Y 2019 Earnings Call

Company Participants

- Alex Maloney, Group Chief Executive Officer
- Darren Redhead, Chief Executive Officer, Kinesis Capital Management
- Denise Donoghue, Head, Investments and Treasury
- Elaine Whelan, Group Chief Financial Officer and Chief Executive Officer
- Paul Gregory, Group Chief Underwriting Officer and Chief Executive Officer

Other Participants

- Analyst
- Ben Cohen
- Darius Satkauskas
- Edward Morris
- Jonathan Urwin
- Kamran Hossain
- Kevin Ryan
- Nicholas Johnson
- Oliver Troop
- Paris Hadjiantonis

Presentation

Operator

Hello, and welcome to the Lancashire Holdings Limited Fourth Quarter 2019 Results. Throughout the call, all participants will be in a listen-only mode and afterwards there will be a question-and-answer session. Please note, this call is being recorded.

Today, I am pleased to present Alex Maloney, Group CEO; Paul Gregory, Group CUO; Elaine Whelan, Group CFO. Please begin your meeting.

Alex Maloney {BIO 16314494 <GO>}

Okay. Thank you. Good morning, everyone. The Lancashire Group has produced a strong return for our shareholders during 2019. Notwithstanding another year of catastrophe loss events where we witnessed three cat losses in the second half of the year, we generated a return on equity of 14.1%. It's fair to say that we have, along with the rest of the industry, enjoyed buoyant investment markets. But we are particularly pleased with our underwriting return.

Our combined ratio of 80.9% is a measure of the quality of our underwriting portfolios. We continue to navigate a market that is finally hardening in virtually all classes of business, although we still do not believe we are seeing a broad dislocation at this point. All of our indicators are strong. We have achieved 17% underlying growth when we exclude the impact of multi-year movements, reinstatement premiums and so on.

Our renewal price index strengthened through 2019 to 109% for the year. Our book of business continues to generate reserve releases from our prudent approach and lack of any exposure to broader casualty market reserve in trends. For all of the positives and size of momentum, we still believe there is much work to be done before we witness a more sustainable underwriting climate, but we are clearly seeing much more underwriting discipline than we have seen in a number of years. For us at Lancashire, it's encouraging that we've been able to grow for a consecutive year, and we intend to stick to our principles and grow into a better underwriting market which we believe will materialize during 2020.

Having done our hard work in the softest part of the cycle, we find ourselves in the fortunate position of not having to address underperforming lines of business or not having to address reserving issues in the past. I feel that our business is particularly, perfectly positioned at this stage of the underwriting cycle, especially as we are not distracted by legacy portfolios or product lines where reserving appears to be a daily concern.

Our outlook is positive, and we will -- but that will always be dependent on our view of the underwriting opportunity. But we are more positive about our marketplace than we have been in years. Therefore, we believe we're in great shape to maximize the opportunity. Lastly, I'd like to thank my colleagues for their continued hard work and commitment, and our shareholders for their long-term support for Lancashire.

And I'll now hand over to Paul.

Paul Gregory {BIO 16314515 <GO>}

Thank you, Alex. It's pleasing to report a second year of measured rate increases across our portfolio. Rates on renewing business increased 9% during 2019, following an increase of 4% in 2018. We've also written new business in various product lines as rating improves. Whilst we do not measure rate improvement on new business, this is usually higher than rate rises on existing business. The year has played out broadly in line with our expectations at the start of 2019. We anticipated the majority of specialty lines like marine and aviation, which continue to improve following a retraction of capacity. This transpired.

The catastrophe reinsurance lines, we expected rate improvement, but at a lower level when compared to specialty insurance. We expected renewals in loss-impacted territories to help the portfolio renewal price index move into positive territory. This also transpired. Encouragingly, we expect the positive rate development to continue into 2020, albeit market dynamics of supply and demand will ultimately dictate the quantum and duration of improvement. The rate improvement is still required in several product lines, given the amount of rate the market gave up in the years leading up to 2018. We said many times over the past 12 months that we're not yet in a hard market, but rather an improving market, and our view remains unchanged.

As a group, we are very well positioned to capitalize on better market conditions and our underwriting performance in 2019 demonstrates this. It also demonstrates the rewards for the underwriting discipline shown during the softer years of the cycle. We are extremely happy with the full year combined ratio of 80.9%. Whilst the year has certainly been less active from a clients' perspective from the previous two years, there have been three mid-sized catastrophe losses as well as large-risk losses in a number of our areas of specialism such as aviation, downstream energy and political violence. So in this context, we are satisfied with our underwriting performance, which is a result of a combination of improving rate environment, underlying quality of the portfolio and robust and prudent reserving for prior year events.

Alongside this for 2019, I'd like to highlight the following. Every underwriting platform in the group has made a positive contribution to group performance. Gross premium increased by 10.7% with underlying growth of approximately 17%. With growing limits deployed at Lancashire Capital Management for a second consecutive year, we successfully raised and deployed more limit at the first of January. Our new teams added in 2018 have continued to build out their portfolios with improving market conditions in all of these classes.

Lancashire Bermuda developed a small portfolio of Florida-specific property catastrophe business. The market conditions allowed us to develop and build a foundation for future growth should rate improvements continue. And lastly, we've commenced underwriting direct and facultative property insurance from our Lancashire U.K. platform. This complements our existing offering from Lancashire Syndicate 2010, and allows the group the flexibility to increase market share in an improving market.

As we look into 2020, we are cautiously optimistic that the trends we've seen over the past two years continue. At one-one, the market performed in line with our expectations. Much like last year, we anticipate Q2 being more indicative than Q1. However, we did see a continuation of rate momentum across most of our product lines at the 1 of January. We've been able to renew the majority of our outwards reinsurance protection, which is broadly in line with last year.

In catastrophe-related purchases, we have retained a little bit more risk in some areas and paid more for our protection as the retro market tightens. In non-catastrophe purchases, our coverage remains broadly in line with last year, with similar spend. As we look ahead to 2020, we do feel that there remains positive momentum in the market and we will look to grow in the areas where the opportunities dictate. As ever, we are always mindful of where the relative rating levels are, but we have the platforms and people to maximize opportunities.

Lastly, I'd like to thank the underwriting teams across the group for their disciplined skill and hard work, which has helped deliver an excellent 2019 underwriting result.

I'll now pass over to Elaine.

Elaine Whelan {BIO 17002364 <GO>}

Thanks, Paul. Following last quarter's losses from Hurricane Dorian and Typhoon Faxai, we incurred further losses in the fourth quarter in relation to Typhoon Hagibis.

Our estimated ultimate net loss from the three events was $52.1 million. While we have recorded losses thanks to the magnitude of this year's cat events has been significantly lower than those over the last two years. We also had strong reserve releases and good investment performance and produced an RoE of 6.7% for the second half of the year, bringing us to 14.1% for the full financial year. Our loss ratio was 30.8%, and our combined ratio for the year was 80.9%.

Our investment return was 4.9% and comprehensive income was $145.7 million. We saw further growth in our top line in the second half of the year, mostly through new teams we brought into the business. Teams are up over 12% compared to the second half of 2018, but the underlying growth is higher than that once we factor in the impact of multiyear contracts. We had a knock-on impact of that top line growth on a premium ceded in the second half of the year with increased reinsurers due to the new lines of business and the build-out that's occurring. We do have more quota share coverage in place now, and we've previously mentioned that we have a significant quota share on our aviation tactical book.

As in previous years, we don't provide top line guidance, however, we do expect to see further new business added from a new team and a continuation of rate increases in our specialty lines. We also anticipate rate increases for both the Japanese and Floridian renewals. We will continue to have a bit of an impact from multiyear and non-annual to offset that, although a much smaller impact from that than in previous years.

Our acquisition cost ratio for the full year is lower than the prior year due mostly to some reductions in accruals plus a bit of a change in business mix. The prior year was also a little inflated due to the impact of reinstatement premiums.

On losses, as I mentioned, we've recorded net ultimate losses of $52.1 million across Dorian, Faxai and Hagibis. Including reinstatement premiums, the net impacts of the group was $51 million or 12.3% on our loss ratio. Offsetting these losses, we had net favorable prior year development in the second half of the year of $72.1 million, premier releases to $88 million for the year or 20.5% on our loss ratio.

We saw some IBNR releases from the 2017 cat events, and we also have some subrogation benefits coming through. Otherwise, we just had some general releases due to lack of reported claims. Our attrition after running slightly higher early in the year, I would say is now running in line with expectations and roughly where we've been guiding.

Investments produced a return of 1.5% for the second half of the year and 4.9% for the year, but most of our asset class is having a positive contribution to their respective returns. While most of the return for the year comes from our fixed maturity portfolio, we have nice support from a bank-owned hedge fund and equity exposures. With the rate cuts by the Fed last year, we expect to be a lower-yielding environment, certainly for the immediate future.

Also, given where spreads are, we don't expect to see any benefits from further spread compression in the near term. While there aren't really any changes in our investment strategy, we do intend to modify our asset allocation a little. Our hedge fund portfolio has been a good diversifier but it hasn't produced strong enough returns on a risk-adjusted basis. We, therefore, intend to reallocate a portion of the hedge fund portfolio to asset classes that we would expect to generate better risk-adjusted returns and continue to help diversify the fixed maturity portion of the portfolio.

Our G&A ratio has increased primarily due to an increase in variable compensation this year given our results, plus general increases in salary. Lastly, on capital, we're declaring our normal final dividend of $0.10 per share or about $20 million. We're retaining the rest of our capital but we'll wait and see how the year folds, and to take advantage of any further opportunities to grow our book as the market hopefully continues to improve.

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

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) The first question comes from the line of Kamran Hossain from RBC. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Three questions, if I may. The first one, just on the reserve release topic. Could I just ask -- I guess due to the fact that H2 is fairly high, but the same time, it doesn't feel like there's much pressure on the result. I mean, it would have been -- I mean, it was a great result. Would it still have been a great result compared to most people even if reserve releases had been a little bit lower. So maybe can you just talk us around the process of kind of what happened there and why not tuck it away for later years? The second question is just on capital. Any thoughts on that? Are we still okay? And will April -- if that goes particularly well, will that change that picture? And then the third question, just around growth and looking forward. I guess, RPI, up 9%, premiums up 10% and a bit. Do you think looking out for 2020, do you think premium growth will kind of be in line with rate? Or do you think we'll get a little bit more growth on top of that?

A - Alex Maloney {BIO 16314494 <GO>}

Elaine, do you have -- you want to do the reserve one, just --

FINAL

Bloomberg Transcript

A - Elaine Whelan {BIO 17002364 <GO>}

Sure. I guess we've talked about our reserve process in the past and the fact that we can get some lumpiness within our reserves. And I think the best way to think about it is the three buckets that we think about. And so attritional, which is where you see payment pattern releases. And that's kind of the more steady, if you like, releases that we get subject to whatever comes through and is reported against that. Large losses in event to look at individually. And -- but that's really get kind of a fair bit of lumpiness. And we did have high releases at the end of last year as well. We had an energy claim that came through the court system and finally ended up in our favor. And this time around, for a few years beyond 2017, and 2017 year became -- the Lloyd's platform is closing, so a good thorough look at that. And also on the kind of the legacy Lancashire platforms as well, and that led to some releases. There's also the subrogation that you all read about in the press, coming through as well, so some benefits from that, too. So that's all kind of fairly factual, so it's not like you can just stuff that away for future years. And it should be against what I believe in anyway. But I think that, that's the best way to think about it. We did have some adverse development earlier on in the year, some energy claims stepped out and some other claims stepped out against it. So it is those large losses and the cat events that drive the kind of lumpiness around that. And on the capital side of things, very comfortable with where we're sitting just now.

A - Alex Maloney {BIO 16314494 <GO>}

Yes, I mean, on that, Kamran, obviously, the capital and growth are linked on this. So when we didn't pay the special last year that was with the view that 2020 will be an opportunity to grow. And obviously, that's what we intend to do, and that's what we've always said, we would do in a better market. Where the market goes? We don't know, but the indicators are that what we saw in '19, we would expect to happen in '20, i.e., we think the market will get better. And as Paul said, Q2 is a heavy quarter for us. There's a lot of business coming to market. So yes, we'll grow with the opportunity. I think one thing that we want to be super clear about is that if you look at the growth we had in '19, there was still more opportunity to grow. We just didn't take it. And that view is that although we can give you headline rate increases, and that sounds great. The market is still transitioning, and we're not in a hard market yet. So I think people can look at headlines, but you just -- you need to look at -- you need to deploy more capital at the right prices and some of that stuff is still here in the metrics part but we expect to grow more this year.

Q - Kamran Hossain {BIO 17666412 <GO>}

Thanks very much.

Operator

The next question comes from the line of Jonny Urwin from UBS. Please go ahead.

Q - Jonathan Urwin

Hi, guys. Thanks for taking my questions. Just a couple. So, I guess -- so RPI is up 9%, could you give us any kind of rough indication of what that would be if you included new business as well? And then secondly, it's good to see so bullish on the prospects, the most bullish in years. Does that also mean you were bullish on the attritional loss ratio? And kind of get better from the kind of 35%, 37% range, given we're actually in the range now, then you've got more rate improvement to come? Thank you.

A - Paul Gregory {BIO 16314515 <GO>}

Jonny, hi, it's Paul. I can take the first one. We just don't measure RPIs on new business. And the reason for that is, obviously, sometimes we don't know what the pricing would have been the year before. So unfortunately, I can't give you guidance on that. In general, though, it usually means it's paying higher RPIs than our existing business because we haven't really in the past get out -- haven't been able to hit our metrics. But apologies, I can't give you a more succinct answer.

A - Elaine Whelan {BIO 17002364 <GO>}

And on the attritional loss ratio question, typically we would RPI adjust our loss ratios, but we are also going into some new lines of business that do have a slightly higher attritional loss ratio. So they are developing as we draw those lines out. So there's nothing that we would see to change the guidance that we've been giving as yet.

Q - Jonathan Urwin

Thank you. Thanks Elaine for your help. It's been a pleasure.

A - Elaine Whelan {BIO 17002364 <GO>}

Yes. You're welcome.

Operator

The next question comes from the line of Kevin Ryan from Bloomberg Intelligence. Please go ahead.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thanks very much. I was very interested to hear that you're going to start writing fac business out of the Lloyd's syndicate. Could you give us an indication of your appetite and exactly what sort of classes or types of business you're looking at going for in that area? Thank you.

A - Paul Gregory {BIO 16314515 <GO>}

Hi, Kevin. Yes, just to be clear on that, the Syndicate 2010 currently, and has always, underwritten property direct and facultative business, so it's direct property insurance. So that's always been written in Syndicate 2010. What we're saying is that we are now underwriting that from our company platform, Lancashire U.K., which historically kind of seven, eight years ago, we did. And all we're doing there is it gives us some flexibility to grow into that market should the opportunity continue to improve. So what we're doing is really complementing what we currently already do in Syndicate 2010.

Q - Kevin Ryan {BIO 1814771 <GO>}

Right. Thank you.

Operator

The next question comes from the line of Ben Cohen from Investec.

Q - Ben Cohen {BIO 1541726 <GO>}

Hi, guys. Thanks very much. I had two questions, please. The first, actually, just following up on Kevin's question. I think you had -- a number of years ago, you had a big or reasonable sized D&F book. I just wondered if you could sort of contrast the market at the point that you exited versus the sort of returns that you see now. And I suppose, how you might look to cope with the cyclicality in that market going forward? And the second question was, could you just be clear as to any incremental contribution from new lines or new teams that you've hired 2020 on 2019? And maybe just have a comment in terms of what you're seeing in terms of additional hires or new lines this year. Thanks.

A - Paul Gregory {BIO 16314515 <GO>}

Hi, Ben. Yes, so on the kind of D&F market. First of all, the property direct and fac market is quite a diverse market. So there's lots of different parts of it. So to generalize where it is, is quite difficult, but I'll give it a best short. In general terms, what with -- what we saw in '19 was a gradually improving D&F market, the kind of -- went up a level in Q2. That continued through the rest of the year. So it's kind of getting back to levels where Lancashire U.K. exited a number of years ago. I wouldn't say it's at the -- Lancashire U.K., you should write a very big book of D&F in a really hard market, so '07, '08. It's not at those levels yet. But then our portfolio won't be of that size. And then, sorry, Ben, your second question was?

Q - Ben Cohen {BIO 1541726 <GO>}

In terms of new teams and contributions from new teams this year on last year?

A - Paul Gregory {BIO 16314515 <GO>}

Okay. Yes. So approximately, the teams -- new teams, which is the downstream energy, power and niche aviation team contributed around $90 million of premium in 2020. It was around $40 million in 2019.

Q - Ben Cohen {BIO 1541726 <GO>}

Sorry. Sorry, this was on the January renewal was it that specifically when you say 2020 because we're only two months in?

A - Paul Gregory {BIO 16314515 <GO>}

Sorry, sorry Ben, apology. So in 2019, it was around $90 million, which is up from about $40 million in 2018. Does that make sense?

Q - Ben Cohen {BIO 1541726 <GO>}

Yes. Yes, it does. Makes more sense. Thank you.

Operator

The next question comes from the line of Oliver Troop from Autonomous. Please go ahead.

Q - Oliver Troop {BIO 20035307 <GO>}

Yes, Oliver Troop from Autonomous here. Three questions, please. Firstly, a question on dividends. Now obviously, you don't guide on the future payouts because it can depend on how much you can grow, and that's going to depend on market conditions. But my question more, if you could just give us a bit of color on the interaction between growth in dividends. So for example, I think consensus has about 12% compound growth in the earned premiums to 2021. And yet consensus still expects like a 70% to 80% payout ratio over the next couple of years? I mean, does that sound like a plausible scenario?

Second question, just a follow-up on Kamran's question. So on reserve releases, I know you previously talked about $15 million to $20 million per quarter kind of run rate on average. I guess my question is, what might move that number up or down? So for example, if you've got a lot of cat, you've had a lot of cat losses. I guess, there's more uncertainty on those kind of losses. So maybe put a bit more prudence in there? And similarly, if the overall level of -- kind of dollar level of reserve was elevated, isn't that going to -- I suppose, all else equal, isn't that going to lead to larger releases going forward?

And thirdly, sorry, going on a bit long here, but just if you could outline whether there's any exposure to losses that could result from coronavirus? I think you stopped writing most kind of event contingency business. But yes, maybe there's anything that I might have thought about on that? Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

So, okay. So I'll do the coronavirus one first. I think that it's very early days. In the world we're living with social media, it's very sort of hard to get a grip for where this thing is going to go. It's not an obvious area of concern for us in the portfolio that we write, but clearly, there's lots of kind of scenarios you could run that are out in the curve that may be a broader market issue. So I wouldn't say we're desperately concerned about it at the moment, but clearly, there's lots of things you could run around cruise ships or other things. But at this point, I think we're monitoring the situation as we would do anything else.

A - Elaine Whelan {BIO 17002364 <GO>}

On the dividend question, I think it will be up to your judgment, exactly what we've all done[ph] there. We wouldn't want to commit to anything certainly at this stage. It really does depend where the market goes and where we see opportunities in the market. And if those opportunities are in the specialty lines of business then they are a bit less capitalintensive than the cat lines. And if the opportunity comes in cat, then we'd be looking to put one on cat in part so it really does depend on kind of early stages in terms of where the market is going. So unfortunately, just have to wait and see on that one. And on the reserve releases, nothing that I would say that changed. What we said in the past are large yet[ph], as I mentioned, kind of the attritional -- there tends to be more kind of releases over time or more steady. The large losses in cats are different. And we do have -- we do try and reserve prudently. We do try to get a prudent best estimate. Some of those claims continue to be stuck with more structures, stuck in the court system, it can take some years for them to conclude. On cats, again, we did try and have a prudent approach to them. And hopefully, we'll end up with that going the right way on us, but we think can go against us as well as we've seen in some of the more recent events. So I don't think there's nothing really to change the guide we've given at this point.

Q - Oliver Troop {BIO 20035307 <GO>}

Yes. I guess, on the cats, I mean, would it be right to say that there will be more prudence because there's more uncertainty on the estimate? You, I guess, put more prudence on a cat loss versus attritional loss?

A - Elaine Whelan {BIO 17002364 <GO>}

We do try, but if you look at some of the events we've had recently because Irma, JB and -- we reserve on those claims. And the industry has seen those claims step out. So there's a judgment that you make early on in a claim and you've got no information to make a much judgment on that, and then you kind of reassess that as you get more information.

A - Alex Maloney {BIO 16314494 <GO>}

I mean, obviously, what you said earlier, Oliver, about, obviously, cat losses you've got bigger numbers. So the swings either way can be more dramatic, right?

Q - Oliver Troop {BIO 20035307 <GO>}

Yes, yes. Okay, great. Very helpful. Thanks.

Operator

The next question comes from the line of Paris Hadjiantonis from Exane. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Hi, guys[ph] form my side as well. And congratulations on the results today. Three questions from me. The first one on the impact of multiyear contracts for 2020. Now for 2019, you were guiding us to a number slightly below $60 million, if you could give us a broad guidance for 2020? You said it's going to be lower than 2019. That could be helpful. Secondly, you're making some changes on the investment portfolio you say. Can you give us a bit more color on what those changes are? You said that you are essentially coming out a bit out of your hedge fund allocation? And whether or not there's actual capital benefit from these changes. Lastly, given Kinesis or, I guess, Lancashire Capital Management these days. Given the increase in capital deployed or limit deployed, is there going to be a potential benefit from profit commissions in 2020? Or does it take longer for those to come in?

A - Elaine Whelan {BIO 17002364 <GO>}

Hey, Paris. So on the multi-year contracts, I'd say we're probably looking at about half what we guided you to last year for this year's impact on kind of a net basis. It is a much smaller impact given the way that our book has been developing, and Denise is here so I will ask her to respond to the investment question.

A - Denise Donoghue {BIO 18659727 <GO>}

Sure. We've redeemed a portion of our hedge fund portfolio, but the funds prefer to come in mostly second quarter, or just we're researching different products. We're looking at what our opportunities are. And from a capital basis, it should make minimal difference with pretty low capital charges for our hedge fund portfolio. So we'll probably keep them today static.

A - Elaine Whelan {BIO 17002364 <GO>}

And Darren is here as well so we can get him to talk about the Kinesis. I think 2019 was a good year -- sorry, Lancashire Capital, and we had a good '19 there. So we expect to see the profit commission for '19 coming through in '20. The performance of the '20 cycle, it's really quite early to comment on that.

A - Darren Redhead {BIO 17995744 <GO>}

Yes. Yes. I mean, it's -- we had a good year. I mean, we're anticipating mid-teen returns to -- net to investors and the PC, and that will turn up later during 2020.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Any guidance on what that benefit could be?

A - Darren Redhead {BIO 17995744 <GO>}

No.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Thank you, and thanks Elaine.

Operator

The next question comes from the line of Nick Johnson from Numis. Please go ahead.

Q - Nicholas Johnson {BIO 1774629 <GO>}

Hi, team. Three questions, please. Firstly, on the Lloyd's segment, I think I read in the statement that property income was down. Perhaps a little surprising, given rate increases and Cathedral's expertise in that segment. Can you just discuss that a bit? Is it -- was that a risk management decision or a margin decision? Secondly, on quota share reinsurance inwards, could you just discuss what you're seeing in that market? I mean has it started to look more attractive with lower commissions? And could it be an area that perhaps you deploy some capital quickly and easily? Or will the reinsurance books -- continue to be mainly excess of loss? And then thirdly, on capital management. So the share of the associates has gone up from $67 million to $108 million, I think. Is that indicative of the growth in assets under management for capital management, given your 10% fixed share? Thank you.

A - Paul Gregory {BIO 16314515 <GO>}

Hi, Nick. So on the property piece in Lloyd's that obviously covers the property reinsurance and the direct insurance. And the reduction is, to be honest with you, relatively small. Some of that comes from tidying up of some of the treaty portfolio, which we had alluded to earlier in the year. That -- a lot of that happened in Q1 when the rating environment was not as strong as we saw later in the year. Obviously, we also have business plans at Lloyd's that we need to adhere to but as you know, we have flexibility outside of Lloyd's and we've commented on that today in terms of writing and from Lancashire U.K. So as a group, we're perfectly positioned if there are opportunities to make the most of it, whether that's in or outside of Lloyd's. With regard to our reinsurance portfolio, you're right. Predominantly, our book is a book of XL, excess of loss. I would expect that to remain the case through 2020, albeit if there are opportunities in certain sectors for quota share participations where the metrics make sense, then we're perfectly able to do that, but I would expect the vast majority of the portfolio to remain in excess of loss portfolio.

Q - Nicholas Johnson {BIO 1774629 <GO>}

Okay. Thank you.

A - Elaine Whelan {BIO 17002364 <GO>}

Hi, Nick. On the share of associate question, that reflects our investment in the vehicle. So as the limit changes end up moves around a little bit, but it's a 10% investment, so it doesn't move too, too much. I think the movement you're seeing, the numbers there reflects the loss environment of '18 versus the loss environment of '19, and the expected performance of those two years.

Q - Nicholas Johnson {BIO 1774629 <GO>}

Okay. Yes. Understand. That's just great. Thank you very much.

Operator

The next question comes from the line of Ian Baines from Credit Suisse.

Q - Analyst

Hi. Thanks for taking my question. A couple of questions from me, please. Firstly, on the new teams. I'm just trying to understand if there's any capacity for further growth in those new teams into 2020 versus 2019? And also, if there's an expectation that the quota share reinsurance agreements you have in place with those teams are likely to stay in place for the sort of medium-term or if you intend to reduce that over time? And then secondly, just looking at the PMLs, the 100-year PML has come down quite significantly for the U.S. and Gulf of Mexico wind risks. Have a look into the 250 PML, they're up fairly significantly for the same risk. So I'm just trying to understand what's going on there? And if you could explain sort of that move, that would be great.

A - Paul Gregory {BIO 16314515 <GO>}

Okay. Ian, on the new teams, the kind of market conditions in all of those lines. So power, downstream energy and aviation have continued to improve in Q4 and continue to improve at one-one. So there's definitely room to develop those lines further should market conditions continue to improve. We're only really -- '19 was really the first full underwriting year for those lines. So if market conditions continue to go as they are, then yes, we'd definitely be looking to develop those further. And sorry, the second question was on the Gulf of Mexico PML?

Q - Analyst

Yes. And the sort of movement, the 100 versus 250.

A - Paul Gregory {BIO 16314515 <GO>}

Yes, that's to do with the shape of the portfolio. So in some clients, we've decided to write on higher layers, so that affects the 250 more than it does the one in 100.

Q - Analyst

But no -- there's been no change in your sort of reinsurance coverages in relation to that?

A - Paul Gregory {BIO 16314515 <GO>}

No, our reinsurance coverage at one-one renewed broadly in line with what we had for 2019. We did retain a little bit more risk in some areas, and that will come through the PMLs, but it's more to do with the shape of the image book.

Q - Analyst

Okay. Perfect. Thank you.

Operator

(Operator Instructions) The next question comes from the line of Edward Morris from JP Morgan. Please go ahead.

Q - Edward Morris {BIO 16274236 <GO>}

Hi, everyone. Three questions, please. First, on Florida, you mentioned that you'd established a foothold in the Florida market. Just wondering how you're thinking about that for this year. Is this a book of business where you think you could be in a position to grow materially? Or would you be more likely to grow gradually if market conditions remain good? Second question on costs. I noticed quite a big uptick in the other operating expenses. Clearly, a big part of that is going to be performance-related. But also, wages and salaries moved up higher. I wonder if you could just talk through that, how much of that is from new teams? Really, the reason I'm thinking about this is I've had in my mind that $100 million is the sort of typical cost to run the company. I'm just wondering if that if that figure still holds true. And then thirdly, alternative capital. I wonder if you could just talk a little bit around the behavior in the market in January. The experience in terms of fundraising, not necessarily just for your vehicle, but in the market and the amount of capacity offered? And were there any interesting trends you saw in the behavior of alternative capital? Thanks.

A - Paul Gregory {BIO 16314515 <GO>}

Okay. So with regard to Florida, I mean, it's certainly an area of interest for us. And to be brutally honest, the level to which we grow will be purely dependent upon what happens with the rates. As we sit here now, I'd expect us to grow modestly because I do expect there to be rate improvement. But as always, if it became really dislocated, that's a point where you'd expect Lancashire to grow more substantially. But as we sit here today, I would expect to see modest growth if market conditions prevail.

A - Elaine Whelan {BIO 17002364 <GO>}

On the operating expenses question, yes, there is a fair chunk of that, that is down to performance in terms of the variable compensation for the organization. There's also a fair amount of our G&A is in sterling, which we do have a little bit of a hedge in place for, but as the rates move around, then you're going to see that move around as well. We don't provide splits of individual costs by team. So unfortunately, I can't give you that one, but and we have hired more people. So that does put the cost up a bit. And then you get kind of general increases, promotions throughout the organization as well. So -- and we're probably trying to kind of get above that $100 million mark now.

A - Alex Maloney {BIO 16314494 <GO>}

Edward. It's down on alternative capital behavior and so forth. I mean, the alternative capital was down. You can read various comments using brokers down between minus seven to 10. In my view, it's probably a little bit more down than that if you actually take into account trapped capital, key issues for investors, or are you getting paid for the risk you're assuming? Lost Creek and being more demanding and saying, when you're selling the capital, we want to make sure we get paid for it. And I think we benefited from full disclosure to our investors over the past few years that others may have struggled with.

Q - Edward Morris {BIO 16274236 <GO>}

Great. Thank you very much.

Operator

(Operator Instructions) The next question comes from the line of Darius Satkauskas from KBW. Please go ahead.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Good afternoon. Thank you for taking my question. 3Q '19 RPI was 106%. It's now 109% for the full year. Even if we excluded aviation, it would still be slightly better than 3Q '19. Has there been a slight acceleration in underlying premium rates? Or is this loss-driven? So that's my question number one. The second question is, we've seen quite a few companies now talking about great momentum in specialty lines. Are you seeing competition intensifying this year? And what's your expecting for 2020 in regards to that? I understand you said that you expect the same rate momentum. What about the other players? Thank you.

A - Paul Gregory {BIO 16314515 <GO>}

All right. So on your RPIs, you're right. Q4 is obviously a big aviation, and we're seeing some good rate increases in aviation, which has moved the RPIs. But even if you take that out, there is a general improvement in RPIs through Q4. I wouldn't say -- there's not a huge amount of loss-impacted business that renewed through Q4. So it's just a function of the market getting gradually better, which we've all alluded to. On the specialty lines, as yet, I wouldn't say we've seen a real influx of competition, not in the lines that we specialize in. In fact, I'd say in some of the lines like aviation, marine, you've seen more people come out then come in. And for 2020, at the moment, we kind of still view that there's enough momentum there to keep rate positivity.

A - Alex Maloney {BIO 16314494 <GO>}

Yes, so I think on that, I think, coming into the specialty space is -- there's a few more barriers to entry, typically than some of the cat business that you saw with are less funds. So that's one factor. There's clearly one big new carrier in convex but you face them, we haven't seen them disrupt any rate momentum in the market. But although we get rate increases, for the right business, the brokers can place those accounts. So you're getting rates, but that's why our view is it's still not a hard market. So we're not seeing -- seen any one upsetting the momentum of the market, but there is still enough capacity for the right risks.

Q - Darius Satkauskas {BIO 19724328 <GO>}

Thank you.

Operator

(Operator Instructions) There are currently no further questions registered. I'll hand the conference back to your speakers.

A - Alex Maloney {BIO 16314494 <GO>}

Okay. Thank you very much, and thanks for calling.

Operator

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