Q1 2020 Earnings Call

Company Participants

- Alexander Terence Maloney, Group Chief Executive Officer
- Darren Redhead, Chief Executive Officer of Lancashire Capital Management
- Natalie Kershaw, Chief Financial Officer
- Paul Gregory, Group Chief Underwriting Officer

Other Participants

- Andreas van Embden, Analyst
- Ben Cohen, Analyst
- Ian Baines, Analyst
- Kamran Hossain, Analyst
- Nick Johnson, Analyst
- Oliver Troop, Analyst
- Unidentified Participant

Presentation

Operator

Hello, and welcome to the Lancashire Holdings Limited First Quarter 2020 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; Paul Gregory, Group CUO; Natalie Kershaw, Group CFO; Denise O'Donoghue, Group Chief Investment Officer; and Darren Redhead, Group Chief Executive Officer of Lancashire Capital Management. Please, begin your meeting.

Alexander Terence Maloney {BIO 16314494 <GO>}

Hi. Good morning, everyone. First, I would like to express my personal sympathies to any of our colleagues, business partners or friends who have been directly or indirectly affected by this terrible virus. We know this is a difficult time and the Lancashire Group's charitable foundation has donated 100,000 pounds to various charities in both the UK and Bermuda to try and help respond to the COVID-19 pandemic.

Moving on to our operational performance. I'm proud of our -- of how our employees have dealt with challenges posed by working from home. It has, by and large, been business as usual for us. The Lancashire Group has grown topline premiums 12% during

FINAL
Bloomberg Transcript

FINAL

Bloomberg Transcript

the first quarter of 2020. And after stripping out the impact of multi-year contracts and reinstatement premiums, we have an underlying growth rates of 18%.

This is in line with our expectations due to the improving underwriting opportunities we have seen during the first quarter. Equally pleasing has been the rate improvement of 8% across our portfolio of comparable renewable business when compared to the corresponding quarter of 2019.

We entered 2020 with increased optimism of a hardening pricing cycle and we witnessed -- as we witnessed more indicators of an improving cycle after years of soft market conditions. This has been borne out in the first quarter of this year. Therefore, in anticipation of this, and in line with our long-term strategy, we retained our 2019 earnings to enable us to grow our business as risk and return metrics improved.

We did, however, maintain the same level of reinsurance at group level as we did in 2019. Therefore, our net risk levels have not materially changed at this stage of the cycle. Our opening year capital is higher than we would normally carry. As we entered the COVID-19 pandemic, we had several $100 million of excess capital in excess of our high investor rates and agency requirements.

Equally, we have in excess of 200% of the solvency capital, our Group regulator the BMA requires us to hold. Therefore, I believe we're in the best possible position to absorb the financial hit from COVID-19 pandemic and look to grow into a better underwriting opportunities that we expect to arise over the next 18 months.

We believe these events to be the catalyst for a steeper hardening curve in the insurance and reinsurance pricing cycle. This loss is truly unprecedented. This is an overused word in our industry, but this time, this is appropriate. Therefore, there will be a higher risk of reserve deterioration over time as we and the industry receive claims from our clients, and there will be inevitable grey areas.

We at Lancashire, have a tried and tested process when assessing any large claim and we have used the same process when assessing the potential exposure to COVID-19.

At this point, like in the early stages of any large claim, we have little real data, we believe our loss number to be sensible and calculated using the same level of prudence we always apply to large events. It's worth noting Lancashire does not write the following sources of business: travel, trade credits or any casualty classes apart from some liability cover within our marine and energy classes.

Therefore, we believe our lack of wider footprints coupled with our super business structure allows management a greater deal of transparency, not only when assessing exposure to such events, COVID-19, but when assessing future business opportunities. In summary, Lancashire is perfectly positioned at this stage of the underwriting cycle. We have no legacy issues and therefore, able to focus our attention on the improving underwriting climate.

FINAL

Bloomberg Transcript

Lastly, I would like to thank my colleagues for their continued hard work and our shareholders for their continued support.

I'll now hand over to Paul.

Paul Gregory {BIO 16314515 <GO>}

Thank you, Alex. Before I turn to the possible impacts of COVID-19, it's worth summarizing how Q1 shaped up in relation to our expectations at the start of the year.

We had anticipated that rates in almost all product lines would continue to increase as we entered 2020, with the exception of terrorism and political risks. I will take each business segment, in turn, to outline what we have seen during Q1.

In property, we anticipated positive rising movement in both insurance TNF and reinsurance lines, albeit much like 2019, rate increases to be more muted in Q1 than what we will see in Q2 due to the portfolio mix. This is played out as we expected for Q1, although in reinsurance loans, we saw a marginally better market than in 2019 with a slightly positive change in sentiment. Terrorism and political risks were broadly flat, again in line with expectation, which is what dampens the overall RPI for the property segment.

We have been able to expand in our almost all property segment subclasses as rates improve. The build-out of our new DNF offering within Lancashire UK is going smoothly and we are seeing good traction, which bodes well for Q2 and beyond.

In energy, we have seen the downstream and power sub classes continue to harden with no signs of momentum slowing. Years of large losses and market capacity retracting is keeping rating moving forward. Pipelines remain in their build-out stage so this market environment is helpful in aiding their maturity and this has helped grow overall energy segment premiums year-on-year.

Upstream energy rates remain positive albeit marginally. We have yet to see the capacity withdrawals seen in the other [ph] energy sub-classes. Our belief is that this market remains finely balanced and our current strategy is to remain focused on our core clients.

Marine is another segment that continues to see right momentum across all sub-classes. Lost capacity in this sector has not yet been fully replaced and as such, the writing environment continues to improve. Bringing to the quarter is down, albeit this is more a function of capturing and naming outside of Q1 as they are not annual. Following on from the strong Q4 in 2019, aviation writes across all subclasses have continued to improve.

Q1 is not particularly significant quarter for aviation; this is later in the year. However, it is good to see rising momentum continue for us and to continue to grow our footprint further. So overall, we're really pleased with what we've seen through Q1 regarding market conditions and also that we've been able to grow with the market opportunity with top-line gross written premium up just under 12% year-on-year.

FINAL

It goes without saying that we expect COVID 19 to have an impact on both writes and demand for our products, and therefore our outlook for the remainder of the year. The first important point to make, the event remains an ongoing event, but trying to come up with definitive answers at this stage is incredibly difficult. However, we can provide some of our views and possible future trends, it will likely impact our business segments.

In terms of headwinds, we expect there to be negative demand impacts in lines such as energy, marine and aviation. To date, though, we have seen very little of this, but we do expect to see this as we move through the year.

Establishing exactly what this could look like from a content perspective is currently extremely difficult given we do not know how long the global lockdown will continue for, what the effect will be for any particular sector and how quick any recovery will be. However, our clients still need insurance for their assets whether they are fully operational or not, and the demand is not likely to completely disappear even in highly stress scenarios.

Our primary focus at this stage is to work with our clients to ensure that we can assist with their current insurance needs and remain pragmatic in order to help our core clients where possible. There are also potential tailwinds. We believe that this event adds more stress to the system. It will result in losses to various classes of business and will also impact the asset side of the balance sheet.

This is all at the time when the market has been struggling to get back to underwriting profitability. Our view prior to this event is to continue rate hardening and we can only see the writing curve steepening from here. The full effects of COVID-19 will not be known for some time yet. They are calling how quickly the rate curve steepens if difficult, and will be different for each line of business. We are, however, confident in the broad direction of travel. COVID-19 has certainly created various challenges for the industry and our company, but it doesn't change our strategy. In all market conditions, our strategy remains the same, to match risk and return. Our views aiming to 2020 was to grow with an improving market. This doesn't change. And as the market changes from here, we have the capital people and platforms to change with it.

Finally, I'd like to thank all our underwriters and all those employees who support our underwriters who are back and so seamlessly to this new way of working. Whilst the challenges we face are clearly only minor inconveniences compared to the many dedicated frontline workers across the country, I'm nonetheless proud to continue to serve the needs of both our brokers and clients through this period.

I'll now pass over to Natalie.

Bloomberg Transcript

Natalie Kershaw {BIO 21394441 <GO>}

Thanks, Paul. Hello, everyone. It's certainly been an eventful quarter to be starting a new role. And today I'm going to update you on four areas: our top line, losses, investment returns and capital. As you will have noticed from our trading update, we are now

FINAL

presenting our results across four operating segments: property, energy, marine and aviation.

This new segmental presentation reflects how we internally view and manage our business. Now the Lloyd [ph] syndicates are fully integrated with the rest of the group. For the first quarter of the year, our gross premiums written increased across all segments with the exception of marine. The increases were largely due to new business and rate rises. In the marine book, there are a couple of non-annual contracts written in the first quarter of 2019 that will renew later in 2020.

As noted by Paul although gross premium written is up just under 12% year on year, underlying growth is approximately 18% once the impacts of multi-year contracts and reinstatement premiums in the first quarter of 2019 are taken into account.

We expect the net annual impact of multi-year premiums not renewing to be lower than in previous years, that's approximately $30 million. There may also be a reduction in demand across a number of our business lines due to the impacts of COVID-19 in the second half of the year. The COVID-19 event is still ongoing, which makes any estimate of losses exceptionally difficult. Our current estimate of $35 million of losses for the first quarter was arrived at following our standard cost event loss review process. This brings together underwriters, claims and actuarial personnel from across the business as well as senior management to view all lines of business to assess the likelihood of claims arising. Our approach has therefore been bottom-up by contracts and class rather than estimating a market share of an industry loss.

Our current expectations of losses are largely focused in the property classes where we are aware of some instances of this (inaudible) pandemic cover. Aside from COVID-19, we have seen an increase in attritional claims being reported in the quarter for both the current and prior action years. These claims are across a number of risk and natural event losses and we do not think these are indicative of an increasing trend. We would keep our guidance of the attritional loss ratios in the region of 36% to 37% for the year. Even given positive RPI rates, as we are expecting that there could be some secondary impacts from COVID-19 on the cost of power and labor, the claims arising across the book.

Bloomberg Transcript

The negative investment return of 1.9% was largely driven by unrealized mark-to-market needs on our bank loan and hedge fund portfolios, given the significant spread widening and volatility in the equity markets towards the end of the quarter. This negative position has now largely unwound through April.

As mentioned on our previous earnings call, we redeemed a portion of our hedge fund allocation during the quarter as our allocation to this asset class had not historically produced strong enough returns on a risk-adjusted basis. We have now redeemed just over a third of the hedge fund portfolio.

Given the ongoing market volatility, the proceeds from these redemptions are currently being held in treasury money market funds. However, we do not intend to change our investment strategy over the medium term.

Over the next few weeks or so, we will be publishing our year-end 2019 financial condition report for the Group under the BMA solvency capital regime. This will show that we started the year with a solvency ratio of 225% or about $620 million over the enhanced capital requirement. Even given the negative results for the first quarter, we do not estimate a significant drop in this ratio at the end of Q1 2020. We also carried excess headwind over our internal preferences and overall rating agency requirements coming into 2020.

We, therefore, believe that we will remain more than adequately capitalized for the remainder of the year and are in a good position to take advantage of any market improvements that may arise following the COVID-19 crisis. On the February 2020, the Board of Directors declared a payment of an ordinary dividend of $0.10 per common share or $20.1 million. This was approved at yesterday's AGM and is due to be paid on June 5.

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

Questions And Answers

Operator

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, it's Kamran Hossain from RBC. Hope everyone on the line is doing well. First question is on capital and thanks for articulating an idea of the headroom of the invest ratings. I guess I wanted -- I looked at (inaudible), they made their statement yesterday; they sound relatively excited about the backdrop. Can you just maybe articulate why you're not quite as excited or kind of any thoughts around that? And then in terms of additional capital, I understand you've got plenty of room -- headroom for growth, but what would be the trigger point for the market in the market pricing piece, kind of go and raise money? So that's the first question.

Second question is on, I guess on the mid-year renewals. I've heard a few bits and pieces from Reuters [ph] in London. Can you just talk a little bit about your expectations for the mid-year renewals and whether you're seeing more people trying to come to market earlier this year? Thank you.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

So Kamran, on capital, we've also seen -- we saw some busy comments. I think for us, we -- as we've been very sort of explicit on this call, and probably more than we usually are, I think we are in a strong capital position. We did hold more capital this year to grow into a better market and that's what we intend to do. So, I think we believe we have enough capital to go into wind season even if the market hardens substantially tomorrow and then

FINAL
Bloomberg Transcript

FINAL

Bloomberg Transcript

we will in tune of our long-term strategy, if we believe that the returns are there to warrant an equity raise, we will definitely consider that.

I think myself, and Paul are in the unique position where we have our daily underwriting call. So we're on a call every single day and we can confirm that rates are starting to move. I personally don't think we sit here today, well, I'm quite excited, but rates are improving and while we will write more business, we are probably not of the view we're quite there yet; so we're on a raise, but equally, we do have excess headroom for writing a better market anyway. So maybe we're just slightly -- in a slightly different position.

Paul, can you just answer the question about mid-year and climate, please?

A - Paul Gregory {BIO 16314515 <GO>}

Sure. Yeah. Hi Kamran, and hope you're well as well. Yeah, so I think it is fair to say that we have seen, across a number of lines, things starting to come in a little bit earlier than normal. I think to be honest, part of this is just purely a function of people working from home and clients and brokers just trying to get information to underwriters quick us. I also think there is an element of -- as Alex alluded to there, we are all seeing rates improve so clients wanting to get in and secure terms a little bit earlier than in markets where rates are going the other way. And in terms of what we're seeing, and as Alex mentioned, rates, of course, most of us who have been talking about all continuing to improve; and as I said in my script, I think this just adds a further stress to the system. So, I would imagine that the momentum will continue.

Q - Kamran Hossain {BIO 17666412 <GO>}

Alex, Paul, thanks very much.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Thank you. Operator, do we have another question?

Operator

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

Q - Oliver Troop {BIO 20944194 <GO>}

Hi there. Yeah, I'm Oliver Troop from Autonomous. I've got two questions. Firstly, just thinking, if we do see a drop in demand in lines, like energy, aviation and marine, does that mean we should expect lower overall growth? Or is that not necessarily the case because you can just deploy that capital elsewhere? I know obviously there's going to be a lot of opportunities out there. And then the second question just on the attritional claims. I know you mentioned the secondary impact on parts and labor, but obviously there's a lot of things going on, so there's less activity, obviously, less planes flying, less shipping. There's things like no oil being stored in tankers, for instance. And so I just wondered if you could talk a bit more about some of the kind of knock-on effects on attritional levels and yeah -- I guess whether they're likely to be on balance positive or negative? Thanks.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

So, I think -- I think I'll ask Paul to cover the demand point in a minute. I think on attrition, it is a very difficult one to call. We're not a motor-insurer. And if we were motor-insurer, you would expect attrition to go down this year, obviously, so we're an unprecedented scenario.

So I think. I think there's two ways you can look at it and it's very hard to answer. Clearly, we have clients that have oil rigs or cruise ships is a good example, that are not currently trading. That would be perceived to be better risk, but equally, there can be sort out risks when these vessels go back to work, there can be aggregation issues, we're seeing that in the aviation world. So I think it's very, very hard to call. I think you could see a very quiet period, but then as the world goes back to work at the same time, then you could see some claims, but it's very, very hard to calculate, ad as I said, it is not like a motor insurance portfolio where I guess it would be reasonably easy to calculate that, a lot kind of equals, no claims. I think it's a very, very hard question to answer.

I think on demand, I'll ask Paul to answer demand. The only edge, I suppose, that we have on demand is supply as well and we have seen carriers cutting back already or at least looking at line sizes and basically transferring more insurance and equally, so we would expect demand to come down for certain classes and Paul can tell you how we approach this, but equally, you have to think about supply as well. We believe that 2021 underwriting year there could be less supply.

Q - Oliver Troop {BIO 20944194 <GO>}

Right. Makes sense.

A - Paul Gregory {BIO 16314515 <GO>}

Okay, so I'll just follow up a bit on demand there, Oliver. As at now, we haven't seen any significant drop in demand across any of our lines of business, but as I said in my script, it would be naive to think that that's not going to happen as we move through the year. When you mention the obvious lines there, oil price clearly has an impact in energy, particularly the upstream energy book and we've seen this in previous cycles where oil prices softened. And that kind of varied -- impacted things like drilling activity and construction. But what I would say is there was -- there were relatively low levels already; kind of other part of the energy portfolio, things like downstream and power that can be affected, but less impacted by oil price movements and they're a growing part of our book.

In marine, the obvious areas are things like cars that are on cruise. And in aviation, that's an obvious area that could be hit, albeit, noting that not all policies adjust for activity. But to answer your overall question around overall growth assumptions, I'm just going to back to the fact that we're very early in this event. It's very, very difficult to understand exactly how we're going to move from here and there, could well be opportunities in other lines of business whether that be to -- from other people coming out, whether that be from rates improving and clearly our mantra through cycles is to grow and there's opportunities like that. But it is very difficult at this particular stage to say we're going to be at X point come the end of the year. What we can say, there will be some demand stresses on parts of our business, albeit rate momentum in those are continuing, and if there are opportunities in other areas, then we're ready to kind of enter and write more business should the rating get to the levels we require.

Q - Oliver Troop {BIO 20944194 <GO>}

Okay, very clear. Thanks very much.

Operator

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

Q - Ben Cohen {BIO 1541726 <GO>}

Hi, there. Thanks very much. I just wondered if you could say firstly a bit more about the COVID loss recognition that you made in the first quarter. How much do you think this is you getting ahead of these issues as they come out and how much would you expect to make material loss estimate updates later through the year?

And the second question I had was, the impact is COVID on the ILS market, perhaps just comment from Darren, in terms of what he is seeing there about supply and maybe also demand for the product in this market. Thank you.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

So, hi, Ben. So I think if you think about this loss, you know, it's right to think about it, you've got the loss itself which is truly unprecedented; I know everyone uses that in our industry too much but I think it's warranted this time. And that provides it's own challenges for any carrier, including ourselves when trying to estimate losses. You've also got most of the world on lockdown, so you just don't have -- usually when we come to market, we don't have a huge amount of data, we've not got lot of data yet on COVID. We believe our exposure comes through wherever like proxy lines, and that can be at the Syndicate, it can be Lancashire and we believe we are not exposed to some of the more obvious areas, so that's just a simpler viewpoint from our point of view.

I think as I said in my script, there will be uncertainty around anyone's Q1 numbers. We will all learn from this event and we will -- we'll gather better data in Q2, but what I can say to you is, we have followed the process that we always do when we have large events at Lancashire. We've used the same amount of prudence we always do. As Natalie said, there is a lot of pace involved in coming to this loss estimate and we believe, but where we are today and the information we have, and using the same amount of prudence, we generally do, we think this is a fair number. But clearly, there is uncertainty, because this is unprecedented.

Darren, can you just answer the question, please about ILS?

FINAL
Bloomberg Transcript

FINAL

A - Darren Redhead {BIO 17995744 <GO>}

Sure. Hi, Ben. Just a couple of points really regarding the ILS set liners; we've been saying it's ongoing event and continue to be evaluated. There will be reduced capacity in the ILS sector and traditional sector for reinsurance, which will cause pricing increases and you will see redemptions where people are trying to -- liquidity issues from other types of assets, there will be redemptions or liquidity issues where people have used leverage fronting carrier [ph]; so there is a number of issues really that will come through. And then you also have the issue of capital as we go through the coming months and quarters, they -- one thing you can be pretty certain of, there will be lesser capacity, there will be investors looking to come in and it will be on what basis that they come in. Obviously, they're going to want more money and reduced exposure, but that's all to be determined as we go through the coming months.

Q - Ben Cohen {BIO 1541726 <GO>}

All right, thanks very much. Thank you.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Thank you.

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>}

Hello, good afternoon, few questions from my side please. On the COVID-19 loss estimate of $35 million, you mentioned in your press release, it's mainly ways towards property loans, so could you perhaps disclose how much of that is business interruption and whether you've assumed any business interruption losses, not only your property insurance book but also your property reinsurance book?

Secondly, to get on business interruption, could you maybe disclose a bit where the risks are for portfolio? Is it mainly the large corporates, where you've explicitly included some businesses interruption payout for COVID disease, your policies? Or is this a large grey area you're trying to calculate? So the specific business is interruption, clear-cut claims is included in $35 million. Was there -- is there a large grey area in your portfolio?

And then, finally, what timeline have you assumed your $35 million loss assumption? Does this assume a lock down all the way through the summer or longer? Thank you.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

So I think, Andreas, there is a lot of points there and I think there's a lot of uncertainty across the sector, we have calculated our numbers on looking at policies where we think claims are valid. We have used that as a base assumption. You have to remember we're not a retail insurer, we do REITs and property binders that give some of this cover so

Bloomberg Transcript

that's quite easy to understand. But as I said, we don't have a lot of direct exposure. So we had -- where these numbers are on claims that we think are valid in our portfolio. I think I can't really say much more than that. We've made assumptions, we've looked at the data, some parties give us instructions, some don't but clearly, we've made all of our assumptions based on what plans we think are valid to those policies.

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

But is it more weighted towards your reinsurance portfolio or is it mainly insurance? Would you be able to disclose that.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Yeah, for us it's revenue for our property business, so that could be property direct on type or type it at the Syndicate and at Lancashire and equally [ph] we expect -- we've set aside some claims IBNR for our proxy catastrophe [ph] book as well.

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

Okay, thank you.

Operator

The next question comes from the line of Ian Baines from Credit Suisse. Please, go ahead.

Q - Ian Baines {BIO 1934653 <GO>}

Hi. Afternoon, everyone, and thanks for taking my questions. Two from me. Firstly, you spoke about holding a higher level of excess capital above that AM Best A rating requirement coming into the start of the year. So I'm just wondering what you would view as a sort of normal level of capital above the A-level requirement that you would hold?

And secondly, if you could just give us any details of if there is any exposure to potential business interruption claims in the ILS funds, that would be great. Thanks.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

So, we don't get our headroom ranges typically. The reason we have today is because I think these are unprecedented times. So we thought it would because to give what headroom that we usually carry as a company, but obviously, we had a good 2019. We kept our earnings so that was -- that created a larger buffer than what we would normally carry. Clearly, we carry buffers anyway, but that created a larger buffer. But we don't disclose what we normally give as a buffer.

Q - Ian Baines {BIO 1934653 <GO>}

Okay.

FINAL
Bloomberg Transcript

FINAL

A - Darren Redhead {BIO 17995744 <GO>}

Darren, do you want to answer the ILS question? Yeah, sure. Thank you. Regarding comment of the I-claims and the assets, I mean; the vast majority of claims coming through our -- in the property sections are going to be obviously from business interruption. It's really cannot depend on the content that actually comes through first from insurance, then the reinsurance; so how far it goes up these programs and the number of events. So really, it's way too early to tell, but I mean, one thing is, it will be BI claims that we'll impact of reinsurance market and then ILS sector. So it's going to depend on the content coming through, the ongoing event.

Q - Ian Baines {BIO 1934653 <GO>}

Okay, that's great. Thank you.

Operator

(Operator Instructions) The next question comes from the line of Nick Johnson from Numis Securities. Please, go ahead.

Q - Nick Johnson {BIO 1774629 <GO>}

Hi. Excuse me, afternoon all. My question is on the COVID loss estimates. Sorry to get back to it, but aggregates published numbers from companies so far don't really seem to tally with some predictions by senior industry figures, possibly this will be the worst insurance spend ever, which might imply or it does imply a lot more to come in Q2. I just wanted to -- if you -- what your thoughts are on that particular angle. Or is there actually a risk that it could perhaps be a smaller loss than some have feared and that might -- I mean, we don't see a steepening in the price curve that you talked about. Thank you.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

I think we've seen the ranges, Nick, from various -- from people and our view is that we just wouldn't want to comment clearly. The ranges themselves are much bigger from various different parties than you see on a typical cap claim; I think that demonstrate the uncertainty.

And as you said, we would expect more clarity coming into Q2. So we are focused on our own book, we believe our number is sensible and we -- industry loss numbers equally involve a lot of business we just don't do. So we're not going to comment on product lines, we don't do a lot of workers' comp and trade credit. So we haven't taken that much notice, to be honest, of industry numbers and we're just focusing on our own at this point. But as you said, there'll be more clarity over time and if it is a very large loss, it will lead to a harder market; and the smaller the loss, it will be easier for the industry to absorb.

Bloomberg Transcript

Q - Nick Johnson {BIO 1774629 <GO>}

Okay, thanks very much. Keep well, everybody thank you.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

FINAL

Thank you.

Operator

The next question comes from the line of Ryan [ph] from Capital Returns. Please, go ahead.

Q - Unidentified Participant

Hi, thanks a lot. Hi, Alex. Hi, Darren.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Hi.

Q - Unidentified Participant

Hey, I think if we had a drinking game where you had to drink every time you said the word unprecedented, you might be under the table, Alex.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

I think this time it's warranted, though, isn't it? So.

Q - Unidentified Participant

Yeah. No, I hear you. I hear you. A couple of questions. You're property buying your book, could you describe the calibre of wordings that you have in that book, in effect, as it relates to BI solutions?

A - Alexander Terence Maloney {BIO 16314494 <GO>}

That's the first question, yeah?

Q - Unidentified Participant

Yeah. The first question is that and then I've got some other sort of more market-related questions, reinsurance market-related.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Fine, okay. Paul, are you (inaudible)?

Q - Unidentified Participant

Excuse me?

A - Paul Gregory {BIO 16314515 <GO>}

Yeah, sure. Okay, all right. Hi, Ryan, it's Paul Gregory. I'll talk that like a lot of our business, all wording are different; so giving a kind of succinct answer to that question is incredibly

Bloomberg Transcript

difficult. And I think as Alex mentioned earlier, there are ports of -- parts of our portfolio that do provide explicit coverage for this kind of event and some of that sits within our property binder book which has been identified. But when you write kind of specialty insurance business, every policy wording can be different.

Q - Unidentified Participant

Would you ballpark mag -- the portion of that book where the BI wording has limitations that stop at physical damage and property loss as compared to those that have the supplemental exclusion that carves out pandemic and virus?

A - Alexander Terence Maloney {BIO 16314494 <GO>}

I just don't think we can ballpark that number. It's just not -- we're not, we're not speculating today, sir.

Q - Unidentified Participant

Okay, I'll move on I'm curious to know in the rein -- sort of about reinsurance basis risk or primary insurers that write commercial property that may have some degree of basis risk in their reinsurance program may be being parallel specific or named some portion that may cover BI -- virus-induced BI and some may not. Do you think that's a big problem with primary companies will have some limitations in their tower that will not cover this losses that come out of COVID?

A - Alexander Terence Maloney {BIO 16314494 <GO>}

I think that everyone's going to have different program and everyone's got different books. So I think that's hard to also answer on behalf of other people. I suppose our approaches to business is that the partners that we choose when we buy reinsurance we've built over 10 years, we've got multi-class relationships and there people that we want to try with in the future. So I think that should aid some of those conversations but, we can't really put any numbers on these things, I think everyone would be different, everyone buys cover in a different way. And obviously it depends on what your front end book looks like, so I think it's -- there are going to be a lot of conversations basically, yeah. There are going to be some grey areas, but that's why we buy our reinsurance with people that we've built deep relationships with because that's the purpose of building those relationships, is that sometimes you might have conversations about grey areas or unprecedented events.

Q - Unidentified Participant

I guess my last questions for Darren, I think. Darren, as collateralized re-contracts come up for maturity or exploration soon, what do you expect the behaviour to be for holders of those protections as it relates to sort of releasing capital and permitting the counterparty to take the capital back or not, given the uncertainty that that's going to probably last as it relates to BI for some -- for quite a while.

A - Darren Redhead {BIO 17995744 <GO>}

FINAL

Bloomberg Transcript

FINAL

Hi, there. Yeah. Like any, loss if it's a covered event and the counterparty thinks there is a possibility of there being a claims there, normally around half deductible, I would expect the customer client to track the funds because they're unsure whether they're going to have a claim or not. So for a vast majority of them where they think there is a COVID claim, I would expect there to be tracking just to elaborate on that a bit more, I think, as we go through the year and we get to one, one policies. I think we'll be having those conversations with client's customers in a bit more detail of what we've discussed today, what's the point of the event, and is that -- are they covered.

Q - Unidentified Participant

Okay. And is it true -- some of market participants say that if the holder of the protection is going to retain -- false the collateral to sit in the account to be extended, that they have to in fact book a loss reserve sort of consistent with that collateral claim. Is that sort of nearly 100% the situation?

A - Alexander Terence Maloney {BIO 16314494 <GO>}

So, are you talking for the seller or?

Q - Unidentified Participant

If the holder of protection is going to force the collateral to be retained in the collateral account beyond the coverage term, traffic capital do they always in fact have to book a gross loss sort of simultaneous on their own books simultaneous with the actions attractive capital.

A - Paul Gregory {BIO 16314515 <GO>}

I can't speak for all the ILS market, but it all depends on what your view of the event is within your reserving and within (inaudible) reserve as I -- as the group does, so if we was of the view that the contract had a loss irrespective of happening, we would mark that contract as a loss.

Q - Unidentified Participant

All right Thanks a lot, guys and good luck. I look forward to seeing you face to face again.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Sure.

A - Darren Redhead {BIO 17995744 <GO>}

Thank you.

Operator

(Operator Instructions) The next question comes from the line of Daniel [ph] from Barclays. Please, go ahead.

Bloomberg Transcript

FINAL

Q - Unidentified Participant

Hi, everyone. Thanks for taking my questions. I've got two, please, if I may. Firstly, just to follow up on the discussion around pandemic exclusions, would you say there are any geographies that you see as potentially a bit more vulnerable than others? And have you been able to enforce any more exclusion for pandemics renewals?

And then secondly, just on the demand point, just wondering if you have it handy the percentage of volumes that are activity-based or dependent on economic activity. It would be interesting to know that, if you have a chance. Thanks.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

But then -- yeah -- we -- look, we wouldn't comment on legal matters about pandemic exclusions, that would just be the wrong thing to do time-on-time. The market, in general, is moving to -- I wouldn't say completely exclude pandemic on every cent -- on every single account, but the market has moved quite quickly to identify pandemic exclusions and we are seeing that across the majority of contracts. It's not every single contract, but we are seeing that. And clearly, I think in the longer-term year of the industry, there may be some kind of pandemic solution probably government-backed, but I think that's where we'll end up. But at the moment, I think we are seeing pandemic exclusions, but we wouldn't comment about the current months that we had. Hey, I just want to cover the demand part, please?

A - Paul Gregory {BIO 16314515 <GO>}

Yeah, sorry, Daniel. Could you repeat your question, because I missed the last piece of it.

Q - Unidentified Participant

So just -- still following up on that discussion earlier on in the call, just interested to know maybe what percentage of your volumes are activity-based or dependent on economic activity?

A - Paul Gregory {BIO 16314515 <GO>}

Yeah, sure. So I mean we publish our kind of split per segment, I think you can see that in our Annual Report from '19 and I think the areas kind of focused on the ones we talked about earlier on the call. So the energy portfolio, aviation portfolio and Marine portfolio are the most obvious ones. They're all elements of the property portfolio where you could potentially also see impacts from reduced economic activity.

And as I said, I haven't got the numbers in front of me, which is I'm having to display but if you just take a quick look on '19 premiums and you can see the split per sector.

Q - Unidentified Participant

Okay, no worries. Thanks.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Bloomberg Transcript

Thanks, guys.

A - Paul Gregory {BIO 16314515 <GO>}

Thanks, Daniel.

Operator

We have a follow-up question from Andreas van Embden from Peel Hunt. Please go ahead.

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

Yes, thank you. I've got two follow-ups, please. First of all on -- again on your COVID-19 loss estimate, could you perhaps disclose what your gross loss was rather than your net loss and how your reinsurance program sort of have behaved relative to these COVID-19 losses? Is your reinsurance program -- because I think you've painted reinstatement premium, does it react to pandemics on a -- as a sub-limit for BI? Or is this your whole reinsurance program that you've reinstated ahead of the hurricane season or is the same program that would pick up property cap losses in the remainder of the year?

And secondly, on your aviation deductible book, what is the exposure here for you? And now, have you quantified any potential claims from the fact that sort of the airline industry has parked most of its fleet. Thank you.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Andreas, we never publish our gross losses. We always publish our net losses, net of the applicable reinsurance, where we think we have coverage. So we work these claims out. We've looked at where they come from in the group, with a plot of reinsurance that we think is appropriate and that's our net loss number, which don't disclose gross. PG, can you answer the question about (inaudible), please?

A - Paul Gregory {BIO 16314515 <GO>}

Yeah, sure. Andreas, sorry, with the -- around claims activity on aviation deductible, just to clarify?

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

Yeah. Is there any claims that -- claims activity yet, and if not, have you included potential claims activity in your COVID-19 loss estimates?

A - Paul Gregory {BIO 16314515 <GO>}

So I think as we mentioned earlier, COVID-19 has predominantly associated to property losses. The aviation portfolio, you would not expect direct proxies from this kind of event. Obviously, as we've mentioned, if we had to have other events in the year and parts and labor are harder to come the contrary of secondary implications on things like aviation.

FINAL
Bloomberg Transcript

FINAL

That said, the planes aren't flying at the moment, so only thing on aviation, portfolio claims tend to be linked to activity.

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

So, if the fleet have -- it comes out of lockdown and has to restart, do you think you'll -- there will be any sort of claims activity on the back of that and once we come out of lockdown?

A - Paul Gregory {BIO 16314515 <GO>}

Are you getting deductibles because we're going to have to your -- it is an attritional line of business, so as planes go back to work, yes, you would expect losses to come through. But look, that book is -- you priced the attrition; so if we feel the attrition is likely to increase, then we'll price for that accordingly.

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

Okay. Thanks.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Okay. Thank you, Andreas.

Operator

We have another follow-up question from Oliver Troop from Autonomous. Please, go ahead.

Q - Oliver Troop {BIO 20944194 <GO>}

Hi, there. Yeah, just one follow-up question please. So on the COVID and the $35 million reserve again, you've obviously got some claim where there are some policies, where there are compulsive, rather explicit supplements that can include these. So obviously, you want to put something size of those. I don't know if you've got other policies where it's explicitly excluded. And I suppose there's a third category where you've got part of -- where maybe the wording is perhaps a bit ambiguous or silent, how significant is that third category or they mostly reserve coming from the first category?

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Well, Oliver, we've clearly calculated something along the lines of those three categories and in the numbers that we've published today, cases for that, but we wouldn't -- we won't give a split. It will be unwise to give that kind of split due to uncertainty, but clearly, it's just over a segment into account when we come out of that claims number, and as I said earlier, we've used the same process that we always do, the same level of prudence we do. But for us and for everyone, it's a more difficult time to clarify.

Q - Oliver Troop {BIO 20944194 <GO>}

Bloomberg Transcript

Yeah, I guess I was just trying to get a sense of how uncertain, yes/no laws [ph]. I know you say obviously it's very uncertain to state in the pandemic, but yeah -- okay, that's fine. Thanks.

Operator

There are currently no further questions registered. I'll hand the conference back to you, speakers.

A - Alexander Terence Maloney {BIO 16314494 <GO>}

Okay, thanks very much for your questions and we'll talk to you next quarter.

Operator

Thank you. This now concludes our presentation. Thank you all for attending. You may now disconnect.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL
Bloomberg Transcript