S1 2019 Earnings Call

Company Participants

- Alex Maloney, Group CEO
- Elaine Whelan, Group CFO and CEO, Lancashire Insurance Company Limited
- Paul Gregory, Group Chief Underwriting Officer and CEO, Lancashire Insurance Company Limited

Other Participants

- Andreas van Embden
- Ben Cohen
- Iain Pearce
- Ivan Bokhmat
- Joanna Parsons
- Johnny Urwin
- Kamran Hossain
- Kevin Ryan
- Nicholas Johnson
- Oliver Troop

Presentation

Operator

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

Today, I'm pleased to present, Alex Maloney, Group CEO, please begin your meeting.

Alex Maloney {BIO 16314494 <GO>}

Okay, thank you. Good morning, everyone. I'm pleased to report a strong set of results for the first six months of 2019. Our return on equity of 6.9%, with a combined ratio of 86.6% demonstrates our underwriting and investment strategies continue to deliver sensible risk-adjusted shareholder returns during a period of change in our industry. Our year-to-date return on equity is marginally higher than the corresponding periods for both 2017 and 2018 which makes sense to us. Our results are on track and where we thought they would be, albeit a with a slightly different blend of the investment and underwriting returns.

Our investment returns are higher than the corresponding period in 2018, given the move in yields and spreads and strong equity markets. Our underwriting results have been marginally impaired due to attritional losses mainly emulating from our onshore energy account. But these losses are within our expectations for such events and highlight the value of our policies and claim service, which we provide to our clients.

As the year has progressed, we have seen rating levels improve in virtually all the classes of the business which we underwrite, as demonstrated in our Renewal Price Index. We're also seeing more opportunities to write to new business as other shared business which allows us to offer our own pricing at levels we believe are more sustainable.

We have always said -- we've always had the view that we would flex with the underwriting opportunity, and that is reflected in our premium growth this quarter and for the year-to-date. We have grown our premiums 20% during the second quarter, with top-line growth of 9.5% for the year-to-date. But when adjusting for multi-year contracts and other premium adjustments, our underlying premium growth for the year-to-date is approximately 15%.

There has been a noticeable shift in sentiment during the second quarter of this year versus the first quarter where we are witnessing a more disciplined underwriting climate. We believe, this is driven by three main factors, loss creep emanating from prior year CAT losses, risk losses highlighting the anemic levels of premium in various classes of business and large carriers reducing their risk appetite. We still wouldn't call the current climate a hard market but there are more pockets of dislocation across a number of classes of business, which we underwrite. We expect rating levels to continue to improve through 2019 and into 2020 regardless of any CAT activity, we may witness over the summer.

Clearly, if we do see another CAT loss, or a series of CAT losses, we would expect the current pace of hardening to speeden up. We have always said that, we believe our industry is cyclical and we are now entering the next phase of the cycle. At Lancashire, we feel particularly well positioned to maximize this stage of the cycle. We have the right people, no legacy issues, and the capital to enable us to grow into the improving opportunity.

Finally, I'd like to thank all my colleagues for their continued hard work, and our shareholders for their support of our company and I'll now hand over to Paul.

Paul Gregory {BIO 16314515 <GO>}

Thanks Alex. The first half of 2019 has certainly been eventful and we're undoubtedly in the transitioning market. At the start of the year, we anticipated continued rating improvement in the specialty insurance lines and a broadly flat property CAT market, albeit noting, loss impacted territories, such as Japan and elements of the US portfolio are likely to show rate strengthening.

On the whole, our expectations have been borne out, and some areas marginally ahead of where we expected it to be. Our underwriting strategy has always remained constant.

This is to match risk and return as best we can. Up until the end of 2017, this has meant being stubbornly disciplined and shrink into a core portfolio of risk. We hoped that this would allow us to be well positioned when the market inevitably started to improve.

As the market started to show the first green shoots of recovery, we decided that the time is right to cautiously grow, whilst always remembering how far rates had fallen. Guides have folded. In 2018, we were able to deliver underlying growth of approximately 20% and so far this year, underlying growth is at approximately 15%. This growth is from rate improvement, our new teams and new business from existing product lines. Our new teams have contributed just under GBP30 million, in the first half of 2019, noting that the aviation team write the majority of their premium in Q4.

In the insurance lines, we've seen positive rate movement in energy, aviation, marine and property D&F with rates gaining momentum through Q2 in the last four of these product lines. Some of these lines are now seeing double-digit rate increases at the half year, including marine, onshore energy, property D&F, and certain aspects of the aviation portfolio.

It's always worth noting that our RPIs do not include rate movement on new business and often the RPIs on our new business are better than we see on our renewing portfolio. In reinsurance lines, there was a clear bifurcation of ratings in Q2 versus Q1 as loss impacted territories renewed in Q2 skewing the RPI higher. This is something we expected and clearly signaled in our previous commentaries.

We have historically been underweight in Florida, but we've always said that as the underwriting opportunities improve, we will enter this market. The June renewals provided us with an opportunity to build out a modest new Florida property CAT portfolio from our Bermuda platform as well as grow and further improve our syndicates portfolio. Capacity tightening and loss creep created an improved rating environment. So we decided that now was the time to build some foundations in Florida. I believe this move encapsulates our underwriting strategy.

We've seen the retro market continue to tighten through the course of the year and therefore rating levels have continued to improve. Our main platform for retro writing is Kinesis and we were able to grow Kinesis again at mid-year. We've been able to grow Kinesis limit deployed by just under 50% in the past 12 months and we are now approximately 80% larger than this time two years ago.

What is most pleasing, is that in an ILS environment where it's increasingly difficult to grow, we've been able to do so. This does not of course mean we immune from increasing investor scrutiny far from it and this is likely to continue. But at least it demonstrates that our disciplined approach is giving us a platform to benefit from an improving rating environment. Whilst we're obviously very happy that rates have improved across almost all of our product lines, we've always said we're coming from a low base. This may have been seen by some as negative tone. Our view is it is simply realistic, and we think that the first half of '19 demonstrates this.

Our combined ratio of 86.6% is very respectable, particularly given the market has seen a number of large risk losses in such as aviation, marine and energy, plus loss creep from the 2018 catastrophe events. None of these are necessarily out of the ordinary, but certainly put pressure on underwriting margins and demonstrate that whilst rates have been improving over the past 18 months, they're not yet at a level the allows the market to easily absorb such losses. However, these losses certainly help the market maintain its resolve and continue its momentum.

So in summary, we we're really pleased with where we're at from an underwriting perspective. Rates across most of our portfolio are improving and in most cases, this is the second year of rate rises. Our new teams have bedded in well and the market conditions in those lines continue to improve, making our timing look favorable. Market conditions have allowed us to grow and further optimize our historic lines of business and build out Kinesis in the appropriate underwriting environment. As market conditions continue to improve, we'll look to grow in line with that opportunity, whilst always remember in the relative level of rates.

I'll now pass over to Elaine.

Elaine Whelan {BIO 17002364 <GO>}

Thanks, Paul. With strong equity markets plus the reduction in treasury yields and the narrowing of credit spreads, our investment portfolio has performed well and produced a return of 3.2% to the half year. Our underwriting results were also good with the combined ratio of 86.6% and we therefore produced t ROE for the half year of 6.9%. Comprehensive income for the half year was $68.7 million.

As Alex and Paul have boasted, markets have performed very much in line with our expectations this year so far. While the 1/1 renewals were broadly flat from a pricing perspective, our April and Jun renewals saw rate rises, which we benefited from. We also took the opportunity to add some direct Florida exposure to our books to take advantage of the improved pricing we saw there. So while we still had dampening effect from multi-year contracts that were not yet due to renew, our premiums are up 9.5% overall, but as Alex, said with underlying growth more like 15%.

As the third quarter isn't the major renewal period for us, we wouldn't expect much in the way of new business, but do expect to see more meaningful new business flow at the aviation renewals in the fourth quarter. Our reinsurance spend to the half year is significantly up on last year. As we've previously discussed, we renewed most of our expiring program on reasonable terms, but we also have a combination of additional cover purchase, timing impacts and reinstatement premiums impact on that number.

Additional cover was largely across the new lines of business we added, across also growth in the lines where we put quarter share cover in place. The timing impact is in relation to cancelling and replacing cover in our energy book and the reinstatement premiums are largely driven by development on JEBI. With the new cover we've added for the new lines of business, our spend for the year should be quite a bit higher than last year's. Although this quarter, share covers are dependent on the end risk volume.

The increase in ceded premium relative to risk book has meant the net earned premium for the half-year has not increased to the same degree as our top line increase. In addition much of the new business added is recent and still has to produce earnings, that effect should normalize somewhat over the course of the year.

On losses, we didn't have much of note reported in relation to the current accident year, although, we did see a slight increase in the attritional claims being reported. We also had some late reported energy claims from 2018 accident year coming through and had some adverse development on the prior accident year sovereign claim, plus a handful of small claims at Cathedral. Otherwise, we had some general IBNR releases due to a lack of reported claims in coming through. While we experienced loss creep on JEBI as others have, it's largely within our reinsurance program and therefore much more of a reinstatement premium impact.

Happily the 2017 and 2018 event, net reserves have been broadly stable. Neither the uptick of attrition, nor the prior accident year claims trickling through give us any cause for concern or change the way we think about our reserves or the attritional ratios we've been you guiding to. It's just the slightly lumpy nature of our book, given the lines of business we write.

As I mentioned, investment returned 3.2% for the half year with all of our asset classes having a positive contribution to the return. Most of the return comes from our fixed maturity portfolio and we have some nice support from our bank loan, hedge fund and equity exposures. With the fair change in stance we've removed some of our interest rate risk hedging, although, our risk assets remain a natural hedge to interest rate risk. With the removal of our interest rate hedge, situation naturally stepped out a little.

We don't intend to increase that any further at this point until the curve normalizes. We do anticipate rate cuts going forward, but believe that's been largely priced in and we've already seen the benefit of that in the first half of the year. There is therefore no changes in our portfolio positioning or strategy.

G&A is largely in line with the same period last year, although we do have the benefit of lower year-on-year sterling exchange rates this year. That has offset, general salary increases and the additional costs of our new teams. Our financing costs have increased a little give an increased debt costs and also our adoption of IFRS 16 on leases. That's moved some of our lease cost from G&A to financing for the overall net impact was minimal.

Lastly on capital, we continue to be comfortable with our current level of capital. We'll more than adequately support the book we hope to write this year. As ever, we'll monitor underwriting opportunities and adjust our capital accordingly.

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

Questions And Answers

Operator

(Question And Answer)

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

Q - Kamran Hossain {BIO 17666412 <GO>}

Hi, everyone. Just a few questions. And the first is on the I guess on the premium this quarter. Could you maybe give a split if you have it? I know it's probably not that simple between kind of renewal business and kind of new business as a kind of indication. The second question is basically around Q2 standalone, because if I back out what your rate increases in Q2, standalone, obviously there has been a pretty remarkable acceleration and I get to something like 11% of rate in Q2. Could you maybe comment on that and within property and the I guess the rate rises you've seen there, is this mainly D&F from which I kind of understand is really going through the roof at the moment. Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

So Kamran, I'll give you a sort of a general comment about Q2, and then Elaine Whelan can take the new business thing, and Paul Gregory can talk about D&F. So we have witnessed a change in sentiment in Q2 versus Q1, and even towards the end of Q2 things were definitely getting more interesting. So yes, the market has definitely moved on from Q1. Things just feel a lot better, and we all are seeing noticeable changes in different kinds of product lines. Obviously, anything that's at Lloyd's or anything where people have moved out of classes of business is moving more than other classes. But yes, there is a noticeable change in Q2 and that's how we've grown into the opportunity. So that's why you're seeing the jump.

A - Paul Gregory {BIO 16314515 <GO>}

Yes and in terms of the number on the RPI Kamran, you're not a million miles away.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay.

A - Elaine Whelan {BIO 17002364 <GO>}

And in terms of new business versus in renewal business and there are a number of moving parts within there. There's always multi-year impacts reinstatement premiums, other bits and pieces. But new business for the half year was probably especially around about kind of $60 million ish level.

Q - Kamran Hossain {BIO 17666412 <GO>}

Okay. That's really helpful. Thanks very much.

Operator

The next question comes from the line of Johnny Urwin from UBS, please go ahead.

Q - Johnny Urwin

Hi guys. Thanks so much. So it's a pretty bullish on the outlook today, which was a nice change. I just have one question around capital. So Elaine you mentioned that you think the capital profile good enough to support your underwriting plans for this year, but how should we think about that in future years, particularly given a small move back into Florida, I appreciate that much of the specialty growth is lower capital intensity. But I'm just trying to gauge your thoughts on the next two or three years.

A - Elaine Whelan {BIO 17002364 <GO>}

Yes, I guess if you think about the way, that we think about capital it's always matching it to underwriting stressing it, and then putting buffers on top of that. So we're always making sure that we've got plenty of capital there to take advantage of opportunities, and that's exactly what's happened this year, so you're absolutely right, the specialty business takes way less capital, but we have increased our cap footprint in Florida this year and it hasn't really meant very much as to a capital perspective. So we still have decent buffers in place to take advantage of any new business opportunities on the cap side.

Q - Johnny Urwin

Okay, thank you. And then just one more quick one on the attritionals.

So I know guidance is mid-30 and it's hard for you guys to pin it down, because there's always some quarterly variances, but just thinking about the rate that you've earned last year and this year, how should we think about that guidance going forwards?

A - Elaine Whelan {BIO 17002364 <GO>}

Nothing has really changed in terms of how we think about that as yet. We have that said the new lines of business that we're adding are a bit more traditional in nature and that's why we increased -- 36%, 37% guidance that we gave you last year. Our accident year loss ratio looks a little bit higher than that, but if you back out some of the claims that we've had I would a bit higher than the attritional then it really kind of get right back into that 36% to 37%.

Q - Johnny Urwin

Brilliant. Thank you very much.

Operator

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

Q - Kevin Ryan {BIO 1814771 <GO>}

Many thanks. I just wanted you to ask a question around the prior year reserve releases. There seems to be a bit of a market-wide issue with JEBI costing a bit more and also the California fires and I was just wondering if you could offer any more put a bit more flesh on the bones of how you're seeing some of your bigger claims pan out -- and whether what we've seen this half is likely to push on into the second half, and into 2020. Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

So I think, as you identified, JEBI is the biggest mover this year. We think the loss creep from JEBI and Michael, just this year is about $8.5 billion, I suppose, we've been very vocal in the past about CAT losses, and creep and we've always tried to say reserves at a conservative level. Obviously, these events are quite difficult to calculate, but I suppose the JEBI loss creep and other CAT losses creep-in is no real surprise to us, and thankfully it's not massive issue for us. But it clearly that's one of the factors that probably aid in the market move forward on rates and levels. So I wouldn't say we're wildly surprised. I think all the commentary that we have read from others is consistent. We're just not that surprised really.

Q - Kevin Ryan {BIO 1814771 <GO>}

Thanks.

Operator

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

Q - Nicholas Johnson {BIO 1774629 <GO>}

Hi. good afternoon. Just a question on reinsurance spend. I think particularly on the new lines of business can you just discuss whether that will reduce at some point and give us perhaps a feel as to when that might be? Thanks.

A - Elaine Whelan {BIO 17002364 <GO>}

And I think a lot of the new reinsurance that we've been putting in place on the new lines of business is more of a quota share type cover other than excess of loss type cover. So in terms of the magnitude of that, it really depends on what the risk book does. We do have a significant quota share on our aviation deductible book, which we mentioned in the past. So the more of that business that we write, then proportionately we'll be ceding a bit more as well. So it really is driven by the opportunity that we see on those new lines of business. So on both the Lancs and Cathedral sides of the business is more quota share in place.

A - Alex Maloney {BIO 16314494 <GO>}

Yes. Nick, I think it's very class specific. Obviously as a general principle if the market got more interesting, we would like to take more risk and one of the ways you can take more risk is by less reinsurance. But clearly, as Elaine said I think the change you're seeing really is more about the underwriters that we've brought to the company and the best way that we feel to protect those portfolios, but as a general principle as the market hardens, you can take more risk and one of the ways to do that is by less reinsurance. But we're not there yet.

Q - Nicholas Johnson {BIO 1774629 <GO>}

So on the new books is a case of maybe waiting two or three years and then reconsidering the sort of reinsurance structure or would you have about anticipate in the same structure on these new lines in the long term?

A - Paul Gregory {BIO 16314515 <GO>}

So it really depends Nick, on each in each class of business and the market conditions at the time -- is that, as Alex said there are some of the classes that -- market conditions is really improved and reinsurance market got -- even tighter then we may look to retain more, but that'll be driven by market conditions and then was something like aviation deductible that's more suited to the type of reinsurance, we purchased there, again you can flex how much of that you buy or don't buy so -- sorry -- it's not a very concise answer, but it really does depend on the line of business and where you are in the market cycle.

A - Alex Maloney {BIO 16314494 <GO>}

And obviously Nick our kind of play really is to try and make margin out of difficult volatile classes of business, and when we're buying reinsurance, we are trying to take out some of the volatility. And our share prices will clearly pick up losses.

Q - Nicholas Johnson {BIO 1774629 <GO>}

Okay. Thanks. And can I just kind of as just a quick other question -- more of a formality really, but you've had significant reinsurance recoverables I think from the JEBI loss in the first half -- if you just give us a feel for how much limit remains on those -- those reinsurance sections.

A - Alex Maloney {BIO 16314494 <GO>}

Yes. We -- Yes -- we got no concerns on that, on that, Nick. Obviously, they relate to 2018 and that was the only material loss and we've got no concerns about reinsurance cover on the JEBI loss in particular.

Q - Nicholas Johnson {BIO 1774629 <GO>}

Okay. Great. Thank you very much indeed.

Operator

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

Q - Oliver Troop {BIO 20944194 <GO>}

Hi, Yeah. Good afternoon, everyone, a couple of questions. Firstly, you're wanting 1/250 year peak zone exposures, and -- I noticed a they ticked up quite a bit over the first half. Can you just explain what's going on there? And also just whether that's going to have much of an impact on your required capital? And the second question, I wonder if you could just give a brief update. Obviously hiring new teams as a big driver of your -- of your growth last year, maybe you can give an update on how you're getting on with your discussions with potentially hiring more new teams? Are you having many productive discussions? What's the outlook there? Thanks.

A - Paul Gregory {BIO 16314515 <GO>}

Okay. I'll take the new teams and also the first part of the question around PMLs. So on the 1/250 PMLs. As we said we have we've been writing some more business and we've been writing some more business in certain CAT territories like Japan and Florida where the rating environment has improved and obviously when we write more risk, our PML levels can increase. We've written that from our Bermuda platform primarily and our Bermuda appetite for CAT risk tends to sit at the high level of programs, which is why you see that coming through this 1/250 number. In terms of capital, I'll let Elaine talk about that.

A - Elaine Whelan {BIO 17002364 <GO>}

Sure. And so we've got individual P&L tolerances, which is what you're seeing moving and then we've got plenty of headroom within those. They're not really our capital driver by themselves. We look at the rating agency models to drive our capital and there's different measures of exposure within those models and diversification benefits et cetera. So it's really those that are driving the requirements and not the individual PMLs.

A - Paul Gregory {BIO 16314515 <GO>}

Okay. And on and on and on the new teams. We constantly talking to people. And people are constantly coming to our door with business plans. As we've said in the past, we're actually more positive about the market now as you can probably tell and therefore it make some of these conversations easier, but fundamentally we look at things as we've always looked at them and if we think a person or a team, can add to our underwriting profit over time and the market conditions allow that then obviously we'll do what we can to bring those teams in and there are numerous conversations going on at the moment. We're always having numerous conversations and in 2018, as you know we were able to land three new teams and if we can find another team, that we think can add to our underwriting underline profitability then we'll do it.

Q - Oliver Troop {BIO 20944194 <GO>}

Great. Thanks very much.

Operator

The next question comes from the line of Andreas van Embden from Peel Hunt. Please go ahead.

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

Yes, good afternoon. I just had a question around your Florida -- sort of growth. You say you're sort of laying the foundations there. How much premium that you write in Florida sort of in the second Quarter? And is this going to be sort of an ongoing building of that book? I -- sort of next year are you going to sort of add a bit more? And this is going to be sort of a three to five year strategic sort of view, you're going to take? And if so what, what type of book would you like to build in terms of premium volume taking in a medium term view of 3 to 5 years. Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

Alright Andreas, Paul will give you the details, but in the very early days at Lancashire, we -- which is what we still do, we just look to deploy capital where we can get the biggest returns. So in the early days of Lancashire, that was Gulf of Mexico energy CAT. So we deployed most of our capital down and we didn't really want much to do with Florida, which I think was a mistake now. And Florida is the biggest CAT market in the world and I think we had one Florida specific contract, which just didn't seem right to us. So I think with rates going up in Florida, we just saw it as an opportunity to build a position.

We should have a position in Florida. What I would definitely say to you is that, when we come up with that plan to, to have our Florida exposure we I suppose you have three different views of depending on where rates went and the portfolio that we've built currently I would describe as incredibly modest. But although rates are up in Florida, and that's great, we don't think it's a hard market and we don't think that's brilliant. But if Florida was went through to the next pricing level clearly we would be very keen to expand heavily into Florida, because it's the biggest CAT market in the world and we should have a position there. So I think what we've done this year makes sense and there is an opportunity, but it's not a hard market.

A - Paul Gregory {BIO 16314515 <GO>}

Hi Andreas, just to answer your number around, how much premium growth did we see in Florida, which I think was the initial part of your question. Approximately looking at what we did from Lancashire Bermuda and then some growth we were also able to have that the syndicate approximately it was $10 million, the majority of that did come from the growth from the Bermuda platform.

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

Okay. Thank you.

Operator

(Operator Instructions). The next question comes from the line of Iain Pearce from Berenberg. Please go ahead.

Q - Iain Pearce {BIO 19522835 <GO>}

Hi, everyone. Two questions from me. Firstly, just a point of clarification on the reinsurance spend on the new teams, I think when we've previously spoken, you've talked about that quota share being in place, mainly while you sort of test and learn and grow those teams out. Obviously with the sort of rate environment improving all else being equal, should we be expecting that reinsurance spend to full? And then the second question is mainly on Kinesis. Obviously you've had some good growth there, I'm just trying to understand what stops you looking to grow the funds in that business more, especially given the sort of large fund raises as, we've seen from some competitors in the market, and if you think those fundraisers might have an impact on the market going forward. Thanks.

A - Paul Gregory {BIO 16314515 <GO>}

On Kinesis, as you know, we have, we have put on some decent levels of growth not only this year, just under 50% in terms of limits deployed, but also by versus two years ago where we are now 80% up. I do appreciate that's not at the level of some competitors, but then there are a number of other funds in that world that are not growing at all. The argument was there were a number of opportunities at mid-year that made sense for us to underwrite and we did. There were a number of other opportunities that didn't hit the return hurdles that we required that our investors in Kinesis required. So all we're doing with Kinesis is doing what we've always done, which is if there's opportunities out there that makes sense and can hit our required return hurdles, then we'll write as much of it as we can, but we're also prepared to walk away from business. And whilst the retro market is improving and has continued to improve through this year, it still wouldn't be what I'd call, a really hard retro market, it's just a hardening retro market.

A - Elaine Whelan {BIO 17002364 <GO>}

On the reinsurance side of things and I think as Paul said, it's always going to be subject to market conditions. We do have our quota share in most of those new lines of business like variations deductible, we have a significant quota share there and that's likely to remain there for the foreseeable.

A - Alex Maloney {BIO 16314494 <GO>}

Yes. I wouldn't say we're buying quota share on these new lines as we -- learn the class, because we just -- we wouldn't be in a class if we wasn't confident, we couldn't make money, I think the different way to look at is some of the new classes, we've gone into a aviation deductible is the best example. The guys that we brought in had some quota share relationships at that they've brought to the business. So that's the way they have constructed their portfolios in the company. I used to be in and that's sort of brought that to Lancs or Cathedral, so it's definitely not a -- we're not buying quota shares too before we get comfortable with the class, it's just those underwriters have protected our books in a certain way and we bought those reinsurance relationships to the Group.

Q - Iain Pearce {BIO 19522835 <GO>}

Okay, understood. Thank you.

Operator

The next question comes from the line of Joanna Parsons from Canaccord Genuity. Please go ahead.

Q - Joanna Parsons {BIO 1558226 <GO>}

Thanks very much. Two questions from me. Firstly, in terms of the claims activity, you've seen and you've talked about the fact that your attritional loss ratio will probably creep up, because of the new books of business. Just wondering what's going on with the existing book, and whether you've seen any -- whether losses are one-off or whether there are any trends developing there? And my second question is on the multi-line -- sorry multi-year policies that you've been writing, given the way that the rating environment is moving, are you still writing multi-year policies or are you now looking to just let those run off and write single-year policies, because of the a better rating outlook.

A - Elaine Whelan {BIO 17002364 <GO>}

Hi, Joanna. We do have more attrition in lines of businesses that we brought into the business. The existing lines of business not really any change there, it's more that the new lines that had brought up that and estimate that we've given you to work with. There are always one off exceptions. I know it sounds a bit ridiculous, but it's true. And so, one of you might have a quarter or two where there is a tick-up in attrition. But it doesn't really change the overall view of the book and in those existing lines of business. And on the multi-year policies and some of our lines of business are just -- they're just more typically prone to multi-year policies. So if you look at things like political risk terror some of the energy lines of business, you just get policies in there that are multi-year or non-annual. And some of the other lines of business there is a relationship angle to it as well -- where we might write some multiyear cover for client and some annual coverage for them, and it depends on what clients are looking for. And there's a hedge both ways in terms of where pricing is going.

A - Alex Maloney {BIO 16314494 <GO>}

But obviously, Joanna, if we sit here and we think rates are going up. We clearly don't want to tie our book up in multi-year contracts. But said, I think you've got certain classes business that all multi-year that's the way the business is done and but clients, we got CAT clients that hedge part of their programs and we will continue to do that for them. But, yes we're not going to lock in at today's prices. If we think prices are going up and that's the way we've always viewed it.

Q - Joanna Parsons {BIO 1558226 <GO>}

Great, thanks.

Operator

The next question comes from the line of Ivan Bokhmat from Barclays. Please go ahead.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Hi, Good afternoon. I've got one question on the breadth of rate increases. I'm just wondering whether we can now confidently say that we see rate increases outside of the loss affected lines and perhaps you could actually highlight some of the lagging lines where we're not seeing the improvement on that -- across the book? Thank you.

A - Paul Gregory {BIO 16314515 <GO>}

Yes, okay. So the only area really that we're not seen rate improvement is on the terrorism portfolio. There still remains ample capacity in that market, it's not anywhere near Lloyds decile 10 class and as a result people are still reasonably bullish in that market and there's no lack of capacity. That only means one thing for rates. They are all reasonably stable you're only talking a point or two off. But in every other line we are seeing some degree of momentum. It does differentiate between lines. And I think those lines seeing the better rate increases are certainly those lines of loss activity, certainly those lines that have been within the Lloyds decline 10 approach. And also those lines that have seen some of the larger players reduce or pull out. Does that answer your question?

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Yes, I suppose so. I'm sorry, on the large players pulling out. I think so far then there had been one big start-up set up the over summer. I mean what's your outlook, do you expect more, more capital being drawn in by those rather bullish commentaries that you and many of your peers have made?

A - Alex Maloney {BIO 16314494 <GO>}

Yes, I mean look. Clearly if they didn't start up, that would be better. But in fairness I think the people running that business are sensible people, I don't think they think anything crazy and clearly they're setting the business up today, because I think the underwriting opportunity is going to improve. So I don't see that as a massive issue and I think in general there is enough pain in the system now, where -- I think the market moves on from here. So I don't think we go backwards from here, even with Convex starting I don't know it's a massive issue for the market and as Paul said, we have seen very large carriers pulling back and that's creating opportunities.

And I think this is all -- this is just a realism of where we are. You've had two difficult years. You can look at multiple classes of business, where you like aviation is a good example or very recently satellite you have one loss and that one loss takes the whole class's is premium for the year. That just shows you how much right the market has given up during the soft market. So yes, we're positive, yes rates going up, but before this industry gets back to anything, that's sustainable, we think rates need to move on quite a lot from here and I think this is the start of that process. And again we've said many times we think our industry is cyclical. And for me this is kind of we're all going back to basics part of the cycle and everyone's going back to actually underwriting which is something that we've been talking about for a long time. And we'll go through that part of the cycle and then we'll be giving reductions in three years' time or whenever that is and that's what happens.

Q - Ivan Bokhmat {BIO 15378004 <GO>}

Thank you very much.

Operator

(Operator Instructions). The next question comes from the line of John Urwin from UBS. Please go ahead.

Q - Johnny Urwin

Thanks. Just two quick follow-ups, please. So firstly, I guess the terminal pricing is positive, it has been across 2Q reporting. But is we've also got to know that Renre just raised $700 million third-party capital -- so. I guess what's the risk that the retro market just becomes a bit easier again and that limits the momentum? And then just a quick clarification -- so 15% underlying growth in 1H that's premium right not volumes 7% rate increases roughly an 8% volume growth. Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

So look, I think. Yes, clearly our market is driven by supply and amount of capital. So I think if huge amounts of capital are raised in the retro market that is clearly going to add more supply and that's going to affect on rates and I that's just what happens. I think for us the opportunities -- If you look at the weight of opportunity, we've got it's more specialty at the moment. So I suppose at the moment we are more interested in the specialty market very much as Paul said, the way we look at retro. And clearly we're Renre, but when retro got tight for the sort of June 1 renewals, we thought that market improved. And I'll give you a real life example. You know the cheapest you could buy top end retro was six online, probably at June 1, it went to 8 online and our view of something close to a hard market for those type of layers would be 10 online. So I think for us, we see most of our opportunity in what we describe as specialty at the moment and you have to remember specialty is a very different business to CAT business.

So you just don't have third-party capital providers turning up in the energy market tomorrow. It just doesn't happen. So I think that's why we're quite confident that specialty continues. The CAT market what will be driven about by what happens in the wind season, I think and even absent a windstorm I think with JEBI loss creep some of those third-party capital providers, even if the wind doesn't blow this year. I don't think they're going to settle down there and say, this is the time to double down in our industry. So I'm the less worried about that. Clearly, there's always the fear factor that can happen I'm just not that worried about it.

A - Paul Gregory {BIO 16314515 <GO>}

And on the underlying growth. John. Yes 15% is premium.

Q - Johnny Urwin

Thank you very much.

Operator

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

Q - Oliver Troop {BIO 20944194 <GO>}

Hi. Yes, just a quick follow-up. I wondered if you could just give a brief update on the energy market. The 4% price increase was maybe just the one area, which was maybe a bit less than I was expecting. So maybe if you give a brief update and kind of no break it down between onshore, offshore, upstream, downstream that kind of thing. Thanks a lot.

A - Paul Gregory {BIO 16314515 <GO>}

Yes, sure. So that the upstream, downstream market are in quite different places at the moment. And obviously traditionally well and now the bought the bulk of our energy book is upstream. Now the upstream market has performed reasonably well over the last couple of years. So it hasn't been in Lloyds decile 10, you haven't really seen people pull out of the class, and therefore the rate rises that we've been seeing on the upstream energy book are broadly in line with last year, which was around 3%. It's positive, but it's still moving in the right direction, but as with all things unless there was a retraction of supply or a massive increase in demand, it's not going to motor ahead.

Completely different in the downstream energy market. People have pulled out. There were some big players reducing lines. There have been a lot of losses over the last few years and you are now seeing pretty standard claim business renewing at double-digit rate increases. But because the blend of our portfolio is more upstream currently, that downstream RPI is obviously dragged down in the blend we've got is the 104.

Q - Oliver Troop {BIO 20944194 <GO>}

Okay understood. Thanks a lot.

Operator

The next question comes from the line of Ben Cohen from Investec Bank. Please go ahead.

Q - Ben Cohen {BIO 1541726 <GO>}

Hi, I had some two questions, please. The first was just, just sort of in the sort of market environment that we're in, if this continues, is there any reason structurally given, I guess what's changed over the last few years, why you couldn't get back to historic peak levels of premium for the business adjusted for our focus Cathedral? And the second question was just trying to think about the size of a potential special dividend -- to the extent that growth is matching sort of price increases, should we assume that effectively you would still be able to return all of all of the profits that you, that you earn? And I guess that also talks to the earlier point about diversification in terms of what you're, what you're seeing how much, how much diversification are, are you getting in the growth that you're, that you're achieving at the moment. Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

On revenue clearly if the market moves, we'll writer more revenue as we've demonstrated. So that's, that's just a function of where the market goes and how far does the hardening go. So I think on the revenue front, yes, I mean clearly I think I think our peak we were just under GBP1 billion, I think. I think we can replicate it, but if the market gets there -- we're only going to get there if the market gets there. We're not really worried about that. If something crazy happened and the market really hardened, and then we'd look to get as big as possible, if it made sense. That's always been the play it Lancs, it has always been -- we underwrite the opportunity and if the opportunity is not there, we can give the capital back and if opportunity is there, well we'll try and deploy more and that's the way we think about things.

Q - Ben Cohen {BIO 1541726 <GO>}

And sorry on the interplay between sort of price and underlying volume growth and how much capital you need to retain to grow?

A - Alex Maloney {BIO 16314494 <GO>}

So, again if it's specialty that's a difference of capital, requirement to CAT, and in general CAT -- if we start to in a write -- retro is the best example. If we started to write a lot of retro, that eats up capital quite quickly -- if you write loss to terrorism that doesn't. So it just depends where the opportunity is. And because we're quite small we're quite nimble, and we can get to our capital requirements is quite easy. But we can generally assess not quite real time, but pretty quickly, what we need to, to run our business and then Elaine talked about told how much money we've got to either spend will give back to shareholders.

Q - Ben Cohen {BIO 1541726 <GO>}

Right. Thanks very much.

Operator

(Operator Instructions). The next question comes from the line of Darius Satkauskas from KBW. Please go ahead. Seems that question has been withdrawn. Once again, ladies and gentlemen, if you would like to register for a question. There are currently no further questions, I'll hand the conference back to you, Speakers.

A - Alex Maloney {BIO 16314494 <GO>}

Okay, thank you for your questions. Thanks for calling in, and goodbye.

Operator

Ladies and gentlemen, this now concludes our presentation. Thank you all for attending. You may now disconnect.