FINAL

Bloomberg Transcript

Q4 2011 Earnings Call

Company Participants

- Alex Maloney, Group Chief Underwriting Officer
- Elaine Whelan, Group CFO
- Neil McConachie, President
- Richard Brindle, Group CEO

Other Participants

- Adrienne Lim, Analyst
- Ben Cohen, Analyst
- Chris Hitchings, Analyst
- Fahad Changazi, Analyst
- Jonny Urwin, Analyst
- Nick Johnson, Analyst
- Ron Bobman, Analyst

Presentation

Operator

Welcome to the Lancashire Group PLC Q4 results conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. Please note that this conference is being recorded.

Richard Brindle {BIO 1983776 <GO>}

Okay. Are you handing over to me now?

Operator

Richard, you may begin. Thank you.

Richard Brindle {BIO 1983776 <GO>}

Okay. Sorry. Thank you. I just wasn't sure you'd handed over. Thank you, very much, everybody, for dialing in. As you will have heard elsewhere, 2011 was a remarkable year and we feel we have produced a more than solid result. It is somewhat depressing that even last year's losses have not proved sufficient to create a broad based hard market.

While we'd like to think that investors will demand an improvement on the nugatory or, in many cases, negative results produced by our peers and that this demand will bring with it greater underwriting discipline and more active capital management, there are signs of many companies de-risking, especially in international catastrophe business. But, the jury is out on whether this will move the wider market materially. We, of course, hope that it will. But are not ready yet to join the more optimistic voices on this issue.

Having said that, there are reasons for us at Lancashire to be cheerful due to our nimble approach and the balance of our portfolio. Alex will give greater detail. But the retro renewal season at 1-1 was strong and we were able to take more than our fair share of that business with the help of our sidecar partners.

US property cat offered attractive opportunities, albeit, when adjusted for model change, that market cannot be said to have moved substantially.

We have worked closely with our clients and brokers in Japan since last November to see how we can provide capacity that is both helpful to them and attractive to us. And we feel very comfortable that we will be able to add well-priced business at 1-4. And again we will be able to take a disproportionate share of this market with the use of the step-up in Accordion that you will have seen announced elsewhere this morning.

Energy is a big part of our story and is showing modest rate rises. So, again, we are relatively well provisioned there.

So, overall we're off to a good start to 2012 and mildly bullish for our own prospects this year. But frankly dismayed at the behavior of our industry as a whole. And we will just have to continue doing what we do.

On that note of continuity, you will have seen the announcement about Neil. He doesn't want me to bang on too much about him, being the self-effacing chap that he is. But his contribution to our story has been immense and we are sad to see him leave our full-time employment but delighted that he will be part of our team for the long term, initially on a part-time basis and then as a Non-Executive Director.

As for me. And perhaps to the consternation of my colleagues, I remain committed to Lancashire for the long haul. And with that, I hand over to Alex Maloney, our Group Chief Underwriting Officer. Alex?

Alex Maloney {BIO 16314494 <GO>}

Okay. Thank you, Richard. A year ago, we reviewed 2010 and asked how much more losses needed to turn the market after the major events in Chile, Australia. And New Zealand with overall insured cat losses of $25 billion. We are now looking back at 2011 with over $110 billion of insured cat losses and asking the same question.

Clearly, the answer is not $110 billion, or at least not as the bulk of claims fall outside of the USA. The numbers are shocking, although the human cost must weigh more heavily. Twelve events with losses greater than $1 billion, the largest ever earthquake losses in Japan and New Zealand, three of the 10 largest insured losses ever recorded, the largest ever insured world flood loss in Thailand, the largest ever tornado event in the US. And even a $1 billion rainstorm in Copenhagen. The phrase frequency of severity may have been coined in 2011.

Through all of this, Lancashire steered a safe course to the end with a combined ratio of 63.7%, a number that any company would be proud of even in a benign loss year. The key has been Lancashire's unwavering focus on underwriting fundamentals, ignoring the pursuit of diversification for its own sake in the absence of adequate pricing. This has meant that in post loss situations Lancashire has had plenty of capacity available to meet urgent needs of buyers at advantageous terms and conditions.

Looking backwards, first we are delighted with the performance of our property reinsurance lines in 2011. The losses we experienced contained no surprises and we worked effectively with our brokers to supply capacity where needed.

Accordion, our retro sidecar, took us to a strong start at midyear. And as I'll detail later, we are seeing continued interest from buyers. In terms of RPIs, 2011 is a little misleading as the headline number for property reinsurance in 2011 is 108%.

As a reminder, to keep this figure as accurate as possible we exclude all new business and even renewals where there has been a substantial change in structure or exposure. We do keep records for internal use on all business where we have sufficient data. And these suggest that on new business, of which we have had over $48 million, the internal RPIs range from 110% to 600%.

Overall, property reinsurance written premiums grew by 26% to $142 million -- that excludes reinstatement premiums -- approximately 23% of our total premium in 2011.

On the direct and fact side, our property risks and premiums declined as we took actions to address RMS11 issues and we trimmed international cat exposure as to take fresh advantage of opportunities in our reinsurance line. An RPI of 105% was satisfactory in light of our portfolio actions. And we feel we have a strong core book from which to grow if the right opportunities present themselves.

The energy market similarly faced a frequency of large losses with Gryphon, the Saxoline jack up, the North Sea FPSO, the Gulf of Mexico accommodation unit. And the Canadian oil sands facility. The combined total of upstream and downstream losses approached $5 billion.

Again, Lancashire managed to manage the exposures through underwriting discipline and prudent reinsurance budgeting to ensure a profitable outcome for 2011. The RPI here is 110% and is more representative of the overall makeup of the portfolio and the market as a whole.

Increased activity in the Gulf of Mexico led to some interesting opportunities for wind and risk coverage. But we have still seen only limited signs of new products which we find attractive such as excess control of oil.

For Marine and Aviation, the market right in our niche areas was sluggish and our gross written premium was flat for the former and declined slightly for the latter.

In Aviation, we saw some increased retentions by primary hull and liability underwriters for our 52 Peril, which reduced our exposure and our premium.

In Marine, 2011 was a benign year for risk losses. But, again, the cat losses in Japan and Thailand will impact the market in cargo and other lines. Again, Lancashire incurred no marine losses from these occurrences. The events of 2012, which I will come on to, may present more opportunities.

In Terrorism and Political Risk, we avoided losses emulating from the Arab Spring events and continued to exercise rigor in risk selection. After a disappointing start to the year, RPI picked up in the second half. And an overall figure of 95% was satisfactory.

There has not been any significant addition or dilution of capacity in this market and the losses that the market sustained are not large enough to drive price increases. Overall written premium declined by about 15% in these classes, although the effects of multiyear contracts written in 2010 makes comparison difficult.

We can now look forward to 2012 and we can already report a very successful first of January renewal season. The demand for Accordion of worldwide retro products was strong and 70% of the available limits have been deployed.

However, equally pleasing was the strong demand for regional and single territory retro, which we write on our own balance sheet. We wrote $53 million of Accordion premium and $38 million of non-Accordion retro premium. This compares to the first of January 2011 retro premium of $16 million. So growth of over 500%.

Not only were there strong premium increases on new business. But the terms and conditions were tight and resulted in a better product as well as better pricing.

In property cat XL, our first of January income has reduced largely due to our decision to non-renew one major US nationwide program. But, we wrote $10 million of new regional US business with RPIs ranging from 112% to as high as 200% on loss effective business.

In Europe, rates were disappointing as the new RMS model was widely ignored. But, we found plenty of international business with strong pricing as many less effective reinsurers shied away from renewals or clients bought additional coverage.

For Japan, we have made two trips to meet with actual and potential clients and are working hard to develop new products and advance old ones. We see this as an area of opportunity for 2012 and expect to take a leading role in the first of April renewals.

In Marine, the Costa Concordia loss looks set to increase pricing for the larger vessels that comprise the bulk of Lancashire's hull and IV portfolio. The loss looks set to take a long time to develop. But it will clearly be the largest insured marine hull loss ever.

In all, the most attractive market areas for 2012 align well with Lancashire's areas of specialty. Although there's not been a broad market turn and casualty business in particular looks somewhat off from a hard market, there are pockets of opportunity in which Lancashire thrives.

The best hope for the market may be a hardening driven by extended low interest rate environment and risk aversion in investments, which will cause companies to focus on combined ratios as the engine of profit. This result may be longer lived if less dramatic hardening than caused by a reaction to losses.

I'm going to pass it over to Elaine Whelan.

Elaine Whelan {BIO 17002364 <GO>}

Hi, everyone. Our results are laid out on our website as usual.

The Fourth Quarter continues to contribute to the 2011 energy losses, with the floods in Thailand and the development of the Japanese quake loss. As our recent press release stated, we increased our reserves for Japan by a net $42.2 million. We've also booked $25.1 million on the Thai floods. Within the range I've quoted, we've still managed to produce a healthy underwriting profit for the quarter of $51.9 million with a combined ratio of 73.1%.

I am pleased to say that after an exceptionally volatile Third Quarter in the investment market, the Fourth Quarter saw some recovery and stabilization. And following our back to basics approach to our investments, we produced a return for the quarter of 0.6%. Our ROE for the quarter is 2.7%. And the key stretching point, 4% for the year, no mean feat in the current environment.

On losses there has been, as mentioned, Japan and Thailand. And I don't think there are any surprises there. Again, as stated in our recent release, for Japan it was basically reserved our remaining exposure to one significant cedent.

New Zealand, too, remains broadly stable at $21.2 million. And we don't have any update at this point on the drifting oil platform industry loss levels. So, no change in the precautionary reserves there either.

We released $37.3 million of prior year reserves. And other than a small amount of IBNR released that's no longer needed, that's really in relation to a handful of older, medium sized claims where we received updated information. We released $3.6 million in relation to Hurricane Ike reserves, as those claims are closing out. We only have $34.9 million left open in Ike claims now and hope we'll see those pared fairly soon.

We also had a couple of property claims that have gone away totaling about $12 million and reduced our Chilean earthquake reserves again at $5.7 million. So, really only about $15 million are still to be released with excess IBNR.

We do have losses by accident year in our supplement. And if you take a look at that, other than the payout on the last sets of Hurricane Ike and paying down the Chilean reserves, there's really not much left in those older years now. That's pretty much as we'd expect, given the short-term nature of our book. The maturation tends to about two, two and a half years for us.

The level of reserve releases in 2011 was larger than usual for a few specific reasons. This level of releases is obviously unsustainable. And while we cannot predict what future releases might be, it's highly unlikely we would see anything like the levels of releases that we've had in 2011.

Our actual accident year loss ratios were 65% for the quarter and 59.3% for the year. So, pretty impressive in a year of substantial losses to the industry.

If we eliminate the impact of cat events in those ratios, we would have 45.7% for the quarter and 30.8% for the year. Taking Gryphon out of the picture, we would have 19.3% for the quarter and 22.3% for the year. That's roughly what our attritional rates have been.

The last comment on reserves, we did have our independent reserve study carried out earlier in the year and, as a result of that, have sped up development patterns and reduced some of our loss specs to better reflect the experience of our book versus industry benchmarks. You'll see the impact of those reduced loss specs in our 2011 accident year reserving and going forward.

We'll continue to overlay our own experience and use that to inform our loss specs. Just to be clear, though, there has been no change in our reserving methodology in itself.

Taking investments next just briefly, the Fourth Quarter saw an overall recovery despite lingering concerns about Europe. In Q3, we talked about going back to basics and making sure we are properly focused on minimizing downside risk to our portfolio.

We sold our equities and trimmed back on our currency exposure and our emerging market debt portfolio. We have said time and time again we're an underwriting Company and we don't take risk on the asset side of our balance sheet, particularly with it being such a low contributor to our ROE given our leverage there.

There will likely be future market shocks and they may make a loss in the quarter in those shocks. But, our goal is to minimize that as far as possible. We're pretty happy with our current portfolio structure in these uncertain times.

As we stated in our press release, there's no exposure to European peripheral sovereign debt. If you want to see exactly what we do hold, our full portfolio listing is published with our quarterly results on our website as normal.

A couple of other things to highlight for the quarter, the Fourth Quarter isn't a major renewal period for Lancashire and while premiums are ahead of the prior year, there's not a huge amount to talk about other than property, cat. And vessel, which is mostly a one month story and Alex has commented on that. For the year, though, premiums are a little over 8% down than prior year.

A final mention on our multiyear deals, we saw about $75 million in 2010, mostly in the first half of the year. If we ignore the impact in both years of multiyear deals and reinstatement premiums, premiums are down about 6% year-on-year. A year ago, we expected that reduction to be much greater. But, with post loss pricing and opportunities plus Accordion business coming through, that gave our premiums a boost.

Though we don't give top line guidance, in 2012 we're likely to increase our written premiums, although net written is likely to reduce when we factor in Accordion. Accordion obviously impacted our reinsurance spend in 2011 as of reinstatement premiums for the Thai losses in the Fourth Quarter.

On Accordion itself, the majority of the capital called to date was for 1-1. We've seen about 70% of the capacity of the vehicle utilized now. And we anticipate it being called fully in the remainder of 2012.

As Richard mentioned, we've also issued a separate press release regarding the step up option we've just exercised on Accordion. As a reminder, Lancashire has an 85% quota share with Accordion and receives a 4% over rider and a 13.5% profit commission, although the profit commission doesn't kick in for a while, as you'd expect. We are also fully aligned with our investment partners and have an equity interest that equals 20%. Our reported P&Ls reflect our full interest in Accordion.

Lastly on capital, we obviously paid our special dividend in the quarter and we have stocked our small final order and $0.10 dividend. With that dividend, as I said in our press release, we've returned $1.3 billion since inception. We remain committed to matching our capital on the right opportunities. And we see pockets of potential for 2012.

Right now, we'd rather hold on to our capital and see how the year shakes out. And you probably won't see us doing much outside our normal interim dividends until after wind season.

Given our outlook, we're not likely to be in the market for buying shares either, although we will be seeking a new authorization at our AGM so that we have that in place. We're not likely to be in the market to raise capital on our own balance sheet either unless there's a compelling business reason.

As always, we'll adjust as the road around us changes. And we'll look at capital many different ways, be that for the short-term or for the long-term. And with that, I'll hand over to Neil.

Neil McConachie {BIO 7540962 <GO>}

Thank you. First of all, it's been gratifying to see the share price hitting an all-time high on the announcement that I'm leaving the Company. I'd just like to say thanks, Alex, Elaine. And Denise for reminding me of this pivotal time. So. Good morning.

And this wasn't an easy decision at all, to leave Lancashire. I was part of the team that helped set it up. And I am genuinely very, very proud of what we've created.

I am going to stay around for the remainder of this year. There's a transition plan well underway. There's a lot of bench strength in Lancashire's management team, as you all know. We were also joined late last year by Stuart Blakeborough, our Chief Operating Officer, which just adds to that bench strength.

I am very pleased that Richard and Martin Thomas, our Chairman, have asked if I would stay on the Board for the long-term. And to quantify, I'm not leaving Lancashire to go to another company. I'm going to be taking some time out to spend with my young family and my trophy wife Lorraine.

I will miss lots and lots of people at Lancashire. They are a brilliant bunch of people. I'll hand back to the operator to take your questions.

Questions And Answers

Operator

Thank you. We will now begin the question and answer session. (Operator instructions). Ben Cohen.

Q - Ben Cohen {BIO 1541726 <GO>}

Oh, hi. Good afternoon. Thanks very much. Could I ask two things? Firstly, on the Concordia loss, could you maybe just go into a bit more detail in terms of the areas in which you have exposure. And also the -- sort of the sensitivity of your loss estimate to how the industry loss -- or how that $850 million industry loss estimate might move?

The second thing I wanted to ask is just really clarification. I think, Elaine, you said that you would expect net written premium to reduce in 2012. I just wanted to be clear that that included the impact of this new Accordion expansion or, I suppose, the part of that that you would retain. Thanks.

A - Richard Brindle {BIO 1983776 <GO>}

Okay. Thanks, Ben. We'll do the first one for Alex and the second for Elaine, please.

A - Alex Maloney {BIO 16314494 <GO>}

Okay. Sure, Ben. Okay. Our Concordia loss is made up of a couple of different components. The vessel itself is valued at around $500 million. The current estimate now of deductibles for the IGPIA contract is just under $300 million, which is where we get to our end market loss of around $800 million, $850 million. And then, obviously we have a $25 million retention on our reinsurance program and we have our reinstatement premiums. So, that's why our loss is $35 million.

If that loss goes in excess of $1 billion, we do -- our net loss does increase by $20 million if that happens. There's going to be a long way to run on this claim currently, even down to the claim. That's being investigated anyway. And it's very, very early days. So, that's the transparent position on Concordia.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay.

A - Elaine Whelan {BIO 17002364 <GO>}

And hi, Ben. I guess on the premium question for 2012, you're exactly right. We did have a few multiyear deals this year, not quite as much as last year. And obviously, the numbers that we did at the 1-1 inventory saw a fairly significant expansion there. The bulk of that risk will be ceded into our vehicle, an 85% cession as I mentioned. So, although we'll have a top line increase, our net written should come down a little bit.

Q - Ben Cohen {BIO 1541726 <GO>}

Okay. Thank you.

Operator

Chris Hitchings from KBW.

Q - Chris Hitchings {BIO 2034501 <GO>}

Hi, great. Could you, just on Accordion, this capital that -- you'll be in 20% of the additional 75%. And that will go in presumably during the First Quarter. And that will specifically write Japanese. So again that's also in the property business. How should we try and see how the profits of Accordion, of your stake in Accordion, will emerge in the P&L? I'm just trying to grapple with this, however you talked about profit commission as not being earned for a while. Again, can you try and help us a little bit on that?

Secondly, on the reserve releases, I mean, I'm getting the impression that, Elaine, there's a sort of fairly heavy warning that 2011 was exceptionally good, which most of us, I'm sure, assume. Are you -- is she trying to indicate that, given recent years, the sort of 10% to 12% per quarter is likely to fall, i.e., where you were in the Third Quarter? Thanks.

A - Richard Brindle {BIO 1983776 <GO>}

Okay, Chris. That's all for you, Elaine, please.

A - Elaine Whelan {BIO 17002364 <GO>}

Yes. Thanks, Richard. And Chris, let's take a run through the Accordion stuff. The $75 million that we have for the First Quarter will be used for Japanese business, assuming that it hits the targets that we see. We have a 20% interest in Accordion vehicle in terms of the first -- the capital commitment. Then, the rest of it is in the second bit, now that we have the Japanese business.

So, whatever profit the vehicle makes, we will get 20% pickup off of that. That will come into our P&L in our investment and associate income. And we also have the 4% -- we cede 85% and we have a 4% override commission. So, we'll have 4% coming into our commission income line. And then we'll ultimately also have a, hopefully, profit commission on that of 13.5%.

Q - Chris Hitchings {BIO 2034501 <GO>}

But, that won't be seen for three years, presumably.

A - Elaine Whelan {BIO 17002364 <GO>}

Yes, we wouldn't see that for a while. The bit has to run through before we can start looking at profit commission.

Q - Chris Hitchings {BIO 2034501 <GO>}

Okay. So, we should simply see this as a point or so off your expense ratio in property and a profit coming in associates of whatever we think return on equity it earns. Okay, thanks.

A - Elaine Whelan {BIO 17002364 <GO>}

And on the reserve releases, we obviously reserved the best estimate. So, we don't plan for reserve releases and couldn't really give you any guidance on what to expect. We're always hopeful that we'll have favorable development on a reserve.

On the 2011 reserves, there was a number of different things that impacted that, not least of which was the reserve study that we did pushed it down about $37 million in the First Quarter. We also had some fairly specific releases on some older reserves. We released the money on Hurricane Ike. We've released the money on Chile. We've had some kind of midsized property claims come down as well. And we released our reserves in Political Risk because we hadn't had any claims on that, too.

And if you go into our supplement and take a look at the accident years that we have there, the numbers that we've got for 2008 will include the number that I mentioned for Hurricane Ike. And then, in 2010 you've obviously got a sizeable number there for Chile. So, there's not an awful lot left there. And if you look at our duration of kind of two, two and a half years, you can draw some assumptions as to what you might see coming through there.

Q - Chris Hitchings {BIO 2034501 <GO>}

Yes, because it looked like what happened out in the Fourth Quarter out of 2010, this is just from the numbers in your press release, was a lot more than what you had suggested came out of Chile. I've got something like $21 million was released from 2010 year in the Fourth Quarter.

A - Elaine Whelan {BIO 17002364 <GO>}

Yes. And we had -- about $6.8 million of that was going to Chile in 2010, the $5.7 million in Q4 of 2011 and $6.8 million in Q4 of 2010. So, if you take that off your $21 million, the rest of it, broadly speaking, is IBNR.

Q - Chris Hitchings {BIO 2034501 <GO>}

Okay, fine. That's the simple IBNR fund. Okay. And off the 2008 release, again, that's $10 million in the Fourth Quarter. And I think you explained that it wasn't entirely covered by what you said about coming out of Hurricane Ike.

A - Elaine Whelan {BIO 17002364 <GO>}

Okay. And so, with Hurricane Ike, the rest of it is just bits and pieces of IBNR that's not really needed anymore. That's actually really due to loss emergence.

Q - Chris Hitchings {BIO 2034501 <GO>}

Okay, fine. Okay. Thanks so much.

Operator

Jonny Urwin from Jefferies.

Q - Jonny Urwin {BIO 17445508 <GO>}

Hi there. Thanks very much. Just one question. Of course, no one wants a natural catastrophe to happen in 2012. But, I mean, as we start a new year, how should we be looking at it. And where would be -- sort of where would the be best sort of catastrophe for Lancashire occur in terms of exposure and then likely rating impact and pricing dislocation? Thanks.

A - Richard Brindle {BIO 1983776 <GO>}

Okay. Alex, please?

A - Alex Maloney {BIO 16314494 <GO>}

Okay. Yes, sure. I won't say that we sort of look forward to catastrophes, Jonny. But, in our view, if you get a large catastrophe in North America, I think that's what's going to be what moves the market. You've seen $110 billion of losses last year around the world. Nothing's really happened. Obviously, if that was in Florida, I'm sure the whole market would change overnight.

So, anything in North America would be material. I think as well where we are now in the cycle, I can't believe the market could take another year like 2011. But you never know.

Q - Jonny Urwin {BIO 17445508 <GO>}

Yes. Thank you. Thanks.

Operator

Adrienne Lim from Morgan Stanley.

Q - Adrienne Lim {BIO 16537674 <GO>}

Hi there. Adrienne Lim here from Morgan Stanley. I just had a couple of questions. You seem pretty confident in terms of the April renewals, the April Japanese renewals. Can you give us some indication of what type of sort of discussions you're having with those counterparts and what sort of price increases you would expect? And also on the January renewals, there were a lot of numbers just now and I'm not sure I caught everything. So, what was the sort of average January renewals on your portfolio, please?

A - Richard Brindle {BIO 1983776 <GO>}

Okay, Adrienne. I'll hand over to Alex. But probably just first mention that, whilst we do say it's attractive opportunities at one point in Japan, we certainly don't want to sound like we're in any way sort of reveling in it. As Alex quite rightly said in his prepared remarks, it's always a tragedy when this sort of thing happens. But, having said that, I'll toss you over to Alex.

Q - Adrienne Lim {BIO 16537674 <GO>}

Thanks.

A - Alex Maloney {BIO 16314494 <GO>}

Hi, Adrienne. I think one thought's really interesting. We've been to Japan twice in the last six months. If you look at what's happened in that market for Japanese business, you've had the earthquake which is $40 billion. Thailand's really been the game changer. You've had the shrink with the yen. Everything's happened in that market.

And I think, from what we can see ahead, there's going to be a lot of moving parts and lots of things are going to change between now and the first of April. You've got a lot of people in the market looking to reduce their writings in the Japanese market. You've got Japanese clients that need to purchase different kinds of cover for their Japanese interests abroad covers.

So, you're seeing classic signs of a very difficult market. We think that creates opportunities for Lancashire. As we said earlier, we're very comfortable with our Japanese loss. We've very comfortable with our strategy in Japan prior to this year. That gives us the flexibility, particularly with our new Accordion capital increase, to go to that market and really work with the brokers and the clients and hopefully create some long-term solutions.

So, we are positive on Japan. It's of high interest. There's lots of things that are changing. And we're just trying to be as flexible as we can. And it should be a good market for Lancashire.

On the January renewals, as I said in my script, our property cat line, we have seen rate increases of 10% to 15%. We have seen rate increases as high as 200% for loss affected programs. It is a bit of a strange market. We are picking our way through it. But we're still positive on the property cat line. We think that we'll see more of opportunities.

It's too early to talk about Florida at this moment in time. But we probably don't think that'll be an opportunity for us. But, in general, as Richard said, we're moderately bullish on all the reinsurance lines.

Q - Adrienne Lim {BIO 16537674 <GO>}

Okay, thanks. And just a follow up question on the European RMS model. I know you said that it doesn't seem like a lot of your peers are taking that into account at the moment. I mean, do you see a sort of significant difference in the new RMS version for Europe?

A - Alex Maloney {BIO 16314494 <GO>}

What I would say straightaway is we're not a barometer for that market.

Q - Adrienne Lim {BIO 16537674 <GO>}

That's true.

A - Alex Maloney {BIO 16314494 <GO>}

It's really not what we do. We were disappointed with the renewals. But that's not really where Lancashire plays. So, I wouldn't say we're the expert on that market so I probably wouldn't comment on that.

Q - Adrienne Lim {BIO 16537674 <GO>}

Okay. Thank you.

Operator

Chris Hitchings from KBW.

Q - Chris Hitchings {BIO 2034501 <GO>}

Yes. I'm sorry to have two bites. Sorry. I know there was a third question and I forgot it. Expense ratio. I know -- and sorry to do it narrowly here. But, the acquisition costs went up quite a lot in the Fourth Quarter. And usually they tend to go down in the Fourth Quarter because there's not much business that's acquired. Is this to do with this money on the Marine business or is there something else going on?

A - Richard Brindle {BIO 1983776 <GO>}

Elaine, that's for you, please?

A - Elaine Whelan {BIO 17002364 <GO>}

Yes, sure. Not really. A lot of it's driven by business mix and reinsurance. But, we also, at tail end of last year, took in a profit commission on a quota share agreement that we had previously. That reduced the 2010 Q4 charge there quite a bit.

Q - Chris Hitchings {BIO 2034501 <GO>}

Oh, right. Fine. So, it's not that the Fourth Quarter is particularly high, it's just that the Fourth Quarter last year was particularly low.

A - Elaine Whelan {BIO 17002364 <GO>}

Fourth quarter last year was particularly low and we had the -- more coming through in terms of our Marine book and our Energy book in the quarter. And they tend to have higher rates on them.

Q - Chris Hitchings {BIO 2034501 <GO>}

Okay, fine. So, it's the fact you had that flip up in Marine business in the Fourth Quarter, that is part of the driver of that expense ratio, is it?

A - Elaine Whelan {BIO 17002364 <GO>}

It's really the earnings on what's coming through that drives it.

Q - Chris Hitchings {BIO 2034501 <GO>}

Oh, I see. Fine. Okay. Thank you.

Operator

Nick Johnson from Numis.

Q - Nick Johnson {BIO 1774629 <GO>}

Hi there. Just regarding the guidance for some more reduction in net premium written for 2012, just wondered if you can talk a bit about what's happening or is likely to happen with your exposure levels this year. Are you moving to higher levels or higher up the risk profile? So, what's happening to -- what's likely to happen to your exposure in the book this year?

A - Richard Brindle {BIO 1983776 <GO>}

That's probably a mixture of Elaine and Alex.

A - Alex Maloney {BIO 16314494 <GO>}

Okay. I'll start, Richard. I think, Nick, what I would say is I don't think anyone should get too hung up on the net -- on the reduction in net written premium, because we are in a very difficult market at the moment, i.e., it's trending but it could change very quickly. So, we could be sitting here in a year's time and saying we're up 10 points. So, I think it's difficult to plan in this market.

What I would say about exposure is when you look at our PMLs, our PMLs will always be a very clear barometer of where we think the market's going and where we see the opportunities. So, our US wind tower may increase this year or probably will increase this year. It will obviously increase due to retro. But, where we see new business, which we have seen in some parts of our treaty book which we really like, we've got the capacity to take advantage of that.

And I think in this kind of market, we didn't -- we're quite pleased with how we managed our exposures last year. We are positive on the market. So I would guess that our exposures will probably increase with the opportunities as opposed to going down this year.

Q - Nick Johnson {BIO 1774629 <GO>}

Okay.

Operator

Ron Bobman from Capital Returns.

Q - Ron Bobman

Hi. Thanks a lot. Does using the word trophy wife on a call mean that you're the only executive with a spouse that listens to these calls?

A - Neil McConachie {BIO 7540962 <GO>}

This is true. I just sent her a message on her BlackBerry saying are you listening? She said I'm getting my hair done.

Q - Ron Bobman

All right. Congratulations. We'll miss you. But best of luck in all your endeavors.

A - Neil McConachie {BIO 7540962 <GO>}

Thank you.

Q - Ron Bobman

A couple of questions. I think it was Richard. But I could be mistaken. In the spring of last year after the Japanese quake occurred, you -- and I'm paraphrasing. But, generally you said we're in no rush to sort of put all our chips on the table in the coming 90 days with the spring renewals, you think it's actually going to get better this time next year, something to that effect, you sort of described your reading of the tea leaves.

And now, I do recognize that in your prepared remarks today you commented that you're disappointed with the balance of the industry, or a big chunk of the balance of the industry's behavior. And then, Alex just mentioned that Florida may not be a big opportunity for you, something to that effect, Alex said.

Could you just sort of maybe sort of revisit that -- those thoughts, Richard. And maybe give us an update?

A - Richard Brindle {BIO 1983776 <GO>}

Yes, of course.

Q - Ron Bobman

And Japan is the market that you were talking about last spring. I don't know. But, thanks.

A - Richard Brindle {BIO 1983776 <GO>}

No, that's a good question. Yes, I think we've always tried to be a little bit cautious, as a lot of very bullish people are obviously calling hard markets here, there. And everywhere and haven't had them. We have to look at the fact that nobody's really left the party yet.

There have been a couple of small departures. But there's still a lot of capital sloshing around and not many companies are buying back meaningful amounts of shares. And at the end of the day, we're in a supply and demand game.

So, I think we were right what we said a year ago. I think it's been largely borne out. The opportunities, I think, are gradually increasing. We do think the Thai losses are going to prove a massive drain on a lot of our competitors throughout 2012. Lloyd's has already announced a $2.2 billion number. That could well get worse. We're certainly hearing bigger numbers than that, both for Lloyd's and other carriers.

We are seeing -- as I said in my prepared remarks, we're seeing real live de-risking from various companies which have had a pretty difficult year. And indeed, those sort of companies were often our clients in Accordion for retro coverage.

I think it's gradually getting better, Ron. But, it's a weird market, some $110 billion in losses and there's still no hard market. But, there are real pockets and I think our nimbleness -- I know we use this word a lot. But our nimbleness and the fact that we've demonstrated with Accordion and now the step up to Accordion what that word means.

It means that we can -- we have reasons to be cheerful. But, it's a slowly building story is the way I would characterize it.

Q - Ron Bobman

Okay, thanks. Alex, would you expand on your indication that Florida may not be much of a -- I guess you sort of called it an increased opportunity. And then, I had one other question. Thank you.

A - Alex Maloney {BIO 16314494 <GO>}

Yes, Ron. I think one thing I'd say is it is a little early. But, just getting back to Richard's comment about supply and demand, I can't really see what's going to change materially or at least materially enough for us to (technical difficulties) favorably this year just because, again as Richard said, no one's at the party. So, unless something dramatic happens, I just don't think it's going to get there for us, anyway.

A - Richard Brindle {BIO 1983776 <GO>}

I think, Ron, I'd just add to that we spoke a lot last year about how we rejected and we continue to reject the traditional diversified business model where you're encouraged just to fill your buckets in all the different regions of the world. I think that business model has been really pretty discredited by the events of 2011.

So, whilst we are uplifting, if you like, in Japan and to some extent in certain -- we've been seeing some regional opportunities in the USA and some stuff in Canada and the Northeast for the main Gulf wind peril, we don't -- when you allow for model change, we don't see that market's really moved. And so we'll continue to be underweight there. And the same thing when it comes down to Europe. We just -- we think there's just too many players at that particular concert and therefore the rates are depressed.

And so, we definitely have not embraced the bucket approach nor will we do anytime soon, unless you have some 1994 style market when basically everything in the world went up three or fourfold. Then we might adopt a bucket approach for a period of time. But, right now it's still about picking your opportunities and picking your zones.

Q - Ron Bobman

Okay. And that's sort of my last question. And thanks, is as far as Japan is concerned, when you look at how much of your balance sheet that you could conceivably expose and sort of how much effective exposure you would take on this spring, adjusting for your interest in Accordion, not your agency -- underwriting sort of agency element of it, just the sort of risk exposure and then your on balance sheet Lancashire exposure, might it be that, if rates get to where you hope or think they're going to get to, you'll have a multiple of the exposure you had last year because it becomes a market that you -- it could become rate, terms. And conditions wise?

A - Richard Brindle {BIO 1983776 <GO>}

Yes, certainly, because we have a tolerance for -- the capital for the one in 250 Japanese earthquake, which obviously we won't breach. But, we'll certainly trade up closer to that number, no doubt about it. We've been very light in Japan for years because we took the view that, whilst we have some very strong relationships there, we didn't think the business was priced at a great pricing level. So, yes, it'll certainly go up materially this year. But obviously within our tolerances.

Q - Ron Bobman

Understood. And then, just how far away were you last year from that tolerance threshold?

A - Richard Brindle {BIO 1983776 <GO>}

I'll have to ask Elaine to answer that.

A - Elaine Whelan {BIO 17002364 <GO>}

I don't have those numbers to hand. But it would have been pretty small compared to our peak zone.

Q - Ron Bobman

Okay. I will follow up. Thanks a lot and best of luck (multiple speakers).

A - Richard Brindle {BIO 1983776 <GO>}

Yes. I think last year it was probably in the low teens of the percentage of capital, something like that. Pretty low.

Q - Ron Bobman

Okay. Bye-bye again.

A - Richard Brindle {BIO 1983776 <GO>}

Thanks.

Operator

Fahad Changazi from Nomura.

Q - Fahad Changazi {BIO 15216120 <GO>}

Hello. Hi there. Could I just follow up on the January 1 renewals question? Alex mentioned 10% to 15% for property cat rate. And the other insurance lines of good growth. But, I take it the other insurance lines were below 10% to 15%?

A - Richard Brindle {BIO 1983776 <GO>}

This one's for Alex, please?

A - Alex Maloney {BIO 16314494 <GO>}

Yes. We did have -- the bulk of our premium is retro and property cat. But, I'm not sure what other lines you're trying for.

Q - Fahad Changazi {BIO 15216120 <GO>}

All right. So, we'll continue with 10% to 15%. And the other question was how much premium did you write in aggregate Jan 1?

A - Alex Maloney {BIO 16314494 <GO>}

For property cat or for the reinsurance lines?

Q - Fahad Changazi {BIO 15216120 <GO>}

All of it.

A - Alex Maloney {BIO 16314494 <GO>}

You got that one? No? One sec. Our retro, this is for retro because we've got that to hand here. Retro for 2011, I think it was about $16 million. And with Accordion and business outside of Accordion, we're up over 500% on that number.

We wrote $53 million of Accordion premium on the first of January this year and $38 million of non-Accordion retro premium. So, that's on our own balance sheet. Last year we had about $16 million at 1-1. So, it's five times what it was.

Q - Fahad Changazi {BIO 15216120 <GO>}

Okay. And that's the entirety again. Thank you, very much.

Operator

(Operator instructions). There are no further questions at this time. Thank you.

A - Richard Brindle {BIO 1983776 <GO>}

Great. Well, just thanks, everybody, very much for dialing in.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.