Q1 2013 Earnings Call

Company Participants

- Alex Maloney, Group Chief Underwriting Officer
- Denise O'Donoghue, Corporate Finance Officer
- Elaine Whelan, Group CFO
- Richard Brindle, Group CEO

Other Participants

- Chris Hitchings, Analyst
- Frank Haywood, Analyst
- Nick Johnson, Analyst
- Olivia Brindle, Analyst
- Tom Dorner, Analyst

Presentation

Operator

You are now live.

Richard Brindle {BIO 1983776 <GO>}

Okay. Thank you very much. Welcome to the Lancashire Q1 earnings call. I'm Richard Brindle, Chief Executive Officer. I'm joined by Alex Maloney, our Group Chief Underwriting Officer; Elaine Whelan, our Group CFO; and Denise O'Donoghue, our head of Investments and Treasury.

I've been saying openly for some time now that there is a grave disconnect between the relentlessly positive commentary coming from many, if not most, companies and the reality of the specialty markets. The (end thrust) of alternative capital, much of which is hit today, has rocked the business models of traditional property cat reinsurers, and they will have to wake up and fight not just on price, but on product, if they are not to see a rapid erosion of their businesses. Absent (world's) of retro out of the cat bonds, while it's volatile at the best of times, the trend has hit alarmingly in recent months.

And partly due to the forceful entry of Berkshire Hathaway into the world of excess and surplus lines business and their quota share arrangement with Aon, we are seeing new challenges in the insurance specialty lines. It is our job both to anticipate and figure out how to deal with emerging trends such as these. As Alex will later state, we are not (technical difficulty) market and we work very hard with our clients and broker relationships and will only intensify these efforts.

At the same time, Darren Redhead is doing an excellent job of innovative development for our new Lancashire Capital Management division, taking his time, not rushing to raise or deploy capital, and being at pains to talk to brokers and clients first and foremost about their needs.

What is clearer than ever now is that only those companies with something innovative, something different to offer, will be relevant in this market. And we will ensure that we not only maintain, but sharpen that relevance.

With that (technical difficulty) to Alex, please.

Alex Maloney {BIO 16314494 <GO>}

Okay. Thank you, Richard. I continued my remarks for the last quarter's results (client) value is good. And in terms of loss activity, the First Quarter since 2003 has been dull and therefore good.

There is (talk) going on in our markets and we are having to work hard to protect our core accounts and look for new opportunities. But our business model is designed to be proactive or satisfied to the cycle we are at, so we can try successfully in certain markets every bit as much as we can in (hard new) markets.

Our aversion to attrition losses, which allows us to maintain a tight operating structure, was well demonstrated with our net loss ratio of 17.2% for the quarter. We did suffer a loss in the Intelsat 27 satellite explosion, which is the largest of its kind ever recorded, but this was the only loss of any significance to impact our results in the quarter.

It's worth noting that that's exactly the type of loss we would expect in our (technical difficulty) portfolio, so we're not concerned by it.

In terms of our renewal price index, and since it (technical difficulty) trade under 99% for the First Quarter, on the positive side we saw rate rises in loss-affected marine hull and liabilities and some loss affected US cat XL. In some other areas, rating was continuing to come under pressure. At the moment, we don't see much change in terms and conditions.

Despite the competition, pricing in many of our products remains strong. Offshore energy and cat XL are examples of areas where we are seeing modest rate reductions. We still believe that (we've) satisfactory pricing.

Bear in mind that our portfolio of (technical difficulty) pricing uninterrupted upwards trend in energy prices since 2008, so since a 98% RPI for the quarter is not alarming. We do expect to see further rate reductions as the year progresses, but we are still comfortable with the great majority of the pricing we have seen.

Our energy liability business is growing cautiously, and rate increases here are good and continuing. As it is new business to Lancashire, this is not from part of our RPI index.

On the cat XL side, we've been increasing our marketing efforts, and this is bearing fruit. We've seen a number of opportunities from both new and existing clients.

Overall, our income numbers were stable, but there were a number of moving parts, including a nonrenewal of a major program that we've written for a number of years, but finally sought an aggressive repricing exercise.

As you know, we view most retro as a type of loss product and we've seen some clients drop away. However, as some of the large Global Clients introduce pricing and increasing exposures, we are able to replace part of their income with smaller regional reinsurers and we're looking for higher-level protections to support specific territories.

On terrorism and political violence, our portfolio is down a little, but really strong marketing efforts, so (I think for a submission) volume by 23% and bound account numbers by 6%.

The strength of our broker and client relationships allows us to (strengthen) lines, which means we can trade through what's undoubtedly a softening market. On the open doors and (changing) risk business, we are seeing a solid rise in income as we become more established in that market. This is an area of the market we know and we like and we expect further growth.

We've added some junior underwriting resource to help us handle bigger volumes of business and free up some of our more experienced underwriters to continue to market.

In Marine, our numbers are not representative of the broader market. In Marine, RPI was 110% for the First Quarter, and overall, our income was stable. However, the RPI was largely down to the International Group marine liability renewal, where we more than doubled our income.

Our very strict risk selection on marine saw our bound risk count drop by 12%. The competitive rate cutting between underwriting hubs around the world continues, and there is an apparent failure to recognize the charge for (technical difficulty) exposures in the marine products, as Sandy, Tohoku, and Thailand have all clearly shown.

The First Quarter was pretty quiet for AV52, which is our aviation product, and there wasn't much new activity in the satellite world so we don't read much into the numbers. There is competitive pressure on AV52 and the Intelsat loss should mitigate any pressure on satellite rates.

On the (sailboat so far to cattle) side, we are making good progress with Lancashire Capital Markets in terms of both capital providers and potential clients about what they're looking for. We're taking a measured approach, which means we're doing a lot of R&D, which is at the stage that we're at right now. There is no doubt the influx of new capital, as well as the substantial retained earnings held by reinsurers, will increase competition in the market areas where we are at.

But don't forget, we are buyers of insurance -- we are buyers and sellers of reinsurance and we're looking for good outward products to optimize that portfolio. So while this influx may be perceived as a threat, it can also bring opportunities for Lancashire.

The trend for brokers to arrange quota shares of the business, both places continued with the Aon-Berkshire deal. However, Lancashire's position in each of its markets segments, with a substantial line, strong underwriting credentials, and clear decision-making, means we have good relationships with brokers and clients.

The fact that we are a lead or an (agreer) party on 74% of our business by premium volume over the last 12 months is a good indicator of our prominent role. We are not (from their) market.

Looking forward, we certainly see continued writing pressure in many areas. However, we would reiterate that our writing levels on the bulk of our business are still healthy. We are finding growth opportunities in energy, (abrogores) or some part of the property portfolios, as daily underwriting (call) have fortnightly risk and return committee means that we can exercise (technical difficulty) whilst continually making up ways that we can optimize our portfolio.

We are very happy with the risk-adjusted returns for our book and we'll carry on being patient and wait for the next couple of (technical difficulty) to change. I am now hand over to Elaine for more detail on the numbers.

Elaine Whelan {BIO 17002364 <GO>}

Thanks, Alex. Hi, everyone. Our results are on the website, as usual.

With the lack of any significant events this quarter, we have an excellent return on equity of 4.7%.

As mentioned in our earnings release, we requested our shareholders approve a 15% nonpreemptive share issuance authority, and likely this positive results for our shareholders with over 96% of those reported who was in favor of this resolution. I'd like to thank our shareholders for this. As an environment where speed to market is increasingly critical to success, this is important to us.

So back to the quarter's results. As we mentioned in our Fourth Quarter earnings call, we were a bit less ratio at (one one) than in 2012. We're about $24 million behind the prior year now with that split fairly evenly between Accordion related accounts and accounts that we retain on our own balance sheet. In total, we wrote just over $52 million of Accordion qualifying premiums with that entire line ceded into Accordion vehicles.

Regarding recent speculation on Accordion II, we do have a second Accordion vehicle, but it simply reflects a different split in investor participation in our worldwide (measured) product. We've not increased available capacity across our Accordion vehicles.

Outside of vessels, premiums for (D&A) were down about $6 million, given that we see straight in that book at July 1 last year. As that book continues to run off, you should begin to see a lighter impact of the reduction on our topline and also on our exposures.

We still have some (adequacy) in the main book, largely driven by a restructure of our participation in the (IGPIA) program, plus (technical difficulty) premiums post the Costa Concordia loss. Tightening of some non-annual renewals in the hull book also led to increase there.

Lastly, aviation as a class was roughly flat because that reflects rating pressure in AV52, offset by new business in our satellite line.

On the ceded side, as I mentioned, our Accordion qualifying retro business is down about $12 million, but we've increased our (session) from 85% to 100% so we're receiving about the same amount in dollar terms to the vehicle, just over $52 million this quarter.

We saw some inconsistencies on marine and energy (risk) cover, plus some additional cover purchase, but that was largely offset by the reduction in premium for a property (para) risk cover, given our exit from D&A. We spent a little more on opportunistic ILW purchases, but that was more than offset by ($11.5 million) in restatement premiums for Costa Concordia incurred in the First Quarter of 2012.

So far for the Second Quarter, we've adjusted our retro ratings further. We have a few small contracts, and these were clearly retained by Lancashire as they are non-Accordion qualifying.

Although our Japanese renewals went well, there was less take-up this year on GIA contracts specifically, which led to reduction in our property count premiums.

So overall for this year, principally from our reduction in retro, you can expect gross and net written on net earned to be a bit behind last year, and much will depend on how the Q2 energy renewals shape up. Analysis will (contribute) that already.

Acquisition costs in the First Quarter of 2012 were impacted by our reinstatement premium on Costa Concordia. Without that, the ratio would have been 19.8%. The slightly higher ratio for this quarter reflects the mix of the portfolio and proportionately less retro business. I would expect our ratio to settle in line with the 2012 full-year level as we went through the rest of the year.

On losses, we had no major events and very low attrition reported. We had favorable development of $16.9 million for the quarter, and that includes some movement on our standard reserves. We've mentioned over the last couple of quarters that we have some ILWs in place in the Northeast that trigger at a $20 billion industry loss level.

DCS's last reported number was stable at $18.75 billion. We therefore deemed it prudent to negotiate a settlement with our reinsurer. I'm afraid I can't comment on the terms of that settlement as we don't disclose the details of individual claims or recoveries due to confidentiality clauses in our agreements. Since those ILWs are now closed, we wouldn't see any further benefit from them now, regardless of PCS' next reported numbers.

This wasn't the only movement in our Sandy numbers. We did see some other movements, including on some claims which are covered by other reinsurance arrangements. But overall development was favorable, given the impact of ILWs.

Our net reserve for Sandy after reinsurance and reinstatement premium is now less than $30 million, at $28.9 million, a total reduction of $15.6 million from the prior quarter reported.

Our reserves for Costa Concordia, Japan, New Zealand, etc., were pretty stable. We still have some adverse development in our Thai flood losses, but this is entirely FX driven, and we have an offset of that development coming through our FX line in the income statement. So you can consider that as economically hedged and economically flat, despite what may be presented as adverse development in our insurance losses line.

We saw a little bit of movement into older years (technical difficulty) of $2 million. But this is small and reflects the fact that there really isn't much (IVR) left in those older years now.

Our accident-year loss ratio for the quarter was 29.7% versus 50.5% for the prior year. Without Costa Concordia, the prior year would've been 31.1%.

I'd now like to mention we had one medium-sized reported loss in the current quarter, and without that, our accident-year ratio would've been around the 20% mark. So we are still comfortable running with that as our attritional level.

With the risk on start to the year, the investment markets continued their risk on/risk off trading. The markets were generally mixed over the quarter, but we saw overall strong equity markets, and treasury yields were essentially flat for the quarter. Given our focus on fixed income, we didn't reap any benefits from the strength in the equity markets, but due to our market neutral positioning and our addition of bank loans to our portfolio, we managed to produce a small positive return.

Our bank loans broadly offset the drag we saw from our EMD portfolio as investors took profits following the strong returns last year. We have been repositioning our EMD portfolio slightly towards corporates, given the strength in the sovereigns and quasi-sovereigns last year.

As we've mentioned previously, we are continuing to look at other measures to limit risk and volatility in our portfolio. Although we don't see the risk of an unexpected increase in interest rates as imminent, we've been still risk hedging our portfolio with data derivatives and are building our positions there as we see attractive pricing.

Our duration is down a good bit this quarter as a result of that, on a general reduction in duration, and also because of the cash held for special dividend paid last month. So you should see duration increase a little again over the next quarter.

Just a quick comment on G&A and financing costs before we go on to capital. Our G&A is substantially reduced compared to Q1 last year. We mentioned throughout last year the one-off charge for national insurance we had and changing our tax residency to the UK. In the First Quarter of 2012, that amounted to $6.9 million. So if you back that out, the costs are broadly in line.

I've mentioned before, our overall tax bill following our move was broadly unchanged and will just show up more in G&A as employment costs and less in our corporation tax charge line. We should see some further minor reductions in employment costs over the course of the rest of the year as the reductions in headcount made in Q3 last year (shots) come through.

On financing costs, we do also have some volatility in this in the mark to market of our interest rate swaps. Also, just a reminder that we issued debt in October 2012 with a slight increase in the quarterly cost with interest (you) on that.

So wrapping up the capital, we've gotten less retro business at 1/1, (inaudible) on qualifying business Accordion, and manage our (female) player further with some targeted reinsurance spend. We have the main energy renewal fees coming up in Q2 and expect a decent book from that, but currently have little interest in the Florida market or much else out there.

On balance, if there are no market-changing events this year, we will need less (castles) in the current (mkai) as we go into 2014. So I'd anticipate a special dividend following the US wind season.

We've mentioned before being comfortable in the current market with around $1.4 billion to $1.5 billion of capital. With the retro bits coming off, I'd see us toward the lower end of that range. That said, it's obviously early days yet and we watch the year ahead of us unfold with interest. As always at Lancashire, capital returns and raises will be driven by the opportunities we see. I'll now hand back to the operator for any questions.

Questions And Answers

Operator

(Operator Instructions) Nick Johnson, Numis Securities.

Q - Nick Johnson {BIO 1774629 <GO>}

A couple of questions, please. Can you possibly, first of all, elaborate a bit on how the improved risk-adjusted portfolio you refer to will actually manifest itself? I can see there were substantial reductions in PMLs versus the same date last year. But does the capital portfolio employ less capital than previously, and if so, is it reasonable to contemplate a further reduction in shareholder funds?

And the second question is on the attrition or loss ratio, which at (what extent) I think is more or less (coming) in line with last year, despite modestly lower rates. Does that reflect a particularly quiet quarter for attritional claims or is it enhanced portfolio composition and some cherry-picking of risks, so it's something that can be sustained going forward despite softer rates? Thanks.

A - Richard Brindle {BIO 1983776 <GO>}

Okay. Thanks, Nick. I think probably the first of those for Elaine and the second for Alex, please.

A - Elaine Whelan {BIO 17002364 <GO>}

In terms of the risk-adjusted portfolio, we've been doing quite a lot of work in that and looking at what's using PML, what's not using PML, looking at the available reinsurances out there and really using third-party capital to be able to target specific aims of our portfolio.

So it has got our P&L sound, and as a result, we -- and it is more capital efficient, and that's why I'm making the comment that if nothing else changes, we are not going to need any more (castles) than we currently have and we should be kind of trending toward that kind of $1.4 billion level of capital.

Q - Nick Johnson {BIO 1774629 <GO>}

Okay, so it might be stretching a bit too far to assume that given that the PMLs are down, you can run the business with a little less in the way of shareholder funds?

A - Elaine Whelan {BIO 17002364 <GO>}

We've got a nice level of headroom at the moment. We are heading into the main energy renewal season, so we'll see what happens with that.

But on balance, I don't see our PMLs going up, at least not significantly. So those levels of headroom will remain there as we enter the wind season for any event, so we are sitting at just under $1.5 billion at the moment in terms of our -- the way that we look at our total capital. So you can work out the math from there.

Q - Nick Johnson {BIO 1774629 <GO>}

Okay. Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

And Nick, I mean, obviously, there's a limit to how much we can optimize our portfolio. There's always that balance between what is your perfect portfolio on paper versus client-broker relationships. So we've optimized a lot.

I think we've got the best portfolio we've probably ever had, risk adjusted. But there is a limit to what we can do.

As for cherry picking, we -- again, we think we are good selectors of risk. I think in this kind of market, what is going to become even more important is -- you know, the experience effect that I've been through, softer markets, and deciding what accounts to maintain and what accounts to pare back. I think things like (b and a) property is a good example of a decision we made last year. And that has probably saved us some money.

There has been two large (D&F) risks this year for claims in excess of $1 billion already. So we will continue to do -- risk selection is key in the current market. There's a limited amount of what we can do on the portfolio, and we're very, very aware of the softer factors of client product relationships business that we want forever. So that's the way -- the challenge.

Q - Nick Johnson {BIO 1774629 <GO>}

That's great. Thanks very much indeed.

Operator

Olivia Brindle, Barclays.

Q - Olivia Brindle {BIO 17273762 <GO>}

A couple of questions from me. The first one, I guess, following on from Nick's question right now, so you're writing less retro, which is usually quite high margin, buying a bit more reinsurance, and you're also quite negative on the pricing outlook. So I guess, directionally, is it fair to assume that your ROE should be coming down slightly from current levels?

Second question, following the settlement on the ILW, would you expect any further major moves in your Sandy loss estimate, one way or another? Or is that pretty stable now?

Then, finally, just if you could give a bit more color on the Aon-Berkshire deal. You know, from your experience, what's been the response of the market so far and how do you expect that to play out in the longer term? Thank you.

A - Richard Brindle {BIO 1983776 <GO>}

Okay. Thanks, Olivia. I'll talk about that bit, and then I will ask -- Sandy loss -- well, let's start with the Sandy loss news.

It's a handful of accounts that are impacted for us by Sandy. So the short answer is no, we don't expect any material Sandy loss movement for us.

I'll hand over to Elaine to deal with your first question about the future trend of ROEs.

On Berkshire and Aon, yes, it's fair to say that the reaction from the London markets, particularly from Lloyds, has been very negative. It seems to us an aggressive move. It seems to us a curious move when rates are drifting downwards to do such a broadly cast quota share. You know, you tend to think the time to strike such a deal would be in up markets where you'd expect everything to be well priced.

We have yet to see what the impact of it will be, but there is no doubt it's bad news for the London market.

On the first question, Elaine, which is about future ROEs, perhaps you could do that one.

A - Elaine Whelan {BIO 17002364 <GO>}

Yes, sure. I don't want to be kind of overly negative on this with what we've been talking about. We think we've got an exceptionally good risk-adjusted portfolio at the moment. We're still targeting 13% above the risk (PV) across the cycle.

We do think we've got a better portfolio, and now -- than we've ever had, possibly, just because of the extra work that we've done and because of the tools that are available to us now. And so, I wouldn't necessarily be overly negative in terms of where we think our ROE is going. There is still good pricing out there in the energy book and the property cat book, as Alex has been talking about.

Q - Olivia Brindle {BIO 17273762 <GO>}

Okay, that's great. Thank you.

Operator

(Andrew Spartnikas), Citigroup.

Q - Tom Dorner {BIO 15847486 <GO>}

It's Tom Dorner here. I just wanted to ask a question. Forgive me if someone else has already asked this. But in the statement, you mentioned that a major client turned down the Aon-Berkshire deal. I just wondered if you could explain why that might have been. Is it something about the terms and conditions, or pricing, or potentially concerns over the continuity of that coverage, please?

A - Richard Brindle {BIO 1983776 <GO>}

Alex, want to respond, here?

A - Alex Maloney {BIO 16314494 <GO>}

Yes, sure. The Aon-Berkshire deal is not automatic in nature in that, obviously, the client will still have to agree to security panel. That client, there is a large energy client with a long track record in the London market. They have major exposures that are, you know -- where they need to actually (form) the capacity. They have multiple insurance programs in the market and a fantastic relationship with the London market and the Norwegian market.

Their general comment to the broker was they didn't want anyone to be diluted on their main program by having a Berkshire 7.5% line. Obviously, if the broker needed to use it, if people are unhappy with the renewal, then they could use the Berkshire paper.

But I think without being -- I think part of Berkshire's credential in the past has been to get in and out of markets and go into people's heads, and they've made a lot of money doing it. But I think there is still a big question mark over the longevity of deals such as that, and most people that have eventually done business with Berkshire don't tend to get the same customer experience, let's put it that way, as they do in the London market.

A - Richard Brindle {BIO 1983776 <GO>}

Yes, I would just add to that that the results are not fully appreciated just how hard -- not in the past, but most of the decent players in the London market work at these relationships. They have dinners, they have lunches, there's presentations, there's visits to London, visits to the clients wherever they may be in the world, so it's the DNA of our business.

And it's not -- our clients will not lightly discard that. It's not just about the balance sheet. It's about the softer path as often.

Operator

Frank Haywood, Frank Haywood & Associates.

Q - Frank Haywood

Yes, I'd like to comment. The voice feed from London is very poor compared to the one from Bermuda with Elaine. I don't know if there's any way to adjust that, but it's probably been the worst, I guess, as far as being comprehendible here ever.

So anyway, a couple of questions. Again, just the relatively minor one, if I correctly was able to understand it, was that from the fertilizer explosion? And if so, is that part of the D&S book that is now in runoff?

A - Richard Brindle {BIO 1983776 <GO>}

Right, Frank, I think I've got most of that. But it may be your line because we can't really hear you. And I'm (aside) from the line in London.

If your question was about that fertilizer loss in the US, obviously it's just a tragic event. There's a large loss of life. For -- but for the insurance market, it's really not a big loss. The property value on that site was -- I think it was, like, $10 million. The liability loss we'll obviously pay what drives the ultimate number, but I think that's pretty much going to be US domestic market business. It's not the kind of thing we even would have written in a D&F book if we were still into the D&F market.

Q - Frank Haywood

Okay, well, that's good. Just any comment -- we lost a very low risk portfolio as far as your duration and things like that. Everybody thinks that the low interest rates will continue forever, but there is always that possibility of a sudden spike like you had in, say, 1993 and 1994. So we kind of like what you're doing.

So could you kind of generally (about) what seems to be a general de-risking of everything you're doing? Not just financially, but in other areas, the sidecars and the use of ILWs to mitigate risk?

A - Richard Brindle {BIO 1983776 <GO>}

Yes, I'll do that, Frank, and maybe I'll hand over to Denise to talk a little bit about the way we look at interest rates and inflation expectations in the investment portfolio.

But yes, we've always said that Lancashire as a company will manage the cycle. We're not addicted to growth. We're not addicted to any particular topline figure and we have to deal with the market that we find in front of us.

And that market is broadly softening at the moment. It's not disastrous, you know. We've found -- as we always try to find, Frank, we've found pockets. We like the satellite class. We like the sovereign class. The energy casualty business we've been writing (inaudible) obvious very positive (over rating) right now. We're pleased, frankly, that we came out of D&F. That class, for us, continues to disappoint. There's a lot of awful lot of coverage thrown in for nothing and the prices are pretty disappointing.

But yes, it's our job not to just charge off the cliff with all the lemmings. We have to deal with the market in front of us.

Having said that, we are very cognizant of the advent of a lot of nontraditional capital into our industry. We think some companies are kind of going a bit crazy on this front. Our approach, as I said at the top, is to be patient. But there's no doubt, in our view, that we are very good at product development. We have excellent actuarial people. We have excellent underwriters. Now, of course, we have Darren Redhead, who is a very senior figure in the London and Bermuda marketplace, who was really around when the first cat bonds were sold in the mid-1990s, and he's all over this area.

And we are confident that we can -- and indeed, we're already developing products which we think will be fairly discrete. In other words, they'll be able to offer them and they'll be offered at a good price, even that will produce a meaningful amount of new income into Lancashire.

So it's a question of just constantly repositioning ourselves through the cycle. And now, we have, of course, this new phenomenon of nontraditional capital. We have a very aggressive Berkshire Hathaway. So these are challenges that come a lot, but it's our job to roll with the punches and to continue to evolve, and that's what we're doing.

Q - Frank Haywood

Thank you very much. That's a pretty good answer.

A - Richard Brindle {BIO 1983776 <GO>}

Denise, do you just want to talk a little bit about how we're thinking about interest rates and inflation?

A - Denise O'Donoghue

Sure. I mean, unlike many of our peers, in our portfolio it's totally fixed income and interest rate risk is our biggest risk.

So in trying to anticipate that, we can't. We don't have a crystal ball and we certainly see that it's not the expenses increasing rates. It's the unexpected increasing rate that scares us, like you said about the early 1990s.

So in thinking about that, we've reduced duration, and then we decided to put on some -- a tail risk hedge, which is some buyers options, which are very cheap right now, given that, like you say, people don't anticipate an increase in rates. So if we can get some cheap protection in there, we decided that that was the way to go to protect our biggest risk in the portfolio.

Q - Frank Haywood

Great. Well that's very reassuring.

A - Richard Brindle {BIO 1983776 <GO>}

But Frank, apples to apples, our investment portfolio remains more geared towards risk off than risk on, which is where we definitely need to be.

Some of our fixed-income managers made the point to us last week that even absent actual inflation, there could be a change in (terms) in the market, which means that you can get caught offsides quite quickly. So we think with the tail risk hedge, we've got some useful reinsurance, if you like, on the investment portfolio.

Q - Frank Haywood

Very good. Thank you very much.

Operator

Chris Hitchings, KBW.

Q - Chris Hitchings {BIO 2034501 <GO>}

Thank you. Chris Hitchings here. Now these are probably questions mostly for Elaine. I may be being very stupid here, but reserve -- sorry, the runoff figures, since the Sandy loss has gone down from $45 million to $29 million, which is a reduction of $16 million, you said that that includes the effect of the settlement of the ILW, but there are other material Sandy reductions, too.

I'd like to presume, therefore, that the -- I'm sorry, give us some concept of the balance of the $16 million between the ILW settlement and the other savings.

Secondly, given that the Sandy losses reduced by $16 million, the prior reserve development table says there is a $26 million of development from 2012 years, which means there's $10 million from non-Sandy losses. Now you said Costa Concordia haven't changed much. So I'd love to know what else could use the other $10 million.

Third question, on reserve releases, now you said that the Thai flood loss deteriorated, that this was entirely a currency effect. And that's a clearly minus $8.1 million. Now, on my copy of your press release, it says above that table, excluding the impact of foreign exchange valuations. So I kind of can't really understand why this $8.1 million is entirely a ForEx effect. Can you help me on those, please?

A - Elaine Whelan {BIO 17002364 <GO>}

All right, I'll start with the last one because I might have forgotten the first one by the time I get back to it.

The PV value of reserves, the impact was (inaudible) in that there is the corresponding adjustment in terms of a recovery in the FX line for the Thai flood losses. We chose not to hedge the currency exposure there. We have yen exposure on that because it's contained within our reinsurance program. So you will see movement in our FX line and in our Thai flood loss development, but it's essentially net zero.

Q - Chris Hitchings {BIO 2034501 <GO>}

So there is an $8.1 million credit in the FX line?

A - Elaine Whelan {BIO 17002364 <GO>}

So there is other (technical difficulty) into those (11) outside of just the Thai flood. So you took out all the bits and pieces of movement and some (inaudible) issues there as well, which I think is sort of the same kind of answer for you.

I think you had the question of the 2012 accident year, the $26 million. There's other (IDR) movements and other claim movements outside of Sandy in that, as well. It's not just all about Sandy.

Then, I think that will take me to your first question, and can't really get into specifics in terms of what claims have moved and what we've recovered on and how much per each program, but it's not all about the Northeast ILW that we have there. That's obviously kind of a big part of what's gone on with Sandy this quarter, but we did have some other claims that -- some developed favorably, some developed adversely. Some of them were covered by quota share arrangements. Some of them were covered by other arrangements.

So once you take all the bits and pieces out, then there's a kind of total movement on Sandy as we ride that kind of $50 million mark.

Q - Chris Hitchings {BIO 2034501 <GO>}

Yes. But am I to assume that the ILW is the vast bulk of that $16 million or is it just one part of it? Because you did refer, or I think Alex referred, to material improvements on Sandy estimates elsewhere. And you're obviously suggesting there are pluses and minuses.

A - Elaine Whelan {BIO 17002364 <GO>}

Yes. There's a bit (competing) in there and I did say the ILW was the big part of it.

Q - Chris Hitchings {BIO 2034501 <GO>}

A big part of it. Then, you also -- so (multiple speakers)

A - Elaine Whelan {BIO 17002364 <GO>}

If you look at our development in this quarter, we've got that $17 million development this quarter favorable. If you take out the kind of noisy bits, the one-offs I would call them, then I think we -- underlying development is probably about the $10 million to $12 million mark.

Q - Chris Hitchings {BIO 2034501 <GO>}

Okay. Excellent. Thank you.

Operator

(Operator Instructions) As there are no further questions, I return the conference to you.

A - Richard Brindle {BIO 1983776 <GO>}

Okay. Thanks very much, everybody, for dialing in. I will speak to you in three months' time. Bye-bye.

Operator

This now concludes today's call. Thank you for all attending. You may now disconnect your lines.