# Y 2020 Earnings Call

## Company Participants

- Adrian Cox, Chief Underwriting Officer
- Andrew Horton, Chief Executive Officer
- Sally Lake, Group Finance Director

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## Other Participants

- Andreas van Embden, Analyst
- Andrew Ritchie, Analyst
- Benjamin Cohen, Analyst
- Darius Satkauskas, Analyst
- Emanuele Musio, Analyst
- Iain Pearce, Analyst
- Ivan Bokhmat, Analyst
- Kamran Hossain, Analyst

## Presentation

### Operator

Good morning, all, and welcome to the Beazley results for the Year Ended 31st of December 2020. My name is Adam, and I'll be the operator for this call. (Operator Instructions)

I will now hand you over to Andrew Horton to begin. So Andrew, please go ahead.

### Andrew Horton {BIO 5697110 <GO>}

Thank you very much, and welcome, everybody, through our results presentation. If we just move briefly, quickly through the disclaimer. We hit the contents of what we're going to present this morning. So I'm going to give you an overview. Then I'm going to talk about the very important topic of ESG. I'll start on the first-party COVID-19 claims and over to Adrian on the third-party COVID-19 claims and over to Sally on the financials, going through the usual elements of financials, hand back to Adrian on the underwriting, and I will come back for the outlook, and then we'll open to Q&A.

So if I move on to what's actually happened during the year, of course I don't need to point out to everybody, it's a pretty tough year. When we started 2020, we thought it was going to be a very exciting year with good growth prospects. Rates were going up. There was definitely momentum in the insurance world. Yields were down a bit on our investment portfolio, but we thought it would be a pretty good return. Of course a lot of that changed in February and March last year. We started seeing COVID-19 claims coming in, and we'll talk about those. Went into a recession. So we have to start implementing our recession plan, but we still saw good growth. And in fact the COVID-19 claims, and I think the recession gave more momentum to growth than we had originally thought and a better rating environment than we thought at the beginning of the year.

We also did capital raise in May. That was to take advantage of the growth, the increasing growth prospects of 2020 and 2021. And we saw reserve releases, prior reserve leases, we expect them to come back to a more normal level start increasing from the very low level of 2019. So if we look at the numbers on this slide, we reported loss before tax of $50.4 million. That was driven by the combined ratio of 109%, which we flagged when we did our quarterly IMS in November. So good top line growth of 19%, and rates on renewal portfolio of 15%.

Now the underlying exposure growth is greater than the difference between the 19% and 15%, because some lines of business are employment practice liability, some of our professionals lines we took recessionary action on and held growth in those lines back. And also we've withdrawn from a couple of smaller lines of business in 2019. The underlying growth was greater than the 4-point difference between the gross premium increase and the rate increase.

The mentioned prior year reserve releases coming back from a very low level in 2019, Sally will take us through that in a minute. Investment income, good investment income at 3%, which is a relatively cautious approach. Again, Sally will go through that. Capital -- after the capital raise, this ended up in our preferred range of 15% to 25%. We were very similar to 2019 at 23%. And we are not paying a dividend, second interim dividend for 2020, due to the losses. But we have this commitment to getting back to paying dividends at the half year assuming some level of normal profitability. And finally, we've got no change to our COVID-19 estimates, which we'll look at in a second.

So if you look at some of the things that actually happened on the business front, it's great to see growth across all platforms. So not only the US, which has been growing very well over a number of years, but here in London, good growth across our Lloyd's platform and good growth internationally. We've been investing in our international platform over a number of years and we've seen good growth in Europe. So our businesses in Spain, Germany and France as well as regional business in UK, Canada, Miami, for our Latin American business and continued investment in Singapore into Asia. We've had great feedback from brokers on our claims paying. And of course, we had a lot of claims to pay in 2020, good feedback on that, which should stand us in good stead of growing our business further in 2021.

Innovation is at the heart of everything we do and we continue to innovate in this virtual world. We were concerned initially it would be harder to innovate in a virtual world, but we've managed to launch some new products and add new products and recruit new teams during the year and we flagged three on this slide. The transmission failure, so for virtual events. There weren't that many live events taking place, but they can still have problems. Product recall, it's a line of business we recruited a new team in 2020. And virtual care, the combination of medical malpractice and cyber issues, if you're giving health advice online.

Of course, that took off during 2020. So we grew that line of business in countries we had launched it and launched in other countries. We've now also got an incubation underwriting team, where we can actually test new products safely, which is good under the purview of Adrian. And Adrian is going to talk further about ransomware, but we did see the severity of ransomware claims increase in 2020. And I think we responded as quickly as we could to that increase. And Adrian will take us through that in a second.

So, if we look at the charts, the only chart I'm going to look at the top left, I covered all of the others, you can see how the rate of growth has increased as the rating environment improved. So we did start to see some rate increases in 2018 and some of our lines further in 2019, and a lot more in 2020, not surprisingly taking advantage of the rates increasing. And there is going to be still that rate momentum in 2021. So we're expecting a similar-ish rate of growth in 2021 over 2020.

We are great believers in growing net asset value per share as a driver of the share price. And of course, we haven't grown the net asset value per share in 2020, because we've reported a loss, not surprising the share prices responded to that as well as the uncertainties in an uncertain world. We have a long-term incentive plan, which 120 of us are rewarded with, continues to focus on three-year and five-year growth in NAV per share. We think it's the most important driver in terms of driving the share price. So we continue to focus on that.

If I have a look at the things we've been doing on the very important topic of ESG. We published our responsible business report for the second year running, which has more detail. So you can actually look in that -- look at that later. We hired a Sustainability Officer, Chris Illman, in June 2020. And he is giving us a focal point everything to do with all topics around ESG. I mean ESG is a much broader topic than just purely looking at climate change. But he is helping us think through the opportunities and threats that were available in all aspects of ESG.

Gender targets. Gender is really important to us. So we have managed to achieve our target of 35% female in our senior leadership. We've now reset the target at 45% going forwards. And we're now setting targets for race and ethnicity. We've been very, very good at implementing that in a very rigorous manner. We developed a mental health network, which was not well developed, that's really important in this environment. We've been focusing on our charity partners, who have really struggled in this environment. And we've donated over $100,000 to renewable world, which is our main charity partner, but we've also supported number of charities. And our people have donated a number -- have donated quite a lot of time during 2020 to a number of community initiatives. This topic is becoming more and more important to our stakeholders, and that will be listening more to them. And our aim is in the first quarter to publish our sustainability strategy. So we'll be publishing that in March, along with some diversity targets.

I move on to COVID-19. As I mentioned at the beginning, we haven't changed our numbers for COVID-19. So I think it was in September last year, we announced, we have $340 million of claims for our first party business. The majority of these claims are related to our event cancellation, our contingency business, but it will also include property, mainly business interruption in the US, and reinsurance and a small amount of marine. So we're still comfortable with that $340 million. We also said there will be $50 million of further claims, if the world doesn't improve in the second half of this year, because events will be further cancelled and we're working with our insurers on that and they are comfortable and hope that events may take place in the second half, but we still have that potential downside hasn't changed. The good news is claims have been -- being settled in line with our estimated provisions. And that's why we feel comfortable with these estimates. And we have been looking at action to re-underwrite COVID exposed lines, which Adrian will talk about in a second.

The final comment from me, as we did successfully shift to operating remotely, which was great. So we didn't miss a beat when we switched into operating remotely, and almost everybody is working from home at this point in time. And we continue to focus on the well-being of all of our people. That has been a high priority throughout all of this. And it's probably more challenging in these colder, darker months of January and February, but we continue to focus on that.

I'll now hand over to Adrian, who will take us through the COVID-19 third-party claims.

## Adrian Cox {BIO 16257010 <GO>}

Andrew, good morning. I'm Andrew Cox, the Chief Underwriting Officer for Beazley. So as some of you may remember this time last year, we did quite a lot of work thinking through that sorts of liability claims and exposures we could expect from COVID and the associated downstream impacts like recession and addressing those in our underwriting through risk selection, price coverage, terms and conditions, and so and so forth. And we've relaunched those new underwriting guidelines for the April 1st renewals.

Our central expectation back then was COVID liability claims will begin to manifest as we emerge from the pandemic and look back and started to judge who did well and who did less well. Originally, we thought that would be the end of last year. This whole thing has taken longer than I think anyone had hoped. And so we're now expecting those claims to manifest sometime in 2021 in this year.

You can see from the chart on the top right here, that although there have been some COVID and related claims, they are, as yet, quite limited. There were in fact more in the first half of the year than the second and that reflects insureds looking for first-party, particularly business interruption coverage wherever they could get it. The pink lines there show not only COVID claims, but also recession claims and racial discrimination because we're tracking all those sort of mini cats.

Having said that, although there haven't been many from the research that we've been doing about what sort of claims are around and our own experience, we do have a picture emerging of what we can start to expect. And I've given three examples there. On D&O, there about a couple of dozen SCAs, securities class actions so far around and COVID alleging broadly speaking misrepresentations. If you're a vaccine company misrepresented how far advanced your research was. If you're a cruise company, you may have misrepresented how clean your ships were and so on and so forth. I may have misrepresented what you're going to do with the payment protection plan loans, if you took them from the US government, that sort of thing.

On the health care side, we have seen some claims around failure to prevent or transmit the virus and from a rationing of health care and environmental around cleaning up pollution. So the good news is, I think if there is good news about the stuff that those are the sorts of claims that are -- that we had contemplated when we put together our underwriting guidelines this time last year. So we haven't had to pivot to counter anything unexpected, either by line of business or by types of allegation.

As I said, we do expect this to start together pace this year as the economies reopen. And we will absolutely adjust as we learn. And again I think the good news is, is that as we speak 10/12 of our book has been written new or renewed with these revised underwriting guidelines. So in a funny sort of way a longer pandemic has helped us make the liability business more COVID resilient, remembering of course, that the vast bulk of what we do is on a claims made basis, so that gives us that ability to pivot accordingly.

And with that, I'll pass over to Sally to take us through the financials.

## Sally Lake {BIO 20925273 <GO>}

Thanks very much, Adrian. Good morning, everyone. My name is Sally Lake, and I'm the Beazley Finance Director. I want to take you through three areas before passing back to Adrian to tell you more about the business. I'm going to cover investments, reserves and finally capital. But just before we go into that, let's firstly revisit the financials briefly. Andrew has covered most of the main numbers already, but I just wanted to touch on the expense ratio improvement. And there's a few reasons why we're seeing this, some are one-offs and some are more sustainable. And the main three I bring to your attention is that during a period of significant growth, which we definitely in from what you've seen. We do actively aim to improve our expense ratio, because now is the time to do that.

Secondly, clearly the financial result wasn't where we expected it to be at the beginning of the year. So the remuneration that we allowed for the beginning of the year has obviously reduced in that time, which reduces the expense ratio as well. And finally and not as big in numbers, but we do spend money on traveling and entertaining people. And while it isn't a large amount of money and we aim to manage it actively in all years clearly that reduced dramatically during 2020. So like I said, there is a mix of some things that are one-offs and sustainable we continue to actively manage our expenses.

Moving on to investments. And I think that we're very pleased with the overall return that we achieved during 2020. The conditions were extremely volatile for much of the period. And the investment team did really well in taking swift action to manage our risks in these unusual circumstances. Going back to Q4, and we continue to see positive returns, especially in capital growth assets and we ended the year at 3% overall.

If I now go on to the portfolio. Firstly, I'd point out the balances that we have now, we've gone through $6 billion in terms of how much money we have to invest, clearly because we've been growing significantly of late. So that's an interesting thing to think about, because even though we're expecting lower returns in terms of percentages, the amount of which we're going to achieve via that percentage has increased significantly over recent years with the growth in the business.

The split between our core fixed income portfolio and our capital growth assets has little changed over the year. We tend to stick to an 85%-15% split. Clearly during the year, that changed at certain points as I mentioned, but year-on-year were broadly similar. The thing that's worth noting is we have made a switch to more sovereign debt within our fixed income portfolio, as the very low credit spreads currently available in investment grade offer very little return for the additional risk. And that's our thinking at the moment. Obviously, we manage that on an ongoing basis.

Other asset classes, the exposures changed little year-on-year, but they varied again significantly throughout the year depending on the conditions. Worthy of note that our hedge fund portfolio performed very well during 2020 with the return of nearly 9%. We remain cautious while looking at how risk and we activate results on an ongoing basis. Most recently, we added risk as market conditions have been improving, but we focus on entering positions that we can easily reverse out of external volatility just come back in. Unsurprisingly, the overall yield on our core portfolio has reduced and at the end of 2020, was at just 0.6%. But as I said earlier, we have that being applied to a much larger balance and in the last few years.

Now onto claims releases. So what we're really seeing on this graph is the benefit of the re-underwriting that has been going on for a couple of years now within some of our shorter tail lines. Marine, property and treaty, who also reserve strengthening during 2019 have moved into reserve releases this year and that's really pleasing to see. It's also very pleasing to note that, that continuing to receive changes in rates as well. So hopefully that momentum will continue. Given the recent challenges in the CyEx book, which Adrian will discuss more later, we saw a small overall strengthening in this class. And finally, our largest division, specialty lines saw good a experience on mature years of business and produced an increase in terms of releases compared to the previous year.

So that's looking back. So we'll move on to our favorite graph. So what does the future hold? And what this graph aims to do is give an idea about what's in the tank for future reserve releases. And to remind everyone what this graph is doing, it's comparing the reserves in our balance sheet to bottom of actuarial estimates, which in itself has a level of prudence already embedded and it's not a best estimate measure. Now what we do is, we aim to hold within 5% to 10% range of this graph. And this year we ended with 6.3%. Now this varies year-on-year depending on the claims experience for that year. And in particular this can be affected by -- in years where you have significant specific losses. And clearly in 2020, we have that situation.

There is actually three things I'd like to point out, that are affecting this graph and making it lower than it would be otherwise. So firstly, and we've already mentioned around the COVID losses of $340 million, they held a similar amount between the actuarial estimate and the -- on the balance sheet. So there is less margin that would be on that reserve compared to our general reserve. Secondly, we've had some natural catastrophes in the second half of the year, lower than in previous years like 2017, but still adding to this effect somewhat.

And finally, we spoke at the half year about the re-insurers, sorry, the reinsurance that we have on our specialty lines and CyEx books. And this aggregate excess of loss reinsurance is actually currently recovering under a number of years within those books. And as we look at the surplus after all re-insurances apply after that's been applied, you'll have a similar levels across those measures even if they're different before that reinsurance is applied. Were it not for these effects, we estimate that this growth would have landed around the middle of this range.

And moving on to finally to capital, before I hand over to Adrian. So before we speak about the numbers and where we ended the year, I wanted to give some context for how we think about capital at Beazley, as we do it in a way that is different than other approaches that you may be more familiar with. We focus primarily on the Lloyd's requirement, which, whilst based around Solvency II, differs significantly from more commonly used Solvency II solvency approaches. So firstly, whilst most capital calculations are based on a 12-month time horizon, a one-year basis. The Lloyd's requirement is actually based on a -- on what capital you'd need to an ultimate position, which clearly makes this number higher than one-year. This varies year-on-year for us, but generally speaking we think this adds around 20% to 30% to our number.

Secondly, Lloyds apply an uplift to that ultimate number and before they come up work with their requirement. That number is currently 35%, and that is already allowed for in the numbers that we quote. We then target to hold 15% to 25% above that number. And so if you compound those various effects, moving from a one-year normal Solvency II basis, ending up in a place of 15% to 25% will be comparable to a solvency ratio in the high 100s or low 200s. So within that context where did we end the year. So as Andrew has already said, we ended the year within our target range of 23%. And to remind everyone, this is after allowing for all the business that we plan to write during 2021. So we've got our business plan. We're executing on it. And all of the capital required for that has already been baked into these numbers.

Additionally, it's worth mentioning that, our US admitted carry has a great success over the last few years, and has been growing significantly. This has led to the capital requirement, which is based on a formulate -- risk based -- local risk-based capital approach, rising significantly in recent years. And we expect it to continue growing as we've already said in terms of the future. So what we have done at the end of 2020, as we've set up a captive arrangement in order to manage these capital requirements as they increase. And so if you recognize the number that we're showing for the US, it's slightly lower than we expected to be at the half year because we've introduced this.

Finally, Adrian's about speak to you on various things, but he'll also speak -- within that, he'll talk about some contingent reinsurance that we've bought, which doesn't impact the numbers here, but it's worth noting that, that gives us an additional lever during this exciting period of growth should we need it.

And with that said, I'll pass over to Adrian to talk about the business.



## Adrian Cox {BIO 16257010 <GO>}

Sally? Okay. So as we enter 2020, as Andrew mentioned at the beginning, we will sort of moderately optimistic that the market was moving in the right way having really opened up and confessed in 2019 about the profitability issues across a number of different areas. And that market sentiment move materially in Q2. I think to address much more urgently those existing underperformance issues, and notably social inflation, and the new issues around COVID-19 recession, racial discrimination, which emerged soon after and Cyber, which I'll talk about in a little while.

And that can will be seen on the graph on the right hand side of the page. We started the year at about 6% finished at 15%. You can see the pause there in March-April as we went into lockdown. And then the real change of pace in May and June. And that for us led to quite a change in the risk reward across a number of parts of our business, including property, marine, treaty D&O for example. And so in response to that our growth rate really started to accelerate in the second half of the year, and particularly the last quarter. And that momentum has really continued into 2021. More so, I'd say on the insurance side and the reinsurance side. But all our teams actually are more positive about the market environment than they have been for a very long time.



The impacts of new capital is relatively limited as yet. It did take, I think a little heat out of the reinsurance renewals at 1/1, which has been much commented on, and was actually fairly helpful for us as a buyer. But on the insurance side, I think the brokers have mostly been using new capital to fill gaps not many new carriers are actively quoting and none are being particularly aggressive or disruptive.

So for us I think this represents a year to capitalize on a rare moment in time to grow the business at pace and really to form a foundation of our client base for the next few years across all our platforms, the US, internationally and in London and that's very exciting. It's always better, I think to grow in a relative vacuum when your clients and your brokers are asking you to take more of a permanent position and to leave more and to step up to much better time to grow that when you're having to force your way into things. We are still able to apply our diligent stringent underwriting areas, underwriting, particularly in areas of elevated risk, which I will talk about in a little bit. And historically, of course, these sorts of situations don't last that loan, whilst the new capital isn't particularly frustrating is now you can sort of hear the whos in resistance, so we need to take advantage of these conditions while they are with us.

You can see from the chart on the bottom right of the page, we have split our business into four categories sort of business as usual, which we're happy to grow, areas where we're actively growing our market share, because we think this is an opportunity to do so closing continuous monitoring and restraining. The bulk of our business is in those first two categories. We have about 10% in the red bucket there. And that's areas where we have some elevated risk where

We don't think we're being adequately rewarded for it yet. And again, as Andrew has mentioned, that's in part of our management liability book, particularly employment practices across some of our PI lines and some of the med mal.

And then the blue bit there is the -- is our cyber business, which you cannot talk about a little bit, which we are very closely monitoring. So to help ensure that we can maximize this opportunity, we bought as Sally mentioned, a contingent quota share. And by that we mean -- we've agreed with a small cohort of our close partner reinsurers that we can, actually, when we want to seed up to $200 million of premium on a quota share basis of our liability business pre-agreed terms, which gives us great flexibility as we're going into this year.

I've mentioned elevated risk, a couple of times. I thought I'd talk about that,. I'll just move on here. While our underwriting contemplates that we're in this period of elevated risk and the reason we're still able to grow I think is that we can underwrite and price for that elevated exposure. You can see on the -- from the chart on the top right, that new liability claims were actually down last year. And I think that's understandable. A huge amounts of reduced activity across the world. I sense this was a crisis that we all need to pull together on so not a great time to litigate, and the courts are closed. But in our view, this is all temporary. The drivers of social inflation and claims inflation we talked about last year haven't gone away. So we do expect this to bounce back.

And I think a good example of that is, if you go to the bottom right chart, which shows you US D&O securities class actions, and the top red line there shows that indeed in 2020, there were fewer than they were in 2019. But a reasonable chunk of those SCAs for the past few years have been around M&A activity. And of course, M&A went into stasis in the middle quarters of last year. So if you correct for that, actually it's relatively flat. So none of this has gone away.

And in addition, there is still a lot of uncertainty about how much of a blame game that will be around COVID-19 and how much of the recession we will have to tackle. So our central expectation is that the claims environment will go back to where it was this time last year. But as I mentioned at the bottom of the slide, we are in this market able to take the underwriting action and we need to through coverage terms and conditions pricing and exposure management and not least to do the due diligence that we needed to do.

The last area, I thought, I would mention is cyber. And our view of the last 12 months and how we are addressing the issues that has thrown up. Frequency despite sharply in 2019 and stayed high last year. The threats changed but the overall level remained the same. So we did, as a lot of people have commented see more attacks that use vulnerabilities of remote access, but the overall numbers of claims stayed relatively flat. What happened was an increase in severity, driven by the fact that our clients were paying more ransomwares than they had before. And that was driven by the increasing sophistication of those ransomware attacks. And the increasing prevalence of data exfiltration. So not only were the bad actors taking down systems, they were also stealing data and threatening to sell or release it to the public. And it was that twin attack that really persuaded a lot more people to pay the ransoms and to pay them at increasing prices.

We've done a lot of work in 2019, and into 2020 to start to build the capability of assessing live that threat environment and scanning our clients for those vulnerabilities. And we knew we had to do this as malicious attacks started to become more meaningful a few years ago, but it's a capability that takes some time to build. And we rolled this out last summer and adjusted our underwriting accordingly. And one of the first insights we gained was how many of our clients at these high-frequency vulnerabilities, which were fairly old and for which the cures are either patches were well known? And the conclusion we drew from that was that network security in the corporate world was actually a, quite variable, and b, not very good. And therefore the approximate cause of increased ransomware claims isn't necessarily the increasing number of bad actors. It's simply a lack of decent protection. And the analogy that we started to draw was that if you leave your windows and doors open, you shouldn't be surprised, if you get burgled.

And so the real solution here is setting standards, enforcing standards and good risk management. And this I think is a familiar role for insurers. It's something we've done for a long time. We started selling fire standards in the UK after the Great Fire of London in 1666, when we started building firewalls between houses. When you ensure your factory against fire rescue expect your property insurer to send around an engineer to inspect your building and to make recommendations, the same with employers liability and health and safety.

So our strategy here is to begin to perform the same role we do elsewhere, which is to set and enforce network security standards to bring the number of attacks down, as those -- that's the proximate cause. And I think there's going to be a sea change in how cyber insurance is underwritten and risk managed by insurers. And particularly in the mid-market where most clients don't know and wouldn't be expected to know what those standards are particularly as a threat continues to evolve. In addition, of course, we are re-underwriting our risk selection has changed a fair amount in the last seven months as a result of our additional due diligence and the scanning that we're doing.

Plus of course, we're managing limits and deductibles carefully and repricing to take advantage of the increased frequency and severity. And the market of course is moving very fast. It's the most dislocated one we have at the moment. The highest rate changes across the book are expected in cyber this year. So we are able to do what we need to do. And that's useful for us as we adjust our pricing, but it's not the long-term answer. Consistent and prudent risk management and engineering solution is the real answer to that. And that's what we'll be rolling out this year. So, whilst we do that, of course, we will be closely monitoring and tracking activity and making sure that the activity we see going forward correlates to our re-underwriting and we will continue to adjust as we learn.

And with that, I'll pass it back to Andrew for the outlook.

## Andrew Horton {BIO 5697110 <GO>}

Thanks, Adrian. So let's get the crystal ball out and look at what's going to happen in 2021. Of course, the crystal ball last year was generally pretty accurate other than one major thing that it missed. So let's look at 2021. We feel we have an exciting outlook, as we talked about the engine is growing. So we've been growing the premiums as the rating environment has improved. Sally mentioned the investment balances that much greater. So we have good growth prospects going into 2021, with continuing rate momentum over many of our lines of business. As Adrian pointed out, there are certain lines we're still taking invasive action, and we continue to monitor cyber very closely. Good capital position to finance further growth, as we go into 2021 and 2022. It's always difficult to estimate what's going to happen a year hence until we hit the summer of this year. And finally, there's commitment to get back to paying dividends. So we're very committed to returning to dividend payments at the interim.

On the back of that, we are now ready for some questions, so we can go to Q&A.

# Questions And Answers

## Operator

Thank you. (Operator Instructions) Our first question today 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. Good morning, Andrew, Sally, Adrian. So the first question is on capital. I guess looking at the numbers, whilst it wasn't as bad as most people had assumed, you still made a second half loss. Can you maybe walk through how you got from, I think it was a 22% ECR surplus at the first half to the 23% now? What quantum of benefit is there from the captive and the reinsurance? And then also, how permanent are both these measures? I assume the captive is probably relatively permanent, the reinsurance perhaps rolls off in a couple of years.

The second question is on the combined ratio. You're talking about low 90s for 2021. Firstly, does that include COVID at $50 million that you've talked about? And when will you really start to see the mid-teens rate improvements impacting this ratio? Is that 2022 or beyond? Thank you.

## A - Andrew Horton {BIO 5697110 <GO>}

Do you want to start on the capital one?

## A - Sally Lake {BIO 20925273 <GO>}

Hi, Kamran. I hope --

## Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, Sally.

## A - Sally Lake {BIO 20925273 <GO>}

I got some points, so I'll do my best. So what's happened in the second half of the year? So clearly everyone was aware of the further increase on the COVID losses. But also, depending on what happens in the profits, expectations versus actual that will move it as well. And what do we see. So we saw investments improve a lot compared to what we're expecting. Clearly we're in the middle of the year, last year. We weren't expecting the rallies that we've seen. So that's one thing.

And also it's affected by everything else apart from COVID, and it's Adrian and Andrew both alluded to, what -- other areas of the business, every -- the business is doing really well. And so what we've seen there is positive momentum there. So taking all of those into account along with the COVID losses has led us to that position.

Just to add on the captive. I think at the half year, we estimated the requirement to be about $300 million at the end of this year, and that's reduced down to -- I think it's too -- I can't look at too many screens around, just under $250 million. So that's been the benefit of actively managing that capital that which clearly will help us well. So it's a combination of those two things that have happened. And to be clear on the quota share that Adrian spoke about, that has no impacts on these numbers. It's just a worthy note as an additional lever over and above everything I spoke about our capital.

In terms of permanency. So the captive is a -- something that we want to continue using for the reason that we are continuing to grow our US operation. It's extremely important to us. We like the business there. And so we expect that to continue to grow, and then therefore, we'll continue to use the captive. On the reinsurance, I'll have to go Adrian. We renew annually, but it's very rare that we do things in a one-year basis, but it's something that we'll continue to monitor over time.

Adrian, I don't know if you want to add anything to that one.

## A - Adrian Cox {BIO 16257010 <GO>}

Yeah. Some of our reinsurance is on a rolling two-year basis and some of them are annual, but we don't tend to do things staccato. And that's one of the reasons why we have a close bunch of reinsurers that work with us for a very long time. So we'll be able to use that, I think as long as we need to.

## A - Andrew Horton {BIO 5697110 <GO>}

I also think we're quite careful about the reinsurance and thoughtful on the reinsurance because the two lines of business where we've added more reinsurance are mainly on the liability side, and they are more capital intensive and they can be more volatile. Now the great beauty about that is we can start dropping the reinsurance and increasing our net position as the rest of the organization grows around it, with the growth prospects in those in D&O once the other lines is so great in 2021, we have decided to hedge some of that out.

And just pick up the -- you had the question about the low 90s, which is relatively straight one -- straightforward one. No, we have not assumed the $50 million in the low 90s, because if we thought the $50 million was not going to -- it was needed, we would have booked it in 2020. So we are at this point in time talking to our insureds have the beliefs of $50 million won't be needed. But there is still possibility of the world doesn't improve. And therefore that will be the impact on us. So that would take up the combined ratio, I guess by one to two points, Sally, based on our net earned premiums, it's a relatively straightforward calculation based on our net earned premiums.

The mid-teens is always an interesting one growth because on short tail that will come through pretty quickly. So if we're in property and marine and getting rate increases, that comes through relatively quickly. And you would see the impact of good rate increases in 2020 potentially coming through our 2021 numbers. The medium tail as we've had claims inflation over a number of years. We intend to be more prudent and wait for about three years. So you're probably start seeing the rate increases of '19 and '20 coming through three years down the track on the medium-tail book as opposed to straight away, when we'll have a great idea of where the loss costs are going.

## Q - Kamran Hossain {BIO 17666412 <GO>}

Thank you so much. See you at the half year results. Thank you so much.

## Operator

Our next question is from Andrew Ritchie of Autonomous. Andrew, your line is now open. Please go ahead.

## Q - Andrew Ritchie {BIO 18731996 <GO>}

Hi, there. Good to see you all. Couple of questions. First of all, you've referenced several times in the reserve disclosure to the benefit from aggregates reinsurance on some of the years. I think it's on cyber and specialty where you've increased loss picks on some prior years. What is the remaining limit on the aggregate? I guess I'm just trying to judge the degree to which gross might become gross as opposed to gross with a big drop down to net, which currently is helping you.

Secondly, there's a comment that you're reviewing your realistic disaster scenarios. I don't know whether to worry about that comment or not. I'm not sure what you are implying by it. It's just mentioned a few times. What do you think has gone wrong. What do you think you need to review on that?

Third question, Sally, I understand your view of required capital is harsher than a standard Solvency II, but that your review of available capital is also more generous as you don't hear the debt. Maybe just give us a sense. What is your tolerance on the amount of leverage you want to include is available capital. Where are you on that? And is there a thought maybe you should introduce some kind of leverage tolerance level?

And the final question. I'm left a bit confused as to what the impact of the new reinsurance you purchased will be in '21, because it sounds like obviously, the contingent quota share I can ignore unless you really need to draw it down. So is there -- what's the difference likely between growth and net growth in '21?

## A - Andrew Horton {BIO 5697110 <GO>}

So I'm going to -- just on the realistic disaster scenarios. In very straightforward terms, Andrew, obviously our realistic disaster scenario for the pandemic was not as extreme as what's actually happened. But not surprisingly, one of the lessons learned from that as we need to review the other RDSs and think through the unthinkable events. And therefore it seems to be a natural lesson learned that we would go through the realistic disaster scenarios and other areas. And Adrian has been leading that work to confirm that we think they are good enough realistic disaster scenarios, because not surprisingly we have a number, whether it's terrorism, political risk, nat cat and so on, Cyber, we have a number. So that's all we're flagging. We just thought it was a natural thing to do having found out that we had more event cancellation losses than our RDS for event cancellation was.

Sally, did you want to have to go -- which one have to go? We never got to require -- any of those. you have to go at any of those and we can come back to the new RI with Adrian at the end.

## A - Sally Lake {BIO 20925273 <GO>}

Okay. I'll do what I want, and then Adrian will do the rest. That's always -- that's what I apply most day. So on the capital, it's a really good point underwrite and I didn't mention that in my voice over. So just to get everyone up to speed. So at Lloyd's, you don't have restriction on the resources that you can use for your capital. So that does -- you're right that, that does complement -- it could complement things. So in terms of leverage, I think on a medium-term basis, and I'll tell you why I say that, I don't think we'd want to go much more at both where we are possibly a two to one ratio and would be the thing I would always think about. It's not a target, but that's what we keep in mind when we think about the leverage.

It's a medium term, because clearly we have $225 million of banking facility unutilized, which is available to us extremely quickly and that is available should we need, and I would be comfortable utilizing that, if that was for a short-term before we looked at other options. So that's how I think about it. I don't -- do I want to get -- do I want another target in my life? Probably not. But hopefully what I've said gives some comfort around how we think about that. What we're focused on is growing the equity at the moment and we got the real -- the market conditions in order to do that.

And I'm going to start on the stop-loss and then hand over to Adrian, I think we talked at the half year about the amount of limits that's available per year on the aggregate reinsurance. And I think from memory, it was -- and I'm going to -- please check this, but I think it's around $165 million in a year. There is some aggregate over a number of years. That we've got a great deal of limits per year. And you can see the effects in the loss development tables of where we're getting that recovery and quite clearly.

The one thing I would note on this is that, we're reporting very immature years getting the benefit of the stop loss. That's very early and has margin within it. So as we evolve that over time, we'll see how that goes. But remember that that's where we held quite a lot of margin in the early -- the immature years as well. And we're recovering at the moment, but then we'll have to see how that margin comes out over time. But Adrian, you're the expert.

## A - Adrian Cox {BIO 16257010 <GO>}

I guess, right. Sally, we bought some sort of aggregate protection on the long tail business since 2011, and we've generally brought it in three-year chunks. And so it's been a consistent part of our strategy. There is plenty of limit left. We buy in percentage terms, so that amount of limit that we buy grows as our book grows. And it's -- and the reason we bought it was for exactly this sort of confluence of a number of different things happening at the same time. So, and as Sally says, we've increased the loss picks in some areas, but we haven't decreased in areas where we think there might be margin, but it's too early to say yet. So the ultimate position of this is relatively unknown yet on the more recent years.

I guess the bit that's left, is the gross in net. So you're right. We haven't trigger the contingent quota share yet, because we don't need it. And we don't want to buy more than we need. We do want to grow on that business and take advantage on our own balance sheet with the conditions that we have. So, as Andrew mentioned, we bought in the more capital intensive areas we get ultimate business mix. The only thing we bought new this year is a quota share and additional quota share, for the D&O and FY business, which is growing at a very fast rate. So our net book this year will grow slightly less fast than our growth, but not a great deal.

I think the only other comment, I'd like to make on the RDSs is that -- the you have RDSs, the risks, whether it's not a great deal of information. And so you put together scenarios because you can't build a stochastic model. But what we decided to do was, instead of having one RDS, we design a number for each scenario each one of which is, has a different level of stress attached to it. Do we get more idea about how things behave if they get really extreme and not rather than just rely on the one number, which the mark has done historically. And that is in direct response to the fact that most of the market had a PML for contingency, which proved to be wrong. We might have learned a bit more about that if which stress them before and that's what we're doing from now on.

## Q - Andrew Ritchie {BIO 18731996 <GO>}

Okay, thank you.

## Operator

Our next question comes from Emanuele Musio of Morgan Stanley. Emanuele, your line is now open.

## Q - Emanuele Musio {BIO 19781440 <GO>}

Hello. Hi, thanks for taking the question. I have two questions. The first one is following all the Kamran question on capital. In September, you said that your Solvency was at the bottom end of your target range. Perhaps you already answered, but I was wondering, I want you split the improvement across all the various contributors that brought the surplus to 23%. Maybe if you don't have a breakdown, how would you rank them?

And also a question of reserves. What kind of assumptions have you made in relation to casualty trends. And I mean do you see material risk potentially emerging from litigation on the back of COVID-19. Thanks.

## A - Sally Lake {BIO 20925273 <GO>}

Do I start, Andrew?

## A - Andrew Horton {BIO 5697110 <GO>}

Yeah, sure.

## A - Sally Lake {BIO 20925273 <GO>}

Yeah. So we -- what we said at the third quarter was we expect to be within our range of the half year. I think the maths that was generally done at the third quarter was to take $170 million of our half-year, which mathematically would have got you from the middle top to the bottom. And so -- but we didn't update at that time. And we don't update out of half year because things are always leaving.

In terms of ranking, I can't give you a split because I generally don't have one. I've not got it here that I'm not telling you. And I think it's a real combination of the two things. I mean you can see -- you could look the reduction in our expectations on that. On the US admitted you can do that math, because like I said, I think it's around $50 million, which will be a couple of -- would be a couple of points. And then the difference, if you think about the $170 million being offset by captive investment and claims, a couple of points from the captive there. And then the rest mix between investment and claims experience on everything else, I think.

On the reserves, and again, I'll do my best, and then Adrian will no doubt have a view. So what we have assumed on casualty trends, we definitely -- whilst we've seen some slowing down, we definitely haven't taken any credit for that. And we're assuming that, it's a temporary thing that will come back to life when it allowed to. And so we haven't -- so we haven't taken any credit. We've noted it, but not taken any credit for it as such.

And in terms of downside, we obviously have our margin -- going back to what we saw for the half year, we have our margin, we have this aggregate excess of loss insurance as well on the books that take a while for the claims to really show themselves. But again, Adrian, do you want to add?

## A - Adrian Cox {BIO 16257010 <GO>}

Yeah. I mean we went through our book line by line and applied loadings on loss picks for three things, the three catastrophes that we were dealing with; COVID-19, recession and social inflation, turbocharged by an expected increase in racial discrimination claims after the tragedy around George Floyd. Those loadings remain in place. As I said in the slide around elevated risk, although we've seen a temporary reduction in liability claims, we expect them to bounce back and we expect the claims environment to be as difficult, or if not a bit more, that it was at the end of 2019. And of course, that was the big discussion in 2019 about how we were dealing with it. And our central expectations around that haven't changed. The only thing that has changed is, what we can do about it, right. And we're able to price for it, underwrite for it, in a way that we weren't as much a year ago.



## Q - Emanuele Musio {BIO 19781440 <GO>}

Okay, thank you.

## Operator

Our question is from Iain Pearce of Credit Suisse. Iain, your line is now open.

## Q - Iain Pearce {BIO 19522835 <GO>}

Hi, thanks for taking my questions. The first one was just on cyber. There seems to be quite a notable step change in the level of rate increases you're getting in Q4. So I'm just wondering, if you could talk a little bit about what's going on in that market more from a sort of competitive dynamic standpoint. I mean, the sort of rate increases the you're achieving probably implies some line exits and that some people out there really feeling some pain. So I'm just wondering sort of what you're seeing on the competitive standpoint? And then sort of aligned to that, the level of rate increases that you're seeing, how does that compare to your expected loss cost trends. Obviously, there has been quite a step change there.

And then just a second quite quick one on the dividend. When you talk about the dividend resumption, is how we should be thinking about a resumption in line with where it was before it was suspended?



## A - Andrew Horton {BIO 5697110 <GO>}

Let me pick up on the dividend. The dividend has got to be dependent on where we actually are at the half year. So let's see where we are at the half year. And then commitment is, It's a great financial discipline, and we've always have this financial discipline as Sally was saying on the result strength. And then the capital surplus, this is a sort of a third leg to our financial disciplines. Still want to be a dividend parent company. But we have to see where we are at the half year before we can be definitive of exactly where we're going to be.

Adrian, over to you on your view of cyber landscape.

## A - Adrian Cox {BIO 16257010 <GO>}

So, I mean, I think the sort of context to this is that, for the sort of claims that we've been talking about here, it is a very short-tail class of business. So you can write a risk on Monday. It can get ransomware attack on Tuesday. And then you parted with the ransomware -- sorry, you parted with the ransom to get the key seven days to 10 days later. And you don't usually have 10 days between when something happens and when the insurance pays out. And so that means it gets noticed very fast by companies, because insurers generally hang on to the cash for longer than that. And so it's prompted a much faster and more visceral reaction than it would do for other claims, which take a lot longer to pay out. And that's why it's been so swift, and also so varied.

And so what we're seeing from the market at the moment, it's a very wide variety of reactions. It's a dislocated market because it's not an equilibrium. There is no commonality to what insurers are doing on mass. Some have withdrawn. Some have reduced their writings a lot. Others are trying to reduce their limits. Others are trying to impose sublimits or withdraw coverage altogether. And others are trying to shot prices up and anything in between. And then so -- and that all really happened towards the end of Q3 and into Q4 last year and has accelerated sharply. I mentioned that we're expecting the rate increases to be highest in cyber. That's certainly the plan. And the January rate increases that we got were in line with our plan. And the marketplace is still moving. So I think that's reassuring in a way. But as I said before, I think the biggest thing for us is that we want to make sure that the way that we are scanning for vulnerabilities or scanning our clients and risk managing our client starts to result in the number of ransomware attacks coming down because that's evidence that our re-underwriting and our strategy is working. And that's as important as the rate changes that we're getting.

## Q - Iain Pearce {BIO 19522835 <GO>}

That's great. Thank you.

## Operator

Our next question is from Darius Satkauskas from KBW. Darius, your line is now open. Please go ahead.

## Q - Darius Satkauskas {BIO 19724328 <GO>}

Good morning. Thank you for taking my questions. Another question on capital please. At the end of your press release, you discussed that the capital surplus is currently $476 million or 23%. I guess I'm interested to hear how you think about the surplus target range. And if we should think of the bottom end of the target range as a hard line, would you be willing to cross that bottom end of your target range, if you expect it could grow opportunities next year for instance, as well as wanted to pay the dividend. That's the first question.

Second question. You guided to low 90s combined ratio target for 2021. Can you give us some detail how you think about your reserve releases in 2021 to get to this target, particularly as you have higher loss fix and specialty, some liability and cyber lines? Thank you.

## A - Andrew Horton {BIO 5697110 <GO>}

Yes. So let me pick up on the capital. I mean the target range we set, well, I don't want to go into the whole history of it, we used to have a target range of 10% prior to the Solvency II target range, because we thought it was a sensible thing to have a capital buffer above it. It was never meant to be a hard floor when we had the 10%. And then we moved into Solvency II world. And because Solvency II capital is more volatile. We increased the buffer from 15% to 25%. And this is an increase buffer. This is not what a regulatory minimum or even a minimum below, which the regulators start giving us oversight. It was a financial internal discipline, which we thought was a good thing to do. But there is a possibility of breaching the 15% to 25% target range in exceptional circumstances and that will be the reason for that. And exceptional circumstances could be massive growth or a loss, which we think has impacted us, which we could plug that capital relatively quickly. But that's the logic of it, an internal financial discipline range, as is the 5% to 10% on the reserve surplus. So that is the logic of it. Now the Board and company likes operating within it. And we think it's a valid thing to do. And therefore our aim is as far as possible to operate within that.

Second question was on reserves. Is that right, Sally, for 2021?

## A - Sally Lake {BIO 20925273 <GO>}

Yeah. So I think the question, if I've got it right, Darius, is that you're saying the low 90s, how do you get there? And so obviously, people know as we generally open and open consistently and then have reserve releases. And in my head how big this reserve releases is how far you get down -- get your combined ratio to. So a couple of years ago, we had a half-year where we didn't have or even last year we had very little reserve releases and our combined ratio was around 100. Just to give you some data points on that. So clearly our expectation, given that we're currently expecting a low 90s based on what we know at this time is that the reserve releases will get us to a low 90s combined because that's how generally our profit and loss is made up.

It's a good question around the kind of opening position of changing on something like cyber. But interestingly, it wouldn't be the more recent years that would be on specialty lines and CyEx, that would be giving the reserve releases, that would be influencing our pick for 2021. We generally wait on -- especially the non-cyber elements of CyEx and the rest of specialty lines for three years. Because generally that's how we think, how long we think it takes to really get a good feel for the year and then start to think about releasing that margin. And so hopefully I've answered your question. That it's not really relevant for the next 12 months, the more recent years.

## Q - Darius Satkauskas {BIO 19724328 <GO>}

Thank you. Can I just take on that? What -- so should we be thinking that you're not going to be rebuilding the reserve buffer on the back of kind of 10% reserve releases?

## A - Sally Lake {BIO 20925273 <GO>}

Rebuilding the reserve buffer? I didn't quite catch --

## Q - Darius Satkauskas {BIO 19724328 <GO>}

Yeah. How should we think --

## A - Sally Lake {BIO 20925273 <GO>}

Okay. I always say in reserving. Where the reserve buffer is, we're fine with. We do our reserving. We compare. If it's 5% to 10% we're fine. It varies year-on-year. I mean in -- and 6.3%, it's fine. It's where we've been in similar prices in the past. And so we haven't necessarily go to focus on the doing any reserve buffer increasing. I think that coming back to the earlier point, I can't remember who asked the question, around the effects of the early stages of the stop-loss and the fact that we have to wait some time for the longer tail lines to see how much margins available it's relevant here. But we -- just to be clear, we're not doing anything specific, in order to rebuild the reserve buffer because we're happy where we are.

## A - Andrew Horton {BIO 5697110 <GO>}

Yeah. So the reserve buffer is -- the reserve strength is an output of a very in-depth process looking at all of our individual lines in all of our underwriting areas, it's not something that we're trying to back calculate for. So the reserve buffer at 6.3%, we're comfortable. And that's why we had the range of 5% to 10%. I'd just like to emphasize Sally's point, which keeps getting missed. This is a surplus over an actuarial prudential estimate. This is not the surplus over 50-50 actuarial best estimate. So there is another reserve buffer between the actuarial prudential estimate and the actual best estimate. And I think it's quite important there is another buffer above it. But this is a good financial discipline. We've had it for a number of years, and we're comfortable if the bottom-up process deliver something between 5% and 10%. It has dragged back, as Sally pointed out, by certain elements, catastrophes, specifically the COVID-19, and also the way reinsurance can operate in certain lines and we've had a further drag back this year than we had in previous years, because had a number of different events this year. We haven't had a COVID-19 style event before, fortunately.

## Q - Darius Satkauskas {BIO 19724328 <GO>}

Thank you.

## A - Andrew Horton {BIO 5697110 <GO>}

Great, thanks.

## Operator

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

## Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, good morning. Thank you very much. The first question would be on cyber. I just would like to understand a little bit what kind of assumptions do go into your cyber aspirations for 2021, whether you intend to grow exposure, or it's mostly about the rate development here. And maybe if you could place the cyber combined ratio expect within the context of 94%. I think that will be helpful.

And second one, I think the question basically about the 15% to 20% growth aspirations versus the type of rate improvements that you model for the year. I mean you've already achieved 15% for 2020, you expect some continued hard markets in 2021. I'm just wondering what scenario would need to materialize for you to actually consider another capital raise to possibly grow exposure at more than, let's say single-digits, that would seem to be implied into this growth number. And perhaps I'm wrong, please correct me. Thank you.

## A - Andrew Horton {BIO 5697110 <GO>}

If I could just pick up, Adrian, you just pick up the second one. So I think in 2021, we're assuming it's more of a 50-50 exposure growth versus rate. So we're not expecting the same sort of level of rate increase as we had in 2020. So there is more exposure going on, and the plan is in place for that. If rates were even higher, I suppose we might be interested in growing exposure. Of course, pure rate increase, it doesn't necessarily have a direct impact on capital, because you're getting better premium per dollar of exposure. And in theory that is a capital benefit because you need to hold less if you're getting better rates for the exposure. The pure rates pushing the growth up in the second -- in 2021. And we still grow the exposure at the same rate we've got -- going to impact the capital negatively.

So I guess it's Adrian, the underwriters seeing a combination of things happening. Rates being better. And the outlook being better that we would want to grow exposure further. And therefore we would need more capital. But that's what the contingent quota share is, therefore, that we take out some of the more capital-intensive volatile lines, followed by the increased letter of credit, followed subject to leverage, but of course if the balance sheet's growing and profitability is good, we can afford to take on a bit more debt, because the leverage ratio won't decrease followed by equity being the last resort. So I don't see it, based on where we are, that another equity raise would be needed, ending with our capital strength at 23% and having those other levers in place or growth for 2021. Why don't you talk about cyber again, Adrian, on --



## A - Adrian Cox {BIO 16257010 <GO>}

Yes, for sure. So the business plan for cyber has been flagged internally and externally the most dynamic one. So it's one that will absolutely change according to how our claims experience develops over the year. And where do we think that the actions we've taken are working. And we can see those very quickly because of the short-term nature that I discussed earlier. The plant itself contemplates a little exposure growth, but premium growth because of the rate changes that we've expected. And the plan also contemplates a higher loss pick, a higher attritional loss pick for cyber, which is contemplated in the 2021 GAAP budget. So just to draw that together, we would hope that we can see evidence that our remediation works, that our clients experience starts to improve. And we can continue growing exposure, but we won't until we can prove to ourselves that that's working. And if it's doing the opposite and getting worse, then we'll reduce exposure accordingly and figure out what we need to do.

## A - Andrew Horton {BIO 5697110 <GO>}

And at this point, we're not going to start disclosing combined ratios for our cyber business. We do disclose loss development table for the CyEx and the combined ratio for the CyEx business and we'll be continuing to do that.

## Q - Ivan Bokhmat {BIO 15378004 <GO>}

Thank you.

## Operator

Our next question comes from Ben Cohen of Investec. Ben, your line is now open.

## Q - Benjamin Cohen {BIO 21227414 <GO>}

Thanks very much. There were just two things I wanted to ask. Firstly, just to clarify, I think Adrian said earlier that he expected that net would grow only slightly less fast than gross. So I think when you -- when Andrew last talked about at Q3, it was more about at least a five-point difference, looking for about 10% net written growth in 2021. So a bit of clarity on that would be great.

And the second thing was just in terms of the growth in the political and contingency business overall, just the impact from a lack of events or just how you see that unit developing this year? Thank you.

## A - Andrew Horton {BIO 5697110 <GO>}

Have a go? Because I'm the one that's quite sure on that. That's on the gross growth before. I think it's finalizing the business plan than of what we're actually buying. So you probably caught me at an earlier stage of the plan being finalized, and Adrian obviously finalized the plan for the run into December. And therefore, we have got more net growth. I probably wasn't also taking into account the impact on the net growth in 2020 of the reinsurance we bought this year. There was a combination maybe probably understating the growth versus net difference in 2020. And therefore I overstated the difference next year with the combination of those two impacts. And I think the capital -- the capital to show is that because the capital at Lloyd's goes up by about 15%, which is very close to our expected growth in net growth in 2021.

## A - Adrian Cox {BIO 16257010 <GO>}

On the PAC business, Ben, the -- so we have budgeted for more contingency business this year than last. And we'll see that's partly increased rate and partly because we are expecting it to be a bit more activity this year than last. We've been quite careful about how much we want to grow. And so we're not growing really the sort of political and trade credit side because that is very much in a period of elevated risk. But we have been able to grow our PA book. There's that's quite a lot of opportunity there as that team has matured in Beazley, and we've been able to get hold of more business, particularly in the US and that's been quite encouraging. So a lot of the growth in that division this year is PA.

## Q - Benjamin Cohen {BIO 21227414 <GO>}

Thank you very much.

## Operator

Our final question today comes from Andreas van Embden of Peel Hunt, Andreas, your line is now open. Please go ahead.

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

Yes, good morning. Thank you very much. I just had a question about your -- the sensitivity to interest rates across your investment portfolio. It's probably somewhat higher than I was expecting. And obviously there is a mismatch in your balance sheet between your assets and your liabilities. I just wondered, is that increased sensitivity one that, that has increased, and whether it's having a more material influence on your capital ratios that you thought.

And secondly, whether you would be thinking about perhaps protecting yourself against the spike of interest rates or an upward spike in interest rates. I appreciate they're going to be low for quite some period of time, but is there a risk that the spike in interest rates would put your capital position more than in the past? Thanks.

## A - Andrew Horton {BIO 5697110 <GO>}

I mean, Andreas, I can't see that. I mean you're possibly right, with a low interest rate depending on how interest rate spiked, how -- what the impact on capital would be. I mean that's such a technical question. I probably have to come back to you on that. I know we show in the accounts the impact of interest rate sensitivity, which has increased a bit, but we haven't thought through that comment. So can we come back to you on it because I can't answer what the impact on capital is in interest rate spike going forwards. I think it's unlikely to happen in the short-term, but we can look at it.

## A - Sally Lake {BIO 20925273 <GO>}

And just to add --

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

Perfect.

## A - Sally Lake {BIO 20925273 <GO>}

Stuart Simpson will be -- the other levy he has is the duration of the portfolio, which he actively manages on that. But we can come back to you with more details.

## A - Andrew Horton {BIO 5697110 <GO>}

Yeah. We tend to have our assets shorter duration. And when we have asset shorter duration to our liabilities, it does have a capital impact because the best capital impact will be to match assets and liabilities with the same duration, but then we have potential volatility in the annual P&L of the investments. So we've always tried to balance those two things. Now I don't think it's dramatically changed this year on the back of lower interest rates, but let's have a look at it.

## A - Sally Lake {BIO 20925273 <GO>}

Yeah.

## A - Adrian Cox {BIO 16257010 <GO>}

We have started to think a little bit more about inflation proofing.

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

Okay, perfect.

## A - Andrew Horton {BIO 5697110 <GO>}

Okay. With that, thank you for all those questions. It's good to speak to everybody today.

## A - Adrian Cox {BIO 16257010 <GO>}

Thank you very much.

## A - Sally Lake {BIO 20925273 <GO>}

Thanks, everyone. Take care. Hope we see you soon.

## A - Adrian Cox {BIO 16257010 <GO>}

Yes. Have a good weekend.

## Operator

Ladies and gentlemen, this concludes today's call. Thank you very much for joining. You may now disconnect your lines.