Q2 2014 Earnings Call

Company Participants

- Alexander Maloney, Chief Executive Officer & Executive Director
- Elaine Whelan, Group Chief Financial Officer & Executive Director
- Paul Gregory, Group Chief Underwriting Officer
- Peter David Scales, Chief Executive Officer

Other Participants

- Ben Cohen, Analyst
- Chris D. Hitchings, Analyst
- Joanna T. Parsons, Analyst
- Maciej K. Wasilewicz, Analyst
- Olivia S. Brindle, Analyst
- Thomas M. Dorner, Analyst
- William Hardcastle, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Hello and welcome to the Lancashire Holdings Q2 2014 Results Call. For the first half of this call, all participants will be on a listen-only mode, so there is no need to mute your individual lines. And afterwards, we'll have a question-and-answer session. Just to remind you, the call is being recorded.

I'll now hand over to our host, Alex Maloney.

Alexander Maloney {BIO 16314494 <GO>}

Hi. Good morning, ladies and gentlemen. Today, we have on the call, Elaine Whelan, our CFO; Paul Gregory, our CUO; we have Darren Redhead, CEO of Kinesis; Peter Scales, CEO of Cathedral and Denise O'Donoghue, who is our Chief Investment Officer.

I'm delighted to say we grew fully converted book value per share by 2.4% for the second quarter with a healthy combined ratio of 74.6%.

In addition to the impact of Richard's retirement package on RoE, this quarter has seen a number of moving parts across different areas of our underwriting business. And I believe this result demonstrates the underlying quality of our core portfolio in a market which is one of the most difficult in our history.

We're working hard to maintain our position in a market which has changed rapidly, and this has led us to change tactics accordingly. We have been very active in the second quarter optimizing our portfolio to ensure we only write business where the risk and reward dynamics are acceptable.

The silver lining in a falling market is the cost of reinsurance when we are the client, and we now purchase more reinsurance than any other firm in our history.

We've always said that we will write the most exposure in a hard market and the least in a soft market, and this remains true. We have reduced our PMLs significantly from our peak in April 2012, with a 30% reduction in Gulf wind and a 20% reduction in Cal quake. Our risk PMLs have also reduced considerably over the same period.

We are comfortable with volatility, but we only accept volatility when we're getting paid for it. We can accept more potential volatility when conditions improve. We are working closely with our colleagues at Cathedral who continue to produce consistent results, as they have done for a number of years.

Obviously, at the time of writing, we are still digesting the terrible period for the aviation industry, but somber as it is, these events create opportunities for us. We are already well-positioned in aviation reinsurance, and this is augmented by our new team of aviators joining the Syndicate 3010 to write aviation war.

Our industry is changing rapidly and those who can change with it will have nothing to fear. But good companies will adjust to the future, and our history shows we have no fear of adapting, but we will stick to our core principle of underwriting comes first.

And now, I pass over to Paul Gregory.

Paul Gregory {BIO 16314515 <GO>}

Thanks, Alex. As Alex has already alluded to, there's almost an unprecedented level of competition in nearly all our business lines at present. Traditional reinsurance and retrocessional capacity is being displayed by alternative capital and trying to find a way into our core primary insurance market.

Fortunately, our insurance clients post (03:23) a high value on our leadership skills, our experience, and above all, our pragmatic and seasoned transparent history. By accepting the complex offshore energy or marine loss, clients want to know that the accounts party has a real understanding of their business and will seek to adjust claims fairly following the intent, as well as the letter of the contract.

We've had a real demonstration of that loyalty in this quarter since we've gotten Lloyd's approval to be underwriting terrorism and energy business in Syndicate 3010. We've had tremendous support from some of our longstanding clients and brokers, who've not only renewed their shares with Lancashire, but also given new additional shares to Cathedral. As a result, we're already well ahead of where we expected to be on the energy line.

The major milestones for the quarter were the Japanese and Florida catastrophe renewals at 1/4 and 1/6 (04:12), respectively. There's not anything I can tell you that's any different from what we've - what you've heard already.

Consolidation in Japan reduced opportunities, alternative capacity (04:24) shares in Florida where price is the main driver, and pricing was down by anything between 10% and 30%.

With reduced risk levels in Japan, (04:34) for the use of additional reinsurance, and our small exposure to Florida high line (04:38) got smaller. In New Zealand, we also reduced the exposures as the proposals pricing finally started to come under pressure following the tragic earthquake in 2011.

The energy portfolio has thrived as we've maintained our preeminent position on Deepwater Gulf of Mexico wind products, and as noted, received great support from our clients for the new capacity at Syndicate 3010.

For marine, the cargo and hull lines, although most of the businesses are adequately priced, we did not renew some business where the price was set over the ambitious reduction targets.

On terrorism, our submission levels continue to rise, allowing us to select the optimum portfolio for our risk appetite. Pricing here is cheap, and we make no bones about that. The risk selection is key, and the daily call continues to support that process.

For aviation, the satellite portfolio experienced a launch loss. But I should point out, we allowed the current levels of losses in our loss peak (05:35). Pricing is stable, and further losses will be needed to go behind any significant upwards rate movement.

For AV52, rates remain under pressure, and on the Cathedral aviation reinsurance portfolio, income is at a relatively low level as writing continues to struggle. Although we were able to make substantial savings on the outward purchases.

As Alex has mentioned, our new aviation team's arrival at Syndicate 3010 will allow us to access any possible opportunity that may arise in the aviation war market as a result of the recent run of losses that, that market has experienced.

We're very pleased to say that Lloyd's have already given us business plan approval for these new aviation classes effective the 1st of August.

At Kinesis, you would've (06:18) seen that we made immediate draw of around $50 million for renewal opportunities. So we are very happy with the progress made to date.

Darren and his team will be marketing heavily once we get into September, and we'll have a much better picture of the potential for 2016 (06:31) at the end of next quarter.

There are a couple of areas where some explanation of this quarter's numbers may help. Political and sovereign bound premiums are down substantially compared to the same quarter last year. But if you look at submission numbers, they're, in fact, slightly up.

The (06:49) these lines (06:50) entirely depending on the specific project financing that's been agreed between governments or their agencies and lenders. And this process can take longer than anticipated. We have a substantial number of deals in the pipeline, so there's no significant long-term shift here.

Second, there was an increase in both AV52 and satellite, which drove an increase in the overall aviation sub-clause at Lancashire. On satellite, as with political and sovereign, there is no real renewable book for launches and timetables are subject to change. So the book has lumpy quarters and this is one of them. Again, no long-term trend.

And AV52 is in a number of U.S. airlines by an excess coverage in the private market in advance of an anticipated decision by the U.S. government to stop providing the coverage. This is a new source of income for the AV52 market, and to date, three major U.S. airlines purchased from the commercial market.

The other big story has been the outwards reinsurance and retrocession led by Lancashire and Cathedral who've been able to improve terms and coverage on renewals, and provide substantial and well-priced new capacity. As well as the gearing reduction in pricing on the core portfolio, we've been able to buy additional limits for our risk and catastrophe programs with some wide coverage and keen pricing.

The bulk of our risk and core catastrophe placements remain with long-standing traditional capital relationships, but we have accessed alternative markets where there are compelling opportunities, especially on the cat side. We expect to continue to find excellent opportunities on the outwards to mitigate the pressure on the inwards portfolio in the current market cycle.

Again, we will stick to the strategy of keeping net risk levels lower during a soft market. As Alex has referred to, we have reduced both our cat and non-cat PMLs, which is exactly what we should be doing in today's market.

So that's the underwriting picture for this quarter. It is hard work, but given the strength of our leadership capability, our significant line sizes, the strength of our client and broker relationships, and the quality of our underline portfolio, we're well equipped to handle this stage of the cycle. And it is a cycle, and there will be future opportunities that Lancashire, Cathedral and Kinesis will be well positioned to take.

I'll now hand over to Elaine.

Elaine Whelan {BIO 17002364 <GO>}

Thanks, Paul. Hi, everyone. Our results are in the website as usual. We produced an RoE for the quarter of 2.4% with 0.7% of that coming from Cathedral. Acquisition adjustments reduced RoE by 0.1% again this quarter. Before acquisition adjustments, Cathedral has now contributed 1.3% to the (09:24) RoE of 6.4% for the half year. As been said, the majority of the increase in premium this quarter comes from Cathedral. It picks up $82 million from this quarter.

Our (09:37) asset was a little bit behind the Q2 last year mostly due to rate reductions. But that was more than offset by new premiums written in the energy and terrorism lines that Cathedral now writes.

To Lancashire's own book, we're actually a bit ahead of last year. Our property captive was relatively stable with the entities coming from our energy Gulf of Mexico book. So there's still a number of contracts written on a multiyear basis.

Of the $70.5 million of energy Gulf of Mexico premiums written this quarter, $64.5 million of that is related to multiyear deals. About 20% of that will earn this year, with most of the rest earning out over the next two years.

Otherwise, as Paul mentioned, our political and sovereign risk is down compared to the second quarter last year primarily due to long-term contracts written last year that are not yet due to renew.

For the rest of the year, for Lancashire's own book, I expect a slight reduction in Q3 and Q4 premiums. The (10:30) for Cathedral will be expected to further growth in the energy and terrorism lines.

On ceded premium, Lancashire continues to buy additional reinsurance opportunistically, with that additional spend pretty much replacing other programs from last year that weren't renewed.

Most of the increased ceded premiums for the quarter comes from Cathedral as they purchased a new energy and terrorism cover to protect those new business lines.

It was another fairly quiet quarter in terms of cat loss events with nothing major to speak of. Our net loss ratio of 34.9% was a good result. We had some sole (11:04) risk losses in the current market year and a bit of a mixed bag in older years.

Last quarter, we did adverse (11:10) development on a 2013 action year energy claim. This quarter, we were pleased to reduce that, a result from adverse development on a 2012 energy claim.

We also decided to increase our reserve (11:22) in relation to one particular marine loss (11:25) or net loss. This also gives a little more on Costa Concordia (11:29), but the increase is fairly small at $3.8 million for the quarter. Other business and claims were pretty insignificant, and the reserve for previous large events was fairly stable overall.

Our accident year loss ratio was 39.4 %. On investment strategies' result, we're charging 60 (11:46) basis points for the quarter as we benefited from further spread narrowing in the quarter. We've continue to allocate some more funds to our hedge fund portfolio and now have $99.5 million invested in that. That's working well for us and we'll allocate a little more later on this year.

Our hedge fund strategy is a low volatility one and gives us a nice diversification for the rest of the portfolio under interest rate risk, and we just also picked up a bit more income from that.

The hedge fund portfolio have returned 1.1% as of June 30. On KCM, our capital deployed to date will add about $6.2 million under (12:23) this year. Just a reminder, there are earnings fees in line with the underlying risk profile's portfolio (12:31). So the bulk of it will be earned over the year's hurricane season.

Profit commissions could be around $9.6 million, depending on loss activity. But we won't receive any of those until Q1 2015 at the earliest. $3.8 million of our other income is this quarter's share of the underwriting fees. The remainder of our other income is managing agency fees and profit commissions from Cathedral.

Our G&A includes $6.6 million of Cathedral costs, the incremental impact of Richard's contractual retirement package, and we also continue to amortize our finite life intangible assets.

The further $2.5 million G&A on that this quarter, and we have about another $1.5 million coming through in Q3. It will be fully amortized by the end of the third quarter. The deferred tax liability that relates to this tangible asset will also be fully released next quarter. $1.5 million of the tax credit you see in our income statement this quarter relates to the release of a deferred tax liability on the intangible.

In addition to Richard's salary and benefits entitlement, his (13:32) of a dividend equivalent have accrued to be more substantial. That amounted to cost to shareholders equity of $9.8 million. The total impact of Richard's retirement package is, therefore, $11.6 million, which reduced our RoE by 0.7%. Richard also exercises warrants, and that reduced our RoE for the quarter by 0.6%.

As for last quarter, around $4 million of the our financing costs related to cost of our debt and (14:00) facilities (14:01), with the balance due to the mark-to-market on our interest rate swap on Lancashire's subordinated debt.

Lastly, on capital, we're not seeing much change in the market. If anything, we're a little more pessimistic on pricing, so we'll manage our risk levels over that and continue to service core clients. If that continues, if there's no change in the market, then we'll be returning substantially all, if not all, of our earnings for the year. It's too early to call our outlook for Jan 1, but we certainly don't anticipate needing more caps than we need for this year from where we stand right now.

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

Q&A

Operator

Thank you. . Okay. Our first question comes from Maciej of Morgan Stanley. Go ahead, your line is open.

Q - Maciej K. Wasilewicz {BIO 16462204 <GO>}

Hi, it's Maciej from Morgan Stanley. So I've got two questions, if I may. The first question is just on your satellite losses. I know you had one last year as well. I know - I think if I remember correctly, the seasonal business line that you've been writing for that long, I'm just wondering whether or not - is there any second thoughts about that business line at all or whether you think you've got an edge in that business still and you've just been a little bit unlucky? Or maybe if you can just comment on whether or not maybe the overall possibility of that line is actually good, but I just can't see it in the figures?

And the second question is more about the aviation market. I understand there's been a lot of losses in the market recently, and that should lead to an improvement in the conditions and rates in that market.

I'm just wondering how much you think that, that market can truly dislocate in the kind of environment that we're in where, basically, there's a lot of hunger for margins. And if the inherent risk of aviation losses hasn't actually changed, do you think you actually get dislocation in that market to pay back the recent losses or not? If you can comment on those two, please?

A - Alexander Maloney {BIO 16314494 <GO>}

Okay, Maciej. Paul Gregory will answer the satellite losses, and then Peter Scales is best positioned for the aviation question.

A - Paul Gregory {BIO 16314515 <GO>}

Maciej, hi. You're right, we have only been writing satellite line of business relatively recently, about two years now. We do - when we started writing the clause, we did tend to expect one launch loss a year, and in fact, that's exactly how it's played out. We're comfortable with the book as it spans in the portfolio. We have - obviously, everything we write, we constantly review in terms of its profitability. But as it stands today, we're happy with the portfolio as it stands and the rates that we're getting. Obviously, we would prefer for these losses to move rates upwards. They do remain stable. The way it stands, we're comfortable with where we are.

A - Peter David Scales {BIO 2108933 <GO>}

The aviation market, you may have seen some of its tailwind as well. It comes in several parts, a slightly more complex issues. The backdrop is the airline market, which is a substantial portfolio, about 250% of capacity. Well, the risk inherently has been very competitive over many, many years in many entry points. On the side of that market, there is, obviously, the (17:41) and the reinsurance market, which has been more disciplined over a period of time, of which we're a major lead in it.

There, also, our new hires are probably the preeminent lead in the aviation war market, which involves insuring the physical airplane rather than the people on it in the event of a malicious act. They deviated to two products, of which Lancashire remains to lead, which is basically the third party element of a malicious act affecting some of the onset property with said airline. That – there's a whole bunch of moving parts. The problem with the war thing, it's going to give you huge metrics. These are all very soft numbers because of lot of things haven't been turned off yet, but if we should suggest that on the war areas, the market premiums are, let say, £60 million for easy reference for market premiums.

We think the war losses so far this year, dreadfully, it probably may pan out as $600 million, $700 million. Malaysia 2, probably $110 million; Malaysia 1, $50 million; and Mozambique, $40 million; and Karachi Airport, $25 million.

And you can see the sums on that. Historically, when there's an accident in the war market, which hasn't happened for about a decade, prices tend to react reasonably violently, and it's a very, very specialist area.

A lot of it is control either by broker line switch, which are basically giving you NOIs, or other market leaders, which there are very few and we probably have the preeminent ones who will stop writing lines down as of 1/8. How that will actually pan out or react, we don't really know because there's no renewal market.

Business to be renewed are from some small G8 (19:30) pieces for the airline market tends to renew at 1/9, 1/10, 1/11. So perhaps on the next call, we'll terminally get around to have a much clearer picture on the way things are going on that.

From the aviation reinsurance market standpoint, we are in a pretty good position. We clearly have losses on the two Malaysian losses. I thought they'd both managed calling our attention. We (19:55) loss of cover and have a lot of residual cover left. And again, we would be in a position to do something after a period of managing a period of very like lines experienced over the last few years.

As for the central core where all our specialist clusters play around that, on the airline market, the economics even before going into this year were pretty thin, I would suggest, although it's one of the more capital-efficient classes.

And it's interesting to see whether there's a resolve in the market to move the thing forward. But a look at the simple economics of what the exposures clearly are and the cost to fix (20:32) clearly are, the time to experience are (20:36) here. And what's likely to happen to retentions and reinsurance costs, the economics of it would need at least some passing thought by the management. But I think it probably, relatively is a next quarter question when you'll see people have to make some decisions, and you'll get some clarity by the yearend, and we've been through a major renewal cycle (20:58).

Q - Maciej K. Wasilewicz {BIO 16462204 <GO>}

Thanks a lot.

Operator

Thank you. Okay. Our next question comes from Tom Dorner, Citigroup. Go ahead, sir. Your line is open.

Q - Thomas M. Dorner

Hi, there. Yeah, I've got a few questions. The first is one on the increased reinsurance purchases that you've made. I just wondered how much lower can you take the PMLs. I know you say in the Cathedral portfolio, it's always brought a lot of reinsurance. But for the old Lancashire book, like how lower can you take the PMLs before it becomes economic to do that?

The second question is on the increase in the hedge fund allocation. You may have mentioned this at Q1, but I remember the policy dabbled in equities and then sort of moved out of that asset class, and then moved into emerging market debt and have moved back out. So I just wonder whether this doesn't – the increase in hedge fund allocation doesn't somewhat undermine some of the risk reduction you're doing on the underwriting side.

And then the final question I had is on capital return, and specifically, I think you might have mentioned in the past that you would consider buying back stock if devaluation fell to something like 1.3 times book. I just wanted to make sure, is that still the case? And if that's the case, what sort of – what book value you're actually using to judge that against? Thanks.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. Tom, I will start with the reinsurance question, we'll move on to Elaine for the hedge fund. Just for clarity, we are not going to dabble anymore in the investment portfolio. We'll actually have a real strategy and capital aligned with those. So on the reinsurance front, we have seen very, very attractive growth in the market. We have seen pricing for certain parts of our portfolio at historic lows or historically low since Lancashire's inception. And that leads us to, obviously, see that as a good try to buy more reinsurance.

So if you looked at how much reinsurance we bought today, it's the biggest amount in our history whether that's on the cat side or on the risk side. So we will -- all that reinsurance is cancellable at the 1st of January. So in all honesty, if the wind season goes clean, we will probably cancel the reinsurance and start again, and hope to improve those terms.

How far can we take our PMLs down? I think there is always going to be a limit to how far we can go down because a line will tell me that there is a minimum capital requirement we have to hold to keep the writing agencies happy, et cetera, et cetera. So yes, there is a limit. I don't think we're quite on that limit yet.

But in this market, it makes perfect sense to us just to have less exposure on our books. And if you look at our industry, we believe that the people that have made it through the top cycles have effectively taken a lot of their risk of their own balance sheet and given this to someone else. And obviously, you can do that.

You can either come off of business or you can buy more reinsurance. We are currently buying more reinsurance. But you just got to be realistic about the market you're in. Now is not a time to be taking bigger net positions, dumping reinsurance cover. Now is the time to be buying more reinsurance cover and bringing your exposures down.

A - Elaine Whelan {BIO 17002364 <GO>}

I'm not sure why I always get the (24:23) and in terms of - let me start with the cash return. We do have - honestly, there's awards (24:31) that we need deal with, and we also have an equity stock trading shares. So -- and I think if our share prices are around (24:38) level, then we would be quite happy to buy back at that level to make sure that we build that back up to deal with awards. And there's also the warrants overhang, so that's more related to the debt with last year issues rather than treasury stock given the size of the holdings in there.

And as far as the hedge funds go, it really isn't dabbling and we're much more comfortable with the volatility in the market. At the moment, it's reduced from where it was. And it's going to take in the equities at a much more volatile time. And the hedge fund allocations should give us a little bit more income, but it's also the (25:14) part of our risk management strategy in terms of hedging the rest of our portfolio and the interest rate risk that - as most of our peers will be facing at the moment.

Q - Thomas M. Dorner

Okay. Thanks.

Operator

Okay. Our next question comes from Olivia Brindle of Deutsche Bank. Go ahead, ma'am. Your line is open.

Q - Olivia S. Brindle {BIO 17273762 <GO>}

Hi, there. I've got three questions. And firstly, on the accident year loss ratio, and you said that's just over 39%, which is a bit higher actually, are there any adjustments that we should making to that? Or if not, does that reflect a trend? How should we think about that number looking forward?

Secondly, on the top line, Elaine, you mentioned that you'd expect just 3Q and 4Q, maybe a modest decline in premiums, I guess, at the growth level. And given all the different movements you've had on the reinsurance buying side, just wondering if you could help us to work out how to think about the net growth ratio. Are there any particular changes we should be factoring in on that side?

And then finally, on the expense ratio, I think even if you take out some of the remuneration costs that you mentioned, it still looks a little bit high, including on the acquisition cost side of things. Again, just wondering if there is anything we should be extrapolating on that front. Thank you.

A - Elaine Whelan {BIO 17002364 <GO>}

Okay, sure. You're talking about the lumpy quarters. We do get lumpy quarters, it's the nature of our business and 39% is probably a little bit higher than average (26:43) losses on that. And I think if you look at the year-to-date ratio, it's 34%, and that might even be a little bit in the (26:49) side. There's going to be more reasonable place for your forecasting, and it's just a reflection of where we are in the market cycle. And in terms of third and fourth quarter premium, you've heard about the pricing, I think, at property cat. Premium will come down a little bit. You've also heard about political risk as lumpy, and I think compared to last year, we had quite a big chunk in there for the second half of the year. So that may come off of it. Maybe the (27:15) changes that I would see in our overall bid.

In terms of our full year premium earnings, I don't think it ever did as far as this. And where we were last year, there's obviously the Cathedral business coming through as well that will - just got up a little bit. So I think if you justice (27:31) for those two lines of business, you're probably going to get something that's fairly sensible. And in terms of the expense ratio, the amortization charge that we have is a big part of that. And that it isn't everything (27:47) that there are also costs in there for TCM (27:51) and I think (27:54) before Cathedral, the underwriting income and the profit commission potential, but Darren is also pretty expensive to have around. So we have to pay for him and some legal fees.

And also going to say there is a certainly different structure from what was in our vehicles before. We pick up all the costs for the vehicle and charge back at appropriate (28:13) cover that. So you will see higher (28:17) coming through from that for this offset and more than offset by (28:18).

Q - Olivia S. Brindle {BIO 17273762 <GO>}

Okay. So just to clarify on two of those things, so 34% accident year is probably where you are, run rate, more or less at this point in the cycle? And then just on that experts pressure point, so the – if we adjust property to the one-offs from compensation, that's the kind of run rate we should be looking at, correct?

A - Elaine Whelan {BIO 17002364 <GO>}

Yeah, yeah. I think so.

Q - Olivia S. Brindle {BIO 17273762 <GO>}

Okay. Thank you.

Operator

Okay. Our next question comes from Ben Cohen of Canaccord. Go ahead, sir. Your line is open.

Q - Ben Cohen {BIO 1541726 <GO>}

Hi. As most of my questions have been asked, I just wanted to ask in terms of sort of new business. And specifically, you have the new team coming on board. I just wonder where you are with discussions with any other people and whether there are opportunities in the market in terms of new hires. And maybe, secondly, also, you said that Lloyd's has approved the business plan for the new lines. I just wonder if you have any early view in terms of their view towards your capital requirement going into 2015, when -- now that the business will be better vetted down together. Thank you.

A - Alexander Maloney {BIO 16314494 <GO>}

Right. Ben, I'll just make a general statement and then I'll hand over to Pete. We are always open to business for new underwriting things. It's hard to find top quality people, which is why we were so delighted to get the aviation war guys. So we're always open to new things. But in this market, unless we can find the absolute leaders in any class of business, we won't even entertain it because the market is difficult pretty much across every line of business. The very best people will make you money in this stage of the cycle, so we're interested in those, but to have any grand plans or strategic views on entering lines of business just because you knew too well, because you've got huge expenses or your – you guys have control in this market is crazy.

So, yes, we're always open to – for business where we do have people. I'm not going to add though whether that's Cathedral, Kineses or Lancashire. Quite a lot, we have – if you think about those guys we took from Atrium that really, the only reason we got them was because Atrium is an entity 30:53. So we benefited from M&A and we expect to see more of that in the market.

So I'll hand over to Pete now.

A - Peter David Scales {BIO 2108933 <GO>}

Where we're at the new teams coming to pieces, there's (31:06) the aviation war piece, which we spoken about to get in a positive manner. We also have a second team who are the market lead of legal premiums. And the helicopters and GA (31:17) market who live in Lloyd's who, going forward, will produce a bigger income that (31:22) than the aviation war line, which we will take to our balance sheet because the aviation war guys will also operate a consociate, followed by other Lloyd's markets, which will put up effectively 60% or 70% piece of the line going forward. And both those areas are tremendously excited, that they're actually very excited to be here. They worked very hard. They're two team leaders above from their garden. So I'm not going to let (31:48) out, but the two definitely has done fantastic work in getting through the Lloyd's approval process.

So far as the capital setting goals, which goes hand-in-hand with the supplied multiple business plans, i.e. one further shank in 2014 and one for 2015 (32:07). As far as the capital at the moment is we – Lloyd's aren't really interested in a capital charge because we have some ongoing solvency credits that look on our funds at Lloyd's, and they are happy to effectively take that to go forward and doing assessment on the 2015.

We haven't had our 2015 funds at Lloyd's confirmed on our business plans, so that drops another month of so down the line. However, because Lloyd's' franchise board do recognize these guys (32:37) those preeminent market leads in a dislocate and typical, very much London market Lloyd's business, they've been keen to, as long as we've been through the proper hooks, help get people back in the market because the marketplace has been lacking some leadership in the way to take the thing forward.

And there is a value in people they saw of quality. So going forward, again, is probably an intercourse question. But we're more stabilized, we would have been through the planning process and signed up by Lloyd's on the capital side.

But within that, it's quite hard to tell whereas Lloyd's is a black box environment. We – the Syndicate levels will calculate our own capital. And that would be approved under Lloyd's guidelines, and then that would make lobby into the corporate member where there's some sort of diversification between the class of business within it. And that's not a calculation that is visible to us when get it.

So we suspect we will get a reason to go banging for a buck in terms of any additional capital versus additional business coming in. But even though they are serious market leaders in areas where there's been a bit of a dislocated, moving forward, it's very much a greenfield side they need to build out and going. And that would take probably a year or 18 months to get the books back up to where we want more to do then, all depending on where the markets is. But at least we are in a position where we have the market lead, the books are very clean, it's getting back to the market, and we have now (34:08) position.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay. Thank you very much.

Operator

Okay. Our next question comes from Joanna Parsons of Westhouse Securities. Go ahead. Your line is open.

Q - Joanna T. Parsons {BIO 1558226 <GO>}

Thank you. Actually, most of my questions have also been asked. But perhaps, I could just touch a little bit on the energy loss deteriorations that you've had in the previous quarter, just what's causing those? Is it a trend that we should expect to see on a regular basis?

A - Paul Gregory {BIO 16314515 <GO>}

Hi, Joanna. It's Paul here.

Q - Joanna T. Parsons {BIO 1558226 <GO>}

Hi.

A - Paul Gregory {BIO 16314515 <GO>}

As we've spoken about before, energy losses can be complete. Up until recently, we haven't had a huge amount of deterioration. We have had a couple in a row, albeit the one we announced last quarter, as Elaine mentioned, has improved quite significantly this quarter. It's not a trend that we would expect to continue, but it is a very complex area of insurance, and the claims that we see can take a little while to manifest sometimes. So whilst it's disappointing to get one, it is the nature of what we do. We haven't had a huge amount in our history. We just had a couple in a row.

A - Elaine Whelan {BIO 17002364 <GO>}

Yeah. And I think I would answer that. It was quite a bit of moving a range within (35:32) years ago, and overall, for the quarter, is still favorable. And overall, these are balances and remains good, remains strong.

Q - Joanna T. Parsons {BIO 1558226 <GO>}

Okay. Thank you.

Operator

Okay. Our next question comes from Chris Hitchings of KBW. Go ahead. Sir, your line is open.

Q - Chris D. Hitchings {BIO 2034501 <GO>}

Thanks very much. Chris Hitchings here. A couple of things, a couple of questions. One, it may be that I'm just stupid or to old not to give up, but the -- can you just tell me how much of the cost of Mr. Brindle's departure fell through the PML account and how much went through the equity in dollar terms?

Secondly, what is the position with Mr. Brindle on the non-compete clause? I – when is he particularly able to set up?

Thirdly, just can -- I know it's very early days, but can you give us some help as to what we ought to have in forecast for the third quarter event so far, the acquisition ones? Just give us some help orders of magnitude. I 'm finding it rather confusing at the moment. Thanks very much.

A - Alexander Maloney {BIO 16314494 <GO>}

Right. Chris, Elaine will do one and three, and I'll do two. Let's start.

A - Elaine Whelan {BIO 17002364 <GO>}

Sure. Actually, (37:01) it's probably easier to just explain the numbers in that period. And just our (37:07) cost of $1.8 million is there.

Q - Chris D. Hitchings {BIO 2034501 <GO>}

Yup.

A - Elaine Whelan {BIO 17002364 <GO>}

(37:12) statement charge and that goes into other operating expenses.

Q - Chris D. Hitchings {BIO 2034501 <GO>}

Yup.

A - Elaine Whelan {BIO 17002364 <GO>}

The RSS cost of $8.2 million and the dividend equivalents that relate to them are $1.6 million. They both go through shareholders equity.

Q - Chris D. Hitchings {BIO 2034501 <GO>}

So $8.2 million and $1.6 million are both shareholders equity?

A - Elaine Whelan {BIO 17002364 <GO>}

Yes. And the 1.8 (37:27) is income statement. And there goes the numbers combined in (37:31) for the quarter.

Q - Chris D. Hitchings {BIO 2034501 <GO>}

Yeah. Okay.

A - Elaine Whelan {BIO 17002364 <GO>}

The last number that's in there is essentially the (37:06) charge, an acceleration of IFRS-2 charges. So although it goes to the income statement and the equity comp line is there, it goes to the other side, it goes to their shareholders equity. So it's utterly neutral.

Q - Chris D. Hitchings {BIO 2034501 <GO>}

Fine. Sorry, but there is debit to profit loss account?

A - Elaine Whelan {BIO 17002364 <GO>}

Yes, yes.

Q - Chris D. Hitchings {BIO 2034501 <GO>}

And a credit, too. No - so there really was -- so what's the actual negative impact on the PML account? It's 1.8 (38:02) plus this accounting charge?

A - Elaine Whelan {BIO 17002364 <GO>}

It is. The negative in the PML is 5.3, the negative RoE is around (38:08).

Q - Chris D. Hitchings {BIO 2034501 <GO>}

Okay. That's fine. Thanks very much indeed. Okay. And the 3Q cats or competition Mr. Brindle?

A - Alexander Maloney {BIO 16314494 <GO>}

Yeah. Yes, sure, Chris. (38:23) on a sense, this contract fee, we cannot do anything between now and the end of the year. Technically, he should start his new company on the 2nd of January. I think that may happen, it may not. I would be surprised in this market, I think. So, yeah, Richard's got a fantastic brand name. I am sure he could get capital. But in this market, how do you get the business, how do you get the right underwriters. I think it could be very, very difficult.

Yeah, I mean that he could start up on the 2nd of January. I'll be honest to you. From my point of view, we have to compete with so many people everyday anyway. It's just not another personnel to compete with. And very relaxed about that, and I'm very relaxed about the key people we have. Yeah, he could definitely start the 2nd of January to win this market.

Q - Chris D. Hitchings {BIO 2034501 <GO>}

Okay. And the 3Q cats?

A - Elaine Whelan {BIO 17002364 <GO>}

(39:25) this reinsurance program will look (37:35).

Operator

Sorry. I'm just going to mute your line, Chris, whilst the answer's being given. There's a bit of background noise that's cutting away (39:46).

Q - Chris D. Hitchings {BIO 2034501 <GO>}

Sure. Thanks.

A - Elaine Whelan {BIO 17002364 <GO>}

Yes. I guess just to repeat that, the short story is we're not (39:51) at this stage.

A - Alexander Maloney {BIO 16314494 <GO>}

I think we can help just a little bit. If you are worried about the big airplanes, Chris, both the Malaysian airlines already meant the same thing, liability. One on the second, maybe. (40:08) a third, who knows. We don't know about that. The – both the numbers were so much what we would have the last time, which is on a 100% Cathedral basis will be that $5.8 million bucks net before you could enter the program. But maxi share of that is only 58%. They also – on a how much cover do we have basis, we renew our program (40:34) 16% saving at 1/7. And so it drops across two different programs as well. So there's tons of cover. We still haven't priced the future. The only other piece we have in aviation airline world will be on the range sharing side, we have a small amount of war (40:53). And again, there isn't much clarity on what's happened at Tripoli and quite where that falls in the range sharing side of that as now, it's closing the contract to 24 hours. And there will be the usual shenanigans of how many events that was. And frankly, you're a brave man to go and have a look right now to see which (41:14). So we'll come back to you on that, but again, none of this is, as Elaine says, is anything to really worry about. And it's probably manageable in the conversations we have.

Q - Chris D. Hitchings {BIO 2034501 <GO>}

Thank you.

Operator

Okay. So far, we have one further question. That's from Will Castle (sic) [Hardcastle] (41:43) of the Bank of America. Go ahead, sir. Your line is open.

Q - William Hardcastle {BIO 16346311 <GO>}

Hey there, guys. Will Hardcastle. Just a quick one. Could you just mention again what you said today on the finance cost, the deferred tax (41:56)?

A - Elaine Whelan {BIO 17002364 <GO>}

Sorry, Will. I find it really hard to hear you there. Could you say that again for us, please? Maybe speak up (42:03).

Q - William Hardcastle {BIO 16346311 <GO>}

Yeah. If you could just repeat what you said on the finance cost and the deferred tax, please? I – my phone broke up at that point.

A - Elaine Whelan {BIO 17002364 <GO>}

Yeah. On the finance cost, our debt and (42:15) running at low cost are going to be about $4 million subject to interest rates, obviously. But it's $4 million each quarter. So that (42:24) ongoing cost.

Q - William Hardcastle {BIO 16346311 <GO>}

Yup.

A - Elaine Whelan {BIO 17002364 <GO>}

And the rest of it is mark-to-mark on the interest rates swaps that we have in the line because they're subordinated debt. So you get some volatility off of that. But again, underlying trend is (42:37).

Q - William Hardcastle {BIO 16346311 <GO>}

Okay. And you mentioned something on the deferred tax. Obviously, you got no tax gain. Can you say it was the next year or last year – next quarter or the last quarter you said it's happened?

A - Elaine Whelan {BIO 17002364 <GO>}

That's right. The deferred tax liability that relates to the intangible assets has a finite life that we amortize out. That was done by the end of next quarter so – and it should make our tax numbers look a bit more sensible.

Q - William Hardcastle {BIO 16346311 <GO>}

That's great. Thanks.

Operator

Okay. Okay. So there's no further questions coming through, I'll hand back to our speakers for the closing comments.

A - Alexander Maloney {BIO 16314494 <GO>}

Okay. Thank you. Good questions and we'll see you next quarter.

Operator

This now concludes the conference call. Thank you, all, very much for attending. You may now disconnect your lines.