Y 2020 Earnings Call

Company Participants

- Aki Hussain, Chief Financial Officer
- Benjamin A Walter, Chief Executive Officer, Hiscox Global Retail
- Bronek Masojada, Chief Executive Officer
- Joanne Musselle, Chief Underwriting Officer
- Robert Childs, Chairman

Other Participants

- Andrew Ritchie
- Ashik Musaddi
- Ben Cohen
- Emanuele Musio
- Faizan Lakhani
- Iain Pearce
- Ivan Bokhmat
- Kamran Hossain
- Ming Zhu
- Paris Hadjiantonis
- William Hardcastle

Presentation

Operator

Ladies and gentlemen, welcome to the Hiscox Ltd 2020 Full-Year Results Presentation. My name is Abby and I'll be coordinating your call today. (Operator Instructions)

I would now like to hand over to our host, Robert Childs, Chairman of Hiscox. Robert, please go ahead and begin.

Robert Childs {BIO 1776179 <GO>}

Good morning. I'm Rob Childs, Chairman of Hiscox. In my 48 years working in the insurance industry, I have weathered many catastrophes both God-given and man-made. This year's experience, the effects of COVID, has been one of the worst, it's severity, it's longevity, nothing that's close to home.

I have to thank my colleagues for the leadership and steadfastness, our staff and our customers and our investors for their support in what has been a torrid period. Hiscox has had a leading role in the foundation of the ABI COVID-19 funds, in addition, has supported a number of charitable endeavors with tremendous staff involvement. My thanks to them.

Hiscox has been shown to be extraordinarily resilient. The balanced model of retail and big-ticket insurance has come good again. We are very well set for recovery and as will be shown already on the upward path. We are all facing 2021 with renewed optimism.

I will now hand over to Chief Executive, Bronek Masojada, to explain in more detail.

Bronek Masojada {BIO 1776109 <GO>}

Thank you very much, Rob. 2020 is clearly being a challenging year for all of us and I'm really pleased that we done that. Hiscox has been able to keep its top line steady. And as you all know for quite understandable reasons, we're declaring a loss of $268 million. Within that we have kept our COVID-19 losses unchanged at $475 million, clearly the industry test case is now completed and we are focused on settling claims fast and fairly.

All-in-all, within the group performance I think it is very resilient. I'm really pleased with the performance of London Market delivering a profit of almost $100 million. And excluding COVID all our business units have made money. None of that would have been possible without the hard work of our over 3,000 employees, who like many other people went from a good working environment to working in a variety of personal setting and have juggled the needs of their personal lives with work lives to be able to serve customers. And I'd like to thank each and every one of them.

Looking forward onto Page 2. I really feel that the balanced business that Hiscox has built over the years has served us very well. In a defensive way delivering resilience over the last four years. And as we look forward, it'll be able to work offensively, as we capture opportunity.

What do I mean by that? If you look back to 2016 versus 2017, 2018 and 2019, you'll see that the profits of the retail business offset some pretty challenging times for our big ticket business. In 2020, as you've seen fantastic profits from Hiscox, London Market plus a very good performance by Hiscox Europe and Hiscox Special Risk and a very solid investment performance has offset the impact of COVID across the business.

With the positive rate environment, I expect that in 2021, our big-ticket businesses will be able to drive their profitability and that will allow us to use some of the excess profit to accelerate the growth in digital distribution, in retail, and to evolve our business model. Thanks to the support of our shareholders last May, for which we're very grateful. We have the capital available to be able to continue to grow and develop Hiscox. And clearly as profits flow through during 2021, we're pretty keen to return to paying the dividend.

Looking then at more detailed on Page 3. You can see what our immediate priorities are, capitalizing on the strength, I've talked already about London Market and on Re. But one shouldn't forget that across our $2.5 billion retail portfolio, pricing trends of positive across virtually all of it. And hat will really allow us to focus on growing the business, continuing to serve our brokers and obviously work with our reinsurers.

At the same time, we need to evolve our model. In Hiscox USA, we've taken the decision to focus ever more on the less than $25 million smaller commercial segment, where we have made -- seen the best profit margin and we see the biggest growth opportunity going forward. That means we're going to be exiting about $100 million of bigger ticket business and classes where the performance hasn't been up to our standard.

As you'll recall in September of last year, we announced that we are creating a crisis management unit within Hiscox London Market, bringing together our terrorism business, our product recall business together with Kidnap and ransom traded in London, Guernsey, and Miami, to really focus on crisis management. That means that $100 million of premium will transfer from the retail segment into the London Market segment. Those two changes will clearly put some pressure on our expense ratio due to the loss of fixed cost leverage. And as we look into 2021, given the economic uncertainty, we are also going to take a more prudent view of our initial loss ratio picks.

These things together means that we expect in 2021 that our combined ratio will be pretty similar to the level achieved by Hiscox Retail in 2020, excluding the impact of COVID. And we also will then expect to return to our 90% to 95% of target range a year later in 2023.

We believe we have a very sustainable business, and clearly, the events of the 2020 have had a negative impact on the brand. And clearly we need to work to strengthen that. In the UK it's a rebuild task. And in Europe and the USA it's a build task because we still are relatively unknown. And the way we expect to do that is by serving one customer, one policy, one claim at a time in an exceptional way. That's how we've built the brand in the first place and that's how we see we'll strengthen it going forward.

In the event that the big-ticket businesses are as profitable as we hope they could be, clearly, our first priority is to focus on the dividend, but to the extent that we have excess profit available, we'll use some of those to overinvest in the retail business, either in the marketing required to strengthen the brand or, and equally importantly, in fact on building digital connectivity with our brokers and partners.

We already have almost 150 of these digital connections, but we think that their importance is going to grow and grow and grow and that is actually the key to driving or becoming a digital business, as part of the digital industry. If we do that, we would have put in place a sustainable growth opportunity to keep growing and developing the business.

So with that I'll hand over to Aki, our CFO to talk through the numbers.

Aki Hussain {BIO 19739719 <GO>}

Thank you, Bronek, and good morning, everyone. Now turning to our financial performance. Against a backdrop of sharp economic contraction across our market, the group has maintained its revenues at $4 billion, demonstrating the resilience of our balanced strategy. Our London Market division had an excellent year, growing its revenues by 5.7% to over $1 billion and retail grew by 3.2% to $2.3 billion.

The growth in these segments was offset by lower revenue in reinsurance and ILS as it showed discipline at last January's renewal before benefiting from price rises in the rest of the year.

Now whilst the significant impact of the pandemic can't be ignored, the improved underlying performance of the business is encouraging. Excluding the impact of COVID-19, all three segments have delivered a profit and we're now seeing positive rate momentum in all three divisions. In view of the full year loss and a desire to retain capital for growth, the Board has determined not to pay a final dividend in 2020. However, as you just heard from Bronek, it remains a priority for 2021.

Now moving on to our segmental performance, as usual I'll start with Retail. In the face of the challenging operating conditions, our Retail business delivered growth in four of its live business units. One of the accelerating trends during the pandemic has been the increasing shift to digital, now we're also benefiting from this.

Almost $600 million of our revenues have come from our digitally traded direct and partnerships businesses. And these now serve over 800,000 customers globally. And revenues in this segment grew by 15% in 2020, with a considerable room to grow further into an estimated $50 million individual small, micro, nano businesses. We see this as a long-term opportunity for growth and value creation and you'll hear much more on this from Ben in a few minutes.

Now given the exposure of our Retail business to COVID-19. It's unsurprising that it incurred a loss of $237 million and a combined ratio of 170%. Excluding the impact of COVID-19, the retail combined ratio continues to show progress at 97.7%.

Now looking at the key geographies, our UK business delivered a resilient performance, with GWP up just over 1%, which is an encouraging result given the challenges of 2020. In Europe we grew strongly by 9.5% with Germany remaining the key engine of growth with revenues up 14%. Our U.S. Retail business grew 2.6%. The planned reductions in our broker channels to improve book mix have been offset by continued strong growth in our direct and partnerships business, which was up 23% in the year, and now serves in excess of 425,000 customers.

Over the past five years this segment has made up an increase in more attractive part of our U.S. business and it's where we see long-term structural profitable growth opportunities. The outlook for our retail business is positive and is beginning to enjoy upward rate momentum.

Turning to our London Market business, our London Market division is the start of 2020. The team's focus over the past several years has been on improving portfolio quality and their efforts have been rewarded with a substantial increase in profit and improvement in combined ratio. Our net written premiums grew up 13% more than double the rate of GWP growth, as market conditions improved and more risk is retained on our balance sheet.

The London Market business have benefited from several years of rate increases. And whilst the early years of rate improvements were catching up the claims range, we believe rate hardening is now accretive to margin and our business has got off to another strong start in 2021.

Turning to Reinsurance and ILS, 2020 saw our revenues reduced by 14% driven by a disciplined approach to pricing inadequacy at the start of the year. But following a cautious start that January renewal, we returned to growth as the market began to harden from April onwards and also we achieved an average of 12% rate increase across the portfolio with positive rate momentum carrying through to January 2020 on the year. Our ILS assets under management at the end of 2020 were $1.4 billion, slightly lower than 2019, mostly due to the redemptions we reported last year.

Now turning to our investment performance. The group has delivered a strong investment result of $198 million, achieving the 2.8% return on invested asset. After a difficult start of 2020 we saw a significant improvement in market sentiment in the second half of the year. Incremental additions to risk assets and the hypermarket volatility in March and April have performed well. And together with mark-to-market gains on bonds have helped to boost return. We have subsequently taken profits in some of our risk asset acquisitions.

As we look forward, our return expectations in North of June with the yields maturity on the bond portfolio at the start of 2021 now at just 40 basis points.

Moving on to results. We continue to report aggregate receivable reserve development of $32 million and hold a substantial margin of both the actual and best estimate at 9.8%. As you can see the margin has increased, reflecting the uncertainty of the current environment. Now after uncertainty recedes, I expect the margin percentage to moderate. We have strengthened our results in our healthcare book, in our Reinsurance division and also in our broker channel distributed U.S. general liability book. We are taking proactive action, through reliability management initiatives to bring more certainty to these parts of the portfolio.

Moving on to capital. As you can see, we began the year well capitalized. And through a combination of equity raise and organic capital generation, the business has largely offset the impact of COVID loss reserve and the basis strengthening by the BMA. As a reminder 2020 was a second year of basis strengthening with one further year to go. As a result in 2021, we expect a further 10 to 15 point reduction in the coverage ratio, although I expect most of this will be offset through internal capital generation.

We estimate our closing position at the end of 2020 to be around 190% coverage ratio. And as you can see we're able to withstand a significant combined stress of $400 million net with a post stressed capital position, materially above regulatory requirements and consistent with an A rating from S&P.

As we look forward, we have sufficient capital to execute our business plans and the opportunities we see ahead.

I'll now conclude with some comments on our outlook. As we've reported, market conditions are improving, so looking forward we expect our London Market business to grow its GWP in the mid to high single digits. As we continue to use favorable market conditions, to improve the book mix and margin with the potential for net recent premium to grow at a slightly faster rate. In Reinsurance and ILS with the additional capital deployment, we have created a capacity for networking premium growth to exceed GWP growth as market conditions improve.

You've also heard from Bronek that we're making two changes to improve the focus of our retail business. We reclassified our special risks business, as a result in 2021 $100 million of special risks revenue will be reported within London Market. And to accelerate the strategic shift towards our digital businesses, where we see our more significant structural profitable growth opportunities, we have taken a decision to reshape our U.S. local broker channel growth, by exiting around $100 million of existing premium, which will be partially offset by continued strong growth in direct and partnerships business.

The combined effect of these changes will result in a one-time approximately $200 million reduction in retail premium. Adjusting for this movement, and we expect the retail growth premiums to grow at a low end of our medium term target range of 5% to 15% in 2021 on a like-for-like basis. Thereafter, the business is expected to return to high single digits growth expectation, as the direct and partnerships business becomes the biggest contributor to the top line.

So the effect of these changes on the retail expense ratio, together with more prudent losses on certain lines reflect the uncertain economic environment are expected to offset the underlying compression in the retail combined ratio. As a result, we expect the retail combined ratio in 2021 to be broadly in line with 2020, excluding COVID-19. This will mean our goal of reaching a 90% to 95% target is expected to take us to 2023.

Last but not least, and we have reported a 2 point reduction in the expense ratio in 2020. This is mostly driven by temporary reductions in travel and entertainment, marketing and variable comp. The more normalized expense ratio is between 46% and 47%. And we have launched a group wide simplification program to embed the existing technology platforms we've implemented, simplify our processes and quality. Our disciplined expense control is expected to drive a 1% reduction in our operational expense ratio in 2021 and 2022 and we expect to reinvest some of these savings in our digitally traded platforms and brand growth activity.

I'll now hand over to Joanne Musselle, our Chief Underwriting Officer.

Joanne Musselle {BIO 19106109 <GO>}

Thank you, Aki and good morning all. A familiar slide to many, it shows how we actively manage our portfolio. There were many headwinds and tailwinds in 2020 and overall, I'm pleased that our underwriters showed discipline where rates were inadequate but grew in line where we saw opportunity. In aggregate, we have maintained a stable top line while walking away from nearly $200 million of underperforming business. I'll take you through a few highlights.

Our largest segment, Small Commercial which is on the left of the chart has doubled in size since 2015 to $1.6 billion. Despite the economic challenges of the COVID, we grew by 3% in 2020. Within this, growth in direct and partnership business was strong at 15%.

We shrunk our property lines by 6% overall, as we continue to remediate the London market household portfolio. In other areas, we are seeing good growth in flood and our art and private client business is stable. In the first half of 2020 our reinsurance top-line reduced by 21%, as we reunderwrote our non-cat portfolio, exiting casualty reinsurance and exercising discipline at the January renewals. However, as you progress through the year, we achieved strong rates and finished with a reduction of 14%. Global cloud casualty, which is our casualty lines written through Lloyd's has grown 21%. However, this is entirely driven by rate and the exposure in 2020 is lower than 2019 and 2018 with average line size down 20% on average.

Another familiar slide is our next our rating chart. As a reminder, this chart shows our rate indexed to 2012 on a rolling 12 month basis. It's really satisfying to see an upward trajectory in every segment. It shows a dramatic uptick in London Market, which is the blue line where rates are up 20% overall.

2020 was a full year of rate rise in London markets a compound growth of 43% since 2017 driven by withdrawal of capacity and the Lloyd Decile 10 initiative which encourages a much needed discipline in the broader market. This discipline doesn't just extend to pricing, we're also successfully addressing creep on terms and conditions as well as commissions which are also a feature of a soft market.

Overall, we've seen rates improve in 16 out of our 17 lines with 10 lines experiencing double digit growth, including U.S. public D&O where rates are up almost 80%. In reinsurance, which is the red line, price correction has been less pronounced with overcapacity still a feature. However, rates have increased 12% which is more than we budgeted. Whilst lag in the London Market insurance, this is the third consecutive year of rate rise with compound rate growth of 25%. As the last point in the line looks flat because we write very little in the last six months of the year.

And retail which is the green line and accounts for more than half of the group growth written premium and nearly three fourth of net premium is much less cyclical with regards to pricing. Whilst the road and nature of the graphs and the scale makes it difficult to seeing the chart, we are seeing positive rate movement across all of our business units, 5% in the U.S., 4% in the UK, and 2% in Europe. This is the first time in many years that we're seeing positive rate momentum across retail with rate growth accelerating through 2020 with increases in the second half double those of the first six months of the year. I'm happy that rates for 90% of our portfolio adequately support the returns we're targeting.

Moving onto the next slide, whilst COVID has had a significant impact on the 2020 underwriting year, the underlying loss ratio is promising. And excluding COVID, the underwriting year loss ratio in 2020 is tracking below 2019 as a result of discipline, remediation of under performing lines and improving market conditions.

This slide shows that we maintained stable premium whilst reducing exposure. We continue to actively manage our portfolio, focusing on fixing or materially shrinking the bottom decile, while continuing to invest in the top-performing lines, improving the quality of the portfolio. With a $4.5 billion portfolio it is expected that a small part will always require forward correction. And this because emerging claims trends and underlying risk evolve and we need to adapt our underwriting to take these changes into accounts by adjusting rates or plant terms and conditions for exposure. This underwriting discipline is what positions us well as market conditions change.

Similar to 2019, we exited nearly $200 million of business in 2020, reducing our exposure in the poorest decile by 26%. Whilst we have taken some action in our retail portfolio, the vast majority of the business exited within our big-ticket division, where 2020 largely completed the portfolio repositioning in our London Market binder portfolios and our non-cat reinsurance portfolio. The market is improving, and the rate and improvement together with the underwriting actions are starting to earn through and the current view of 2020 underwriting loss ratio is promising.

So moving on to the next slide. Whilst overall premiums are stable, there are significant differences in the portfolio and this slide highlights our growth and net growth per segment. I'd categorize it as retail resilience, reinsurance discipline and capturing the opportunity in London Market. Retail which is the blue is a collection of around 50 different portfolios across 10 different geographies. And whilst there is a small net increase, there are different forces at play. Whilst the insurance to this segment is not a luxury buy, some portfolios have been adversely affected by the restrictions with revenue in areas like events and entertainment materially down. Other areas like small business commercial insurance has seen a promising bounce back, the number of new businesses being formed across the markets bode well for us in 2021 as a high percentage of our customers are buying insurance for the first time and often digitally.

We've also taken some corrective action in our retail U.S. broker portfolio in cyber and I will cover this in detail on the next slide. The reinsurance portfolio which is in the middle of the chart has been refocused around our core lines, exiting both healthcare and casualty reinsurance over the last couple of years. We continue to update our views of risk in Florida, California, Wildfire and Japanese typhoon to reflect recent experiences, which is why we came into 2020 with caution.

The reinsurance market improved through 2020 which allows us to close some of the gap. As we look forward into 2021 it is my expectation that we will grow the net, slightly more than the growth as the reinsurance market improves and we retain more risk on our balance sheet.

And lastly London market. I'm pleased with the action we've taken over the last few years to reposition the portfolio to where it is today. Our gross written premium is up nearly 6%, but the net written premium double at 12%. The market is now attractive in many of our lines, which has led us to take a larger net position. The vast majority of the portfolio is now well positioned, as we have reduced exposure in household and commercial binders through nonrenewal, increased rate and restricted aggregate in certain currency.

Overall, I feel confident about the position of our London Market portfolio confident that we are well placed to take advantage of the opportunities presented by the hardening market.

And turning to the next slide, as look forward to 2021, I see good opportunities in every segment. We will continue to actively manage the business and I'm anticipating about 4% of the portfolio to be remediated this year. Ordinarily, this type of remediation usually takes place in the big-ticket business as we flex to changing market conditions and our less volatile Retail business is usually subject to more sepal tweaks.

But as you've heard from Bronek, given the opportunities we see in small commercial segment, we are refocusing our U.S. portfolio to target business with less than $25 million in revenue and offset customers with revenue over $100 million. This will see us downside on the U.S. Broker portfolio exiting standalone general liability, financial services, offset business and reshaping our cyber book to respond to adverse ransomware trends.

We have consistently performed well in the small, micro, and nano business segments. There is huge opportunity here and Hiscox is well-positioned across all of our retail market. We feel now is the right time to accelerate our U.S. retail portfolio to this segment, which is consistent with the UK and European portfolios.

This reduction, whilst material to Hiscox USA, represents 2% of our total growth written premium, there will be an additional 2% of other business from the remainder of the group. Like others in the market, we're also addressing the ransomware trends we're seeing not just in the U.S. but in all of our cyber portfolios through rate, risk selection and terms.

As I look forward to the remaining 96% of the business, I believe our portfolios are positioned well. We have a favorable rate environment in all of our segments and clear plans to deliver the returns we're targeting.

I'll now hand over to Ben Walter who will talk more about our retail business.

Benjamin A Walter {BIO 18021194 <GO>}

Thank you, Joanne and good morning, everyone. You heard from Bronek and Joe about the changes we're making to the retail portfolio. Those changes are happening for a variety of reasons. In the instance of special risks, we are realigning the products by geography to reflect the way our customers buy. In the U.S., we're exiting segments of the book where we see a less compelling long-term business case.

But taken in aggregate, these changes allow us to sharpen our focus. Retail has a proud heritage in the art and private client business and we'll continue to provide that market with best-in-class service, as it anchors our brand in the UK and Europe. But around the world, small business represents our largest opportunity for sustainable, profitable growth. We operate in large growing markets with low market shares. We have an enviable competitive position with a strong brand and leading digital capabilities. And we have a scale advantage and rich data sets to price both competitively and profitably.

Turning to the next slide. You can see the estimated addressable market size in each of our geographies. Even in our most established markets in the UK, we only have an estimated 6% market share and it's lower everywhere else, either historically fragmented, underserved markets, particularly, at the smaller end and we can thrive here while others chase larger business.

The micro business segment of the economy is expanding faster than average, even more so in our core professional market, which allows us to participate in an expanding pie as opposed to just compete for share in a stagnant pool. We see less premium volatility through the economic cycle, because while the rising tide lifts all both, downturns drive employment downsizing which are a catalyst for new firm formation. And critically, we have a head start in digital trading and distribution which is rapidly becoming the default solution for small businesses and their brokers, much as the auto market did over the past two decades. COVID-19 has only accelerated that trend.

On the next slide, you can see those dynamics in action. Like 2008-2009 following the great financial crisis, 2020 saw a material spike in new company formations as downsized workers formed their own businesses in response. These new companies are historically the most underserved and the most difficult to process without digital tools. But they are a segment we are designed to serve well with our digital distribution and electronic servicing models.

As a result, our commercial direct and partnerships businesses around the world grew throughout 2020 despite the severe economic recession and indeed continued in the fourth quarter despite recurrent lockdown. We see much more runway as this sector of the economy grows and looks to digital solutions.

And as that happen, our platforms are steadily building scale. On the next slide you can see our direct and partnerships customer breakdown across the world. Scale by geography is important, because each geography needs to be able to support its own local underwriting distribution, regulatory compliance and language requirements. The U.S. is clearly furthest down the path with over 400,000 customers, but the UK is rapidly reaching scale and the European businesses are growing quickly.

At nearly $600 million of premium across the world, this business now exceeds 25% of retail premiums and that share is growing every year. In addition to our own direct distribution, we have a wide array of third-party distribution partners that include traditional brokers, others insurance companies, banks, affinity groups and digital aggregators. We integrate with these partners digitally and we have a strong pipeline of new partners in development. As the entire market digitizes, we are fortunate not to have legacy constraints. And we follow an all roads lead to Hiscox's distribution philosophy.

We also have an increasingly healthy brand position in this space. Awareness of our brand in each market has a healthy base from which to build. And while we know we have work to do in the UK following the events of 2020, we are comforted that fewer than 3% of our UK customer base has BI cover.

We can use the scale, we have achieved in each of these markets to invest, and extend our lead. Extending that lead is important, because scale is a self-reinforcing advantage in these markets. We don't expect a winner-take-all outcome but we do expect that a handful of scaled players will lead the market.

Turning to the next slide. You can see what we call the virtuous circles of scale. As we get larger, we gained two key assets which help us grow, reinvest and leverage them further. The first of those assets is data. We collect troves of data with respect to not just claims but how our customers buy and what products they prefer.

We can use that information to develop ever more precise risk-based pricing models which helps us be both profitable and competitive, providing good value to the customer. By tracking millions of customers sessions each year, we can optimize our web journey to increase conversion and maximize cross-sell opportunities.

The second asset is operational leverage over the fixed cost base. Building a small ticket digital business requires heavy upfront investment in technology, service center infrastructure and in the brand. We've made a huge down payment on that over the past few years and we are able to amortize that over a larger and larger pool of customers. Increasingly powerful automation tools, like soft lots are streamlining high-touch processes, making the existing book more and more economical to serve without compromising on quality.

We still see more opportunity for investment, which as Aki and Bronek said, we are keen to do as big-ticket profits flow through the P&L in years to come. But those additional investments will serve to reinforce our first-mover advantage and help us to emerge one of the long-term winners.

And with that I will hand things back over to Bronek. Thank you.

Bronek Masojada {BIO 1776109 <GO>}

So thank you very much, Ben. We heard it from Joe and Aki and Ben about the details of what's going on in our business. So I'll just wrap things up quickly. As we go on to Slide 26, this is a pie chart that you've seen before and it reinforces how we see the big-ticket business and retail business as complementary and being able to create optionality for our shareholders.

Clearly at the moment, in the big-ticket business we have very good market conditions, you saw that in Joe's slide and she talked extensively above that. And with the $2 billion in-force portfolio, we clearly will benefit from the rating environment. Our goal is to drive profits over scale, so whilst this might result in a slower growth rate than you might like, we think it will result in more profits, which I know you definitely will mark. And to the extent that our profits exceed our ambition to pay dividend, we would aim to use some of them to accelerate the growth of the Retail business.

Ben set out very clearly the opportunity we see in the small commercial insurance across the world and that clearly is going to be our focus. At the same time, the private client business in the UK and in Europe is a differentiator and continues to help build the brand. We will of course have to work on the brand, particularly here in the UK to strengthen it after the knocks that is taken. And in other markets to strengthen it because we're not as well known as we would like to become

But we know that as we focus on that segment, the long-term economics are very attractive and we see a very long-term growth runway ahead of us. And finally, on the last slide, there is opportunity across all segments. There's uncertainty, the stock market volatility, the bond market volatility all tells us that people are unsure what to do. But you've seen as set out the course correction we plan to undertake to ensure that Hiscox can navigate its way through this. And as we do that, we will be seizing those opportunities that passing momentum in all segments, the big-ticket opportunity, the best in many, many years and actually digital everywhere, but particularly in retail and within that particularly in the United States.

Thanks to the support of our shareholders, last May. We are well capitalized with a lot of financial flexibility, so we can take advantage of growth opportunities as and where they arise. And as Aki said, paying a dividend is a priority in 2021, and then using any profits in excess of that to help out grow the Retail business.

So with that, we'll take any questions.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Our first question comes from Andrew Ritchie from Autonomous. Andrew, your line is now open. Please go ahead.

Q - Andrew Ritchie {BIO 18731996 <GO>}

So hi, there. First question would be for retail. I'm just trying to understand the rationale behind pushing out the combined ratio guidance. When I look at I can see I think five positives, can you tell us you've got strong reserve buffer, direct and partnerships is lower combined ratio. You say that there're rates across retail. You're getting rid of some of the high combined ratio, large ticket business. And the negatives that I can see is maybe two points from the lower top-line on fixed costs. So I'm struggling, why adopt such a conservative guidance? Is it that the marketing spend required to generate growth is structurally higher for whatever reason? I guess there's more competition. Is that what really -- what's really driving it? I'm just struggling given when I add up the positives and the negatives about why you would push it out at this point?

The second question, this reserve buffer is significant, but yet, we still keep seeing surprising I think, additions to some of long-term lines. Where is the buffer? What line is it attached to? Because I would expect it to have been attached to some of the lines seeing strengthening?

And the final question. On Slide 11, on the solvency, you talked about the impact of the yield increase. I'm assuming that's a misprint and you probably mean spread increase, not yield, because I'm just trying to understand yield, benchmark yields rise, I'd expect that to be neutral to positive for economic capital? Thanks.

A - Bronek Masojada {BIO 1776109 <GO>}

Thank you, Andrew. And I think so just to repeat, there's three questions there. One in retail and what's the rationale for pushing out the guidance. Number two, is the question on the reserve buffer and where does it sit? And then finally, the impact of rising yield on the capital position. I think, those were all three for you, Aki.

A - Aki Hussain {BIO 19739719 <GO>}

Thank you. Thank you, Bronek. I guess, taking those in turn, in terms of the reason for pushing out the guidance for our retail business, you're right to cite a number of positive factors, and let me just kind of talk through some of the reasons that behind the guidance. Firstly, we are making changes to the retail portfolio, and some of the business that we're not renewing is -- does have a higher combined ratio or a signature. But that will take time to earn its way through the portfolio. So by non renewing now, it doesn't eliminate the impact on the P&L that's the first thing.

Secondly is DPD, across the retail business is a growing part of the overall retail portfolio, and you're right, it does have more attractive loss ratio. But I think we said in previous discussions that we are maintaining a high expense ratio for that business because we're driving growth. This is a -- and as you just heard from both Bronek and Ben, we have around 800,000 customers in this segment out of a target market of 50 million. It's fragmented. It's underserved. We have a market lead, and we don't intend to lose that lead, and therefore we will continue to invest in that business. There's no structural requirement to increase marketing. We're doing it because we see fantastic growth opportunities. Then two other factors I'd kind of draw to your attention. We have -- for 2021, we have adopted more prudent loss picks for some lines of business within our retail division and that to reflect the economic uncertainty. Now who knows whether it will happen or not, but we're a prudent business and we have prudency within our policies and that's kind of what we've done. And if the uncertainty economic environment proves to be wrong and we're into the roaring 20s, and it's the boom time, then we'll see more profit come through than we're currently guiding for, but we have taken a cautious approach.

And then the final point. I think you heard both Bronek and I talk about this. We are guiding that we are taking $200 million off the top line for retail business and that means there is an element of fixed cost that's being spread over a smaller premium base that would otherwise be the case. and that won't disappear immediately, and I think it's just right for us to guide in the way that we have in the past, which is taking a cautious approach.

If I move on to the reserve buffer, the reserve buffer again is substantial at 9.8%. It's about 300 -- over $360 million. I'm not going to provide you the detail on which clear lines it's attached to, but we are content with that reserve buffer. It does reflect again the uncertain environment we are in. As the uncertainty reduces, which we all hope it will do as we progress through 2021, I would expect that percentage number to start to moderate. But we'll wait for the uncertainty to recede to begin with. And in terms of your final comment regarding the yield, on the commentary around yield, you're right. That should say spread.

Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay. Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Can I just wrap up by talking not specifically on those questions, but we've talked for many years about the balance business and using the excess profits of the big ticket business to fund additional faster growth in the resale business than what it could absorb by itself. If you go back a decade, we had a different segmental analysis and we're doing that. But as investors, you didn't see the fact that we're running higher combined ratios in retail to drive the growth.

With the new segmental analysis we have, you've see the impact of that. But I think that provided with the Group is delivering a good aggregate return on equity across the business, that's the right term, immediate economic decision for investors to grow. As Ben said, this is a big opportunity there. I know all of you will be looking at the -- some of the startups in the area who are competing with us. We want to be one of the medium term winners. We already have an almost $600 million business in the space and we think over a decade long period that can do very, very well indeed from a shareholder perspective.

And we need to have the flexibility to make that judgment and as the year progresses rather than being constrained by specific targets. And I think that it -- I understand the challenges that gives from a valuation perspective, but in our view, making the right medium term economic decision is very important when we have the financial flexibility at a group level to do that. Let's go on to the next question.

Operator

Our next question comes from Kamran Hossain from RBC. Kamran, your line is now open. Please go ahead.

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi. Good morning, everyone. I have three questions. The first one is, just -- in the first half, you talked about frequency benefits potentially being seen in both big-ticket and retail lines. I'll ask is this it still the case? And in the second half of the year, we're still seeing frequency benefits. And kind of what's the experience being year-to-date? I guess, you're not going to recognize this in the numbers yet, but just some idea so we can do think about how this might affect reserve movements, et cetera, going forward?

And the second question is on kind of the London Market business. I think it's quite a staggering start to see that price increases have gone up more than 40% in the last few years. How much of this do you think has actually come through into the numbers. Just interested in kind of what you think the underlying improvement has been there. Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Thank you, Kamran. I think in terms of that, I'll ask Jo to comment on the frequency benefits, and Aki maybe can comment on the rate at which the increases are coming through. Jo, over to you.

A - Joanne Musselle {BIO 19106109 <GO>}

Thank you, Bronek, and good morning, Kamran. So yes, you're absolutely right. When we went through our results or the half year, we did talk about the frequency benefit in some of those portfolios, particularly some of our liability portfolios as people have done last and people movement have been restricted, we clearly saw a reduction in frequency, and then also in some of our property portfolios. Obviously, what was unknown then and I think continues to be unknown is, what is signal and what is noise? So how much of that is genuinely a reduction in frequency because people have done less and therefore they're less likely to claim, and how much of that is really a lag as things return back to normal and claims may be made at a later date. So the way that we've approached that, is in our shorter data lines, so in property, we have reflected some of that positive experience in our longer term lines to the casualty, we've not reflected that experience and we've maintained our losses. As it unfolds, as we move forward into 2021, it will be clear if that is actually a positive trend and would be there need to -- we would reflect that as we go forward into 2021. But yes, we think it's prudent to not reflect that as a trend yet.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. Thank you, Jo.

A - Aki Hussain {BIO 19739719 <GO>}

Thank you, Jo. This is Aki. I guess -- thank you Bronek. Maybe just -- I'll just add one more comment to what Joe was saying regarding frequency. Joe is absolutely right in terms of what we've done. In terms of the underlying trends, in the latter half of the year, we have seen frequency on the liability lines trend back to what we would regard as more normalized level. So whilst we did see benefit in probably Q2 and Q3, Q4 is starting to get back to normal.

In terms of your comment regarding London market, look we've had four years of rate increases. I'd say our view is that the first couple of years where our rate increases were reflecting and a catch-up of the underlying claims inflation that we were experiencing. That lasted couple of years, we believe, are accretive to margins. If you then think about the earnings profile and how the numbers earn through, I'd say we've seen of that margin expansion, we've probably seen half of the amount come through into the P&L with an expectation that if further element of that will come through in 2021. And of course, the business is get off to a nice strong start in '21 with double-digit rate increases in as well.

Q - Kamran Hossain {BIO 17666412 <GO>}

That's it. Thanks, Aki.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. Thanks, Kamran. Can we go to the next question, please?

Operator

Our next question comes from Paris Hadjiantonis from Exane. Paris, your line is now open. Please go ahead.

Q - Paris Hadjiantonis {BIO 19703051 <GO>}

Yes, good morning, everyone, and thank you for the opportunity. So firstly going back to retail combined ratio, I was wondering if you can actually give us a bridge for the 2020 to 2021 combined ratio. So you're flooding essentially to flood combined ratio excluding the COVID impacts. But how big is the underlying improvement in the combined ratio because you are changing the business mix? And what is actually the offset from higher loss picks versus expense ratio. So if you could give us a bit of some more clarity there that would certainly be very helpful.

And the other one is on the big-ticket business and the outlook for growth. You're guiding at least at a gross level mid-to-high single digit growth. I was wondering if you could give us the assumption around the rate uplift relative to what we've seen in 2020. And I know that you're making some changes to the book, I think you're flooding cyber, but are there any other lines of business where you are a bit more cautious, even though rates are actually improving? Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. Thank you, Paris. So there's two question there, one on the retail combined ratio bridge and secondly on big-ticket. Let me just comment briefly on the big-ticket before handing over to Aki on the retail. We expected to see, as Aki said, low double-digit price rises in the big-ticket London Market business at 1:1. And I'd just point you back to Jo's slide in terms of the 4% of constant course correction. She highlighted the cyber which is quite frankly a worldwide phenomenon of increased ransomware coming through and clearly that will affect London Market as well. The other thing she did highlight was also the household portfolio within London Market, where we are at the final stages of remediation. Given that's on the binder, these things take longer to change and to earn through, and we are at the final stages of that. So that would be a sort of negative on the top-line on both of those and clearly, we'll be growing elsewhere to offset that.

So now I'll hand over to Aki to just talk about the retail combined ratio, but I'll just caution you that we don't -- we haven't given a breakdown at a detailed level and he can give you some color on that without giving us basis points here and basis points there. Aki?

A - Aki Hussain {BIO 19739719 <GO>}

Thanks, Bronek again. Hi, Paris. As Bronek was saying, it's a good question, but, no, I can't give you that information. But in general terms, we are seeing progress, positive progress in our retail combined ratio. You can see that in our 2020 results update, and we expect the improvement to continue into 2021. But as I said earlier, it will be likely offset by the two factors that I've cited which is the $200 million premium reduction, the one-time reduction that we've guided to. And also the higher loss picks on certain lines of business within our retail portfolio. But I'm afraid I can't provide any more detail beyond that.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. Thank you, Paris. Next question, please.

Operator

Our next question comes from Ming Zhu from Panmure Gordon. Ming Zhu, your line is now open. Please go ahead.

Q - Ming Zhu {BIO 17001429 <GO>}

Hi. Good morning. Thank you for taking my question. Just three questions, please. First is on the Cyber and the liability online. So what exactly happened to your portfolio to make you reshape this business? And is there any other headwinds you are currently seeing in the sector in general? And my second question is your Letter of Credit, the revolving credit facility. How much have been used and what is your -- the repayment plan? And my third question is actually on the Corporate Center. Your operating expense has gone up quite a lot in full year '20. Is there any one-offs in full year '20 such as the LIFO cost, et cetera, and what shall we expect going forward? Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Thank you, Ming Zhu. I'll ask Jo to comment on the trends we're seeing in Cyber and Liability, and then Aki can talk about the Letter of Credit and the Group Center operating costs. Jo?

A - Joanne Musselle {BIO 19106109 <GO>}

Thanks, Bronek. So, risk continue to evolve on claims trends change and market conditions also. And we obviously need to take all of that into account and adapt our underwriting. And if that's course correction, which is what we've built our reputation on, looking at particularly at the trends that we've seen in our U.S. and then cyber more broadly, so in the U.S., that bigger ticket business -- that bigger ticket liability business has not delivered the returns that we wanted, and actually we have been course correcting that in 2020. And given the rating environment which is obviously hardening in that sector, we could have continued with that course correction into 2021. However, given the longer-term opportunity of that business is we feel much more focused towards more segments. We felt this is the right time to accelerate that strategy and focus more on that smaller segment where we see the longer term opportunity.

And with regard to Cyber, like others in the market, we've experienced an increase in claims, particularly in Ransomware. And over the years, you've seen these trends change quite dramatically from what we would consider to be a category (Technical Difficulty) where a smaller -- what a larger number of small organizations were targeted with a small Ransomware. That changed over time to what was known sort of big game hunting. So much larger Ransomware demands were made to a larger corporate.

And then now, we've seen an acceleration again, where it's not just a large Ransomware demand, but they're also taking data, and clearly, we're dealing with the breach as well. So it's those changes that we're seeing. That change has really accelerated in our Cyber portfolio, and I say not just -- not just ours, but more globally and across the sector. And obviously, we need to address that, and we're addressing that through rates, terms and conditions and maneuver in our portfolio.

A - Bronek Masojada {BIO 1776109 <GO>}

I would just add to Jo, is that we started seeing and started doing the course correction during the second half of 2020 and we see that continuing into '21. And if you look at some of the Q4, Q1 announcements by some of the other people in the sector, you'll see them saying similar things is us. So Aki, would you like to comment on the Letter of Credit and the operating expense at the Group Center?

A - Aki Hussain {BIO 19739719 <GO>}

Sure. So, hi, Ming Zhu. I guess your question was how much have we drawn down on our revolving credit facility. At the end of the year, we've drawn down just under $200 million. So there's a substantial facility left. And in terms of plans to repair that, we would -- we expect to repay that from our existing resources. This was an action taken as a precautionary measure. And as it happens to be, we don't believe we will need it.

In terms of your question regarding Corporate Center expenses, there is couple of factors in there. One, you can see the financing cost has increased and that's a function of a couple of things. First, we refinanced our lending arrangements without lending back during the course of the year and that includes the slightly increasing interest rate and some arrangement fees. Corporate Center will also include some of the costs associated with some of the charitable donations, which we increased quite significantly during the course of 2020, and it also reflects some of the costs related to other corporate action that we have taken.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. Thank you, Aki, and thank you, Ming Zhu. Can we go to the next question, please?

Operator

Our next question comes from Faizan Lakhani from HSBC. Faizan, your line is now open. Please go ahead.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Good morning, all. Hope you're all staying well. I had a few questions.

A - Bronek Masojada {BIO 1776109 <GO>}

Okay. Go ahead.

Q - Faizan Lakhani {BIO 20034558 <GO>}

You seem to be -- you seem to be indicating that you should focus less on the retail combined ratio guidance. And given the sort of shift in sort of and obviously, I guess, why not wide guidance at a group level? That's the first question. Second question, I can see you've kept your COVID-19 ultimate -- estimates unchanged. In regards to the BI test case, I think on the 15th of January FCA released draft decorations around the classification, some of the Supreme Court ruling awaiting, there seems like there's still some issues around the definition of government advice. Are you guys sort of got clarity between yourselves and what that means? And what are the chances are for movement to your loss estimate?

And third, in regards to your London Market business, there are a new set of startups out there Indigo being one of them. I can see it in this quarter press releases that you've lost five key personnel to that new startup. How strong is your bench strength in the underwriting department to fill those gaps? And are you looking to make external hires? And what sort of size is that where they sort of managing?

And final question, if I may. In the retail book, can you provide into an indication in terms of what sort of statistics you have? And do you have a feel of how many of your clients now, especially where you're focusing on are dependent on the government support measures? Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Okay. So there's four questions on there, one of which is on retail guidance. Number two, is on the BI test case. Number three, is the staff loss in London Market. And finally, on retail targets. Let me take the first couple and then I'll hand over to Ben Walter who runs Hiscox Retail to talk about some of the retail focus going forward.

In terms of the retail guidance, we have provided guidance, we think by saying in 2020. One we'll have a combined ratio similar to the 2020 ex-COVID. The reason we're trying to open up the guess of a range around that, is that if we do very well in the big-ticket business, we may over invest in the retail business, and we want to obviously have an underlying core combined ratio, which is trending down to the 90% to 95%. But in terms of capital allocation and P&L allocation, we look first to the Group as the whole, and then secondly to the individual business units because I think that's the way we built the business unit, if you go back, as Jo said earlier on, that small commercial business has doubled over the last five years, and we've done that actually by over-investing when the big-ticket business has made money for the last -- if you look at '17, '18 and '19, as I've said in my talk earlier on, actually we used the big -- the retail profits to ensure the Group made money when the two big-ticket businesses were challenged.

In 2020, we obviously drew on the balance business, the London Market, the European and the special risks and the great investment return to offset a bit of COVID. And as we go forward, we think it's important that as shareholders you understand our desire to move resources across the Group to build what we think is the overall long-term economic opportunity for us rather being constrained primarily by, sort of targets we've set at the individual business unit level. We clearly think over time, the retail business will operate in the 90% to 95% combined ratio. But if we make -- if we have a very good reinsurance result and a very good London Market result, that means we'll have excess cash in the business.

If you look back to say '14, '15, '16, that's what we had. And we over invested in retail. And we normally used to make that decision around the half year when we saw how the first half went. We then said, okay, well, we don't need this much money in order to hit the Group P&L ambitions. Let's over invest in retail. We just want as analysts and as our shareholders to understand that as we take the balanced business to an offensive using its strength to drive profit rather than to mitigate loss, that's what we are clearly on our agenda.

In terms of the BI test case, you're right, there is still some clarification going on from the declarations. We have all put submissions into the Supreme Court. All I would say at the moment is that we think that the $475 million is a conservative estimate with a degree of margin in that fore for ongoing uncertainty. So we feel confident based on what we expect, but that remains a good number.

In terms of the staff, it's always a pity to lose good people and we're not happy about that. But it's clearly, if you perform well and you are known to have talents and have invested in talent for a long time, you become a target. And yes, we have lost some people. I think that you can see the resilience of the business in terms of performance that London Market has given.

In terms of the replacement, we expect that to happen through a mix of internal promotions and from staff internally. So in Marine liability, that was filled by an internal promotion of somebody who's been at Hiscox I think three or four years, a young lady, who's going to head up that area. And for some of the other areas, we will recruit externally. I can tell you that Hiscox still remains a destination employer within the marketplace. And in terms of when we have sought to recruit where we haven't had internal bench strength, we've been able to do that.

And in terms of -- the best tonic for people to retain is actually being able to pay them good bonuses. And I'm delighted to say that for our London Market business, we will be paying people good bonuses given the profit they've made despite the fact that clearly overall group is in a loss making situation. So it's a combination of -- we have a strong market position, we have a $2 billion head start and the same market conditions which make it attractive to form a startup, apply equally to that $2 billion portfolio. And so, I feel pretty optimistic. If everyone's optimistic, our staff can go and make money. They should feel equally optimistic that with a $2 billion portfolio, we can make money as well. And I certainly am. So with that, I'll hand over to Ben to talk about the retail areas we're targeting and where we see growth coming from there.

A - Benjamin A Walter {BIO 18021194 <GO>}

Thanks, Bronek. Good morning. In terms of the retail portfolio, if you look at our small commercial portfolio around the world, the anchor historically and has been and continues to be a professional services firm around the world. That's true in Europe, it's true in the UK and it's certainly true in America.

There's a range of professions in there. If I tried to name them all, we'd be on call for a long time because there's a pretty wide array of what people do. There are -- in various territories, there are also a broader array of non-professional clients. However, those tend to be at the smallest end. So if you look at our appetite, as you go up and you get into the larger firms and by large, I still mean small and that's an important distinction to make, it tends to be tight around the professional lines; at the very small end, it tends to be broader. But across -- particularly across the digital areas of our retail portfolio, the median number of employees is probably one and the mode is probably zero because we have a number of single person individual contracting type firm.

In terms of their dependency on government support, clearly, those firms have benefited by from government support around the world through COVID, particularly in the middle of last year. Largely around the world that support the terrain and we've seen -- while we did see is certainly some business failures and some cancellations last year. Overall, we were still able to grow the business and we still see resilience in that sector. And we see as I put on the slide new firm formation continuing at pace. So they've certainly benefited from government support, but clearly that segment is not dependent on it because it has been dynamic and has been driving despite the economic challenges around the world.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Yes. Thank you. And just for --

A - Bronek Masojada {BIO 1776109 <GO>}

Go ahead.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Sorry, thank you. Just a following up on (inaudible) if I may, I'm starting with the last one. Given that you are focusing on smaller or micro businesses now, once that government support comes off, what are your expectations for the impact from top line? Thanks.

A - Aki Hussain {BIO 19739719 <GO>}

Sure. We're not really focused on the -- we're not really focused on the government support and when that comes off. As we actually told you, we have taken a prudent approach to loss kicks in 2021. Just given the general economic uncertainty, we think that's a wise and prudent place to be, so there's no reason given that uncertainty not to take a prudent kick. But in terms of growth and what we expect in that segment, we expect that as the economy recovers, those segments will do well. And that's one of the things we like about that segment is that we see resilience in the down market and we see opportunity in the -- when the economic cycle starts up. So we don't do broad economic forecast to try to translate that into growth, our market shares are small enough that we just go out and try to serve customers as best we can with good products in a way they want to buy, and we think over time we can grow that way. Thanks.

A - Bronek Masojada {BIO 1776109 <GO>}

Ben, would you just like to comment on what you've seen in January, February trading this year versus last year?

A - Benjamin A Walter {BIO 18021194 <GO>}

Yes, January -- January-February trading is off to a very good start around the world. That's been true in all of our territories, particularly in the digital space, particularly at the small end. So we've seen growth across Europe, the UK and the U.S. in that space at the high end of what we were hoping for. So obviously, that's not all of our portfolio, that's our small digital portfolio, but we are off to a good start in 2021, and we have high hopes for the rest of the year.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Thank you. And just coming back to the (Technical Difficulty). So when you talk about group profitability target, your expectations, sorry if I missed it, what are they -- what do you plus excess profitability that needs to be or will be used to reinvest into the business because that's not clear to me?

A - Bronek Masojada {BIO 1776109 <GO>}

I mean, the answer is that is we haven't given the sort of group. We don't hit this at the group level or above that, that's what we will do. I'm afraid that's the judgment we make on the way through in terms of where we are because we've been very clear that we want to certainly make more than enough money to be able to pay and cover dividend before we would want to go down that direction, but if we were doing good profits and I'm not going to give you a number I'm afraid, then we would do that. We've done that in the past. If I go back in time, we used to spend 1% or 2% -- when we're in double digit ROEs, we felt it wasn't unreasonable to take 1% or 2% of that and reinvest it in the retail business, and that's what we did from 2000 to 2015 to grow the retail business.

Going back to 2000, probably the aggregate retail business was a GBP 200 million business worldwide, so $250 million. Now it's over $2 billion business. And it's that yin and yang of the two parts of the business working together, which A, provides resilience as we've seen in the last four years and another years provides opportunity. And I'm afraid you do need to leave us with a degree of judgment as we go through, but I can only reiterate what Aki said. Step number one is to get to a profit level sufficient to make a covered dividend payment and then the second one beyond that is then to only then consider over-investing in retail. But as Ben just said, the digital parts of the business have got off to a good start in January and February, and no doubt when we do the Q1 IMS at the end of March or so in May, we'll provide more color on how that is progressing.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. Can we go into next question, please.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Sorry. Can I just --

A - Bronek Masojada {BIO 1776109 <GO>}

Sorry.

Q - Faizan Lakhani {BIO 20034558 <GO>}

-- quickly pick up on the --

Operator

(Multiple Speakers) Sorry, Faizan, we've got a -- there's a long queue of people behind you. You have finished your time. I am sorry but we have got to move on.

Q - Faizan Lakhani {BIO 20034558 <GO>}

Sorry. Thanks.

A - Bronek Masojada {BIO 1776109 <GO>}

Okay. Thank you. Next question, please.

Operator

Thank you. Next question is from Will Hardcastle from UBS. Will, your line is now open. Please go ahead.

Q - William Hardcastle {BIO 16346311 <GO>}

Good morning, all. Two questions. The first being the message on retaining more risk is clear. You've shown the appendix the level of session on Slide 46. It sounds like the trend should continue in '21. I'm just thinking big picture. What level can this really should we get to? I'm trying to weigh up that structural change in the business over the years with retail becoming a bigger share, could we realistically (inaudible) to that 20% level five or six years ago?

Second question, can you talk about the reserve cushion to possibly reduced over time. Are there specific factors we need to think about that we'll begin to see this receive and that moderated level that was noted. Any sort of, any color on that? And just linked with that, are we at risk of adding buffers on buffers when we consider the higher reserve buffer, plus to more prudency on the initial (inaudible) just your thoughts on that.

A - Bronek Masojada {BIO 1776109 <GO>}

Okay. I'll take comments on the last question on buffer on buffer, you're sounding like some of our underwriters having the debate with our actuaries on exactly that sort of line. So that's not an unfamiliar internal conversation at Hiscox, but I think, we all know that an insurance unexpected things are normally on the downside. So degree of prudency is always a sensible place to be. In terms of retaining more risk and the reserve cushion, Aki, would you like to comment on those two?

A - Aki Hussain {BIO 19739719 <GO>}

Sure. Thank you, Bronek. Hi, Will. Let me start with the -- I'll start with your reserve question first. Okay, we don't have and we've not disclosed any particular guidance on where we expect that reserve buffer to be. So general view I would give you is that our track record and history is that we tend to be prudent in our reserving loss picks and also in how we tend to then release the favorable experience as where -- as it emerges.

I had said that at 9.8%, this is at the upper end of that undisclosed range. And therefore as I think the -- primarily the economic uncertainty I think. Look 2021 is going to be -- is likely to be another year of uncertainties. We don't exactly know when the lockdown is going to end. We don't exactly know what shape the economy is going to be once the lockdowns and the government support is withdrawn.

So it's with that in mind that we are -- we've adopted both the proven loss picks and the higher reserve buffer. And the guys like you, hope that neither and needed and if they're not needed, then you will see some of the profits flowing through as we reduce our loss pick and indeed as we start to reduce that reserve buffer. But I think that's probably the right time to have that sort of discussion is probably this time next year, where hopefully we'll all be celebrating, obviously, economy has come back with a bang.

In terms of your question regarding session and so on, I think given the market conditions, with the rates improving particularly in our big-ticket businesses, as you know in our retail business we tend to retain most of the risk on our balance sheet in any event. But on big-ticket business, what you've seen over the last sort of seven or eight years in particular from sort of 2015, '16 onwards, is that we've seeded a lot more of our premium that we take in, our reinsurance platform and then lastly in our London Market platform, that was a function of number of things, market conditions changing, the use of third-party capital, which is -- which we used -- made extensive use of in both the big-ticket businesses, but especially our reinsurance platform, as that market is consolidated. I do expect to see some form of reversal. And I would not be surprised if we saw a reversal of that session. Broadly equivalent to what we've seen from 2020 to 2019, that would not be a surprise, is that 31.8% or 32% drop down to 30-ish. But then we don't have any expectation at the moment that this will drop down to '19 or '20, I think the market landscape has changed dramatically from where it was five or six years ago. I don't think we'll be returning to those sort of levels of retention on the balance sheet.

A - Bronek Masojada {BIO 1776109 <GO>}

Okay.

Q - William Hardcastle {BIO 16346311 <GO>}

Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Thank you, Aki. Can we go to the next question, please?

Operator

Our next question is from Iain Pearce from Credit Suisse. Iain, your line is now open. Please go ahead.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi. Thanks. Two for me, please. Firstly, on the retail growth. In the release, it was talking about expecting to be at the lower end of the 5% to 15% target growth range on a like-for-like basis, so excluding that $200 million impact. Given the rate increases and the continued strength of DPD, as well as the sort of reopening and the tailwind that, that should provide, I'm just wondering more on how you're expecting to be at the lower end of that? And then sort of had some comments earlier suggest that you may actually be running ahead of that now. Any comments on that or really useful. And then on capital and I'm tying that into the resumption of the dividend, if you could just provide some color on how you think about the capital ratio, particularly with respect to the strengthening of the solvency regime? And if you're around the current BSCR, you'd be comfortable resuming the dividend at half year?

A - Bronek Masojada {BIO 1776109 <GO>}

Aki, I think that both of those are probably for you. One on the retail growth rates and secondly on the capital position.

A - Aki Hussain {BIO 19739719 <GO>}

Thank you, Bronek. I think I'll take (inaudible) thanks. I'll take the capital question first and then I'll go into retail. In terms of capital, we're very happy with the capital position that we have at the end of the year with 190% coverage ratio. Over the next 12 months, of course, there'll be the next stage of the BMA strengthening, which will in isolation, we'll reduce that coverage ratio by somewhere around 10 to 15 points. We do expect to offset that through internal capital generation through the profits we generated within the business. And frankly, if we're able to do that and we're pretty confident we will, then I would expect the Board to be confident in resuming the dividend.

The capital ratio decline is frankly a -- is a function of the BSCR strengthening, and we can't tend to look at capital from two perspectives. One is the regulatory component and the other one is the S&P. The S&P basis is not changing. So where for example a year ago, the equivalent of an A rating might have been 170% solvency ratio on a BSCR basis, that is now in the 160%. As that business strengthens, the S&P rating equivalent will drop down to 150%. So it's important to bear in mind that quality of capital context as well.

If I turn to then the retail growth, you're right. What we're specifically guiding to is on an as is basis, and what I mean is reduce the -- if you reduce the top-line of retail by $200 million for 2020, and then project forward, our expectation for 2021 is that we'll be at the low end of the 5% to 15% range. That is a prudent guidance, no doubt. And I'll go back to I guess the comments that I've made a number of times now, 2021 is really uncertain. We don't know how the economies are going to perform. We don't know when the lockdowns are going to end. We're confident within the business franchise that we have and you've seen that from our 2020 result actually, and I'm sure you guys are plotting this on a quarterly basis, if you plot the quarterly revenue growth of retail and map it on to lockdown, you can see the significant acceleration we see every time the economy is opened and despite muted growth that you see when the lockdowns occur. So if the economy is fully open in 2021, then I'd expect it may be that once we get to the half year, we will revise that guidance. But as we look out today, it's uncertain. We're confident we'll be in the range, but at the low end of that range.

A - Bronek Masojada {BIO 1776109 <GO>}

Yes. Perfect. Thank you. And I think, just going back to the broader comments you've made about, this is the roaring 20s, which is something more conservative. We can only -- we don't have a specific crystal ball anymore than others. So with that, can we go on to the next question, please?

Operator

Our next question is from Emanuele Musio from Morgan Stanley. Emanuele, your line is now open. Please go ahead.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. Hi, Emanuele.

Q - Emanuele Musio {BIO 19781440 <GO>}

Hi. Thanks for taking the question. I have a couple of questions on Capital. So your BSCR ratio stood at 190% at year-end versus 130% at mid-year. So my question is, was this in anyway impacted by increases in funded Lloyd's requirement? And secondly, do you expect any further increase in Lloyd's part going forward given your business mix and then these exclaimed trends, especially in casualty. And also, should your Lloyd's requirement increase further and in view of the strengthening of the BSCR, I mean, I understand that you aim to offset the BSCR strengthening organically, but what are the levers that you can -- that you will pull to support your group Solvency through 2021 to now to be another eventful year?

A - Bronek Masojada {BIO 1776109 <GO>}

Great. Thank you, Emanuele. Last thing those are both for you, Aki. I'd just like to tell everyone, that we had planned to stop at 10:30, we clearly are with a number of questions, we're pushing that back to 10:40. But I'm afraid that will have to be a hard stop at that time. So Aki, do you want to just comment on those two capital questions.

A - Aki Hussain {BIO 19739719 <GO>}

Sure. Thank you, Bronek. Hi, Emanuele. We have seen an increase in our Funds at Lloyd's requirement during the course of 2020, and I do expect to see a further increase in 2021. Both of those factors are, as you can imagine, there's a mix, one is frankly, because some of the losses that were sustained as a result of COVID-19. But actually on the front footed aspect of this, the key driver for the fund increase has been the fact that we're retaining more risk on our balance sheet. So you've seen the evidence of that in 2020 with London Market where the net written premium has been 2x, the growth rate has been 2x the rate of the gross written premium. And frankly, we have given the same flexibility to the local management teams in our reinsurance platform and in London Market, that should the conditions be favorable, then we would expect the net written premium to grow in '21 at a faster rate than growth, that naturally comes with a Funds at Lloyd's requirement, but we have both the capital and indeed the liquid resources to provide that flexibility.

Your second question in terms of, what are the levers that we have to pull. I guess, if I take you back to Slide 11, you can see from an overall capital perspective that how strongly we are capitalized at 190% at the end of the year. We've there modeled a couple of illustrative stresses, which combined our $400 million net reduction to that capital base. And with -- after that in a post stress scenario, we're still equivalent to an A rated company from an S&P perspective and we will still have liquid resources available to deploy at that stage.

Now notwithstanding that, of course, we do have levers. We have levers, and working with Jo, we would -- in that sort of scenario, we would be looking at what we can do in terms of additional reinsurance that we could purchase, which would be -- which would provide a degree of capital efficiency to the business model. And there would be a range of other initiatives that we would also be considering at that time. But we're comfortable. We can -- we've got the capital to hit the plan. We've got to have the capital to achieve more than the plan as long as the conditions are right.

Q - Emanuele Musio {BIO 19781440 <GO>}

Great. Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Thank you, Aki. Can we go on to the next question, please? Thank you, Emanuele.

Operator

Our next question is from Ivan Bokhmat from Barclays. Ivan, your line is now open. Please go ahead.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi. Good morning. I'll make it quick. My first question would be about the London Market. You've mentioned before that the combined ratio of 90% for new business is seen as sensible. I just wonder if the current market environment and the 1/1 renewals will support that statement? Secondly, on the reinsurance, could you talk about what happens to the volumes at renewals? We know that last year it was over 20% decline. Can you try to quantify what happens now?

And the third one, it's just on the most recent winter event in the U.S. Obviously, looking back to 2017, the losses from Hurricane Harvey for you were $150 million, but since then, the (inaudible) business had reduced substantially. I'm just wondering how should we think about your potential exposure? And if it is indeed a market loss of compatible magnitude, what could be Hiscox's share? Thank you.

A - Bronek Masojada {BIO 1776109 <GO>}

Okay. So there're three questions in there. Number one, about the London Market combined ratios. Number two, is on reinsurance volumes at renewal. And number three, in terms of our current view on the Texas winter event.

I think, in terms of the London Market itself, I mean, you've seen we achieved a 94% combined ratio. And clearly, we would hope to increase it -- increase the prices earning through that that would continue to improve given realistic or normal loss in the environment. I think beyond that in terms of guidance, we would be reluctant to go much further than that. Aki, would you like to comment on reinsurance renewal piece? And then Jo, in terms of the winter event in Texas?

A - Aki Hussain {BIO 19739719 <GO>}

Thank you, Bronek. Hi, Ivan. What I can't tell you is the amount of business that we wrote, you'll get that with our Q1 trading update. But what I can tell you is that we achieved revenues in line with our business plan and it won't be a 20% reduction. We wrote some good business at 1:1. We were satisfied with the rate that we achieved. And we're very happy with the portfolio that we're constructing.

A - Bronek Masojada {BIO 1776109 <GO>}

Great. Jo, would you like to comment on the winter event?

A - Joanne Musselle {BIO 19106109 <GO>}

Sure, absolutely. So as you said, industry losses remain really uncertain. So it is not possible for us to give a loss estimate. At this time. We will see some exposure. We'll see some exposure in our London Market binder portfolios, the household and commercial. We don't think we're going to get any exposure in our flood product as the flood product doesn't cover those pipes. And we think that obviously we'll see some exposure in our reinsurance portfolio and a very small amount of exposure in our U.S. retail portfolio. I mean we've done a preliminary exposure assessment and that really doesn't suggest that we're overweight in the region and we therefore should not experience a loss outside of that experience by the industry. To the materiality of the loss to us, it's likely due to be determined by the size of the industry loss. However, as you said, we have shrunk it in that area in certain segments, so we're not expecting the loss to be in the magnitude of the one that you referenced.

A - Bronek Masojada {BIO 1776109 <GO>}

Thank you, Jo. And thank you, Ivan. Can we go on to the next question please?

Operator

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

Q - Ben Cohen {BIO 1541726 <GO>}

Thanks very much. Most of my questions have been answered. Just as a follow-on on the capital. I just wonder if you could say a bit more about how much benefit do you think the legacy reinsurance deals could give? And secondly, I suppose related how much -- how are you thinking sort of about the dividend? I know you said that you wanted it covered. How are you thinking about sort of payout ratios given the volatility of your profits over the recent years? Thanks.

A - Bronek Masojada {BIO 1776109 <GO>}

I think both of those to you, Aki?

A - Aki Hussain {BIO 19739719 <GO>}

Thank you, Bronek. I guess in terms -- hi, Ben. In terms of capital benefit of legacy transactions, I think that there will be a benefit when they're executed and expect the benefit to be attractive. But I'll let you know -- we'll let you know more at the time when they're executed. So watch this space.

In terms of dividend, as you know and as you cited, our business model and the nature of business we run is volatile. So we're not a sort of dividend payout ratio type company. The Board and our strategy has been that we have a sustainable dividend that we grow on a progressive basis and I would expect once we want to restart the dividend. That is the approach that we'll continue to take. I would expect the Board and we will have those deliberations in the middle of the year. They would take into account at least a couple of factors. Firstly, the significant growth opportunities that we are seeing ahead of us. There is no doubt something that we do need to bear in mind. So, where is the best place to deploy that capital? Is it returning to shareholders or is it to further grow our business, whilst we do recognize absolutely the importance of the dividend.

The second thing I think the Board will bear in mind is that we do have 20% increase in shares. And I think and I hope you'd agree that, it's unlikely that the Board would want the total cost of the dividend to increase in line with the number of shares. So I mean my own view is that, I suspect it probably won't increase beyond what we had in 2018, which is the last time we paid the full final and interim dividend.

Q - Ben Cohen {BIO 1541726 <GO>}

Thank you very much. Great.

A - Bronek Masojada {BIO 1776109 <GO>}

Thank you, Aki. Thank you, Ben. I think we have time for one more question and then we'll have to call it a day. Let's have the last question then.

Operator

Our final question here comes from Ashik Musaddi from JP Morgan. Ashik, please go ahead.

Q - Ashik Musaddi {BIO 15847584 <GO>}

Yes, thank you. And sorry, most of my questions have been answered. So just one question is I mean you mentioned about the risk of brand damage that you have noted so and given you're guiding for say the low single digit at the moment after the $200 million of adjustment for the retail book in terms of premium, how much of this lower volume is due to brand you would say and how much is just like macro factors? Any clarity of that would be great. And do you think that that brand related thing will come back in 2022 or would you say that it can continue for a bit longer than just one year? Thanks.

A - Bronek Masojada {BIO 1776109 <GO>}

I mean, I think that's a really interesting question. I would -- it's really hard to quantify the impact of the brand. As I said in my -- when we were talking before, I think, it's clearly had the biggest impact in the UK, but what I'm really pleased about is the fact that the UK was able to grow its top-line by 1% in the year and ended the year with as many customers as it had started off in the year. So I do think that it has had an impact, and I think we'll be able to navigate our way going forward in the UK.

In other territories, I think it's had much less impact. You can see the 8% growth that we achieved in Europe last year. And clearly, we would hope that would continue. And then in the United States again, we saw very good growth in our direct and partnerships business that was up I think 22% last year. So that again gives you a degree of strength. I think, the reason we're being cautious is because we're just cautious about what the world's going to look like over the next three to nine months as lockdown lifting is going at an uncertain pace in different parts of the world, and clearly as Aki said earlier on, when the lockdown eases we see a burst of activity, and when it gets reimposed you then see it being more subdued. And given that none of us know, we all hope quite frankly. I think the world is looking forward to going to buy somewhere and talking to our underwriters about the over conservatism of the actuaries. But I do think that, that those are all the things that we'll hope to be able to go back to work and not being lockdowns, and that will -- I think have a positive impact on the business. But it is a high degree of economic and business uncertainty. And we just don't want to -- we want to communicate that caution to all of you as analysts and to our investors.

So with that, I'd like to thank you all for participating in the Q&A. No doubt, you can -- if you have further questions, Yana will be available to quarter back those in an effective way. And thank you all for your time and thank you for your attendance. Goodbye, and see you all soon I hope.