at one year and clearly where you are looking on a long-term basis. I think another way to answer your question is that when you have loss making years on your cat portfolio. That's one thing When you have profitable years on your cat portfolio, you don't intend to time to assumptions. I think you're trying to look over the long term. I think when -- covered some of this earlier, when rates are going up. Clearly your probability of losing money is going down. So again, that would seem illogical to us and quite frankly even for the whole industry, you could have a huge increase in premium next year and still have an active CAT season. That's the nature of what we do.

So I think it doesn't -- the biggest thing that I'm trying to say is I don't think it changes our longer-term assumptions. I don't think the losses that we assumed this year surprise us for the events that we have, as Paul has said a number of times, we are as prudent as we can be on reserving. So again, we've -- this is not our first rodeo, if you like. So I think, it hasn't really changed our view but equally when premiums got again next year, (inaudible) I say as an opportunity, but will always be driven by what the actual outcome is and that's just that's never going to change in this business.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay, thank you very much. Thank you.

Operator

Thank you. There will be no further questions at this time, so I hand back over to our speakers for any closing remarks.

A - Alex Maloney {BIO 16314494 <GO>}

Okay, thank you very much for your questions and that's the end of the call.

Operator

This now concludes our presentation. Thank you for attending. You may now disconnect.