S1 2011 Earnings Call

Company Participants

- Andrew Horton, CEO
- Martin Bride, Group Finance Director
- Neil Maidment, Chief Underwriting Officer

Other Participants

- Ben Cohen, Analyst
- Chris Hitchings, Analyst
- Eamonn Flanagan, Analyst
- Fahad Changazi, Analyst
- Joy Ferneyhough, Analyst
- Nick Johnson, Analyst

Presentation

Andrew Horton {BIO 5697110 <GO>}

So welcome, everybody, to the 2011 results presentation.

We'll move through it relatively quickly. We've got the disclaimer on the second page. Hopefully you've all got a copy of the presentations in your hands to make notes. And we'll take questions at the end.

So I'm going to give an overview of 2011. Then I'm going to hand over to Martin, who is going to take you through the financials. And then to Neil, who is going to delve into the underwriting in more depth. Then I will pop up at the end, to give you a brief view of our outlook for 2012, most of which we'll probably have talked about as we go through these elements.

So 2011, a challenging year. A lot of catastrophe losses, starting off with Australia at the beginning of the year and ending up with Thailand at the end of the year. Investment yields remaining relatively low and the rating environment moving marginally upwards.

And what did that bring for us? It brought us a profit of $62.7m. That's despite the catastrophic losses. And I think that is led by the balance we have. So Specialty Lines and Marine performed incredibly well. PCG, Life, Accident, Health also contributed a profit. Our reinsurance account of property accounts, who have more catastrophe exposure, have combined ratios greater than 100%.

So it's the balance and diversification of the book that leads us to have a profit of $62m. That gives us a post-tax return on equity of 6%. Premiums were relatively flat year-on-year. And I think this was the third year, we'll see it on the next slide, of relatively flat premiums. There's a lot going on within that, within the six divisions and in the subsets of those divisions.

So low flat premiums, looks like the same number in total; the breakdown definitely changes. And one of Neil's main jobs in life is to ensure we are writing the right premiums each year. So which lines are more buoyant. And holding back on the lines which are less buoyant.

Still made an underwriting profit of -- so a combined ratio of 99%. And the good news is in 2011 the market is gently turning. So rates up across the portfolio by 1%, 2% down in 2010. And we expect that rate, positive rate, to continue into 2012. And we'll talk about that later on. Prior year reserve releases, a larger number than 2010. And Martin will take you through that in some detail in a minute.

Investment income slightly up on 2010. We had the fantastic comment by one of the news wires this morning, how had we generated more investment income in 2011 than 2010. And I must admit I think Martin and I and others had lost that in the rounding's. But it is positive that it's up year-on-year. And we have hit the infamous 1% return.

Dividend strategy still in place, growing the dividend between 5% and 10% per year. Based on our earnings in 2011, we are at the lower end of the 5% to 10%. But the dividend is up just over 5%, to a total dividend of 7.9p.

Just showing some of the charts, you can actually see top left how the premiums have been relatively flat over the past three years, some growth in '07 and '08. And we'll talk later on. We expect premiums to grow a bit into 2012. I'll also mention the mix underpinning that premium is changing.

Combined ratio stable for four years. More catastrophic losses in 2011. And therefore up in 2011. The base dividend growing nicely, between 5% and 10% per year. We've had those two special dividends in 2007 and 2010. And the return on equity at 6% in 2011, down a bit on the last tougher year of 2008 at 8%.

Mentioned rates are now hardening across most classes of business. We are obviously seeing it in the catastrophe exposed classes more than the other classes. But generally we are seeing positive rate movement. Still competitive in several areas.

Continue to invest. As a company we've invested for 25 years on an ongoing basis, even in tough years. And we continue to invest. And you saw us acquire a couple of businesses in Australia to support our Life, Accident and Health business. This is a business that we acquired in 2008, acquiring a UK company in 2008 that has a small Australian offshoot. We've added to that. It's probably doubled or trebled the size of our Australian business out there.

And we've also started quoting business in our Minneapolis office, writing accident health business on our admitted carrier in the US. We've been building that up over the past two to three years. We've been investing in that over the past two to three years.

Data breach insurance, a specific area that continues to grow. We see revenues growing strongly there and we expect them to continue to grow strongly into 2012.

People changes. I introduced Dennis, I think, at the half-year, when he'd just been appointed to the Board. So he is going to take over as Chairman at the AGM on March 27, where Jonathan Agnew who's been our Chairman for nine years stands down.

Bob Deutsch was added to Beazley Furlonge Limited, our regulated managing agent. Bob may be well known to many of you. He was a non-executive director at Chaucer, prior to that Executive Risk and CNA.

And Nick retired on June 30 as an executive of the Group. And remains as a very active non-executive director of Beazley Furlonge Limited. Obviously he is one of our founders, understands the business well and takes a keen interest in how the business is performing going forwards. One of the ways of locking him into that, to ensure that he does that, was making him a non-executive director of Beazley Furlonge Limited. And it was great that he got Industry Achiever of the Year Award at the Insurance Day awards. It was even better than he was there and didn't know he'd won it, which was fantastic. We played [ph] him to go to collect it.

I'm now going to hand over to Martin, who is going to go through the financials.

Martin Bride {BIO 15458196 <GO>}

Thank you very much, Andrew. Good morning, everyone.

I'm actually going to start with a little bit of PR. My finance team is sat back there. And for those of you who want to, you can go and read Beazley's 2011 report and accounts, not the RNS. The full report and accounts are on our website as we speak. So if you want to go and read them, they are there. So congratulations to my finance team, who have worked incredibly hard to get us online with our report and accounts on the day of results, in addition to all the usual stuff.

So the financials. 2% premium reduction. And Andrew has talked about a little bit and Neil will go into that. So I will move on. The earnings per share, despite the fact it's been quite a difficult year for the industry, our balance across our portfolio, has nevertheless allowed us to generate more earnings per share than we are distributing. So we are very pleased with that outcome in a year such as this.

So going through the different parts of the portfolio, the investment return 1%. I've been standing here for two or three years now, talking about the fact that the portfolio is very conservatively positioned. It's 90% in a core portfolio that's highly sovereign. The part of that portfolio that's in credit is in very high-grade credit.

The reason for that is the world is a very dangerous and uncertain place. And that's certainly proved to be so in 2011. And we had the portfolio positioned accordingly. And didn't need to really make any changes as we went through the year. There is no euro zone exposure to any of the high-risk sovereigns. There are essentially -- other than one or two investments in Rabobank and Deutsche Bank, there are no financial institution bonds. So it's really a very conservative portfolio. And it's delivered a very satisfactory return from our perspective.

We are quite highly US dollar orientated. And T-bills remain yielding 20 basis points. So whilst that 1% looks quite modest, you need to think about it in the context of a company that has 60% to 70% of its assets in highly sovereign US portfolios.

There has in fact been virtually no change during the year in terms of the portfolio mix. Falcon, our in-house team, are nevertheless always trying to adjust the portfolio to make the most of the markets and the economic conditions that they see. So there's been some things going on under the water during the year. But broadly speaking a stable portfolio. And no expectation that that will change significantly, unless we see changes in the markets in terms of higher interest rates.

So moving on from investment performance to the reserve releases, $186.5 million of reserve releases, up from $144m. So what's the story? Well I think there are really two parts to the story.

If we talk first about the accounts that haven't really been impacted by catastrophe losses. So the Specialty Lines account and PCG, you can see Specialty Lines is that big maroon block at the bottom of the chart. It's a very stable story. We continue to reserve prudently. And therefore on average we would expect reserve releases. And we are very satisfied with what's happened in 2011. On the PCG side, we actually got our first recoveries through from some of the claims coming out of the credit crunch that we'd provisioned going back two or three years.

Then you have the catastrophe affected classes of business property and reinsurance. The property account came into the year with cat margins. Those have been released to help mitigate the claims that have occurred. The reinsurance account came into the year with a little bit of cat margin. You remember there were quite a lot of reinsurance cats last year. But there has been a quite significant reserve release from our Chile loss estimate. And so in fact the reinsurance account overall has delivered a relatively high reserve release compared to normal.

Then, not to be outdone, Life, Accident and Health is on the scoreboard with its first reserve release. That's a business we acquired in 2008. So it's relatively immature in terms of its reserve portfolio. And the Marine account, as you've seen in the segmental analysis, has had another fantastic year.

So it was really a full house in the sense that all classes of business contributed positively to the reserve release picture this year, which is as good as you can hope to get. And that's why we've got such a strong reserve release.

More important than how much reserve release you've got this year is what's the position on the balance sheet. And this chart is showing you how much we believe the reserves on the balance sheet have got as a margin over our actuaries' internal estimate. And my perspective is that it's unchanged. I know it's moved slightly during the year. But essentially it's right in the middle of the corridor we set ourselves of the reserve strength that we want to hold.

And so my message to you is that we believe we are operating a completely sustainable and prudent reserving process, with the expectation that reserve releases should continue as we go forward.

So moving on from reserves to capital. So we have just over $200 million of available surplus capital at the balance sheet date. That's a little bit above our 20% of funds at Lloyd's target that we've been operating with over the last couple of years in the Solvency II environment. But we do have some ambitions to grow this year. So we are quite comfortable with having a little bit more than that 20% target.

Then of course, as you can see at the bottom of the page, we have a $225 million letter of credit facility that's unutilized currently that we can call upon if we get further growth opportunities during the year. So our perspective on our capital position is that it is very strong in terms of supporting our ambitions to grow the Company.

So moving on from capital to Solvency II. So we are very advanced with our program now. We are getting significant benefits from the program. So our -- a lot of Solvency II is around your risk management, your corporate governance practices and procedures. And we have invested very heavily in that. And are seeing the benefit of that in our business.

We continue to remain alert for organizations, either because of the way they're executing or because of their size, are struggling a little bit more with Solvency II. So we continue to keep an eye out to acquire teams of people or potentially portfolios or businesses with that as perhaps one of the motivations for them to be available.

And we have now essentially completed our Solvency II model. So we thought it was appropriate to share with you a couple of headline figures. And what does the Solvency II model and the Solvency II capital position look like.

So on a Solvency II balance sheet, our capital goes up about 40% compared to what you've just seen. The reason for that is because you state technical provisions at an absolutely 50/50 best estimate, you discount them. And you recognize all profits from all future business that you've committed to. So that's the good news, capital up 40%. The quid pro quo of that is how much capital does the model say you need. Well it says you need about 39% more than the current ICA model; surprise, surprise.

So our perspective on the Solvency II model and the Solvency II regime, were it to come into operation, is that net it's broadly neutral. Things are measured differently. Your balance sheet has more capital on it and as a consequence of that the model generates a requirement for a bit more capital. But the net position is a neutral one. So we are now fully prepared for Solvency II and just waiting to see whether it is or is not actually going to come into force as a regulatory regime.

Neil.

Neil Maidment {BIO 5232207 <GO>}

The challenge of following the excitement of Solvency II. But in the next part of the presentation I'm going to talk about our underwriting. Before I get to the numbers, I just want to highlight three things about our performance this year.

Sorry. Go forward. The first thing is that I'm pleased to be able to report that we achieved a positive underwriting result this year that's in line with the guidance that we provided during the course of the year. And it's notwithstanding the fact that 2011 has proved to be exceptionally challenging for the industry, with the catastrophe events making it the worst year on record for natural disasters.

The second thing that I'd like to highlight is that the reserves that we established for the loss events in the first half. So that's the Australian floods, the earthquakes in New Zealand and Japan and the tornado activity in the United States, those reserves have remained robust. So there is no loss creep on our reserves for those events. In fact, they've improved slightly at the end of the year.

And the third thing that I'd like to highlight is that, having traded through 2010 with a competitive market environment across pretty much our entire product set, we've experienced slight positive rating momentum during 2011.

So let's have a look at the numbers. As Martin has already pointed out, the top line is essentially flat, with gross written premiums of $1.7 billion and net earned premiums at a shade under $1.4b. Now, although the top line is flat, we have in fact been actively managing the portfolio across most of the divisions, pushing forward in certain areas to take opportunities and pulling back in others to preserve underwriting discipline and margin.

So for example, in Life, Accident and Health, as Andrew has already mentioned, we took the opportunity to acquire two managing general agents in Australia. These are businesses that were already well known to our team. We were already underwriting part of their portfolio. So we knew their business. The acquisitions take advantage of the developing disability insurance market in Australia. And more than doubled the size of our business there.

In Property group, we took the strategic decision to discontinue underwriting property in the admitted market in the US. But at the same time, in London, the large risk open market property team finished the year well ahead of budget, having taken advantages of the rate increases that occurred after the first half catastrophe events. And were also driven by increased demand due to the new version of the RMS cat model.

And in Specialty Lines, our largest division, increases in some of our newer product lines -- crime, environmental, transaction liability -- as well as the continued development of our market leading data breach products, compensated for reductions in directors and officers, where the team largely withdrew from the financial institutions business that we wrote opportunistically after the credit crunch in 2008. And also reductions in large risk lawyers and large risk architects and engineers professional indemnity, where the teams continued to experience relatively challenging market conditions.

So looking further down the underwriting P&L, reinsurance spend remained flat. Expense ratio ticked up slightly, with our investment in some of the opportunities that Andrew mentioned earlier. And the non-cat loss ratio also increased slightly. And when we add on top of that the load -- the 16% load for the headline catastrophes, which is double the load from the prior year, we get to our combined ratio of 99%.

Now, obviously the outstanding feature of 2011 has been the frequency and severity of those catastrophe events which have made it the worst year on record for natural disasters, both in terms of economic loss and insured loss. The Tohoku Earthquake alone is the largest ever non-US catastrophe event. And this chart just puts in context 2011 by comparing it to 2005, which was the year of Katrina, Rita and Wilma and previously the most expensive year on record.

Now, Beazley aims to produce a consistent result, notwithstanding that type of volatility, by writing a balanced book of specialist products. And this chart shows the benefit of that. The blue or grey lines which are wobbling around through the chart are the performance of the individual product lines. And their volatility, when brought together into the Group portfolio, produces a balanced result over the last five years, at or around 90% combined operating ratio.

Now, in 2011 the volatility is increased. But the same principle applies. So we can see that at the top of the chart there the reinsurance line has gone out to 157% combined ratio. But that is balanced by the performance of the other teams. And especially by our Marine team, which has achieved an extremely creditable 72% combined ratio. Overall, therefore, we get a Group performance of the 99%.

Now, equally important to our underwriting approach is our consistent approach to reserve setting. And Martin has already highlighted the fact that we remain within our target range of between 5% and 10% over the actuarial best estimate.

So digging a little deeper into that, this chart, which many of you will be familiar with, this chart looks at the performance of our -- and the development of our Specialty Lines account by underwriting year. The green dotted line at the top shows the ultimate loss ratio, the held reserve that we establish. And the bars at the bottom are the actual loss ratio as it develops year-on-year. So the red -- the dark red block at the bottom is the development over the first two years, the pink is the development over the next year, up to the green blob at the top, which is the development in the sixth year.

And what we can see from this chart is that the performance of the years 2002, '03, '04, '05 and '06 is considerably better than the performance and development of the soft market years 1997 to 2000, when the loss ratio after six years was already 114%. 2003, by contrast, the loss ratio was only 41%. Now, when we turn to the more recent years, 2007, '08 and '09, we can see that they are apparently developing more quickly than those very strong years of 2003, '04, '05 and '06. But equally, they look to be developing positively compared to the soft market years 1997 to 2000, or even 2001.

And when we look at the most recent years, 2010 and 2011, we have established slightly higher initial held reserves for Specialty Lines of 87% and 89%, respectively, in recognition of the challenging market conditions and in order to preserve our consistent approach to reserve setting.

Then finally, turning from claim trend to pricing, this chart shows the cumulative risk-adjusted rate change going back to the end of the last soft market in 2001, by product line. And one can see that most of our divisions are still operating well ahead of where we ended up at the end of the last soft market.

In 2011, as I mentioned earlier, overall, the Group achieved slight positive rating momentum of plus 1%. And that was led by the catastrophe exposed lines of business in Property group and the Reinsurance Division. It's worth noting, however, that in our position as market leader we're also pushing rate in other lines of business, in order to achieve adequate margin. And that would include lines like large risk architects and engineers, even at the expense of top line.

Now, these rating trends have continued into the first part of 2012. So the January 1 renewals in the Reinsurance Division, we've seen rates of plus 10%, 10% more premium. We're expecting to get paid more money for our catastrophe exposures during the course of 2012.

So on that note of a slightly more positive rating environment, I'm going to hand you back to Andrew.

Andrew Horton {BIO 5697110 <GO>}

Anybody would think we'd planned the order of these slides. So I can start with the positive rate environment that Neil was talking about.

So our plan for 2012 is to see positive rate movements in aggregate. Neil mentioned the catastrophe exposed classes showing stronger growth than others. I suppose across the portfolio we have a low single-digit increase planned. That's going to partially deliver an increased premium. The Life, Accident and Health, data breach, other innovative products, is going to deliver the rest of the increased premium year-on-year. So I hope to see growth in premiums into 2012.

25 years, we've been very good at organic growth. We've done three or four smallish acquisitions over the past few years. And our aim is to continue to invest in organic growth and acquisitions in the right lines of business, in the right geographies, if we can find them.

Dividends are really important to us and to our investors. Aim is to continue to go with our dividend strategy of 5% to 10% growth.

Martin gave us an overview of the capital. So we think we have finance in place for any growth opportunities we're looking at, organic or acquisition.

And the final comment on the slide, it was fantastic a couple of years ago, you've seen in our reception, to support British fencing. This is from the top level to the grass roots. So we're going to see the culmination of that, to some extent, in the summer, where the Olympic -- or the British fencers will be fencing at the Olympics. It's been an excellent sport to sponsor. It's something the staff can get involved in, clients can get involved in. And it's been our first major sponsorship for the Company.

Questions And Answers

A - Andrew Horton {BIO 5697110 <GO>}

We are now open to any questions. And there is a microphone. Chris.

Q - Chris Hitchings {BIO 2034501 <GO>}

Good morning. Chris Hitchings, KBW. Couple of things. You mentioned, Martin, in looking at the reserve releasing, that this is as good as it gets. Can you try and explain --?

A - Martin Bride {BIO 15458196 <GO>}

Is that a quote?

Q - Chris Hitchings {BIO 2034501 <GO>}

I think you said as good as you can hope to get, in terms of 2011. Can you try and explain just is that a sort of veiled warning that going forward you're not likely to see anything like this, going forward?

A - Martin Bride {BIO 15458196 <GO>}

No. It's absolutely not that, Chris. So we reserve conservatively. That's always been our philosophy. What you've got this year is all six classes of business actually delivering very strong reserve releases. And just statistically, if you look at the past of that chart, it's been quite rare that you would have all six classes of business hitting the sweet spot in one year. So I think that's statistically unlikely. So that's all that that's supposed to mean.

Q - Chris Hitchings {BIO 2034501 <GO>}

So this is as good as it gets? Thank you. The second thing is you talked about how on the Solvency II your capital requirement goes up. If we simply took -- and one of the biggest drivers obviously is reserving to best estimates. If we took your loss reserves and the 7.4%, would that be the amount -- the contribution to that from reserving correctly? So the rest of -- would that be an accurate measure?

A - Martin Bride {BIO 15458196 <GO>}

Not quite, because that X axis on that 7.4% chart, our internal actuary is not an absolute stripped to the bone 50/50 on that X axis.

Q - Chris Hitchings {BIO 2034501 <GO>}

Okay. So it would be higher than that?

A - Martin Bride {BIO 15458196 <GO>}

It would be higher than that.

Q - Chris Hitchings {BIO 2034501 <GO>}

How much higher?

A - Martin Bride {BIO 15458196 <GO>}

Higher.

Q - Chris Hitchings {BIO 2034501 <GO>}

All right. Fine. So --

A - Martin Bride {BIO 15458196 <GO>}

Quite higher. You can probably work -- you've got our total capital number. As I say, the big components that go into Solvency II capital are the reserve release, the discounting and the fact that you take profit on all future business that you're committed to. So you've got a year's worth of extra profit. You've got discounting. You've got reserve release. So you can probably work out roughly from that.

Q - Chris Hitchings {BIO 2034501 <GO>}

Yes. Well I'm trying -- clearly, I'm trying to work out what one component is so that I can work out what the other is. That's all. Thank you.

Q - Ben Cohen {BIO 1541726 <GO>}

Thanks. Ben Cohen at Collins Stewart. Could I ask a couple of things just in terms of claims frequency and on pricing? Could you maybe talk a little bit to slide 29, where you're highlighting how frequency has declined across a number of US classes? Could you maybe also say something about severity, in terms of the color there?

Then secondly, in terms of the Specialty Lines business in general, I know you said that some things were better than others. How much would you see prices needing to rise to get yourselves back to target level of profitability for the business? And what is the scope of that happening in the next 12 to 24 months? Thanks.

A - Neil Maidment {BIO 5232207 <GO>}

So on the second point, I think it would vary by product line. So I mentioned that large risk lawyers and large risk architects and engineers professional indemnity, two of the product lines which Beazley is well known for, we've been underwriting since 1986. We have a very established position in those markets. We're pushing rate. We're achieving double-digit rate increases on renewals, sometimes at the cost of top line. And the reason we're pushing that rate is because we believe those products need that rate in order for us to maintain our profitability and our margin.

In other areas of Specialty Lines, such as data breach, which is continuing to develop strongly, we're maintaining rate because we have an excellent offering and our product is relatively unique in the marketplace. So it varies across the product set.

Overall, Specialty Lines is planning low single-digit rate increases in 2012, which taken together with emphasizing the areas of stronger profit margin means that it will more than compensate for its expected claims inflation. So we're expecting a net positive rate change in Specialty Lines this year.

In terms of the claims frequency, this chart just pulls out a number of what we see to be the most recession prone lines of business. So this is not, obviously, a complete vision of our claim frequency. We continue to monitor claim frequency across the entire portfolio on a monthly basis.

These charts I would describe as showing that claims frequency in the recession prone lines returned to more normalized levels after the increases that we saw in late 2008 and into 2009. Part of that is due to the development of the US economy, where most of this business is written and exposed. And part of it is due to the underwriting activity that Adrian and his team executed as we went through this period.

So the reason we monitor frequency is that we can check whether we're on course with our assumptions in the business plan. And once Adrian and his team highlighted that we were experiencing increased frequency, they executed a more conservative underwriting strategy. So part of that is reflected in these charts as well.

Q - Nick Johnson {BIO 1774629 <GO>}

Just wondering if you could talk a bit about the sensitivities around the capital available and requirement, specifically what happens with different discount rates and any change in expected underwriting profitability, what sort of impact those two variables might have on capital requirement. And would the new regime and those sort of variables lead you to hold a larger or smaller capital buffer going forward, to take out that volatility?

A - Martin Bride {BIO 15458196 <GO>}

Great. In terms of sensitivity, I wouldn't see -- the Solvency II model is not fundamentally different from the model we've been using to calculate ICA and funds at Lloyd's for the last few years. So there are no particular sensitivities. The whole market's seen, as RMS moved from Version 9 to Version 11, some revisions to loss scenarios. And so clearly that type of sensitivity still exists in the model.

In terms of interest rates, we have one of the larger assets to capital ratios because of our mix of business. And so clearly higher interest rates in principle, Nick, is a good thing -- is clearly a good thing for us. It increases quite significantly the discount factor that you'd see in our technical provisions, once we've been able to capture that higher interest rate.

In terms of capital margins, if we actually move into the regime what sort of capital margin would we carry, I think we've -- that's something that we'll be discussing further as we go through the year. As you know, we've been carrying 20% of the ICA as our target buffer for the last couple of years, whilst there was uncertainty. We appear to be emerging from that period of uncertainty. And that will lead us, as a management team and a Board, to think about what capital we need to carry. But we've not formalized a thought process of margins in a Solvency II world at this stage.

Q - Fahad Changazi {BIO 15216120 <GO>}

Good morning. Fahad Changazi from Nomura. Could you comment on Hardy? Do you mean that if the financing is in place there would not be a rights issue -- potential rights issue for that acquisition?

A - Andrew Horton {BIO 5697110 <GO>}

Yes. If we have enough financial resources and with the current spare capital plus a letter of credit facility, which can be used as funds at Lloyd's.

Q - Fahad Changazi {BIO 15216120 <GO>}

Okay. So you will go with higher gearing. And does that mean that other business opportunities will not be curtailed either?

A - Andrew Horton {BIO 5697110 <GO>}

What other -- well, it depends whether they come along. It's always a challenge. We will consider other business opportunities and we'll have to determine how to finance those at that time.

Q - Fahad Changazi {BIO 15216120 <GO>}

I'm just talking about organic growth, because you mentioned you had 20% more capital but you're running more capital because you see business opportunities.

A - Andrew Horton {BIO 5697110 <GO>}

Yes. Sorry, I'm missing the point. So if we acquired Hardy, we'd end up using some of the surplus capital. We wouldn't be using every dollar of capital. If we found other opportunities, we'd have to find other ways to finance them.

Q - Fahad Changazi {BIO 15216120 <GO>}

Okay. And the final --

A - Martin Bride {BIO 15458196 <GO>}

Sorry. That surplus also is a self-enforced discipline. We don't have to carry that surplus capital all of the time. So you should expect, if we got a significant growth opportunity, potentially that we would operate the Company with a lower margin in the short term.

Q - Fahad Changazi {BIO 15216120 <GO>}

Okay. And in terms of the rationale for Hardy, has anything changed from your previous attempt?

A - Andrew Horton {BIO 5697110 <GO>}

No. The rationale stays the same, that it's a good business, good underwriting, good track record, a portfolio that we can easily understand.

Q - Fahad Changazi {BIO 15216120 <GO>}

Okay. And the final thing. So did you mention the Chile earthquake reserve release, what it was?

A - Martin Bride {BIO 15458196 <GO>}

It's of the order of $20m, I believe, in the reinsurance account.

Q - Fahad Changazi {BIO 15216120 <GO>}

Okay. Thank you.

A - Andrew Horton {BIO 5697110 <GO>}

Any other questions? Ben.

Q - Ben Cohen {BIO 1541726 <GO>}

Just maybe a point -- a question of clarification, in terms of your plans for the Reinsurance business. And I guess also in terms of what you did actually do in the January renewals. Can you maybe just split out as to how much you grew the book in terms of underlying exposure. And then how much growth you've got and how much more growth you think you will achieve that is driven by pricing rather than exposure?

A - Neil Maidment {BIO 5232207 <GO>}

I think, in summary, we're expecting to utilize a similar risk budget in 2012. So we're expecting to use a similar risk budget. We'll obviously look to optimize the use of that risk budget. So we get the maximum bang for our buck. And we'll expect to get paid more for the catastrophe risk that we take on. So most of it, most of the growth in terms of premium volume, will come from rate.

Q - Ben Cohen {BIO 1541726 <GO>}

Sorry. And in the January renewal, did that then mean a shift in the mix of business, I don't know, towards international from --?

A - Neil Maidment {BIO 5232207 <GO>}

Not materially. We had a good distribution. I think we have a well-balanced portfolio. I think the reinsurance split is about 50/50 US/non-US anyway. So I think the team are happy with that split.

Q - Joy Ferneyhough {BIO 18267149 <GO>}

Hi. Sorry. Joy Ferneyhough from Espirito Santo. Just following on from that, with respect to your own reinsurance purchase in April/May, given what you've experienced at renewals, is there likely to be any significant change in the pricing or the structure of that reinsurance?

A - Neil Maidment {BIO 5232207 <GO>}

We're not planning to change the structure. So our expectations are to renew a similar program. As I've just mentioned in response to Ben, since we're only at a similar risk budget, we're planning on a similar reinsurance structure to provide that budget and to take that budget. In terms of pricing, I think it's too early. We -- the retrocessional market I think is probably hardening since last year. So we may experience some increase in pricing. But I think it's too early to say.

A - Andrew Horton {BIO 5697110 <GO>}

Chris.

Q - Chris Hitchings {BIO 2034501 <GO>}

Couple of things. One of your competitors announced this morning that its January premium comes up 19%. Do you have any figures for January premium income?

A - Neil Maidment {BIO 5232207 <GO>}

Only the one that I mentioned, which is the reinsurance Division, that over -- across the entire portfolio achieved plus 10%. So that's US and non-US risk mixed together (inaudible) premium.

A - Andrew Horton {BIO 5697110 <GO>}

Because I'm always a great fan of downplaying January 1 to us in a way, because reinsurance is only 10% of what we do and half of that is renewed on January 1. A lot of the risk of the business is more spread.

Q - Chris Hitchings {BIO 2034501 <GO>}

I'm well aware of that. But I just wondered if you have any number which -- secondly, when you cut back the admitted property book in the year, are there any -- that was presumably because it wasn't working and wasn't producing the results you wanted. Where can we see that damage in the P&L? Where is it?

A - Neil Maidment {BIO 5232207 <GO>}

The reason for it was that when we considered it strategically, in other words how could we grow it, how could we build it, we -- our view was that that marketplace is very well provided for with very large competitors. And the chance for us to grow a business of scale that could compete with those existing players was remote. And therefore, rather than invest further into it, we decided to concentrate on the -- what we perceived to be wider margin businesses at the time.

In terms of the costs, they're already embedded within the outcome for Property Group in 2011. The reinsurance program was already in place, to cover the exposures as they ran off. So they're integral in the property Group numbers in 2011.

Q - Chris Hitchings {BIO 2034501 <GO>}

Finally, two rather more detailed things. That same competitor also gave an estimate for its Costa Concordia loss. Do you have an estimate too?

A - Neil Maidment {BIO 5232207 <GO>}

We didn't have any exposure for that. But for the moment Clive has, I think, taken a cautious view. Well Clive is here; you can speak with him. No. Taken a cautious view about pricing generally for cruise ships.

Q - Chris Hitchings {BIO 2034501 <GO>}

And finally, there have been some comments by US specialists about signs of trauma in the E&S market and increasing volumes. Are you seeing any of that?

A - Andrew Horton {BIO 5697110 <GO>}

I think we're typically seeing more pricing rather than significant volumes of new business, although we are aware of one large competitor who appears to be de-risking somewhat. So I think we're expecting to see continued opportunities during 2012 in the property E&S space.

Q - Chris Hitchings {BIO 2034501 <GO>}

Thank you.

Q - Fahad Changazi {BIO 15216120 <GO>}

Sorry. Fahad Changazi again from Nomura. I just inferred something from your previous answer, just wanted to be sure. The price you paid last time or were willing to pay last time for Hardy equated to a certain multiple and you said the rationale hasn't changed for the acquisition. So does that mean that that's the upper limit for the multiple, or because the outlook is better?

A - Andrew Horton {BIO 5697110 <GO>}

Haven't got that far in the process. So I haven't got a view on that.

Q - Fahad Changazi {BIO 15216120 <GO>}

Can we leave it at that multiple then? Thank you.

Q - Eamonn Flanagan {BIO 14018002 <GO>}

I just want to question you on the cost of this investment return that you delivered. It's still around about $10 million for the loss of $6 million on the capital growth assets. At some point, are you going to renegotiate that charging structure? It does seem a bit high.

A - Andrew Horton {BIO 5697110 <GO>}

Well do you want me to start? Shall I start and (multiple speakers).

Q - Eamonn Flanagan {BIO 14018002 <GO>}

Presumably it's based on the total assets (multiple speakers), is it?

A - Andrew Horton {BIO 5697110 <GO>}

The logic of it, if we go back to 2008, was paying for more expertise on our investments. I suppose back in 2008 we didn't realize interest rates were going to come down to 1%. Remember, they don't -- they manage the whole portfolio rather than just the alternative assets. So they're not managing just the 10%. Some of the management of the rest of the portfolio is actively managing it themselves. And some of it is choosing outsourced managers to manage it. So the $10 million is spread across the total portfolio.

You're right, it sounds a lot when you only have a 1% yield. It wouldn't sound quite as bad if we had a 4% yield. But we don't have that at this point in time. But it is more expensive having their expertise, in my view, than relying on management to decide the external fund managers to put it towards. Our view is the value we get is they choose managers better than we would.

Q - Eamonn Flanagan {BIO 14018002 <GO>}

And it's a fixed percentage of the total assets?

A - Andrew Horton {BIO 5697110 <GO>}

No. It's more of a fixed cost. It's more of a cost plus basis, rather than a percentage of the assets.

Q - Eamonn Flanagan {BIO 14018002 <GO>}

So if it does go to 4% yield (multiple speakers).

A - Andrew Horton {BIO 5697110 <GO>}

Yes. The cost won't move up with it. The cost will stay there.

Q - Eamonn Flanagan {BIO 14018002 <GO>}

Yes. So the cost to you will be roughly $10 million still to the rest of your bottom line?

A - Andrew Horton {BIO 5697110 <GO>}

Yes.

Q - Eamonn Flanagan {BIO 14018002 <GO>}

Okay.

A - Andrew Horton {BIO 5697110 <GO>}

Yes. Anything else? Great. Thank you for that. It was good to see you all.