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Y 2018 Earnings Call

Company Participants

- Alex Maloney, Group CEO & Director
- Darren Redhead, CEO of Kinesis Capital Management
- Denise O Donoghue, Chief Investment Officer
- Elaine Whelan, Group Chief Financial Officer and CEO
- Paul Gregory, roup Chief Underwriting Officer and CEO,

Other Participants

- Andreas van Embden, Analyst
- Ben Cohen, Analyst
- Darius Satkauskas, Analyst
- Edward Morris, Analyst
- Joanna Parsons, Analyst
- Kamran Hossain, Analyst
- Luke Stratford-Higton, Analyst
- Nicholas Johnson, Analyst
- Paris Hadjiantonis, Analyst
- Thomas Fossard, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's Lancashire Holdings Limited Fourth Quarter 2018 Results Call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session. (Operator Instructions) I must advise you that this conference is being recorded today, Thursday February 14, 2019.

I would now like to hand the conference over to your first speaker today, Alex Maloney, Group CEO. Thank you, and, please go ahead, sir.

Alex Maloney {BIO 16314494 <GO>}

Thank you. Good morning, everyone. Thanks for dialling in. During the fourth quarter of 2018, the insurance industry witnessed another series of cat events, with hurricane Michael landing in Florida, and devastating wildfires in California. These insured losses will mean that 2018 is an above average year for losses and 2018 and 2017, are the highest consecutive level of CAT insured losses on record.

Against this backdrop, I'm therefore delighted that the Lancashire Group has returned to profits for the 2018 underwriting year, with 92.2% combined ratio, and a 2.4% return on equity. The events of 2018 provided another important test of our risk management. We have digested multiple large losses, still generated an underwriting profit, and we have navigated volatile investment markets and still generated a positive return on investments.

We have grown our top line premiums by 8% this year. But the real growth is closer to 20% when we adjust for variables such as multi-year premiums reinstatement -- and reinstatement premiums, et cetera. This has been driven by positive rate increases across the majority of our product lines and the investments we made in three new underwriting teams during 2018. We are seeing more new business than we have seen for a long time. Some of which is adequately priced now rate increases have been achieved, but we're still declining a large amount of new business that needs much more aggressive repricing before we are prepared to accept these risks.

We have always said that we would adjust our underwriting, according to the market conditions, the momentum we are now seeing is a clear indication of our view of the underwriting environment and that it has improved but we are clear that after years of rate reductions, there is still much work to be done to address underwriting profitability. As the industry addresses the sins of the past, we believe that we will see a return more sustainable returns with a balance of risk and return metrics will enable us to provide better returns for our shareholders. The momentum in our business leaves us positively positioned for the next stage of the underwriting cycle and we will look to maximize opportunities. Our strategy will always remain the same. We will continue to demonstrate the underwriting and capital discipline that we have had since the inception of our company. Finally, I'd like to thank our shareholders for their support of our company and our people for their commitment and dedication to our company. On our pass over to Paul Gregory.

Paul Gregory {BIO 16314515 <GO>}

Thanks, Alex. Whilst 2018 has not seen the same loss quantum of natural catastrophes 2017. It has been above average loss share with natural catastrophes in numerous territories providing another testing year for underwriting portfolios. In addition, there has been a high frequency of risk losses in many of the specialty insurance classes adding to the pressure to deliver underwriting profitability. With this in mind, I'm pleased with the 2018 combined ratio of 92.2% which demonstrates the quality of our inwards underwriting and our reinsurance buying strategy.

2018 was the first year for many years where we seeing positive rate movement across the majority of our portfolio. Albeit there was a clear difference in trend between catastrophe exposed reinsurance lines and Specialty Insurance. In general, the reinsurance lines saw better rate movement at the start of 2018 with price rises less pronounced as the year progressed. Whereas in the majority of the specialty lines, the rating

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environment gradually improved as we progressed through the year. Across our entire renewal portfolio we still right increases of approximately 5% year-on-year, it is in the specialty insurance lines, that we expect to see continued incremental improvement in rates through 2019.

Area showing the more significant rate rises on those lines, that have seen capacity withdraw such as cargo, aviation, and specific areas of the D&F market, other lines such as downstream, energy, and power are also seeing rate rises following a number of years of poor underwriting performance and an increase in loss activity. This is all incrementally positive for us.

Specialty insurance lines and now approximately two-thirds of our underwriting portfolio, we have a strong track record of producing underwriting profitability in these classes, even in the past five years, where rates have been historically low, our combined ratio for specialty insurance has been in the low 80s. Therefore any positive movement in rate is good for us.

Last quarter, we stated we expected a flattish property market for 2019, and that is effectively what we saw at 1.1. With some loss free territories such as Europe, some flat to low-single-digit rate reductions and loss impacted territories and accounts seeing some rate increases. It wasn't element of dislocation in the retro market 1.1, with rates increasing and product offerings and structure changing. This combined with catastrophe events in 2018 working their way through the system, may provide fresh impetus for property cat rates as we move through 2019, or albeit at this stage, our expectation remains for flattish pricing in property cat.

Given the dislocation in the retro market, we were able to grow Kinesis at 1.1 for the second year in a row. It was particularly pleasing to secure additional support from Kinesis Capital providers, given the loss events over the past two years, as this support allows us to grow our footprint in an area of the market, that's seing rate improvement.

We've also grown our footprint in the Specialty Insurance arena, adding three new product lines during 2018. Our timing of entry into downstream energy, power, aviation deductibles has been opportune, as we were entering these classes when the rating environment in each of these products is improving. We were pleased to secure the aviation deductible team in time to 2018 renewal season, which has allowed us to access business a year earlier than expected.

This premium accounts for a large proportion of new business seen in Q4. Overall, our three new product lines contributed approximately $40 million of gross written premium in 2018. Importantly, these product lines have light capital requirements as the natural catastrophe footprint is relatively limited compared to other lines of business.

As Alex mentioned, gross premiums have grown 8% year-on-year, underlying growth is closer to 20%, once multi-year premium and reinstatement premium impact has been catered for. The combination of an improved rating environment and new business has delivered this growth -- whilst we also always very pleased to see rate improvement and

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premium growth in all product lines. As always, we are fully cognizant of the base levels from which we are coming from so we will continue to maximize risk and return and focus on underwriting profitability and not just top-line growth. We remain cautiously optimistic about 2019, given the improved rating outlook in specialty lines and the three new teams being fully embedded within the business. I'll now pass over to Elaine.

Elaine Whelan {BIO 17002364 <GO>}

Thanks, Paul. Following the third quarter's CATs closed out 2018 with wildfires in California. Like last year, the wildfires in isolation would not have had the particularly significant impact on the group. But in another well above average year losses they added to mounting tally. The fourth quarter also included Hurricane Michael which occurred in early October. Across the quarter loss events, we've recorded a net loss after recoveries of $48.8 million. The fourth quarter also experienced significant volatility in the investment markets and our investment portfolio lost 0.1%.

Our RoE -- for the quarter was therefore negative with an RoE of negative 1.4% however with lower overall losses for the year, we remained profitable for the year with an RoE of 2.4%, our combined ratio for the year was 92.2% and our investment return was 0.8%. While the RoE we produce has clearly been impacted by the run of losses over the course of the year. We remain pleased with the way of book performed across those events. We've produced an underwriting profit. Our underwriting portfolio performed as expected supported by our reinsurance program and also had a few nice reserve releases come through this year as some older claims finally concluded.

On the investment side of our business, our portfolio structure protected the downside as it's designed to do. Also pleasing was the grown in our gross premiums written in the quarter. While we saw some strong new business flow in the property political risk book, the new underwriters we've added to the business got off to a good start introducing over $40 million dollars of new business to the group this year. While it will take some time to build those books out and for the premiums to earn through, there is a meaningful impact on our top line, particularly given that the fourth quarter is typically our lowest volume quarter. We also had some to favourable reinstatement premium and prior underwriting year adjustments in the quarter. It's only a small offset from the impact of multi-year deals.

And as a reminder, the fourth quarter of 2017 was negatively impacted by some premium adjustments to prior year (inaudible) offshore pro rata contracts due to the cancellation of some projects. Our premium CDs increased this quarter largely due to increased reinsurance and the new lines of business, we do have a significant quota share partnership arrangement on our new aviation deductible book. The net impact of all that was an increase in net earned premium relative to the fourth quarter of last year. Although a lower percentage of earned to written given the higher relative volumes in the fourth quarter of this year. Our acquisition cost ratios high again this quarter.

The fourth quarter of 2017 was somewhat artificially low given the adjustments made to prior underwriting year contracts. The fourth quarter this year was also impacted by a

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small number of contracts, with high brokerage and commissions, which skewed the ratio. I would anticipate the ratio trading back to around 27% next year.

As in previous years, we don't provide top-line guidance. However, we do expect to see the benefits of the new teams we've hired in 2019, a continuation of the rate increases in our specialty lines plus some new business opportunities across the rest of book.

As ever we will have some impact from the timing of multi-year and non-annual deals, plus non-renewing lines of business like the political risk book. In 2018, the net reduction on gross premiums written for multi-year and non-annual contracts, is about $60 million, and I would expect the impact in 2019 to be slightly lower than that.

Our losses from Hurricane Michael on the individual wildfires are not significant. We've broken out the impact of the combined events in our press release. The net loss of $48.8 million contributed 45.5% to our loss ratio for the quarter. Offsetting those losses, we had net favorable prior year development for the quarter of $39.9 million. We had a 2009 accident year energy claim settle in our favour, some favourable development on last year's CAT events, plus some general IBNR releases due to lack of reported claims coming through.

The succession of losses this year again meant we booked some losses under aggregate covers. These are not individually significant. But I would characterize them as larger than pure attritional losses.

However receipts, plus a slight uptick in attrition in the Cathedral book, our attrition appears to be running higher than we've been guiding. When those are stripped out, we remain comfortably in the mid 30s for attrition. We may see that tick up a little bit next year though as the new lines of business, we are adding are a bit more attritional in nature.

As I mentioned, investments produced a 0.1% loss for the quarter, driven primarily by widening credit spreads and the sell-off in equities impacted our risk assets. The fixed maturity portfolio performed well though -- and the overall portfolio structure mitigated the downside impact of volatile quarter. While we expect volatility to continue and further rate increases, we remain well positioned for both of those. We'll also have the benefit of reinvesting at a higher rate and will gradually increase our duration to take advantage of those higher rates. No changes in our investment strategy for 2019 though.

Our G&A ratio is reduced due to reductions in variable compensation and consulting fees in the quarter. And financing costs for the quarter increased largely due to the mark-to-market on our interest rate swaps and also some LSE costs. Lastly, on capital, we're comfortable with the level we're carrying and that we still have plenty of capital to underwrite the book we expect to underwrite this year. While maintaining our usual buffer for other opportunities that may arise.

The new lines of businesses we've been adding are certainly not capital intensive. So we don't need more capital to grow those. We're declaring our normal final ordinary dividend

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of $0.10 per share or $20 million and as ever, we're monitoring underwriting opportunities and adjust our capital accordingly.

With that, I'll now hand over to the Operator for questions.

Questions And Answers

Operator

(Operator Instructions) Your first question comes from the line of Kamran Hossain of RBC. Please ask your question.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi everyone. Two questions from me. First one is, the talk about new business, obviously it's great news that business is coming back. And you're seeing it. Could you maybe give a flavor or sense of where that business is coming back from? Is this kind of U.S. domestic players et cetera, where that's coming from? And the second question, you're probably unlikely to give me an exact answer. But if we think about Q1 pricing. Is it safe to say that the Q1 RPI probably gets a bit of a bump from marine numbers, given kind of wasting of things there -- just any kind of colour on that would be helpful. Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

So I think on the new business front, I think what's happening at the moment in the market is, as people are pulling out of lines of business, or just reassessing profitability. And just generally cutting back, we are seeing new business opportunities. So a real life example would be Cargo. So our cargo team will see a lot more new business. And some of that new business with adjusted rate increases will hit the metrics we need. But there's still a lot of business that needs much more aggressive re-pricing, we are modestly sort of like confident about rates going in the right direction, and that's great. But we can't forget where we're coming from. So I think that what the industry needs and what everyone needs to do is just look at where rates are and some product lines need probably multiples of where they are or some individual risks need, huge rate hikes to get to something that's adequate and other businesses -- better priced. So yes, we are seeing new business, there's still an awful lot of that wouldn't hit the metrics that we need but, it is a clear indication that things have changed and the industry as a whole is trying to increase the profitability after two very tough years. Paul do you want to talk about the 1:1?

A - Paul Gregory {BIO 16314515 <GO>}

Yes, So. Hi, Cameron. In Q1, there will be some loss impacted marine business. So on the marine, RPI that will obviously come through the numbers and you'll see that on the next earnings call. As an overall comment though, 1:1 across the portfolio, you're taking everything into account, everything's premium weighted and you're kind of in the mid single-digit rate rises across the whole portfolio. So that's kind of what we're seeing at the moment, obviously we've got some more Q1 business to go. But that's what we're seeing at the moment, and basically, and in line with commentary, you will see in terms of the specialty lines, seeing rate increases, reinsurance lines outside of Retro, broadly flat. So

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that's kind of where you're getting the balance, also remember that in some of the new lines of business, particularly power and aviation deductible, albeit aviation deductible isn't really a key one. Issue --not all the business we write will come through in RPIs, because it's new business, and RPIs are only based on renewal business.

Q - Kamran Hossain {BIO 17666412 <GO>}

Brilliant. Alex, Paul, thanks very much for your comments.

Operator

Your next question comes from the line of Thomas Fossard of HSBC. Please ask your question.

Q - Thomas Fossard {BIO 1941215 <GO>}

Good afternoon everyone. Two or three questions on my side. The first one, would be on the PML, looking at the changes in your PML exposures. Could you explain what has driven the 2025 reduction in the US and European hurricanes and windstorm risk for the 100 year return period and a bit more for 250 years? And connecting to that, second question could be, would be on the capitalization of the Group. So, could you please update us on the Q1 capital position of the Lancashire at the end of the year on the S&P model, which remains your binding constraints. I think that S&P in its last report was pointing to the fact that you had a 10% redundancy over the year. AAA confidence level. So any update on that would be useful. And, the last question would be on the credit quality of the investment portfolio. It is slightly down from the AA Minus to A Plus. So anything specific to mention here? Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

Okay, Thomas. So just one thing on PMLs, that I just want to make very clear and then I'll hand over to Paul and then Elaine will clearly answer the other questions. Is that when -- our PML's can move around at anytime and Paul explain why they've moved, but when we look at PML's and the way we think about PML's, it is one measure of how we look at our business, and we have pretty much bought exactly the same reinsurance program as we have done year-on-year. So there's no massive material change there, although the PML's have moved. So the PML for us when we're thinking about our business it is one measure, we look at and I just wanna be clear -- clear on that. Paul, would you just want to explain--

A - Paul Gregory {BIO 16314515 <GO>}

Yeah, I mean there are, there out there are some movements as you say,Thomas and some of that relates to inward changes in the inward book at 1:1, there were some areas where there was some opportunity to write more business and others where we decided to write a little bit less and that is mainly driven by the rating environments that we saw there. As Alex said reinsurance across the Group is broadly the same, but there are some changes in some areas, which also kind of feeds through to the PML's. So there is a number of moving parts.

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A - Elaine Whelan {BIO 17002364 <GO>}

And on the capital side of things. S&P wouldn't be the primary measure that we look at, we look a lot of different models and a lot of measures around capital AM Best is probably one that we pay the most attention to, and generally, we are thinking about capital, we look at where we are in the AM Best model, stress it and then put some head on, on top of that, and that, generally means that we're comfortable under the other models as well. So, and I wouldn't expect any material change in the S&P model. And then on the quality of the investment portfolio, Denise is here, so I'll let her take that one.

A - Denise O Donoghue {BIO 18659727 <GO>}

Hi Thomas. Essentially there is not much difference -- like there's a fine line between the double A minus and A plus and we just liquidated more agency debt and treasuries for -- to fund some of the payments we had going of Q4 with the volatility we just chose to take less risk like take the quality securities out but it'll it rebalance and probably jump back up to double A manner, Q1, Q2.

Q - Unidentified Participant

Okay, very good. Thank you.

Operator

Thank you, and -- Next question comes from the line of Edward Morris of JP Morgan. Please ask your question.

Q - Edward Morris {BIO 16274236 <GO>}

Hi, thanks everyone for taking the questions. The first, I just, I know you wouldn't give us sort of proper guidance on premiums. But I wondered if you could just help us a little bit, think about the trajectory going forward, because you've talked about this 20% underlying growth, obviously, we have this dynamic to think about with the multiyear effects. Can you just sort of give us a feel for what you think is realistic to expect over the next few years, given the teams that you've added, presumably we should expect growth to continue, but some sort of range would be helpful. And secondly, a question on dividends, please for the last two years, your dividends have been -- DPS has been higher than EPS and actually, I think if I go back the last 4 or 5 years, that's been the case. Looking ahead, if the growth outlook changes, can you just give us a feel for what we should expect in terms of dividends, should we, I mean I usually pencil in something close to a 100% payout ratio. But if you start growing, is this too optimistic or just a feel for where we are on the dividend outlook would be good. Thank you.

A - Elaine Whelan {BIO 17002364 <GO>}

So, I am absolutely not going to give you any kind of range whatsoever. (Multiple Speakers)

Q - Edward Morris {BIO 16274236 <GO>}

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Perhaps maybe a very brief -- just rephrase slightly then, the 20% underlying growth that you talk about for the year, is there any reason why we should expect on an underlying basis that not to continue going forward. Will the new teams that you've added, is it purely the reflection of adding those new teams, does that imply anything for the trajectory going forward?

A - Elaine Whelan {BIO 17002364 <GO>}

We've had some growth in those teams this year and there's also our kind of normal new business run rate, if you like. So we said because of the $40 million of premium for the year, 40, 45 in the new teams and there's probably about 55 or so just kind of our normal and run rate. Now, those new teams have come in early, we've got them in and managed to get some premium in this year. So that book will renew into the next year, so there will be an element of new business, but probably not the same kind of magnitude as we've seen this year.

Q - Edward Morris {BIO 16274236 <GO>}

Okay, a little, thank you.

A - Elaine Whelan {BIO 17002364 <GO>}

And then dividends -- I'm not going to give you any guidance on that either.

A - Alex Maloney {BIO 16314494 <GO>}

But one point on that, it will always depend on what line of businesses we invest in, because the lines that we have invested in, in 2018 as I said in my commentary, are relatively capital light, so you don't need additional capital particularly to underwrite the specialty insurance lines of business. So it's always worth bearing that in mind, obviously if opportunities come up in capital heavy lines retro property CAT. Then that's a different story.

Q - Edward Morris {BIO 16274236 <GO>}

Yeah, okay, fair enough. Thank you.

Operator

Thank you. And your next question comes from the line of Andreas van Embden of Peel Hunt. Please ask your question.

Q - Andreas van Embden {BIO 1795530 <GO>}

Hello, good afternoon. I have two questions please. One is on the attritional loss ratio, could you maybe describe the difference between the attritional loss ratio on the new business as being put on the books, relative to your 35%, which should in theory or mid '30s run rate?

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And the second question is, I see that the actual holding has become group supervised by the BMA on January 1 and then your tax resident and Bermuda -- does that change anything, at all? Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

So, let me answer the first one. On the Group supervision Andreas -- it doesn't actually change anything for us. I mean, we are -- we've always had a big presence in Bermuda and that continues. So it doesn't change anything really. I suppose, the Bermuda model fits the way we think about our business. So it's probably easier for us to sort of translate when you think about the way a regulator will look at Lancashire, is just a bit more relevant to way we think about our business, but there is no changes that will be obvious or necessary. So it's pretty much business as usual.

Q - Andreas van Embden {BIO 1795530 <GO>}

All right, thanks.

A - Elaine Whelan {BIO 17002364 <GO>}

And in terms of the attritional loss ratio. The new lines are a little bit more heavy in the attrition, and if we've been guiding to kind of 34, 35 before then. I would bring that up a little bit, so maybe a look at some small like 36, 37 going forward.

Q - Unidentified Participant

Andreas, on that, every product line has a different profile and some of the new lines that we've invested in are a bit more volatile and heavier on the claims experience. So if we add new product lines or the business mix changes, we'll always reassess where we're at, and in the same way that, if we've -- if there was an opportunity to write lots more terrorism business and then obviously that would move numbers around again. So it just depends on the business mix on whether our--

Q - Andreas van Embden {BIO 1795530 <GO>}

Would that -- sorry, as a follow-up, would that mean that your attritional, the volatility of your attritional claims is going to increase as well? Particularly man-made losses?

A - Denise O Donoghue {BIO 18659727 <GO>}

I wouldn't see the volatility increasing I think -- and it just acknowledging that there is higher attrition that comes through generally on those lines of business.

A - Alex Maloney {BIO 16314494 <GO>}

Yes.

Q - Andreas van Embden {BIO 1795530 <GO>}

Alright. Thanks a lot.

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Operator

Thank you. Your next question comes from the line of Ben Cohen of Investec. Please ask your question.

Q - Ben Cohen {BIO 1541726 <GO>}

Thanks very much. It was really just a point of clarification, at this point. Just to come back in terms of the growth that we can expect next year. I think, Elaine you said that there's $45 million coming from new teams. I wonder, how much of that was in 2018 and of the sort of the new business in Q4, that you had from those new teams. How much, if we go forward a year, how much would you expect that there will sort of naturally be a growth just from the fact that sort of further bedded down when we're year further out, or maybe it's really just the clarity about where that $45 million splits between the two years that I haven't quite got hold of? Thanks.

A - Elaine Whelan {BIO 17002364 <GO>}

Okay. Ben. So the $45 million was all in 2018 and if you take a look at the Premium page in our supplement and you can see the aviation deductible lines split out, there was a little be that was done in Lancashire and a little bit that was done in Cathedral. You will see the onshore energy line of business under Lancashire which is new staff. And then within both marine and energy under Cathedral this new business coming through in there too, also little bit more in the aviation line of business. We'd expect that business to mostly renew and also to have a bit more new business on top of that. Mostly from the aviation deductible line of business.

A - Alex Maloney {BIO 16314494 <GO>}

Yes. So, Ben if you think about it. We went into onshore energy at the start of the year. So we have had a full year on that class. But we would expect to see some modest growth in that through the year because the rating environment has improved and we were year end. So, we'd expect to see some new business. And power we started halfway through the year. Well, in May, so pretty much halfway through the year. So again, we would expect to see some modest growth in that as we have the first half of the year, renewals to go through that is a smaller line of business, we were able to get the aviation deductible team in for Q4 renewal season. Which is, you know, is the big aviation renewal season. So we've picked up a lot of that growth a year early. They should still be some growth on that class next year, but you wouldn't expect to see that until Q4 '19 which is the big renewal season for aviation. Does that help?

Q - Ben Cohen {BIO 1541726 <GO>}

Yes, it does. Absolutely. Could I just ask, just as a follow-on question on the aviation deductible. You mentioned a relatively big quota share on that, on that book. Could you just talk us to why, why you do that, is it can it just be very volatile how, does it fit into your sort of overall sense of risk, if you like?

A - Alex Maloney {BIO 16314494 <GO>}

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Well, for every line of business, we obviously look at what's the most appropriate reinsurance structure and for that class we deemed the quota share option to be the most appropriate, we were able to do that with some existing reinsurers that we have that know that team and know the Lancashire Group well, and that class business just more suited to that type of arrangement. It is obviously a new class of business for us as well. So when we get round to next year we will obviously review if it's still appropriate, but at the moment. That's the of most appropriate reinsurance structure for that class.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay, thanks very much.

Operator

Thank you. Your next question comes from the line of Paris Hadjiantonis of Credit Suisse. Please ask your question.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes, hi. From my side as well. The first question will be on dividends basicly, historically you been paying a special after Q3, mainly because you were quite exposed to hurricane risk in the US. As the portfolio is changing, as you are buying quite a lot reinsurance right now, do you think there is any rationale around changing those specials into year-end. And just to double check, knowing what you know today about the level of large losses of that you have incurred in Q4, would you still have paid the dividend that you did last quarter.

And then the other question would be on Kinesis, you have said that, you have ordered new business there. Can you give us an update on AUM or additional AUM for 2019?

A - Alex Maloney {BIO 16314494 <GO>}

Okay, Elaine do you want to comment on this one?

A - Elaine Whelan {BIO 17002364 <GO>}

Sure, and in terms of the dividend that we paid last quarter, absolutely would still have paid it, when we look at -- the thing about dividends is about the capital that we need to underwrite the portfolio, a buffer on there for any opportunities and then kind of what's left on that. So, and we had capital in excess of the dividend that we paid out and we're more than comfortable with that. And in terms of timing, I think timing of dividends, special dividends is always going to be dictated by outlook. If we think that we can and better underwrite opportunity at 1:1 then individually a special, if we think that we have a really clear outlook then maybe we would stick with the normal timing.

A - Darren Redhead {BIO 17995744 <GO>}

Hi it's Darren from Kinesis -- so regarding the AUM, as my colleague Elaine says, we never give you guidance pre an AUM, but it's gone up 20% year on year.

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Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Okay, thank you.

Operator

Thank you. Your next question comes from the line of Joanna Parsons of Canaccord. Please ask your question.

Q - Joanna Parsons {BIO 1558226 <GO>}

Thank you. Couple of questions from me. Just in terms of your gross premium written split going forward now that you've added these new teams on, is there going to be any notable shift in the timing of the premiums being written, because obviously as you say, aviation deductible is a 4th quarter. But do the teams that you've added elsewhere in the book, do they change that at all? And then on Kinesis, you talked when we met in January better about the potential improvement in the outlook, especially on the Retro, but there has been comment about more of that to come. Could you give us a bit more of a feel of what you are expecting through the rest of this year for Kinesis. Thank you.

A - Elaine Whelan {BIO 17002364 <GO>}

Hi, Joanna, I think typically our first half of the year, we'd write about 63%, 64% of our book, and it kind of moved a little bit this year, with the new lines of business, and it will still sit in that kind of 60% to 65% range for the first half going forward, and obviously with the aviation deductible team that's a big Q4 renewal, that we do expect to see some more new business coming into through the rest of the year.

Q - Joanna Parsons {BIO 1558226 <GO>}

Okay, thank you.

A - Darren Redhead {BIO 17995744 <GO>}

Hi, Joanna, it's Darren. Yes, we said, we grew our year end by 20%. We think, as Paul touched on earlier, we've seen good opportunities within the sector, that Kinesis underwrites we've seen pricing up 10%, we've actually taken chance to de-risk our portfolio a little bit. Regarding opportunities during the year. Yes, we think will be a few hopefully the market keeps on its positive trend. Florida will be a fascinating sector, but we'll look to -- might deploy more capital if we see more opportunities during the year.

Q - Joanna Parsons {BIO 1558226 <GO>}

Okay, thanks very much.

Operator

(Operator Instructions) Your next question comes from the line of Luke Stratford-Higton. Please ask your question.

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Q - Luke Stratford-Higton {BIO 21041344 <GO>}

Thank you. Just one quick one from me, please. On the fixed income portfolio, please can you just confirm the current reinvestment rate? Thank you.

A - Elaine Whelan {BIO 17002364 <GO>}

Our yield is about 3%, right now.

Q - Luke Stratford-Higton {BIO 21041344 <GO>}

Okay. Thanks.

Operator

(Operator Instructions) Your next question comes from the line of Joanna Parsons. Please ask your question.

Q - Joanna Parsons {BIO 1558226 <GO>}

So one last question from me, I'm coming back to the dividend. Actually you've had a stated policy of the low base dividend and then the specials. Would you ever consider increasing the base dividend a bit and then bringing back the size of the special you pay out, and if not, could you explain a bit, your philosophy behind your dividend policy?

A - Elaine Whelan {BIO 17002364 <GO>}

Sure, Joanna. I guess, the approach the order of the dividend has always been to do a small amount so that we're in complete control of our capital. I mean, arguably we could increase a little bit, but we like to have the -- ability to make a decision on the special. So if we want to keep more capital for underwriting, then we're not tied down to a committed dividend amount.

A - Alex Maloney {BIO 16314494 <GO>}

Yes, Joanna -- I think our current policy just gives us maximum flexibility and that maybe what we like.

Q - Joanna Parsons {BIO 1558226 <GO>}

Okay, Thank you.

Operator

Thank you. (Operator Instructions). Your next question comes from the line of Darius Satkauskas of KB & Woods please ask your question.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Hi. two questions please, first of all, I'm not sure if I missed it, what kind of rates did you achieve on the new business at 1:1, and secondly, can you talk about your reinsurance spending for 2019? And is there any changes to the structure? Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

Yeah, on the first question we got asked, we talked about the RPIs at 1:1 across the portfolio there, they're broadly in the mid-single digit range, as in positive. Specifically with regard to the new business lines, in areas like onshore energy we are seeing rate increases in the double-digit range. That market is starting to move again coming from a very low base in the power class we're seeing rate rises in the mid-single digit ranges and in aviation deductible, albeit there not huge amount at 1.1. But what we saw in Q4 was pricing improvements in the double digit range. So on the three new classes of business that's what we're currently seeing in the market. And sorry, what was the second question.

A - Elaine Whelan {BIO 17002364 <GO>}

Insurance spend -- as Alex said, we have kind of broadly renewed our reinsurance program as it was, a few changes around the edges but you should expect to see reinsurance spend go up a bit next year, given the new lines of business that we've got and the reinsurance support for those, particularly given aviation deductible, remember we mentioned that the significant growth share on that.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Thank you.

Operator

Thank you. And your next question comes from the line of Nicholas Johnson of Numis Securities, please ask your question.

Q - Nicholas Johnson {BIO 1774629 <GO>}

Hi -- just very quickly, I was wondering if you could just give a bit of an update on what you're seeing in the offshore energy market -- obviously I think the oil price has come down a bit since the last quarter, just wonder if you could update on what levels of demand you're seeing as you go into the April renewal season. Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

Hi, Nick. And I'll take that. So you're right, the oil price has reasonably volatile through '18, we are still seeing increases in demand from our clients and the tone from our clients remains more positive than it has been in recent years, adjusting with the volatility, some of that demand coming through may take a little bit longer. But we are seeing some of our clients do, going back to work, drilling more wells, it's just maybe a little bit slower given the recent volatility in oil price. But the trend is positive, which is good. And then in terms of rating environment, the upstream energy market continues to be positive, it's low-single digit rate rises, which is the second year, we're seeing that. But that's effectively because we haven't seen any significant capacity leave the upstream energy market. But we are seeing demand increase incrementally, and as I've said rates are slowly improving, so it's a better story, but it's just a slow burn.

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Q - Nicholas Johnson {BIO 1774629 <GO>}

Okay, that's great. Thanks very much indeed.

Operator

(Operator Instructions) There appear to be no further questions at this time, sir. Please continue.

A - Alex Maloney {BIO 16314494 <GO>}

Okay, thank you everyone, thank you for your time, thank you for dialling in and for your questions, and we'll talk to you next quarter.

Operator

Thank you, ladies and gentlemen. That does conclude our conference for today. Thank you all for participating. You may now disconnect. Would the speakers, please standby.

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